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Cases on Management and Organizational Behaviour in an Arab Context

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Chapter 5

Leadership

Consciousness to CSR: Royal Industrial Trading Co.

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EXECUTIVE SUMMARY

The purpose of this case study is to discuss the leadership role in Corporate Social Responsibility (CSR) and thus on the company's competitiveness, performance, and reputation. The case highlights the adoption of CSR as a long-term strategy in a manufacturing family business located within a highly volatile country in the Arab world where awareness of CSR is not prevailing. By interviewing the owners and senior managers of Royal Industrial Trading Company, one is able to understand how they view their social responsibilities and how they insert CSR into the company's strategy. Royal has a number of corporate social responsibility policy aims but its current disclosures do not provide a sufficient level of detail to adequately assess the social impact of their activities or link their activities to the achievement of specific stated social aims. The company is enjoying the rewards of improved competitive position, the benefit to their shareholders, and the benefit to the society at large.

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ORGANIZATION BACKGROUND

Royal Industrial Trading Co. (Royal), a manufacturer of U-PVC pipelines was established in 1993 in Palestine. A family business in the private sector, Royal employed twelve people and was owned and managed by six young brothers who had just returned from the US after working there for about ten years. The six brothers from the Zghier family formed the board of directors, and worked very hard during the last few years to enlarge their businesses. In spite of the Israeli restrictions on movement of goods, by the year 2000, the company had become well established, thus the owners met and decided to work in a more professional way. They distributed the management functions of the top management among the six brothers as follows: Mr. Nabil is the chairman; Mr. Mazin is the general relationship manager; Mr. Monzer is the directing manager; Mr. Nafiz is the export manager; Mr. Mutea is the general manager and Mr. Majdi is the executive manager. Nowadays they have five young male children working as supportive managers in different fields.

The company's origins lay in the manufacturing of different kinds of sanitary ware and water network products in the northern part of Hebron City in the south of Palestine. Today the company employs over 550 employees within an area of more than 23,734 square meters. It has expanded its production lines to include the production of sewage installation pipes and many other products in the same field. The company launched a new range of household products in 2007 and at the beginning of 2010 started exporting to thirteen countries in Asia, Africa and Europe and always aimed to please customers and remain strongly committed to worldwide quality standards.

The company operates on a 24/7 basis in order to produce 90,000 products a day. These include high quality plastic and wood products such as pipelines, fitting, furniture, packaging, household and kitchen products and more. It is one of the very first companies in Palestine that applied the quality management system ISO 9000 standards. Royal also keenly studies the needs of its customers in order to deliver products that help solve built environment problems.

Royal is considered as a very responsible corporate citizen in Palestine where it has introduced a number of workplace policies that are not only unique but also extremely effective in addressing a number of social and environmental issues.

SETTING THE STAGE

Before 2010, Royal was providing financial assistance to individuals and non-governmental organizations based on the need of these parties and the financial status of Royal (i.e. out of obligation and responsiveness to rising needs). In 2010,

Royal decided to change its policy by allocating a budget at the beginning of the year to fulfill the activities Royal is planning to fund. The Fund was based on the company's understanding that it does not operate in a social bubble, but rather plays a significant role in the Palestinian community, and thus developed its unique mission in order to give back to the society in which it operates.

Royal's direction since launching CSR is based on a strategic vision that provides the community with human, social, cultural and health services. That strategic vision is a reflection of the company's commitment to implement its human and developmental role. Royal also aims to give back to the community via all its activities, events and programs in order to contribute to mobilizing the wheel of socio-economic development in Palestine.

Those who adopt the neo-classical view of the firm would believe that the only social responsibilities to be adopted by business are the provision of employment and payment of taxes. This view is most famously taken to the extremes of maximizing shareholder value and reflected in the views of Friedman (1962). An alternative view of the firm following the behavioral theorists (Cyert and March, 1963) might view corporate social activity from a standpoint that examines the political aspects and non-economic influences on managerial behavior.

Cannon (1992) discusses the development of CSR and the relationship between business, society and government. The areas defined by advocates of CSR increasingly cover a wide range of issues such as social, environmental and economic sectors. Whether or not businesses should undertake CSR, and the forms that responsibility should take, depends upon the adopted economic perspective of the firm. If this is true, then firms not only need be concerned about how to best meet the interests of their shareholders, but also the interests of society at large. In this sense, strategy takes on significant meaning not only with respect to fulfilling social responsibilities and the development of firms, but also with respect to the development and sustainability of society (Raimond, 1996; Rodriguez, Richart, and Sanchez, 2002).

CSR has been straightforwardly defined according to (Waddock, 2004) as the subset of corporate responsibilities that deals with a company's voluntary/discretionary relationships with its societal and community stakeholders. This is what is called the discretionary and ethical responsibilities of business and is consistent with the notion that companies have obligations to groups in society other than shareholders and beyond those prescribed by law. These obligations extend to any and every group that may be deemed a "stakeholder" (Jones, 1980).

The concept of corporate social responsibility is not universally accepted. Nor is it anywhere required by legislation. Yet a growing number of voices in modern society, especially in the more prosperous economies of the world, are calling on businesses to contribute more than at present to enhance the social welfare of the general public. Citizens, consumers and employees, increasingly seem to expect

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businesses to sign up to the concept of the corporate role in society, which extends well beyond historically inherited norms and contemporary legal obligations.

Business firms are the economic engine of society and the making of profits is a social responsibility (Carroll, 1979; Henderson, 2005). However, in the current environment, issues of a social nature are bearing on firms to the point that Corporate Social Responsibility appears to be the new driver for competitive success (Porter and Kramer, 2006). They have indicated a positive relationship between CSR and financial performance, whereas others have not. It is generally accepted to have a positive relationship between CSR and financial performance. Contrarily and probably the most important point is that what the stakeholders are concerned about in developing/emerging economies is financial performance. Investors are easily able to get excess returns in emerging markets so they do not take into account long-term sustainability and corporate responsibility in these markets. Thus, it is not possible to find the link between CSR and financial performance.

Van Velser (2009) in his guest editorial article in *Corporate Governance* showed that there is hardly any literature about leadership and CSR. As an example, what leadership theories are applicable to understanding or explaining effective leadership on CSR initiatives, or leadership effectiveness on carrying out of CSR strategy? According to Van Velser who discussed and analyzed several articles and case studies including one for Hind, Wilson and Lensson who focused their research on identifying the most important competencies managers need for integrating social and environmental considerations into business decisions. They presented their views and the views of the executives they interviewed on what human resource executives and business schools need to do differently in order to most effectively develop those competencies. They found that while several skills and capabilities come to the front when leaders rate competencies necessary for socially responsible leadership, a reflexive ability seems to also be necessary in order to put these other capabilities into proper action.

Van Volser (2009) presented an article by Quinn and Dalton that focused on leaders in twelve US-based organizations which formally adopted sustainability principles, and had integrated those principles into their daily operations. They used a framework that characterizes leadership as comprised of three tasks: setting direction, maintaining alignment, and building commitment (McCauley, 2000). Van Volser (2009) also presented another two studies. The first one is by Morgan, Ryu, and Mirvis who benchmarked how twenty-five companies in five industries are addressing corporate citizenship, examining patterns of leadership practice and how such patterns are shaped. The second study by Kakabadse, Kakabadse and Lee-Davies focused on both, the skills and capabilities needed to fully implement CSR. The researchers presented a model, which included how to implement and drive CSR through the organization. Their model started with outlining three stages

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of CSR implementation (CSR decision, CSR adoption, and CSR commitment) and then identified the individual and organizational skills and capabilities needed within those stages.

In addition, Van Veslor (2009) discussed two case studies. The Hargett and Williams case study which focused on how business organizations understand CSR, what are the catalysts that cause individuals and organizations to take on social responsibility values, perspectives, and activity, and finally, what are the leadership strategies, practices and challenges that move organizations along on their journeys to sustainability. The case study by Mette Morsing and Dennis Oswald described the management control systems and aspects of organizational culture that promote sustainable leadership. The case study focused on three management control systems (facilitation, sustainability reporting, use of the balanced scorecard), and addressed the extent to which it is possible to use management control systems to influence and to measure sustainability practices at the operational level. The case study also showed how the informal systems and processes, rooted in organizational culture, support and develop employees' understanding and implementation of sustainable practices.

However, socially irresponsible corporate performances have produced some negative effects. Some corporations make profit at the expense of sacrificing morality and social justice. They pollute the environment. They produce and sell impure foods and other dangerous or defective products to consumers. The labor rights such as the right to health and safety are unable to be effectively guaranteed against plant explosion and industrial disasters issues. Ignorance of corporate social responsibility is also accountable for high incidence of corporate wrongdoing, increasing corporate crimes, redundancy, vicious closure of plant in a local community, etc. These kinds of negative effects can be summarized as lack of sense of corporate responsibility.

The main issues and questions to be addressed in the Royal case include: Why did Royal initiate CSR? Does Royal have CSR to focus on a wide range of potential benefits including improved financial performance and profitability; reduced operating costs; or to increase staff commitment and involvement; to enhance capacity to innovate; to build good relations with governments and communities; or to enhance reputation and brand value; and the development of closer links with customers and greater awareness of customer needs, aspirations and expectations.

Despite the fundamental questions given prominence by Freeman (1994) more than a decade ago and the huge volume of writing on CSR since that time, little attention has been given to the costs of CSR and to who pays these costs. However it is obvious that CSR activity is not free and that its costs have to be borne by someone. Since gross profit and tax paid are directly related, CSR must be at the expense of both. The challenge is not to get companies to take on the responsibilities of governments but to help ensure governments fulfill their own responsibilities.

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The relationship between CSR and financial performance has been empirically examined (Aras, Aybars, and Kutlu, 2009). Two types of financial performance measures have been used in order to investigate the link between different aspects of firm performance and CSR. The first one is the accounting based financial performance measures but this method has certain drawbacks. It only shows historical firm performance where it can be affected by the manipulation of the managers and produces incomparable results between firms because of the different accounting procedures applied. The characteristics of different sectors and the risks associated with them should also be taken into consideration when using accounting based measures.

To deal with the stated shortcomings, stock-market-based measures can be used to analyze firm financial performance. The benefits associated with this second type of measure are that they are less dependent on varying accounting measures applied by firms and on managerial manipulations. This type of measure is also successful at attaining the companies' future economic earnings rather than past performance. However, the shortcoming of this method is that the investors' perception of the company may not be enough to gauge firm financial performance (McGuire, Sundgren, and Schneeweis 1988; Ullmann, 1985).

CASE DESCRIPTION

Royal maintains central control of a number of functions to ensure consistent performance and product/ service quality. All of the levels within the company are committed to the long-term achievements of sustainable development. The senior management gives strategic directions and sets performance targets under the guidance of the six brothers.

Royal's responsibility to provide quality products and services helps the company to reach out to employees, customers, stakeholders, suppliers and society in a way that solely profit oriented businesses would be unable to do. Operating in a country stricken with socio-political conflicts, this is an exceptional case of corporate responsibility.

Royal Vision, Mission and Values

Royal's vision of sustainability is based on how the company works within the larger social and environmental context. Its overall business strategy has a certain impact on society and the environment and therefore, its leadership is committed to addressing the needs of the future generations through sustainable development.

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Royal defines its values in the slogan “Beyond Creativity.” The company’s objective, rather than increasing shareholders’ value, is to maintain growth. Royal’s mission towards sustainable development requires it to continually innovate to improve its products and processes to minimize bad effect on the environment, while maximizing the efficient use of all resources. The company also sets consistent standards across all operations so as to provide a safe and healthy environment for its staff. Furthermore, it provides development opportunities for all its employees to reach their full potential, thus ensuring a working environment based on equity, respect, and partnership.

Royal’s chairman emphasizes CSR in the company’s mission: “Royal Industrial Trading Company considers the concept of social responsibility a real investment in the community and not limited to an act of charity or donations of financial support provided by some companies. Royal believes that social responsibility has a deeper meaning and is the largest area to participate in community building and strengthening the rights of community and therefore preserving the environment.”

Royal made the decision to go for CSR after deep strategic thinking and after more than ten years of charitable activities. Royal finds that implementing CSR in a good manner will be more helpful to the Palestinian citizens. Many real investments have taken place. Royal General Manager, when asked about the motivations for Royal to go for CSR, he said:

First of all we are Palestinian people, so that we are committed to serve ourselves. We think that by doing so we can support the Palestinian economy and create and offer many job opportunities to reduce the high unemployment rate. Not only this but also we can benefit in different ways, such as building good reputation, enhancing the company’s value, increasing sales, reducing the cost and gaining more loyalty of employees and customers.

The CSR department within Royal is responsible for managing the development and implementation of targets with the help of the CSR steering committee. Since sustainability issues such as employee engagement, customer care and quality are part of the company’s business strategy. The CSR steering committee is managed by five experts in the field of community development and they help guide the company’s sustainability strategy. To ensure that this strategy and its targets are managed by good governance principles, Royal involves its financial management to guarantee compliance with national financial and legal requirements.

Royal believes in good governance to be more effective. The company realizes that to succeed, it must be engaged in a two-way dialogue with each key stakeholder. As such, the company has engaged in a number of activities that assist interaction with various entities and individuals such as suppliers, academics, employees and

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customers. It closely works with universities to provide work experience opportunities to students. Also, the company works with local government to provide awareness workshops on health, safety and environment.

Royal Programs

Royal is unlike many other manufacturing companies in Palestine. The company is aware that its employees ensure quality products and services. Therefore, it strives to put in place a good suggestion and complaint mechanism that can help improve operations and also address concerns the staff may have. Employees at all levels are allowed and encouraged to utilize this system. The complaint box also allows staff to anonymously reach out to management at various levels for any grievances they may be facing. Critical issues related to human and labor rights are directly addressed by senior management.

Respect for human rights has been a key driver towards Royal goals at the workplace. The company has strict policies to avoid child labor. Moreover, it has put in action internal policies such as maintaining 5% of its employees positions for people with special needs; special provision for minorities, good compensation for its female staff during their maternity. Mr. Monzer Zghier emphasized the importance of staff empowerment. He said:

For the internal environment we believe that satisfied employees will be more loyal and productive; this is very important to us, because our industry needs qualified with good experience workers. This will satisfy the retention policy of the company.

Royal respects and applies fair labor practices in accordance with the labor laws of Palestine. The company respects the rights of all employees and encourages collective bargaining in regards to compensation. It is committed to protect the health, safety, and welfare of its employees and contractors. There is no tolerance to unlawful workplace conduct, including discrimination, or intimidation of its employees. Moreover, management claims it does not consider gender, race, or any other personal factor during the hiring process so as to provide equal employment opportunity.

Royal prohibits smoking during the working hours and outside the work as well. The company rewards those staff members that quit smoking. This policy is considered a contribution to the community by encouraging employees to quit smoking. Royal Company is one of the few Palestinian companies that have its own social responsibility. Smoking is forbidden in Royal. The General Manager mentioned in this regard:

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Smoking is a bad habit, Royal Company succeeded to prevent all its workers from the bad effect of smoking. Royal started many years ago by motivating all the workers to stop smoking by direct and indirect incentives. Nowadays, the company employs more than 550 non smoking individuals.

Royal is keen to develop the capacity and skills of employees. The human resource department is very proactive in conducting a number of in-house training courses in various fields such as environmental protection, management skills, first aid, and labor awareness and other issues related to the work conditions. It is worth mentioning that the company provides free transportation to its employees, and an on site haircut service in addition to a free daily meal for each shift of employees and free work uniforms for labor.

Royal emphasizes economic growth with a minimized impact on the environment. This resulted in a risk management strategy that closely looks at various environmental risks that could occur due to its manufacturing of a number of plastic products that could be hazardous to the environment if not properly disposed. The company has taken responsibility of functioning in a responsible and green manner. This can be witnessed by a number of actions such as using filters to absorb noxious gas emissions from its factory, use of solar and wind energy in its electricity consumptions, recycling water for cooling purposes. These actions serve as good examples of stewardship in the industry that has a major environmental impact especially in terms of consumption of natural resources and electricity.

Royal is proud of protecting the environment. Mr. Nabil Zghier was proud to say:

Royal is environmental friendly. We make sure that our industry will not have any bad effect on the environment. So that many projects take place such as reuse the plastic materials and reduce all kinds of wastes. Not only this but also the company have many projects to use the clean energy sources such as solar energy and wind turbines and support many projects in cooperation with universities to use the clean energy resources.

While the company is still in the process of achieving the ISO 14001 standard, it has put in place an environmental management system that focuses on a number of issues such as solid waste management. It recycles most of its cardboard, paper, wood and liquid waste management. Most of the grey water is reused for cooling and production while the rest is purified for irrigation use.

The employed staff played an active part of these environmental activities so that the company was able to achieve its goal of zero waste. The same restrictions are applied to their suppliers. Royal gives priority to those suppliers that actively

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address environmental aspects in their work. This is evident in the supplier evaluation form where the company requests information on how environmental issues are dealt with specifically.

In the beginning of 2012, Royal had been involved in a number of innovative projects such as the construction of a solar power vehicle, using olive residue as fuel for the water tanks production machines. The company also established a plant nursery next to its offices to provide fresh food produce for the company's restaurant. The surplus crop is distributed free of charge amongst staff members to take home.

Other projects undertaken by Royal include planting trees in collaboration with the Ministry of Agriculture for every Palestinian expatriate; arranging a day of entertainment for children; providing vocational training to students; co-hosting an awareness event for hundreds of farmers and small businesses; and providing students with laptops. In addition, during the last three years, the company had implemented unique projects such as paving Wadi Al Nar Road, which is one of the most dangerous roads in the West Bank. Many dangerous accidents have occurred on this particular road causing serious injuries. Another project was the expansion and building of a new floor at Al Ahli Hospital in Hebron with seven complete surgery rooms. The company has formed a folklore team, soccer team, and scouts band that are comprised of the company's staff.

The General Manager emphasized that Royal Company is selective in the range of the projects they need to support. He mentioned:

We try to choose sustainable projects. As an example, the Company paid almost USD 300,000 to pave Wadi Al Nar main road because in doing so we will be able to reduce the road accidents; we can save the people's life and reduce the expenditure on the accidents. Another project, is financing Al-Ahli hospital in Hebron by providing medical services thus we decided to build the surgery operation section (seven full operation rooms) to reduce the difficulties of the people to go out of Hebron governorate seeking medical services. We selected these two projects for their impacts on the Palestinian life conditions.

To contribute towards community development, Royal has certain set of goals that address issues such as education development, and alleviation of poverty and hunger. There are smart goals that can help the community in these fields. The community involvement strategy has been developed to have the capability to be both proactive and reactive to local needs. Before any commitment, management does a thorough needs analysis and decides on the amount of contribution with final approval from the board of directors. This allows Royal to be flexible in its community development but not necessarily work as ad hoc. The company stays

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involved in all financial and administrative decisions that can lead to a bigger impact. Furthermore, the company follows a policy of impact assessment and analysis for future improvement.

In this regard, Mr. Nabil said:

We believe that we are at a closed cycle, this means that integration between suppliers, producers and customers is very important and useful. We complete each other as the consumers use the Palestinian product, the industry will grow and so we can create more jobs.

The community engagement has an indirect impact on employee morale. Management believes that volunteering in social development projects helps staff members create goodwill for the organization and also with other team members. Some of the employees volunteer in programs that focus on themes such as healthcare, environmental management, recycling, and child trafficking.

The company is equipped with a modern hall with full functions and is freely available to all Palestinian citizens and organizations. Many scientific lectures, ceremonies and different engineering activities have taken place at this hall.

When Mr. Zghier was asked about the impact of CSR on performance, he replied:

It is very difficult to measure the impact of our CSR project but we can note the effect of our projects on the local community. Royal nowadays became well known for its values and good reputation. It is always invited to represent the private sector on different levels and by many institutions.

Performance

The company has made a good use of technology to assist in the engagement process by utilizing electronic survey and complaints systems with the large number of suppliers, clients and employees. Each of which are consulted on various issues related to the company's performance and its sustainability impact. It publishes its sustainability performance using the global reporting initiative (GRI) framework for reporting. This has helped the company realize its values for transparency and demonstrated its commitment to become a responsible corporate citizen. Royal believes that the report is a good way to show its stakeholders that various initiatives have been taken beyond compliance and legal requirements.

During the last two years the company has won many awards, locally and internationally. Royal won the Palestinian International Award for Excellency and Creativity, as a result of its creative ideas and projects to use the high and clean technology which helps in reducing the side effect of plastic industries. It also won

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the Palestinian Energy Efficiency Award, as the most efficient company in using the energy resources. This is according to the Palestinian Energy Authority audit report, and Arabian Corporate Social Responsibility Award (CSR) – Dubai. Royal won this award as one of the most socially responsible companies of the Arab countries.

CURRENT CHALLENGES FACING THE ORGANIZATION

Royal is operating under very difficult circumstances and unstable environment where the company is facing many challenges in importing raw materials, and spare parts from one hand, and exporting its final products on another hand. Royal Management needs to craft their CSR practices very carefully not to induce any over-expectation or – in the worst situation – any social conflict among the beneficiaries. Royal Company could be very skeptical about it because they have been seeing CSR as a new paradigm that was induced to the country as part of the global competition. Royal company, sometimes, faces pressures from different stakeholders to change their priorities or increase the allocated budgets.

It would provide an even bigger impact if Royal combines its ambitious goals with robust monitoring and evaluation mechanisms that can provide the company with necessary multi-year data to improve its sustainability impact, especially in the community involvement. One of the fundamental opportunities for the CSR movement is how to effectively align consumer and employee values with corporate strategy to generate long-term cognizant benefits -- a better understanding of precisely with whom, what, when, where, how and why an enterprise makes a profit or surplus. CSR requires more holistic strategic thinking and a wider stakeholder perspective. Because the Balanced Scorecard is a recognized and established management tool, it is well positioned to support a knowledge-building effort to help organizations make their values and visions a reality. The Balanced Scorecard enables individuals to make decisions daily based upon values and metrics that can be designed to support these long-term cognizant benefits.

SOLUTIONS AND RECOMMENDATIONS

Royal Company executives acknowledge that CSR is an important consideration for driving success. Similarly, from a scholarly perspective, much has been written to suggest that CSR is vital to competitive success. However, efforts have predominately focused on conceptual and theoretical advancements and empirical tests between CSR and firm's performance.

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If an assumption is made that CSR is important to competitiveness, and if strategy serves as a foundation for a business firm's creation, while establishing its position in the market, its competitiveness and its on-going existence, then placing CSR within the context of strategy seems vital. Royal can approach CSR implementation by developing an integrated CSR decision-making structure; preparing and implementing a CSR business plan; setting measurable targets and identify performance measures; engaging employees and others to whom CSR commitments apply; designing and conducting CSR training; establish mechanisms for addressing problematic behavior; and create internal and external communication plans.

CONCLUSION

Sustainability at Royal is a good mix of corporate responsibility toward key stakeholders, innovation and good governance. It is this complete approach towards managing sustainability that has allowed it to successfully innovate and implement a number of high impact projects in Palestine. The integration of sustainability and CSR at Royal is a great example from Palestine. Also, it is important to note that the company has invested in transparency of its sustainability impact and performance using the GRI framework.

There are many aspects of Royal sustainability strategy that stand out. These include admirable employee engagement through practices of capacity development opportunities, policies for health and safety, talent management; priority towards customer service and quality; concern for innovative environmental management and energy efficiency; and a holistic community involvement strategy. Building trust within the local community will allow the company a license to operate even under very difficult times. Engagement with the government in a number of community projects has also allowed Royal to be considered as a partner for national development, rather than isolated member of the private sector simply operating for gaining profit and markets. Therefore, there is no surprise that the company was bestowed with awards.

Decisions about CSR activities will always be taken by the individual firm, which pays for them. These are likely to be the most senior managers, or their designated subordinate, at the local operational level. One may reasonably ask under what authority, and with what expertise, such a self-appointed group of people make decisions regarding social or environmental issues in the community. Should managers necessarily avoid corporate involvement in contentious issues? What should managers do when faced with conflicting pressures from different stakeholders over how to use limited CSR resources? Such uncertainties caution against putting firms under pressure to perform such activities as a matter of routine.

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KEY TERMS AND DEFINITIONS

Corporate Social Strategy: Corporate Social Responsibility (CSR) is a concept whereby companies incorporate social, economic and environmental concerns in their business activities.

Family Business: A family business is a business in which one or more members of a family have a significant ownership and commitment toward the business.

Leadership: Leadership is the art of motivating the employees of a company to act towards achieving a common goal.

Performance: Company performance is the way it performs the work. A company's performance could be measured by financial or non-financial indicators.