

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Humanities



Diploma Thesis

**Corporate Social Responsibility and Company Strategy:
a case of MSD**

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DIPLOMA THESIS ASSIGNMENT

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Thesis title

Corporate Social Responsibility and Company Strategy: a case study of MSD

Objectives of thesis

This thesis will analyse the concept of corporate social responsibility (CSR) and its impact on companies' long-term sustainability. The concept of CSR suggests that businesses have duties to society beyond making money for shareholders. There are debates, however, whether such duties exist at all, what they are, and how companies should fulfil them, as well as the relationship between CSR and long term business strategy. The thesis will consider these questions through a case study of the pharmaceutical company MSD, focusing on the relationship between its CSR strategy on the global level and its specific implementation in the Czech Republic.

To complement the main objective, the thesis will also:

- Introduce the current state of corporate social responsibility.
- Provide the basic terminology and aspects of corporate social responsibility in order to understand its complexity and limitations.
- Analyse and identify problems and propose solutions for the integration of corporate social responsibility into a company's strategic goals, using the experience of MSD as a guide.

Methodology

The thesis will:

- Develop a literature review on the concept of corporate social responsibility and its applications to contemporary business.
- Conduct a case study of the MSD company through semi structured interviews with employees, participant observation and the analysis of publicly available documents (e.g. existing corporate policies, statements of aims, etc.).
- Propose solutions and recommendations based on both the literature review and practical results, as well as formulate an overall conclusion.

The proposed extent of the thesis

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Keywords

Corporate Social Responsibility, Business Strategy, Business Ethics, Pharmaceutical Industry

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CARROLL, Archie B. and Kareem M. SHABANA. (2010). The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice. *International Journal of Management Reviews* 12(1):85-105.

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SIMS, Ronald. (2003). *Ethics and Corporate Social Responsibility: Why Giants Fall*. Greenwood press.

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Declaration

I declare that I have worked on my diploma thesis titled "Corporate Social Responsibility and Company Strategy: a case of MSD" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

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Corporate Social Responsibility and Company Strategy: a case of MSD

Abstract

This thesis will analyze the concept of corporate social responsibility (CSR) and its impact on companies' long-term sustainability. The methodology of the thesis will be based on a qualitative research of literature review to introduce the current state of corporate social responsibility and its applications in the contemporary business.

Moreover, a case study of the MSD company will be conducted through semi structured interviews with employees, participant observation and the analysis of the publicly available documents (e.g., existing corporate policies, statement of aims, etc.) Since the essential part of one of the research questions is how what MSD does fits in the idea of CSR in the modern world, the author of this thesis decided that the most appropriate time period would be focusing on the last five years.

Finally, a comparative analysis based on the literature review and practical results will assist in proposing solutions and recommendations, as well as formulating an overall conclusion.

Keywords: corporate social responsibility, business strategy, business ethics, sustainability, pharmaceutical industry

Společenská odpovědnost podniků a strategie společnosti: případ MSD

Abstrakt

Tato práce bude analyzovat koncept sociální odpovědnosti podniků (CSR) a jeho dopad na dlouhodobou udržitelnost společností. Metodika práce bude založena na kvalitativním výzkumu literární rešerše s cílem představit současný stav společenské odpovědnosti podniků a jejich aplikace v současném podnikání.

Případová studie společnosti MSD bude navíc provedena prostřednictvím polostrukturovaných rozhovorů se zaměstnanci, pozorování účastníků a analýzy veřejně dostupných dokumentů (např. Stávající podnikové politiky, prohlášení o cílech atd.), Protože podstatnou součástí jedné z výzkumná otázka zní, jak to, co MSD dělá, zapadá do myšlenky CSR v moderním světě, autor této práce rozhodl, že nejvhodnějším časovým obdobím bude zaměření na posledních pět let.

A konečně, komparativní analýza založená na přehledu literatury a praktických výsledcích pomůže při navrhování řešení a doporučení, stejně jako při formulaci celkového závěru.

Klíčová slova: společenská odpovědnost podniků, obchodní strategie, etika podnikání, udržitelnost, farmaceutický průmysl

Table of Contents

1	Introduction.....	5
2	Objectives and Methodology	6
2.1	Objectives.....	6
2.2	Methodology	6
2.3	Research Questions	7
3	Literature Review	8
3.1	The concept of Corporate Social Responsibility.....	8
3.1.1	Evolution of CSR	12
3.1.2	Definitions of CSR.....	17
3.2	CSR in the modern world.....	20
3.2.1	The Inherent Flaws of CSR	22
3.2.2	The New Form of CSR.....	24
3.3	International Standards.....	28
3.3.1	UN Global Compact	29
3.3.2	UN Sustainable Development Goals (SDGs)	33
3.3.3	The GRI Standards for Sustainability Reporting	37
4	Practical Part	39
4.1	Company Overview and Governance.....	39
4.2	Strategic Framework and CSR	41
4.2.1	CSR Strategy in Global MSD.....	43
4.2.2	CSR Strategy in MSD Czech Republic	49
4.3	MSD's CSR Initiatives.....	54
4.3.1	MSD for Mothers	56
4.3.2	MSD Fellowship for Global Health	57
4.3.3	Impact Investing	59
5	Results and Discussion	62
5.1	Analysis of MSD's approach to CSR.....	62
5.1.1	Value Creation.....	62
5.1.2	Good Governance.....	63
5.1.3	Societal Contribution	64
5.1.4	Environmental Integrity	66
5.1.5	Key Outcomes	66
5.2	The Impact of CSR on MSD's Strategy	67
6	Conclusion	71
7	Bibliography.....	73
8	Appendix.....	77
8.1	Case Study Resources	77
8.1.1	Participant observation.....	77
8.1.2	Semi structured interviews	77
8.1.3	List of documents	78

List of abbreviations

CSR – Corporate Social Responsibility

GD&I – Global Diversity and Inclusion

EHS – Environmental, Health and Safety

ERM – Enterprise Risk Management

ESG – Environmental, Social and Governance

KPI – Key Performance Indicator

MSD – Merck Sharp & Dohme

NGO – Non-Governmental Organization

R&D – Research and Development

SDG – Sustainable Development Goals

UN – United Nations

1 Introduction

The concept of Corporate Social Responsibility (CSR) has been present for more than 50 years, but how it is understood and applied changed significantly over time. The complexity and the scope of the term goes so far that there is still no uniform definition accepted by both the academics and the business community.

The initial idea was that corporations, while having the rights as any legal person, should also have certain obligations that go beyond making profits and encompass the ethical dimension of one's role in the society. However, CSR advocates argue that those obligations were set aside under the justification that the main purpose of the business is to generate profits and that governments and non-profit organizations are those that should deal with social issues. Hence, many companies still consider that economic success and CSR are mutually exclusive and fail to perceive the added value and financial sustainability that come with engaging in such activities. Even though the concept evolved significantly over the years, passing through different stages and driven by different motives and instrument policies, it seems that it has not reached its full potential yet and that there is a growing awareness that in order to secure their long-term sustainability, companies need to adapt their strategies to the needs of different stakeholder groups.

The “new CSR” is based on innovative and scalable solutions that are able to respond urgently to the most pressing issues that communities in which a company operates are facing. This means that, depending on the scope of their business operations, companies need to come up with a CSR model that allows them to use their resources in the most efficient way while creating a shared value. The “new CSR” is about cross-sectoral partnerships, stakeholder engagement and philanthropy that goes beyond a temporary hand out and provides long-term results.

The purpose of this thesis is to explore challenges that come with the modern idea of CSR and its integration into company strategy. The case study focused on MSD, a biopharmaceutical company that as its mission states developing and providing innovative products that improve the quality of life of people around the world, will serve as a reference for the impact of CSR on company's strategy and sustainability. Since the analysis will cover both the strategic framework set on the global level and its specific implementation in the Czech Republic

branch, the identified problems and proposed solutions can be applied not only to multinational corporations, but also to organizations operating at lower scale.

2 Objectives and Methodology

2.1 Objectives

This thesis will analyse the concept of corporate social responsibility (CSR) and its impact on companies' long-term sustainability. The concept of CSR suggests that businesses have duties to society beyond making money for shareholders. There are debates, however whether such duties exist at all, what they are, and how companies should fulfil them, as well as the relationship between CSR and long-term business strategy. The thesis will consider these questions through a case study of the pharmaceutical company MSD, focusing on the relationship between its CSR strategy on the global level and its specific implementation in the Czech Republic.

To complement the main objective, the thesis will also:

- Introduce the current state of corporate social responsibility.
- Provide the basic terminology and aspects of corporate social responsibility in order to understand its complexity and limitations.
- Analyze and identify problems and propose solutions for the integration of corporate social responsibility into a company's strategic goals, using the experience of MSD as a guide.

2.2 Methodology

The methodology of the thesis will be based on a qualitative research through which a literature review on the concept of corporate social responsibility and its applications in the contemporary business will be developed.

Moreover, a case study of the MSD company will be conducted through semi structured interviews with employees, participant observation and the analysis of the publicly available documents (e.g., existing corporate policies, statement of aims, etc.).

Finally, a comparative analysis based on the literature review and practical results will assist in proposing solutions and recommendations, as well as formulating an overall conclusion

2.3 Research Questions

While examining the impact that CSR has on company's long-term strategy and focusing on the state of this relationship at the MSD company, two research questions have been set to assist in achieving the objectives of the thesis:

RQ 1: How is CSR implemented at MSD and how does what they do fit into the idea of the CSR in the modern world?

RQ 2: What is the impact of CSR on MSD's strategy and sustainability?

3 Literature Review

The Literature Review section will be focused on introducing the concept of Corporate Social Responsibility (CSR), its historical background and evolution, as well as various available definitions that point out its dynamic nature. The complexity of the subject will be addressed through the for and against arguments by showing the benefits and difficulties that come with the implementation of CSR in the business context. In addition, the principles of business ethics will be covered since the ethical concept is considered to be an essential part of CSR. In order to show the relevance of the chosen topic and the current position of CSR, several international standards will be selected and reviewed. Finally, to be able to conduct a case study, a special focus will be put on the connection between the societal benefits and company's long-term sustainability, as well as on the strategic approach to CSR that may lead to its integration in the company's core activities

3.1 The concept of Corporate Social Responsibility

Although, the origins of corporate social responsibility (CSR) trace back to the end of World War II, the concept received increased attention in the 1960s with people becoming more aware of social issues such as minorities rights, gender equality, health access, protection of the environment or consumers' rights. Between the 1960s and 1970s, society went through some significant changes that inevitably had impact on the way businesses are being managed and perceived. The main idea that emerged from those changes is that business has certain obligations to society that go beyond making profit for shareholders. Instead of being only focused on achieving economic success, business organizations began to pay more attention to social issues by developing special social programs for their employees, customers and communities in which they operate. However, there is an ongoing debate whether such obligations exist at all, what they are, and how companies should address them, as well as the relationship between CSR and companies' overall strategy. To be able to talk about this relationship, it is important to understand that CSR should not be perceived merely as organization's philanthropic activities such as volunteering or financial support.

Contemporary approaches argue that corporations can become more socially responsible by acting as businesses rather than activists or charitable organizations. Their power to respond

to society's challenges should lie in the center of their business activity. Advocates for CSR suggest that, if implemented appropriately, it can bring competitive advantage, economic growth and innovative culture within the organization. What used to be perceived as an additional expense to fulfil government regulations, nowadays is becoming a powerful tool that aims to secure a sustainable success of company's core activities and not only short-term profit maximization.

According to (Rosenthal, 1999), corporate social responsibility in its essence is related to ethics since it deals with human welfare, social aspects of business activities or the character of the community in which the business is operating as well as the position it has in that community:

“Ethical questions are fundamental to an institution such as business, because society allows institutions to be developed and to continue operating, based on conceptions of human welfare that are operative in society and the way institutions in society should behave so as to promote human fulfillment. When society's notions of these ethical concepts change, institutions in society have to change accordingly. Business does not exist apart from society.”

However, a well-known economist and opponent of CSR, Milton Friedman, argued that companies should only focus on business activities such as producing goods and services since that is what leads to long-term profits and at the same time satisfies society's needs and indirectly addresses societal issues. While CSR supporters believe that corporations are those that have the resources to deal with pressing matters of the society, Friedman points out that businesses and managers do not have the right social skills and therefore, should only focus on the financial and operational activities. Another argument against the concept is that it challenges the primary purpose of a business, suggesting that CSR and company's core activities are two separate things and committing to one means undermining the other. Nowadays, one of the most radical academics in the field of CSR and sustainability, and the founder of a non-governmental organization CSR International, Dr Wayne Visser, particularly objects to this point by saying that there is a need for reorientation and clarification of business purpose which Friedman finds in profitability or in fulfilling the needs of shareholders.

“Ultimately, the purpose of business is to serve society, through the provision of safe, high quality products and services that enhance our wellbeing, without eroding out ecological and community life-support systems.” (Visser, 2011)

While Visser, to some extent, denies the economic dimension of CSR, when the concept first gained popularity, its supporters adopted a different approach and started to build a business case to determine whether by connecting core business activities to social responsibilities firms could actually assure their financial sustainability. One of the biggest contributors to the academic research of corporate social responsibility, William C. Frederick, pointed out that the goal should be to find a balance between a company’s economic responsibilities and society’s expectations or requirements:

“CSR blends and harmonizes economic operations with a human community’s social systems and institutions, creating an organic linkage of Business and Society.” (Frederick, 2018)

At this point it would be appropriate to mention Carroll’s pyramid of CSR to show the link between different aspects of CSR as well as the role of ethics in shaping corporate strategy. We can distinguish four different categories of CSR (Carroll, et al., 2010):

1. Economic
2. Legal
3. Ethical
4. Discretionary/Philanthropic

This separation between the ethical and the discretionary/philanthropic categories gives us a clearer picture of what exactly is meant by saying that companies have responsibilities to the society that go beyond the economic success and legal obligations. Moreover, it also points out that ethical and philanthropic responsibilities should not be equalized, nor should philanthropy be perceived as the core of CSR. One of the main issues when embracing CSR practices and policies is that businesses assume that being a good corporate citizen, i.e., making philanthropic contributions, automatically makes them socially responsible. However, from Carroll’s pyramid shown in the Figure 1, it is visible that philanthropy is the least important part when

compared to other three categories. Rather than being the base for social responsibility, it is something that is desirable and good to have but cannot stand alone.

Furthermore, each layer of the pyramid represents different obligations or responsibilities that organizations have towards the society that are constantly conflicted with one another, especially the economic ones with each one of the categories. Therefore, many companies assume that in order to surpass these issues they need to make trade-offs between economic success and other aspects of social responsibility. This makes sense, since short-term generated profits are, by far, more tangible and easier to perceive than the rational of economic sustainability that stands behind the CSR.



Figure 1 Carroll's pyramid of CSR. Source: (Carroll, 2016)

It can be assumed that this is the main reason why CSR has not reached its full potential yet and why many academics, nowadays, are pushing for the reinvention of the concept.

According to (Porter, et al., 2006): *“The prevailing approaches to CSR are so fragmented and so disconnected from business and strategy as to obscure many of the greatest opportunities for companies to benefit society.”*

Instead of addressing only some of the aspects of social responsibility and focusing on the existing tension between them, companies should understand that they are interdependent. Going back to Carroll's four-part definition, it should be understood that the pyramid does not

suggest that each part should be fulfilled separately, but it rather works as a unified entity. Each of the categories represents certain stakeholders. Therefore, economic responsibilities have impact on both shareholders and employees, legal responsibilities mostly affect the owners of the business, but also the employees and the clients, ethical responsibilities cut through and are embedded in all layers of the pyramid affecting all stakeholder groups, and finally philanthropy involves the community in which the business operates, the non-profit organizations with which it partners up and also the employees that engage in the philanthropic activities.

Finally, saying that company's main purpose is to serve society (Visser, 2011) is just as radical and limiting as Friedman's view that the only social responsibility the business has is "*to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.*" (Friedman, 1970) Unless the idea is to have corporations operating in the same manner as charitable organizations which could result in throwing away significant resources and innovative solutions they could offer, it would be more appropriate to embrace it as the way the company does business and understand that profits and CSR are not necessarily mutually exclusive.

3.1.1 Evolution of CSR

Frederick (2018) identifies five main phases of CSR and different drivers and policy instruments that are shaping them. Even though these phases have been evolving periodically, it is important to understand that, nowadays, their main characteristics are interconnected, and that companies do not necessarily need to go through each phase in the given order. Rather, these should be adopted simultaneously and in the most suitable way for each business.

Moreover, the last phase, titled: "*Toward a Millennial Future*", is the one that the society is currently going through and therefore, crucial for understanding the idea of CSR in the modern world. It is characterized by generational changes and the emerging tendency towards the integrated corporate and planetary sustainability. Furthermore, it reflects the transition from the so-called "*Old CSR*" or "*CRS 1.0*" to the "*New CSR*" or "*CSR 2.0*", where the same abbreviation now brings together Corporate Sustainability and Responsibility.

Phases of Corporate Social Responsibility		CSR Drivers	CSR Policy Instruments
CSR-1	Corporate Social Stewardship		
1950s–1960s	Managers as public trustee-stewards balancing constituent claims Corporate philanthropy	Executive conscience Company image/ reputation Public relations	Philanthropic funding Company grants Charitable foundation grants
CSR-2	Corporate Social Responsiveness		
1960s–1970s	Social impact awareness/analysis/audit Strategic priority for responsive posture Organizational redesign and training Stakeholder mapping and implementation	Widespread social unrest/ protest Repeated corporate misbehavior Public policy/government regulation Stakeholder pressures	Stakeholder strategy Regulatory compliance Social audits Public affairs function
CSR-3	Corporate/Business Ethics		
1980s–1990s	Foster an ethical corporate culture Establish an ethical organizational climate Recognize basic normative principles Human rights Social justice Community welfare Environmental protection	Religio-ethnic beliefs Technology-driven value changes Human rights advocacy	Mission/vision/values statements CEO leadership ethics Code of ethics Social audits

Table 1 Phases of Corporate Social Responsibility. Source: (Frederick, 2018)

Phases of Corporate Social Responsibility		CSR Drivers	CSR Policy Instruments
CSR-4	Corporate/Global Citizenship		
1990s–2000s	Identify/acknowledge globalization impacts Environment/ecology issues National trade, wage, and income issues Cultural/religious clashes	Global economic trade/ investment Digital communication networks Geopolitical shifts/ competition Ecological awareness/ concern NGO pressures	Intergovernmental compacts Human welfare/rights Supply-chain labor conditions Ecological stability Global codes
CSR-5	Toward A Millennial Future		
2000–3000	Integrating culture and nature Seeking corporate and planetary sustainability Comprehending cosmic, galaxial, planetary processes	Sustainability processes Generational changes Religio-metaphysical beliefs	Indeterminate, speculative Awaits Millennials’ maturity and control of corporate policies

Table 2 Phases of Corporate Social Responsibility. Source: (Frederick, 2018)

The main idea of the CSR – 1 is corporate social stewardship where corporate managers are seen as public trustees that are willing to give up part of their earnings in order to give back to the community in which they operate. However, these actions were not purely altruistic nor were companies undertaking them because they truly felt they had a broader responsibility towards the society. More often than not, the motive behind philanthropic activities was to establish the image of a company that acts as responsible society member. This first phase of CSR was very much connected to Adam Smith's idea of businesses helping the less fortunate people through charity in order to reduce the gap between the rich and the poor. While the world was still recovering from the economic decline caused by the Great Depression and the World War II, the approach to CSR remained passive and paternalistic and mainly expressed through donations to social causes that were important, but easily addressed. Generally, paternalism can be defined as a belief that those on higher positions and with greater economic power are more capable of understanding the needs and preferences of those less fortunate in the same manner that parents take care of their children. The main issue with this view is that it masks true social challenges and imbalances leaving them unattended.

“The resources they commanded – technology, materials, capitals, and employees – were to be treated in a quasi-public manner, with corporate leaders acting as caretakers of the public interest.” (Frederick, 2018)

It is not until CSR – 2 that corporate social responsiveness started to grow in order to answer global social protests demanding more complex issues to be investigated, e.g., racial and social discrimination, gender equality, workplace health and safety, pensions and healthcare, environmental destruction, lack of transparency and integrity of financial markets. As opposed to being passive and voluntary, CSR became responsive and reinforced by public opinion and government regulations. The implications of the public sector significantly increased when governments introduced new laws and legal agencies, while at the same time working on strengthening the existing ones. Therefore, corporations were put on the spot and had to choose between being socially responsible or being legally punished. Executive managers were still not aware of the long-term benefits that CSR can generate, but in order to secure company's profits and avoid potential risks and costs that may come from focusing on social impacts, they included social responsiveness into financial and marketing aspects of corporate strategy. While the awareness of social impact was growing, the structure of the

organization had to be changed to be able to keep up with the emerging trends. Therefore, socially responsive companies were setting up CSR boards that used different techniques to analyze and predict current and future issues, such as environmental scanning analysis, or they worked on diversification by paying attention to minorities and gender equality.

“A company’s CSR-2 strategy thus embraced not only the organizational machinery of managerial compliance but well-financed efforts to blunt and neutralize social protest, social change, and social transformation of the corporation.” (Frederick, 2018)

While CSR-2 managed to give a social nature to the business management, CSR-3 emphasized the relationship between the social responsibility and business ethics. Even though, the main idea was fostering ethical corporate culture, this phase is also considered to be a bridge connecting the previous phases of CSR to all that would come later on. The term stakeholder serves as a personification of this bridge since it reinforces the idea of social responsiveness where companies are focusing more on those being affected by its business conducts, regardless of whether they are positive or negative. Therefore, this third phase of CSR evolution managed to identify those social groups that were directly or indirectly affected by company’s actions, but it also brought to the surface the ethical guidelines that ought to be followed. The need to set up a relationship between business and society was inspired to a certain extent by the celebration of 60 years from the United Nations Universal Declaration of Human Rights which highlighted the basic human rights and determined the level of flexibility that companies should have in order to be successful in the market. The quality of the company started to be measured in terms of its corporate culture and whether its decisions, strategies and policies are aligned with the ethical norms. In order to tackle these structural changes, companies defined their core purpose through mission and vision statements and introduced corporate values as a framework of desirable and representative behaviors of the organization. These were articulated by the CEOs through a letter, but most importantly through actions showing how ethical culture is being implemented and fostered within the corporation.

The fourth phase in the CSR evolution managed to bring all previous phases together by connecting, under the concept of Corporate Global Citizenship, philanthropic actions with socially responsive management and corporate culture. It broadened the scope of CSR and gave a deeper meaning to social responsibility. The main goal was to achieve corporate and

planetary sustainability through “*cross-cultural, cross-natural, cross-national, cross-governmental, cross-regional and cross-continental*” actions. (Frederick, 2018) Furthermore, the pressure of NGOs, the increased ecological awareness and the evolution of the World Wide Web – i.e., the Internet – determined a new set of global standards that evaluate the behavior of corporations and whether it falls into the category of Global Corporate Citizen (Frederick, 2018):

- *Public accountability*
- *Transparency of operations*
- *Workplace human rights*
- *Environmental impacts*
- *Financial integrity*
- *Relations with governments*

Due to emerging globalization in the 2000s, the duties that the business had towards the society reached the planetary level, which required paying attention to the impacts it had on the humankind, and not only on the community in which it operates. Companies began to see the importance of adopting the “thinking globally, acting locally” approach for all its actions. Moreover, the concept of sustainability was born which changed the way entire economies operate, while setting the base for the long-term business strategy. Frederick (2018) identifies three main goals that different entities (companies, governments, society, etc.) aim to achieve to be able to secure the future of each one and all of them together:

1. *To secure the firm’s financial future*
2. *To lend support to its principal politico-government base of operations*
3. *To minimize the environmental burden that the firm’s operations place on the planet’s ecosystem*

With these tendencies towards sustainability, followed by the era of digital expansion and generational change, CSR entered its fifth phase and started clearing the path for global consolidation of different cultures and their many systems of ethics and values.

“The Millennial’s newish Quality-of-Life Values, plus their devotion to digital technology, have the potential of injecting innovative approaches to all or most of the emerging issues confronting the entire global economic system.” (Frederick, 2018)

It is important to point out that this latest phase of CSR is still relatively unknown and its impact on both business and society cannot be clearly defined. However, there is a lot of speculation about what connecting the culture and nature might mean for the sustainability of the planet as well as the *“corporate economizing process.”* (Frederick, 2018) The core Millennial values – e.g., global orientation, collaborative work environment, creativity, innovation, diversity – are the corner stone of a sustainable strategy which should be an integral part of company’s decision-making process. Finally, it brings together financial and non-financial performance of CSR which are often identified by EGSEE (Economic, Governance, Social, Ethical, and Environmental) factors.

There is no doubt that the historical background and evolution of CSR has been, and it remains, dynamic. It shifted from being a voluntary, charitable action undertaken by private business owners to being imposed by the society and government. It started by addressing the needs of local communities and ended up dealing with more complex issues of multiple, global stakeholders. It led businesses to challenge their financial and long-term success and to really go beyond creating goods and services and generating profits for the shareholders. The fifth phase of CSR announces the changes that are still to come and that are, according to some, long overdue. It covers the period between the 2000s and 3000s and although, we cannot be certain what will happen next, it is worth taking into consideration the significance of the events that had happened until now. They had a massive impact on all societal aspects and therefore, CSR is bound to adapt to those changes in order to maintain its essence.

3.1.2 Definitions of CSR

The concept of CSR was introduced over 50 years ago and there is still no universally accepted definition or guidance on how to address it. Lately, the term ‘sustainability’ gained popularity and it is often used to expand the reach of corporate responsibility pointing out that there is more to it than just mitigating social issues. The Oxford Dictionary defines sustainability as *“the ability to be maintained at a certain rate or level”* (Lexico, 2020)

which is mainly referred to the economic growth. They further complement it with the environmental aspect of sustainability i.e., “*avoidance of the depletion of natural resources in order to maintain an ecological balance.*” (Lexico, 2020) Moreover, some argue that sustainability should be complementary to CSR, while others use both terms to express long-term economic, environmental and social development of both present and future generations/stakeholders.

The author of this thesis decided to incorporate several definitions of CSR in order to show the dynamic nature of this concept and its many forms and interpretations.

Carroll, et al., (2010) define CSR based on its different categories: “*The social responsibility of business encompasses the economic, legal, ethical, and discretionary [later referred to as philanthropic] expectations that society has of organizations at a given point in time.*”

Kotler, et al., (2005) simply state: “*Corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.*”

Frederick (2018) argues that: “*Corporate Social Responsibility (CSR) occurs when a business firm, through the decisions and policies of its executive leaders, consciously and deliberately acts to enhance the social well-being of those whose lives are affected by the firm’s economic operations.*”

Mallin (2009): “*CSR can be defined as the ways in which a business seeks to align its values and behavior with those of its various stakeholders. The stakeholders of the business include the employees, customers, suppliers, government, interest groups (such as environmental groups) and wider societal interests on whom the operations of the business may have an impact.*”

Visser's (2011) definition is: *“CSR is the way in which business consistently creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement. Put another way, CSR is an integrated, systemic approach by business that builds, rather than erodes or destroys, economic, social, human and natural capital.”*

Carroll's four-part definition is still considered as base for defining CSR, since it clearly points out different dimensions in which companies should operate in order to meet society's expectations while generating profits. However, Kotler limits the concept to philanthropic activities, separated from the core business, with the only purpose to improve the well-being of communities in order to make up for the damage that company's economic operations may have caused, while Frederick emphasizes its generic meaning. Even though, corporate philanthropy is an important part of CSR, it should not be taken as the only thing that needs to be addressed in order to gain the status of socially responsible organization in the eyes of the public. Mallin goes further and points out the need to align the values of the business with the needs of different stakeholders, but this still narrows the definition to CSR being a tool that companies should use to compensate for harming the society.

While none of these definitions take into consideration the idea of a structural change that the business should embrace in order to get the most out of CSR, i.e., achieving social and economic success simultaneously, Visser introduces the goal of creating this shared value by relying on Carroll's economic, legal, ethical and philanthropic expectations, but through an integrated approach.

“CSR 2.0 is about designing and adapting an inherently sustainable and responsible business model, supported by a reformed financial and economic system that makes creating a better world the easiest, most natural and rewarding thing to do.” (Visser, 2011)

Finally, this last definition by Visser gives an insight of what is expected from the new version of CSR. The idea that each company should identify the areas in which it can have the greatest impact on society while using the resources that it already has to ensure sustainable prosperity. This will not only change the way CSR is seen and practiced, but it is also meant to, consequently, reshape the way companies do business.

3.2 CSR in the modern world

In the last two phases of CSR development, it was clear that both the academic and business communities became preoccupied with the notion of sustainability and that to be able to discuss CSR one needs to do so in terms of global sustainable development. When trying to define the idea of CSR in the modern world it is vital to examine whether and to what extent there is a considerable difference between the well-established. Visser argues that the same way Web 1.0 evolved to a newer 2.0 version, the concept of CSR should go through the similar change to be able to deal with the emerging needs of the society. He further states that the system that we have been relying on is fundamentally flawed and that it failed to reach its full potential in terms of an overall impact that businesses can have on the human wellbeing and the environment. Moreover, it failed to understand the concept of social responsiveness which Ronald R. Sims defines as the way the corporation places itself in the dynamic social system in the long-term (Sims, 2003). Even though we can detect many improvements at the micro level, which is expressed through ad hoc CSR activities and projects responding to pressing social issues, at the macro level there is a decline in the social, environmental and ethical progress. The main argument for this is that instead of integrating CSR in a holistic and systemic manner, most of the companies settle for partial solutions that make them a “not so bad”, rather than a “good” corporate citizen. CSR 1.0 ended up being, in most cases, a charitable act through which companies look to establish a positive relationship and image in the eyes of the communities which they interact with. It followed the predetermined codes and practices, looking for a universal solution instead of understanding that each organization should set its strategy so that it addresses issues which it can truly impact. This ‘one-size-fits all’ approach only led to businesses becoming more irresponsible by not being able to tackle properly this large scope of responsibilities.

<i>Economic Age</i>	<i>Stage of CSR</i>	<i>Modus Operandi</i>	<i>Key Enabler</i>	<i>Stakeholder Target</i>
Greed	Defensive	Ad hoc interventions	Investments	Shareholders, government & employees
Philanthropy	Charitable	Charitable programmes	Projects	Communities
Marketing	Promotional	Public relations	Media	General public
Management	Strategic	Management systems	Codes	Shareholders & NGOs/CSOs
Responsibility	Systemic	Business models	Products	Regulators & customers

Table 3 The Ages and Stages of CSR. Source: (Visser, 2011)

Like Frederick, Visser also identifies five different stages of CSR development, each corresponding to different, but overlapping economic periods or ages. The Modus Operandi and the Key Enabler do not differ much from Frederick’s CSR Policy Instruments, while the Stakeholder Target was previously covered by the CSR Drivers (see Table 1 and Table 2). However, the key difference is that the fifth phase urges a systemic change in the current age of responsibility that goes beyond the strategic approach to CSR. In that way, systemic CSR aims to first identify the main causes of the existing unsustainability by establishing innovative business models.

“Hence, while Strategic CSR is focused at the micro level – supporting social or environmental issues that happen to align with its strategy (but without necessarily changing that strategy) – Systemic CSR focuses on understanding the interconnections of the macro level system – society and ecosystems – and changing its strategy to optimize the outcomes for this larger human and ecological system.” (Visser, 2011)

According to (Carroll, et al., 2010) the main difference between the narrow and broad view of CSR is that the narrow one, ‘the business-case model’, only recognizes CSR when there is a visible connection to firm financial performance. Meanwhile, the broad one, ‘the syncretic model’, acknowledges the existence of an interdependent relationship between business and society. Moreover, the narrow business-case model fails to identify these complex relationships and it only acknowledges the clear and direct connection between CSR and company performance in case there is one (e.g., instant costs and risk reduction). On the contrary, the broad view reaches and identifies the vast range of opportunities that could reinforce the positive effect of Corporate Social Performance (CSP) on Corporate Financial

Performance (CFP). It is important to highlight that CSR has different impacts on different companies and that this impact can be positive or negative, or can end up not being significant at all for its financial performance. However, widening its scope and integrating it in the core corporate operations increases the potential of the economic sustainability. By capturing different scenarios and constantly reshaping its strategy against the emerging social issues, companies are proactively rather than reactively engaging in CSR activities *“directed at improving stakeholder relations and, at the same time, improving social welfare.”* (Barnett, 2007)

3.2.1 The Inherent Flaws of CSR

Visser’s systemic CSR can be perceived as a modern world approach to syncretic business model that *“moves from mitigating harm to finding ways to reinforce corporate strategy by advancing social conditions.”* (Porter, et al., 2006)

In order to move to the next ‘version’ of CSR, it is necessary to first detect the flaws of the previous one. Visser (2011) refers to these flaws as ‘the Triple Curse of Modern CSR’:

1. *Incremental CSR*
2. *Peripheral CSR*
3. *Uneconomic CSR*

The incremental CSR is reflected in the quality management of products and services that did bring many improvements on the micro level but should not be used as a corner stone for solving social, ethical and environmental issues. This quality management model is based on Peter Drucker’s idea of ‘management by objectives’ i.e., using a set of measurable objects as the basis for corporate strategy to be able to track the performance across the entire organization while keeping the employees engaged and motivated.

Visser argues that this approach is just an extension of Marketing CSR since it only deals with and promotes small changes while ignoring the root cause of the issues.

“The MBOs approach has failed to challenge or significantly change companies’ largest negative impacts, which is associated with either the nature of their business, the consumption-driven lifestyle they promote, or the impacts of their resource- and energy-intensive processes, products or services.” (Visser, 2011)

The second problem is that many companies still keep CSR at the periphery of their activity instead of integrating it in all organizational levels. This is part of the CSR-2 that Frederick defined as *Corporate Social Responsiveness* and the need for structural reforms and training of both top management and employees. It seems that CSR activities are still reserved for a specific department, assigned to a specific management, or being publicly displayed through CSR policies or codes of conduct. According to Visser “*these do little to mask the underlying truth that shareholder-driven capitalism is rampant and its obsession with short-term financial measures of progress is contradictory in almost every way to the long-term stakeholder approach for high-impact CSR.*” (Visser, 2011)

Finally, the third curse represents the continuous efforts of the CSR advocates to prove the economic efficiency of CSR, and how it can assist in maximizing the profit. Again, if we think about the dynamic nature of markets that work on short-term profits, rather than taking into consideration the long-term financial success that might become visible after some time, it is clear that this tendency is not unfounded. Frederick also objected to this by saying that trying to prove that companies which engage in CSR activities are more likely to be profitable than those that do not, only leads to misunderstanding CSR’s core meaning and therefore, cannot be used as a measure for social responsibility. Ideally, true CSR companies should work towards the economic, social and ecological sustainability on a planetary level.

“The organic relationship thus forged between the firm and its publics – the extent and spirit of business’s commitment to CSR – ultimately determines the quality of life in the economy, the polity, civil society, global ecosystems, and in the lives, hearts, and minds of people everywhere.” (Frederick, 2018)

However, it is fairly complicated not to base this relationship on win-win outcomes since the main interest of capital markets is still determined by the economic performance. Carroll refers to this attempt to align the needs of various stakeholders as ‘synergistic value creation’ which is conditioned by the mediating variables and situational contingencies as well as the stakeholder support.

“By engaging its stakeholders and satisfying their demands, the firm finds opportunities and solutions which enable it to pursue its profitability interest with the consent and support of its stakeholder environment.” (Carroll, et al., 2010)

Visser uses the term *‘Value creation’* to point out that the scope of CSR goes beyond profitability and it aims to create economic sustainability by providing jobs, improving the infrastructure or focusing on expanding the skills of its employees. According to this, the business should understand that CSR is not to be considered, under any circumstances, as merely a way of creating value for shareholders. Rather, it should provide economic benefits to the overall society without compromising its wellbeing.

The ethical dimension, previously discussed by both Carroll and Frederick, like a glue, still holds together all other features of CSR. However, ethical and corporate culture need to be properly integrated and measured using new technologies and reporting standards. *‘Good governance’* is reflected in the transparency of all business practices and in the effectiveness with which the organization fulfills its core values.

Even though the paternalistic approach is considered to be outdated and far from what CSR is actually about, *‘Social contribution’* or philanthropy is still important when it comes to addressing the needs or issues of stakeholders, both locally and globally.

Finally, Visser introduces the *‘Environmental integrity’* as crucial for achieving the goal of the most recent CSR phase, *‘Planetary Sustainability’* (Frederick, 2018). If a business is to be considered socially responsible, it needs to adapt its operations to protect the ecosystem, make sure that it uses renewable, natural resources or that its production is zero waste.

3.2.2 The New Form of CSR

Social responsibilities such as respecting human rights, achieving social justice and social welfare or protecting the environment have been present since the early stages of CSR development. Although, these cannot be qualified as new or revolutionary, connecting them to specific principles suggests a new way of managing truly socially responsible businesses, appropriate for the current economic age. The idea is to move the focus to *“the importance of meaning in work and life to equal status alongside ecological integrity and financial viability.”* (Visser, 2011)

<i>DNA Code</i>	<i>Strategic Goals</i>	<i>Key Indicators</i>
Value creation	Economic development	Capital investment (financial, manufacturing, social, human & natural capital) Beneficial products (sustainable & responsible goods & services) Inclusive business (wealth distribution, bottom of the pyramid markets)
Good governance	Institutional effectiveness	Leadership (strategic commitment to sustainability & responsibility) Transparency (sustainability & responsibility reporting, government payments) Ethical practices (bribery & corruption prevention, values in business)
Societal contribution	Stakeholder orientation	Philanthropy (charitable donations, provision of public goods & services) Fair labour practices (working conditions, employee rights, health & safety) Supply chain integrity (SME empowerment, labour & environmental standards)
Environmental integrity	Sustainable ecosystems	Ecosystem protection (biodiversity conservation & ecosystem restoration) Renewable resources (tackling climate change, renewable energy & materials) Zero waste production (cradle-to-cradle processes, waste elimination)

Table 4 DNA Model of CSR 2.0. Source: (Visser, 2011)

In order to integrate these changes into every area of business and to make this shift from old to new CSR practices, Visser proposes five principles that need to be applied: *Creativity*, *Scalability*, *Responsiveness*, *Glocality* and *Circularity*.

In the previous phases of CSR, creativity was often subconsciously or deliberately replaced by standardized models with pre-determined procedures that ensure economic progress. However, to be able to deal with complex and demanding social, ethical and environmental issues companies need to foster ‘out-of-the-box’ thinking as well as to be prepared to embrace opportunities and risks that come with innovation. Moreover, these problems are of large scale and require a mass change. The *Scalability* principle should encourage organizations to come through with proposed sustainable solutions and to do so with great urgency. When we talk about the magnitude of the challenges that we are facing, it is essential to point out the need to act globally but without leaving behind different local demands. Visser reinforces the interrelatedness of CSR 2.0 through the principle of *Glocality* or global localization as “*a way of adapting techniques to local conditions.*” (Visser, 2011)

Finally, the *Circularity* principle should serve as a reminder of the scarcity of resources. Not only in terms of natural resources, but also the human capital and the need to invest in education and training of employees, while creating sustainable products and services. In order for business to thrive, it needs social and environmental stability. Therefore, radical changes that CSR 2.0 brings are crucial for both business and planetary sustainability as one is dependent on the other.

The following table depicts shifts that are needed in order to reinvent the way both CSR and business are done in the modern world.

CSR 1.0	CSR 2.0
Philanthropic	Collaborative
Risk-based	Reward-based
Image-driven	Performance-driven
Specialized	Integrated
Standardized	Diversified
Marginal	Scalable
Western	Global

Table 5 CSR 1.0 to CSR 2.0 - macro shifts. Source: (Visser, 2011)

CSR 1.0	CSR 2.0
CSR premium	Base of the pyramid
Charity projects	Social enterprise
CSR indexes	CSR ratings
CSR departments	CSR incentives
Product liability	Choice editing
Ethical consumerism	Service agreements
CSR reporting cycles	CSR data streams
Stakeholder groups	Social networks
Process standards	Performance standards

Table 6 CSR 1.0 to CSR 2.0 - micro shifts. Source: (Visser, 2011)

The transformation of CSR principles represents macro level changes from paternalistic attitudes and pure philanthropy to more collaborative and interdependent relationships

between the business and its stakeholders where being reactive is the key for the long-term success. Moreover, a company is no longer perceived as socially responsible based on its public-relations campaigns. Instead, what is taken into consideration is the overall impact and global footprint that it leaves on the environment as well as the society. Hence, to be able to move CSR from periphery to the very center of company's operations, the role of CSR consultants and departments should be extended until it is completely integrated into everything that the company does. This is further reflected on the micro level which represents the shifts of specific CSR practices. These deal with changing the way products are made and for whom. Instead of having expensive bio and fair-trade products available only to the most fortunate ones, CSR 2.0 is about bringing innovative solutions that will be accessible to everyone, and especially aiming to improve the quality of life of those in need. While donating money to charities used to be considered as the essence of social responsibility, it does very little in remediating the pressing social issues such as climate change or poverty. Therefore, in order to achieve long-term success, companies need to invest directly in building sustainable enterprises with high social awareness.

The solution that stands behind the CSR 2.0 (r)evolution is keeping the same abbreviation to express Corporate Responsibility and Sustainability. This suggests that in the emerging globalization era that urges companies to set sustainable strategies that work for society's overall wellbeing, these two concepts should not be seen separately. It is clear that sustainability can only be achieved by using responsibility as a means to get there. Moreover, it gives a more tangible approach to sustainable development which is often defined as *'meeting the needs of the present without compromising the ability of future generations to meet their own.'* (Grant, et al., 2019)

It is possible that the reason why many companies and individuals find this idea demanding or challenging lays precisely in its widely accepted definition. Indeed, predicting the future and needs of new generations seems impossible or at the very least uncertain. Instead, the 'new CSR' suggests active engagement where companies respond to global challenges by operating in a restorative way, i.e., by giving back more than what they take from the society. This way, they would be able to fulfil present needs without harming future generations and taking away the opportunity for continuous growth.

Milton Friedman's argument that corporations are artificial entities and therefore, cannot have social responsibilities as if they were an individual person, is fairly outdated. It failed to understand that businesses are comprised of people and that this human dimension is crucial for the organization to sustain itself. The reason businesses are expected to respond to the pressing issues of society is because they have the right resources to do so in the most urgent and scalable way. However, this does not imply that a corporation is the only responsible party. Rather, each individual as part of the society or an organization needs to become involved in order to create the environment for change. Peter Senge points out the importance of the collaboration between different institutions, especially multinational companies: *“Collectively, these organizations determine what technologies are created and how they are applied around the world: which markets develop, and which are largely ignored. These institutions determine who benefits from the world economy and who does not.”* (Senge, et al., 2006)

The new era of CSR is comprised of innovative solutions, i.e., products, processes, services that are aimed to respond the social and environmental demands and problems, cross-sector or partnerships with NGOs, stakeholder collaboration and philanthropy in the sense of using core company skills and resources rather than just financial donations. Finally, it requires a long-term CSR strategy and questions the way investments and profits are being made.

3.3 International Standards

The following chapter will cover several international standards in order to show the evolution and future goals of CSR as well as its practical implementation. It is important to highlight that each of these standards alone are not enough to fully integrate corporate social responsibility and company strategy. However, following the guidance that all of them offer together while focusing on the specific needs of an organization can be crucial for changing the way CSR is done nowadays.

3.3.1 UN Global Compact

The United Nations Global Compact is one of the largest corporate responsibility and sustainability initiatives in the world with over 10 000 companies coming from more than 160 different countries. It was launched in 2000 with the idea to integrate the basic principles from the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights on Environment and Development, and the United Nations Convention Against Corruption with companies' strategies. With that purpose, the following Ten Principles were introduced (Nations, 2000):

1. Businesses should support and respect the protection of internationally proclaimed human rights
2. Businesses should make sure that they are not complicit in human rights abuses
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
4. Businesses should uphold the elimination of all forms of forced and compulsory labor
5. Businesses should uphold the effective abolition of child labor
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation
7. Businesses should support a precautionary approach to environmental challenges
8. Businesses should undertake initiatives to promote greater environmental responsibility
9. Businesses should encourage the development and diffusion of environmentally friendly technologies
10. Businesses should work against corruption in all its forms, including extortion and bribery

These principles are meant as guidance for companies that have signed the initiative to constantly work on achieving the outlined goals as well as to keep them aligned with company's core operations. Nevertheless, that does not imply that there is only one way to see through the commitments.

“This is also important inasmuch as the principles allow for good deal of innovation and unique application that reflect the realities of a given company’s journey towards corporate sustainability.” (Compact, United Nations Global; Deloitte; 2010)

Although, the idea of corporate sustainability that maintains both business and social integrity can appear as something natural and widely recognized nowadays, the truth is that in reality reaching its full potential can be quite challenging. This is mainly due to the different contexts in which companies operate, different resources and infrastructure they have at their disposal or the changing nature of issues they are facing which might require the ad hoc adjusting of the strategy. The UN Global Compact, in collaboration with Deloitte, offers a dynamic management model that could help companies use these principles in practice while making them part of the day-to-day operations.



Figure 2 UN Global Compact Management Model. Source: (Compact, United Nations Global; Deloitte;, 2010)

The Model is composed of six steps which can be implemented in the best suited order for each company and if needed, several steps can be covered simultaneously. Its main characteristic is that it represents a circular process which fosters continuous improvement. Each step is illustrated with practical examples on how to take action, so the framework is not limited only to the theoretical or non-tangible ideas. Moreover, it challenges corporations to constantly analyze and question their strategy to be able to capture different risks and

opportunities over time. According to UN Compact this is crucial for innovative ideas which ultimately create a long-term value for all stakeholders.

The first step suggests that company leaders (e.g., CEO or Board Members) publicly commit to the Ten UN Global Compact Principles and the objective of making them part of the corporate strategy, culture and core business practices. This should be done by signing the Global Compact Letter of Commitment, completing the online application and by making these actions public and fully disclosed. The following step is assessing both financial and non-financial risks and opportunities as well as the impact that the company has on the four main issue areas covered by the principles, i.e., Human Rights, Labor, Environment and Anti-Corruption. Based on the assessment, the company is able to define its goals, strategy and policies. Depending on the organizational capabilities, this can be done by performing an in-depth risk assessment of the ten principles or, in case of a less resourceful company, by making predictions on the potential risks based on the experience and comprehension of their business activities.

“As the organization builds its capabilities to assess its risks and alignment with the ten principles, it should pay particular attention to the specifics of its unique operating context.”
(Compact, United Nations Global; Deloitte; 2010)

This kind of thinking can bring different opportunities since by focusing on its specific operations and mitigating the risks, a company can have more impact on the social issues while meeting the needs of both shareholders and stakeholders at the same time. Further, it can track these impacts with the Global Reporting Initiative (GRI) performance indicators, the Dow Jones Sustainability Index or the FTSE4GOOD Index. These are meant to help companies with their assessment but should not be seen as the only indicator of corporate responsibility.

The third step defines company's goals, strategies and policies. The UN model suggests setting a long-term strategy and both short and long-term goals to further embrace the concept of corporate sustainability. A roadmap can help keep track of the funds they have at their disposal, milestones and steps required to achieve the defined goals. Moreover, the company should make sure that the appropriate policies are followed and that stakeholders, such as suppliers and business partners, are also compliant with the ten principles.

‘‘This effort will serve to integrate the corporate sustainability strategy with its overall strategy to ultimately develop a sustainable business strategy.’’ (Compact, United Nations Global; Deloitte;, 2010)

This is followed by the fourth step which deals with implementing the strategy and policies across the entire company’s value chain. It implies reshaping the current processes and introducing new ones; educating both employees and suppliers through specific trainings that cover the importance of ethics or by creating the code of conduct to make sure that everyone is aligned with the sustainability strategy; expanding the resources and the use of information technology to reduce the financial costs as well as the impact on the environment or creating systems that collect data and detect the violation of human rights, labor or corruption. Furthermore, the company should be able to measure its progress towards corporate sustainability as well as to what extent its actions meet the requirements covered by the ten principles. Developing a performance management system can help with collecting all the relevant data from different sources and revealing the benefits of operating responsibly.

‘‘It makes performance broadly visible, regularly uses performance data to guide decisions and investments, and seeks to translate corporate sustainability impact to financial impact.’’ (Compact, United Nations Global; Deloitte;, 2010)

Finally, the company should be able to communicate its progress and strategy to both internal (e.g., employees) and external (e.g., NGOs, government, suppliers) stakeholders by creating a Communication on Progress (COP) document. However, the key here is to truly engage with all the stakeholders and hear their feedback on potential improvement. As a result, all the relevant information on the progress of sustainability goals and strategies is included in the annual financial report making it an essential part of the overall company operations instead of just keeping it on the margin as something that is ‘nice-to-have.’

The relationship between the organization’s financial performance and social welfare seems clearer than ever. Businesses are aware that their success depends on the state of the environment in which they operate and that to be able to maximize it, they need to make sure that corporate responsibility is part of their long-term strategy as well as the day-to-day practices. The UN Global Compact facilitates this transition through various activities by raising awareness both globally and locally and helping companies develop necessary

resources or partner with right organizations. Corporations are being put on the spot and held accountable by all stakeholders and in order to sustain themselves they need to become proactive rather than reactive and clear the path for new opportunities.

3.3.2 UN Sustainable Development Goals (SDGs)

The Sustainable Development Goals were launched in 2015 as a part of the 2030 Agenda for Sustainable Development. The initiative was signed by all UN member countries which *“recognize that ending poverty must go hand-in-hand with strategies that build economic growth and address a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection.”* (United Nations , 2020)



Figure 3 Global Goals. Source: United Nations, Open Working Group, <http://www.globalgoals.org>

The global nature of the SDGs connects governments, NGOs, corporations and individuals while offering a universal approach towards the sustainable development. What used to be perceived as corporations’ side goal to address environmental and social issues, nowadays is in the center of the attention. It is expected that companies collaborate with governments while they implement new policies and strategies for achieving the SDGs.

“Through their core operations, financial commitments, employee networks, consumer facing platforms and high-level influence, businesses can make a vital contribution to accelerating progress towards the Goals.” (United Nations, 2020)

Moreover, the framework that the SDGs offer is crucial for further development of CSR practices since it recognizes the complexity and the dynamic that comes with addressing the sustainability issues. One of the main challenges is that even though CSR is an international concept, its implementation is conditioned by the social, economic and legal environment in which the given organization is operating. Therefore, having a universal reporting structure that the SDGs provide was long overdue.

The UN global goals cover a vast range of issues from ending poverty and hunger, assuring gender equality and education, reducing overall inequalities, minimizing the environmental distortions and achieving peace, justice and strong institutions. Nevertheless, there is a tendency to choose just a few of them instead of viewing all 17 goals in a holistic manner. While this may seem as a way to best employ the available resources and capabilities, the truth is that in the long run it only supports the fragmented approach to sustainability and CSR treating them as a public relations tool. If the company is looking for a sustainable strategy, then it should work towards the realization of all SDGs. One of the examples is the SDG 1 (No poverty), stated as the goal with the highest priority according to the UN. However, in the survey conducted by (PwC, 2015), most companies agreed that the SDG 8 (Decent work and economic growth) is the goal to which they can contribute the most while pursuing potential business opportunities. The key here is in understanding that there is a relationship between SDGs and that one solution can have impact on more than one goal.

“Improve employment for all and you start to address one of the key causes of global poverty – the lack of work.” (PwC, 2015)

The research shows that many firms are hesitant to fully adopt sustainable practices because there are no tools or indicators to measure the impact it has both on business and SDGs. Moreover, multinational companies are facing the challenge of having to follow different government regulations in all the countries in which they operate. However, a number of organizations are working on guides and approaches for businesses to tackle the global goals

and subsequently show their quantitative advancement as well. The SDG Compass offers a five-step guide with the following outline (Compass, 2015):

1. Understanding SDGs
2. Defining priorities
3. Setting goals
4. Integrating
5. Reporting and communicating

The first step offers the overview of the most important aspects of the SDGs such as the business case, the standard normative and principles (e.g., ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, UN Global Compact Principles and UN Guiding Principles on Business and Human Rights) which make sure that respecting human is the starting point for all business practices. Perhaps, the most important part of the second step is the selection of indicators and collection of the data. After identifying the areas in which they have current or potential, positive or negative impact, the company should make sure that the performance is being tracked over time through one or several indicators. The SDG Compass further offers an inventory of appropriate business indicators for each of the goals. The next step is to select the Key Performance Indicators (KPIs) to set ‘*specific, measurable and time-bound sustainability goals*’ (Compass, 2015) which address needs on the global level.

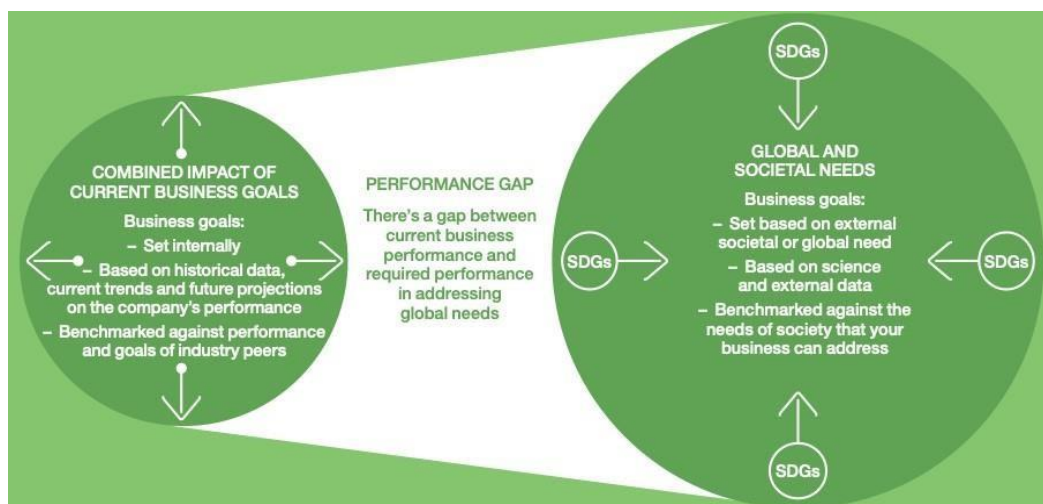


Figure 4 In action: Adopting a goal setting approach. Source: SDG Compass, 2015

(https://sdgcompass.org/wp-content/uploads/2016/05/019104_SDG_Compass_Guide_2015_v29.pdf)

The fourth step would be integrating the sustainability in every business aspect (e.g. strategic, financial and operational) to successfully achieve the set goals. Instead of having a separate team that deals with CSR, the idea is to use the already existing company functions such as Research and Development, Supply Management, Risk Assessment or Human Resources to support the sustainable development.

Finally, reporting and communicating the progress to stakeholders is crucial for continuous progress and the ability to address the changing needs of the society. The suggestion is to focus on reporting and mapping the material issues i.e., economic, environmental and social issues on which the company has impact while putting them against the stakeholder influence.

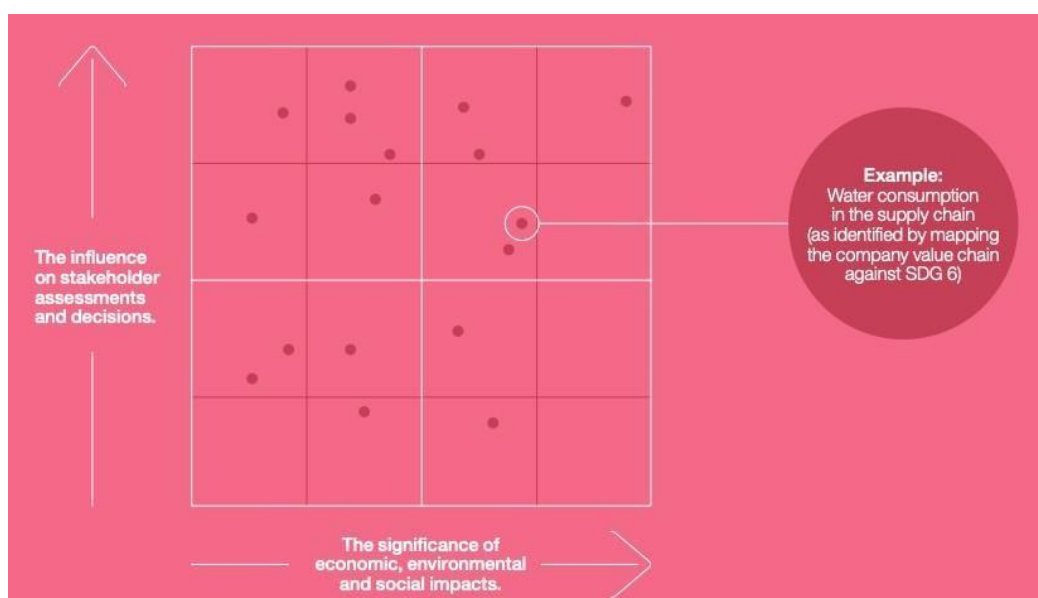


Figure 5 In action: Mapping SDG reporting priorities through materiality. Source: SDG Compass, 2015 (https://sdgcompass.org/wp-content/uploads/2016/05/019104_SDG_Compas_Guide_2015_v29.pdf)

The truth is that even five years after the introduction of SDGs, there is still no clear guidance on how to adopt them. Perhaps, the main reason is that the complexity of social and environmental issues requires also complex solutions rather than ‘one-size-fits-all’ approach. However, incorporating different tools can be a good start regardless how advanced the company is on its path towards the sustainability.

3.3.3 The GRI Standards for Sustainability Reporting

The Global Reporting Initiative (GRI) provides sustainability reporting standards recognized on the international level. It was launched in 1997 to make sure environmental damages were avoided and it was later expanded to cover social, economic and governance issue.

The GRI defines sustainability reporting as *‘helping organizations to set goals, measure performance, and manage change in order to make their operations more sustainable. A sustainability report conveys disclosures on an organization’s impacts— be they positive or negative— on the environment, society and the economy. It also presents the organization’s values and governance model, and the link between its strategy and its commitment to a sustainable economy’*. (GRI, 2020)

The main idea is to increase transparency and accountability of company’s operations while fostering sustainable development. Further the GRI standards are split into four series with 100 series covering the Universal Standards: GRI 101 Foundation, GRI 102 General Disclosures, GRI 103: Management Approach and the 200 (Economic), 300 (Environmental) and 400 (Social) series which are topic-specific (GRI , 2020).

All GRI standards are connected and meant to be used together to create a sustainability report based on the set of Reporting principles and reflecting the material issues. However, companies can select GRI standards or part of them which best relate to the information they would like to report on. Moreover, they offer compulsory requirements, non-mandatory but highly encouraged recommendations, and guidance with detailed explanations and examples of the requirements.

Reporting Principles for defining report content	Reporting Principles for defining report quality
<ul style="list-style-type: none"> • Stakeholder Inclusiveness • Sustainability Context • Materiality • Completeness 	<ul style="list-style-type: none"> • Accuracy • Balance • Clarity • Comparability • Reliability • Timeliness

Figure 6 Reporting Principles. Source: (GRI , 2020)

The ten principles are split into two parts *‘helping companies prepare high-quality information on the issues that matter and are useful for both sustainability reporting as well as communications overall.’* (Compass, 2015)

Moreover, the GRI standards are connected to the SDGs which provides a transparent and universal way of reporting on the contribution to the global goals. Hence, understanding the material topics i.e., company's economic, environmental and social impacts and the way they are perceived by the stakeholders is just as important as knowing the 'Boundary' for each of them. This refers to both direct and indirect impacts that the organization can have based on its activities or business relationships such as business operations, partnerships, suppliers, customers etc. (GRI , 2020) Companies that claim they are reporting their operations based on the GRI are required to explain in detail the materiality principles and topics they applied as well as the presence of the stakeholder influence in the reports.

Finally, the key to successful reporting is making sure that all the activities are being communicated in a transparent way. Therefore, GRI provides a set of General Disclosures that can be either Core or Comprehensive that the company is obliged to clearly reference in their reports.

4 Practical Part

After providing a theoretical background and showing different aspects of corporate social responsibility, its decades long evolution and current understandings of the concept, the practical part of the thesis will focus on connecting these findings to specific practices that contribute to the ongoing sustainable development of a company. The case study will be conducted based on semi-structured interviews, participant observation and by analyzing various documents and initiatives to determine how strategy shaped through CSR lens can be beneficial for company's long-term sustainability as opposed to focusing only on short-term business success (see the Appendix for the list of documents and interview details)

4.1 Company Overview and Governance

Merck & Co., Inc. Rahway, NJ U.S. was founded in 1891 by George Merck with the purpose of distributing fine chemicals in New York and surrounding areas. It started as a subsidiary of the German company Merck until World War I when Merck & Co. was nationalized by the U.S. government. Since then, the company has operated under the name Merck & Co., Inc. in the U.S. and Canada, while its trade name in the rest of the world is MSD (Merck Sharp & Dohme). *[Author's note: Since the author of this thesis is writing from the Czech Republic, following company's guidelines, from this point onwards the name MSD will be used when referring to company's operations both globally and locally, in the Czech Republic.]*

Today, MSD is a worldwide leading biopharmaceutical company known for preventing and addressing the most challenging diseases by developing mainly prescription medicines, vaccines, biologic therapies and animal health products. In the Fortune 500 list of the United States largest corporations by total revenue for the fiscal year 2019, it ranks No. 69. However, company's share price usually does not have significant changes on the yearly basis compared to its competitors. The reason behind this is their focus on innovative Research & Development with a long-term perspective. MSD has been following the path of innovation ever since George W. Merck became president in 1925. The speech he gave at the Medical College of Virginia at Richmond in 1950 is considered as a defining moment for company's philosophy and the way it operates to this date:

“We try to remember that medicine is for the patient. We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear.” (Merck, 1950)

Currently, the company has more than 140 offices all over the world. It has been operating in the Czech Republic since 1992 as a Czech market subsidiary Merck Sharp & Dohme s.r.o. until 2014 when MSD Czech Republic s.r.o. and its Prague IT Hub were established as *a regional center for developing and applying advanced capabilities in information sciences, information security, mobility, social media, and big data.* (MSD Czech Republic s.r.o., 2018). Together with hubs in Singapore and the U.S., the company embraced the technological progress and reinforced their main goal – to invent for life. Its focus on developing and providing innovative products and services that support scientists and healthcare practitioners while improving the livelihood of people around the world demonstrates MSD’s mission to save and improve lives by using latest technologies to prevent the development of a disease rather than waiting to solve the problem when it has already appeared.

Hence, when most companies started decreasing the funds dedicated to Research & Development, MSD believed it was important to have an internal R&D department in order to fully dedicate to their vision:

“To make a difference in the lives of people globally through our innovative medicines, vaccines, and animal health products. We are committed to being the premier, research-intensive biopharmaceutical company, and we are dedicated to providing leading innovations and solution for today and the future.” (MSD, 2020)

Operating responsibly and having a sustainable impact on both company and society is stated as the core purpose of MSD. The mission and vision reflect business practices, *“What we do matters”*, while the company code of conduct through its values and standards reinforces their commitment to ethics and integrity, *“How we do it matters”*. Corporate policies shape the standards and guide MSD in their interaction with various stakeholders i.e., patients and customers, employees, shareholders, suppliers and distributors, communities and society. Earning and maintaining the trust of each of these groups of stakeholders is what MSD sees as being a good corporate citizen. Therefore, the company has developed a global compliance program meant to be followed by each of its worldwide offices which, together with the Code

of Conduct, is supervised by the board of directors and senior management covering compliance-related policies (19 in total) as well as trainings that are meant to educate and help employees understand company's culture and different compliance procedures. (MSD, 2020) The Board is further in charge of company's legal and overall performance with the mission to promote the long-term interest of shareholders while considering the company's relationship and impact on the society and different stakeholders.

Finally, the way the MSD operates, and its corporate structure follows the Ten Principles of the UN Global Compact and the commitment to address the UN Sustainable Development Goals (SDGs) with the main focus on SDG3 – Good Health and Wellbeing which is directly connected to the company's mission to save and improve lives.

4.2 Strategic Framework and CSR

In the attempt to fully integrate CSR into the core company strategy, MSD connected their Corporate Responsibility Materiality process and the Enterprise Risk Management (ERM) team's approach to develop a materiality matrix that represents prioritized ESG issues that affect the company financially or operationally as well as the environmental and societal matters where the company can make the difference. The company defines this materiality process assessment as *“an opportunity to listen and engage [our] many stakeholders and helps [us] improve as an organization and provides insight into future trends and potential business risks and opportunities that influence [our] ability to create value.”* (MSD, 2019/2020)

	MEDIUM	HIGH	VERY HIGH	
Importance to stakeholders	<ul style="list-style-type: none"> Labor relations 	<ul style="list-style-type: none"> Clinical trials Data privacy and information security Occupational health and safety 	<ul style="list-style-type: none"> Access to health Ethics and compliance Intellectual property Product quality and safety Research and development Responsible sales and marketing 	VERY HIGH
	<ul style="list-style-type: none"> Climate change Governance Product stewardship Water use and management 	<ul style="list-style-type: none"> Antimicrobial stewardship Disease awareness and education Human rights Supply chain responsibility Transparency and reporting Waste management 	<ul style="list-style-type: none"> Diverse and inclusive workplace Patient and caregiver engagement Responsible pricing 	HIGH
	<ul style="list-style-type: none"> Biodiversity and land stewardship Bioethics Community support and development Energy efficiency 	<ul style="list-style-type: none"> Digital innovation Counterfeit drugs Employment practices Talent recruitment, retention and development 	<ul style="list-style-type: none"> Employee wellbeing 	MEDIUM
	Importance to business success			

Figure 7 Materiality Matrix. Source: <https://www.msdrresponsibility.com/reporting/corporate-responsibility-materiality/> (2020)

Hence, with the purpose of conducting the real-time materiality evaluation through big data and artificial intelligence, the company included a third-party tool, Datamaran’s Materiality Analysis. The graphic below shows the approach that MSD takes when identifying key risks and opportunities for internal and external stakeholders as well as the influence of Environmental, Social and Governance (ESG) issues. The online surveys allow the company to directly get the input from all stakeholders while corporate reports, analysis of the competition, global regulations and initiatives, or social media provide diverse sources of real-time assessments.

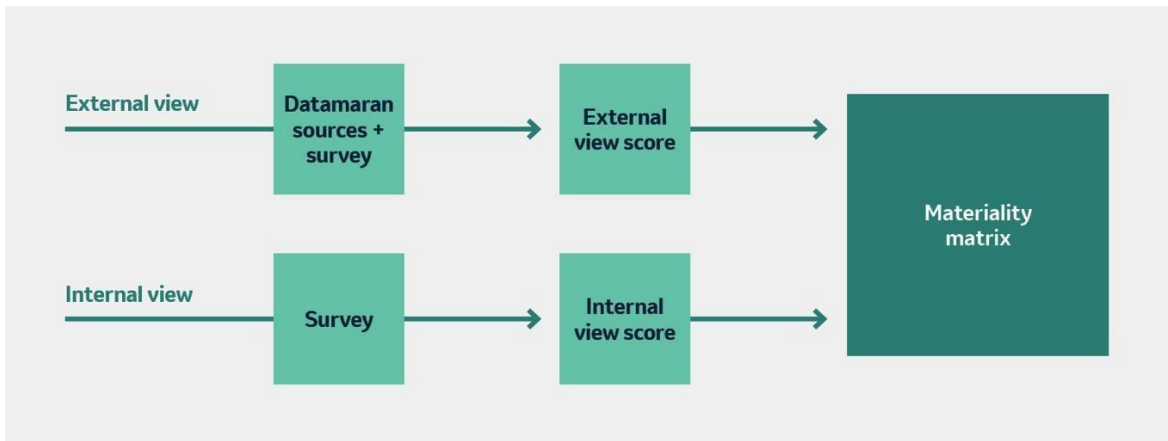


Figure 8 Sources and Final Output of the Materiality Analysis. Source:

<https://www.msdrresponsibility.com/reporting/corporate-responsibility-materiality/> (2020)

Finally, MSD publishes every year a website-based Corporate Responsibility Report called '*MSD Responsibility*'. In addition to this, for the past two years the company provides a separate Environmental, Social and Governance (ESG) Progress Report with an overview of their commitments and key performance indicators. Every five years, from the CSR point of view, MSD identifies key issues that impact all stakeholders, both internal and external, with the idea of focusing their efforts to those which they can contribute the most.

4.2.1 CSR Strategy in Global MSD

On the global level, when talking about Corporate Social Responsibility, MSD uses a more general term, Corporate Responsibility, to describe their commitment not only to social, but environmental and governance issues as well.

Based on their latest assessment, MSD focused its efforts to four corporate responsibility areas:

1. Access to Health
2. Employees
3. Environmental Sustainability
4. Ethics and Values

According to Julie L. Gerberding, company's executive vice president of strategic communications, global public policy, population health and chief patient officer, having this high-level focus allows MSD to address CSR *in a way that embeds the concept throughout [our] organization and focuses on those issues that are most relevant.* (Wright, 2016) While the company also addresses issues outside these four areas and supports philanthropic commitments, these are meant to integrate CSR into MSD's philosophy on both organizational and functional level.

4.2.1.1 Access to Health

MSD's company-wide approach for improving access to health covers areas such as Research and Development, Manufacturing, Marketing and Commercialization, and Philanthropic

Investments and is further defined through its “Access to Health Guiding Principles” with respective Key Performance Indicators (KPIs) that are meant to track and communicate the progress in a significant manner.

Discovery and Invention is mainly focused on the development of products that can have significant impact on the most challenging diseases both now and long-term. According to the Institute for Health Metrics and Evaluation (IHME), MSD focuses its research on “*diseases that rank high on the list of worldwide causes of death.*” (MSD, 2019/2020) This reflects company’s efforts to have 100 percent of the pipeline dedicated the top 20 global burdens of disease while strengthening health care systems and removing the inequalities. Therefore, MSD invests increasingly into Research and Development (R&D) and through different partnerships maximizes the discovery and development of products required worldwide. The following KPIs show MSD’s commitment to R&D with the purpose of reducing the pressing issue of infectious diseases in both middle- and low-income countries while collaborating with different partners to extend the effect of these solutions globally (MSD, 2019/2020):

- *KPI: Percentage of top 20 burdens of disease addressed by our products and pipeline*
- *KPI: Narrative of our R&D investments in infectious diseases*
- *KPI: Number of established significant external licenses and collaborations*
- *KPI: GCP/PV inspections by regulatory agencies of the company or clinical trial investigators that led to significant fines, penalties, warning letters or product seizures*

Availability does not only imply making the product accessible on both global and local markets, but it also refers to having a transparent and reliable supply of medicines and vaccines as well as to creating solutions that will ensure this in a long run. Therefore, MSD uses following KPIs to measure its progress (MSD, 2019/2020):

- *KPI: Percentage of solid units recalled during a given year (recall rate globally)*
- *KPI: Number of local and regional manufacturing partnerships to enable access*
- *KPI: Number of products available through local and regional partnerships*
- *KPI: New product and device registrations (annual)*

- *KPI: Products that have achieved WHO¹ prequalification (cumulative)*

Affordability principle follows the global procedure that includes testing and implementation of new market-based solutions that will provide a wide-range of patients with access to medicines. Moreover, MSD collaborates with appropriate partners including private, non-profit organizations and governments of the countries in questions. The following KPIs are meant to support this approach as well as the company's well-established policy of not filing for product patents in low-income countries or their commitment to product donations and patient assistance that is meant to enable direct access to medications in locations where pre-defined solutions are not sufficient (MSD, 2019/2020):

- *KPI: Number of countries where dedicated affordability solutions have been initiated*
- *KPI: Number of patents filed in low-income countries, as defined by The World Bank in its country and lending groups classifications (annual)*
- *KPI: People reached globally through product donation and patient assistance programs and partnerships (in millions)*

Strengthening Systems and Addressing Inequity principle guides MSD when applying its knowledge and resources to deal with barriers to access to health and is measured through series of KPIs (MSD, 2019/2020):

- *KPI: Annual investment in partnerships, programs, and impact investments that support health care capacity-building and address underlying barriers to access to health (in millions USD)*
- *KPI: People reached through investment in partnerships, programs, and impact investment that support health care capacity-building and address underlying barriers to access to health (in millions)*
- *KPI: Percentage of investments in partnerships and programs to strengthen health care capacity and address barriers to access that is allocated to impact evaluation*

¹ World Health Organization Prequalification aims to ensure that diagnostics, medicines, vaccines and immunization-related equipment and devices for high burden diseases meet global standards of quality, safety and efficacy, in order to optimize use of health resources and improve health outcomes. (World Health Organization , 2021)

- *KPI: Investment in patient- and provider-education programs (in millions USD)*

There is an ongoing initiative to make the pharmaceutical industry more transparent on the access strategies and their integration to companies' core strategies. Therefore, MSD recognizes the importance of enabling the accessibility to quality health care by taking into account issues such as undertrained health care practitioners, lack of strong infrastructure, unstable political situation or even shortage of safe water in most of the developing countries. Moreover, to be able to develop sustainable and scalable solutions, MSD works in partnerships with various stakeholders including the governments of the countries in which they operate. In their corporate responsibility report the company highlights its dedication to *“establishing relationships with communities to understand how socioeconomic inequity, bias and structural racism have impacted their ability to manage their health care and co-creating local solutions to address these issues.”* (MSD, 2019/2020) This kind of approach, aligned with the UN SDG 3 – *Good Health and Well-Being* and the SDG 17 – *Partnerships for the Goals*, allows a multinational biopharmaceutical company to make its innovative products and services available and affordable on the global level while understanding the local conditions and constraints of health care systems.

4.2.1.2 Employees

With the purpose of long-term development and delivering value to all stakeholders, MSD fosters an inclusive and diverse workforce at every organizational level through programs such as global diversity and inclusion, compensation and benefits, employee wellbeing, engaging employees, learning and development or employee safety. Each of the programs reflects the company's core values and beliefs and provides an understanding of how MSD and its employees allocate their resources to meet the enterprise-wide expectations and values while contributing the progress of company's mission and goals. This approach is further aligned with MSD's strategy and its commitment to various Sustainable Development Goals (SDG), especially the SDG 5 - *Gender Equality* as the closest one to company's culture of inclusion.

The company states *Diversity and Inclusion* as a starting point for everything they do, defining it *“as a source of competitive advantage and as a transformational strategy to drive*

change.” (MSD, 2019/2020) The Global Diversity and Inclusion strategic framework is used to define priorities that are meant to fortify diversity and inclusive culture while changing the business environment. This suggests that the concept is supported from the top of the organizational structure and it is implemented into all of its functional units with the idea of driving long-term business value. According to MSD’s latest report, this kind of integral approach and diverse workforce enable the creation of equally diverse and widely applicable solutions. Even though technology and innovation allow addressing the most challenging diseases, it has been demonstrated that diverse patient groups are usually underrepresented when it comes to clinical trials or that they suffer larger health care disparities due to lack of health care knowledge. Hence, having globally diverse teams did not only allow MSD to work on a wide array of medical products and services while improving the results of clinical trials and drug discovery, but it also enabled a stronger relationship with customers by meeting patients’ needs, constantly reinforcing company’s reputation, advancing the commercialization strategy and bringing value to the shareholders.

Moreover, MSD has developed a global enterprise portal “*Sync*”, accessible only internally, where employees from each country “*can gain access to company news and videos, divisional and functional news channels, and social collaboration tools that allow them to share interests, messages and ideas online.*” (MSD, 2019/2020) In addition to this, employees’ communication is fostered through “*Employee Business Briefings*” held on a quarterly basis where CEO and the Executive Committee share company’s progress of mission and key goals, financial performance, pipeline, patient feedback or insights on future products. Moreover, employee surveys ensure that each employee is able to participate in shaping company’s strategy as well as in providing the leadership with their view on addressing workforce needs.

Finally, the corporation perceives volunteering as a unique opportunity for “*identifying innovative ways for [our] employees to have positive impact on people’s lives around the world, while also achieving [our] company’s business objectives*”. (MSD, 2019/2020) Therefore, each employee is entitled to 40 hours of paid volunteering time per year that could be spent on vast array of activities in partnership with an NGO or Social Enterprise of their choice.

4.2.1.3 Environmental Sustainability

Even though the pharmaceutical industry is not considered as one of the main sources of greenhouse gas emissions and pollution, MSD considers that a company that has a status of corporate citizen has also the responsibility to address these issues for the wellbeing of the planet and the communities in which they operate. Therefore, there is a need to constantly adapt the strategy to be able to respond to the changing and limited availability of resources. MSD collaborates with several industry-relevant organizations such as the Pharmaceutical Environmental Group (PEG), the Pharmaceutical Supply Chain Initiative (PSCI), The Conference Board, and the European Federation of Pharmaceutical Industries and Associations (EFPIA-EHSEG) to be able to constantly evaluate their progress and make sure the newest technologies are being used. Moreover, the company collaborates with its key internal stakeholders and has set up the global Environmental Sustainability Center of Excellence (CoE) with the purpose of defining the organization's environmental sustainability strategy and goals. The Environment, Health and Safety (EHS) Council with senior representatives is further responsible for integrating the EHS strategy into all business units.

MSD designed a set of short- and long-term environmental goals that are meant to be achieved on the enterprise level while meeting the expectations of all the stakeholders and minimizing the impact that company's operations, supply chain, products and packaging have on the environment. These are further aligned with the SDG 6 - *Clean Water and Sanitation*, SDG 7 – *Affordable and Clean Energy*, SDG 12 – *Responsible Consumption and Production* and the SDG – 13 *Climate Action* as key goals for dealing with resource-constrained world.

4.2.1.4 Ethics and Values

There is an ongoing pressure on companies to operate transparently while taking into account inputs from all stakeholders. Perhaps, this quest for accountability goes even further when it comes to a large corporation providing health care products and dealing with sensitive information both internally and externally. Therefore, MSD places special focus on ethics and values which are embedded at the very core of company's business and defined in their *Values and Standards* or the *Code of Conduct* and are closely related to the SDG 8 – *Decent Work and Economic Growth*. Each employee is required to pass several trainings when

joining the company to get acquainted with the Code of Conduct as well as to be informed on who to turn to in case of the ethics and compliance related issues or doubts. Moreover, Office of Ethics is responsible for raising employee awareness and making sure they are able to communicate their concerns to their people managers, Human Resources, Compliance, Legal or directly to the Ethics office. Therefore, the company launched ‘*Speak Up*’, a reporting system allows employees and suppliers to report an ethical or legal concern, follow up on an existing report or ask questions to better understand company’s policies, Code of Conduct and different procedures.

Moreover, as a research and development-based company, MSD ensures ‘*a reliable and compliant supply of pharmaceuticals, vaccines, biologics and animal health products to the world’s patients and customers*’ (MSD, 2019/2020) through their Business Partner Code of Conduct based on the company’s general Code of Conduct as well as the Pharmaceutical Supply Chain Initiative’s (PSCI) Pharmaceutical Industry Principles and the Ten Principles of the United Nations Global Compact.

4.2.2 CSR Strategy in MSD Czech Republic

The concept of CSR was first introduced in the MSD Czech Republic (also known as Global Innovation Center) in 2015. Since all the policies and practices are defined globally and applied accordingly on the local level, the Czech branch follows the company’s mission, vision and core values related to access to health, ethics and transparency, environmental sustainability, employee wellbeing as well as the shared value creation for both shareholders and patients. Moreover, MSD is a partner of the United Nations Global Compact (UNGC) so Global Innovation Center (GIC) became the partner of local chapter following the 10 principles for sustainable business development and the respective Sustainable Development Goals (SDG).

Even though the Czech Republic office is not involved in the manufacturing of products, it is one of the three company IT Hubs and the only one in Europe with the additional role of supporting the entire company’s operations through multi-platform applications and mathematical models that facilitate research and development, business analysis and sales. Therefore, the Czech branch supports heavily the global strategy for diversity and inclusion

which is not only relevant for clinical trials, but also for the commercialization strategies and strong relationships with customers. As a result, the company is the employer of 70 different nationalities, with 29% of employees being women. Moreover, there are five Employee Business Resource Groups (EBRGs) that are meant to bring together and educate employees on different culture and backgrounds of other colleagues, bridge the gap between the generations, ensure gender equality or raise awareness about both physical and mental health:

1. Next Generation Network (NGN)
2. MSD Women's Network (MWN)
3. MSD Rainbow Alliance (MRA)
4. Asia Pacific Association (APA)
5. MSD capABILITY Network (MCN)

In the attempt to maintain core company values that support scientific development, highest ethical standards, enable access to products and leverage the capabilities of diverse workflows, the MSD CZ based its CSR strategy on four pillars inspired by those four key areas defined on the global level covering environment, volunteering, education and employees (MSD Czech Republic s.r.o., 2018).

4.2.2.1 Environment

The environment segment of CSR corresponds to the globally defined environmental sustainability area and it is mostly focused on reducing the environmental impact of company offices. Therefore, both buildings are designed according to the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) framework that ensures healthy, highly efficient and cost-saving green buildings. (LEED, 2021) The lights in the offices are programmed to turn off if no movement is being detected, the number of parking spots are limited to encourage the usage of public transportation instead of cars and recycling bins for plastic, glass, paper and mixed waste are available on all floors and in all spaces to emphasize recycling and waste sorting.

One of the particularly interesting and Czech Republic – specific initiatives is the recycling of coffee machine capsules. To minimize the impact of waste on the environment, the company

placed special baskets for capsule disposal next to each coffee machine. These are then collected and sent back to the vendor to support the recycling of packing material.

Moreover, in 2017 MSD CZ partnered with “*Jedlickuv ustav*”, a non-governmental organization to support *Remobil* project. The aim was to collect old/non-functional phones that would be recycled and as a result have two beneficial outcomes. Firstly, it would help the environment by reducing the CO2 emissions and saving the drinking water, and secondly a financial contribution would be made to “Jedlicka Institute and Schools” in Prague for physically disabled children.

Finally, the local CSR team organizes an Earth Day Workshop every year with the purpose of educating and informing employees on waste sorting practices and additional environmental activities that the company engages in.

4.2.2.2 Volunteering

Volunteering is perhaps the center of MSD CZ CSR Strategy. It is mostly related to the global level “Employees” area and uses as a guideline the Global Volunteerism Policy of up to 40 paid volunteer hours (MSD Czech Republic s.r.o., 2018). While some of the countries set a lower number of hours, the Czech Republic office offers the full range defined in the policy.

Hence, employees have the possibility to reach out to any or multiple non-governmental organizations to decide on how to allocate their volunteering hours. These can be used for either for manual work or for skills-based volunteering virtually or on site. In the latest non-financial report (MSD Czech Republic s.r.o., 2018), the company shared that 3368 hours have been used for volunteer activities engaging 296 employees in total with more than 30 organization based in Czech Republic. One of the main organization-wide projects was the “Uklid’me Česko” (Clean up the Czech Republic) where volunteers from MSD collected more than 300kg of litter (MSD Czech Republic s.r.o., 2018). Moreover, employees used their IT skills to coach children in orphanages as well as to launch *Digital Academy* for kids where they conducted several sessions in the office to introduce them to the basics of coding. Additionally, in 2020 to support the fight with the COVID-19 pandemics, the company lifted the 40-hour paid time off limit for employees who are trained health care

professionals and allowed them to volunteer either with non-profit organizations or directly with government hospitals and clinics.

Finally, MSD CZ supports a wide range of volunteering activities and encourages employee engagement, but a clear distinction from the overall business activity is made on the local level by company stating that volunteering is the essential part of CSR and the effort to demonstrate that as an organization they do not only work for themselves but rather give back to the society through non-business initiatives. (MSD, 2021)

4.2.2.3 Education

The education pillar relates to how the company overall supports the education of the community in which they operate. Each year, they organize different events that bring together speakers, lecturers or external agencies.

One of the good examples is MSD CZ partnering with CzechITas, a non-profit organization that supports the diversity and inclusion of young women in the IT sector. MSD IT Hub engaged in the initiative in 2018 by organizing a “Girls Day” inviting a group of high school students and teachers to participate in presentations and workshops related to information technology (MSD Czech Republic s.r.o., 2018). Moreover, the collaboration was extended to giving free office space to CzechITas every Saturday, the creation of whole-year workshops as well as summer school for girls.

Another example is the company’s cooperation with the universities in Czech Republic, mainly the University of Economics in Prague, the Czech Technical University, and the University of Chemistry and Technology in Prague. As a result, MSD enlisted the students in the MSD Grand Challenge that took place in the U.S. where they could compete with worldwide universities by tackling the company’s core business areas such as Design Thinking, Bioinformatics or Machine Learning (MSD Czech Republic s.r.o., 2019). The initiative gave MSD innovative solutions

for their daily operations while the students and the universities were able to expand both their network and knowledge.

4.2.2.4 Internal Employees

The Internal Employees part of CSR strategy relates more to how the company supports employees both personally and professionally.

In order to assist employees in coming back to work after being on parental leave, in 2019 MSD CZ introduced the MSD Parental Program (MSD Czech Republic s.r.o., 2019) consisting of a special guide adapted to the needs of both Czech and foreign employees. The initiative covers internal trainings with internal coaches as well as group gatherings where specific HR topics are being discussed to address the challenges of both maternal and paternal leaves.

Furthermore, the company provides annual trainings that each employee can choose based on their priorities and interests. In 2019, 1440 hours were allocated to employee trainings (MSD Czech Republic s.r.o., 2019). These are held both face to face and virtually giving the employees the opportunity to participate in trainings that are organized anywhere in the world.

Finally, the company places special focus on employee development and recruitment of new talents. Through the Emerging Talent Rotation (ETR) program fresh graduates are given the opportunity to rotate between three different teams during the one-and-a-half-year period (MSD Czech Republic s.r.o., 2019).

The participants are able to work on different projects and within different organization across the company while building their network and capacity to agile working set up. In most cases the company engages heavily in retaining them in the team that best suits each of them with the purpose of leveraging their skills for the long-term success.

4.3 MSD's CSR Initiatives

Even though, the company has various key initiatives dedicated to advancing the CSR cause, the well-defined structure and position that the concept has within the overall strategy shows that it goes beyond philanthropy and is embedded in everything the company does. Julie L. Gerberding, company's executive vice president of strategic communications, global public policy, population health and chief patient officer, refers to this approach as CSR 3.0 which *“requires figuring out how individual companies can link together seemingly unrelated projects to make a bigger and more sustainable impact that lives beyond the tenure of the individual leader who championed them in the first place.”* (Wright, 2016)

Gerberding further outlines set of questions that are meant to complement the assessment of key CSR opportunities with a long-term point of view:

- Does it address a significant global health need?
- Is it aligned with our business?
- Is it aligned with one of our areas of focus?
- Do we have something unique to bring to the table?
- What type of expertise can we provide beyond just products and financial resources?
- Are there good partners available and willing to participate?
- Can we demonstrate/measure impact?

MSD highlights the importance of partnerships when it comes to moving CSR from purely philanthropic, short-term actions to broader, sustainable solutions based on cooperative collection of data. Therefore, the company believes that while businesses have the underlying responsibility to bring value to the shareholders, this can be achieved by addressing the needs of the society as well. With the purpose of connecting social needs with business expertise to enable a continuous shared value, MSD imposes additional questions to its CSR framework (Wright, 2016):

- Can we address the social issue in an innovative way?
- Does it help to build a sustainable business?
- Will it potentially open up a new market?
- Will this provide greater cost efficiencies?

Therefore, under the umbrella of *Social Investments*, the company and its Foundation, in collaboration with the Office of Corporate Responsibility, support initiatives that go beyond financial donations and include collaborations with nonprofit organizations addressing causes that fit MSD's areas of focus through coordination of skills-based employee volunteerism or

by providing solutions for the most pressing diseases. Moreover, MSD makes a distinction between financial resources that are dedicated to philanthropy and those that cover the overall CSR activities. However, these are often interdependent, and the following framework is meant to guide CSR investments and its program portfolio (MSD, 2019/2020):

- Address critical global health needs where we can have a meaningful impact
- Promote health equity by addressing health disparities in vulnerable, underserved communities
- Collaborate with diverse partners to build healthier, stronger communities
- Leverage our range of resources – financial, product, and expertise – to achieve greater impact on population health outcomes

Finally, from a philanthropic perspective MSD makes contributions through cash grants and product donations managed by the MSD Foundation while commercially oriented CSR initiatives are financed by the individual departments' business units meaning that they are part of core operations such as research or discovery.

4.3.1 MSD for Mothers

MSD for Mothers is company's \$500 million initiative launched to address the need for improved health care systems that will advance the outcomes of maternal health by enabling safer pregnancy and childbirth. According to the latest company data, the initiative brought different solutions to more than 10 million women in 48 countries by leveraging company resources, over 180 collaborators and close to 150 employee experts to enable access to *quality maternity care* and *modern contraception*. (MSD, 2019/2020)

MSD employed the knowledge in digital innovation and data analytics to support the development of a mobile application for Kenya and India that provides information on local family planning options and providers of certified services. Moreover, the company collaborated with the government of Nigeria and other local stakeholders in the creation of new accreditation system for pharmacies that would improve the quality and access to wide range of contraceptive and family planning methods further demonstrating that sustainable solutions require more than just financial donations from one party.

Even though the universal health coverage (UHC) in Europe protects the fundamental right to health and suggests that all people should have access to quality health services, the analysis that MSD conducted identified that women that are part of minority ethnic groups, coming from high-risk countries or simply lacking the financial resources, do not have the access to maternal healthcare. Therefore, the company extended the global commitment to access to health to Europe in collaboration with their local offices, respective governments and NGOs by training local health workers on maternal health in Romania and Italy, by educating Roma minority women on reproductive health in Bulgaria and Serbia or by expanding the reach of a smartphone application first developed in India and Ethiopia, to provide access to evidence-based clinical guidelines for obstetric care for health workers.

Similarly, the analysis determined that in the U.S. there is no particular funding dedicated to maternal health or that there is a lack of understanding on why maternal mortality rates are continuously rising. Therefore, MSD employed its communication expertise to raise awareness of the issue as well as to develop a standardized protocol to be followed in hospitals to ensure safe delivery.

According to the company's former executive director of Office of Corporate Responsibility and president of MSD Foundation, Brenda Colatrella, MSD for Mothers is not considered a commercial initiative, but it still provides benefits to MSD's commercial operations. (Wright, 2016) The company believed that, by providing a much-needed solution, they would be able to expand the scope of their core capacity, improve the supply chain as well as to establish new and strengthen existing partnerships. Hence, direct, short-term profits were not visible, but the added value they obtained from engaging in the initiative contributed to the company's long-term development.

4.3.2 MSD Fellowship for Global Health

Rather than being traditional volunteering, *MSD Global Fellowship* program was created with the idea of using the skills and expertise of employees from all over the world “*to provide meaningful and systematic improvements in health service delivery for people in the greatest need.*” (MSD, 2021) These improvements vary from enhancing organizational capacity, enabling access to healthcare and products, giving lectures to educate both patients and healthcare workers or driving project management processes to ensure compliant clinical

trials and medical assistance. The program involves sending people from different MSD offices to various locations and putting them in smaller teams. These teams then partner with NGOs and work on a project for three months with the main goal to create solutions that will keep helping people long after the assignment has finished, and fellows have left.

According to one of the participants of the Fellowship program, the initiative expands the reach and impact of CSR since it goes beyond identifying social groups that need “saving” and provides the opportunity to advance two-way success and improvement through partnerships. Moreover, employees affirm that participating in the program not only gave them a broader understanding of challenges and opportunities on the global market, but it also allowed them to see clearly how their work contributes to company’s mission of saving and improving lives (MSD).

The interview conducted with one of the employees from MSD Czech Republic that participated in the program revealed that, while it is highly beneficial that the company provides 40 hours of paid volunteering for each employee, giving them the opportunity to engage with nonprofit organization of their choice, usually this stays within the range of manual activities such as painting the fence of children’s home, cleaning shelter homes or cooking meals for homeless people. While these activities are an important part of CSR’s philanthropic dimension, they do not closely relate to company’s core competencies and often have quite limited reach. On the contrary, when volunteering through the Fellowship program, employees are able to help NGOs build new infrastructure that will continuously and sustainably deliver value for the communities in which they operate. The interviewee shared that being able to work in smaller teams with colleagues from different parts of the company and actually spending time on the site was very beneficial to understand what the best way would be to implement the solution. He highlighted the following points:

- Challenge – developing a sustainable social entrepreneurship model for health clinics in South Africa that will allow an NGO to cover the operational costs of the clinics through a minimum fee while all the other costs would still be covered through funds and donations
- Benefits and outcomes:

- Patients – giving them the possibility to go to the clinics and have access to healthcare
- Healthcare workers – training them to work with a new system, expanding their skills and helping them keep their job
- NGO – supporting them so they are still able to operate and fulfill their purpose
- MSD employees – an opportunity to improve their expertise by working in a different environment as well as to expand their network across the company
- MSD company - employees bringing back new ways of working and new techniques that improve company's overall performance and the ability to deliver innovative solutions

Finally, it is particularly interesting that a multinational pharmaceutical company that is required to operate in a highly regulated environment was able to create a program that would allow its employees to experience a more agile and less standardized way of operating. This kind of approach not only fosters creative and out of the box thinking, but it enables proactivity of smaller teams and faster delivery of results that are much needed, especially in underdeveloped regions where lack of basic resources imposes a living constraint.

4.3.3 Impact Investing

MSD works towards further integration of CSR activities with the core company strategy through impact investing which uses financial resources to advance access to health care while generating financial returns and commercial success. The main idea is to contribute to sustainable global health ecosystem through five complementary facets (MSD, 2019/2020):

- Physical infrastructure
- Financial inclusion
- Digital and diagnostic solutions
- Pharmaceutical and vaccine research and development
- Emergency response

Since impact investing is part of the company's CSR initiatives, it always had a defined governance structure lead by the Office of Social Business Innovation. However, in 2019 MSD took this integration into core organizational activities further and founded the Impact Investing Committee *“that reviews and approves new investments in line with well-established policies and guidelines and monitors the financial and social returns of the impact portfolio.”* (MSD, 2019/2020)

Currently, the impact portfolio accounts for \$39 million while the goal is to have \$50 million in investments by the end of 2021. Therefore, in 2019, MSD made impact investments to

three new funds all aligned with the company’s mission of saving and improving lives through innovative solutions by providing financial and health care support, making medical technologies accessible and affordable or promoting initiatives that aim to tackle infectious disease, maternal and newborn health. (MSD, 2019/2020) The increase in long-term growth investments is visible in the performance data report showing that in 2018 investments in partnerships to tackle barriers to health were only \$1 million while in 2019 this number reached \$18 million. As a result, in 2018 only 2.9 million people were addressed through various health interventions while in 2019 this rose to 9.0 million advancing company’s commitment to improving the access to health for underdeveloped populations.

Impact investment	2015	2016	2017	2018	2019
Investment in partnerships for activities to address underlying barriers to health, such as health-system strengthening and capacity building (in millions) ¹	NR	5	NR	1	18
People reached through a variety of health interventions (in millions) ²	NR	NR	NR	2.9	9.0

NR: Not reported
¹ Represents investment commitments into impact investment vehicles.
² Represents the number of people reached for a variety of healthcare products and services through our impact investing portfolio.

Figure 12 Impact Investment Performance Data. Source: <https://www.msdrresponsibility.com/access-to-health/addressing-barriers-to-health/impact-investing/> (2019/2020)

Finally, unlike traditional philanthropy, which is typically limited to grants and contributions, this kind of approach allows MSD to partner up with different organization as well as to obtain additional capital and use any financial returns to support relevant CSR initiatives. Rather than having short-term philanthropic solutions to social issues, impact investing creates a sustainable effect both socially and financially.

5 Results and Discussion

After providing a theoretical background of CSR and conducting a case study showing the practical implementation of the concept, the focus of this chapter will be on a comparative analysis of the literature review and practical results. Moreover, through a comparison of MSD's activities on the global and local level, constraints and solutions for the integration of corporate social responsibility into company's overall strategy will be identified as well as its long-term impact.

5.1 Analysis of MSD's approach to CSR

From the highly defined corporate governance structure that covers both business and stakeholder needs, it is visible that MSD looks at CSR as an integral part of its operations. However, the question that further emerges is how what they do fits in the idea of the CSR in modern world i.e., how do they ensure the long-term sustainability in the dynamic society with the increasing demands of various stakeholders?

Visser's DNA model of CSR 2.0 provides a reference for the idea of the concept in the modern world since it is a holistic version of well-established theories such as Carroll's CSR pyramid, stakeholder theory, Porter's strategic CSR and shared value creation as well as the ESG factors for CSR performance. Therefore, it will serve as a base for placing the MSD's approach to the new version of corporate responsibility and sustainability.

5.1.1 Value Creation

Value Creation suggests that the economic development requires more than profit generation and it looks at how the company contributes to the long-term financial sustainability by improving the infrastructure, developing beneficial products, creating jobs or investing in the improvement of workforce skills. MSD Fellowship program is a good example that highlights all these points. It was demonstrated that the company created beneficial services such as building the capacity for healthcare clinics or developing and supporting systems that provide

continuous access to medicines and health improving the quality of life in many locations around the world. Moreover, the initiative leads to job creation by supporting the NGOs to continue with their work and subsequently by providing education for both the NGO agents and healthcare workers in the given area. In terms of providing skills development, MSD enables their employees to work in different locations, with different teams on different kinds of projects gaining knowledge they can later apply in their day-to-day work. Hence it fits into the idea of shared value creation where multiple parties are being empowered by “*expanding the total pool of economic and social value*” (Porter, et al., 2011) and not only by redistributing the value that has been already created by a company.

5.1.2 Good Governance

Good Governance is reflected in the reporting trends, transparency of all the company activities and the effectiveness with which company sticks to its core values. With this in mind, MSD puts *Ethics* as one of the core pillars of their CSR strategy defined through the company Code of Conduct as well as corporate policies and standards that extend to multiple stakeholders ensuring a safe interaction with communities in which they operate. Usually, firms limit these responsibilities to specific stakeholder needs, but MSD takes a holistic approach making sure that all their actions are consistent and clearly represent the core character of the company. Moreover, in terms of the effectiveness of an institution’s leadership commitment to sustainability and responsibility, MSD’s board collaborates with the company’s Enterprise Risk Management (ERM) team to ensure that the overall strategy takes into consideration the responsibility towards the well-being of the company, its employees, customers, patients, communities or reputation by mitigating any potential risks related to laws, regulations, company values, ethics and policies. (MSD, 2019/2020) The transparency is further reflected through sustainability reporting which MSD tackles by publishing and making accessible an extensive Corporate Responsibility report, company’s financial statements as well as through direct interactions with stakeholders in form of surveys and one-on-one discussions. Moreover, the “good governance” is reflected in the business values and specific ethical practices that aim to prevent bribery and corruption. Hence, MSD has embedded into its company governance an open communication on all leadership levels through a reporting structure overseen by the *Office of Ethics* to ensure continuous reevaluation of ethics and compliance in all the offices and all the sites in which the products are being developed. The environmental, health and safety (EHS) screening and the Supplier Self-Assessment Questionnaire (SAQ) are good

examples of how a company can keep track and ensure compliance with external stakeholders. Similarly, the *SpeakUp* tool and the training series on company's Code of Conduct and the prevention of bribery and corruption help internal stakeholders to familiarize and enforce ethical behavior.

However, the new CSR requires going deeper into reporting practices and the extent of their transparency. While MSD uses several international standards to measure and communicate their progress (GRI, UN SDGs, UN Global Compact, SASB, etc.) it is particularly interesting that the company does not have any external verification for the report except for the environmental area which is reviewed by WSP, and external consultancy firm for environmental sustainability. This might bring into question results achieved in the "Access to Health", "Ethics" or "Employees" domain. Modern approaches to CSR reporting, in addition to strong ethical culture, ask for an independent verification statement made available to all the interested parties *"in order to confirm whether an assertion made by an organization about its environmental, social or economic performance is correct."* (Visser, et al., 2010) Moreover, it questions policies, codes of conduct together with the performance data in order to assure the accuracy of the key areas. The lack of information related to CSR reporting was perceived in the local level as well since all the resources (including the non-financial report) are only published in the company's internal pages even though they are labeled as public. This provides guidance to the employees on what was accomplished, but people outside of the organization are not able to see it on the MSD CZ official website. The only way to publicly access the report is by going to the commercial register accessible on www.justice.cz and look for the pdf in the section "Sbirk Listin".

5.1.3 Societal Contribution

Societal Contribution is related to the well-established approach to CSR in the form of philanthropy. However, it moves from the traditional framework that limits the activities to charitable donations or volunteering and requires sustainable solutions for complex problems with cross-sectoral partnerships at its core. Therefore, MSD launched a project in India to expand the access to Hepatitis C treatment by helping patients and their families to get informed about the disease, its treatment and prevention of the transmission. Moreover, the program includes a microfinancing component to support financing of the therapy or disease

management and therefore, significantly decrease the cost burden and barriers to access. During the same year that the program was set in motion, it was extended to 11 cities in the state, embraced by 200 centers and reached 30% out of 40% of patients that were being treated for HCV at the moment. (Wright, 2016) This did not only bring value to the communities in question, but it also allowed MSD to get to previously unreachable markets while creating new partnerships with the government, NGOs and relevant policy makers.

Moreover, MSD established one of the first product donation programs in 1987, pioneering the product donation dimension of CSR philanthropy. The program's commitment is to eliminate river blindness around the world. In 2019, 403 million treatments were approved, and 344 million treatments were delivered to the endemic countries. (MSD, 2019/2020) In order to achieve this, MSD partnered with multiple sectors including WHO, NGOs (e.g., The Bill & Melinda Gates Foundation, UNICEF, United Front Against River Blindness), ministries of health of the affected countries or other companies from the sector demonstrating that the collaboration across sectors is the corner stone of a responsive CSR 2.0 strategy.

However, it has been perceived that on the local level these kinds of initiatives are lacking and that the societal contributions are primarily based on the employee volunteering and donations of clothes or food. There is a similar approach, but the product donations are only available to employees. It is particularly interesting that in this case MSD has made little progress in their commitment to collaborate with stakeholders on expanding access through existing global partnerships to enable equitable access to their vaccines around the world (MSD, 2019/2020). If the idea is to address the most pressing diseases, then making available to the larger population products that could tackle some of the largely present diseases would be the most logical path. This is where partnering with the government or NGOs would really make sense in order to extend this availability from just employees to other stakeholders as well.

5.1.4 Environmental Integrity

Environmental integrity is the area where usually all the “big” changes related to sustainability are being launched since, according to Visser, “*green issues are easier to quantify and design solutions for.*” (Visser, 2011)

The new CSR is not only about using environmentally friendly materials and packaging, but also about expanding the scale of the implemented solutions by opening them up to the public. This is what Visser refers to as “*Open Sourcing Sustainability*” that is achieved through platforms where companies can share their intellectual property and collected data while adopting a new form of collaboration that can truly tackle the large scope of environmental issues. In addition to conducting regular environmental risk assessments making sure that the active pharmaceutical ingredients (APIs) do not enter the environment in any stage of product development i.e., production, consumption and disposal, MSD is also part of an initiative that supports research on pharmaceuticals in environment and proper disposal. Eco-Pharmaco-Stewardship (EPS) aims “*to gain new knowledge on the environmental safety and pharmaceuticals, consequently improving the appraisal of the issue and reducing emissions of pharmaceuticals in the environment.*” (Safer Pharma, 2019)

Hence, instead of only applying the knowledge to their own products, MSD provides the data and helps conduct new studies that would address the discovered data gaps. Moreover, through the initiative, information is provided, and responsibilities are assigned to different parties such as the pharmaceutical industry in general, environmental experts, doctors, pharmacists, and patients. This approach further fits into the ecosystem protection outlined in the CSR 2.0 model or the latest phase of CSR evolution that Frederick labeled as “*Planetary Sustainability*”.

5.1.5 Key Outcomes

There is no doubt that MSD, as a biopharmaceutical company that puts research and development at the core of their business, overall fits in the modern idea of CSR that calls for innovation, creativity and responsiveness. Moreover, it is a company that has been a front runner of the industry for almost 130 years which cannot be achieved without a well-defined long-term perspective and the ability to deal with the ongoing changes in order to stay relevant.

There are some discrepancies between how CSR is perceived on the global level and to what extent the enterprise-wide approach is really implemented in the local offices. Based on the conducted interviews, the participant observation and the availability of public resources related to the topic, there is an understanding that the company engages locally in multiple initiatives that are in accordance with the emerging requirements of CSR doctrine. However, the issue is the lack of communication and transparency that would encourage employees to see it as something more than paternalistic and charitable activities through which the company gives back to the community. Nevertheless, employees are quite responsive to the idea of connecting their work with being socially responsible. This was especially clear through their engagement in the Fellowship program or the skills-based volunteering. According to the participants of the interviews, it gave them a clear understanding of what the company actually does and how they could directly contribute to the creation of sustainable solutions that improve lives of people around the world.

In general, transparency is the CSR area that MSD needs to walk an extra mile to achieve since the public is quite skeptical and has lost trust in pharmaceutical corporations due to the earlier unethical behaviors. Therefore, it demands from them clear, verified reporting on the obtained results. While on the local level it would be enough to make the reports more easily accessible to all the stakeholders, on the global level this could be achieved by conducting a social audit i.e., a formal evaluation of company's activities related to CSR and their impact on the society. In the words of Deborah Leipziger, the European Director for Social Accountability International, "*CSR is a journey, and codes and standards serve as a map to guide companies towards greater transparency and accountability.*" (Hopkins, 2016) This kind of approach not only helps an organization to balance business and CSR, but it also gives an opportunity to external stakeholders to verify that what was said was also done and to what extent.

5.2 The Impact of CSR on MSD's Strategy

MSD identifying key issues that impact all stakeholders, both internal and external, and looking to focus on those which they can contribute while maintaining themselves in the business is related to the idea of strategic CSR defined as *a business strategy that is integrated with core business objectives and core competencies of the firm and, from the outset, is designed to create*

business value and positive social change and is embedded in day-to-day business culture and operations. (Hopkins, 2016) Therefore, the question that arises is to what extent CSR impacts MSD's overall strategy and whether there really exists a natural relationship between these two concepts. The following section outlines a few examples that can find their origins in the literature.

According to Porter and Kramer, a company first needs to look for the intersecting areas of business and society. For example, MSD identified that having a diverse and inclusive workforce helps significantly in the process of discovering new medicines and eliminating barriers to health. Therefore, in 2019 they introduced the official diversity policy to the Policies of the Board making a significant change in the diversity of the board members both in terms of gender equality and the inclusion of underrepresented ethnic groups. Furthermore, based on the CEO's proposal, the company signed a pledge to cultivate a trusting environment where employees ideas are welcomed, employees feel comfortable and safe, and all are empowered to advance diversity and inclusion. (MSD, 2019/2020)

The impact of CSR on the company strategy and its day-to-day operations is highly determined by the involvement of the leadership team in promoting it across the organization and through all the business units. With this in mind, MSD created *The Public Policy and Responsibility Council (PPRC)* that works towards integrating CSR and its relevant policies into the overall business activities by supporting corporate responsibility matters and strategy through policies or recommendations to the Executive Committee. Moreover, the *Office of Corporate Responsibility* rather than being a separate department addressing only some corporate responsibility issues, focuses on connecting the overall corporate responsibility principles and activities with business policies and strategies, covering the Enterprise Risk Management (ERM) process and different business units while making sure that the input of the external stakeholders is being included in the decision-making process. *The Corporate Responsibility Report Working Group* further collaborates with the Office of Corporate Responsibility by providing input from employees chosen from all divisions of the company to define the goals and metrics relevant for their areas of work. The CR Working Group is a unique example of how corporate responsibility matters can be addressed by integrating them into the company strategy and objectives through an active involvement of employees and their core competencies.

Secondly, a firm needs to identify specific social issues that when addressed create benefits for both society and the business. This further relates to what the literature defines as the *syncretic stewardship model* where CSR is a management philosophy and the underlying approach to business. (Carroll, et al., 2010) It outlines the relationship between CSR and company performance as well the interconnectedness of the business and the society. As a result, the scope and impact of CSR activities significantly increases. Porter suggests that very few companies have unified their philanthropy with the management of their CSR efforts or tried to integrate a social dimension into their core values. (Porter, et al., 2006) For example, MSD conducted a materiality assessment and determined that the key areas of focus should be Access to Health, Employees, Ethics and Environmental Sustainability. Additionally, the company assigned a list of KPIs to each of the areas in order to track their progress and adapt their scope accordingly.

Thirdly, an organization should define the specific initiatives that address those social issues and ultimately lead to the shared value creation. MSD for Mothers is a good example of how MSD addressed one of the SDGs related to the maternal mortality through multiple CSR initiatives while looking to build a sustainable business. Even though, the company was aware that the project was not viable from the short-term profit point of view, it understood that, by providing a much-needed solution, they will be able to expand the scope of their core capacity, improve their supply chain as well as to establish new and strengthen existing partnerships. Moreover, they have created a reusable supply chain model that can be used for other commercially viable projects as well. This kind of added business value would have been missed if the company did not look at their strategy through the CSR lens.

Based on this, it is clearly visible that corporate responsibility is an integral part of MSD's core business strategy. It is integrated to that extent that it is really difficult to distinguish it from the company's daily operations. According to Collins and Porras, this is a characteristic of "*visionary companies*" that build their sustainable strategy around their core purpose and values so that it continuously adapts and responds to the stakeholders needs. (Collins, et al., 1997) further define this purpose as "*the organization's fundamental reason for existence beyond just making money – a perpetual guiding star on the horizon*" while the values are "*the organization's essential and enduring tenets – a small set of general guiding principles; not to be compromised for financial gain or short-term expediency.*" For MSD, this purpose is to

deliver medicines and vaccines for the most pressing diseases in order to make difference for humanity. New diseases can come, the demands of the society can grow and require urgent response, the technological development can bring new solutions, but what does not change for MSD is that in order to serve their purpose they need to put patients, ethics & integrity, respect for people, and innovation & scientific excellence first. (MSD, 2019/2020)

Therefore, the true impact of CSR on MSD's strategy is not only about choosing the right opportunities that bring long-term results. Rather, it is about their success in bringing the issues of society as closely as possible to the company's operations in order to efficiently use the available resources and achieve sustainable results.

6 Conclusion

The main objective of this thesis was to analyze the concept of corporate social responsibility and its impact on companies' long-term sustainability. Therefore, the main focus was placed on conducting a case study of MSD in order to understand the implications of CSR strategy and how it can be implemented in practice both globally and locally in the Czech Republic. After conducting an extensive research based on the interviews with employees, participant observation and the analysis of the corporate policies, statement of aims and performance data, it has been determined that there is a strong relationship between the company's operating and CSR strategy on the global level, but locally it is still perceived as an important, but not an integral part of MSD's identity.

The first partial goal was to introduce the current state of corporate social responsibility in order to understand its historical background and evolution. Several stages of development have been identified introducing the complementary terms to the concept such as Corporate Social Stewardship, Corporate Social Responsiveness, Corporate/Business Ethics, Corporate Citizenship or Corporate Sustainability. This showed the many interpretations of CSR both in academic and business circles and pointed out the only common understanding that while these have evolved periodically, nowadays they are considered to be interconnected and should be adopted simultaneously in the most suitable way for a company's business operations and capabilities. Moreover, it was determined that in its first stages, there were ongoing debates whether businesses have responsibilities that go beyond generating profits. However, the current discussions are based on the notion that these duties do exist, but the question is how companies should fulfill them in order to secure their place within the society.

The second partial goal is a continuation of the first one since it dealt with providing the basic terminology and aspects of corporate social responsibility in order to understand its complexity and limitations. The overall conclusion is that there is still no universally accepted definition or framework for CSR. However, academics agree that the concept deals with economic, legal, ethical and philanthropic responsibilities that organizations have towards society and that the

complexity or the failure of CSR comes from the lack of ability to understand that these are complementary and that do not require trade-offs in order to fulfill them. Finally, it was concluded that in order to surpass these limitations of the concept, many academics are pushing for a reinvention in which CSR becomes a way of doing business. Creating a sustainable strategy through global orientation, collaborative work environment, creativity, innovation, responsiveness and diversity is meant to provide benefits for the society and subsequently to the business as part of it.

The third and final goal was to analyze and identify problems and propose solutions for the integration of corporate social responsibility into a company's strategic goals, using the experience of MSD as a guide. This was completed through a comparative analysis based on the literature review and the practical results obtained from the case study. From the analysis, it was determined that MSD's approach to CSR overall fits in the idea of CSR in the modern world that calls for value creation, good governance, societal contribution and environmental integrity. However, in some areas, lack of transparency and communication were encountered, and solutions were proposed as to how to clearly distinguish CSR from paternalism and charity as well as to ensure company's accountability. In addition, several examples of MSD's strategic approach to CSR were outlined and connected to the recommendations available in the literature.

By conducting this analysis, the author of this thesis tried to contribute to the development of the concept by clarifying its key points as well as shining a light on the existing practical implementations and ways to improve them. As Dr Wayne Visser said: *“Responsibility is literally what it says – our ability to respond. It is a choice we make. To be responsible is to be proactive in the world, to be sensitive to the interconnections, and to be willing to do something constructive, as a way of giving back.”* (Visser, 2011) And that is the essence of the “new CSR”. It is about understanding that a corporation, and for that matter any individual, is not responsible for all the issues that society is facing, but each one of us and all of us together have the responsibility to enable and support the creation of sustainable solutions. The example of MSD shows that successful company operations based on partnerships can lead to having successful communities and vice versa.

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8 Appendix

8.1 Case Study Resources

The following chapter provides a detailed overview of all the resources that were used for conducting the case study on MSD company. These are also mentioned in the Practical Part as well as the Results and Discussion chapter in order to support the comparative analysis with the literature review.

8.1.1 Participant observation

I have been working at MSD Czech Republic for more than 3 years. I started as an intern in the Applications Management Support team and continued in the Digital Marketing and Communications team as a Business analyst. Currently, I am a full-time employee in the Merck Research Laboratories (MRL) Analytics team working as a product owner/business analyst on multiple projects related to Global Regulatory and Clinical Safety.

Working in different teams across different divisions in the company, gave me the opportunity to expand my network as well as to understand the scope of company's activities. Therefore, the case study research was partially based on my participant observation and interaction with my fellow colleagues.

8.1.2 Semi structured interviews

In total 11 semi structured interviews were conducted with employees of the MSD Czech Republic office. The initial interview was scheduled with the member of Marketing and Communication department and head of the CSR team. Based on this an overall understanding on CSR strategy and activities was obtained on both global and local levels of MSD's operations. Moreover, relevant contacts were obtained for further interviews.

An interview with the HR Business Partner in charge of the Global Diversity and Inclusion for Czech Republic provided the information regarding the company's diversity policies and the overall strategy based on diverse workforce and inclusive work environment. Moreover, the resources for the Employee Business Resource Groups (EBRGs) activities were indicated on the company's public website.

Two interviews were conducted with the participants of the Teach back sessions - sessions organized by the company for the newly hires where they get in groups to learn something about specific company activities and present it to rest of the colleagues in order to raise awareness on the certain topic. Their topic was related to CSR and provided me with an input on the initiatives related to the environmental integrity such as the LEED certification of both MSD's buildings in Prague and the recycling of the coffee capsules (also mentioned in the company's Non-Financial Report). Moreover, it gave me an understanding of the central role that volunteering has in the MSD Czech Republic CSR strategy, but also about the lack of knowledge that employees have on the topic and their responsiveness to engage in the initiative if they are provided with the information.

Another interview was conducted with a participant of the Emerging Talent Rotation (ETR) program which gave me additional input on how MSD puts focus on employees through CSR.

Two interviews were conducted with participants of MSD Fellowship Program which provided an understanding of the benefits of the program and the outcomes of some of the projects. Moreover, it led to a conclusion that employees in the Czech Republic are more engaged in the manual work volunteering since that is where the focus is put on. However, the participants of the Fellowship program believe that skills-based volunteering provides long-term benefits for multiple stakeholders and that it should be promoted more.

Finally, two more interviews were conducted with the members of the Global Strategy and Operations team in order to understand how MSD's strategy is being set and how it relates to CSR i.e., what is the impact on CSR on MSD's core strategy.

8.1.3 List of documents

- Corporate Responsibility Report (accessible publicly on <https://www.msdrresponsibility.com>)
 - ESG Report – Environmental, Social and Governance progress of Corporate Social Responsibility

- Excel file with the Performance Data covering the information on the performance of Access to Health, Employees, Environmental Sustainability and Philanthropy areas for the last 5 years
- MSD Fellowship program (a pdf file with testimonies of former participants of the program from all over the world)
- Non-financial Report for Czech Republic which covers general information about the company e.g., mission, vision, values, governance structure as well as the core pillars of the CSRstrategy and respective initiatives
- Official global MSD website (accessible on <https://www.msd.com>) providing the general information about the company such as history, leadership, responsibility, culture and values, research, company statements and company fact sheet
- Official Czech Republic MSD website (accessible on <https://www.msd.cz/en/home/index.xhtml>) providing general information about the subsidiary as well as different company divisions and their specific operations
- MSD IT page (accessible on <https://www.msd.cz/en/it/>) providing additional information about the company history, culture, videos from employees, etc.

Table of Figures

Figure 1 Carroll's pyramid of CSR. Source: (Carroll, 2016)	11
Figure 2 UN Global Compact Management Model. Source: (Compact, United Nations Global; Deloitte;, 2010).....	30
Figure 4 In action: Adopting a goal setting approach. Source: SDG Compass, 2015 https://sdgcompass.org/wp-content/uploads/2016/05/019104_SDG_Compass_Guide_2015_v29.pdf	35
Figure 5 In action: Mapping SDG reporting priorities through materiality. Source: SDG Compass, 2015 (https://sdgcompass.org/wp-content/uploads/2016/05/019104_SDG_Compass_Guide_2015_v29.pdf)	36
Figure 6 Reporting Principles. Source: (GRI , 2020).....	37
Figure 8 Materiality Matrix. Source: https://www.msdrresponsibility.com/reporting/corporate-responsibility-materiality/ (2020)	42
Figure 9 Sources and Final Output of the Materiality Analysis. Source: https://www.msdrresponsibility.com/reporting/corporate-responsibility-materiality/ (2020) .	43
Figure 11 Economic Performance Overview. Source: https://msd20-assets.s3.amazonaws.com/wp-content/uploads/2020/10/28181229/MSD_ESG_Progress_Report_2019.2020.pdf (2020) ...	59
Figure 12 Operating Results: Sales. Source: http://d18rn0p25nwr6d.cloudfront.net/CIK-0000064978/75a322e0-ce26-478b-954f-5da950e9d365.pdf (2020)	60
Figure 13 Pharmaceutical Segment: Oncology Sales. Source: http://d18rn0p25nwr6d.cloudfront.net/CIK-0000064978/75a322e0-ce26-478b-954f-5da950e9d365.pdf (2020).....	60
Figure 13 Impact Investment Performance Data. Source: https://www.msdrresponsibility.com/access-to-health/addressing-barriers-to-health/impact-investing/ (2019/2020)	62
Figure 7 Performance Data. Source: MSD Corporate Responsibility Report, 2019/2020 (MSD, 2019/2020)	72
Figure 14 Corporate Sustainability and Responsibility (The New CSR). Source: (Visser, 2011)	78

