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This is an **author produced version** of a paper published in:

Sustainability Accounting, Management and Policy Journal 7.1 (2016): 125 - 151

**DOI:** <https://doi.org/10.1108/SAMPJ-12-2014-0083>

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**The Illusion of CSR:**  
**Drawing the line between Core and Supplementary CSR**

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The authors are most grateful for the helpful comments and suggestions from Professor Archie B. Carroll, as well as those from participants at the 37th EAA Annual Congress and the 5th Social and Environmental Accounting Conference (CSEAR Italy). We acknowledge financial contribution from Banco Herrero Foundation (currently Banco Sabadell Foundation), the UAM-Audidores Madrid Chair, and the AECA Chair in Accounting and Auditing.

# The Illusion of CSR:

## Drawing the line between Core and Supplementary CSR

### 1. Introduction

Despite the significant attention given to Corporate Social Responsibility (CSR, henceforth), there is still need to develop its conceptual framework (see, e.g. Langhelle, 2010; Matten and Moon, 2008; Aguilera et al., 2007; McWilliams et al., 2006). In recent years, the debate around CSR has focused on the relationship between financial performance and corporate social performance (CSP), as a way of making CSR applicable to practice (Marom, 2006). This literature presents inconclusive evidence (Van Beurden and Gössling, 2008; De Bakker et al., 2005), potentially because of the lack of theoretical foundation and the need of a unifying framework (see e.g. Garriga and Melé, 2004; Margolis and Walsh, 2003; Ruf et al., 2001; Ullman, 1985).<sup>1</sup> Therefore, there is need for research that further develops the CSR theoretical framework to conceptually disentangle the consequences of different types of CSR actions and that helps identify better empirical proxies for CSP. Accordingly, the purpose of this paper is (1) to contribute to the development of the theoretical framework for CSR, and (2) to provide a number of conceptual considerations which can be considered in the design of measures for CSP.

Prior literature links CSR actions which are directly related to the core business with ‘Strategic CSR,’ since these actions create value both for companies and the rest of society (Porter and Kramer, 2002; Burke and Logsdon, 1996). However, the analysis of the role of CSR actions that are *disconnected* from the core business is scarce and requires further development. In this paper, we establish a novel conceptual reflection that analyzes the role that both types of CSR (connected and disconnected from the core business) can play in the business strategy, and the relationship between them.

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<sup>1</sup> Although meta-analysis studies provide evidence of a positive relationship between social and financial performance (Orlitzky et al., 2003; Margolis et al., 2007), there is no unifying approach to the construct of CSP, leading to conflicting results and views on the consequences of CSR. This mixed evidence has been associated with the direction of causality (Waddock and Graves, 1997), the shape of the function (Barnett and Salomon, 2006; Brammer and Millington, 2008), the lag time (Russo and Fouts, 1997) or the omission of relevant variables (McWilliams and Siegel, 2001), especially mediator variables (Pivato et al., 2008; Sen and Bhattacharya, 2001) as well as moderator variables (Surroca et al., 2010; Russo and Fouts, 1997).

In particular, we refer to all those CSR activities that are directly related to the core business as ‘Core CSR,’ whilst those activities not directly related are considered ‘Supplementary CSR.’ In our conceptual development, we link Carroll’s (1991) ‘Pyramid of CSR’ theory with the strategic *versus* non-strategic CSR debate (e.g., Burke and Logsdon, 1996). Specifically, we build on Carroll’s framework to define the aforementioned two types of CSR policies: Core and Supplementary, depending on their links with the firm main activity and their consequences both for the company and its key stakeholders. Core CSR policies are economic, legal, ethical and philanthropic actions directly associated with the core business of the firm and expected to enhance financial performance in the long term,<sup>2</sup> while Supplementary CSR are philanthropic policies not associated with the main business of the firm, and their effects are predicted to depend on their relationship with Core CSR. These later activities generally consist of philanthropic actions in the social, cultural and/or environmental areas. The term Supplementary CSR is based on the reflection that, despite the lack of connection with the main activity of the company, these actions may result in both firm and social benefits, improving the firm public perception when accompanied by appropriate Core CSR policies. However, as discussed throughout this paper, Supplementary CSR can also be used to, deliberately or unconsciously, mask a poor social performance in the main activity of the company.

To illustrate our conceptual distinction, we focus on the paradox that takes place when a company causes social damage with its main activity, while spending a large amount of their resources in community welfare projects, disconnected from its core business. We identify this phenomenon as the ‘Illusion of CSR’ and support our theoretical approach with an empirical illustration: the paradigmatic example of Spanish savings banks and their welfare projects, aimed at gaining insight into the proposed conceptual considerations (Stake, 1995).

We contribute both to the theoretical and empirical literature in CSR. Meta-analyses in the area show that Core and Supplementary CSR (focusing on ethics and philanthropic actions) are indistinctly used to develop CSP measures (Margolis et al., 2007; Orlitzky et al., 2003; Griffin and Mahon, 1997). These discrepancies suggest the need of a more comprehensive analysis of the CSP construct which, besides being complex and multidimensional (Griffin and Mahon,

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<sup>2</sup> Michelon et al. (2013) and Alniacik et al. (2011) provide evidence consistent with CSR policies having long-term effects.

1997), encloses different types of relationship between its components. Improvements in the conceptual framework of CSR should help empirical research. Prior work uses measures driven by a number of factors beyond social performance itself, such as social reputation measures (Preston and O'Bannon, 1997; McGuire et al., 1988), or proxies for communication quality, such as sustainability reporting ratings (Moneva et al., 2007). Admittedly, CSP is a complex construct and the result of multiple relationships between the company and its environment. Thus, an important part of the literature focuses on specific fields of CSR (environmental impact, philanthropy, etc.), which may be related to the core business (Clemens, 2006), or not (Brammer and Millington, 2008). These measures, whilst valid for specific components of CSR, are not comprehensive, and the studies that use multidimensional measures generally fail to take into account the relationship between the different responsibilities involved in CSR. Hence, the deficiencies in the conceptual framework lead to inconsistent and biased CSP measures, which in turn drive the aforementioned mixed evidence documented in prior work.

These weaknesses in the framework affect also business practice, where multiple and striking paradoxes complicate the implementation of consistent CSR practices. In this regard, Hahn and Scheermesser (2006) and Owen and Swift (2001) highlight the substantial differences that are covered behind the corporate rhetoric of a high commitment to sustainability, and Milne and Gray (2013) criticise the lack of influence that the adoption of CSR processes and (change-but-no-change) rhetoric is having on business behaviour. Indeed, a certain level of scepticism often surrounds CSR, which has been contested in the literature and the financial press, since it disengages from the traditional view of the company as an entity focused on maximizing profits for its owners (Friedman, 1970).

Our work contributes to the literature and the development of the conceptual framework of CSR. We argue that only Core CSR has long-term positive economic consequences by itself. We argue and illustrate that firms may use Supplementary CSR to distract interested third parties from unethical practices. Our theoretical distinction may thus be useful for empirical research in CSR, to clarify what types of CSR policies should be associated with which outcomes. Our work also has practical implications. It is important to advance in developing unifying CSR theoretical and conceptual frameworks both for managers, who can use these frameworks to develop solid and honest CSR policies, signalling their quality to outsiders; and for society as a whole.

Interested third parties, when armed with a clear concept of CSR, can identify different business practices and make informed decisions from their stakeholder status. Finally, regulatory bodies may be interested in our distinction, to further encourage Core CSR practices.

The remainder of the paper proceeds as follows. In section 2, we briefly discuss the prior literature on the conceptual framework of CSR, focusing on the concept ‘Strategic CSR’ and Carroll’s (1991) ‘Pyramid of CSR’ theory, as a basis for our model. In section 3, we set out our CSR model. We outline the relationships that take place within our model and highlight the importance of paying attention to these links. In section 4, to illustrate the empirical application of our conceptual framework we use the example of Spanish savings banks and their welfare projects, a paradigm of the paradox analysed in our study: the Illusion of CSR. In the concluding part, we discuss the implications of our analysis both for academia and for business practice.

## **2. The conceptual framework of CSR in the literature**

The publication in 1953 of Howard R. Bowen’s book *Social Responsibilities of the Businessman* is the landmark for the development of the concept of CSR. However, it was during the 70s when it was more widely developed and associated with other terms such as ‘social performance’ or ‘business ethics.’ Almost concurrently to these developments, a debate began surrounding the different visions of the business. The concept of CSR confronted with the dominant approach that saw firms as entities aimed at maximizing economic profits for their owners (e.g., Friedman, 1970). The seminal works of Steiner (1971) and Samuelson (1971) initiate this debate, questioning the social implications of business management. In later decades, the conceptual discussion diverted to a vast literature focused on the measurement of CSP to study its relationship with financial performance. Nevertheless, the lack of a strong and unified theoretical framework has led to a large number of inconclusive studies (Garriga and Melé, 2004).

The aforementioned uncertainty surrounding the economic consequences of CSR has influenced the development of the theoretical framework of CSR. Burke and Logsdon (1996, p. 496) define ‘Strategic CSR’ as that which “*yields substantial business-related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm's effectiveness in accomplishing its mission.*” This initiates a research trend in the literature that relates the positive effect of CSR with its link to the core business, whilst CSR activities that do

not show this relationship are associated with a reduction in the positive impact on stakeholders and a lower potential in terms of business returns in the long-term (Du et al., 2010; Porter and Kramer, 2006). We contribute to this field by connecting the concept of ‘Strategic CSR’ and the debate around the relationship between CSP and performance with the framework set by Carroll’s (1991) *Pyramid of CSR*, which is an important reference for many relevant theoretical studies on CSR (see, e.g., Matten and Moon, 2008; Matten and Crane, 2005; Garriga and Melé, 2004; Phillips et al., 2003).

Carroll (1991) classified and ranked CSR responsibilities, and illustrated them using a four-level pyramid. Considering that profit generation is a necessary condition for businesses viability, *economic responsibilities* are set as the base of the pyramid, the main level in terms of importance. *Legal responsibilities* appear at the second level. It seems logical that strict compliance with regulatory bodies is an essential step before engaging with additional voluntary commitments. *Ethical responsibilities* constitute the third level. They include those social commitments addressed at protecting the interests of stakeholders not incorporated into the legal framework (the prior level). Carroll notes the important role of this level, since it is configured by socially desirable behaviours that later form the regulatory body. At the top of the pyramid, but considered as the lowest level in terms of importance, Carroll places *philanthropic responsibilities* and describes them as the ‘icing on the cake.’

Carroll’s metaphor describes these philanthropic responsibilities perfectly: they are, indeed, the ‘icing on the cake.’ In this paper, we give this metaphor a double interpretation. On the one hand, philanthropy should certainly supplement a solid CSR firm policy in terms of ethical behaviour. On the other hand, the icing is the most visible layer and therefore, it can be used to hide deficiencies inside the ‘cake’: where core ethical, legal and economic responsibilities are located. Based on Carroll’s model, we propose a novel classification that subsequently allows us to lay out a reflection on the CSR mix that companies can come up with, sometimes leading to a false appearance of responsibility that we call the ‘Illusion of CSR.’

In our analyses we neither disregard the importance of philanthropic activities disconnected from the core business, nor do we present every specific Core CSR activity as positive per se. We intend to highlight the differences between both categories of CSR (Core and Supplementary) activities, and propose a framework to evaluate them from an overall

perspective. In a first step we recommend the assessment of Core CSR responsibilities and, depending on the detection or not of remarkable deficiencies in this area, we point out the plausible consequences of implementing Supplementary CSR programmes into CSR strategy. This conceptual consideration might not only imply a positive impact on the financial performance of companies, as explained in the following sections, but it also may improve the credibility and understanding of their CSR policies. We elaborate on this consideration in the next section in which we build on Carroll's framework to develop the concepts of Core and Supplementary CSR. Then, we formally link these concepts to Carroll's four-level pyramid, and finally, we discuss how this theoretical development can shed light on the documented confusion around CSR and the mixed evidence reported in the prior empirical literature.

### **3. Core and Supplementary CSR**

Core CSR are CSR policies that are directly associated with the core business of the company and that have consequences both for the firm and its stakeholders. This definition significantly overlaps with the first three levels of Carroll's pyramid, with some nuances that we explain below. Core CSR includes fulfilling shareholders interests in terms of information and economic return, compliance with the legal framework and an ethical relationship with primary stakeholders to minimize the adverse impact of the business activity on them.

This concept is not entirely dissimilar to 'Strategic CSR' as developed by Burke and Logsdon (1996). However, we do not impose the condition that Core CSR must '*yield substantial business-related benefits to the firm, in particular by supporting core business activities*,' but rather, we argue that Core CSR are actions directly related with the firm core business that yield long-term benefits to the firm and society as a whole. This may appear as a simple rearranging of their definition, but it has important implications. Strictly interpreted, the definition of 'Strategic CSR' would incorporate, for example, myopic (short-term) actions that yield business-related benefits, such as philanthropy that may serve to enhance the popularity and reputation of the firm with targeted segments of the population, but through actions that are unrelated to the core business of the firm and that may help to hide or distract the attention away from unethical actions within the core activity of the firm. Such philanthropic actions, whilst perhaps beneficial in some cases, are not part of Core CSR as defined in our framework.



*Insert Figure 1 here*

The graphical representation of our conception of CSR is a sphere (see Panel A of Figure 1). This representation does not allow a hierarchical classification of the three components of Core CSR - economic, legal and ethical responsibilities (Schwartz and Carroll, 2003) – since we view a responsible company as one that should always seek a balanced performance amongst them. Bearing this in mind, we locate within the ethical responsibilities level those social customs that fit better to social values at any given time. This area feeds the legal framework and is more adaptable because it is not constrained by the rigidity of the legislative process periods. Related to the business area, we find diverse examples of mandatory rules whose origin lays in the claims of key stakeholders, for example, environmental protection regulation and labour standards that guarantee workers' rights.

Importantly, in our conception, core business-related philanthropy would be included within Core CSR as part of the ethical responsibilities, since these actions seek a positive impact on key stakeholders through the main business activity. Therefore, this component of Core CSR can mean all the difference in terms of social performance, since the fulfilment of economic and legal responsibilities is something expected of all companies and, consequently, it does not involve any outstanding social performance. Thus, ethical and philanthropic responsibilities are arguably the differential elements within firm CSR policies.

'Supplementary CSR', the external surface of our CSR sphere, consists of philanthropic responsibilities not directly related to the core business. Carroll (1979) and Maignan and Ferrell (2000), referred to them as 'discretionary responsibilities.' These policies are usually related to social, cultural and/or environmental projects that, in many cases, are channelled through foundations that belong to the same business group. Although these may be beneficial actions for society, they are not included within the ethical responsibilities because society does not perceive the absence of this kind of activities as an unethical behaviour (Carroll, 1991). However, prior research indicates that the perception of inconsistency between the welfare activity of a company and its main activity increases scepticism and negatively impacts consumer behaviour (Becker-Olsen et al., 2006). The previously mentioned nuance makes reference to the fact that we consider as Supplementary CSR only core business-unrelated philanthropy. This concept thus differs from "Strategic philanthropy," as defined by McAlister and Ferrell (2002), and also from

“context-focused philanthropy,” as defined by Porter and Kramer (2002), that aims at minimizing the negative impact on stakeholders and enhancing competitive context. These types of philanthropy are mainly (albeit not always) integrated within Core CSR in our theoretical framework.

Briefly, we provide some examples that may help to illustrate the differences. Porter and Kramer (2002) provide diverse examples of context-focused philanthropy that would be included within Core CSR in our model, among which we can highlight: *Cisco Systems* and their educational program - the Networking Academy - to train computer networks administrators and provide attractive job opportunities to high school graduates, *Apple’s* donation of computers to schools, the research and development of Web-based platforms to support new instructional practices within the Reinventing Education program by *IBM*, or *Pfizer’s* cost-effective treatment for the prevention of trachoma. In essence, philanthropic action that is directly linked to the core business of the firm is considered Core CSR. It relates to instances when firms extend their core business operations and activities to benefit the rest of society through philanthropic actions.

On the other hand, the campaign to raise money for breast cancer prevention carried out by *Avon*, the world’s largest direct seller of beauty products and fashion accessories, despite being considered context-focused philanthropy by Porter and Kramer (2002) and despite potentially benefiting society as a whole and potentially generating business-related benefits to the firm, at least in the short run, would be included in the category of Supplementary CSR in our model because it is not directly linked to the core operations of *Avon*.

### *Relationships amongst the components of Core and Supplementary CSR*

Figure 1 presents CSR as a sphere where the core business of the company is in the centre (the black circle at the centre). Supplementary CSR – including those philanthropic responsibilities with no relation to the core business – is the cortical surface (in grey colour) and between both we place Core CSR. Core CSR is divided into thirds in such a way that its three components – economic, legal and ethical responsibilities – are in touch with the core business with no pecking order, or hierarchy, between them. We refer to each of them in turn.

*Economic responsibilities.* As Carroll (1991) stated, the traditional view of business, as entities exclusively aimed at profit maximization, creates strong tensions between economic and

all other responsibilities. However, the achievement of economic objectives occurs in a particular context characterized by a legal framework and a set of relationships with stakeholders where companies must decide whether to implement ethical considerations. Although companies may incur financial losses (or smaller gains) because of certain ethical and/or legal compliance, failure would imply administrative sanctions and/or the deterioration of the relationship with the environment, which ultimately could compromise profitability in the long term and even the survival of the firm. In our framework, the tensions that we consider as permanent occur between economic and philanthropic responsibilities that are disconnected from the company strategy. In this case, managers should search a point of balance where Supplementary CSR causes a positive impact on consumers without being perceived as opportunistic behaviour by the company.

*Legal responsibilities.* This area represents the minimum degree of compliance of a company with social standards. The aforementioned tension between economic and legal responsibilities could exist, but only in the short term, since it would endanger the business continuity within a solid legal framework. However, there are some cases where companies choose the repeated infraction of a certain standard because the resultant financial penalty is less than the benefit related to noncompliance. This type of behaviour, that could be sustainable in the long term depending on the flexibility of the legal framework, reveals a low degree of social responsibility. A company that does not comply with mandatory rules can hardly be expected to engage with other voluntary standards. Although this statement is established as a general principle, we recognise that companies may take advantage of the globalization of the world economy to benefit from less stringent legal frameworks, especially in relation to tax compliance and labour rights. In those cases, they may exhibit a business behaviour which is questionable from an ethical point of view, despite being in conformity with the law.

In recent decades, ethical and philanthropic responsibilities have grown until becoming the “essence of CSR” (Carroll and Shabana, 2010). Business strategy must necessarily include economic and legal responsibilities, so they cannot represent a difference between competitors in terms of social engagement. Therefore, we focus our analysis on the relationship between ethical and philanthropic responsibilities, and specifically, on the illusion that occurs when a company implements a CSR strategy disconnected from the core business and based on philanthropy. The Illusion of CSR may be the result of deliberate manipulation by managers or can arise

spontaneously because of business culture. Lehrer and Segal (2013) show that business people are more reluctant to incorporate ethical considerations into their behaviour and, at the same time, exhibit a higher disposition to charity than many other occupational groups because it becomes an additional way to externalize their success. Regardless of the motivation, both result in a false appearance (a phantom or illusion) of social engagement.

*Ethical responsibilities.* We view this as a key component of CSR. Contrary to philanthropy (and, particularly, to core business-unrelated philanthropy), business ethical behaviour is expected by society and noncompliance implies reputational risk. This level gathers all the activities related to the core business and that seek a positive impact on key stakeholders going beyond the strict letter of the law. For example, in the banking sector, which is the industry analyzed in the empirical illustration of the next section, ethical responsibilities would be the implementation of a more rigorous and accessible protocol of information on financial products exceeding the minimum requirements set by the regulator, so to help non professional savers or unsophisticated investors to gain a greater knowledge of the product and the risks associated and make better informed decisions. Another initiative in this area would be to provide flexible credit terms for people who cannot meet their mortgage obligations on a first home or, if necessary, provide affordable housing solutions for evicted families to avoid situations of social exclusion. The development of a broad portfolio of Socially Responsible Investment (SRI) or facilitating financial services in remote rural areas, by either establishing more branches or other means, could also be included in this component of CSR. Core business-related philanthropy fits within this category, as it is related to the core business and it seeks a positive impact on key stakeholders, meeting our definition of Core CSR policies. An example of core-business related philanthropic activity of a financial institution would be the development of financial education programs in schools and neighbourhood associations of areas with a high population under risk of social exclusion. This is a key element in our framework: the consideration of core business-related philanthropy as part of the ethical component within Core CSR, whilst core business-unrelated philanthropy is considered as Supplementary CSR.

*Philanthropic responsibilities.* The voluntary or discretionary nature of philanthropy has led many authors not to consider it a social responsibility of business in itself (Schwartz and Carroll, 2003). However, we consider that core business-unrelated philanthropy represents an outstanding

social commitment when supplementing a suitably developed Core CSR. Philanthropic activities have great media visibility (Brammer and Millington, 2006), which is mainly achieved through sponsorships and/or cause-related marketing (McAlister and Ferrell, 2002). Core business-unrelated activities are usually promoted by financial institutions through their foundations and basically consist of social, cultural and environmental projects, such as organizing art exhibitions and concerts, or the recovery of degraded nature reserves. Therefore, core business-unrelated philanthropy can be opportunistically used as tool of legitimization (Chen et al., 2008) that eclipses deficiencies in the Core CSR of the business leading to a false appearance of being a socially responsible firm (or industry). This effect is what we call the Illusion of CSR. We now turn our focus to this phenomenon.

Table 1 shows our CSR diagnosis procedure based on our theoretical framework. The key elements to consider are, as noted above, ethical and philanthropic responsibilities from an overall perspective of each area. The first assessment depends on the location of ethical responsibilities in business strategy, linked or not to the main decision-making processes. The second step of the diagnosis requires the analysis of the core business-*unrelated* philanthropic activity, i.e., of Supplementary CSR (recall that core business-*related* philanthropy is part of Core CSR). The combination of ethical and core business-unrelated philanthropy gives rise to four possible diagnosis of CSR activity, as presented in Table 1. If ethical considerations and primary stakeholders' interests are present within the company's strategy, the firm is in a stage of excellent (Type 2) CSP or faced with the opportunity (Type 1) to improve CSR policies through supplementary philanthropy. On the other hand, depending on the core business-unrelated philanthropic activity level, if a noticeable lack of ethical considerations is consistently detected in the main decision-making processes, the result would be absence of core CSR (Type 4) or, the potentially worst outcome in our diagnosis: an Illusion of CSR (Type 3).

*Insert Table 1 here*

Panel B of Figure 1 shows the contrast between these types of CSP. On the left, we represent the Excellence in CSR (Type 2), where ethical responsibilities are inside the business strategy and, therefore, in touch with core business. Here, Supplementary CSR is in touch with Core CSR. On the right, we present the Illusion of CSR (Type 3), where ethical considerations appear detached from a business strategy that only considers economic and legal responsibilities. In this

case, Supplementary CSR can become a thick layer combining philanthropy and opportunistic ethical behaviour that serves to hide or at least to obfuscate the perception of firm behaviour and actions, creating an illusion of responsibility where barely exists.

In the following section, an empirical illustration is provided to gain understanding of the proposed framework.

#### **4. An empirical illustration: *Spanish Savings Banks, from Core CSR to plausible illusion***

To gain insight into our conceptual framework we use the example of the Spanish savings banks and their CSR policies through their historical evolution. In particular, this empirical illustration seeks to show: (1) An extreme case of our conceptual construct ‘Illusion of CSR.’ The savings banks simultaneously showed an exceptional expenditure in philanthropic activities whilst causing an unprecedented negative impact on Spanish society during the current financial crisis. (2) All the possible types of relationship between ethics and core business-unrelated philanthropy proposed in our model. As shown in the subsequent sections, all types occur during the history of Spanish savings banks. Finally, we illustrate (3) the relationship between CSP and financial performance. Core CSR policies represented a key aspect in the success of savings banks’ business model. However, a disproportionate investing in Supplementary CSR<sup>3</sup> may have eclipsed, even in the eye of the management, some conflicts with primary stakeholders that, left unresolved, eventually endangered the survival of these companies.

##### *Setting*

We have chosen the Spanish savings banks sector to illustrate and support our model for a number of reasons. Spain has a bank-based financial system (see, e.g., Valverde and Fernández, 2007; Beck and Levine, 2002; Demirgüç-Kunt and Maksimovic, 2002) and the impact of savings banks on society is easily observable. Until the financial crisis that began in 2008, the banking system was composed of savings banks, commercial banks and credit cooperatives. From its

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<sup>3</sup> For example, in 2007 the cultural spending of Spanish savings banks rose up to 745.7 million euros, which represents a 66% of the Culture expenditure in the Spanish Government Budget for the same year (1,128.3 million euros).

origin in 1835 until its extinction in 2012, the sector of savings banks underwent an exponential growth thanks to its business model until it became the dominant sector in the Spanish banking industry. During the stage prior to the financial crisis, these institutions had a market share close to 50% in deposits and over 55% and 40% in mortgage and business loans, respectively. They were the only financial institutions which covered 100% of the population (97% directly through branches and the remaining 3% by means of itinerant banking) and employed more than 130,000 workers.

Although it could be argued that Welfare Projects were part of the core business of savings banks in the strict sense, the Law 26/2013 of December 27<sup>th</sup> of Savings Banks and Banking Foundations leaves no room for doubt in this regard stating in its preamble that originally *“savings banks were configured as socially-oriented banks aimed at savings promotion and protection, and the generalization of access to credit for disadvantaged social classes, aspects which are still of great concern,”* and adds that *“since the first half of the twentieth century savings banks were established as credit institutions in every sense of the word.”* Furthermore, the Bank of Spain<sup>4</sup> recognizes that *“the normal activity of banks, savings banks and credit cooperatives is to receive money from depositors that they are required to return, and use it to make loans and similar operations.”*

## *Methodology*

We use the evolution of Spanish savings banks sector in terms of social responsibility activities and its effects on society to empirically illustrate the theoretical framework and the CSR diagnosis model. Our methodological approach is developed following an inductive process (Arthur, 1994). We begin by collecting data from diverse sources of evidence and then look for patterns to finally link it to our conceptualization of the types of CSR (see Table 1 and Figure 1) and provide a plausible interpretation of what happened during an extraordinary time in the Spanish economy and its banking system.

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<sup>4</sup> Bank of Spain website: <<http://www.bde.es/clientebanca/entidades/pueden/bancos.htm>>. Accessed October 2015.

## *Data collection*

The empirical illustration is developed through a longitudinal analysis of the Spanish savings banks welfare projects and CSR model, based on a wide range of sources of information including legislation, reports from official bodies and private entities (see Appendix 1). Since the majority of the public information about the social impact of Spanish savings banks comes from the Spanish Confederation of Savings Banks (CECA, henceforth), we considered necessary to carry out a limited number of in-depth interviews with representatives of the key stakeholders in the banking industry. The details of the four interviews conducted are included in Appendix 2 and include managerial members of: an association of banking services users which represents the clients, the banking wings of two trade unions representing the employees and a NGO involved on economics, finance, CSR and sustainability and which represents society at large. Consistent with prior work, the interviews provided the context and guidelines to search data rarely available in financial and non-financial reports released by firms offering a more complete picture of what happened (Boyce and Neale, 2006) in terms of social impact and CSR policies during the savings banks' last years of activity. Overall, these interviews helped us to gain understanding of the real impact of Spanish savings banks on society in the last years and helped to identify other relevant sources of evidence (Yin, 1993).

Prior work by Cho et al. (2012) provides evidence of systematic manipulation in standalone sustainability reporting to paint a more favourable picture of the firm. To illustrate this bias in the Spanish savings banks sector, we analyse the information content of the CECA CSR reports for the period 2007-2011 comprising our historical analysis.<sup>5</sup> The content of the reports focuses on four social areas: (1) Culture and heritage, (2) Social works and health, (3) Education and research and (4) Environment. Following this structure, we search for keywords related to each one of the areas. In particular, using inductive reasoning, we look for the most common keywords associated with these welfare projects developed by savings banks and that represent Supplementary CSR or Core CSR included in the CECA reports. The output of this coding is presented in Table 2 where we show the keywords related to each of the social areas and the number of repetitions between brackets by each one of the stakeholders (employees, companies,

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<sup>5</sup> These reports are available at <<http://www.ceca.es/publicaciones/>>, checked October 2015.



individuals and society). The conclusion is that Supplementary CSR keywords - which are associated with positive information about social, cultural and environmental projects - are emphasized, while Core CSR keywords, in this case related to controversial events that had a deep impact on Spanish society, are minimized or even disregarded. The key figures of the complete picture are summarized in Table 4 which we explain in the context of the empirical illustration presented in detail in the next section of the paper.

*Insert Table 2 here*

## *Findings*

*The origin of Spanish savings banks (1835-1933): A century of CSR Type 1.* Savings banks emerged in Spain in the mid-nineteenth century as an extension of socially-oriented pawnbrokers called ‘*Montes de Piedad*.’ Their purpose was to improve the living conditions of poorer urban classes through affordable credit and the promotion of savings. These people were out of the ordinary financial circuits, and so savings banks protected them from usury networks. The contribution of savings banks to Spanish economic growth and social welfare is evidenced by the correlation between the growth of key macroeconomic variables and the amount of savings deposited in them (Martinez Soto, 2000).

*Insert Figure 2 here*

Panel A of Figure 2 shows the CSR scheme in this stage which matches our definition of CSR Type 1, where ethical responsibilities are totally integrated into savings banks core business and there are no other unrelated philanthropic activities.

*Welfare Projects start (1933-1977): A digression into the history and CSR Type 2 precursor.* This period spans two key regulations related to the social performance of savings banks. In 1933, the Law on Savings Banks makes the first direct reference to welfare projects, mentioning them among the savings banks duties. In 1977, the Royal Decree 2290/1977 created the Savings Banks Welfare Projects Committee and established a clear separation between the social and financial areas in these entities. At this stage, savings banks sought social performance visibility by developing social charity programmes that complemented public administrations labour in

many fields. Between 1947<sup>6</sup> and 1977 the expenditure of Spanish savings banks grows from 13.5 to 439.6 million euros (in constant 2011 values).

This period presents important limitations for the analysis because, due to Spanish political situation,<sup>7</sup> savings banks did not enjoy autonomy in many fields and, particularly, in the management of their welfare projects. At the end of this period, Spanish saving banks recover their autonomy and make efforts to give visibility to their beneficial actions through a significant investment in advertising.

Given this lack of autonomy in decision-making, we do not include this period in our graph model to analyse the evolution of CSR. However, it lays out the foundation for the later stage, which will be critical in the evolution of the Spanish savings banks.

*Welfare Projects consolidation (1977-2007): From CSR Type 2 to CSR Type 3.* In this stage, the expenditure in welfare projects experiences a second growth reaching 1,966.6 million euros in 2007 (constant 2011 values). Concurrently, the Royal Decree 2290/1977 brought about important changes. As mentioned above, this regulation separated the social and financial responsibilities of saving banks. Social performance was controlled by a specific committee, while the board of directors focused on financial management. The funding of welfare projects was also made conditional on certain financial ratios thresholds, yet another sign that welfare projects were becoming non-essential or supplementary activities.

In the distribution of expenditure, there is a gradual predominance of cultural activities. During the late seventies, they represented only 20% of the economic resources, however from the nineties onwards between 40% and 60% of spending goes to cultural activities and heritage preservation. This growth came at the cost of reducing the funding dedicated to social works and health. Several authors suggest that cultural projects represented less commitment for savings banks given the initial low investment and the minimum obligation to maintain current expenditures (Valverde and Fernández, 1998; Núñez, 1998). In 2007, cultural spending represented 40% of the total expenditure in welfare projects, while these projects reached more

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<sup>6</sup> First year with available data about spending in the Welfare Projects of Spanish savings banks.

<sup>7</sup> From 1939 to 1975, Spain had an authoritarian dictatorship regime. Following the Spanish Civil War (1936-1939), Spain underwent a period of near autarky and recession, followed by economic growth from 1959 to the early seventies, when the oil crisis and world-wide economic stagnation ended the boom.

than 60% of beneficiaries. Thus, savings banks could be maximizing the number of impacts with less expense and less commitment. Visibility is furthermore enhanced by a significant spending in advertising. CECA Assembly in 1999 emphasized the importance of welfare projects promotion as a key strategic action (Comín, 2008). Savings banks highlighted the contrast between their ‘social dividend’ and the ‘private dividend’ of commercial banks. However, they also admitted that precautions in advertising should be taken to avoid that welfare projects were perceived by society as a ‘business platform.’

Regarding Core CSR, savings banks were originally conceived to fight against financial exclusion of disadvantaged groups. However, in this period this activity was already irrelevant. According to the 2007 CECA annual CSR report, savings banks granted 24.18 million euros in microcredits and the credit associated with the twenty-one remaining ‘*Montes de Piedad*’ came to 171.38 million euros in the consolidated balance sheet. We only have to put these figures in relation to the total amount of ‘loans to customers’ registered in their assets: 854,095 million euros, to show that the original aim of Spanish savings banks had indeed disappeared from their strategy.

Panel B of Figure 2 illustrates the change in savings banks CSR strategy. Formerly distinctive ethical responsibilities diluted and disconnected from the main activity while Supplementary CSR grew to form a thick crust around Core CSR leading to the Illusion of CSR. The high expenditure in welfare projects, which was the main distinctive feature in relation to the other financial institutions (Valverde and Fernández, 1998), provided solid reputation to this sector, which contributed to the success of their business model. According to the Statistical Bulletin of the Bank of Spain, in late 2007 savings banks had 50.4% of all deposits in Spanish credit institutions, 55% of all banking offices operating in Spain, and 48.5% of the total employees in the Spanish banking industry.

*The end of Spanish savings banks (2007-2012): CSR Type 3 and a mandatory catharsis.* The international financial crisis dramatically affected Spain and its banking industry. The high exposure of Spanish credit institutions to real estate led to a severe tightening in the credit conditions in capital markets. In the case of savings banks, these circumstances served to reveal a business model characterised by a remarkable lack of ethical responsibility, which eventually could result in the disappearance of the whole industry. Spanish savings banks were compelled

to convert into banking foundations that hold a significant stake in commercial banks created to segregate their financial activity. Therefore, the government might be ordering, by law,<sup>8</sup> the suppression of the thick layer of Supplementary CSR that was surrounding Core CSR. This may demonstrate that the described disconnection between financial and social activities of savings banks was identified as a key problem for the industry.

Panel C of Figure 2 illustrates the new stage of former savings banks, now turned into banking foundations. Resultant entities will need to redefine the location of ethical responsibilities within their decision-making processes.

The example of the Spanish savings banks show the consequences of an extreme case of Illusion of CSR that took place during their last period of activity, when an immense amount of economic resources was earmarked for philanthropic activities, whilst they caused evident damage to their primary stakeholders (clients –both individuals and companies–, employees and the Spanish society as a whole). This situation is next explained in detail by separately analysing the effects over the different categories of stakeholders.

## **Clients**

This is the segment where savings banks had a major social impact and, therefore, where their reputational risk was mainly concentrated. Our analysis differentiates between individuals and companies, which is the first classification that banking industry uses for their clientele. There was a clearly negative impact on individual clients:

- a) On the liabilities side of the balance sheet, questionable banking practices were detected in the placement of highly complex investment products, such as preferred stocks and subordinated debt, to retail savers with a conservative savings profile. According to a Spanish Securities Exchange Commission (CNMV) report elaborated in 2011,<sup>9</sup> the worst practices in such operations, in terms of lack of transparency, were associated with several major savings banks which fostered transactions between retail savers for a price well above the fair value of these instruments.

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<sup>8</sup> Royal Decree-law 11/2010, on the governing bodies and other legal aspects of savings banks, and Law 26/2013, on savings banks and banking foundations.

<sup>9</sup> Report on the Review of Transactions Married Between Clients of Hybrid Products. Supervision Department ESI-ECA (CNMV), September 26<sup>th</sup>, 2011.

- b) On the assets side, the main issue is associated with the mortgage credit management. During the financial crisis the Spanish unemployment rate rose up to 26% and this led to a considerable part of the population defaulting on their mortgage credit obligations. According to the Platform of People Affected by Mortgages (PAH),<sup>10</sup> during the period 2007-2012 nearly 400,000 foreclosing processes were initiated, in many cases associated with the eviction of families from their homes. This circumstance aggravates the mortgagors at risk of social exclusion situation and has resulted in a state of social alarm. The lack of social responsibility shown by Spanish credit institutions towards this social drama led Spanish government to launch several good banking practice initiatives<sup>11</sup> to protect mortgagors, with little success in practice.
- c) The third problem is related to financial inclusion, the original *raison d'être* of Spanish savings banks. According to the report '*The banking offices and the ongoing restructuring process*' published in 2012 by the consulting firm A.T. Kearney, the restructuring of savings banks focused on offices and hardly affected their headquarters. Offices closing mainly affected rural areas, thus hindering access to financial services to thousands of Spanish villages' residents. The report also notes that online banking expansion is still slow in Spain, where 80% of the retail banking operations is still performed in offices. That figure will presumably increase in rural areas, where the penetration of new technologies is far below than in large cities.

Regarding corporate banking, the financial crisis shows that the economic and social health of a country is threatened when the banking industry does not meet the credit needs of the market. Therefore, a basic indicator of CSP for credit institutions relies in this issue (Simpson and Kohers, 2002). Although the credit crunch has seriously affected all Spanish companies, we will focus on small and medium enterprises (SMEs), since they represent 99% of Spanish businesses and have a great dependence on bank lending. Recent studies by the European Central

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<sup>10</sup> 2007-2012: Retrospective on Evictions and Foreclosures in Spain, Official Statistics and Indicators. Ada Colau & Adrià Alemany. Platform of People Affected by Mortgages (PAH).

<sup>11</sup> Among the different initiatives we can highlight the Code of Good Practice approved by the Spanish government, which includes the Royal Decree-Law 6/2012 on urgent measures to protect mortgage borrowers, as published in the Official State Bulletin on March 10, 2012. These norms provide for the voluntary adhesion of financial institutions to the Code with the goal of easing the economic and social circumstances of families below the poverty line.

Bank (ECB)<sup>12</sup> and BBVA Research,<sup>13</sup> showed that Spanish SMEs find greater difficulties in accessing bank financing than their counterparts in the Eurozone, and also than Spanish large corporations. The tightening of financial conditions that Spanish banks impose on SMEs damages their competitiveness and can put their survival at risk. This situation contrasts with the massive injections of liquidity of ECB in the Spanish banking industry, whose net loans owed to ECB reached 375,000 million euros in the summer of 2012. A figure that represented nearly 80% of the total ECB funding to the Eurozone banking industry, a record since these series are published.

## **Employees**

Employees are a key stakeholder for any business and especially in industries that are intensive in human capital, such as the banking industry. At a time of deep economic crisis, with a high unemployment rate, the main concern of workers is keeping their job. The leader employment website *InfoJobs* published a study on job prospects in the Spanish banking industry in August 2012. It revealed that on average 58% of respondents feared for their employment status, and this figure rose to 73.8% in the case of savings banks employees.

According to the Statistical Bulletin of the Bank of Spain, the number of savings banks employees increased almost by 50% in the decade prior to the financial crisis to reach 135,000 employees. Throughout the financial crisis, this industry destroyed 15% of its employment. Although Bank of Spain statistics do not provide disaggregated data for the different types of entities since 2010, most of the Redundancy Dismissal Procedures in the Spanish banking industry are linked to savings banks.

## **Society**

Society is a broad and heterogeneous concept, what makes it risky to be considered a stakeholder as a whole. Notwithstanding this limitation, this is not the case of Spanish savings banks, whose impact on Spanish society is easily observable. According to a press release issued by the Bank of Spain in September 2013, State aid for banks recapitalization reached 61,000 million euros

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<sup>12</sup> Survey on the Access to Finance of Small and Medium-Sized Enterprises in the Euro Area. European Central Bank – Eurosystem. February 2010 - November 2012.

<sup>13</sup> Financing of SMEs in Spain. Santiago Fernández de Lis. BBVA Head of Financial Systems and Regulation. February 2012.

since 2009 considering only direct aids to entities, and 96,000 million euros if we add contingent guarantees. At a time of severe budgetary constraints, this State aid for banks was at the expense of other State budget items covering important social needs, such as health, education and social welfare services.

Moreover, Spanish savings banks executives were associated with numerous scandals that revealed a considerable lack of ethical, even when not legal, responsibilities in the corporate governance of these entities. Disproportionate retributions, retirement pensions and dismissal compensations for executives (even in the cases of savings banks that needed State aid); manipulation of financial information (Bankia auditors found a 3,500 million euros funding gap in their balance sheet); and conspicuously politicized governing bodies, amongst other issues,<sup>14</sup> led Spanish society to indignation. In June 2012, Spanish banking institutions appeared among the main concerns of Spaniards, according to the barometer of the Spanish Centre for Sociological Research (CIS).

### **The contrast with philanthropic activity (Welfare Projects)**

While the above circumstances occurred, representing a serious damage to the savings banks stakeholders, these institutions were spending billions of euros in welfare projects that had nothing to do with their financial activity. Between 2007 and 2011 (the last year in which CECA published information), Spanish savings banks earmarked 8,246.4 million euros for Welfare Projects, distributed as shown in Table 3.

*Insert Table 3 here*

Table 3 shows Cultural & Heritage expenditure, representing 38% of the Welfare Projects, decreases more quickly than the other items since in 2008 savings banks were compelled to increase their solvency ratio. This fact reinforces the aforementioned hypothesis about the low commitment of this type of expense for savings banks.

*Insert Table 4 here*

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<sup>14</sup> Tremlett, G. (2012), "Spain's savings banks' culture of greed, cronyism and political meddling", *The Guardian* (E-edition), 8 June, <<http://www.theguardian.com/world/2012/jun/08/spain-savings-banks-corruption>>. Accessed October 2015.

Table 4 summarizes the evidence on our construct Illusion of CSR of Spanish savings banks through the quantification of the main figures around Core and Supplementary CSR between 2007 and 2011. The assessment of ethical responsibilities shows a remarkable negative impact of their financial activity on all their primary stakeholders, while they spent more than 8 billion euros in core business-unrelated philanthropic activities.

Bearing in mind that the financial performance of savings banks during this last stage was so poor that the whole sector had to be restructured, if the relationship between CSP and financial performance had been analysed using measures of CSP based on Supplementary CSR, the conclusion would have been that the relationship between these two variables is clearly negative. However, the use of proxies based on Core CSR would have driven to conclude that the relationship is positive. This apparent contradiction is one of the points that we try to clarify through our discussion about the Illusion of CSR.

## **5. Discussion and conclusions**

This study develops the theoretical framework of CSR and provides conceptual considerations to improve the measurement of CSP. The example of Spanish savings banks empirically illustrates the complexity of the concept of CSR, which includes different dimensions and relationships. We focus on the relationship between ethical and philanthropic responsibilities, and especially we highlight the paradox that may result when these responsibilities grow disconnected from the core business of the firm, leading to a false appearance of social responsibility. This paradox is what we call the Illusion of CSR, which obfuscates the concept of CSR potentially having a negative impact on both academic research and business practice. Our reflection connects the conceptual debate around ‘Strategic CSR’ with the theoretical framework designed by Carroll’s (1991) *Pyramid of CSR* and emphasizes the importance of a meticulous examination of the CSP construct before studying its relationship with financial performance. This prior step requires a careful assessment of ethical responsibilities, this is, the impact of core business on key stakeholders. This way, we propose that if ethical considerations are detected to be present in the main decision-making processes, they will have a positive impact on the business environment. On the contrary, the lack of ethics in decision-making processes, or the opportunistic use of it, will lead to a negative impact. CSR diagnosis is then completed with the analysis of



philanthropic responsibilities, which can supplement and propel social performance related to the core business or mask the lack of ethics through the Illusion of CSR.

This study has implications for the literature on the conceptual and theoretical framework of CSR and the research on the link between CSP and financial performance. We highlight the importance of seeking comprehensive measures that cannot be misleading because of the relationships between the components of CSR. Otherwise, CSP evaluation can be affected by the Illusion of CSR, which may result in invalid conclusions on the aforementioned relationship. This risk mainly affects those studies whose CSP measure is based on charity or philanthropic activities, since most of the times they are disconnected from core business. These activities enjoy a great visibility and in some cases, such as Spanish savings banks, they become a thick screen than can be used to hide serious deficiencies in other key aspects of CSP.

We find two implications for management. First, we identify and explain a misleading type of CSR which can be deliberately or unconsciously implemented by companies. This type of CSR may result in a potential damage for the business, since it eclipses, even for the managers themselves, some conflicts with primary stakeholders that can endanger the survival of the company, as we have seen through the example of Spanish savings banks. Second, we provide managers with a diagnostic tool that will allow them to determine whether their CSR policies are affected by the Illusion of CSR. Also, the explanation of this paradox makes the understanding of CSR easier, so stakeholders can make informed decisions. This should reduce the scepticism that sometimes surrounds the field of CSR (Garriga and Melé, 2004; Lim and Tsutsui, 2012).

The study is not without limitations. Accordingly, we acknowledge a number of limitations. First, the empirical example is used to illustrate the application of the theory, and not to provide a comprehensive case study of Spanish savings banks. Second, because the emphasis is on the theoretical development, we caution the reader that the interpretations drawn from the interviews and the archival materials are based on specific sources of data available. Understanding fully the causes and consequences of the demise of the Spanish saving banks is an issue of significant interest that may be tackled from other theoretical perspectives. Indeed, we believe that the application of other theoretical approaches to the examination of Spanish savings banks could bring important additional insights into our collective understanding of such a complex, large-scale set of events.

Future research in this area could focus on the analysis of the financial impact of Core CSR-based policies versus Supplementary CSR-based policies, as well as the study of the perceptions that key stakeholders have of both types of CSR. The diffusion of CSR requires eliminating paradoxes that lead to a high degree of scepticism (Porter and Kramer, 2002; Owen and Swift, 2001). Our identification and analysis of the Illusion of CSR helps to move the scepticism from CSR in general to the specific practice of those companies which CSR policies lack consistency indicating potentially opportunistic behaviour. In a society with unprecedented and powerful communication tools, such as social media, we aim to contribute to creating a clear CSR theoretical framework that increases CSR knowledge and enhances its demand. Social content information is widely spread on the Internet and social media allow an utterly participatory communication with a great impact on businesses (Kaplan and Haenlein, 2010).

## Appendix 1 – Sources of information consulted in the empirical illustration

### A. Documentation

#### A.1. Legislation

- Law of 14 March 1933 relating to Savings Banks.
- Royal Decree 2290/1977, 27 August 1977, on regulation of government bodies and functions of Saving Banks.
- Royal Decree-law 11/2010, on the governing bodies and other legal aspects of savings banks
- Code of Good Practice approved by the Spanish government, which includes the Royal Decree-Law 6/2012 on urgent measures to protect mortgage borrowers, as published in the Official State Bulletin on March 10, 2012.
- Law 26/2013, on savings banks and banking foundations.

#### A.2. Official bodies' reports

- Report on the Review of Transactions Married Between Clients of Hybrid Products. Supervision Department ESI-ECA (CNMV), September 26th, 2011.
- Survey on the Access to Finance of Small and Medium-Sized Enterprises in the Euro Area. European Central Bank – Eurosystem. February 2010 - November 2012.
- Press release issued by the Bank of Spain in September 2013.
- Bank of Spain website: <<http://www.bde.es/clientebanca/entidades/pueden/bancos.htm>>. Accessed October 2015.

#### A.3. Private entities' reports

- *2007-2012: Retrospective on Evictions and Foreclosures in Spain, Official Statistics and Indicators*. Authors: Ada Colau & Adrià Alemany. Platform of People Affected by Mortgages (PAH). Published in 2013.
- *Financing of SMEs in Spain*. Author: Santiago Fernández de Lis. BBVA Head of Financial Systems and Regulation. February 2012.
- *The banking offices and the ongoing restructuring process*. Author: A.T. Kearny (Global Management Consulting Firm) Spain. Published in 2012.
- *Study on job prospects in the Spanish banking industry*. Author: InfoJobs (leader employment website). Published in August 2012.

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#### A.5. Newspapers

- Tremlett, G. (2012), “Spain's savings banks’ culture of greed, cronyism and political meddling”, *The Guardian (E-edition)*, 8 June, <http://www.theguardian.com/world/2012/jun/08/spain-savings-banks-corruption>. Accessed October 2015.

#### B. Archival records

- Statistical Bulletins of the Bank of Spain, September to December 2007.
- Spanish Confederation of Savings Banks (CECA) annual CSR reports, 2007-2011.
- Barometer of the Spanish Centre for Sociological Research (CIS), June 2012.

## Appendix 2 – Interviews details

Interviews were conducted in four confidential sessions and collected the information by taking notes. Additional data on the interviews are detailed below:

<b>Key Stakeholder</b>	<b>Representative</b>	<b>Interviewees</b>	<b>Information</b>
<b>Clients</b>	<i>Association of banking services users</i>	Communications Manager and Secretary General	Date: December 2013 Mode: Face-to-face Duration: 2 hours
<b>Employees</b>	<i>Banking wings of two trade unions</i>	Union 1. Two members of the board of management	Date: December 2013 Mode: Face-to-face Duration: 90 min
		Union 2. A member of the board of management	Date: January 2013 Mode: Face-to-face Duration: 90 min
<b>Society</b>	<i>NGO focused on economics, finance, CSR and sustainability</i>	Coordinator of CSR and SRI (Socially Responsible Investing)	Date: January 2014 Mode: Telephone Duration: 1 hour

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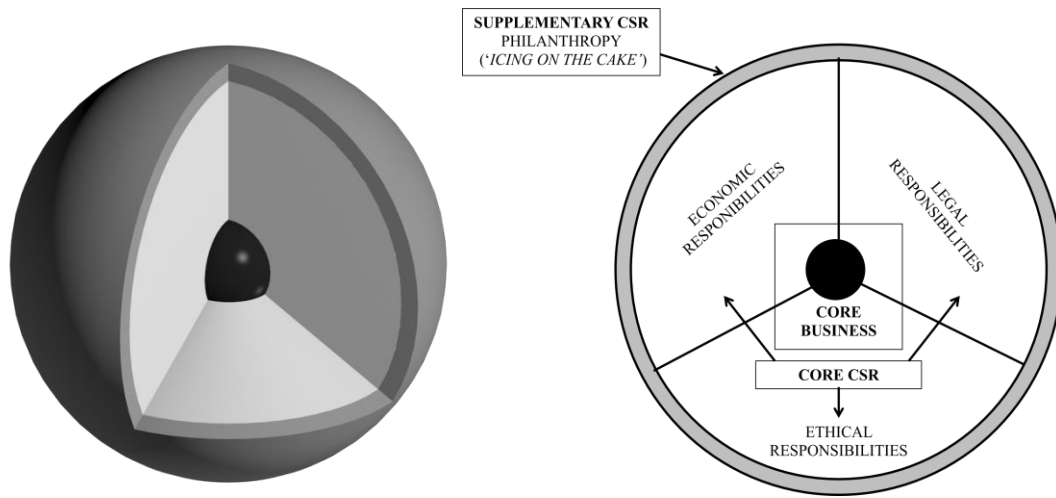


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## Figure 1. Cross-sectional representation of CSR

*Panel A. CSR sphere and cross-sectional cut explanation.*



*Panel B. Excellence in CSR (Type 2) Vs. The Illusion of CSR (Type 3)*

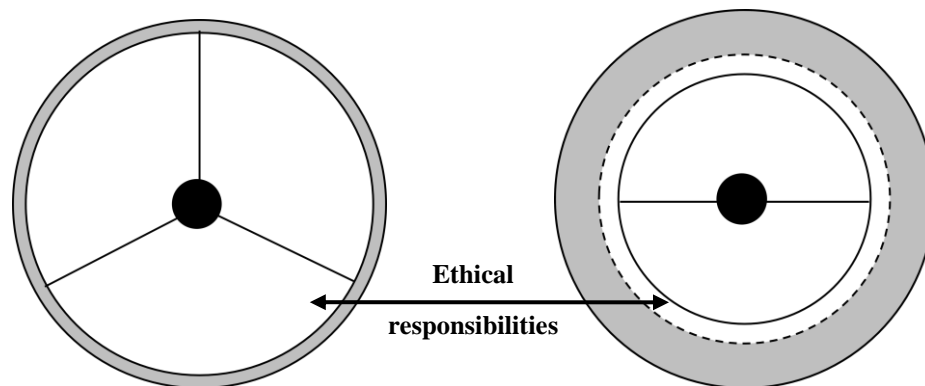
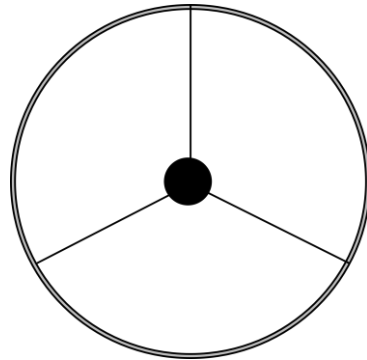


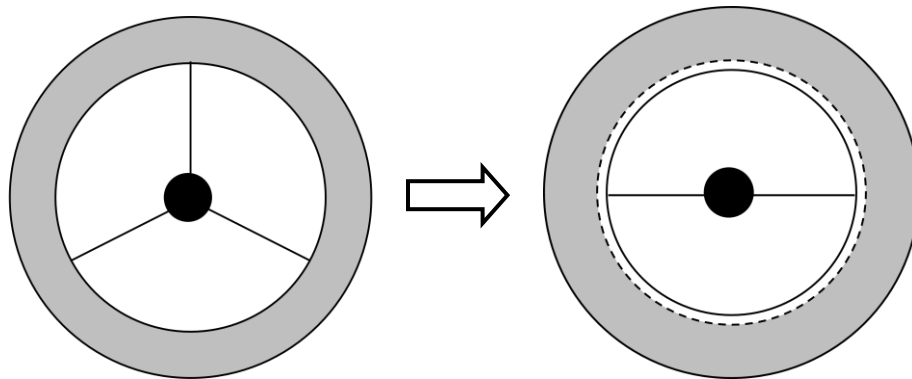
Figure 1 provides an illustration of our CSR theoretical and conceptual framework. CSR is viewed as a sphere, with the core business at the centre, and economic, legal and ethical responsibilities (core business-related philanthropy included) constituting the 'Core CSR' activities. The final layer on the sphere (what Carroll (1991) denotes 'the icing on the cake') are core business-unrelated philanthropic activities. Panel A of Figure 1 shows the optimal CSR cross-sectional cut of the SCR sphere, with all Core CSR activities in touch with the core business. This optimal, Core CSR (Type 2) is the initial cross-sectional cut shown in Panel B, where we also show the difference with the Illusion of CSR, where a thick layer of Supplementary CSR covers the CSR sphere, and the ethical responsibilities are not in touch with the core of the business, but represent in themselves a layer that is disconnected from the core.

## Figure 2. Historical evolution of CSR in Spanish savings banks

*Panel A. The origin of Spanish savings banks (1835-1933). A century of CSR Type 1*



*Panel B. Welfare Projects consolidation (1977-2007). From CSR Type 2 to CSR Type 3*



*Panel C. The end of Spanish savings banks (2007-2012). CSR Type 3 and a mandatory catharsis*

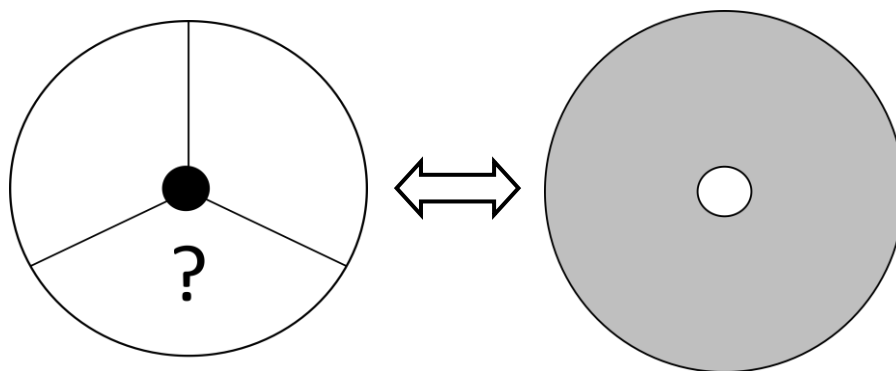


Figure 2 provides an illustration of our CSR theoretical and conceptual framework using the case of Spanish Saving Banks. Panel A shows the initial stage, Panel B, the optimal CSR and its de-evolution into a CSR Type 3 case. The final Panel C shows the potential new situations after the collapse of the savings bank industry, which has disappeared by 2013 after two centuries of success.

**Table 1. Types of CSR depending on the levels of core business-unrelated philanthropy and ethical engagement**

	<b>High</b> Core business- <i>unrelated</i> philanthropic activity	<b>Low</b> Core business- <i>unrelated</i> philanthropic activity
<b>Ethical</b> considerations within business strategy	Type 2 <i>Excellence</i>	Type 1 <i>Opportunity</i>
<b>No ethical</b> considerations within business strategy	Type 3 <i>Illusion</i>	Type 4 <i>Absence</i>

Table 1 shows our CSR diagnosis procedure based on our theoretical framework. The key elements to consider are, as noted above, ethical and philanthropic responsibilities. The first assessment depends on the location of ethical responsibilities in business strategy, linked or not to the main decision-making processes. The second step of the diagnosis requires the analysis of the core business-unrelated philanthropic activity, i.e., of Supplementary CSR (recall that core business-related philanthropy is part of Core CSR). The combination of ethical and core business-unrelated philanthropy gives rise to four possible diagnosis of CSR activity, as presented in Table 1. If ethical considerations and primary stakeholders' interests are present within the company's strategy, the firm is in a stage of excellent (Type 2) CSP or faced with the opportunity (Type 1) to improve CSR policies through supplementary philanthropy. On the other hand, depending on the core business-unrelated philanthropic activity level, if no ethical considerations are consistently detected in the main decision-making processes, the result would be absence of core CSR (Type 4) or, the potentially worst outcome in our diagnosis: an Illusion of CSR (Type 3).

**Table 2. Spanish savings banks' CSR: Keywords repetition within CECA annual CSR reports (2007-2011)**

Supplementary CSR	Core CSR			
	Clients		Employees	Society
	Individuals	Companies		
Welfare Projects: a. Culture & Heritage: <i>concert</i> (44), <i>sports</i> (41), <i>museum</i> (68) b. Social works & Health: <i>hospital</i> (59), <i>nursing home</i> (55) c. Education & Research: <i>school</i> (14), <i>university</i> (41) d. Environment: <i>nature</i> (25)	<i>preferred stocks</i> (0), <i>subordinated</i> <i>debt</i> (0), <i>claims</i> (0)  <i>eviction</i> (1), <i>foreclosures</i> (0)  <i>financial exclusion</i> (8), <i>microcredits</i> (19)	<i>credit</i> (13), <i>SMEs</i> (8)	<i>employees</i> (25), <i>redundancy</i> (0)	<i>bail out</i> (0)   <i>bonus</i> (0), <i>remuneration</i> (0), <i>political parties</i> (0), <i>scandal</i> (0)

Table 2 shows the positive bias of the information within CECA CSR reports during the last stage (2007-2011) of our historical analysis in terms of keywords repetition. The content of the reports focuses on four social areas: (1) Culture and heritage, (2) Social works and health, (3) Education and research and (4) Environment. Following this structure, we search for keywords related to each one of the areas. In particular, using inductive reasoning, we look for the most common keywords associated with these welfare projects developed by savings banks and that represent Supplementary CSR or Core CSR included in the CECA reports. The output of this coding is presented in Table 2 where we show the keywords related to each of the social areas and the number of repetitions between brackets by each one of the stakeholders (employees, companies, individuals and society). The conclusion is that Supplementary CSR keywords - which are associated with positive information about social, cultural and environmental projects - are emphasized, while Core CSR keywords, in this case related to controversial events that had a deep impact on Spanish society, are minimized or even disregarded. The key figures of the complete picture are summarized in Table 4 which we explain in the context of the case study presented in detail in the next section of the paper.

**Table 3. Expenditure in Welfare Projects in the period 2007-2011 by areas (millions euros)**

Year	Culture & Heritage	Social works & Health	Education & Research	Environment
2007	745.7	680.9	297.4	100.3
2008	838.4	781.4	326.8	112.3
2009	653.0	725.7	307.2	90.0
2010	492.5	666.8	234.7	68.4
2011	386.7	489.3	189.5	59.4
<b>Total</b>	3,116.3	3,344.1	1,355.6	430.4
<b>Average</b>	38%	41%	16%	5%

Table 3 provides evidence on the distribution of the welfare projects by areas. Data is only available in detail for the period 2007-2011. By 2012, the savings banks industry was in the process of being dismantled and no further information is available.

**Table 4. Core and Supplementary CSR of Spanish savings banks: key figures 2007-2011**

Supplementary CSR	Core CSR			
	Clients		Employees	Society
	Individuals	Companies		
Welfare Projects (Total): € 8,246.4M	€ 29,250M in preferred stocks and subordinated debt	(*) Credit restriction. 250,000 (25%) million euros fall in credit facilities to productive activities	Employment destruction: 20,000 employees less	Direct bailout: € 61,000M; Contingent bailout: € 35,000M
a. Culture & Heritage: € 3,116.3M				
b. Social works & Health: € 3,344.1M	(*) 400,000 foreclosures			(**) Millions in bonuses and retirement pension for negligent directors, politicized management, fraud, accounting scandals, etc.
c. Education & Research: € 1,355.6M	60,000 more people under risk of financial exclusion amongst rural population			
d. Environment: € 312,6M				

(\*) Figures related to the whole banking industry. Savings banks had dominant market shares; (\*\*) Difficult to quantify.

Table 4 summarizes the evidence on our construct ‘Illusion of CSR’ of Spanish savings banks through the quantification of the main figures around Core and Supplementary CSR between 2007 and 2011. The assessment of ethical responsibilities shows a remarkable negative impact of their financial activity on all their primary stakeholders, while they spent more than 8 billion euros in core business-unrelated philanthropic activities.