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“Company Stakeholder Responsibility within Nonprofit-
Organisations: intra-organisational behaviour as a value driver
in the market”

Author:

Christoph Hacker

Directores:

Prof. Dra. Dña. Pilar Flores

Prof. Dr. Malcolm Schauf

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Prof. Dra. Dña. Pilar Flores

Prof. Dr. Malcolm Schauf

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To Corinna - she knows why.

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Quis custodiet ipsos custodes?

Juvenal (Satire VI, lines 347–348)

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ACRONYMS AND ABBREVIATIONS

| | |
|------------------|--|
| AO | Abgabenordnung |
| AVE | Average Variance Extracted |
| BGB | Bürgerliches Gesetz Buch |
| CFA | Confirmatory Factor Analysis |
| CFP | Corporate Financial Performance |
| CN | Combined Nomenclature |
| CorA | Corporate Accountability network |
| CPA | Central Product Classification |
| CPC | Central Product Classification |
| CR | Composite Reliability |
| CSO | Civil Society Organisations |
| CSP | Corporate Social Performance |
| CSR | Corporate Social Responsibility |
| CSR ₂ | Corporate Social Responsiveness |
| CSR ₃ | Company Stakeholder Responsibility |
| DIN | Deutsche Industrie Norm |
| DZI | Deutsches Zentrum für soziale Fragen |
| EC | European Commission |
| ECCJ | European Coalition for Corporate Justice |
| EFQM | European Foundation for Quality Management |
| EStG | Einkommenssteuergesetz |
| EU | European Union |
| FPO | For-Profit-Organisation |
| GDP | Gross Domestic Product |
| GDR | German Democratic Republic |
| GIZ | Gesellschaft für Internationale Zusammenarbeit |
| GRI | Global Reporting Initiative |
| HGB | Handelsgesetzbuch |
| HS | Harmonised System |

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| IAS | International Accounting Standard |
| ICNPO | International Classification of Nonprofit Organisations |
| IDW | Institut der Wirtschaftsprüfer German Institute of Public Auditors |
| i.e. | id est (latin) – that is to say |
| ILO | International Labour Organisation |
| ISIC | International Standard Industrial Classification of all Economic Activities |
| ISO | International Standard Organization |
| NACE | Nomenclature of Economic Activities |
| NGO(s) | Non-Governmental-Organisation(s) |
| NPO(s) | Non-Profit-Organisation(s), nonprofit organisation(s) |
| NRO | Nicht-Regierungs-Organisation(en) |
| OECD | Organisation for Economic Co-Operation and Development |
| OEEC | Organisation for European Economic Co-Operation |
| QuaNGO | Quasi-autonomous non-governmental organisation |
| R&D | Research and Development |
| SA | Social Accountability |
| SAI | Social Accountability International |
| SNA | System of National Accounting |
| SOR | Stimulus-Organism-Response |
| SRMR | Standardized Root Mean Square |
| TQM | Total Quality Management |
| UN | United Nation |
| UNGC | United Nation Global Compact Management Model |
| UNGP | United Nation Guiding Principle |
| US | United States |
| UWG | Gesetz gegen den unlauteren Wettbewerb German unfair competition act |
| VIF | Variance Inflation Factor |
| WBCSD | World Business Council for Sustainable Development |
| α | Cronbach's Alpha |

1 INTRODUCTION

1.1 PROBLEM STATEMENT

When talk is of nonprofit organisations (NPOs) in Germany, only a few people link this overall term to the German 'Verein', which could be home associations, sport associations, voluntary fire brigades, voluntary rescue and disaster protection organisations, political parties, private universities, economic associations, human aid organisations, and many others (Jütting *et al.*, 2003, pp. 12–13).

The field of research on economic requirements of NPOs is relatively new compared to the field of research on classical economics. Hence, the findings of similar problem statements of classical economics are often applied to their business requirements disregarding specific characteristics of NPOs.

As mentioned above, the group of NPOs is versatile and provides social and cultural services as a result of their mission-based activities. The same can be said for their field of operation, since NPOs operate locally, on a state level, across Germany, across Europe and outside Europe. However, NPOs are deeply rooted in society, enjoy trust, and have a good image through their work. Their self-image is one of moral institutions and passionate champions of their good cause. Therefore, they put themselves into the role of advocacy organisations to observe both the government and market entities. Also, NPOs work closely with business entities and the government to give guidance in terms of social issues. NPOs receive donations, gifts in kinds, and also voluntary support from these groups to keep their operations going. In fact, on average 73% (see Chapter 2.2.5.1) of their operational income is based on membership fees, sponsorships, and public grants. Contrary to economic entities, NPOs generate not only value through but also for their stakeholders, which is not only based on tangibles but also on intangibles assets like improvement of reputation, involvement in the society or gaining benefit by the services. The latter points to a requirement of a sufficient stakeholder management to meet the multiple stakeholders' objectives. Hence, NPOs accept the

role as an agent in a principal-agent relationship, even though NPOs have different stakeholder groups to satisfy.

Like described later in chapter 2.1.2.2, NPOs are formal structured organisations which aim to provide something meaningful to the public. In this dissertation a certain expectation of behaviour between society as the principal and NPOs as their agents will be discussed. As mentioned above, this implies that NPOs behave legally, ethically, and in an economically responsible way to meet the demands of all stakeholders. This then connects to Corporate Social Responsibility (CSR) as the formalised concept of good behaviour.

The CSR concept commonly addresses market entities with certain requirements with respect to social involvement. This concept is to understand, as a set of recommendations, how to behave as a good citizen, to enhance sustainability, and to improve stakeholder management. CSR deals with relevant concerns of organisations, such as transparency, communication with stakeholders, asset management and working conditions, and it aims to make the world a better place to be.

As mentioned above, NPOs are essentially expected by its stakeholders to apply relevant social behaviour and to develop it even further. However, as the proverb goes: 'where there is light, there is also shadow'. In this manner, one may wonder whether NPOs behave in a socially responsible way even where there is a lack of public perception of their actions. This, for instance, is given within an organisation.

In particular, there have been no investigations into how social, ethical and legal behavior within an organization affects the outward perception. To explore this guiding question, it is also mandatory to understand whether stakeholders consider social, legal, and ethical behaviour in intraorganisational concerns to be important and honourable. And if so, the question may arise of whether CSR within an NPO is perceived as being either a value-generating or a value-destroying activity.

This dissertation discusses the above-mentioned issues. It aims to achieve knowledge on the necessity of providing CSR within non-profit organisations from the perspective of their stakeholders. Furthermore, the focus lies on an exploration of causality of value creation through a CSR adapted to the needs of an organisation. Will the fulfilment of economical demands, ethical requirements, and legal entitlements within an NPO be sufficient as a value driver? Therefore, the dissertation has been based on the following research question: 'Shall Nonprofit-Organisations recognize intra-organisational behaviour as a value driver?'

The research contains a theoretical and an empirical part. The aim of the theoretical part is to provide an overview of the existing body of knowledge on NPOs and CSR. It shows different gaps mainly based on the fact that CSR so far focusses on corporate rather than companies in total including all kinds of organisations and firms.

To fill some of these gaps the following three issues have been tackled in the course of this dissertation:

- Explore, if qualitative criteria of the CSR concept meet the overall and specific formal objectives and operational goals of NPOs
- Examine, if CSR meets the requirements of value creation and value destruction
- Analyze, if a specific behaviour of an NPO within its own organisation has an influence on the perception of its stakeholders

The empirical part evaluates the causality relating the terms of good conduct and misbehaviour of an NPO to the response of the society as the major stakeholder group. To study this topic, five hypothesis will be carried out:

- Verification of the society's opinion on the equivalence of social, legal, and ethical behaviour within and outward the organisation: 'Society expects the equal treatment of CSR topics in the inner and outer world of the organisation'.
- Exploring the society's understanding of business requirements of nonprofits: 'The more seldom an individual donates, the higher is his expectation of the use of funds for mission based activities.'

- Examine the society's willingness to participate based on expectations: 'The higher the fulfilment of society's expectation in terms of internal CSR, the greater the willingness of participation'.
- Understanding the dependency between the will of participation and the actual participation activities of a donor: 'The higher the will to participate, the higher the actual participation when CSR within NPOs is actually carried out'.
- Proving if there is not only support but also sanction in case of misconduct: 'The higher the willingness to participate because of CSR activities within NPOs, the higher the willingness to sanction negative behaviour'.

1.2 COURSE OF THE DISSERTATION

This dissertation discusses relevant details necessary to explore knowledge along the aspect of CSR within NPOs as a value driver.

In Chapter 2, the body of knowledge on nonprofit organisations will be discussed. This depends on the sectoral concept where entities of the government, privately owned companies, and nonprofit organisations cooperate with each other. Moreover, an introduction to the principal-agent problem leads to the requirements of nonprofit organisations' stakeholder groups, especially of the group of employees and managers. Also, an overview of nonprofits' strategic objectives and specific requirements of nonprofits as economic entities will be given. This section summarises the relevant information on NPOs in terms of business operation and organisational success.

Chapter 3 presents the basics of CSR as Corporate Social Responsibility of classical economic theories and its relevance in terms of economics. The most prominent CSR concept and its predecessor theories will then be elaborated. This is followed by a brief overview of CSR in western society and legal requirements, which have to be regarded in this terms.

Chapter 4 gives an inside perspective of the above mentioned responsibility within NPOs. For this, a redefinition of the classical CSR term to Company Stakeholder Responsibility (CSR₃) with respect to the role of NPOs will follow. A general introduction to the value driver concept and value generating issues of

CSR₃ is then presented. This leads to the selection of sufficient CSR standards for nonprofit business.

Chapter 5 describes the empirical survey, beginning with the methodology that includes the basic assumptions of this dissertation, the design phase, the model development and definition of the overall conditions of the survey. This is followed by the formation of the hypothesis and operationalisation of the relevant set of variables. This chapter ends with a discussion of the survey results by validation and testing of the data set.

The results of the previous chapters will be summarised in chapter 6. This includes the findings on theoretical assumptions as well as findings from the survey. In the following chapter 7 conclusions based on the findings made will be drawn up. A statement on the limitations of the study will be summarised in chapter 8.

Chapter 9 focusses on the recommendation for further research and will give an outlook in terms of upcoming questions. Finally, chapter 10 gives a brief summary of the approach and the key findings with respect to the research object of the dissertation.

2 ESSENTIALS OF NPOS

2.1 NPOS AS PUBLICLY PLAYERS

2.1.1 Introduction of sectors

2.1.1.1 *The sectoral concept*

The sectoral concept as it is used in this study requires some explanations because the term may be misunderstood due to its different use in economics today. Hence, to facilitate a better understanding, this section will begin with a discussion of the term. What is imperative is that the term does not reflect a rating result, meaning that no rating of any kind is adapted to different groups. Neither should a peer group comparison be applied, nor any other kind of classification be made where sectoral groups receive a certain ranking.

The sector term does not reflect the use of three-sector theory of general economics (Pohl, 1970, pp. 313–315). This economic theory divides the supplier market into three successional sectors: the primary sector provides raw materials to the secondary sector, which processes these materials and delivers finished goods. The tertiary sector deals with the services applied to the enquiry market, i.e. trading with goods. The theory disregards the work of single business entities; it deals with sectors on a higher aggregated level. For this reason, the economic sector theory is regarded as being irrelevant.

To put it plainly, the sectoral concept that will be used in the context of this dissertation, splits market players and non-market players according to ownership. The sector-term comprises three groups where the first sector includes ownership by the government, the second sector includes privately owned organisations, and the third sector deals with society (Frantz and Martens, 2006, p. 19; Graf, 2002, pp. 111–114). A brief overview of this sectoral concept is shown in Figure 1 and details are given in the following sections.

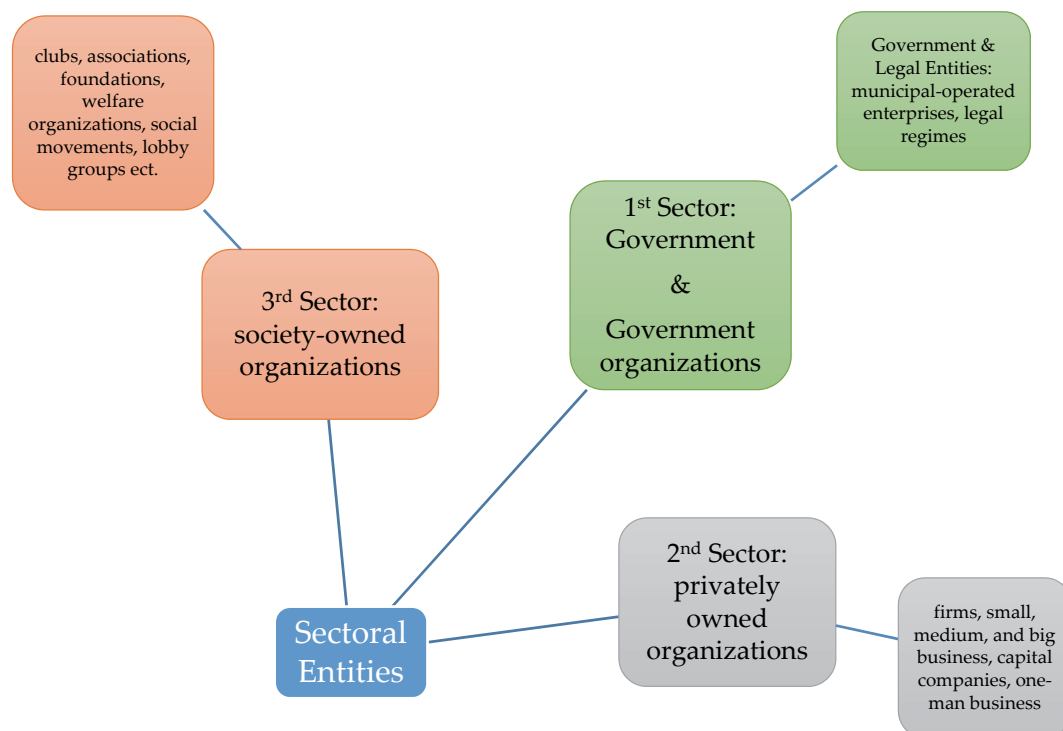


Figure 1: The sectoral concept: illustration (Amended from Frantz and Martens, 2006, p. 19)

Firstly, there is the public sector which comprises the government and its separate legal entities as well as municipal-operated enterprises. They operate for public interest by providing typical locally offered services like power and waste management, or community health. Some organisations offer their services nationwide, such as the toll collection system in Germany, while some operate between national states to fulfil national and international legal regimes. A common characteristic of operations run by the government is their nonprofit orientation, although it is not required to avoid profit. Frantz and Martens (2006, p. 18) suggests that formally constituted entities are so-called Governmental Organisations.

Secondly, there is the sector of privately owned organisations, commonly known and simply called the market (Frantz, 2005, p. 18). The term covers companies and firms with profit-orientation of all sizes and kinds. Such privately

owned firms offer a very wide range of goods and service to society. Their purpose, in turn, is to make profit and maintain the prosperity of their owners and shareholders respectively. This is why entities in this sector are also called for-profit organisations (FPO).

Finally, there is the sector of organisations that are neither publicly owned nor privately owned. Although these organisations offer a broad service range, they were not in the focus of the public concerning their market share and power until the early 1970s. Etzioni who invented the term of 3rd sector, first wondered 'what tools are best suited to serve our economic and social needs' (Etzioni, 1973, p. 314) in relation to service providing organisations in market. With respect to different political systems and during the cold war, he further asked which forces might fund the basis of economics. Furthermore he states that 'both profit making and administrative principles of organizations, productive, and distribution are widely used. This is not to suggest that the differences will disappear; the state enterprise will surely continue to play a major role in the Soviet Union in the foreseeable future; just as the profit motive will continue to dominate in the United States, but the two systems are becoming ever less pure, more mixed, and hence closer to a third type' (Etzioni, 1973, p. 314). Etzioni concluded, that 'while debate over how to serve our needs has focused on the public versus the private alternative, a third alternative, indeed sector, has grown between the state and market sector' (Etzioni, 1973, p. 315). As a result, nonprofit organisations moved into the spotlight of economic studies.

2.1.1.2 Sectoral classifications systems

The sectoral concept as introduced in the preceding section has a drawback regarding measurability in the sense of testability and classification. Despite several international accounting standard reports on relevant data, none of them apply a cluster according to suit the 3rd sector organisations' sectoral concept, as mentioned above. As a consequence, there are hardly any sufficient data available to compare the inter-sectoral groups' activities with respect to their contribution to the wealth and welfare of a nation. Moreover, due to absence of sufficient data sets, a comparison on an international level is almost impossible. Nevertheless, there are

some limited data available, hence, a brief overview on relevant statistical reporting in Europe will follow.

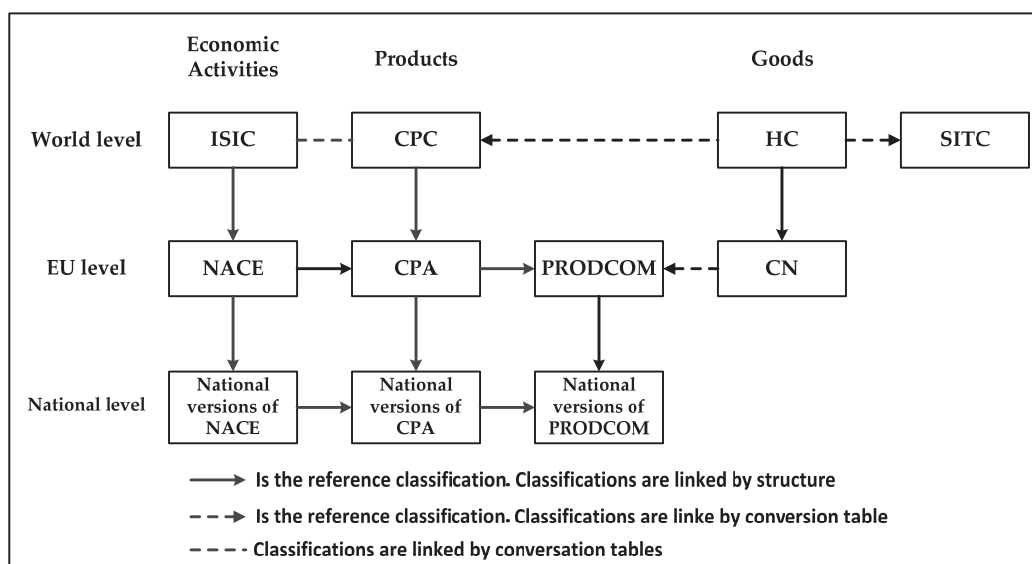


Figure 2: The international system of economic classifications (EUROSTAT, 2008a, p. 13)

Beginning with one-dimensional reporting standards the focus lies on the General Industrial Classification of Economic Activities - Nomenclature of Economic Activities (NACE) within the European Communities, which is in use throughout Europe. This standard 'is part of an integrated system of statistical classifications, developed mainly under the auspices of the United Nations Statistical Division.' (EUROSTAT, 2008a, p. 13). These standards are:

- ISIC International Standard Industrial Classification of all Economic Activities, United Nations
- NACE General Industrial Classification of Economic Activities within the European Communities / Nomenclature of Economic Activities
- CPC Central Product Classification, United Nations
- CPA European Classification of Products by Activity
- Prodcom is the classification of goods used for statistics on industrial production in the EU.

- HS Harmonised Commodity Description and Coding System, World Customs Organisation.
- CN Combined Nomenclature, European classification of goods used for foreign trade statistics.

The NACE concept derived from the United Nations (UN) system ISIC (see Figure 2) which has 'exactly the same items at the highest levels, where NACE is more detailed at lower levels' (EUROSTAT, 2008a, p. 14). The NACE comprises 12 different market sectors as shown with Table 1 but fails to support classification that may be used for a sufficient comparison of the three sectors. Due to the lack of relevant statistical data on the activities of NPOs, another classification system is required. There is a system in use by UN on a world-level. The International Classification of Nonprofit Organisations (ICNPO) was introduced by Salamon and Anheier in 1996 (1996b, p. 7) grouping 3rd sector activities. This standard suggests 12 distinctive features to respectively classify markets and non-market actives of 3rd sector entities. Both the NACE standard as well as ICNPO have a one-dimensional view towards business activities. These reporting standards disregard the dimension of ownership and therefore lack comparability between profit as well as nonprofit players in the same business sector.

With respect to the sectoral concept, a multidimensional reporting standard is needed to review the players' interaction and contribution to a nation's wealth and welfare. In addition, a comprehensive data pool as well as an international dimension is required to explore sectoral activities sufficiently.

The European Commission (EC) regulation 549/2013 intends to improve comparability between independent EU members: 'for the sake of comparability, such accounts should be drawn up on the basis of a single set of principles that are not open to differing interpretations' (EC, 2013, pp. L 174/1). To fulfil this regulation, the System of National Accounting (SNA) has been adopted to measure a nation's wealth and welfare. In contrast to NACE and ICNPO, the SNA establishes both ownership and economic activity as reporting dimensions. With the SNA, an almost suitable sectoral concept has been applied regarding the measurability of the government,

profit, and non-profit sectors. Unfortunately, the SNA faces serious restrictions regarding the stringent reporting on the three sector concept.

| NACE reporting sections (non-equivalent) | NACE ICNPO equivalent | | ICNPO reporting sections (non-equivalent) |
|--|---|---|---|
| <ul style="list-style-type: none"> - Mining and quarrying - Manufacturing - Electricity, gas, steam and air conditioning supply - Water supply; sewerage, waste management and remediation activities - Construction - Distributive trades - Transportation and storage services - Accommodation and food service activities - Information and communication services Repair of computers and personal and household goods | <ul style="list-style-type: none"> - Real estate activities | <ul style="list-style-type: none"> - development and housing, i.e. economic, social, and community development, employment, and training | <ul style="list-style-type: none"> - environment, including animal protection - law, advocacy, and politics, including legal services, and civic organisations |
| | <ul style="list-style-type: none"> - Professional, scientific and technical activities | <ul style="list-style-type: none"> - Education and research | <ul style="list-style-type: none"> - culture and recreation, including sports, recreation and social clubs - religion, including sub-organisations |
| | <ul style="list-style-type: none"> - Administrative and support service activities | <ul style="list-style-type: none"> - social services, including income support, maintenance, emergency, and relief - health, including nursing homes, mental health and other health services | <ul style="list-style-type: none"> - philanthropic intermediaries and voluntarism promotion - international, for instance development aid and human rights organisations - business and professional association, unions - not elsewhere classified |

Table 1: Field of sector activities according to NACE and ICNPO, comparison of equivalent activity sectors (Amended from Salamon and Anheier, 1996b, p. 7, and EUROSTAT, 2008b, p. 61)

In fact, the reporting on outsourced legal entities of both government and non-market organisations are mixed up with the market-oriented nonfinancial capital organisations in terms of their economic contribution (DESTATIS Statistisches Bundesamt, 2016a, pp. 3–4). This let the border between nonprofit organisations' meaningful objectives and shareholders orientation blur in a negative sense. All in all, even though SNA reports on two-dimensional data and provides extensive information, there is a lack of stringent financial presentation on the nonprofit sector. This is why the SNA is only conditionally suitable for a comparison of organisations' data.

Overall, there is no data set available that captures the complexities of the economic reality exactly. Hence, the use of statistics in this dissertation is solely an approximation of reality.

2.1.2 3rd sector organisations

2.1.2.1 General notes

In this chapter the focus lies on 3rd sector entities in general. These are not only assumed to be independent from the government and market organisations, but also to be an indispensable part in the servicing field of the wealth and welfare segment to the public. The last topic in particular has not been the case in the past. Frantz and Martens (2006, p. 53) claim that it is impossible to determine what the first nonprofit organisation established was, however, they assume that these organisations might have begun in the age of industrial revolution in the 19th century, where a great number of organisations came into being in Europe. This was a tremendous change because at that time, doing charitable work was church business and this was a key to saving the souls of the rich and the powerful.

Galaskiewicz et al. (2006, p. 339) point out that nowadays there are three main types of non-profit organisations in the sector; these are charitable organisations, social welfare organisations, and clubs. A 3rd sector organisation usually focuses on peoples' welfare. With this in mind, Drucker (1990, p. 112) claims that 'the non-profits are human-change agents [...] their results are therefore always a change in people - in their behaviour, in their circumstances, in their vision, in their health, in their hopes, above all, in their competence and capacity'. With respect to the fact that 'associations can be large or small; rich or poor; paragons of direct democracy or dominated by an unelected autocratic chair; their primary concern may be serving the "sectional" interests or needs of members or they may seek to "promote" or defend collective causes or alleviate the plight of others (via advocacy or service delivery); they may have good access to – or be dependent – on public money, or have to rely solely on multifaceted'. Furthermore, Maloney and Roßteutscher (2009a, p. 52) conclude that 'the associational beast is truly multifaceted'. Salamon and Anheiter (1996a, p. 9) mention that the non-profit organisation 'term is probably the most neutral since it emphasizes

the most basic defining feature of this set of organizations: the fact that they do not exist to generate profits for their owners or directors. However, this term is also rather negative, identifying this set of organizations in terms of what they are not, rather than in terms of what they are. What is more, in a culture that measures success in terms of profitability, it somehow suggests failure. Finally, it is not, strictly speaking, accurate since it falsely conveys the impression that these organisations cannot generate profits when in fact it is not the generation of profit but its distribution to owners or directors that is prohibited. A more precise rendering would therefore identify these organisations as not-for-profit rather than simply nonprofit'.

In the scope of this dissertation, the delimitation of third sector organisations from those of the first and second sector is relevant. The most prominent distinction of NPOs in relation to FPOs is the type of company. As it will be discussed in chapter 2.1.2.3, NPOs are established either in a typical form of organisation or in some specific cases as capital companies. However, due to a specific demand of shareholder orientation and profit distribution, a stock market business form is out of question. Additionally, with regard to the governmental sector, it is to mention that the difference is with the financing method. By this is meant that governmental organisations mostly acquire funds through governmental support, while 3rd sector entities receive just a little support by the government (see Chapter 2.2.5.1).

To understand the nature, what will be called the bottom line in Section 2.2.1.1, of 3rd sector organisations one need to know distinctions to first and second sector entities. To sum up in advance:

- Foundation of 3rd sector organisations is often the result of a market failure – a foundation is not for personal purpose (see Chapter 2.2.2.2)
- Objectives of 3rd sector organisations belong to mission-based activities and are stakeholder oriented; commonly these are different to those of for-profit organisations where shareholders' wealth is the focus (see Chapter 2.2.1.2)
- 3rd sector organisations focus on mission-based activities instead of distribution of profits – profit making is intended to achieve objective (see Chapter 2.1.2.2)
- 3rd sector organisations receive funds mainly through sponsorships, donations, donations in kind, and voluntary contributions – profits depend on good will of stakeholders (see Chapter 2.1.4.5 and Chapter 2.1.4.6)

- 3rd sector organisations may take various role against sectoral entities – they can be either stakeholders or a body to have a stake in (see Chapter 2.1.4.3 and 2.1.4.5)
- Staff members of 3rd sector organisations are mostly mission-based oriented (see Chapter 2.1.5)
- 3rd sector organisations are a public or social asset, the ownership is at the society - (see Chapter 4.1.3)

The following chapters will give a deeper inside to the self-image of 3rd sector organisations.

2.1.2.2 *Disambiguation of the term NPO*

In literature there are currently two different terms is use for nonprofit-distributing organisations: nongovernmental organisation (NGO) and nonprofit organisation (NPO). The latter is also known as nonprofit and not-for-profit. However, in some cases such organisations are called voluntary organisations, membership organisations, grassroots support organisations or pressure groups (Curbach, 2009, p. 36). In German literature Nichtregierungs-Organisation (NRO) is taken as a synonym for NGO. In addition, it is notable that, according to Schwarz (2001, p. 17), the term NPO is used by economists while the term NGO is in use in economics.

To start with, Lang (2013, p. 13) underlines the role of ‘an NGO as a voluntary not-for-profit organization that is bound legally to be nonpolitical but can engage in noninstitutional politics, that generates normative claims about a common good, and that acts on these claims as a public expert in variously scaled civic spaces’.

The United Nation (UN) applies different characteristics to identify NGOs as respective consultancy organisations. This implies that NGOs are ‘not established by inter-governmental agreements’, as announced through the United Nation Resolution 288 (X) 27 February 1950 (Curbach, 2009, p. 37). The most recent UN definition for respective consultancy organisations comprises several requirements. For instance, an NGO needs to be ‘concerned with matters falling within the competence of the Economic and Social Council’ (UN, 1996, I - 1). Moreover, such organisations ‘shall

have an established headquarter' and 'a democratically adopted constitution' (UN, 1996, I - 10). A public disclosure of received resources is requested to identify donors and their influence at the organisation (UN, 1996, pp. I - 13). However, Frantz and Martens (2006, p. 44) identify quasi-autonomous non-governmental organisations (QuaNGO). This type of organisation is assumed to act quasi-autonomously from government even though financial resources are given by public sector bodies. It is to mention that no claim is made by the UN that NGOs have to have a nonprofit-distributive orientation.

The European Commission (2017a) sees NGOs as a part of the group of Non-State Actors, which also includes Civil Society Organisations (CSOs). The CSO term includes 'all non-State, not-for-profit structures, non-partisan and non-violent, through which people organise to pursue shared objectives and ideals' (EC, 2012a, p. 3). In particular, the CSO comprises 'non governmental organisations, grassroots organisations, cooperatives, trade unions, professional associations, universities, media and independent foundations. Their common feature lies in their independence from the State and the voluntary basis upon' (EC, 2017a), 'which represent a wide range of interests and ties' (OECD, 2006, p. 145). Hence, NGOs are seen as a group which is suitable to hold a consultative relationship with the European Commission. An NGO on international level is defined by the Council of Europe (1986, p. 2) to 'satisfy the following conditions:

- Have a non-profit-making aim of international utility;
- Have been established by an instrument governed by the internal law of a party;
- Carry on their activities with effect in at least two states; and
- Have their statutory office in the territory of a Party and the central management and control in the territory of that Party or of another Party.'

To summarize, the NGO term is typically used by official bodies to distinct organisations from market entities. Furthermore, the term is taken to identify organisations which are having consultative relationships to the government entities. NGOs are a part of the civil society and therefore a sub-group of an overall group of CSOs.

Contrary to the NGO term, there is an NPO term that per se implies a not-for-profit attitude. Salamon and Anheier (1992, p. 1; Salamon and Anheier, 1996a, pp. 22–27) emphasize with respect to US entities, the following criteria for NPOs:

- Formally constituted - this excludes ad hoc collections of individuals or informal groupings
- Nongovernmental in basic structure - an organisation is separate from the state
- Self-governing - organisations have their own internal mechanism for self-government
- Non-profit-distributing - organisations are allowed to make money and use it for the good cause
- Voluntary to some meaningful extent - an organisation attracts volunteers or voluntary support either way

In relation to the latter, Salamon and Anheier (1996a, p. 25) mention that ‘this criterion works along with the non-profit-distributing requirement in the definition as a proxy for the concept of “public benefit”, which is extremely difficult to define cross-nationally. The general thrust of the argument is that if organizations are able to attract volunteers and to operate without the promise of distributing profits, they must have some public purpose attraction to them’. Schwarz (2001, pp. 14–15) states that the NPO term comprises three different sponsorships: those run by government, those financed as quasi-autonomous organisations, and those run as private institutions. The latter comprises four types, which are economic associations, socio-cultural clubs, political parties, and social associations. Schwarz claims that this is just a theoretical separation due to the fact that both overlapping activities and the indistinguishable structure of organisational form may come into place. Hence, there is criticism of the lack of clear separation regarding the sectoral concept (see Chapter 2.1.1.1).

In summary: the term used for 3rd sector entities in this dissertation will be NPO and as its synonym, nonprofits or not-for-profit. However, this dissertation understands NPO as a synonym for the term NGO and CSO.

Thus, the definition of the term NPO is formal and structured organisations, which have their internal mechanism for self-government. They are separated from the state and do provide goods with the intention of covering costs, but not to

return earnings to their operators. NPOs, in this sense, are non-profit-distributing while their objective is to provide something meaningful to the public and the concept of voluntary involvement is in the scope of their aim.

2.1.2.3 *Types of organisations*

Another facet of non-profit organisations lies in their organisational form, which, according to Anheier (1998, p. 15), is diverse. He suggests the following as typical forms of 3rd sector entities in Germany (original German name in brackets):

- Associations (Vereine, Verbände)
- Public benefit organisations (gemeinnützige Organisationen)
- Free welfare associations (freie Wohlfahrtsverbände)
- Consumer protection organisations (Verbraucherschutzorganisationen)
- Communal economic corporations (gemeinwirtschaftliche Organisationen)
- Professional unions (Berufsverbände)
- Trade associations (Wirtschaftsverbände)
- Self-help groups (Selbsthilfegruppen)
- Organisations with no commercial character (Organisationen ohne Erwerbszweck)
- Limited liability company (Gesellschaft mit beschränkter Haftung)

It should be noted that there is an exception with a limited liability company. To set a non-profit organisation as a capital company one must bear in mind that 'the non-profit is a commonly (not an individually) owned asset' (Bryce, 2012, p. xvii) and nonprofit organisations are not created to maximise financial returns to their owners (Witesman and Fernandez, 2013, p. 692). A public and nonprofit organisation shares a mission to promote the public interest (Hansmann, 1980, pp. 895–896; Salamon, 1995, pp. 103–106; Sanger, 2003, pp. 49–52). Hence, shareholders of not-for-profit oriented capital companies must be motivated to invest because of the company's cause and not to receive earnings. In conclusion, a nonprofit capital company needs to have not-for-profit oriented shareholders. In this sense, another organisational form has been developed in recent years, which is a capital company as a public utility (Bundesrepublik Deutschland, 2017b, GmbHG §4). Usually,

shareholders of such capital companies are organisations listed by Anheier, with the exception of capital companies. The advantage of running a capital company as a public utility is not only in their diversity and ease of control, but also in low business risk to its holding. Seibel (1992, pp. 48–50) identifies economic advantages as following:

- Bypassing public service law
- Bypassing budgetary law
- Limitation of governmental supervision and depoliticising of task fulfilment
- Limitation of liability
- Enhanced participation on management level
- Improved creditworthiness
- Tax benefits
- Simplified cooperation with legal entities
- Others, for instance, trust on competitive orientation by third parties

Even though nonprofit associations are founded by 3rd sector organisations, financial resources are ‘created by gifts to the community’, hence, nonprofit organisations run such capital companies but do not own them (Bryce, 2012, p. 35).

2.1.3 NPOs in a western society

2.1.3.1 NPOs around the globe

When talking about NPOs as sectoral entities, one must have in mind that there is, as discussed in Section 2.1.1, a dependency between such organisations and the public, the government, and other economic entities. It is assumable that an NPO which is established and run within a certain country, is determined by the cultural and sociological background of that country. However, every nonprofit organisation that acts within a certain country is usually rooted in the legal, social, and cultural system of this particular society (Neumann, 2005, p. 71). This applies to every organisation whether it is operating in the field of welfare, culture, politics, or lobbying. This fact is fundamental to understanding the relevance of an

organisation's sociocultural imprint and its organisational behaviour within its sociological environment, but also if it is operating abroad.

A societal system within a country is biased by historical events, political systems, and influenced by the government. Among others, Encarnación (2003, p. 59; Gensicke, 2009, p. 17) note that a totalitarian system of government prevents the emergence of civic organisations while in turn an open society offers a good basis to develop civic movements. Their finding is that a political change to an open society does not necessarily mean an immediate rise of civic movement. This has been observed in recent years in the post-soviet era in East Germany in the 1990s as well as in Spain in the post-Franco era in the mid 1970's. In terms of Spain, Encarnación (2003, p. 48) wonders that 'more than two decades after the passing of Franco the fraction of the public identifying with a political party of any stripe stand at about the same level as in Eastern Europe after the fall of Communism. Civic anemia appears to be endemic in Spain'. He bases this on the World Values Survey, which from his point of view saw Spain be 'one of the least-prone nations to generate the kind of associational life attached to vibrant and robust civil societies [...] among the 43 nations included in the survey, only Argentina had a lower rate of participation by the citizenry in 16 different types of voluntary associations generally thought to represent civil society in Spain' (Encarnación, 2003, p. 48). The same result was found in a study conducted by Maloney and Roßteutscher (2009b, p. 47): 'in all cities [Mannheim, Bern, Aberdeen, Enschede, Aalborg – editors note], roughly 30 per cent of the total population do volunteer work. This final experiment also reveals the unique position of Sabadell where [...] active engagement concerns only a minority of the population (9 per cent in the case of volunteering and a small majority of 53 per cent in the case of activism)'. They conclude that a 'low associative penetration of the Spanish city is evident in almost all categories of involvement [...]. In the Spanish city there is no culture of volunteering' (Maloney and Roßteutscher, 2009b, p. 47). Moreover, Encarnación (2003, p. 49) cites a report by McDonough, Barnes, and López Pina where the 'puzzle of participation in Spain' come up: 'The authors observe that while democratic procedures have been solidly institutionalized in Spain, civic engagement has stagnated'. The reasons certainly are diverse, however, Encarnación (2003, p. 57) points to two relevant details with Spanish society: 'Spanish unemployment soared from 415,000 in 1977 to nearly 2 million by 1985, and among the contributing causes for this crisis was a program of industrial

restructuring that gutted many of the state enterprises that Franco had created with the purpose of achieving full employment'. Another reason is given by Linz (2008, p. 365) in relation to Spain's economy. He concludes that the country fails to generate social movements because of its economic backwardness, especially with industrialisation in comparison to other western countries like the United Kingdom, France, and Germany. As a result of the profound labour market crisis, poverty in Spain has increased considerably. Between 2009 and 2013, the at-risk-of-poverty rate for the whole population increased from 17.3 per cent to 18.7 per cent (ILO, 2014, p. 31).

To sum up, the number of NPOs within a specific country not necessarily need-based but is dependently of a political system and wealth of a nation.

2.1.3.2 *Specific issues in Germany*

The situation of NPOs in the "old" federal states of Germany is very vibrant since many years. It is, however, interesting to take a deeper look at the nonprofit sector of East Germany, a part of Germany and formerly the independent socialist German Democratic Republic (GDR). After dramatic political changes towards an open and democratic society and furthermore, merging with West Germany in the beginning of the 1990s, the starting point for the people was as difficult as it was for the people in Spain in the post-Franco era. As in Spain, unemployment became a major problem. In fact, some felt neglected by the government, and realise years later that the fall of socialist government was more paralysing than stimulatory. Furthermore, they could not adjust to the changes that have occurred. This is why they declined voluntary participation with organisations (Gensicke, 2009, p. 18). Far more than this, they did not realise that there is a need to engage in social, sociological, and the cultural sector due to the fact that these areas were part of the scope of the socialist government even though this support almost abruptly was cut off (Gensicke, 2009, pp. 158–159). This has recently changed. Gensicke indicates through interviews that there is a pride in how they could manage the change from having a sense of entitlement to one of self-participation. Priller and Zimmer (2000, pp. 9–10) note that this is reflected in the number of organisations established from 1990. Even though there is visible saturation in this case, the diversified landscape

of organisations is still increasing. It must be emphasised that most of these nonprofits have been founded in Germany's post-reunification period.

Finally, the key to success is apparently not only an open society. Indeed, it depends on the surroundings of an organisation. Hence, the next section will discuss the influence of an organisation's environment in terms of win or lose importance within a society.

2.1.4 Stakeholder groups

2.1.4.1 Contracting dependencies and principal-agent relationship

As mentioned at the beginning of Chapter 2.1.1.1, the three sectors do not only co-exist, but also cooperate with each other. The same is with the stakeholders and stakeholder groups which will be focused on in Chapter 2.1.4.3. Where cooperation between different groups comes about, three theories on behavioural approaches need to be discussed. This will also shed light on their interaction for a better understanding of specific stakeholder requirements, which is discussed later on.

To start with, there is the stimulus-contribution theory. According to Schwarz, Purtschert et al. (2002, p. 50), this theory deals with economic behaviour between people, but also between economic entities. The basic concept focusses on the need for stimulation to percept on collaboration between independent parties.

The individual has a leading role, as Barnard (1938, p. 139) has pointed out: 'the individual is always the basic strategic factor in organization. Regardless of his history or his obligations he must be induced to cooperate, or there can be no cooperation'. In this context, the organisation becomes a system of coalition between individuals (Cyert and March, 1963, p. 27). The stimulus-contribution theory includes three decisions of an individual:

- Decision to participate (Barnard, 1938)
- Decision to produce (March and Simon, 1958)

These depend on the level of aspiration, which in turn may give a trigger to the decision to leave the organization (Staehele, 1999, pp. 433–434).

An important basis is that the elements stimulus and contribution must be at least equal. To put it more precisely, the individual attains satisfaction when the stimulus and contribution is at the same level (Staehele, 1999, p. 433). If the stimulus falls below a certain level, which is the zero point of the satisfaction scale, the individual will question his contribution or participation.

Barnard (1938, p. 83) distinguishes between external and internal balance. The internal balance defines the weighting between the participation level and the satisfaction level of the organisation's participants. The external balance describes the relationship the aims, services, and products an organisation in relation to the needs and expectations of the organisational environment. To give an example, the stimulus-contribution relationship of a beneficiary is determined on the one hand by goods and services provided as stimulus to the beneficiary and on the other hand by the contribution of beneficiaries in form of payments or network recommendations (Staehele, 1999, p. 432).

The second theory to focus on is the stimulus-organism-response (SOR) paradigm. Staehele (1999, p. 163) claims that the foundation of behaviour of man is through its inner attitudes. This is meant by either religious or philosophical belief systems, intentions, morality, expectations, and personal skills. A major driver, according to Staehele (1999, p. 165), is the satisfaction of needs of every human being: 'drives, urges, needs, or instincts – [...] may be held accountable for the occurrence of motility without external stimulation' (Murray, 1938, p. 8). For instance, several secular and spiritual scholars have discussed the issue of needs in terms of working environments during recent decades; just to name a few Maslow (1943; 1954), Herzberg *et al.* (1959), Alderfer (1969), and Müller (1984).

Basically an impulse is given to an individual which then proceeds within the organism as explained above. Triandis (1975, p. 252) emphasises the strength of impact caused by several indicators of the source of information, which is reliability, attractiveness, power, style, phrasing as well as content. In the end, a

response by the individual is to be perceived. This, according to Staehle (1999, p. 177), is probably measurable in either physiological, activities, or verbally.

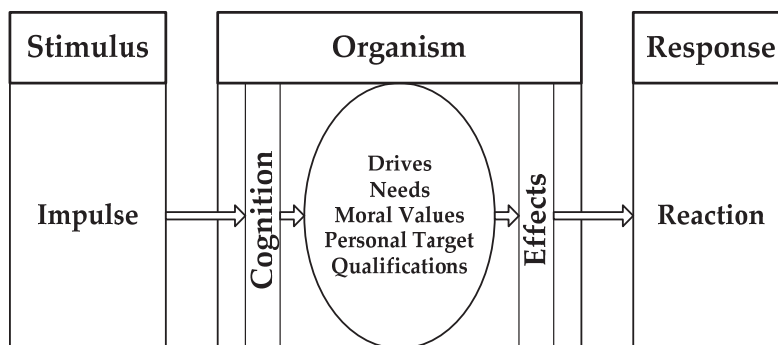


Figure 3: The Stimulus-Organism-Response paradigm (Staehle, 1999, p. 163)

In literature, the concept as shown in Figure 3 is usually linked to communication with the outer world of entities. Among others, Thaler and Helmig (2013, p. 213) and Jacoby (2002) discuss the impact on marketing respectively social marketing and the impact on consumer attitude. Moreover, Meffert (2000, p. 98) emphasizes a strong correlation between the brand of a company with stakeholders perception. In this sense, he identifies the brand as a stimulus of an individual. This leads to hidden effects within an individual as the organism. Thus, according to Fiedler (2007, pp. 16–17), an observable response of individuals may be a degree of brand awareness, a perceived quality of goods, and consumer satisfaction. All in all, this all may return success to a company.

Finally, the principal-agent paradigm, as shown in Figure 4, is important to focus on. Staehle (1999, pp. 415, 423) claim that this theory deals with transactions costs but also steering and control. In this manner, shareholder respectively stakeholder as principals need to decide on strength of control to take on the management as agent. The latter, so the claim, gives agents a greater opportunity to decide on business activities along their own interests. The principal-agent theory, hence, deals with behavioural issues and, in addition, demands economical decision logic. In contrary to the stimulus-contribution theory, the main assumption is that both parties' proceed rationally and success is given in economic ratios only (Laux and Liermann, 2003, pp. 526–528).

The principal's inability to fully control the agent, generally results in deviations which leads to information asymmetries (Wessel, 1996, p. 14). Hence, the principal-agent theory focuses on problems between principals as customers and agents as executors with contracting relationships. In this sense, the theory stresses the degree of contribution and stimulation as a measure unit, where the major goal is a balance between give and take of both contractor and customer (Laux and Liermann, 2003, pp. 240, 252).

There are four problems postulated in terms of a principal-agent concept that returns uncertainty to target fulfilment of a principal: when an agent accepts an order where he or she is either not competent or does not feel challenged, strengths or weaknesses are concealed; this is called hidden characteristics (Spremann, 1990, p. 567; Bürkle, 1999, p. 25).

If an agent fulfils a contract in a way that has not been agreed upon with the principal, there is hidden action. Arrow (1985, p. 38) notes that 'the most typical hidden action is the effort of the agent. Effort is a disutility to the agent, but it has value to the principal in the sense, that it increases the likelihood of a favourable outcome'. One may say that success depends on effort and fortune while failure is either on laziness or misfortune of an agent (Bürkle, 1999, p. 23). In other words, within a principal-agent relationship there is a freedom of choice an agent can use for his own benefit (Spremann, 1990, p. 571).

The theory also suggests an advantage of knowledge held by the agent in the job execution, which returns an information asymmetry to the relationship. By this, it is generally considered that a principal is at a disadvantage and agents gain an advantage by having certain knowledge (Wöhe, 2000, pp. 158–160; Laux and Liermann, 2003, p. 529). Therefore, the principal-agent theory deals with the handling of information asymmetry, known as hidden information, to bridge the gap of lacking information.

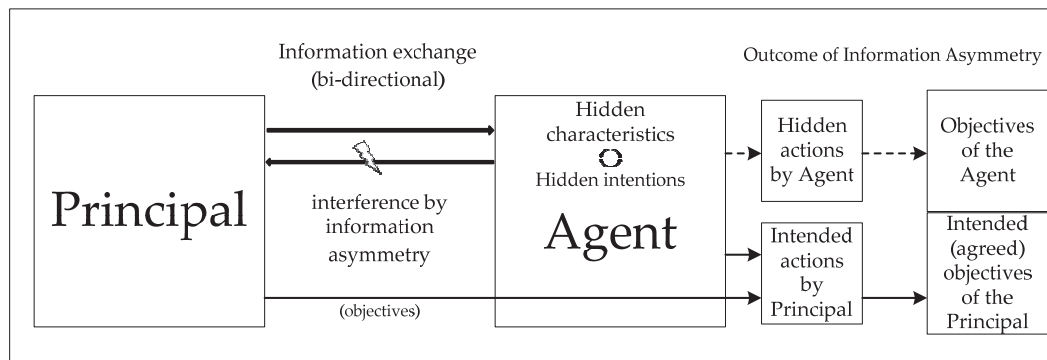


Figure 4: The principal-agent-concept (Personal collection)

Finally, while executing a job, an agent cannot be monitored by a principal so the intention regarding an agent's goal orientation remains undisclosed, which is known as having a hidden intention (Spremann, 1990, p. 566). In this case, Laux and Liermann (2003, pp. 529–530) suggest to only the outcome level as an assessment base for the agent's effort. The latter is perhaps most crucial because the fulfilment of a job, that is intended result by the principal, depends on an agents' inner attitude, which not only comprises a belief system but also knowledge and cognitive ability (Spremann, 1990, pp. 577, 580). The principal-agent theory suggests, however, that both parties try to maximise their benefits even though they set different objectives for their actions (Spremann, 1990, p. 570).

Looking at the three sectors, their entities may be principals as well as agents to others (Anheier, 2005, p. 226; Bryce, 2012, p. 9). In particular, 3rd sector organisations understand themselves as principals with respect to their self-imposed role of monitoring function against other entities, however, they may be contractors to other sectoral entities and therefore need to be monitored according to the aspects mentioned above. This directly links to the topic relationships to groups and individuals, namely stakeholders, which will be evaluated as next.

2.1.4.2 Stakeholder theory and market requirement

The theory of participation and influence of individuals and groups with organisations is known as stakeholder theory. The term stakeholder, as mentioned by Freeman and Reed (1983, p. 89), was firstly used in a 1963 internal memorandum at the

Stanford Research Institute as 'groups without whose support the organization would cease to exist'. Furthermore, the stakeholder theory is 'an approach to business that incorporates all the interests of stakeholders in a business. It widens the view that a firm is responsible only to its owners [...]; instead it includes other interested groups, such as its employees, customers, suppliers, and the wider community, which could be affected by environmental issues. It thus attempts to adopt an inclusive rather than a narrow approach to business responsibility' (Law, 2014). According to Donaldson and Preston Lee E. (1995, p. 88), it is an alternative to the most prominent shareholder theory, which they claim to be morally untenable. Moreover, the stakeholder 'theory goes beyond the purely descriptive observation that "organizations have stakeholders" which, although true, carries no direct managerial implications' (Donaldson and Preston Lee E., 1995, p. 87). According to Freeman et al. (2010, p. 29), stakeholder theory addresses the problems of 'managing a business in the world of the twenty-first-century' by 'thinking about questions of ethics, responsibility, and sustainability'. Moreover, Freeman et al. (2010, p. 9) reminds that 'it does imply that the interests of these groups are joint and that to create value, one must focus on how value gets created for each and every stakeholder'. In this manner, Freeman *et al.* (2010, p. 9) argues that the theory 'is about value creation and trade and how to manage a business effectively'. The latter, as argued by Donaldson and Preston Lee E. (1995, p. 87), meets the requirements since stakeholder theory is 'managerial'. They further note that 'the stakeholder theory is intended both to explain and to guide the structure and operation of the established corporation' (Donaldson and Preston Lee E., p. 90).

Donaldson and Preston Lee E. (1995, pp. 70–71) describe the three core elements of stakeholder theory, which are single elements and yet 'are nested within each other'. The core of these interrelated aspects is the normative approach of the stakeholder theory. The normative approach presents the requirement to deal with principles and norms and thus determines the rules of the game that relates of ethical and moral relevance. Hence, the normative approach develops guidance and governance, ethical objectives, and attempts to provide answers on how moral ideas are to be nurtured in the company's business dealings.

The second approach to the theoretical foundation of the stakeholder theory is, according to Donaldson and Preston Lee E. (1995, p. 71) and Jones (1995), the instrumental aspect of the theory. This area deals with the theoretical requirements of a company's economic needs in terms of achieving goals such as profitability and growth. According to Donald and Preston, this is directly linked to the third approach, which is called a descriptive and empirical part. This overall aspect is used to describe and sometimes to explain specific corporate characteristics and behaviors.

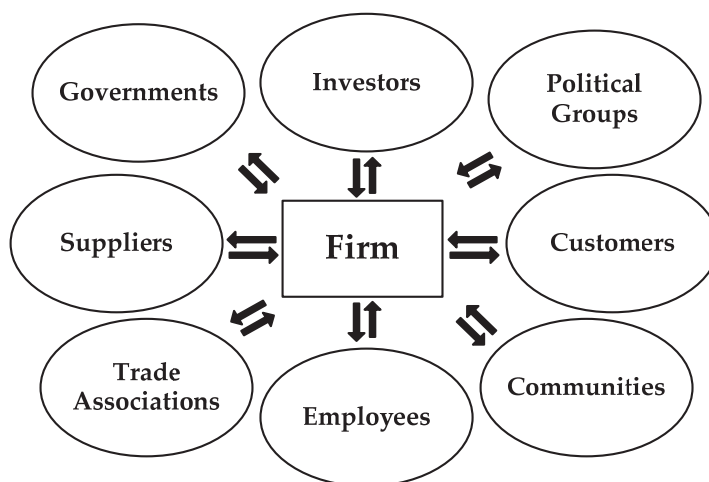


Figure 5: Contrasting Models of the Corporation: The Stakeholder Model of For-Profit-Organisations (Donaldson and Preston Lee E., 1995, p. 69)

Another facet of the stakeholder theory deals with the approach of business objectives. Berman *et al.* (1999, p. 488) describe the 'strategic stakeholder management model', which targets solely the improvement of the financial performance of a company. The second model, also described by Berman *et al.*, sets out the requirements for companies to make a positive contribution to their stakeholders. Fifka (2013, p. 114) adds a third approach which, according to his assumptions, follows the requirements based on the German legal situation. This is the result of demand by law to involve stakeholders in the company's decision-making process.

The stakeholder theory according to Freeman *et al.* (2010) is not only of a general nature. In fact, it is used for several disciplines of business economics like finance, accounting, management, and marketing. Even if the claim is made that in finance the stakeholder relationships 'allocates resources to one stakeholder group is taking those away from another', however, 'over any term longer than the immediate term, the reasoning becomes more suspect' (Freeman *et al.*, 2010, p. 132). In terms of accounting there is an ongoing debate which will be discussed later on in chapter 2.2.4, especially with respect to business issues of an NPO. The management perspective, which is 'hard sciences of management' while 'stakeholder theory is about people and groups of people' (Freeman *et al.*, 2010, p. 146), provide also some opportunities to apply the stakeholder theory. This is why they conclude that 'from the perspective of solving the problem of value creation and trade, stakeholder management *is* management [...]'. Finally, 'marketing tend to focus on a small number of stakeholders, which typically include customers, shareholder, and sometimes employees'. However, it 'also has much to say about the interface between society and the firm' (Freeman *et al.*, 2010, pp. 152–153). Hence, stakeholder theory supports value creation not only through relationship activities but also through marketing actions, which is, for instance, supporting a company's reputation building process (Freeman *et al.*, 2010, pp. 158–159).

It is to mention that some scholars criticise to give stakeholders a voice by establishing a corporate constituency statute. The latter, also called a stakeholder statute, allows corporate directors to consider non-shareholder interests when making business decisions. Based on findings of Fort (1997), Biancalana (1990), and Hayek (1979), Freeman *et al.* (2010, pp. 166–167) summarized their objections in three problem statements which will be introduced in short.

Firstly, the claim is made that the stakeholder theory obtains 'too many masters'. By this is meant that a corporate will be faced to great number of stakeholders 'legitimate claimants on managerial attention'. In the end, this makes it hard 'to serve coherently and fairly'. It may also allow management to 'play stakeholder off against each other to enhance managerial discretion'. Freeman *et al.* (2010, p. 166) denies this idea, since 'if we limit the scope to value-chain stakeholders such as

shareholders, employees, suppliers, customers, and local community, then the problems are tractable and not that different from the challenges managers already face’.

Secondly, another objective is raised against stakeholder management of a ‘slippery slope to socialism’. It emphasize the idea of altering ‘the nature of corporation and put us on the road to socialism’. In this sense, ‘corporations would cease and become public, the property of society at large’. There are three aspects mentioned by Freeman et al. to consider this claim: taking demands into account is rather a mandate than an advice. Also, managerial changes ‘increase corporate autonomy rather than decrease it [...] there is less need for the state to interfere directly in the affairs of the corporation’. The objective also loses significance when considering that even without a corporate constituency statute ‘there is the potential for stakeholders to use the power of the state to constrain managerial behaviour through a variety of [...] mechanism’ (Freeman et al., 2010, p. 167).

Thirdly, there is another objection that questions the stakeholder orientation of a firm in terms of adjudicatory versus utilitarian rationality. The claim is raised that demands like fairness, which is often part of the requirements by stakeholders, ‘are out of place and undermine the fiduciary duties of management’. The refutation on this objection focus on the basic idea of stakeholder theory that it ‘expands the set of relevant preferences in way that is practical and sustainable’.

As discussed later on, Freeman *et al.* (2010) strongly links the topic of stakeholder theory not only to stakeholder management, firms’ communication and value creation. They also conclude that ‘it addresses the problem of ethics of capitalism, while also drawing in discussion of the problem of value creation and trade’ which is done ‘along with discussions of CSR, charity, and the ethical duties to society of companies’.

2.1.4.3 NPOs as stakeholders

The focus of this dissertation is on groups that hold a stake in NPOs, however, a short discussion on their role as stakeholders in an economic organisation will follow. The ON-Autorenteam (2005, p. 39) depict among others, employee representatives, employers’ association, consumers, public authorities,

and nonprofit organisations as relevant for communication of economic organisations. The major purpose of communication is to present and publicly discuss social responsibility. In this manner, Frantz and Martens (2006, p. 121) point to the major role of NPOs with global governance since they deal with problems and tasks on international reach. Although NPOs claim to have a justifiable stake in corporations, scholars consider legitimacy per se as questionable (Baur, 2011, p. xiii; Lenssen and Vorobey, 2005, p. 365; Lang, 2013, p. 4). For instance, Baur points out three deficits on legitimacy of NPOs. Firstly, they lack the constituency of democratic elections: 'this is true because even if they are registered organizations that face some kind of duties [...] they often cannot be held accountable for their actions on a transnational level'. Secondly, Baur emphasises the substantial dimension where there are 'doubts about the legitimacy of the claims of NGOs'. This means that NPOs claim to represent public interests, but often it is not evident whether they only support private interests. Furthermore, even though trust in nonprofits is much higher than in political parties and economic entities (BAT, 2013): to take the role as a spokesperson requires an official appointment, which is usually not given to organisations. The latter is based on the fact that the public as a whole will not legitimate an organisation as a representative (Lenssen and Vorobey, 2005, p. 365). Thus, the legitimation as an official representative of society is not fact-based, but rather morally supported. Another aspect in this dimension is the fulfilment of public interests in question and whether or not NPOs 'generate desirable outcomes'. Finally, she has her suspicions of the procedural dimension, which is emphasised by the question of how NPOs behave to reach their targets (Baur, 2011, pp. 8–9).

Nonprofits may chose different strategies to fulfil their tasks as stakeholders towards market entities and the public. Hence, a note on cooperative behaviour will be made. Although the cooperation term creates a positive impression, there are in fact two sides of the same coin: cooperation is either meant in a positive or a negative way. The latter becomes clear when a 3rd sector organisation attacks a market organisations for wrong behaviour in a certain issue. Riemer (2015, p. 108) characterises three strategies on cooperation in a broader sense: firstly, there is an encounter where boycott, naming, and shaming are sub-elements of this strategy. In this step, 3rd sector organisations blame market organisations in public to draw attention to misbehaviour. Secondly, a collaboration based on dialogue between

the parties and equal behaviour towards others comes into place. This is where parties involved exchange arguments on problems. It is assumed that organisations will ultimately attempt to form strategic alliances to ensure mutual success in the future.

2.1.4.4 The NPOs environmental layer concept

Broadly speaking, every sectoral entity is part of an environment, either in the business or private sector. This environment comprises different groups and individuals which are directly or indirectly affected by actions and decisions taken by an economic entity. With respect to NPOs, there is a need to understand that in their field of interest these entities are able to either hold a stake themselves or need to react on other stakeholders interests

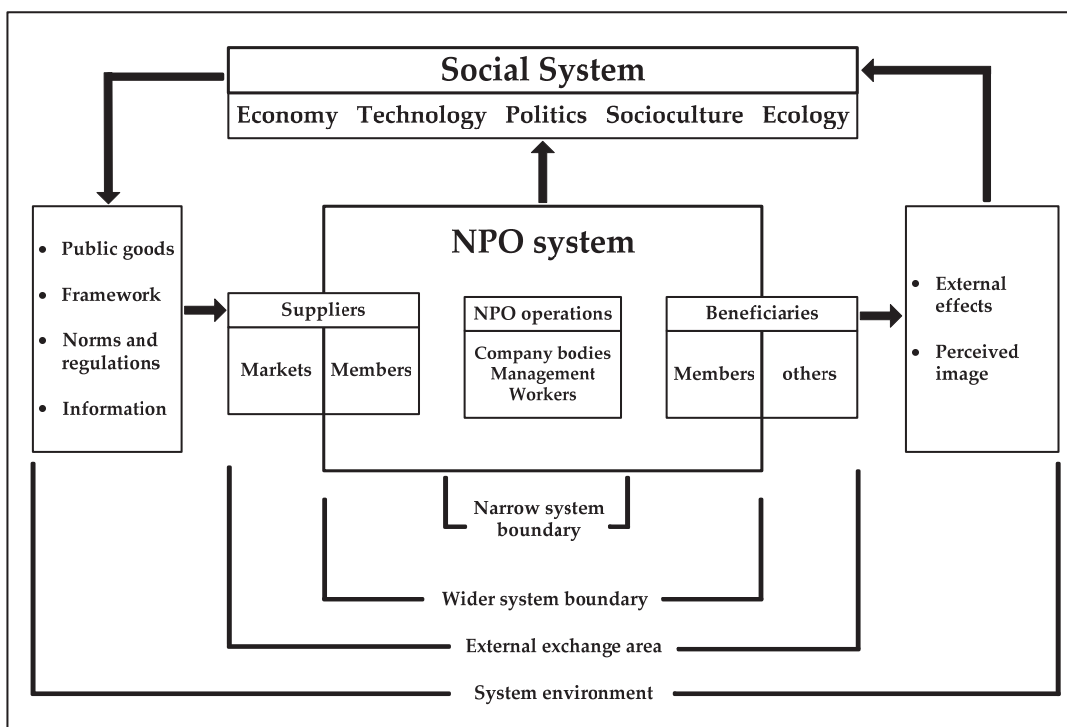


Figure 6: Environmental layers and service delivery process, (Schwarz et al., 2002, p. 48)

For a better understanding of the complexity of relations between the outside world and internal relationships, the environmental layer concept by Schwarz *et al.*

(2002, p. 48) will be introduced. Looking at Figure 6, there is an inner part called the narrow system boundary of an NPO's business. It covers an organisation's operational business and its structural organs like departments or divisions, co-workers, and management staff. This core system is linked to two other groups, which are suppliers and beneficiaries. These groups are also divided into external and internal sections. The intra-organisational part – Schwarz et al. name this area the wider system boundary – is represented by members of the organisation.

The external part, the so-called external exchange area, comprises either economic entities or private entities. The supplier side receives input by public assets, information, norms, ethical values, and different normative frameworks. These are provided by the society system, including social society, economic systems, technical environment, politics, social culture, and ecological environment. This is mandatory because NPOs are required to survive as a part of directed exchange between external world and intra-organisational systems (Neumann, 2005, p. 71). According to Schwarz et al., an NPO is not only influenced by its system environment. Moreover, it directly influences the societal system while an indirect influence takes affect by providing services to customers and beneficiaries. The latter results in improving an organisations' image and generating external effects with the societal system. In fact, this concept describes not only an environment of a nonprofit, but also defines a set of groups concerned with an organisation itself, or an organisations' task fulfilment. These are commonly known as stakeholders to an NPO.

2.1.4.5 *Stakeholders of NPOs*

Complementary to the environmental layer concept as introduced with the previous section, a deeper look into the stakeholders' environment is mandatory. As mentioned previously, it is difficult to point out exactly the group members with respect to 3rd sector organisations. By reviewing current literature, Stötzer (2009, p. 139) has summarised that there is no general structure of stakeholder groups available, on contrary, each nonprofit organisation is required to tailor its stakeholder system to its specific needs..

In general, nonprofits are multiple-stakeholder organisations. There are at least five different general groups of stakeholders in an NPO (Schwarz, 2001, p. 47; Anheier, 2005, p. 227). A short introduction of these groups and their key demands will follow.

Firstly, there are users of services and goods created, distributed, or allocated by nonprofit organisations. The members of this group are either internals of the organisation or external service receivers. They are commonly called clients, customers, members, and beneficiaries. For this dissertation, beneficiaries will be used as the term for this group (Salkever and Frank, 1994, pp. 28–29).

Secondly, there is the group of both organisations and people that grant tangible assets like money and intangible assets, such as privileged permissions or voluntary workforce to an organisation without expecting anything in return. This group of funding sources is called donors (Oster, 1995, p. 40). In Germany, about 19.4% of people aged over 14 had worked as volunteers during 2015 (IfD Allensbach, 2016). Moreover, according to GfK (2016, p. 6), 22.7 million Germans – approximately 34% of the population – make donations to nonprofits.

Thirdly, the surrounding community as a whole has a stake in how well a nonprofit organisation completes its mission, vision, and targets. Therefore, society is the origin of all support and the cradle of needs to be satisfied by NPOs. Domański (2009, p. 85) indicates a certain sub-group within the society: ‘the other institutions that may be recipients of nonprofit enterprise values include the mass media – moulding public opinion and influencing it. For them the value of our organization is certainly very important, since their task is to inform public opinion elsewhere about the organization’s value. This group includes also other third sector organizations – that may both compete and cooperate with each other in realization of the goals. Those institutions cooperating with particular organizations, which may be called ‘service providers’, are an important part of this group of institutions’.

Fourthly, the government is an important stakeholder in nonprofit organisations (Salamon, 1995, pp. 76-77,79; Anheier, 2005, pp. 283–286). The government grants tax deductions, governmental donations, normative protection, and other benefits. On the other hand, it requires organisations to furnish

periodical reports, demands compliance with legal rules, and asks for commonly accepted requirements.

Finally, there is the group of people working with and for an NPO. It is the group of persons introduced in Section 2.1.5, which are volunteers, involuntary workers, paid co-workers, and as discussed, finally the managers of the organisations. In the context of this dissertation, this group will be referred to as staff members.

2.1.4.6 Stakeholders as principals and NPOs as agents

As already discussed in previous sections, stakeholders of 3rd sector entities have different roles and tasks to fulfil. First and foremost, there is a principal-agent relation that requires interaction between the stakeholder and organisation. On this, Bryce (2012, p. 5) suggests:

- ‘There is a relationship between the society and nonprofits in service of the society.
- This relationship is based on mutual expectations.
- Expectations are based on specific performance, upon which both parties agree.
- Being connected, both parties assume certain risks caused by the discretion and actions of the other.
- At some pre-agreed time and manner an evaluation or determination is made of the performance.
- A determination can be made to keep, modify, or terminate the relationship.
- The parties can communicate a common understanding of the agreement among themselves.
- All of the above actions are voluntary.
- The parties have a free choice and alternative to entering into this contract.’

The impact is on nonprofits as agents, while stakeholders as principals are concerned with getting the best results. The heterogeneous group of stakeholders of NPOs accept their role as driver of an organisation. In this sense, stakeholders are important to motivate the organisation to achieve objectives, to keep active members in line, and to keep an organisation focused on its mission and vision. Moreover, organisations that return certain benefit to its stakeholders in terms of

CSR activities may gain competitive advantage (Bachinger, 2012, pp. 59–60). This usually involves seeing to change, such as increasing the graduation rate of high school students in a certain community, and also providing a quality service. Stakeholders may be able by supporting publicity and marketing campaigns. Another key responsibility of stakeholders is influencing the behaviour of nonprofits (Stötzer, 2009, pp. 63, 67). In accordance to the resource dependency theory, the latter is controlled by the role of funds: ‘the lower the organization’s ability to resist and the higher its compliance to external pressures, the more dependent the organization will be on external sources of resources’ (Lewin *et al.*, 2004, p. 133).

A mandatory role is played by groups directly involved in service process of an NPO. In fact, beneficiaries are not only service receivers because they may become supporters by influencing other stakeholders and by participating in the decision-making processes. This happens for instance, if beneficiaries receive full ownership through participation and feel content with high quality support. As a consequence, they are likely to talk about it in an advertising campaign and ask for funding. However, there is criticism of putting beneficiaries in the stakeholders’ position: ‘if beneficiaries could decide how much they would receive and when, such organizations would likely be bankrupt within a year’ (Uphoff, 1995, pp. 20–21). On the other hand, ‘beneficiaries of NGOs are in a “take or leave it” relationship that is similar to that of customers and employees of private firms’ (Uphoff, 1995, p. 19). Employees, whether paid or unpaid for the job, fulfil a major role within NPOs. For instance, by agreement or not, employees may influence payments, internal rules, and working conditions. Disputes in the work environment could take the form of work to rule, bans on overtime, or in extreme cases, withdrawal of labour. If the group of staff members is convinced of working for a good cause, they will influence other stakeholder groups. Drucker (1990, p. 157) states that ‘one of the most basic differences between non-profit organizations and businesses is that the typical non-profit has so many more relationships that are vitally important. In all but the very biggest businesses, the key relationships are few – employees, customers, and owner, and that’s it’. Additionally, employees are the heart of organisational success when working efficiently in their jobs. The same goes for managers, who influence NPOs daily with decisions they make either on services to offer or on employees. Implementation of rules and

design strategy are in their hands, affecting the reach of mission and vision of an NPO.

Like economic organisations, NPOs need multifaceted stakeholder groups to initiate public interest, reach their targets, and to get support on different economic and social issues. In short, even NPOs as multiple stakeholder organisations are in need of help from the intra-organisational and external-organisational environment.

2.1.5 Staff members and their intra-organisational role

2.1.5.1 General notes on staff members

The following section will give an overview of members of staff within NPOs, especially on their intentions, inner attitudes, and their contribution to organisational success. Generally speaking, there are two groups of workers in NPOs; unpaid staff and paid staff. Kriese (2009, p. 123) suggests that about 60% of financial and personnel resources is in the hands of 1% of 3rd sector associations. In other words, most of nonprofit organisations do not have the financial power for sufficient staff recruitment. This is why, according to Kriese, most NPOs are run by unpaid staff. Even if facts and figures are conditionally suitable for this dissertation in terms of NPOs, some data reported by The Johns Hopkins Center for Civil Society Studies (2004, pp. 2–3) for the years 1995 – 2000 will be given, where religious organisations have been excluded. On a 36-country average, 2.7% of people work as paid staff while 1.6% of the economically active population work voluntarily for NPOs. Furthermore, in Germany, 2.33% work as volunteers, which is about 7.071 million people, and about 3.54% of the active population work for money. In Spain there are 1.48% volunteers in relation to economically active people – i.e. about 1.681 million people – and 2.82% paid workers.

The group of unpaid staff is divided into a subgroup of people that are working voluntarily and a subgroup of juvenile offenders sentenced by jurisdiction to perform social work. In Germany less than 9,000 young people were affected in year 2014 (DESTATIS Statistisches Bundesamt, 2016b). Considering the small

number of offenders sentenced as an educational measure each year the subgroup of juvenile offenders take a minor role in the success of nonprofits. Also, these people do not work permanently at NPOs which leads to a high turnover. In fact, an organisation cannot rely on the regular engagement of offenders.

On the other hand, the subgroup of volunteers play a mandatory role in NPOs. The value of voluntary work in Germany is estimated at 48,433.0 million US Dollar and about 7,055.1 million US Dollar in Spain, both on average between the years 1995 and 2000 (The Johns Hopkins Center for Civil Society Studies, 2004, p. 4). Additionally, volunteering is often an important step in starting a professional career at an NPO (Frantz, 2005, p. 164). Despite the ratio between unpaid workers and paid employees given previously, Fritsch *et al.* (2011, p. 7) claim that it is most likely the number of volunteers exceed the number of paid workers in certain fields of non-profit activities in Germany. This is obviously true, due to the fact that 'somewhat more than 1 per cent have more than 100 employees and less than 1 per cent of the associations can count on more than 500 staff members' (Kriesi, 2009, p. 123). However, the result of a representative survey conducted in Germany found that 70.1% of respondents assumed the rise of social crisis with a drop in civil engagement. Moreover, 43.2% of the respondent suspect volunteer work as a 'job killer' (Wort & Bild Verlag, 2013).

2.1.5.2 *NPOs and paid staff*

The focus of this section lies on paid staff due to the fact that this group underlies a certain economic constraint in NPOs, which will be discussed as moneymaking and professional career hereafter. Another reason for this is the focus of this dissertation on their workplace environment. NPO workers often start their professional career as volunteers, in this sense, not only can it be assumed that paid staff are familiar with the goals of nonprofits, but it is far more likely that most employees are in line with organisations' mission and vision statement (Frantz, 2005, p. 220). Furthermore, Frantz (2005, pp. 219–220) describes the attributes of the personal nature of NPO workers as balanced in relation to achieving targets, because they are neither too cynical about improvement for a better world nor

coming from a place of utopia and social romanticism, which is useful in achieving the organisation's goals.

One may wonder why NPOs hire paid staff and place them into certain jobs. Certainly, as economic entities they are in need of a large number of workers, but it does not stop there. The general perception from the employers' perspective on paid staff is the permanent availability when compared to voluntarily workers who are only available to a certain extent. Also, in the case of misconduct, disciplinary actions are far easier to apply to paid staff than on volunteers. Hence, there is an expectation towards salaried workers to be easy to steer and easy to control by the employer when fulfilling the duties of their job (Hallock, 2002; Laux and Liermann, 2003, pp. 462–464), which is because of their principal-agent relationship (see Section 2.1.4.1). Finally, there is another advantage of having paid staff: they are assumed to be well prepared for their job, and in the best case offer specialised professional knowledge and have had broad training in their field of work (Schwarz, 2001, p. 28; Neumann, 2004, p. 3). As another benefit to the organisation, is that there is a short familiarisation period expected for new paid staff, which results an optimum of cost-benefit ratio for the organisation. All of these reasons lead Schwarz *et al.* (2002, p. 253) to the statement that paid staff have to be seen as professionals. Although professionalisation is a two-sided coin, according to Köster (2012, p. 142), professionalisation is in contradiction to the NPO workers' 'inner nature', which is not only their personal attributes and convictions but also driven by their mindset and senses. On the other hand, professionalisation by hiring graduates has an advantage to organisations (Frantz, 2005, p. 126). To summarise, there are several good reasons to hire paid staff because of a number of employer-friendly advantage aspects from the first day of employment.

In the following sections, the unique characteristics of NPO staff members in terms of their moneymaking and professional career will be discussed. These terms are usually linked with for-profit-organisations', and so the question may arise of what nonprofit employees expect for their professional life in these two aspects.

2.1.5.3 *Specifics of paid staff*

2.1.5.3.1 Salary

Looking first at the salary topic it is evident that there exists a low payment phenomenon. Among others, Onyx and Maclean (1996; Haider, 2010; Neumann, 2004, p. 14; Köster, 2012, p. 43) estimate a 7 – 30% lower payment in comparison to FPOs at the same job level. The latter, according to Priller (2016, p. 111) is owed to their increasing market-orientation that leads to economic pressure and flexibility of employment relationship and cutbacks regarding working conditions. In a field study Haider (2010, p. 146) compares wage levels of management staff across different NPOs. She finds out that organisations financed by private or public donations usually pay lower wages than organisations mainly financed by government subsidies. Moreover, even participation of volunteers may lead to a drop in wage level within organisations (Haider, 2010, p. 135). The question then arises of why NPO workers accept low wages. In this regard, among others, Purtschert et al. (2006, pp. 6–7) discuss two theories on wages at NPOs.

Firstly, there is the donating wages theory (Preston, 1989, pp. 439, 445; Purtschert *et al.*, 2006, pp. 6–7; Hallock, 2000, pp. 297–299, 2012, p. 152). It supports the idea that nonprofit workers accept a gap between possible earnings received at FPOs and the real wage situation at NPOs as a donation to the good cause that the organisation is working towards. The second theory is about compensating wages (Hallock, 2000, pp. 249–252; Borjas, 2013, pp. 203–204; DeVaro *et al.*, 2016, p. 7). This theory assumes that NPO employees focus on a more convenient working environment than on high earnings. To be more precise, in this theory NPO workers accept an exchange of premium incomes for gaining high intrinsic motivation, flexible working times or a more secure job-situation. Borjas (2013, p. 204) notes that Adam Smith already points out in the 18th century that ‘firms that have unpleasant working conditions must offer some offsetting advantage (such as higher wage) in order to attract workers; firms that offer pleasant working conditions can get away paying lower wage rates (in effect, making workers pay for the enjoyable environment)’.

This gives a link to the model of the comfort zone, described by Bardwick (1995), based on findings of psychologist Vygotsky (1997) and also based on the

behaviour scientists Yerkes and Dodson (1908). The comfort zone model is used today by practitioners (Fischer, 2011; Bredekamp and Ballach, 2011; N.E.W. Institut, 2012) in a more advanced way: it is where humans in general do have three virtual, inner places to be. Firstly, there is the comfort zone. This is a place to feel safe in; there is no danger to be expected in terms of personal changes – all is pleasant. All humans feel comfortable as long as they stay there. Secondly, leaving the comfort zone leads to the zone of change. There is the new and the exciting even though one needs to refocus because of ineffective behaviour patterns that were learned before. Thirdly, going beyond the comfort zone, one reaches the danger zone. Experiences may be so traumatic that one aims to get back to the comfort zone immediately and avoids leaving it to try something new.

It is the author's conclusion that both a donating wages theory as well as a compensating wages theory, allow employees to become donors to their employer and through this they become donors to the good cause they are working for. Moreover, in the eyes of people outside the third sector, striving for a convenient working environment while disregarding potential earnings may be misunderstood in two ways: NPO employees are understood as underpaid but highly motivated people, working for the good cause. This seems to be accepted by the outside as well as the organisations' management because of the organisations work for charity, that means NPO workers have to work 'for God's love' (Datta, 2013).

2.1.5.3.2 Career

The second topic of this chapter focusses on professional careers within NPOs. This strives the needs of an individual to advance in one's job or position (see also Chapter 2.1.1.2). In this manner, among others, Groterath (2011), (Köster, 2012), and (Pacesila, 2014), either claimed the absence of personal development potentialities or uncovered hidden lanes to professional satisfaction.

Following Frantz (2005, pp. 252–255), 3rd sector employees are looking for further personal development and a different kind of professional career in comparison to those of FPOs. In this manner, Frantz identifies four types of professional careers in NPOs.

Firstly, there is the group of generalists. This group is not going to climb a corporate ladder, but nonetheless focus on a professional career. Their main focus lies on prestige by improving competence within tasks assigned (Frantz, 2005, pp. 258–261). Secondly, there is the group of technocrats. These employees understand a professional career as striving for competence in personal organisation and decision-making authority by continuous improvement of technical skills. They also aim for operational and professional responsibility within an organisation (Frantz, 2005, pp. 255–258). Thirdly, Frantz (2005, pp. 261–263) identified so-called spiritual minds, who see career for their own sake of responsibility and personal freedom. There is no vanity and no narcissism in such persons, but a focus on professional advancement only within their certain niche. Spiritual minds, as the word explains, are driven by spirituality and religiosity. Finally, there is the type of career changer. Such employees turn away from FPOs because of the reason that a typical career possibility is perceived as being negative. This is why they focus on flexibility and goal orientation before profits (Frantz, 2005, pp. 264–266).

Aghamanoukja *et al.* (2007, p. 165) conducted interviews on professional careers with NPOs and ask if there are career options for non-profit employees. They found that such career opportunities exist, even though these are not comparable to those in FPOs. Additionally, they conclude that a non-profit worker requires highly intrinsic motivation because there is a lack of financial compensation.

2.1.5.3.3 Intentions and motivation

As already discussed above, neither a good earning situation nor professional career in a classical sense are the main driver for NPOs employees. In fact, a high degree of idealism seems necessary to work at and to work with NPOs (Frantz, 2005, p. 219). This is also the starting point of a survey conducted by Piffaretti (2013, p. 26) with a group of students. He discussed three main reasons for working at an NPO:

- Urge to help

This is strongly linked with the theory of altruism. According to Steinberg (2010, p. 249), altruism is an 'intentional and voluntary actions that aim to

enhance the welfare of another person in the absence of any quid pro quo external rewards'. The employee is trying to make a difference for a better world instead of just performing a task.

- Belief system and inner conviction

Piffaretti points to the personal attitude of employees and the organisations goals, mission, and vision statement in relation to charity and unselfishness.

- Striving for self-actualization, as discussed above

He concludes that there is a strong relation between the type of inner belief system and sense of philanthropic justice in relation to an organisation's target (Piffaretti, 2013, p. 31). Piffaretti points out that these subjects have a key role in the contribution and degree of participation of staff in NPOs. As already claimed by Herzberg *et al.* (1959, p. 60), achievement and recognition are most important for an employee's professional life. Far more than this, motivation and 'good feelings from specific acts of verbal recognition' was already considered important as early as 1959 by FPO employees (Herzberg *et al.*, 1959, p. 68). There seems to be no change in workers' mindset because nowadays nonprofit workers ask for recognition (Köster, 2012, p. 111). However, Köster (2012, p. 112) found out that the NPO employees interviewed, perceive a lack of acknowledgement in their job. They report on a major difference between efforts taken and percipience by management and the outside. This often leads to disappointment and as a consequence demotivation to performs one's job (Köster, 2012, p. 112). In short, 'the pat on the back' is still a symbol for recognition and acknowledgement as introduced by Herzberg *et al.* (1959, p. 68).

On the other hand, jobs in the social environment return per se high motivation for both workers and managers. There is danger that if a human is susceptible to a high intrinsic value, that the emotional experience of the job may lead to self-abandonment (Herzka, 2013, p. 107). A special responsibility lies with managers of NPOs; they are expected to have a particularly a high degree of care for their co-workers and clients. Likewise, executives are required to look at things objectively, moreover, to keep control (Herzka, 2013, p. 107). This is why they may also fail at fulfilling their job because of an excessive level of expectation not only

from the outside but also from themselves. Failure also lies with managers who cannot get in line with the organisation's attitude. In addition, the leadership's task is to place staff members in the most suitable work position. Herzka (2013, p. 130) discusses the difficult position of management within NPOs: while nonprofits are commonly recognised for humanity, social awareness, and interhuman solidarity, there is a conflict caused by exercising power and hierarchy. In some cases it is a frozen conflict and in some cases, it is an open conflict between manager and member of staff. In this manner, managers walk a fine line between requirements of management and organisational objectives. Furthermore, managers are required to be role models and, in this sense, they will be in the focus of stakeholders (Herzka, 2013, p. 132). However, among other things, Herzka (2013, pp. 132, 136) asks for modesty from NPO managers in relation to their engagement. He claims that their impact is mandatory for goal achievement even though rather limited for organisational success. He also suggests that modesty helps non-profit organisations to achieve credibility in the outside world. In other words, managers are stuck between high emotional stress and accurate fulfilment of their jobs.

What is it that motivates NPO managers; what personally drives them? Firstly, as already discussed above, there is their professional career. Nevertheless, this is not where it ends. Following Bourdieu's (1983, p. 185) concept of different types of capital, Aghamanoukja *et al.* (2007, p. 156) identify economic capital as a matter of great importance. According to Bourdieu, economic capital is relevant in specifying property rights. Aghamanoukja *et al.* claim that NPO managers do not necessarily aim for personal enrichment, but try to enrich the organisation to enhance success of the mission and vision. Another mandatory motivator is a desire for so-called cultural capital. The latter is described by Bourdieu as advantages that people have, which could be knowledge, education, or personal skills, giving them prominence in society.

2.1.5.3.4 Summary on paid staff

In short, the group of paid staff at NPOs is heterogeneous. It does not represent one certain type of employee even though they have common attributes: they are above average, goal oriented, motivated, and expect satisfaction in their

jobs although they are underpaid. This may be true for most of NPO workers, as Frantz (2005, p. 253) found in a survey conducted on careers in NPOs that some of the interviewees felt that it is pleasant to escape the pressure of money and career. Krönes (2003, p. 5) identifies a more intrinsic motivation instead of a desire for financial success.

2.2 NPOS AS ECONOMIC ENTITIES

2.2.1 Business objectives of NPOs

2.2.1.1 *The bottom line*

‘What is the bottom line when there is no “bottom line”?’ is the question posed by Drucker (1990, p. 107) in relation to NPO objectives. He further claims that ‘in a business, there is a financial bottom line. Profit and loss are not enough by themselves to judge performance, but at least they are something concrete’ (Drucker, 1990, p. 107). It seems that NPOs are detached from the need to generate money. This may sound very simplistic even though it gives a clear distinction between for-profit business and not-for-profit organisations. Nonetheless, nonprofit organisations generate money either by service charges for mission-based activities or commercial activities (Littich and Schober, 2013, pp. 300–302) even though earnings are not for distribution to owners, but rather to finance mission-based activities (Salamon and Anheier, 1996a, p. 9). For instance, Zimmer (2016, p. 174) determines donations as well as earnings received by merchandising products as a source of money.

This is why Simsa and Patak (2008, pp. 34–35) demand that NPOs become like economic entities while keeping their particular features as being not-for-profit. Moreover, organisational changes are discussed from a more impartial standpoint. Hall (1990, p. 158) notes that ‘evidence reveals that NPOs are becoming more business-like. In addition to hiring professionally trained managers, they engage in strategic planning, market analysis, cost-benefit analysis, financial information systems, and fundraising’. Zimmer (2016, pp. 171, 175–176) reiterates that so-called hybrid organisations, are by nature nonprofit, but managed like economic entities and are forced to disregard norms and goals of the civic society.

2.2.1.2 *Formal objectives of NPOs*

Making money is certainly an objective of a nonprofit organisation, even though it is not for the purpose of distributing the gains to its shareholders. Due to the fact that profit is not the focus, the question remains of which objectives are aimed at by an NPO. The concept of the Freiburger Management-Modells, issued by Schwarz (2001, pp. 45–48), introduce three interconnected categorised formal objectives (see Figure 7) that will be explained hereafter.

The focus on success is the starting point leading to the formal objectives represented by this concept. Hence, the concept of formal objectives is centred around the main objectives. This objective is divided into three main topics. Firstly, there is the quality of an organisation. This is to be understood as a requirement in terms of a quality concept, where goods and services that are provided have to satisfy beneficiaries' requirements according to economic requirements. Schwarz reiterates that in this concept the former has priority. The next objective in this section is quality as a management concept. This concept comprises the ability of structured and organised auditing, steering, and control at an organisational level. The highest level of quality gained by adding onto the corporate philosophy and guiding principles of business behaviour, is the concept of Total Quality Management (TQM). Schwarz points out that the core objectives of a non-profit, is the ability to adapt to changes in the organisations' outer environment as well as to intra-organisational needs. This involves continuous improvement of work processes, organisational structure, strategy, and orientation towards goals. Continuous improvement calls for flexibility of both management and employees and allows adapting to changing conditions. The third aim focusses on the ability to advance and develop the organisational outcome further and to enhance innovations.

The next objective is the focus on the purpose of the organisation. This objective is divided into two subjects. To start with, there is effectiveness where an organisation asks itself: 'are we doing the right thing?'. It is important to note with this subject that managers and staff need to reflect the outcome of work in terms of generating benefits for stakeholders. For this, nonprofit staff have to measure the

achievement of results intended by providing services and goods. The organisation needs to focus on aiming for its targets in this sense.

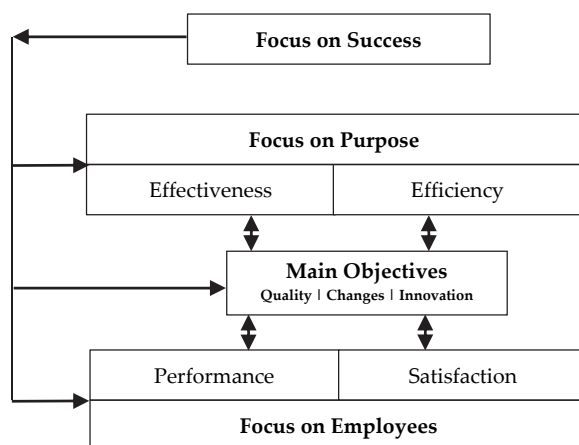


Figure 7: Formal objectives of nonprofit organisations (Amended from Schwarz, 2001, p. 46)

The second aspect with respect to the purpose of an organisation is efficiency. This comprises not only the principle of saving resources, but also the careful use of resources of every kind. For this, Rothschild (2012, p. 142) claims ‘to spend money wisely, we need to know the economic value we’re creating with those social benefits’. Such requirements force an NPO to rethink its business behaviour. In contrast to a for-profit, where there is an incentive to reduce costs for the sake of profits, nonprofit leadership has a weaker financial incentive to economise and will increase revenues to match increases in costs (Galaskiewicz *et al.*, 2006, p. 340). However, efficiency demands making the hard choice of whether or not to discontinue services and goods. The problem here is that ‘non-profits institutions generally find it almost impossible to abandon anything. Everything they do is “the Lord’s work” or “a good cause”’ (Drucker, 1990, p. 111). In the area of efficiency, Schwarz compels NPOs to find an answer to the question: ‘Are we doing it right?’.

The final section is on employees of NPOs, which is also divided in two parts. Firstly, there is satisfaction of employees. In an interview conducted by Child *et al.* (2014, p. 6), one of the respondents that runs an NPO claims: ‘When you think “business”, you think the sole motivation is to make money, which is not what we were’. This statement is similar to a suggestion made by Schwarz (2001, p. 46) who

remarks that the need of nonprofit employees to strive for self-actualisation. Furthermore, he identifies recognition, social security, and autonomous decision-making as key for employee satisfaction. The second aspect is employee performance. Schwarz mentions that satisfaction is key to optimising performance in an organisation. Hence, the organisation has to motivate its employees in different ways: employees are required to adopt the goals to successfully support the purpose of an organisation. Therefore, the organisation's intention should lie on optimal utilisation of employees' skills. This also includes task fulfilment to the best of their ability.

In short: Anheier (2000, p. 13) states that 'non-profit organizations are different from businesses not because they are simple, trivial organizations, but because they are more complex. Having multiple bottom lines, they are in tendency also multiple organizations'. However, Anheier (2005, p. 228) claims 'the number will depend on the mission, objectives, task environment, number of significant stakeholders, and structure of the organization'. To keep it short, Drucker's claim that NPOs miss the bottom line appears to be founded and unfounded in the same way.

2.2.2 Markets of NPOs

2.2.2.1 Environmental framework

The following section deals with the outside world affecting nonprofits. The adjacent areas in particular will be discussed on basis of a company's environmental model (Zelweski (1999, p. 67), see Figure 8. It is important to understand that the model introduced by Zelweski is based on the environment of economic entities. In other words, for the purposes of this dissertation, certain aspects have to be added for a better understanding of the 3rd sector organisations' environmental system.

In general, with economics, a market is either perfect or imperfect. According to Graf (2002, p. 67), a perfect market requires not only the availability of homogeneous goods, but also complete information transparency with respect to all relevant information, non-restrictive market accessibility, and lack of

preferences between the supply and demand side. However, he concludes that a perfect market is a concept without a counterpart in reality, thus, like every economic entity, an NPO operates in so-called imperfect markets.

Zelweski's model of a company's environment as shown with Figure 8, comprises two sub-systems with an organisation's outer world. On the one hand, there is the environmental system, where social surroundings and nature are the key elements. These sub-systems are the interface where an organisation interacts with its natural environment: social environment means interaction with stakeholders, like civic society and government. The natural environment is where one lives and works; it is literally the place from which water is drawn from a well and where one can meet other people. On the other hand, there are markets where economic entities either buy factor inputs or provide services and goods.

Wöhler (2015, p. 42) suggests seven forces that a nonprofit faces on the markets:

- Suppliers: scholars, service provider, and creative minds
- Beneficiaries: members and non-members
- Substitutes: web services, consultants, other data bases
- Government: legislator, sponsor, funder, enabler
- Politics: key allies and opposition
- Competitors: global operation NPOs and local branch organisations

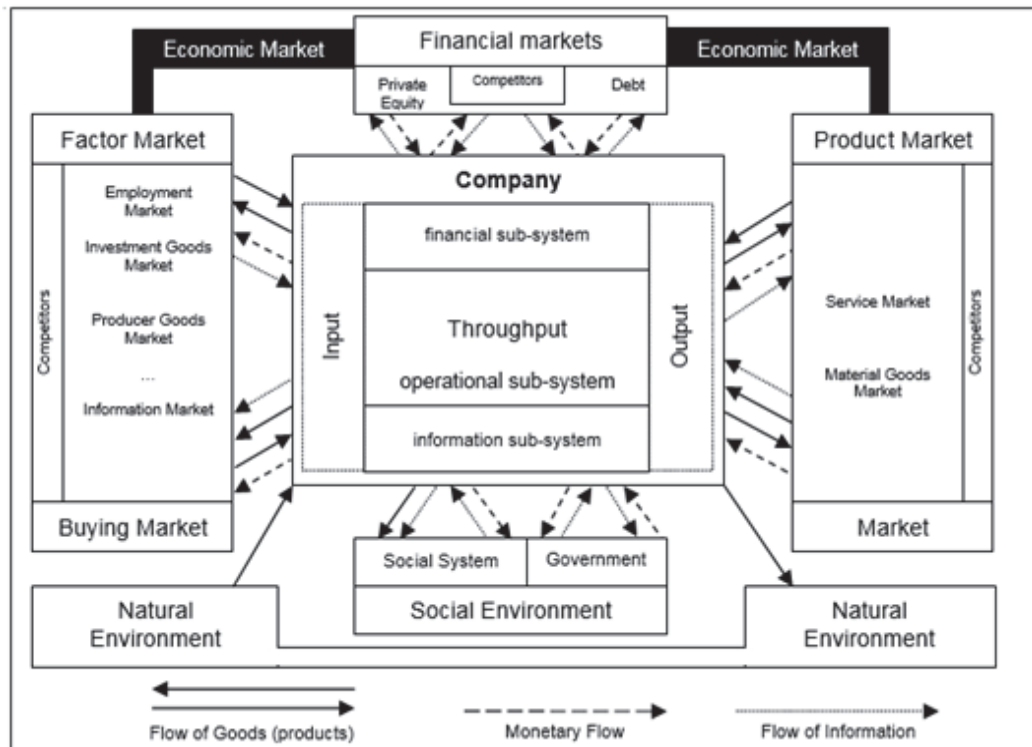


Figure 8: A company's environment (Zelweski, 1999, p. 67)

All these entities operate in the same fields in which an NPO works, thus, organisations have to focus on both providing services and goods, as well as keeping operations in balance.

2.2.2.2 Markets of exchange for NPOs

A speciality with nonprofits is the medium of exchange on the markets, which is usually money in the case of economic entities. This means that NPOs may receive donations that are either tangibles and/or intangibles assets from other sector entities. Particularly with the market for charitable contributions, which is the market of exchange on demand and supply for donations, Zimmer and Priller (2007, pp. 215–216) point out a problem for small- and medium-sized nonprofits: the market in Germany is relatively stable in relation to the total amount of donations. Deviations are possible as recently seen in Germany, where donations increased from 2014 to 2015 by about 11.7% (GfK, 2016, p. 10). However, most

donations are given to welfare organisations that run fundraising campaigns. This is why small and medium-sized NPOs return empty-handed (Zimmer and Priller, 2007, pp. 215–216).

Zelweski (1999, p. 67) specifies at least four different buying markets. Firstly, there is the factor market, which refers to markets where resources of a different kind are bought and sold. In fact, this segment deals with deployment of labour, information, raw material, producer and investment goods. The employment market is the place where NPO employees and organisations deal with demand and supply in terms of labour. The parties interact in a manner where workers compete for jobs while organisations are challenged to find the perfect candidate. What is meant by perfect with respect to nonprofits is discussed in Section 2.1.5.2: NPO employees align themselves fully with the requirements of an organisation's mission and vision statement. The special character of an employment market for NPOs is that entities not only recruit paid staff but also unpaid staff.

To put it more simply, there is a market for clerical workers and craftsmen and a German volunteer will most likely not apply for a voluntary job in Spain even though the requirements of professional competence are met. The consequences are that there is not one general market for employees, but different markets in local areas. Far more than this, the employment market, like every market, is divided into further sub-markets (Graf, 2002, pp. 53, 63). In this sense, NPOs have to hire personnel on different labour markets with specific unwritten rules. A nonprofit receives donations from this market: on the one hand, the cost of unpaid staff is per se rather low in comparison to paid staff. On the other hand, it is assumed that paid staff will donate a great part of their wages to the success of the organisation (see Section 2.1.5.3.1).

The producer goods market and investment goods market is where organisations purchase tangible goods as input factors for producing services and goods. This may be machines, raw materials, supplies, and other production material. Nonprofits meet different suppliers on this market: economic entities, the government, other nonprofits, and finally, civilians. They either buy or receive donations for the sake of an organisations' purpose.

The second buying market is the financial market. This market distinguishes between capital market and money market. The capital market deals with equity and debt instruments, which are medium-term and long-term financial instruments. The money market deals with short term financial supply and smaller amounts of capital (Brealey *et al.*, 2009, G2, G8). However, for an NPO, there are more sources of financial support available in comparison to a FPO. Despite the financial market, nonprofits may receive donations which can be given either by public authorities or by private entities. In most countries, public authorities also grant privileges to proven welfare organisations in the form of tax benefits (Augsten, 2015, p. 45; Littich and Schober, 2013, p. 303; Schwarz, 2001, p. 38; Bryce, 2007, p. 114). For instance, with respect to the United States (US) tax system, Salamon and Anheier (1996a, p. 10) mention: ‘... the nonprofit sector is often referred to as the tax-exempt sector in the United States. This term is probably the most accurate in technical terms since, as will become clear below, it is largely through the tax laws that these organizations have come to be legally defined in the United States. In particular, the federal tax code identifies some twenty-six different classes of organizations that are entitled to exemption from federal income taxation. The problem, however, is that the idiosyncrasies of American tax law make this a difficult term to use in cross-national work since it does not really identify a conceptually coherent set of institutions’. Likewise, the state provided cash subsidies to a nonprofit in the case of its purpose being for the welfare of the public (Schwarz, 2001, p. 38).

Finally, there is the product market. This is the market place where market participants provide their final goods or services to other sectoral entities or individuals. As illustrated in Figure 6 nonprofits may serve both members of the organisation as well as non-members. The non-members section is also divided into four parts and comprises government entities, market entities, civic society as a whole, and finally, the individual. The beneficiaries may be either people in need or consumers that utilise the goods for the own sake.

In general, a company enters a market because either economic entities as well as the government may fail to serve the market (Douglas, 1987, pp. 43–54; Salamon, 1995, p. 39). In this manner, it is suggested that sectoral entities do not have the capability to provide certain goods, are not willing to serve consumers’

need, and may face a lack of profitability. The theory of market failure also applies to NPOs in both ways: nonprofits enter into the market to serve the need of civic society, disregarding the necessity of generating financial profits. Vice versa, NPOs are also not immune to failure in the provision of services (Pennerstorfer and Badelt, 2013, p. 111). This may lead to enterey and domination by other sectoral entities (Child, 2015, p. 16) or discontinuation of the services or goods (Pennerstorfer and Badelt, 2013, p. 111).

To summarize, nonprofits simultaneously serve markets as for-profit-organisations and the government. As reported by Witesman and Fernandez (2013, p. 689) they ‘find no significant differences in performance between nonprofit and for-profit contractors in terms of cost, quality of work, responsiveness to government requirements, legal compliance, or customer satisfaction’. The main difference between other sectoral entities – markets in NPOs sense – are not only places to source and exchange, but also places to meet their stakeholders.

2.2.2.3 *Supply of goods and services*

In this section, some details on the three sectoral players introduced in Section 2.1.1.1 will be given. The question may arise of how and why their entities co-exist and co-operate with each other. Firstly, there is another question to discuss: why do 3rd sector organisations even exist and why do they produce goods? The definition of the term good, will be used according to Graf (2002, pp. 6–12) and Cowen (1999, p. 3), also see Figure 9: a good is something needed by people that is either a tangible product or an intangible service. The distribution of scarce resources known as rivalrous goods requires bartering arrangements while non-rivalrous goods can be distributed without losses to clients and customers. Finally, there are non-excludable goods that are available for everyone, where excludable goods are supplied to specific customer groups.

| | | excludable | non-excludable |
|---------------|--|---|---|
| rivalrous | | Private goods e. g. clothing, cars, parking space | Common-pool resources e. g. fish stocks, timber, coal |
| non-rivalrous | | Club goods e. g. cinemas, private parks | Public goods e. g. national defense, town lighting |

Figure 9: A goods dimensions (Amended from Cowen, 1999, pp. 1–6)

As already indicated, there has to be a reason why 3rd sector organisations exist and why such organisations provide goods to the Public. This comes into question because their share of Gross Domestic Product (GDP) is rather low in comparison to both the market sector and government (see Figure 10).

Nowadays, the third sector is a respectable market area, at least in central Europe. On a 36-country average, 4.4 % of the total economically active population work for a third sector organisation. A closer look suggests that the proportion of the workforce in developing and transitional countries is far below at 1.9%, while the 3rd sector workforce in developing countries is at 7.4 %. (The Johns Hopkins Center for Civil Society Studies, 2004). According to the World Bank, the total expenditure of the nonprofit sector in Spain can be approximately calculated at 27.6 billion USD (2002, p. 11) while the total GDP was about 705.1 billion USD. In Germany, about 2,3 million employees work in this market segment, which contributed almost 4.1 % to the Gross Domestic Product (GDP) in 2007, see Figure 10 (DESTATIS Statistisches Bundesamt, 2012, p. 214).

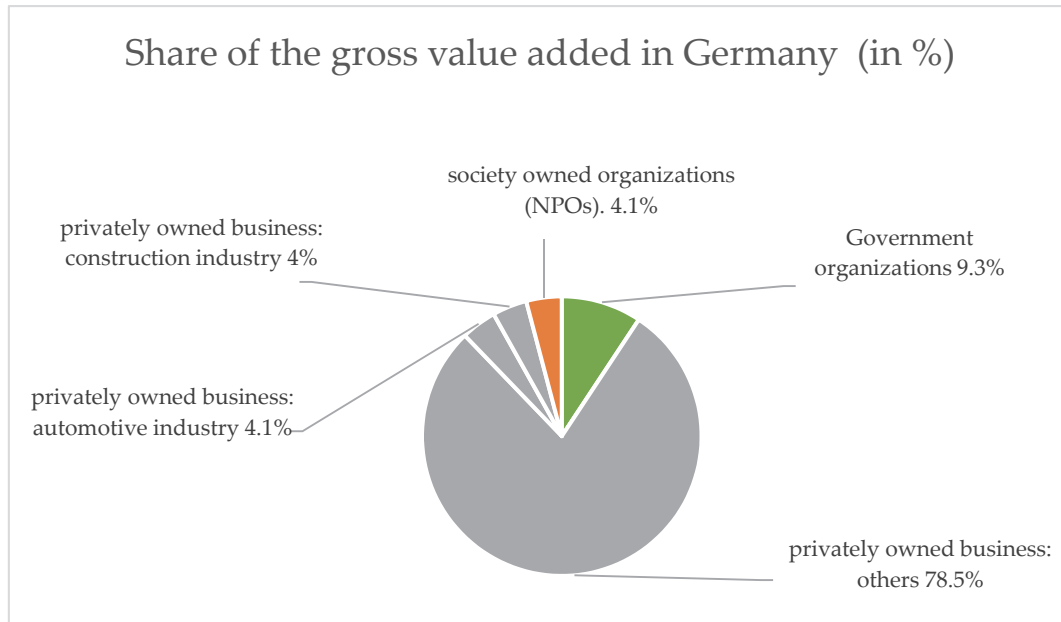


Figure 10: Economic importance of the third sector in Germany, 2007 (DESTATIS Statistisches Bundesamt, 2012, p. 217)

Generally speaking, economic science links the existence of 3rd sector organisations to the market failure theory (see Chapter 2.2.2.2). Bator (1958, p. 351) noted that ‘typically, at least in allocation theory, we mean the failure of a more or less idealized system of price-market institutions to sustain “desirable” activities or to estop “undesirable” activities’. As a consequence, each market entity will produce the exact amount of goods required. This objective is known as market equilibrium (Graf, 2002, pp. 53–55). As a matter of fact, only goods which are capable of being marketed will be produced by the market organisations.

The contrary is so with public goods provided by the government and its legal entities. Graf (2002, p. 133) notes on their requirements analysis relating the delivery of goods to the public that it is not necessarily driven by market rules. Moreover, Douglas (1987, pp. 43–54, cited in Bryce, 2012, p. 24) argues that there are several reasons for government failure on providing public goods:

- ‘1. Government provides goods on a universal basis and therefore persons with particular needs are not likely to be satisfied.

2. Government responds to the majority rule in satisfying needs but leaves the particular needs of minority groups unsatisfied.
3. Government officials are elected for short terms, hence they tend to focus on short-term needs, leaving some long-term needs unattended.
4. Government bureaucrats do not have all of the relevant information.'

In other words, the government neither recognises nor satisfies the needs of their citizens to their full extent. Douglas therefore suggests putting mediating organisations in place because 'government is too large and impersonal' in the sense of proximity to customers.

NPOs can be those to fill the described gap and to act as mediators. 'The existence of NPOs can be explained by their deviations from the standard economic model of the firm – NPOs do not have access to equity capital, they do not distribute resources to owners, their presence is often attributed to individuals or groups who perceive market or government failure in specific services' (Ig *et al.*, 2004, p. 9).

On the one hand, Pennerstorfer and Badelt (2013, p. 111) suggest that market failures may not necessarily be compensated by nonprofit organisations, and on the other hand, they claim that nonprofits fail because of philanthropic insufficiency. In this sense, Bryce (2012, p. 24) notes 'that government and firms are the results of the failure of the nonprofit sector due to the amateurism, the dominance of founders, insufficient funding, and the tendency of nonprofits to focus on special groups. These "failures" create the need for government and sometimes firms'.

However, facing the fact that nonprofits are driven by something meaningful, as mentioned in Section 2.1.2.2, 'they can make decisions that purely commercial enterprises might avoid, such as providing funding to social businesses or willingly sharing information with socially responsible fund managers' (Child, 2015, p. 16).

2.2.3 Relevance of assets for NPOs

2.2.3.1 General thoughts on assets

This section deals with assets of organisations and their vital and strategic requirement for NPOs. Commonly speaking, the term assets comprises both tangible assets and intangible assets that 'are used to serve a business or organizational function' (Hastings, Nicholas A. J., 2010, p. 3). An asset 'is an item, thing or entity that has potential or actual value to an organization' (ISO, 2014, p. 2). Furthermore, assets are basically subject to risks: for instance, there are costs in general, risks of acquisition like scarcity and the resulting unavailability of goods required, and finally, risks with logistics, i.e. storage and transport, where reduction of quality of goods may arise (Graf, 2002, pp. 6–8; Koether and Augustin, 2008, pp. 399–400).

There are current assets like materials work in process, finished goods, and cash or non-current assets, that are "physical item[s] which [have] value over a period exceeding one year, for example, buildings, plant and machinery" (Hastings, Nicholas A. J., 2010, p. 3). The distinction of assets is also according to their appearance, which is either tangible or intangible. According to the International Accounting Standard (IAS) 16, tangible assets 'should be recognised as assets when it is probable that: it is probable that the future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably' (IAS Plus, 2014a, 16.7). In business, tangible assets are countable and fiscally reported yearly. These can be short term oriented assets like accounts receivable, cash, and inventory or long term oriented assets like equipment, property, and goodwill. The tangible assets are typically listed under property, plant, and equipment in a balance sheet.

2.2.3.2 Specifics on intangible assets

Intangible assets have to be reported in balance sheets, but there are some underlying restrictions. This means, according to IAS 38.12, that an intangible asset is to be reported when it is separable, meaning that 'a) capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract or b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and

obligations' (IAS Plus, 2014b). This restrictive aspect does not reflect the usual sociological, economical, and political understanding of intangibles. Hence, the focus on intangibles in this dissertation lies on a more broad and economic perspective as discussed hereafter

Lev (2001, p. 5) states on intangible assets, that they are 'a claim to future benefits'. He notes as a further characteristic on intangibles a physical absence, hence, a lack of embodiment. According to Lev all immaterial assets 'that generate cost savings are intangible'. This could be suitable for a brand, a patent, and in some cases organisational structure. McClure (2010) mentions that despite the lack of tangibility an intangible 'can prove very valuable for a firm and can be critical to its long-term success or failure'. Another characteristic of intangible assets is a nonrival deployment. Indeed, such assets can be used at different places and by different users at the same time. The advantage of multi-use 'does not detract from the usefulness of the asset in other deployments' (Lev, 2001, p. 22). However, the multi-use character implies a negative side-effect: 'nonowners can rarely be perfectly excluded from sharing the benefits of intangibles' (Lev, 2001, p. 37). In other words, nonowners are probably in the position to make use of the asset and earn benefit of an item which is not in their possession, thus, Lev suggests that 'nonexcludability gives rise to spillovers' (Lev, 2001, p. 37). He further points out to the operational costs of intangibles, where 'many intangible inputs have zero or negligible opportunity costs'. However, the advantage lies in their high potential for operations. An analysis done on Research & Development in the chemical industry turned out that 'one Dollar invested [...] returns two Dollar operating income' (Lev, 2001, p. 53).

With respect to strategic relevance of intangible assets, Kaplan and Norton (2004, p. 211) suggest measuring their value 'not by how much it costs to create them or how much they are worth on a freestanding basis'. In fact, they suggest focusing on 'how well they align to the strategic priorities of the enterprise'.

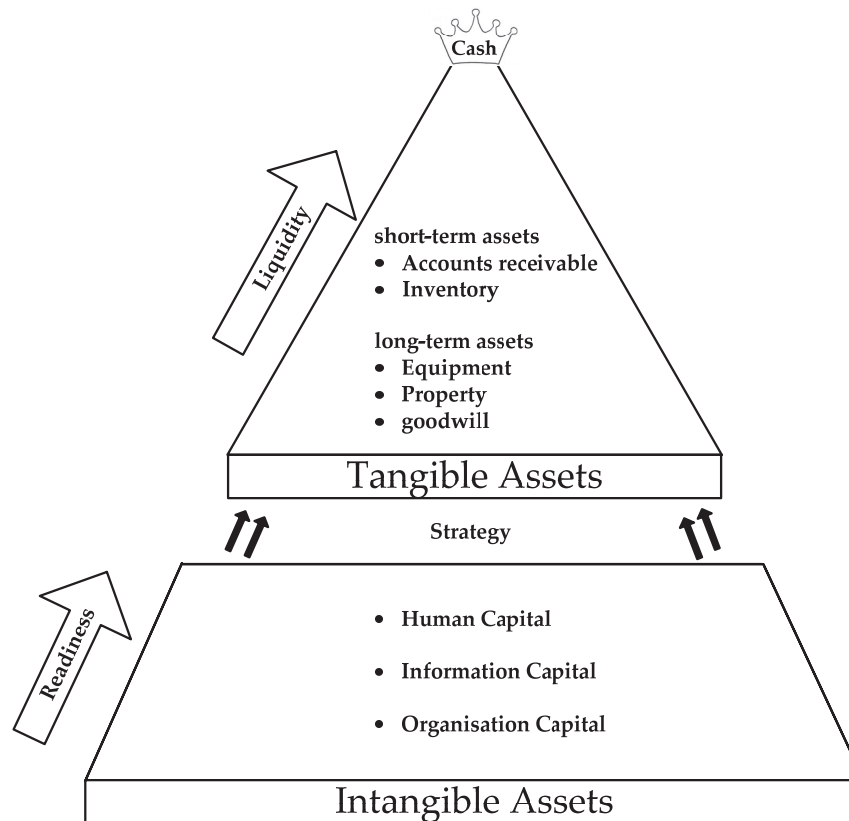


Figure 11: Framework for measuring intangible assets of for-profit-organisations (Kaplan and Norton, 2004, p. 212)

Furthermore, Kaplan and Norton (2004, pp. 211–213) point to a constraint with the power of value creation of intangibles. For this, they introduce the relation of intangibles and tangibles through the strategy of a company, as shown in Figure 11, and they conclude that intangibles ‘get converted into cash’. Moreover, they ‘introduce the concept of strategic readiness’. Therefore, the intangibles become drivers of the strategy: ‘the higher the state of readiness, the faster intangible assets contribute to generating cash’. Thus, the role of intangibles is currently accepted for value creation and as value drivers for companies (Guenther, 2014, p. 4).

In short, intangibles are mandatory for generating cash, regardless of which business is being run and what objectives have to be fulfilled.

2.2.3.3 NPOs and intangible assets

The question of how strongly NPOs' success is linked to intangible assets needs to be evaluated. In general, nonprofit-organisations do not only generate cash by selling goods and providing services. Littich and Schober (2013, pp. 301–302) distinguish between mission-based and non-mission-based earnings: mission-based earnings are membership fees, donations of any kind, tax deductions, contributions through Corporate Social Responsibility activities by economic entities, and dividend payouts, to name a few. Littich and Schober call suggest non-mission-based earnings such as interest rates, leasing receipts, dividends, and earning from commercial activities. Following this, it becomes obvious that NPOs not only rely on tangibles, but also on intangibles to run their businesses.

Among others, Pike *et al.* (2005, p. 111), who have conducted research on the business aspect of Research & Development (R&D), conclude that intangible assets are strongly required for target achievement of service-driven companies. Neubert and Skaanes (2016, p. 11) identify most Swiss NPOs as service companies, which on average report a balance sheet total of about 94% on financial assets. In turn, about only 6% of assets held by NPOs are fixed and current assets. Domański (2009, p. 86) proposes that intangible assets are key to the success of service companies like nonprofits. He also refers to Ashton (2005), who 'examines intangible value and its ties to financial outcomes' (Domański, 2009, p. 86) of FPOs: 'the most important assets, i.e. those giving the organization a competitive edge, are the ones that meet the following four criteria: they should be valuable, rare, inimitable and the organization must be organized to deploy these resources effectively' (Domański, 2009, p. 86). He summarizes that 'since these assets play such an important role in a modern organization they cannot be disregarded as a component of the value of the whole enterprise. The company's managers should be both aware of the existence of these intangible assets as well as possess the knowledge regarding their current value. The value of intangible assets is becoming one of the management parameters and manager in the non-profit organizations should focus their activities on it'.

In short, NPOs require both tangibles as well as intangibles to provide products and services. However, as an important finding which will be return later on in Chapter 4.2.2, a key for value creation is mainly on intangibles for nonprofits'

success. To be more specific, 'the nonrivalry [...] attribute of intangibles [...] is a major value driver at the business enterprise level as well as the national level' (Lev, 2001, p. 23). In other words, intangible assets are commonly the key value driver for nonprofits.

2.2.4 Accountability and effectiveness

2.2.4.1 An introduction on NPOs accountability

The following chapter discusses the requirement of sufficient reporting in terms of stakeholders' needs. An NPO is a legal entity that is responsible for reporting on its efficiency and effectiveness to members, government, and society (Valentinov, 2011, pp. 34, 40-41). In Germany, the obligation to report to members and tax authorities is regulated by German law, namely the Bürgerliches Gesetz Buch (BGB), the Handelsgesetzbuch (HGB), Einkommenssteuergesetz (EStG), and the Abgabenordnung (AO) (Balg, 2017; Stötzer, 2009, p. 250). The laws specify relevant accounting framework, especially with relation to type and scope of the organisations' size, appropriate accounting measures, time of record keeping, and retention obligation. The accounting measure, for instance, depend not only on the legal form of the organisation, but also on its yearly amount of sales and profit.

The German reporting standard focuses on tangible assets, while intangibles are solely activated by the goodwill of acquisition of another company. The non-material value within the company is not to be disclosed in the balance sheet, and because of this it is hidden from the company's stakeholders. In other words, intangibles are key to the success of NPOs, as introduced in Section 2.2.3, even though the reporting standard according German law lacks sufficient reporting for the value of intangibles (Stötzer, 2009, pp. 251, 320). This is also true for other reporting standards like the IAS, introduced in the previous section. Even specialised accounting standards like the Swiss GAAP FER 21, which is not applicable in Germany, dismisses a sufficient framework to report fully on intangible assets (Stötzer, 2009, pp. 274–275).

ZEWOforum (2010, pp. 6–7) reiterates the complexity of performance measurement in relation to an NPO's mission-based objectives. It is stated that

sufficient reporting has to address both financial success and also organisational achievement. Stötzer (2009, pp. 227–229) and Schauer (2011, p. 216) mention another advantage of comprehensive reporting: it is critical success factor to be transparent in terms of activities and behaviour against the stakeholders. Moreover, it supports building trust between an organisation and its stakeholders. Trust, according to Luhmann (2000, pp. 27–29), is in need to reduce the complexity of reality. In other words, Stötzer recommends disclosing a complex and difficult past to prepare stakeholders for an uncertain future. For sufficient disclosure measurement, she presents five categories of trust-building measures including a selection of sufficient communication models. A short introduction on reporting options for the German market will be given in the next section.

2.2.4.2 *Accounting standards and efficiency reporting*

To begin with, there are the charity seal of approval, quality management certificates, and labels. In Germany, there is the charity seal of approval which is a quality label for voluntary certification of nonprofits by the Deutsches Zentrum für soziale Fragen (DZI). Its main target is to protect donors as well to protect donations from misuse (DZI, 2016b). This measure requires a candidate to verify respectful use of financial resources. For instance, a candidate has to prove that a maximum 30% of donations received are taken for the expenses of administration and marketing (DZI, 2016a, p. 17). Thus, a DZI candidate is obliged to optimize the cost-benefit ratio along its value-chain. Stötzer (2009, p. 242) verifies the relevance of charity the seal of approval granted by DZI. In conclusion, this measure is mandatory to underline an organisation's effort with respect to the use of funds and accounting. However, she also points to a lack of reporting on quality of services and efficiency that may return limited information on a nonprofit's work. Furthermore, Stötzer discusses the relevance of quality management certificates such as those according to the International Organization for Standardization (ISO) 9001 or the Business Excellence Modell of European Foundation for Quality Management (EFQM). These commonly recognised quality management systems support an organisation in focusing on its business processes and ongoing improvement. The ISO 9001 standard series relies on external monitoring while the EFQM model allows self-assessment and internal development (Zech, 2015, pp. 12,

14). The advantage of the EFQM model lies in benchmarking different organisations in the same market sector, due to the fact that development stages are documented on a point's basis. Additionally, Schwarz (2005, p. 90) adapted the standard model for specific nonprofit demands regarding specific requirements of the third sector. A management label as mentioned in beginning of this section, is established by the Swiss Verbandsmanagement Institut VMI (2017). It is also awarded to organisations in foreign German-speaking countries, i.e., Germany and Austria. Its focus lies on the management of an NPO and follows the certificate structure of EFQM, even though it is less extensive in type and scope.

Secondly, there is accounting and reporting as trust-building measure for a NPO's stakeholders. As stated in beginning of this chapter, the accounting standards in Germany do not focus on specific requirements of donating stakeholders. For large organisations, the tax authority claims an activity report and, among others things, Werner (2006, pp. 26–30) recommends providing an additional situation and progress report for nonprofit organisations of all sizes. The private Institute of Public Auditors in Germany (IDW) publishes a statement IDW RS HFA 14 'Rechnungslegung von Vereinen' that discuss the requirement of NPOs' stakeholders to receive a true and fair view of relevant information in due time (Stötzer, 2009, p. 252; IDW, 2014). However, most of these reports are optional for an organisation and require a great deal of time and effort to prepare. It can be assumed that only large and transnational organisations will undertake the effort to provide such reports. In turn, small organisations like a local pigeon and poultry breeding association, will most likely avoid the burden of such extensive reporting.

Thirdly, Stötzer (2009, p. 228) while reviewing several authors, describes different reports and she notes that these reports become necessary for stakeholder communication because of the lack of information with standard reporting as already mentioned above. Stötzer discussed the following standards:

- Social balance (Stötzer, 2009, pp. 276–290), which may be a supplement to the balance sheet to provide details on corporate actions undertaken in terms of social objectives, measures, and achieved goals. By reviewing different authors she concludes that social balance is almost impracticable for an entity to provide a sufficient report.

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- CSR reports / ratings (Stötzer, 2009, pp. 290–294), is a report on projects and measures relating to economic, ecological, or social issues by the organisations. According to Stötzer, nonprofits do not face weaknesses by implementing CSR reports.
 - Sustainability reporting and environmental accounting (Stötzer, 2009, pp. 294–307) focus on ecological, economical, and social requirements, and contrary to CSR reports, it is more focused on environmental activities. Stötzer not only discusses the disadvantage of voluntary reporting, but also the fact of fashionable management words. The latter points to a problem due to the fact that there is a lack of joint standards and, therefore, a risk of a one-sided and false positive presentation instead of a true and fair view in terms of activities and measures implemented by a firm.
 - Promotion plan (Stötzer, 2009, pp. 308–318), this concept is based on Patera (1986) and dedicated to a cooperative as a specific type of NPO. Patera introduces comprehensive reporting to provide information relating the cooperative mission of promoting the members and cooperative democracy. Stötzer highlights that despite the excellent concept, only a small number of cooperatives use it for stakeholder information.
 - Member value reporting (Stötzer, 2009, pp. 318–320) is a concept based on Theurl (2002) and focuses on cooperatives as a specific type of NPO. The core of this reporting concept is with a threefold approach on management issues, performance and situation status, and review on projects of sustainability including risk management and financial management. Stötzer positively outlines the concepts' highly member-oriented approach and smooth integration with financial reporting.
 - Intellectual capital reporting (Stötzer, 2009, pp. 320–327) covers reporting requirements of the intangible asset knowledge within the company. This comprises a) human capital, which relates to members of staff and their knowledge and skills, b) customer capital, which is about the relationship with customers, knowledge of their specific interests, influence with professional associations, c) structural capital that contains not only business processes, infrastructure but also quality of services (Hasler Roumois, 2013, pp. 214–215). Stötzer points to the advantage of intellectual capital reporting through

improving steering and control of performance indicators. However, the disadvantage lies with great effort of this undertaking as well as the lack of commonly accepted standards. Furthermore, Hasler Roumois (2013, p. 216) points to the risk of an apparent objectivity of key figures reported, yet these are based on subjective data sets.

It is problematic that the German accounting standard is limited through tax laws and financial regulations. Certainly, a report to members is given during annual meetings, however, such reports are usually not standardised. Recently, since January 2017, a legal regulation has been implemented for a very specific group of companies (see Chapter 3.6). Nonetheless, commonly accepted reporting standards are available. These are either of very broad in their extent or very specific with regards to organisational form. Finally, there are doubts raised of whether key social figures that are reported meet reality due to their subjective number basis (Kölsch and Roehrkohl, 1996, p. 35; ZEWOforum, 2010, p. 7).

2.2.5 Organisational success in the context of stakeholders

2.2.5.1 General notes on the financial contribution and impact of stakeholders

This section gives an overview of the NPOs' achievement caused by stakeholder influence and success made possible by their acceptance. The relevance of stakeholders on organisational success depends on both organisational finance as well as sanctions in case of misconduct. Even though this is true for both parties, the focus specifically lies on donors.

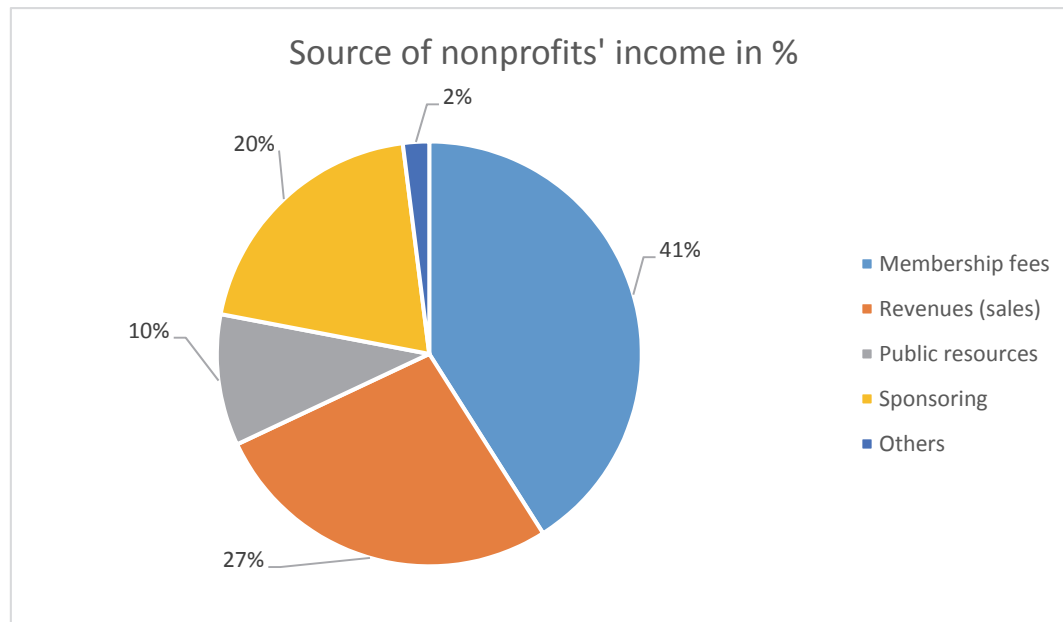


Figure 12: Source of nonprofits' income in percent (Amended from Priemer *et al.*, 2015, p. 15)

The impact of stakeholders on organisational finance sources comes to light when looking at incomes sources of NPOs in Germany: about 41% of the total income is from membership fees and sponsoring membership; the public resources like tax deductions, project funding, and cost reimbursement by the government contributes 10% on a NPO's income. The financial sponsoring amount is about 20%, whereas donations in kind are excluded in this figure. The revenue earned through products and services is at 27%, and finally other sources like donations by the way of inheritance or fines for social purposes make up 2% of the total share. To recap, an average of 73% of nonprofits' income depends on activities outside the product market/non-mission-based market. These figures, as noted, report the average for all nonprofits in Germany. In fact, about 37% of German NPOs' main financial source is from membership fees and sponsoring membership (Priemer *et al.*, 2015, p. 16). This stresses the relevance of internal beneficiaries and their impact for organisational success and, thus, to provide products and service to their certain market.

2.2.5.2 Stakeholders acceptance

Generally speaking, it is obvious that nonprofits receive financial funds through donations from their stakeholders (Schwarz *et al.*, 2002, p. 45; Neumayr *et al.*, 2013, p. 471). Moreover, in some countries NPOs are 'totally dependent on foreign funds' (Hashemi, 1995, p. 108). This raises the question of why donors make these contributions. According to Wiepking and Bekkers (2012) as well as Neumayr *et al.* (2013, p. 475) there are eight partly interrelated reasons to donate.

First and foremost, in some cases donations are given just because a fundraiser is at the right place at the right time. However, in other cases contributions depend on justifiable reasons. There is altruism, which means the donor wants to give without receiving anything in return and only for the sake of doing good, as discussed in terms of employees (see Chapter 2.1.5.3.3). This also implies a requirement to satisfy the inner attitudes, social values, and inner belief system of a donator through mission-based activities. Furthermore, there is generosity where the donator is publicly regarded as generous. In this sense, the donator is going to return something meaningful to society. In both cases the donator is aware of the actual needs of a donee. In other words, a donator expects a positive effect to an activity of an NPO through his donation. On contrary, some donors give for the reason of calculating behaviour. The latter demands an understanding of the role of nonprofits as stakeholders towards their donators. This behaviour is now to be discussed in relation to companies.

Nonprofits often claim to be legitimate representatives for society in their field of operation towards other sectoral entities (Baur, 2011, p. xiii). These sectoral entities have to oppose the 'stakeholder pressures' and NPOs' 'reputational expectations' (Curbach, 2009, p. 172). 'Some theory suggests that nonprofits, as resource-seeking organizations, behave opportunistically in a manner similar to their profit-seeking counterparts. Because excess revenues can be reinvested in the nonprofit, the incentive to grow revenues and cut costs remains' (Steinberg, 1986; Witesman and Fernandez, 2013, p. 692). For this reason it can be assumed that some nonprofits accept donations as a form of bribery with respect to a stakeholders' calculating behaviour. Another facet that comes with generosity from donators is that they turn into powerful stakeholders of organisations by gaining influence on the

organisation's attitude. The intention of the donor is to exploit the recipient organisation by turning it into the donors' public voice. A donor may also influence managerial behaviour, for instance, it is a stakeholder's expectation that profits will be generated as in an economic entity. Even though donors generally accept the not-for-profit attitude, they place the compulsion to succeed. As a consequence, nonprofits are required to document their success, which leads to the demand of reporting on quantifiable key figures and in turn, disregarding qualified secondary objectives (Schober and Rauscher, 2016, p. 262). The latter is discussed as a part of NPOs' professionalising controversy by scholars. Seibel (1992, p. 301) wonders whether the nonprofits' business dilettantism, in his eyes a success factor for such organisations, may either lead to a market shakeout or to a remodelling of organisations aligned with economic market entities in the future.

2.2.5.3 *Loss of legitimacy*

Some scholars clearly warn of a change towards professionalization of NPOs: among others, Zimmer (2016, p. 175) not only suggests an internal change as a consequence, but points to the fact that a change also affects a shake off from the bottom line of nonprofits as introduced and discussed in Section 2.2.1. In this manner, Zimmer suspects that a change may lead to a loss of legitimacy in civil society.

A loss of legitimacy, according to Wöhler (2015, p. 19), once started entails the downwards spiral as shown in Figure 13. The chain of cause and effect between loss of legitimacy and the decreasing level of activity is plausible: when members are dissatisfied with the organisation, they drop out. This not only means a shrinking number of members, the consequence is the loss of donations. Because of the lack of financial funds required, certain activities decrease, such as innovation of new services and products, conduct marketing activities, and other activities to promote public awareness. As a consequence, the level of mission-based activities decrease and an organisation loses legitimacy and the spiral continues downward.

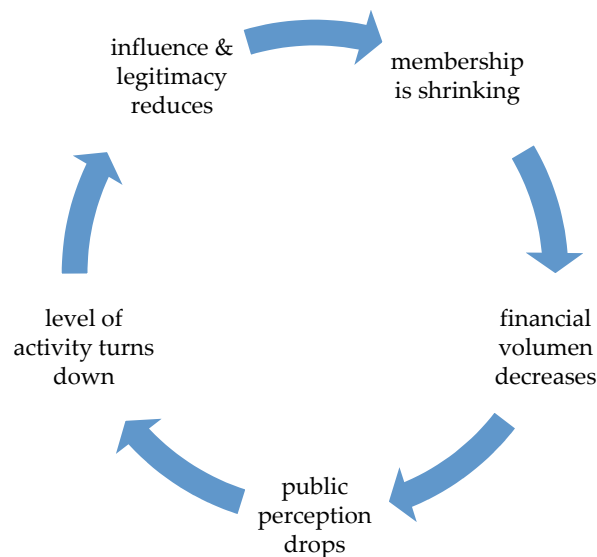


Figure 13: Loss of legitimacy – ‘The vicious cycle’ (Wöhler, 2015, p. 19)

The organisational environment, however, has other options to sanction the misconduct of an organisation. Thus, the member or donor can correct his or her donation performance downwards, that is, give less financials, donations in kind, or volunteer for the association. Due to the individuality of this measure, it may affect an organisation but not necessarily to the point of risking bankruptcy. Furthermore, according to German law, it is also possible for any member to convene an extraordinary meeting with the aim of motioning for the procedure of dismissing one of the members of the Management Board to commence (Bundesrepublik Deutschland, 2017a, BGB §36). In this case, the organisation is given the opportunity to reorganise internal structures and correct errors as a kind of self-healing. The procedure requires new elections of the Management Board and usually the setup of a committee of inquiry. The board, on the other hand, has the power to close the association on the basis of a $\frac{3}{4}$ majority of all members (Bundesrepublik Deutschland, 2017a, BGB §41). In the case of serious violations of law, the code of civil law in Germany permits the dissolution of the association in court (Bundesrepublik Deutschland, 2017a, BGB §43). The initiation of the procedure can be done by the legal authorities (Bundesrepublik Deutschland, 2017a, BGB §37). However, the forced closure by state authorities is the last resort.

There are no statistics available for Germany that report on closures of NPOs. However, seven cases have been documented in state North Rhine-Westphalia in 2011 (Landtag Nordrhein-Westfalen, 2013; Deutscher Bundestag, 2016). On the other hand, the withdrawal of the so-called nonprofit status by the German financial authorities is a basic means of communicating the dubious work of an organisation to everyone. This measure is exercised in Germany even though the number of organisations affected is unknown (Landtag Mecklenburg-Vorpommern, 2016; Landtag Nordrhein-Westfalen, 2013; Deutscher Bundestag, 2012).

Overall, NPOs are highly dependent on their stakeholders, with particular regard to financial support, which has been discussed in this section, to fulfil the mission-based tasks. The outer and inner environment of an NPO has different ways of sanctioning misconduct. This is either a legal action or a personal measure. To put it more simply, this occurs in any case that the work of the organisation is affected and such penalties have an influence on the organisational business continuity as shown in Figure 13.

3 ESSENTIALS OF CSR

3.1 CSR IN BUSINESS ETHICS AND ECONOMIC THEORIES

3.1.1 General notes on business ethics and economic theories

The following section gives a brief overview on a few selected economic theories, with particular respect to responsibility to society. An economic theory is based on business ethics and the latter gives advice and provides guidelines on human behaviour in everyday life. Far more than this, it ponders the question of how sustainable and reasonable procedures may be realised, also with respect to an individuals' responsibility on success (Oermann, 2015, pp. 11, 115). Thus, Oermann (2015, pp. 19–22) identifies business ethics as a helping hand to find solutions for economic dilemmas, where decisions are required on what the right and wrong behaviour is. According to Oermann, this is where the dilemma comes about: the decision of what right and wrong is, obviously depends on an individuals' standpoint, thus the term meets different aspects with economic decision making.

Another facet of ethical conduct in terms of economic aspects appears due to the fact that customers' choices are usually in favour of best price when product quality is equivalent. Economic entities that follow the rules of business ethics bear a higher cost in comparison to their competitors and may lose customers (Lütge, 2014, p. 36). For this reason, Holzmann (2015, p. 87) points to the common economic theory as a requirement of cost-benefit ratio. This means that every activity and every decision in terms of business ethics has to reduce costs for a company, thus, ethical behaviour of a company depends on its outcome. In other words, ethical conduct must pay off.

3.1.2 Most significant business ethics and economic theories

In this sense, the objective of an investment by a company is probably not focused on ethical matters, but an economical approach, even though the outcome of ethical issues would be beneficial (Holzmann, 2015, p. 73). This finding was already identified almost 240 years ago: 'it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest' is certainly one of the most quoted statements by Adam Smith from the year 1776 (Smith and Sutherland, 1790 (2008), p. 22). Smith, who is known as the founder of the classical economies as well as national economies, also coined the term, invisible hand. John Stuart Mill and John Locke, Smith as representatives of the school of liberalism demanded that business should be done on a self-regulating-market without governmental intervention in the economy: 'the statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention [...] and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it' (Smith and Sutherland, 1790 (2008), p. 292).

About 200 years later, the so-called neoliberalism rose as a new edition of the liberalism approach. To name two commonly known representatives of this school of thought, Friedrich von Hayek and Milton Friedman also demand a free market without any regulation and interference from government. In terms of business ethics, Friedman claims that 'the social responsibility of business is to increase its profits' (Friedman, 1970). In his essay 'Why Government is the problem' he explains that 'liberal pundits' blame 'private enterprises' for polluting the earth. Thus, Friedman proposed the comparison of the pollution of air, water, and soil in the former Soviet countries with those in capitalist countries and concludes: 'the difference is not that our government has been more efficient in avoiding pollution; it is that private enterprises find that it is not profitable to pollute; it is more profitable to avoid pollution' (Friedman, 1993, p. 6). Rappaport, another representative of this school of thought, suggested that 'shareholder are us' (Rappaport, 1998, p. 11). The meaning, however, comes to light when looking at the economic market of the United States of America. In contrast to Germany, where in 1998 less than 7% and in year 2015 less than 9% of

the inhabitants owned shares in capital companies (DAI, 2017), in 1998 'about 40% of United States households own individuals stocks or mutual funds' (Rappaport, 1998, p. 11). In this sense, the society of the United States is not only a stakeholder but also a shareholder, thus raising a legal claim and an economic demand on corporations which becomes a universal requirement.

Another school of thought was brought up by Karl Marx in the 19th century. He complained of the oppression of workers and therefore reasons for a change in the economic system. However, he not only demands equal distribution of productions factors, but more than this postulates the conquest of power and ownership through the proletariat (Oermann, 2015, pp. 28–32). Nowadays, there is nothing contradictory between the theory of communism and need of social responsibility from firms in communist states. As an example, a project by the Germany Gesellschaft für Internationale Zusammenarbeit (GIZ) was established between 2007 and 2012 in the People's Republic of China to improve CSR knowledge within the country (GIZ, 2012): 'the Chinese government has acknowledged these challenges and has introduced the model of a "harmonious society" which [...] aligns economic interests with social and environmental interests'.

By the way of contrast, another school of thought on business ethics and economic theory is given by institutional economics and by new institutional economics respectively. A recent representative of the new institutional economics is the author of 'The nature of the firm' Ronald Coase (1937) and Douglass North (1990). Their point of view focuses on social and legal norms that underlie economic activity. With respect to social requirements and a company's stakeholders, Freeman *et al.* (2010, p. 241) points out that 'the recent financial crisis show[s] the consequences of separating ethic[s] from capitalism. The large banks and financial services firms all had CSR policies and programs, but because they did not see ethics as connected to what they do – to how they create value – they were unable to fulfil their basic responsibilities to their stakeholders and ended up destroying value for the entire economy'.

Another theory is the social market economy. This system is the market system of Germany. The social market economy is a socio-political and economic policy model with the aim of combining a free market capitalist economic initiative

with social progress secured by economic performance on the basis of the competitive economy (Müller-Armack, 1976, p. 245). Müller-Armack chose this word combination for the first time in 1946 in his book "Wirtschaftslenkung und Marktwirtschaft", which was finally published in 1947. He designed the social market economy as a 'third form' alongside the governmental based economic steering and the purely liberal market economy. His aim was to embed the market as a 'supporting framework' in 'a consciously controlled, and socially controlled market economy' (Müller-Armack, 1947, p. 88).

Even today, the search for the right approach in terms of business ethics is still ongoing. In this sense, six guiding principles in business ethics defined by Suchanek (2007, pp. 11–12) will finally be introduced with respect to demands on social responsibility:

- One may have another point of view and some do so.
- Humans are moral subjects, they have dignity and are skilled to choose freedom. Moreover, humans are of a physiological nature, gifted with economic thinking, thus, bound to certain conditions.
- One always alter conditions and options for oneself but also for others.
- Only a behaviour that alters the future and keeps oneself's freedom and liberty is reasonable and means responsibility.
- To keep freedom and liberty, one needs integrity, trust, (good) institutions and organisations which are worth to invest.
- One is asked to invest in conditions of good behaviour to ensure social cooperation to a mutual beneficial approach.

The economic philosopher Karl Popper, who during his life had personally accepted and rejected different economic theories, emphasised the criticism of relativism in a lecture held on radio (Popper, 1990). The idea of relativism, as explained by Popper, assumes that there cannot be only one, but rather different truth at same issue, depending on an individuals' perspective. Assuming that Popper is right and there is, nonetheless, only one objective truth, the question of whether Corporate Social Responsibility in the sense of stakeholder value management or shareholder value management, as it will be presented in Chapter

4.2, is either vital for companies or not. To understand CSR as a conceptual framework, a brief introduction is given in the following chapter.

3.2 AN INTRODUCTION TO CSR

3.2.1 An overview on similar concepts

This chapter deals with the basics of the CSR framework with regards to history, definition and conceptual delimitation. The question arises of what CSR has been since Bowen's (1953) publication on Social Responsibilities of the Businessman. Even today, the concept of CSR is continually under development. When in the 1960s and 1970s a CSR activity was a 'giving back to the society' concept, nowadays 'firms see profits as a means to improving society' (Freeman *et al.*, 2010, pp. 257–258). First and foremost, this section will give a review presented by Podszun (2014, p. 55) of similar concepts for a better differentiation in terms of:

- Compliance – a concept that provides behavioural rules. Compliance links legal demands with intra-organisational requirements of good behaviour in terms of internal processes and organisational structure of companies. An implementation is voluntary but widespread especially for large companies due to the abundance of legislation requirements (Quentmeier, 2012, pp. 13–15; Gogarn, 2015, p. 3).
- Corporate Governance – a system of rules, processes, and practices mainly to apply to members of the management. It aims to keep a balance between stakeholders' interests and business requirements by establishing a sustainable management strategy (Quentmeier, 2012, p. 15). In Germany, the standards for corporate governance are given by The German Regierungskommission Deutscher Corporate Governance Kodex (DCGK, 2017). Corporate governance comprises compulsory and voluntary elements.
- Soft law – these are laws, regulations, and guidelines of non-binding nature given by authoritative regulators like the European Commission (EC) or the Organization for Economic Co-operation and Development (OECD). A major difference between soft law and law is in their enforcement, that is to say, soft laws are usually not related to serious sanctions even though soft laws are

- justiciable in court for public officials (Senden, 2004, pp. 3–5; Podszun, 2014, p. 55)
- Code of conduct – a set of rules that defines the behaviour of companies in business practices or specific industries: ‘Codes of conduct are outlines of behaviour that are expected to be followed by the employees within the organization’ (Wulf, 2011, p. 17). In Europe, the term is part of the competition law, and in Germany in particular, it is part of the unfair competition act (UWG) and explicitly emphasised by the EU regulation 2005/29/EC (EU, 2005) that has been implemented. The Code of Conduct, according to Podszun, often links to CSR requirements. Essentially, the application of a Code of Conduct is voluntarily, even though some industries use commonly-agreed rules.

In sum, these concepts provide rules for an exchange between the inner world and the outer world in terms of social behaviour and legal requirements. Although, the concepts only show a very distant relationship to CSR.

3.2.2 An overview of CSR

To get back to the issue of CSR, Matten and Moon explain that CSR activities are not completely voluntary. They introduce the idea of a distinction between voluntary measure and activities by legal requirements. The former ‘refer to corporate policies to assume responsibilities for the interest of the society [...] voluntary, self-interest driven policies, programmes, and strategies by corporations addressing issues perceived as being part of their social responsibility by the company and/or its stakeholders’ (Matten and Moon, 2004, p. 9). They suggest calling this aspect of activities explicit CSR. The latter, according to Matten and Moon (2004, p. 9), is the implicit CSR, where the ‘entirety of a country’s formal and informal institutions assigning corporations an agreed share of responsibility for society’s interests and concerns’. Peter Drucker is alleged to have said that ‘leaders in every single institution and in every single sector [...] are responsible also, however, for the community as a whole’ (Hesselbein, 2006, p. 7). Nevertheless, this request of social involvement is not new to economic entities.

In the Middle Ages, to be an honourable member of society and an honourable merchant, a person was required to act kindly and to donate to the church voluntarily for salvation (Schwalbach and Klink, 2012, p. 224). In this sense, honour is determined by the social environment, through the inner attitude, and also as an individually perceived feeling (see Chapter 2.1.1.2). To be honourable means to possess goodness and to be attached to the community (Schwalbach and Klink, 2012, p. 221). Thus the honourable merchant of the Middle Ages was a socially engaged market participant, even if, of course, the market at that time was quite different to that of today. Under evolving market conditions, the understanding of goodness gets lost, but new social skills are developed with market participants. In particular, the concept of CSR replaces the intentions of an honourable merchant under modern conditions (Lütge, 2014, p. 39).

As it will be discussed in Section 4.2.3, CSR is not only an intangible asset but also a vital value driver, thus, the social responsibility of a firm is 'the field of knowledge that encompasses what amounts to socially responsible actions [which] has been variously described in the literature and elsewhere as corporate social responsibility, corporate citizenship, corporate philanthropy, corporate community involvement, corporate giving, community relations, community affairs, community development, corporate responsibility, global citizenship, and corporate societal marketing' (Idowu, 2009, p. 14). The definitions of social responsibility are just as diverse; in other words, there is no generally accepted definition for social responsibility available (Stötzer, 2009, p. 292; Idowu, 2009, p. 15) and 'it remains to be seen whether there will be ever one' (Idowu, 2009, p. 14). The latter becomes evident when looking at the great number of synonyms for, and vast dimensions there are of social responsibility, as stated by Idowu (2009, p. 16). In fact, he claims that far more than twentyfive definitions were enunciated within a time period between 1953 and 2003.

3.2.3 Why to launch CSR

There is an ongoing dispute among researchers relating the economic advantages of CSR. For instance, Fleming and Jones (2013, p. 1) note that CSR nowadays can be just a future vision, 'because we feel that *corporate social responsibility*

never really began'. Far more than this, they claim that 'if we can make money by "doing good", then it stands to reason that *making money is itself* a path to goodness and may be harnessed to remedy some pressing social problem' (Fleming and Jones, 2013, p. 53). However, there seem to be some good reasons to launch CSR as a company. Because of this, the following section will discuss some reasons for companies to launch CSR activities within their business.

There is a link between CSR and the corporate image and brands, which leads to a firm having a good reputation (Stötzer, 2009, p. 292; Quevedo-Puente *et al.*, 2007, p. 68; Brüggewirth, 2006, p. 141). This not only has a short term impact: 'good firm performance over time consolidates CR [Corporate Reputation] because past fulfilment of stakeholders' expectations generates an expectation of future fulfilment. To generate this expectation, the firm seeks legitimation by adapting its behaviours to the institutional context at each moment of time' (Quevedo-Puente *et al.*, 2007, p. 68). Having a good reputation, according to Stötzer, supports the financial performance by either conducting a sustained stakeholder management or by implementing strategic philanthropic management. El Ghouli *et al.* (2011, p. 2400) stresses the idea that green investors increase the demand for stocks of firms that exhibit better social responsibility. There is also evidence that CSR has a positive impact on creating value for a firm (Bird *et al.*, 2007, p. 202). However, Mahon and Wartick (2012, p. 21) argue that different stakeholder groups, for instance the financial stakeholders and customer stakeholders, would not 'draw the same conclusions [...] about the reputation'. Several scholars (Fauzi, 2009; Rost and Ehrmann, 2017, p. 841; Raupp *et al.*, 2011, p. 521) raise a claim that there is no empirical evidence of a dependency between Corporate Social Performance (CSP), as the outcome of CSR, and Corporate Financial Performance (CFP). In addition it is claimed, 'CSP raises a firm's costs, thereby putting it at an economic disadvantage in a competitive market' (Rost and Ehrmann, 2017, p. 841). Raupp *et al.* (2011) mention that the impact of CSP is hardly to prove since there are no objective measures available to identify dependencies between CFP and CSP.

Several scholars stresses the idea of CSR as concept to prevent risks by mitigating harm from value chain activities (Stötzer, 2009, p. 292; Schreck, 2009, p. 57; BMUB, 2011; ISO, 2010, p. 75). Chahed and Müller (2006, p. 78) suspect financial

losses when CSR is not incorporated into the operations of a firm. In this sense, they further stress the idea of a high contribution to increase company value in terms of CSR activities. McCarthy and Marshall (2015, p. 364) note that 'for the companies in our sample, the benefits and opportunities are clear: Adopting sustainable practices creates positive operational and competitive outcomes. The adoption of these practices can not only minimise harm and maximise benefit for both the environmental and people but can also help companies develop competencies in supply chain sustainability and ultimately long-term operational and competitive sustainability'. This is underlined by Navare (2010, p. 238), who stated on CSR in terms of risk management that 'it is a culture of management that requires the identification of appropriate indicators which can determine the relationships between performance, value outcomes and socially responsible definitions of management action'.

Wu *et al.* (2014, p. 107) further argue that CSR could lower the information asymmetry between managers and investors, which would tackle the lack of transparency in a principal-agent-relation as discussed in Section 2.1.1.2. Schreck (2009, p. 57) considers that a good corporate social performance (CSP) 'can help avoiding negative effects such as consumer boycotts or NGO campaigns. From that perspective, CSR is nothing else than risk management', even though Loew and Clausen (2010, p. 23) argue that CSR is not a panacea, but certainly a step to business excellence. For this, they evaluate CSR in terms of four aspects: good working conditions in relation to employees, environmental protection in terms of reputation issues, CSR activities that is among others risk management, and CSR as a whole. Their findings are given in Table 2.

Finally, Stötzer points to the demands of stakeholders, which in terms of the moral duty of a firm, expect to incorporate CSR activities. Over and above this, a stakeholder may make the legitimacy of the company dependent on its degree of self-initiative. Additionally, stakeholders believe that there is a close relationship between CSR and the concept of sustainability (Wu *et al.*, 2014, p. 107). Thus, supporting a CSR organisation may shed a better light on the stakeholder and stakeholder management.

| Competitive advantage through... | | | |
|---|---|---|--|
| good working conditions | environmental protection | other CSR activities | CSR as a whole |
| | Cost efficiency (energy efficiency, material efficiency) | | Cost efficiency (energy efficiency, material efficiency) |
| | Improved organisation, strengthening legal certainty | Risk mitigation (through responsibility within the supply chain) | Risk mitigation, improving risk management |
| Strengthening of employee engagement | Staff motivation | Staff motivation (through civic engagement) | Motivation of staff |
| Recruiting and retention of high potentials | | | Recruitment and employee retention |
| Improving innovation force | Occasional development of new products | | Support of innovations |
| | Occasional achievement of high market shares by improving and developing products | | New business through new products and opening up new markets |
| | | | Strengthening customer relations |
| | Improving company image and hedging reputational damage | Protection of reputation and brand (through responsibility within the supply chain) | Establishment and protection of image and brands |
| | | | Improvement of investor relations |
| Contribution on business success | | | |

Table 2: Competitive advantage of CSR (Loew and Clausen, 2010, p. 22)

In a nutshell: CSR activities may support a good corporate image and sustains brands, which leads to an improvement of a firm's reputation. Moreover, it potentially has the power to influence a firm's financial situation, even if on the

long run only. CSR is also identified as a concept to mitigate risks and improves principal-agent problems in terms of information asymmetry. Moreover, it is assumed to strengthen relationships to a companies' stakeholder.

3.3 THEORIES ON CSR

The previous section already indicates that there is currently no commonly accepted definition on CSR available. In order to obtain a better overview, the following section will briefly present schools of thoughts on CSR based on a paper by Garriga and Melé (2004), in which they distinguish between four different CSR theories aiming at different targets.

| Type of theory | Approaches | Short description |
|---|---|--|
| Instrumental theories (focusing on achieving economic objectives through social activities) | Maximization of shareholder value | Long-term value maximisation |
| | Strategies for competitive advantages | Social investments in a competitive context |
| | | Strategies based on the natural resource view of the firm and the dynamic capabilities of the firm |
| | | Strategies for the bottom of the economic pyramid |
| Cause-related marketing | Altruistic activities socially recognised used as an instrument for marketing | |
| Political theories (focusing on a responsible use of business power in the political arena) | Corporate constitutionalism | Social responsibilities of businesses arise from the amount of social power that they have |
| | Integrative Social Contract Theory | Assumes that a social contract between business and society exists |
| | Corporate (or business) citizenship | The firm is understood as being like a citizen with certain involvement in the community |

| | | |
|--|------------------------------|---|
| Integrative theories (focusing on the integration of social demands) | Issue management | Corporate processes of response to those social and political issues which may impact significantly upon it |
| | Public responsibility | Law and the existing public policy process are taken as a reference for social performance |
| | Stakeholder management | Balances the interests of the stakeholders of the firm |
| | Corporate social performance | Searches for social legitimacy and processes to give appropriate responses to social issues |
| Ethical theories (focusing on the right thing to achieve a good society) | Stakeholder normative theory | Considers fiduciary duties towards stakeholders of the firm. Its application requires reference to some moral theory (Kantian, Utilitarianism, theories of justice, etc.) |
| | Universal rights | Frameworks based on human rights, labour rights and respect for the environment |
| | Sustainable development | Aimed at achieving human development considering present and future generations |
| | The common good | Oriented towards the common good of society |

Table 3: Corporate social responsibilities theories and related approaches (Garriga and Melé, 2004, pp. 63–64)

First, there are economic theories summarised by Garriga and Melé (2004, p. 53) as instrumental theories. These essentially target three approaches. The best-known representative of the economic theories is Friedman (1970), who, among other issues, comments on ‘the social responsibility of business is to increase its profit’, which becomes widely known as the maximisation of shareholder value approach. Another aspect of this theory is the competitive advantage by Porter and Kramer (2002). This aims for a benefit through social investment to improve the competitive

framework for a better economic position. The competitive advantage approach also comprises strategies that are not only based on the natural resource but also on the capabilities of the firm (Hart, 1995, pp. 986–987). And there is finally the so-called cause-related marketing. This points to strategic collaborations with NPOs which has a major advertising impact.

The representatives of the political theories see the responsibility of companies based on their power within society. In this sense, social responsibility is a similar-contract related relationship between companies and society. This is why an integrative behaviour of companies is expected. This idea relates to the fact that a company without a society would not exist because of interactions. Several scholars (Matten and Crane, 2005; Rego *et al.*, 2011; Sheehan, 2013; Aßländer and Curbach, 2014) suggest that a firm is not only an entity but also citizen within society. The latter leads to legal demands to support society by carrying out sufficient activities.

Several authors also deal with the question of how much a company has to contribute to create a good community. Here different target approaches have also been developed. The stakeholder theory assumes that the company should focus on the requirements of the stakeholders. Another group of scholars states that the most important goal is the common good, that is, the orientation towards the fundamental good in the community. Two schools of thought focus on human rights, working conditions and environmental protection. All in all, this theory is subsummed by Garriga and Melé (2004) as ethical theories.

The concept of integrative theories summarises all ideas that allow for a balance between the demands of the stakeholders and the company. In particular, questions of compliance and legitimacy of a company are discussed. Hence, integrative theories focus on the combination of 'social demands that achieve social legitimacy, greater acceptance and prestige' (Garriga and Melé, 2004, p. 58).

The concept of integrative theories obviously meets the requirements of NPOs needs in terms of a strong connection to stakeholders, their deep rootedness within the society, acceptance and prestige. This is why a sophisticated model will be taken for a sufficient CSR approach. The most adapted CSR model in scientific

literature was first introduced in 1979 by Carroll. It has been altered since then in 1991 by Carroll and once more in 2003 by Schwartz and Carroll. A brief introduction on the basic concepts, relevant changes, and technical implications will follow.

3.4 CSR MODEL AND HISTORICAL DEVELOPMENT

3.4.1 The corporate social performance model of 1979

The three-domain model of CSR as it is known today dates back to Carroll who in 1979 introduced the idea as a four-domain model (Carroll, 1979, p. 499). This chapter gives both an introduction to the evolution of the CSR model used in literature and discussed by scholars over the past four decades as well as an overview of elements of CSR to be use for this dissertation.

In 1979, Carroll pointed out that the domains of economics, ethics, and law have a prominent place in the whole structure of social responsibility. He identified economic demand as the basic requirement, which is the production and supply of goods and services. It is notable that this demand is close to Friedman's 'increasing profit is social responsibility' (Friedman, 1970). The legal domain is defined by Carroll (1979, p. 500) as a further basic requirement, particularly because 'society expects to fulfil its economic mission within the framework of legal requirements'. The law, according to Carrol, 'has also laid down the ground rules – the laws and regulations – under which business is expected to operate'. The third domain of Carroll's CSR concept lies in ethics. He considers that the ethical component of the concept is necessary because there are instructions for action and expectations that are not necessarily described in a law, nevertheless, these are seen as a universally necessity for cooperation on a macro level. However, he also points to the problem that the discussion on ethics can ultimately not been clarified.

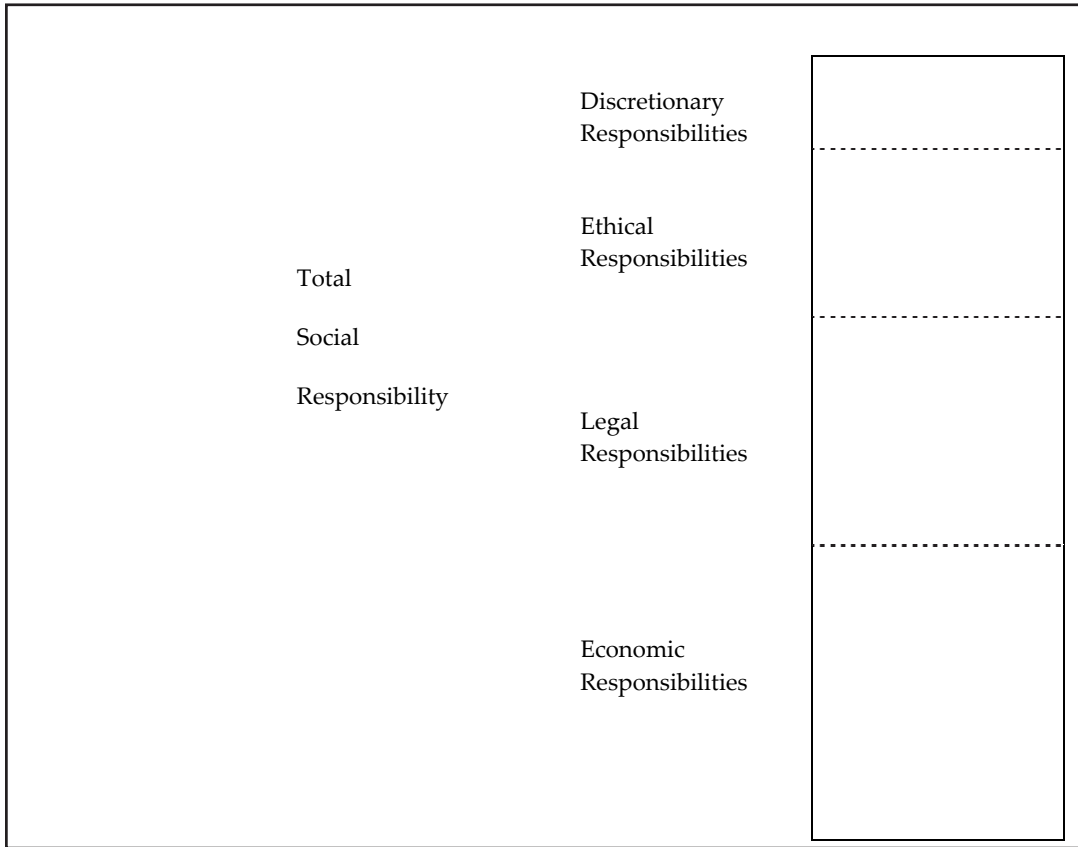


Figure 14: Social Responsibility Categories (Carroll, 1979, p. 499)

These three core domains are supplemented by a further pillar of Carroll's concept of 1979. He (Carroll, 1979, p. 500) calls it the discretionary responsibilities. From his point of view, it is 'the decision to assume them is guided only by a business's desire to engage in social roles not mandated, not required by law, and not even generally expected of businesses in an ethical sense'. As examples he mentions specific social projects such as 'inhouse programs for drug abusers, training the hardcore unemployed, or providing day-care center for working mothers'. He concludes, however, that discretionary responsibilities, compared to the other three, are less important for a firms' responsibilities to society, as shown in Figure 14. The size of the boxes of each responsibility shows the share of the total social responsibility.

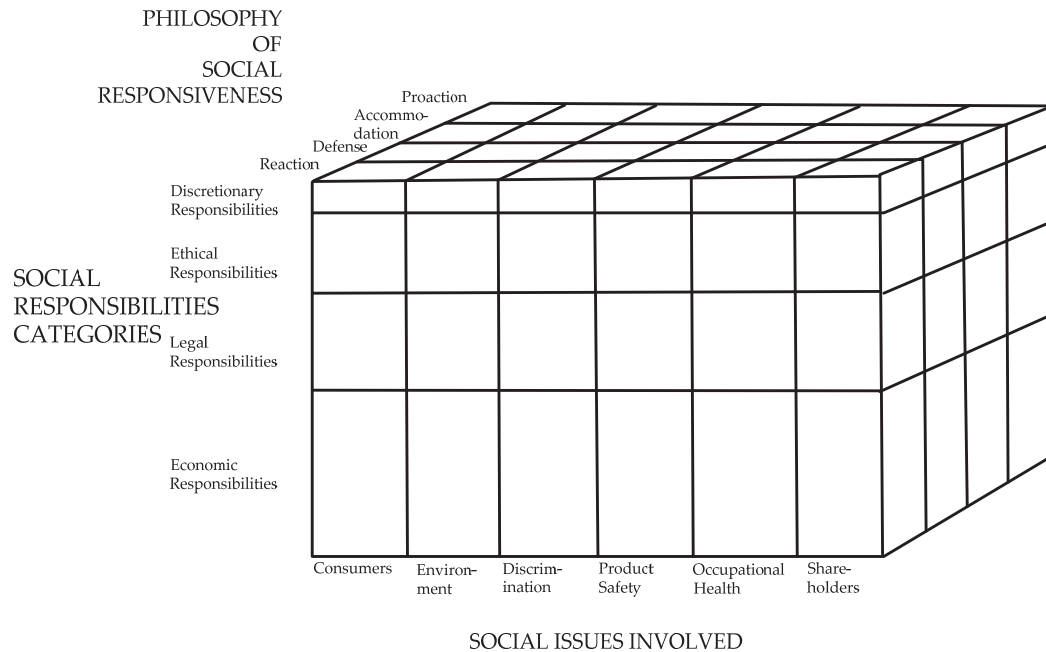


Figure 15: The Corporate Social Performance Model (Carroll, 1979, p. 503)

Carroll's three-dimensional model of 1979 presented in Figure 15, however, regards not only social responsibility, but also social performance. Frederick (1978, p. 6) discusses and calls it the Corporate Social Responsiveness (CSR₂), which is, according to Carroll (1979, p. 502) 'the action phase of management in the social sphere'. CSR₂ complements the CSR model: 'Corporate Social Responsiveness refers to the capacity of a corporation to respond to social pressures. The literal act of responding, or achieving a generally responsive posture, to society is the focus. [...] One searches the organizations for mechanism, procedures, arrangements, and behavioural patterns that, taken collectively, would mark the organization as more or less capable of responding to social pressure' (Frederick, 1978, p. 6). The social responsiveness categories are on a spectrum from 'do nothing' to 'do much' (Carroll, 1979, p. 502). Carroll applies the possible business strategies according to Ian Wilson (1975) as differentiation, which are proaction, accommodation, defence, and reaction.

3.4.2 The four-domain model of 1991

In 1991, Carrol introduced a revised CSR model, shown with Figure 16. While in the model of 1979 the discretionary responsibilities along their characteristics were described as philanthropic, he now identifies these activities as philanthropic responsibilities (Carroll, 1991, p. 42). The difference between the philanthropic approach and discretionary responsibilities is relevant because Carroll describes discretionary tasks as blurry demands by society, although they are to be obeyed by economic entities. As a clear distinction between the ethical approach and the philanthropic approach of CSR, Carroll points out that 'one notable reason for making the distinction between philanthropic and ethical responsibilities is that some firms feel they are being socially responsible if they are just good citizens in the community. This distinction brings home the vital point that CSR includes philanthropic contributions but is not limited to them. In fact, it would be argued here that philanthropy is highly desired and prized but actually less important than the other three categories of social responsibility. In a sense, philanthropy is icing on the cake' (Carroll, 1991, p. 42). He further changes the viewpoint in relation to the target group of the model. Where formerly it has been the corporation and its voluntary commitment which was given to society, the focus now becomes the group of stakeholders. In this manner he suggests that 'the concept of stakeholder personalizes social or societal responsibilities by delineating the specific groups or persons business should consider in its CSR orientation' (Carroll, 1991, p. 43).

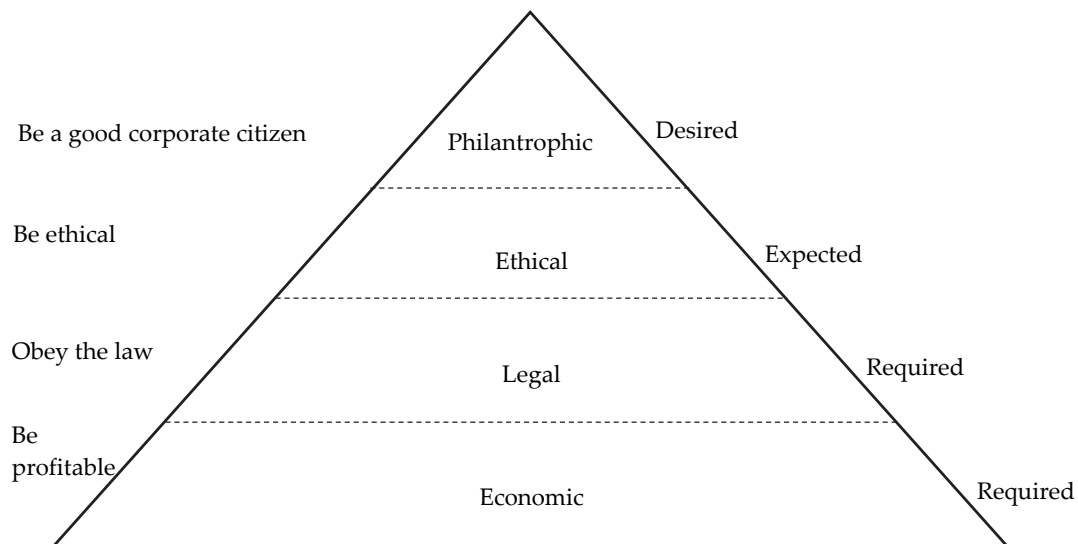


Figure 16: The pyramid of corporate social responsibility: towards the moral management of organisational stakeholders (Schwartz and Carroll, 2003, p. 504)

With regard to differences between shareholder orientation and stakeholder orientation, he also talks about morals, which in his understanding is synonymous with ethics, and organisational management. He (Carroll, 1991, p. 47) points out that immoral management leads to the exploitation of stakeholders while their demands are regarded as irrelevant. The behaviour he describes as amoral management means that the stakeholder requirements are not considered and not deliberately ignored. Finally, he points to moral management that refers to the consideration of a stakeholder as an 'equal partner' whose aims are mutually interrelated with the objectives of the company. With the CSR model of 1991, Carroll refocuses on stakeholders' requirements in terms of social responsibility and finally drops the CSR₂ approach.

3.4.3 The three-domain model of 2003

About 12 years later, Schwartz and Carroll presented a new alternative CSR model (Schwartz and Carroll, 2003, p. 504). Even though the four-domain model and the new alternative three-domain model seems very similar in terms of their

content, the authors emphasise a different approach. In fact, Schwartz and Carroll elaborate three issues that led to the need for a model change.

The pyramid framework of the four-domain model, presented in Figure 16, has proved to be confusing and inappropriate for some applications (Schwartz and Carroll, 2003, p. 505). The authors argue that the form of the pyramids was misunderstood by some academics as hierarchy between the domains. For instance, Reidenbach and Robin (1991) 'use a pyramid to depict their conceptual model of corporate moral development, and suggest that the top of the pyramid represents the highest or most advanced stage of moral development [...] the base of the pyramid portrays the lowest [...] stage' (Schwartz and Carroll, 2003, p. 505). Schwartz and Carroll deny this interpretation, and claim that this 'is clearly not the perspective of the pyramid's rankings' (Schwartz and Carroll, 2003, p. 505). Furthermore, representation of the pyramid shows a lack of overlapping of the domains. This means that the domains in real-life are seldom clearly and strictly separated as they are represented in the pyramid framework. This is why Schwartz and Carroll (2003, p. 504) present the pyramid of Carroll (1991, p. 42) slightly altered with dotted lines between segments as a symbol of a blurring boundaries between domains.

They further criticise the idea of a distinction between ethical responsiveness and discretionary responsiveness (Schwartz and Carroll, 2003, p. 505). In particular, they point out that among academics there is no consensus on the extent to which philanthropy creates a responsibility for a company. They merely highlight strategic philanthropy – known as strategic given – as a value creating advantage. For this reason, they remove the domain of philanthropy from the model. The issues previously assigned to this domain became subject to ethical responsibility or economic responsibility (Schwartz and Carroll, 2003, p. 507).

Finally, there is a change in the model with regard to the proportions of the domains. As shown in Figure 14 and Figure 16, Carroll previously stressed the idea that single domains do not have equal power in terms of the overall social responsibility. In fact, he depicted economic responsibilities per se, as the most important instrument of corporate responsibility (Schwartz and Carroll, 2003, pp. 523–524). Schwartz and Carroll now alter this construct in favour of an improved stakeholder orientation and also with respect to specific industry requirements. In

fact, weighting of domains has become a relevant issue for the Venn diagram as shown in Figure 18.

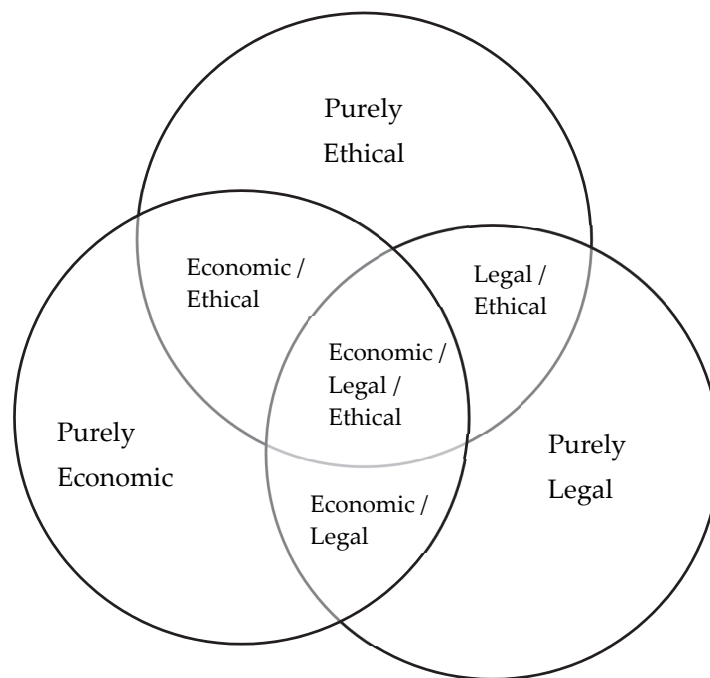


Figure 17: The three-domain model of corporate social responsibility (Schwartz and Carroll, 2003, p. 509)

The three-domain model by Schwartz and Carroll comprises three pure domains which create a further four categories by overlapping, as shown in Figure 17. The pure domains are ethics, legal, and economics. The overlapping categories create combined concerns of ethics + legal, economic + legal, economic + ethical, and economic + legal + ethical (Schwartz and Carroll, 2003, p. 513).

In their presentation of the domains, Schwartz and Carroll point out that companies either actively or passively meet the requirements of these domains. A company that complies with such requirements to pursue its own-interest, are identified by Schwartz and Carroll (2003, pp. 513–514) as behaving passively.

The framework of the economic domain has not changed when compared with the previous models. It is the responsibility of the company to make profit and

minimize losses. Schwartz and Carroll (2003, p. 509) point out that 'if the activity produces a decline in profits or share value, this may be an indication of a non-economic motive'. When a company pursues purely economic goals, these are either illegal or passively comply with legal and environmental requirements. Schwartz and Carroll (2003, pp. 513–514) even assume that many such activities are amoral or unethical. There are many examples in real-life, for instance, manufacturing companies which avoid high costs by releasing unfiltered toxic water, which leads to environmental pollution and endangers employees.

The purely legal domain requires that the requirements of the legal framework are complied with, without paying attention to economic or ecological requirements. In this regard, Schwartz and Carroll give the example of the tobacco industry, which is forced to print warnings on cigarettes boxes and have broad restrictions on carrying out marketing activities. Thus, 'a response that one of the reasons for the act was "because it's the law" might be enough to support a degree of consideration for the legal system' (Schwartz and Carroll, 2003, p. 515).

The third pure domain is ethics. According to Schwartz and Carroll (2003, pp. 515–516), ethics expects companies to carry out certain activities without regarding economic gain or even without a legal obligation. However, there is the saying that 'do good and make it known', which in other words means that nothing good should be done without advertising it. Schwartz and Carroll therefore emphasise that 'it is difficult to find and defend corporate practices or decisions that illustrate purely ethical motives'.

This now leads to categories that are combinations of different domains. Firstly, there is the category of economic + ethics. This is precisely the area in which the good behaviour, that is the adherence to ethics, clearly pays off because 'good ethics is good business' (Schwartz and Carroll, 2003, p. 516). According to Schwartz and Carroll, all activities in this area are at least passively legal, because 'almost all illegal activities would be considered unethical' (Schwartz and Carroll, 2003, p. 516). There are many examples of this category, whether it is the financial support of NPOs or the intra-organisational social policy that goes far beyond the legal requirements.

Secondly, there are overlapping claims on economic and legal behaviour that a company is faced with. Schwartz and Carroll (2003, pp. 517–518) imply that there should be compliance with regulatory requirements of a corporate either passively, or to use 'loopholes for economic gain'. This is why they claim that 'very few activities which corporations engage in are both economic and legal, while also considered unethical'. For instance, they argue that companies in third world countries produce at low cost, due to the fact that local legislation on legal requirements is much less extensive. However, Schwartz and Carroll (2003, p. 518) claim that 'the three-domain model would not consider a corporation which merely passively complied with the law to be a legalistic corporation'.

Thirdly, the category of legal and ethical claims are considered an indirect advantage for a company by Schwartz and Carroll (2003, p. 518). Even if economic claims do not initially have any influence on a corporate's benefit, it is possible if there are benefits in the long-run. As an example for the legal and ethical requirements, the authors stress activities of the pharmaceutical industry, saying that specific medicines must be offered in Africa at a low price in order to avoid the risk of a legal regulation for provision of low-priced medicines.

Finally, when the three requirements of economic, legal, and ethics merge, this is what Schwartz and Carroll (2003, pp. 518–519) regard as moral management. For this, Carroll (1987, p. 10) says it is 'profitability, but only within the confines of obeying the law and being sensitive to ethical standards'. As an example of activity in relation to such requirements, Schwartz and Carroll mention discontinuation of goods by a trading company when these put either stakeholders or the environment at high risk. They point to the fact that questionable goods and services are both ethically critical and dangerous to the health of customers and thus an economic threat for a trading company.

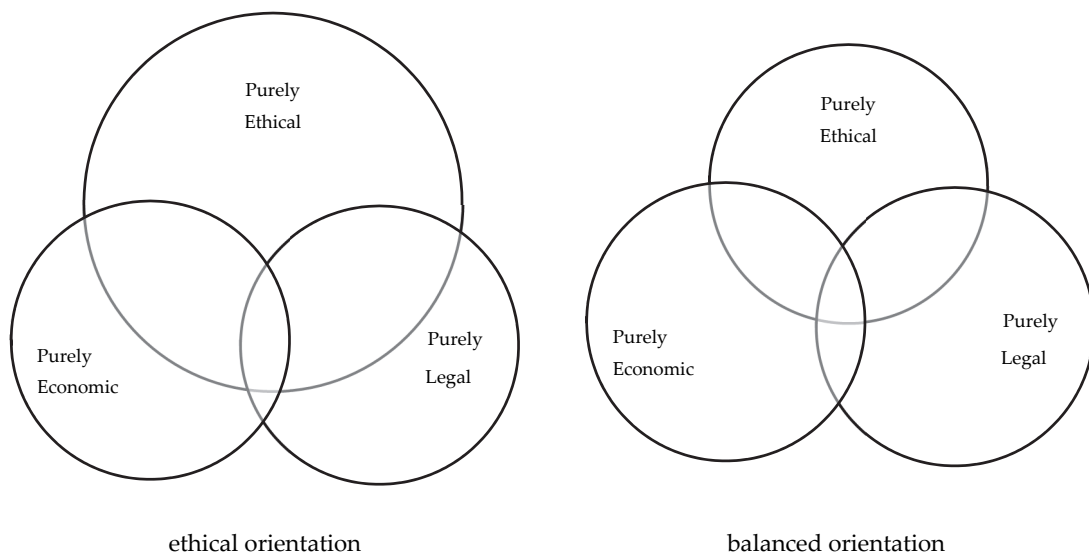


Figure 18: Corporate social responsibility 'portraits' (Amended from Schwartz and Carroll, 2003, p. 524)

Schwartz and Carroll (2003, pp. 520–521) note that there are limitations to the model. On the one hand, with actions identified as purely economic, purely legal, or purely ethical 'one might argue that economic, legal, and ethical systems are all interwoven and inseparable'. They argue that to 'create distinctions through the establishment of the "pure" domains, it should be noted that each of these three domains is only "pure" in certain respects. There will still be an overlap with the other domains at least to some extent' (Schwartz and Carroll, 2003, p. 520). On the other hand, they further indicate that uncertainty remains if the three-domain model of CSR covers all relevant aspects a company must take into account for the business principle. This is, however, even though the model encompasses terms broadly, like philanthropic requirements which are now summarised under ethical requirements.

3.5 CSR IN A WESTERN SOCIETY

3.5.1 CSR around the globe

In this chapter an introduction to CSR in western societies with special attention to German conditions will be given.

| CSR domain | American context | European context |
|---------------------------------------|---|---|
| Economic responsibilities | Corporate policies with regard to 'good corporate governance', remuneration' or 'consumer protection' | Legal framework, codifying corporate constitution ('Betriebsverfassungsgesetz'), the 35-hour week, minimum wage legislation or lengthy and elaborate legislation for developing and testing pharmaceuticals |
| Legal responsibilities | Relatively low level of legal obligations on business | Relatively high level of legislation on business activity |
| Ethical responsibilities | Corporate policies with regard to local communities | High level of taxation in connection with high level of welfare state provision of local public services |
| Philanthropic responsibilities | Corporate initiatives to sponsor art, culture or fund university education | High level of taxation sees government as the prime provide of culture, education etc. |

Table 4: CSR issues in the American and European contexts (examples) (Matten and Moon, 2005, p. 339)

First and foremost it must be emphasised that like there is no common definition of CSR available, so western society deals with multiple understandings of social responsibility. This is not only true for what social responsibility means to society, but also points to the issue of who has to fulfil this claim. In 2004, Matten and Moon (2004, p. 11) concluded that 'the entire terminology of CSR was historically alien in many, and remains so in other, parts of Europe'. Moreover, in 2005, Habisch and

Wegner (2005, p. 113) claimed that in Germany, in comparison to Great Britain, no CSR process had been established.

In comparison, a common understanding of corporate social responsibility in the United States is different to that in Europe. Table 4 gives some examples of activities in the American context in comparison to the European context. The table is organised by the four-domain model of CSR (see Chapter 3.4.2). In summary, Matten and Moon (2005, p. 339) point out that legal requirements – introduced in Section 3.2.2 as implicit CSR – in Europe per se, are higher than in the US. The authors note that ‘implicit CSR would normally not be included in traditional American textbook treatment of CSR’ (Matten and Moon, 2004, p. 9).

3.5.2 CSR in Europe and Germany

In Europe there are also different strands of CSR. Lenssen and Vorobey (2005, p. 364) state that ‘there is a strong conviction among promoters of “CSR” in the Anglo-Saxon countries that there is a direct link between profitability and the level of the company's engagement in “CSR”.’ However, this may not affect only Anglo-Saxon countries, because, for instance, of ‘Spain's history has been shaped by the Anglo-Saxon world, and this is also true for CSR, especially among large transnational companies’ (Burgos, José *et al.*, 2010, p. 378). Moreover, Maanavilja (2010, p. 34) states that some countries in Europe, such as Sweden and the UK, are ‘out spoken CSR countries which have a wide range of incentives and instruments in place to help CSR to effectively complement other policy goals [...]’, while other countries like France and Germany are ‘solid CSR countries’ (Maanavilja, 2010, p. 34).

Table 5 presents a brief summary of the most important CSR relationships ‘that surround CSR practice across Europe’ (Roome, 2005, p. 329). The table is organised according to Carroll's four-domain model and exemplary discussion of CSR matters in four countries, which are Great Britain, Germany, the Netherlands and Sweden. There is, obviously, a different approach with the issue of CSR in different European countries.

On national level, there are three observable perspectives on CSR in Germany: the governmental view, the market view, and the consumer demands. In relation to the market view, Habisch and Wegner (2005, p. 117) indicate the improvement with community and business partners as well as an increasing customer retention as reasons to implement CSR. This has also been confirmed by a survey conducted by the European Commission (2012b) (see Figure 19), which has shown that less than 30% of economic entities conduct CSR activities in relation to core corporate values. In other words, ethical behaviour is not the focus of most business entities.

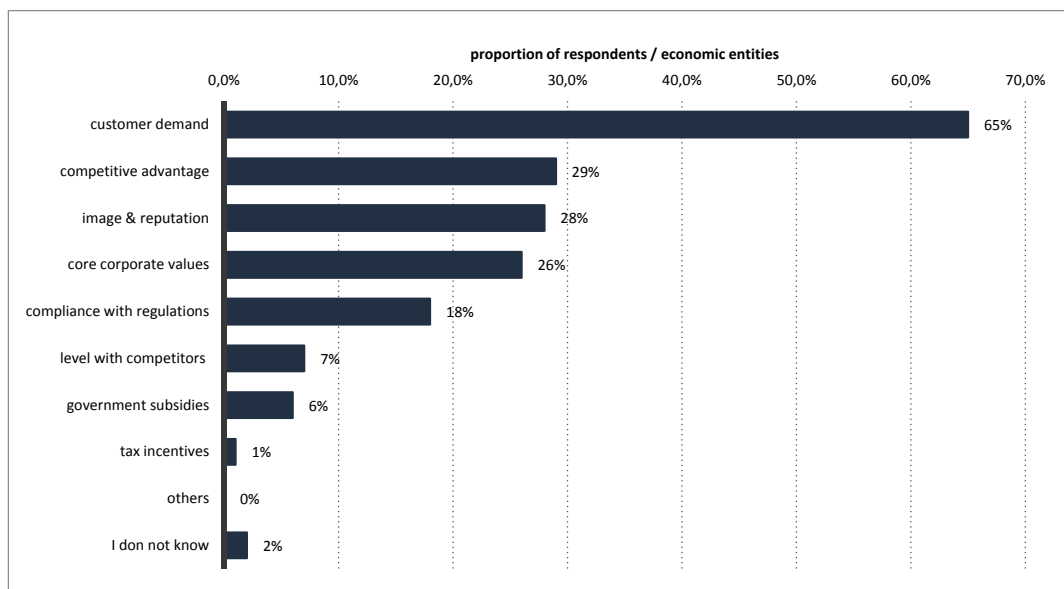


Figure 19: Main reason to provide sustainable products (Amended from EC, 2012b)

The customer's demand, according to Habisch and Wegner (2005, p. 114), 'is reflected by the fact that only when given the same price and the same quality, more than half of German consumers would prefer products from companies that assume social responsibility'.

| Issues / Country | UK | Germany | Netherlands | Sweden |
|---|---|---|---|---|
| Responsible Business Practices | <ul style="list-style-type: none"> - Racial & gender equity - Emerging issues around financial accountability & governance | <ul style="list-style-type: none"> - Emerging issues around financial accountability & governance, executive rewards | <ul style="list-style-type: none"> - Emerging issues around financial accountability & governance | <ul style="list-style-type: none"> - Practices in developing countries – corruption, child labour - Emerging issues around financial accountability & governance, executive rewards |
| Consumer Responsibility | <ul style="list-style-type: none"> - Food safety & provenance - Financial services products | <ul style="list-style-type: none"> - Food safety & provenance | <ul style="list-style-type: none"> - Quality for a low price | |
| Sustainable Development | <ul style="list-style-type: none"> - Protected areas and species - Supply-chain issues & auditing - Management systems & reporting | <ul style="list-style-type: none"> - Waste recycling - Resource efficiency - Neighbourhood reporting and liaison | <ul style="list-style-type: none"> - License to operate - Community liaison - Supply-chain management - Product innovations | <ul style="list-style-type: none"> - Resource & energy efficiency - Product innovation & technology - Forest products - Develop issues |
| Corporate-Community Involvement & Philanthropy | <ul style="list-style-type: none"> - Area regeneration - Community projects - Public/private partnerships | <ul style="list-style-type: none"> - Strong commitment to education/training - Company-specific CCI | <ul style="list-style-type: none"> - Not really an issues except a minor concern for community issues in developing economies that provide commodities | <ul style="list-style-type: none"> - Corporate/ community involvement in developing countries |

Table 5: Comparison of CSR agenda by country (Roome, 2005, p. 329)

In 2016, this point of view held by society was changed according to Splendid Research (2016). They asked 1,017 people how much more they were willing to pay for a product from a CSR-oriented company. Their finding was that more than 75% of respondents would accept a higher price and purchase a CSR relevant product (Splendid Research, 2016). Finally, the governmental requirement in Germany is elaborated by the German Federal Ministry of Labour and Social Affairs as being climate change, poverty, and human rights which are relevant in terms of CSR

(BMAS, 2017a). This in turn reflects the CSR effort of the government and demands of commitment in the European Union (EU) (see Chapter 3.5.2.).

As mentioned above, in Germany there was a deficit in CSR processes at a national level in 2005. This gap has now been overcome by the government. The government has defined its requirements on the basis of appropriate procedures and laws. There has been a small improvement since the beginning of 2017; at least some companies of a specific size and field of operation have to provide a non-financial annual report (see Chapter 3.6). Finally, the government has set up a CSR initiative based on the competence of various stakeholders (BMAS, 2017b).

3.6 CSR LAWS AND REGULATIONS

The issue of CSR legislation has changed in recent years on the European level. At the beginning of the new millennium, the legal situation in relation to issues of ecological requirements, economic issues, and ethical demands were regulated, if at all, on national level. For instance, even though what is today called CSR, requirements are regulated by law in Germany, as discussed in Section 2.2.4.1, and are not bundled into a single law. Furthermore, on European level, while some countries like France, Germany, and Great Britain have 'law focused on ethical investments, social audits and social balances [...] for managing investment funds', other countries, such as Spain '[have] not proposed any' (Fernández and Melé, 2005, p. 298). Maanavilja (2010, p. 33) notes with reference to the CSR approach by the European Council, that in year 2000, a milestone in social responsibility was reached with the 'strategic goals for 2010 through the Lisbon Strategy'. One year later, the EU published the green paper on promoting a European framework for CSR (EC, 2001). Its focus is 'to foster a debate on CSR, the role of the EU in developing CSR and the creation of partnership amongst stakeholders, in which all actors have a role to play' (Mullerat and Brennan, 2005, p. 281). In other words, at that time the EC believes that self-regulation by corporations' needs nothing more than a helping hand. Although the demand to implement CSR on European level seems to be justified, 'surveys and official statements of business associations indicate that companies defend themselves against potential regulations on CSR. They like to point out that they are already "doing

something” for society, but there seems to be little openness towards a strategic approach’ (Habisch and Wegner, 2005, p. 121).

In 2002, the EC stated that the ‘main function of an enterprise is to create value through producing goods and services that society demands, thereby generating profit for its owners and shareholders as well as welfare for society, particularly through an ongoing process of job creation. However, new social and market pressures are gradually leading to a change in the values and in the horizon of business activity’ (EC, 2002, p. 5). Four years later, the EC published another paper that emphasised the formation of an alliance by market entities, which would become driving force to facilitate CSR activities. This alliance, according to the paper, would also be the point of contact for stakeholder groups for any questions that might arise (EC, 2006, p. 6). In other words, the EC at this stage was not going to steer and control activities on CSR; the focus remained on self-regulation of market participants.

In 2011, the EC reversed their claim on voluntary CSR activities by economic entities. The EC recognised that efforts taken by companies in relation to self- and co-regulation processes had failed (EC, 2011, pp. 3–4). The reason for this is unusually sharply formulated: ‘the economic crisis and its social consequences have to some extent damaged consumer confidence and levels of trust in business. They have focused public attention on the social and ethical performance of enterprises. By renewing efforts to promote CSR now, the Commission aims to create conditions favourable to sustainable growth, responsible business behaviour and durable employment generation in the medium and long term’ (EC, 2011, p. 4). Moreover, it has been claimed that ‘many companies in the EU have not yet fully integrated social and environmental concerns into their operations and core strategy’ (EC, 2011, p. 5). The new aims for CSR activities within the European Union shall be ‘creation of shared value for their owners/shareholders, and for their other stakeholders and society at large’ as well as ‘identifying, preventing and mitigating their possible adverse impacts’ (EC, 2011, p. 6). Additionally, the EC justifies upcoming legislative projects by the insufficient implementation on national level: ‘only 15 out of 27 EU Member States have national policy frameworks to promote CSR’ (EC, 2011, p. 5).

In 2014, based on the communication paper of 2011, the European Parliament published Directive 2014/95/EU because of ‘the need to raise to a similarly high level

across all Member States the transparency of the social and environmental information provided by undertakings in all sectors' (EU, 2014, p. 1). The EU law aims to report non-financial information through an annual report in terms of CSR activities (EU, 2014, p. 2) of companies with more than 500 employees operating in the banking and insurance sectors. However, since the EU Directive is a soft law, violation does neither entail consequences nor sanctions (Deinert, 2015, p. 71).

Glöckner (2014, p. 134) claims that EU regulation may return disadvantages to a firm, especially in relation to distortion of competition or competitive constraint. Additionally, the number of companies affected by the EU regulation is rather small: EC (2017b) identify about 6,000 companies affected, while scholars (Rehbinder, 2015, p. 26) expect the act to affect 7,000 – 8,000 companies. Nonetheless, Rehbinder (2015, pp. 25–26) further claims that this act is a milestone for CSR activities, which still require further steps to be taken. As already mentioned in Chapter 2.2.4.2, the law has found its way into German jurisprudence from beginning of 2017. Therefore, the relevant laws were reviewed and passed by the Bundestag in 2017 (Deutscher Bundesrat, 2017).

To sum up: CSR reporting has now been incorporated into law, because the legislature distrusts the self-regulation of market participants in relation to reporting and transparency. However, the requirement of having to publish non-financial activities applies only to a few companies in a specific field of business, even though it is to be expected that this is only the beginning of an increasing demand on business transparency by law.

4 CSR AND NPOS

4.1 CSR AND THE ROLE OF NPOS

4.1.1 Matching CSR with NPOs

4.1.1.1 *Governmental view, business expectation, and normative perspectives*

In Section 3.2.2, it mentioned that there is a broad set of definitions on CSR available. Carroll (1999), amongst other, explains in an essay that in the last decades the evolution of the concept of CSR has taken place in various forms. Hence, definitions of CSR given by different scholars are either common or specific. Three definitions of CSR are presented as follows.

The CSR definition given by the European Commission focuses on ‘the responsibility of enterprises for their impacts on society’ (EC, 2011, p. 6). Furthermore, the EC introduces conditions and requirements that an enterprise needs to challenge. An enterprise must also adapt a long-term concept on strategic CSR to create jobs and high quality products. CSR in the understanding of the EC is ‘respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

- Maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
- Identifying, preventing and mitigating their possible adverse impacts’.

It is noteworthy that the EC explicitly link these requirements to large enterprises because ‘for most small and medium-sized enterprises, especially micro-enterprises, the CSR process is likely to remain informal and intuitive’ (EC, 2011, p. 6).

Another concept of CSR is from the World Business Council for Sustainable Development (WBCSD). According to the globally operating business organisation's own information it has a worldwide impact through 70 local network partners comprising 200 member companies, 19 million employees, and revenues of about 8.5 trillion USD. The business organisation's mission is 'to accelerate the transition to a sustainable world by making more sustainable businesses more successful' (WBCSD, 2017). The WBCSD identifies sustainable development as the main part of corporate responsibility, where its elements are financial responsibility, environmental responsibility, as well as social responsibility. Its members define CSR as follows: 'Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large' (WBCSD, 1998, p. 3). However, the main focus lies on business development and avoiding boycotts by customers, investors, employees, and insurers (WBCSD, 1998, p. 4). Moreover, the CSR term in the understanding of WBCSD, should not provide global equality with people and business. In fact, the institution claims that it 'advocates full participation of business in the debate, while recognizing the wide variety of good practice which different cultures and commercial sectors apply' (WBCSD, 1998, p. 3). The latter points out the intentions of its members to fulfil requirements of local laws and regulations only, and disregarding international labour standards.

In 2011, the International Standard Organization (ISO) issued a guideline including terms and definitions with respect to CSR in a much broader understanding. The ISO (ISO, 2010, p. 3) focuses on social responsibility of all kinds of organisations, regardless their field of operation, size, and location. Hence, ISO 26000 defines social responsibility as the 'responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that

- contributes to sustainable development, including health and the welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour; and
- is integrated throughout the organization and practised in its relationships'

A sustainable development as it has been mentioned, is meant by 'without compromising the ability of future generations to meet their own needs' (ISO, 2010, p. 4) while international norms of behaviour are given by 'generally accepted principles of international law, or intergovernmental agreements that are universally or nearly universally recognized' (ISO, 2010, p. 3). The standard claims to complement existing CSR instruments and to encourage organisations 'to go beyond legal compliance, recognizing that compliance with law is a fundamental duty of any organization [...]' (ISO, 2010, p. 1).

The examples discussed here from the point of view of the government, the economy, and a neutral institution show the lack of a commonly accepted definition of the CSR concept. Furthermore, the following section is intended to illustrate the tasks with the application of CSR along the lines of the three-domain model to NPOs.

4.1.1.2 The three-domain model of CSR in terms of NPOs

The three-domain model of CSR by Schwartz and Carroll as introduced in Section 3.4.3 provides a comprehensive framework for stakeholder involvement with organisational behaviour. Nevertheless, the question arises of whether the model might suit the NPOs' requirements, which will be discussed next.

The model regards the three domains of ethics, economics, and legal with the focus on a 'proper relationship between business and society' (Schwartz and Carroll, 2003, p. 503) through CSR. Schwartz and Carroll (2003, pp. 513–519) explain the applicability of the model of pure domain issues as well as overlapping domain issues with respect to business entities.

Undoubtedly, both the ethics and legal domains are easy to apply to problems posed by NPOs. These domains are relevant by nature for entities of all types and sizes. This means working as a sectoral entity per se, returns legal demands to a nonprofit, either by dealing with suppliers, contracting with beneficiaries, collaboration government entities, or simply by operating within a legal framework (see Chapters 2.2.2 and 2.2.4). The same goes for ethical

requirements that arise, such as by entering a new market and by acquiring human capital as an input factor.

Difficulties arise with the economic domain. According to Schwartz and Carroll (2003, p. 509), 'the vast majority of corporate activities will be economic in nature'. Over and above this, 'if the activity produces a decline in profits or share value, this may be an indication of a non-economic motive [...]'. However, one may consider some aspects given by the authors to apply the objectives of the economic domain to nonprofits: Schwartz and Carroll (2003, p. 508) identify the positive impact of the economic domain as '(i) maximization of profits and/or (ii) the maximization of share value'. One may regard (i) in terms of nonprofits as the increasing of funds as well as earnings, which flow back to an organisation' objective. Furthermore, Schwartz and Carroll (2003, p. 509) take into account that a 'decline in profits or share value, this may be an indication of a non-economic motive'. By this, the authors do not consider stakeholders' interests that may lead to decline of profits in the pure domain of economics, but in the pure domain of ethics.

To sum up, the CSR model introduced by Schwartz and Carroll seems to be intended to apply to corporations which focus on a shareholder value approach in the pure domain of economics. Despite this, the overlapping domain of economics and ethics may also fit to the economic demands of stakeholders. Hence, the three-model domain of CSR may become the basis for nonprofit's CSR₃ activities.

4.1.1.3 CSR₃: an operational definition

To suggest an operational definition of CSR₃ which meets the requirements and conditions of nonprofits, a reconsideration of the term seems to be necessary.

CSR is linked with requirements of stakeholder management and because of this, Freeman *et al.* (2010, pp. 263–264) argue that the term corporate within CSR may be misleading and set the focus on corporations' responsibilities: they 'propose to replace "corporate social responsibility" with an idea we call "company stakeholder responsibility". This is not just semantic, but a new interpretation of the very purpose of CSR. "Company" signals that all forms of value creation and trade, all businesses and nonprofits need to be involved. "Stakeholder" [...] suggests that the main goal of CSR is to

create value for key stakeholders and fulfil our responsibilities to them. And “responsibility” implies that we cannot separate business from ethics’ (see also Chapter 3.1). They conclude that ‘taking a stakeholder approach to business is ideally suited to integrate business, ethics, and societal considerations’.

As discussed in Section 2.2, NPOs meet certain characteristics of a business entity: nonprofits create services or products on the market which are provided to members, consumers, or beneficiaries. For this, nonprofits rely on manpower, use natural resources, and require financial resources. By selling their products and services, a nonprofit usually makes money. As every company, an NPO needs money to run services, thus earnings are taken to cross-finance unprofitable service areas. Another source of income for NPOs – which is not available to economic entities – are financial and non-financial donations made by stakeholders.

Considering Freeman’s argumentation above, the relevance of the three-domain model for nonprofits as introduced in Chapter 4.1.1.2, and broad applicability of the ISO definition described later on in Chapter 4.3.4, this dissertation uses the operational definition of CSR as following:

Company Stakeholder Responsibility (CSR₃) is the responsibility of an organisation to take care of the impact of decisions made or activities conducted. By implementing CSR₃ the organisations show responsibility for society, the environment and government through transparent and ethical behaviour in the present and future.

4.1.2 NPOs as CSR advocacy organisations

The role of NPOs as part of a macroeconomic system is elaborated in Section 2.2.2.2 and the stakeholder framework of an NPO in Section 2.1.4. With respect to this, it has been shown that NPOs are integrated into civic society and a mandatory part of the economy. NPOs are specialists in their area of expertise because they provide specific products and services for their own members or other beneficiaries.

An NPO is ‘a body of individuals who associate for any three purposes: (1) to perform public tasks that have been delegated to them by the state, (2) to perform public

tasks for which there is a demand that neither the state nor not-for-profit organizations are willing to fulfil or (3) to influence the direction of policy in the state, the for-profit sector or other nonprofit organizations' (Bahmani *et al.*, 2012, p. 272). In other words, they work between civil society, economic entities and the government. NPOs assume themselves trustworthy experts, who have a legitimacy to take the role of a spokesperson within their area of expertise (Baur, 2011, pp. xiii, 8-10; Runte *et al.*, 2012; Zimmer, 2016, p. 175). Therefore, NPOs place themselves as either advocacy organisations or as partners of the government and economic entities, aiming for improvements of their social behaviour (Utting, 2000, p. 22; Baur and Palazzo, 2011, p. 596; Baur, 2011, pp. 11–17).

On the one hand, as already mentioned, the role of a spokesman may be defined as a secondary goal of an organisation. In this case, an NPO aims to communicate its requirements through its social networks. On the other hand, people also establish organisations to deal explicitly with the topics of social stability and the carrying out of social requirements. Such advocacy NPOs take the role of opponents for both market entities and the government to enforce good behaviour by uncovering misconduct in public. Key demands of such organisations are (Muchitsch, 2012, pp. 15–16; CorA, 2017; ECCJ, 2017c):

- Financial and non-financial disclosure, especially in terms of social behaviour, ethical conduct, sustainable environmental behaviour
- Linking social requirements with public procurement
- Binding statements on corporate obligations with international economic agreements
- Fair company taxation
- Effective sanctions and rules on liability
- Strengthening product responsibility and support of sustainable consumptions patterns as well as production patterns

The aim of these organisations is confronting misconduct in terms of CSR issues. The culture of 'boycott, naming and shaming' (Riemer, 2015, p. 108), as discussed in Chapter 2.1.4.3, denounces misconduct with the aim of increasing pressure on politics and other stakeholders.

To give an example, in Europe there is the European Coalition for Corporate Justice (ECCJ). ECCJ (2017b). This organisation is, according to the organisations own information, an alliance of 250 nonprofit organisations operating in 15 countries. The ECCJ is officially recognized member of the Coordination Committee of the Multistakeholder Forum on CSR (EC, 2017c) launched by the European Commission. The ECCJ claims to be 'the only European coalition bringing together European campaigns and national platforms of NGOs [...] to promote corporate accountability' (ECCJ, 2017a). With respect to CSR issues around the world they proclaim their vision statement: 'Our vision is of a sustainable world in which corporations' drive for profit is balanced by the interest of society at large and respects human, social and environmental rights' (ECCJ, 2017b). The ECCJ as well as its members, like the Corporate Accountability network (CorA) in Germany, are calling for politicians to keep pressure on market entities for specific corporate activities.

Of course, NPOs are not only opponents of market sector economic entities; they also build partnerships with business entities not only to support the good cause. Runte *et al.* (2012) state that there are 'several reasons' for such partnerships, 'including as a mechanism for increasing their moral legitimacy to the public'. Partnerships are either of loose ties or of strong connections between NPOs and economic entities, which serve the purpose of carrying out social activities with an independent partner. Over and above this, partnerships allow companies to fight their pressure groups, assess the threat posed by other nonprofits, and manipulate the debate. Riemer (2015, p. 108) emphasises that co-operation through dialogue leads to value adding for both the organisation as well as the corporation.

NPOs, however, may entail a risk of greenwashing activities by an economic entity. Greenwashing means marketing and advertising to the consumer as a green company, even though implementing environmental activities with business is not intended or to conceal misconduct (Oxford University Press, 2017). A company that just claims to be green while not operating responsibly in terms of ethics, society, or environment, reflects badly on their partner NPO. As a consequence, the NPO may lose its legitimacy and credibility. This may all end up in a vicious cycle, as

described in Section 2.2.5.3, where the loss of legitimation leads to the demise of an organisation.

Finally, there is criticism in terms of NPOs self-image as a legitimate representative. The relevant issues have been discussed in Chapter 2.1.4.3.

In short, NPOs understand themselves per se as guardians of morality, who focus on good conduct as either a primary objective or a secondary objective. For this, they either encounter or co-operate with other entities or government. NPOs use the public's attention and the public's voice, and thus become an opinion leader in terms of CSR.

4.1.3 CSR₃ requirement of NPOs

The role of nonprofits in terms of CSR₃ has yet another dimension, which will be elaborated in this section. Daub *et al.* (2013, p. 34) claim that CSR becomes more and more necessary to a market entity's past business, while NPOs are less exposed to such requirements. The latter is despite the fact that a nonprofit matches in some cases the economic role as in the case economic entities summarised in section 4.1.1.3.

On the one hand, this is may be due to the fact that NPOs are seen as 'the good' and therefore receive a high level of trust from the population. The deep rootedness within society, the role as advisor to the government, and the specific role for economic entities obviously leads to a positive perception by all of these stakeholders. It seems as if their own ethical-moral claim and perception by the organisational environment actually turn them into unquestionable moral organisations (Daub *et al.*, 2013, p. 35; Herzka, 2013, p. 123). In other words, nonprofits seem irreproachable in terms of their behaviour in social, economic and ecological issues: those who do good cannot bad at the same time.

However, the good of an NPO also has its limits, which means in some cases that stakeholders do not fully trust organisations. For instance, DZI (DZI, 2017) lists 24 NPOs that obviously do not operate sustainably or transparently with respect to advertising, administrative costs, or have intransparency in terms of organisational

structures. However, assumably this is just the tip of the iceberg and there are many unreported cases of fraudulent behaviour (Köster, 2012, p. 106; Frantz, 2005, p. 107).

The latter links to a result of a survey conduct at 1331 sectoral entities in Germany by Gross and Schwarz (2010, p. 11). They found that about 82% of the nonprofit service companies are engaged in CSR activities, which seems to be a reasonably high result. For a better identification of organisational development, they applied a scheme of four CSR levels. The following list gives a brief description of each level and the percentage share of nonprofits in relation to the total number of organisations (Gross and Schwarz, 2010, pp. 126–127, 2010, p. 130):

- Level 1 – responsible organisations: CSR plays a role within management and operations
82% of the German NPOs are of type 1
- Level 2 – policy makers: in addition to activities of type 1, these organisations provide policies on personnel issues and operational requirements
54% of the German NPOs are of type 2
- Level 3 – organised social responsibility: in addition to activities of type 2, these organisations provide policies on personnel issues and social operational requirements. They put it down in writing as a self-commitment where responsibilities are also clearly defined.
33% of the German NPOs are of type 3
- Level 4 – integrated social responsibility: in addition to activities of type 3, these organisations provide policies in writing on personnel issues, social operational requirements, and a self-commitment. All relevant responsibilities are clearly defined and a regularly self-assessment is carried out.
16% of the German NPOs are of type 4

The results from the perspective of CSR suggest that a very large number of NPOs are aware of their social responsibility. For the sake of comparison, about 68.5% of governmental entities apply CSR activities while in the market sector, only 47% of all entities engage in CSR. However, a total of one in five organisations do not even conduct to CSR requirements in their daily business at all. About one third provide guidelines on CSR activities in writing within their organisation. And

finally, according to this survey, the actual proof of efficiency of an implemented CSR system is done by less than every sixth organisation (Gross and Schwarz, 2010, p. 130). To repeat a conclusion given in Section 2.2.4.1, sufficient reporting is a critical success factor in terms of trust between an organisation and its stakeholders. Trust, as discussed in previous section, is the basis for sufficient communication between an organisation and its stakeholders (Breitschopf, 2011, p. 241). Therefore, trust is key to mitigating risks and to enhancing transparency between a company and all of its stakeholders. In terms of the principal-agent paradigm, for an organisation it is mandatory to sufficiently deal with this issue to mitigate information asymmetry (Breitschopf, 2011, p. 227). Moreover, trust, according to Hacker (2015, pp. 92,103-104), supports NPOs to build social capital. The latter not only earn gains of social network, as discussed by researchers like Bourdieu, Coleman, Portes, Fukuyama, Putnam and Ostrom (Woolcock and Narayan, 2000, p. 226; Bachinger, 2012, pp. 11, 79). In fact, with respect to a nonprofit, social capital is literally the whole organisation as financial capital of the society. This theory-based concept is brought up by Bryce (2012, p. 9) who suggests 'that nonprofit or nongovernmental organizations (NGOS) are institutional forms of social capital'.

In a short, the stakeholder groups demand that NPOs are compliant in terms of social, ethical, and legal behaviour. While FPOs are assumed to strive for profit maximisation through CSR, NPOs are trustworthy and 'subjects within communities are obviously paying close attention to nonprofits in terms of managerial behaviour, trust, and respect of rules' (Hacker, 2015, p. 107). There is obviously a causal link between trust and CSR, which contributes significantly to the value creation and finally impacts the value creation of NPOs. And those which 'lose the trust of their stakeholder, thus, lose sponsorships and consequently money' (Hacker, 2015, p. 103).

4.1.4 CSR₃ within NPOs

The question arises of which key topics of CSR₃ are seen to be in favour of attracting trust in an organisation. Wolf (2015, p. 143) suggests that workers are key stakeholder in relation to CSR₃. Mory (2014, p. 162) summarises that experts from the field are uncertain of the impact on employees through CSR₃. An empirical survey conducted with managers of social organisations has proven that operationalising of vision and mission statements pays off. To be more specific, managers understand fair payment, support of team work, sustain self-responsibility, and a pleasant work environment as relevant measures for long-term retention of employees (Ahlrichs, 2012, p. 123). The latter is nothing new to scholars, since Herzberg *et al.* (1959, p. 138) claim: 'our findings suggest that with an increase of motivation the freeing of creative push would undoubtedly lead to some remarkable advances on the part of those individuals capable of them'. They conclude that salary is more than just 'money talk' - it is about 'a person's achievement on the job', moreover, salary is an indicator of recognition, it 'meant that the individual was progressing in his work. This leads to the conclusion, that salary may become a dissatisfier for an employee' (Herzberg *et al.*, 1959, p. 83). This links closely to the gender pay gap across Europe, where women earn much less than men in equivalent positions (Maanavilja, 2010, p. 31; Statistisches Bundesamt, 2013).

However, Köster (2012, p. 134) questions whether there is a gap between expectations of NPO employees in relation to the mission-based actions to be taken and reality. Thus, she claims a high risk of change towards overload, burnout, resignation, or disillusion. According to Cinar and Schauf (2011, p. 23), such emotional states may lead to emotional exhaustion, depersonalisation, or inability to perform. As a consequence, an employee either performs poorly or becomes inwardly resigned. The latter is connected with a lack of motivation and frequent workplace absenteeism, among other things (Cinar and Schauf, 2011, p. 22).

To get back on the question at the beginning of this section: nowadays, the CSR₃ activities within NPOs focus on matters of personnel. The pressing problems are work-life balance, job security, equal pay, maximum working hours, workplace design, information transparency, right of co-determination, and social justice to name a few (Stötzer, 2009, p. 282; Mory, 2014). In fact, one may wonder whether

these really are the only key issues, or whether other relevant key issues remain hidden.

4.2 CSR₃ AS VALUE DRIVER TO NPOS

4.2.1 The value driver concept

This section will give a brief overview of the concept of value drivers for organisations and concludes with a set of relevant value drivers for an NPO. To start with, the concept of value drivers was introduced by Rappaport (1986, p. 76) with regard to companies' shareholders and their expectations on revenues. The concept is known as shareholder value, where according to Rappaport (1986, p. 51), the value is a result of the equation:

$$\text{Shareholder value} = \text{Corporate value} - \text{Debt}$$

Rappaport (1986, p. 76) introduces value drivers as contributors within the shareholder value network, as shown in Figure 20, as generators for the value of goods and services by improving the perception on markets, providing competitive advantage, and finally for reaching the corporate objective. In this manner it is imperative to understand that the latter – according to Rappaport – is only the satisfaction of shareholders by receiving dividends and other capital gains. Hence he develops a set of value drivers relating to the financial requirements of a firm, divided into macro drivers and micro drivers. He defines the macro level as 'sales growth, operating profit margin, incremental fixed capital investment, incremental working capital investment, cash tax rate, cost of capital, and value growth duration' claiming that 'these drivers are critical in determining the value of any business, they are too broad to be useful for many operating decisions' (Rappaport, 1998, p. 171). This is why he suggests 'establish[ing] for each business the micro value drivers that influence the seven financial or macro value drivers' and 'to develop a value driver "map" of the business' (Rappaport, 1998, p. 171). Following the next level of the shareholder value network, value drivers on the micro and macro level have an effect on one of the three valuation components (Rappaport, 1998, p. 56): 'cash flow from operations, is determined by operating and investment value drivers along with the value growth

duration. The second component, the discount rate, is based on an estimate of cost of capital. [...] To obtain shareholder value, the final valuation component, debt, is deducted from corporate value.' Rappaport explains that the valuation components affect the corporate objective by adding value, and thus generates shareholder return.

The shareholder value concept by Rappaport is widely discussed (Wentges, 2000, p. 199; Rose, 2004, pp. 77–78), even though he justifies the one-sided 'shareholder[s] are us' (Rappaport, 1998, p. 11) by stating that 'the stakeholder model that attempts to balance the interests of everyone with a stake in the company makes it easier for corporate manager to justify uneconomic diversification or overinvestment in a declining core business [...]' (Rappaport, 1998, p. 7).

However, the criticism lies in the lack of focus on stakeholders' requirements. This is why a value concept in terms of stakeholder interests is of importance (Wentges, 2000, pp. 202–203; Rose, 2004, p. 95; Carlon and Downs, 2014). As a result of a study, Jiao (2010, p. 2560) verifies a positive effect between stakeholder welfare and shareholder value creation.

For instance, Skrzipek (2005, p. 51) identifies this concept as a critical reply to the focus solely on the shareholder by regarding different corporate objectives. This concept primarily focusses on the management of organisations to expand the scope for action. In the counterpart of the shareholder value concept, the stakeholder value concept provides a low operationalisation and aims mainly at corporate strategy issues (Figge and Schaltegger, 1999, p. 14). The latter may depend on the fact that there are a great number of objectives and consequently, a vast number of value drivers on a micro and macro level that have to be considered in terms of stakeholders (Eberhardt, 2000, p. 51; Skrzipek, 2005, pp. 51, 53; Poeschl, 2013, pp. 165–166).

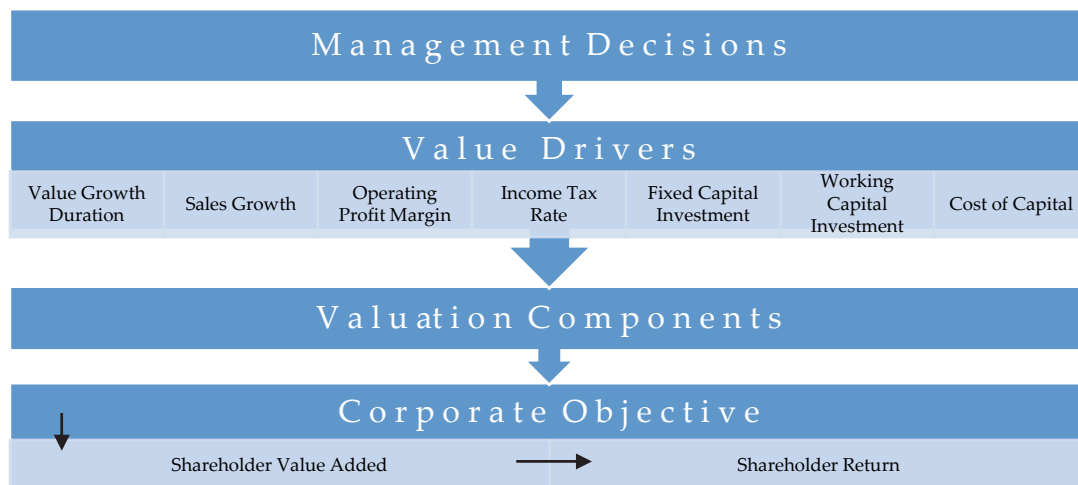


Figure 20: The shareholder value network, (Amended from Rappaport, 1986, p. 76)

By the nature of a stakeholder's objective, its requirements are not only financial but also non-financial goal oriented. Based on these facts, Eberhardt (2000, p. 51) considers that a stakeholder value concept is basically an approach with a plurality of goals, hence, it requires a clear statement on an organisations' mission and vision. Therefore, he determines a potential threat for the whole organisation by the conflicting interests of different stakeholder groups. To avoid such conflicts, among others, Janisch (1993, p. 119) and Eberhardt (2000, pp. 150–155) recommend identifying relevant stakeholders and their particular interest for a successful business.

4.2.2 Value driver of an NPO

An NPO, as discussed in Section 2.2.1.2, is not intended to serve the shareholder, and hence it is not intended to add value for shareholders' purpose. In fact, an NPO is a multistakeholder organisation, thus, it is not only mandatory to focus on relevant stakeholders, but also to identify relevant drivers for a sufficient value creation process (Eberhardt, 2000, pp. 150–155; Stötzer, 2009, p. 139). This is why the focus of NPOs lie on 'the strongest value drivers' (Domański, 2009, p. 85) relating to its stakeholder groups. Furthermore, Domański (2009, p. 86) claims that 'one should look for the value drivers among the assets of an organization,

most of all among intangible assets'. Additionally, according to Jiao (2010, p. 2550) 'many others view stakeholder welfare as intangibles [...] crucial to the competitiveness and survival of modern firms'. He further elaborates that 'stakeholder welfare is a channel for investing in intangibles and would have a positive valuation effect'. Looking at nonprofits as service-driven organizations, intangible assets seem to have the power of a driving force. To recap, as summarised in Chapter 2.2.3.3, 'intangible assets are commonly the key value driver for nonprofits'.

Domański (2009, pp. 86–87) suggests dividing value drivers in two groups: there are firstly resource-related drivers that constitute the assets of an organisation and secondly, management-related drivers, which mainly depend on utilisation and transformation of assets. Based on Domański's (2009) findings, a short introduction of resource-related value drivers and their key elements are as follows:

- Human capital – this value driver refers to both paid staff and unpaid staff and their ability in terms of creativity, knowledge, social attributes, personality, skills, and talents
- Leaders – these are visionaries and drivers of vision and mission of NPOs; inspiring people, motivators, business drivers, care takers
- Intellectual capital – it is the knowledge brought by human capital, relationships through customer and supplier relations, and finally, the sum of non-physical infrastructure like processes and databases
- Key competences – refers to command and specific knowledge, skills, ethical values, a certain degree of professionalisation in terms of an organisation's core mission

Each of these value drivers identified affects a certain group of stakeholders. The stakeholder orientation of a value driver is mandatory in understanding the efforts needed to ensure a sufficient cause-effect relationship.

The second category of management related drivers suggested by Domański (2009, pp. 86–87), comprises the following:

- Action strategies – such as operations relating to products, communication between stakeholders and organisation, fundraising campaigns, and personnel planning & recruitment
- Quality of management – depends on leaders and leadership issues like effectiveness of management, quality of methods, and tools of management used by managers
- Reputation & image – reflects an opinion about an organisation; perception and attractiveness of an organisation that gains either support or rejection from the public
- Organisational structure – it is fundamental to respect to an organisation's efficiency; a sufficient organisational structure determines internal and external information flow, business actions, and transparent communication

| Management-Resource-Relation | Value Driver | Stakeholder orientation | | | | |
|--|--------------------------|-------------------------|--------|---------|------------|---------------|
| | | Beneficiaries | Donors | Society | Government | Staff members |
| Resource-Related Value Driver | Human capital | X | X | X | | |
| | Leaders | X | X | X | | X |
| | Intellectual capital | X | X | X | X | X |
| | Key competences | X | X | X | X | X |
| Management-Related Value Driver | Action strategies | X | X | X | X | X |
| | Quality of management | | X | | | X |
| | Reputation/Image | X | | X | | X |
| | Organisational structure | X | X | X | X | X |

Table 6: Value driver of an NPO (Amended from Domański, 2009, p. 87)

The set of value drivers meet the requirements of compatibility of an NPO. In Table 6, a summary is given. The table is organised into three sections: firstly, there is the section to distinguish management-related drivers and resource-related drivers. Secondly, value drivers as introduced with this chapter are listed according

to their sector. Finally, in the right-hand column of 'stakeholder orientation', a cross table to classify the affected value drivers and stakeholders is presented.

4.2.3 CSR₃ as value driver of an NPO

The following section discusses the power of CSR₃ to add value to NPOs' operations. In this sense, two aspects of CSR₃ requirements will be evaluated: an organisational point of view and a society perspective.

To start with, the conformity of requirements of NPOs (see Section 2.2.1.2) capable of CSR₃ as a value driver (see Section 4.2) will be matched. The summary of this comparison presented in Table 7, is based on findings from tables found in Annex A and Annex B.

| | Qualitative criteria of CSR ₃ | | |
|--------------------------------------|--|-----------------|-----------------------------------|
| | Improving reputation | Risk management | Business & stakeholder management |
| Formal (strategic) objectives | | | |
| Core objectives | X | X | X |
| Purpose of an organisation | X | X | X |
| Employees of an organisation | X | X | X |

Table 7: Linking formal objectives of an NPO with qualitative criteria of CSR₃ (Source: Personal collection)

There are three core objectives of an NPO (see Chapter 2.2.1.2): quality of the NPO, ability to adapt to changes, and its innovation force. When comparing these core objectives with the qualitative criteria of CSR₃, it becomes evident that all of these formal objectives are covered. For instance, the criteria for improving reputation matches the ability to adapt to changes now and in the future. To be flexible in terms of behaviour allows stakeholders a suitable set of activities in the future. The risk management criteria challenges risks faced by weak value chain activities, which may lead to financial losses. These criteria have an impact on the

efficiency demanded by stakeholders. The support of the stakeholders' approach creates trust within a society. It can be assumed that all three core objectives receive strong support from business and stakeholder management, since activities promote not only a strategic advantage, but also emphasises the requirements of the stakeholder approach.

The formal objective of the purpose of an organisation is connected to both generating benefit for stakeholders and the careful use of every type of resource. Thus, it is arguable that such efforts trigger the claim for future expectations and the legitimacy of returns. The latter is mandatory in matters of the success of NPOs, as discussed in Section 2.2.5.3. Sufficient risk management deals with tasks of information asymmetry. In fact, mitigating information asymmetry leads to optimisation of business and hence, relevant measures help to avoid financial losses. In terms of NPOs, financial losses may have a great impact in two ways: on the one hand, this is with respect to the rather limited capital base which nonprofits are given, and on the other hand, because of their role as institutionalised capital of society. The business and stakeholder management criteria also meet an organisation's purpose for a number of aspects. For instance, the requirements of business efficiency and effectiveness supports a strategic advantage, which in turn enables the goals to be reached which are given by business excellence. Finally, trust as a key factor for NPOs is the basis for stakeholder management.

Reviewing the qualitative criteria of CSR₃ in terms of employees, CSR₃ advantage of claim for legitimacy as well as the claim of future expectations, matches the goals of employees in terms of satisfaction. The qualitative criterion of risk management relates to employees' demands on self-esteem, since it is their responsibility to put effort into creating good relationships with the outer world. Lastly, the strongest connection is between business & stakeholder management and employees of an NPO. This is hardly surprising, as there is an NPO's business is usually service oriented and hence, it is people driven. The people are the creators of trust between organisations and the outer world, they perform in networks, and through their inner conviction they enhance the achievement of mission and vision. The latter support the efforts of moral management and all in all, this ends up with the fulfilment of stakeholders' requirements.

As noted in beginning of this section, there is another reason why CSR₃ promotes the success of nonprofits within a society. With this dissertation, Herrington Bryce's theory-based concept will be discuss. This theory emphasises that NPOs are service providers for a society. Also, he suggests that nonprofits are the institutionalised financial and non-financial social capital of civil society. This also pays off in terms of CSR₃: 'unlike a firm, the nonprofit is a public or social asset. It does not belong to a group of investors. Therefore, the issues of social accountability, responsibility, and control are inherent in the principal-agent paradigm as applied to the nonprofit as an agent of public policy' (Bryce, 2012, p. 9). In other words, nonprofits belong to their principals. This is why, according to Bryce, CSR₃ is not for the self-interest of a non-profit, but to facilitate the objectives of its owners, which is a principal at the same time.

To sum up, the impact of both the formal objectives as well as the theory-based aspect of ownership proves true with respect to CSR₃ as a value driver. Furthermore, a direct impact on target achievement of NPOs through CSR₃ is verified to a large extent. One may claim that NPOs' success depends on CSR₃ measures and thus, it may be recognized as a value driver for NPOs.

4.3 SUFFICIENT CSR STANDARDS FOR NPOS

4.3.1 Determination of criteria and CSR standards

This chapter is intended to present a selection of CSR standards and to examine their applicability for this dissertation. The verification is carried out in two steps: on the basis of a broadened criteria catalogue, the CSR standards are first presented and then evaluated for further use.

First and foremost, with respect to the requirements of the research object, three criteria that match the CSR standard will be determined:

- **Compatibility:** the standard must be applicable to nonprofit organisations of all sizes, types, fields of operation, and regional areas.
- **Holistic approach:** the chosen CSR standard must follow a holistic approach. This means that the standard takes into account the organisations'

responsibility towards the internal and external stakeholders and has to respect the elements of the three-domain CSR model.

- **Applicability:** the standard must be clearly organised and written in clear language despite the complexity of the CSR topic. In addition, the standard should stand on its own, and thus represent a self-contained work.

In accordance to the recommendation of the European Commission (EC, 2011, pp. 6–7) the following standards will be reviewed:

- UN Global Compact Management Model (UNGC)
- International Organization for Standardisation (ISO) 26000 Social responsibility
- UN Guiding Principles on Business and Human Rights (UNGP)
- OECD Guidelines for Multinational Enterprises
- International Labour Organisation (ILO) Tripartite declaration of principles concerning multinational enterprises and social policy (ILO3)

Additionally, due to their common recognition as global CSR standards on social responsibility, the list will include:

- Social Accountability International (SAI), Social Accountability (SA) 8000
- Global Reporting Initiative (GRI) Standards

The following section will discuss the above mentioned criteria in relation to the CSR standards.

4.3.2 Verification of criteria and CSR standards

The OECD Guidelines were created after World War 2 with the Organisation for European Economic Co-Operation (OEEC) as its predecessor. The member countries, 'who state that they share a commitment to democracy and the market economy, produce two thirds of the world's goods and services' (OECD, 2007, p. 1), agree to the guidelines as being a law of nations. The guidelines address multinational enterprises, with particular respect to their specific organisational requirements (OECD, 2011, pp. 24–35). Furthermore, through a set of voluntary principles and standard organised into ten chapters, it provides explicit CSR measures, for

instance, on human rights, labour standards, the environment, bribery, corruption, and supply chain responsibility (OECD, 2011, pp. 15–73). The guidelines implement a complaints system that prosecutes and, in some cases, publishes violations (OECD, 2011, pp. 92–97).

A review of the framework for implementation of measures relating to human rights, labour, the environment, and anti-corruption introduced in the year 2000 by the UN, now follows. The UN Global Compact Management Model has a six-step structure, similar to an advanced Plan-Do-Act-Check circle as described by Juran (2002, 4.8). The circle begins with tasks of leadership to commit their duties, followed by a strategy to assess, define, implement, monitor, and finally communicate actions taken (UN, 2010, pp. 10–22). The advice on each step is rather general and thus the model meets the target providing goals and processes to activate CSR in ‘companies around the world to align their strategies and operations with ten universal principles’ (UN, 2010, p. 2). According to Hardtke *et al.* (2014, p. 21), companies in this sense mainly mean economic entities even though nonprofit organisations may also adopt the framework.

In 2010, the ISO published the guidelines on social responsibility, which emphasises its applicability to organisations of all types and sizes with the German version DIN ISO 26000 (DIN, 2011, p. 5). Furthermore, the standards address not only the CSR elements of ethics, the environment, and economy (ISO, 2010, pp. 19–68). Over and above this, it considers issues on the treatment of internal and external stakeholders in terms of accountability, transparency, administration, operational requirements, and laws (ISO, 2010, pp. 10–19). The standard provides an extensive number of 600 single requests formulated in a general manner (Hardtke *et al.*, 2014, p. 28) and has a seven-chapter structure according to the specific subject areas. In addition, the standard covers issues of current and future prospects.

A discussion of the standard by ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy now follows. The ILO declaration deals with issues of labour conventions, safety, social requirements, and emphasises local legal demands. The particular requirements are general, but provide a guideline for fulfilling the objectives given in the regulations. This

regulation is aimed at multinational enterprises and certain stakeholders, which is namely government, employers, and workers (ILO, 2006, p. 2). For a broader view with respect to organisations, ILO points to the UN Guiding Principles that 'apply to all States and to all enterprises, both multinational and others, regardless of their size, sector, operational context, ownership and structure' (ILO, 2006, p. 4).

The latter proves true, since the principals neither make exceptions on ownership nor type and size of company (UN, 2011, p. 7). The UN Guiding Principles on Business and Human Rights is tripartite and in essence, comprises governmental obligations, 'the role of business enterprises as specialized organs of society performing specialized functions', and finally advice on 'effective remedies' in the case of 'need for rights and obligations' being breached (UN, 2011, p. 1). Principles given in these regulations have a general formulation, but apply to the specific topics.

In 1997, the Social Accountability International (SAI), a non-governmental multi-stakeholder organisation developed a standard on social accountability, commonly known as SA8000. This norm is 'based on ILO and UN conventions' (SAI, 2017) and focus on 'improving social compliance' in the supply chain of corporations. The SA8000 is split into in nine sections, and defines issues on social accountability requirements, including management tasks to fulfil demands. Supplementary documents are given by way of the SAI 4000 Guidance Document (SAI, 2016a) and a catalogue of performance indicators (SAI, 2016b), which provide detailed information on the requirements of the standard. In terms of applicability SAI states 'SA8000 is universally applicable, [...] in any state or industry', however, 'there are some sectors where meeting all Standard requirements poses special difficulty due to industry norms and technical needs' (SAI, 2014, p. 2). Hahn (2013, p. 386) points out SA8000 as being an important norm. However, it becomes much less relevant, since most developed countries as well as developing countries have already implemented the relevant requirements through national laws.

Another framework established in 2002 in co-operation between a CERES and UN, is the GRI standard. The standard has been develop in recent years and is currently available as version 4. Its aim is to prepare sufficient reporting to stakeholders with respect to their specific demands (GRI, 2016, p. 3). The standard

is organised hierarchically and divided into three sections, which are further organised into sub-sections. An overall document is given with the Foundation GR 101, which is the starting point of the standard. It leads to both the standard to report contextual information about an organisation, as well the standard to report the management topic. Additionally, there are topic-related standards on economic, environmental, and social issues are given (GRI, 2016, p. 3). The standard comprise requirements of both internal and external stakeholders (GRI, 2016, p. 8). It regards the management issues with GRI 103 and provides a guideline for general disclosure of the company GRI 102 (GRI, 2016, p. 4). It is notable that the standard focuses on sustainability reports through economic entities, providing a vast set of performance indicators and recommendations (Hardtke *et al.*, 2014, p. 19). This is why GRI additionally published the NGO Sector Disclosures, which deals with specific requirements of nonprofits (GRI, 2014, p. 3). Comparing GRI and ISO 26000, Hardtke *et al.* (2014, p. 19) claims that these standards may be complementary: GRI provide performance indicators to operationalise ISO 26000, while ISO 26000 helps to identify relevant indicators.

4.3.3 Discussion and conclusion

Table 8 presents a brief summary of seven CSR standards verified against three basic requirements for this dissertation.

A 'no' means the standards do not meet the requirement, while a 'yes' shows a complete match of demands. In two cases, standards meet the approach conditionally; this is highlighted by either 'focus on economic entities' or 'focus mainly on economic entities'. A summary reflects the overall findings: five CSR standards do not fulfil the requirements, one standard meets the criteria conditionally, and one reporting standard meets all of the requirements.

| criteria / standard | OECD | UNGC | ISO 26000 | ILO3 | UNGP | SA 8000 | GRI |
|--------------------------|--------------|-------------------------------------|-----------|--------------|--------------|--------------|--|
| Compatibility | no | yes (focus on economic entities) | yes | no | yes | yes | yes (focus mainly on economic entities) |
| Holistic approach | yes | yes | yes | no | no | no | yes |
| Applicability | yes | no | yes | yes | yes | yes | conditional yes |
| Summary | not suitable | not suitable | suitable | not suitable | not suitable | not suitable | conditional suitable |

Table 8: A comparison of CSR related standards (Source: Personal collection)

In short, of the seven CSR standards presented in this chapter, only ISO 26000 norm meets the criteria of compatibility, holistic approach, and applicability. However, both ISO 26000 and GRI complement each other and may be combined to prepare sufficient reports on the sustainability of NPOs.

4.3.4 CSR norm ISO 26000

4.3.4.1 An overview on ISO 26000

With previous Sections 4.3.2 and 4.3.3, a brief verification of the ISO 26000 in accordance with three common criteria in relation to NPOs has been conducted. Hence, this section gives guidance through the standard and its 7 main topics.

In Chapter 1 of the ISO 26000, the scope and limitation of the norm is briefly introduced: the norm is 'intended to assist organizations in contributing to sustainable development' (ISO, 2010, p. 1), where organisations are an 'entity or group of people and facilities with an arrangement of responsibilities, authorities and relationships and identifiable objectives' (ISO, 2010, p. 3). Thus, the norm is applicable to all kinds and sizes of organisations. The ISO states that the norm 'is not a management system standard [...] intended or appropriate for certification purposes' (ISO, 2010, p. 1).

According to Hahn (2013, pp. 393–394), the benefit of a non-management CSR system is its legitimacy. He emphasises the idea that an organisation cannot hide themselves behind ‘the walls’, which he calls the ‘Legitimationsfassade’. The advantage of a non-management system in terms of CSR is that an organisation needs to prove its effort through a third party audit.

Chapter 2 of ISO 26000 describes 26 relevant key terms of the standard, beginning with a definition of ‘accountability’, ‘social responsibility’ as mention in Section 4.1.1.3, down to the meaning of the term ‘worker’. Chapter 3, which follows, provides explanations of the role and relevance of key elements of social responsibility: these are stakeholder interests, issues of society, governmental requirements, and finally, the relationship between sustainable development and social responsibility. The seven principles of social responsibility are determine in Chapter 4:

- Accountability: ‘an organization should be accountable for its impacts on society, the economy and the environment’ (ISO, 2010, p. 10)
- Transparency: ‘an organization should be transparent in its decisions and activities that impact on society and the environment’ (ISO, 2010, p. 10)
- Ethical behaviour: ‘an organization should behave ethically’ (ISO, 2010, p. 11)
- Respect for stakeholder interests: ‘an organization should respect, consider and respond to the interests of its stakeholders’ (ISO, 2010, p. 12)
- Respect for the rule of law: ‘an organization should accept that respect for the rule of law is mandatory’ (ISO, 2010, p. 12)
- Respect for international norms of behaviour: ‘an organization should respect international norms of behaviour, while adhering to the principle of respect for the rule of law’ (ISO, 2010, p. 13)
- Respect for human rights: ‘an organization should respect human rights and recognize both their importance and their universality’ (ISO, 2010, p. 13)

The standard claims that ‘organizations should base their behaviour on standards, guidelines or rules of conduct that are in accordance with accepted principles of right or good conduct in the context of specific situations, even though these situations are challenging’ (ISO, 2010, p. 10).

The recognition of social responsibility and needs to engage with stakeholders are address in Chapter 5. The main topic of this chapter is also on impact through and relationship between stakeholder groups and organisations. The keys are: a) an impact, interests, and expectation of individual stakeholder's by identifying relevant core subjects, which is probably at odds with the public's opinion; b) address stakeholders to perceive engagement like communication, donations either financial or non-financial, or support of any kind.



Figure 21: The seven core subjects of ISO 26000 (ISO, 2010, p. 20)

In Chapter 6 the core subjects on social responsibility are determined, as presented in Figure 21. This section is divided into seven sub-categories that highlight CSR-related subjects on organisational governance as a management

approach, human rights, labour practices, the environment, fair operating practices, consumer issues, and community involvement and development. Each sub-category induces a brief introduction on the topic, presents additional specific principals to those given in Chapter 4, and provides a set of related action proposals and expectations. The latter relates, due to its holistic approach, to all stakeholders whether internal or external to the organisation.

Chapter 7 continues to put theory into practice. It delivers guidance on how to implement and how to improve social responsibility issues in daily life. Therefore, the standards demonstrate relevant actions on due diligence because ‘an organization should strive to better understand challenges and dilemmas from the perspective of the individuals and groups potentially harmed’ (ISO, 2010, p. 70). Moreover, it suggests setting vision statements (ISO, 2010, p. 74) as well as policies on ‘social responsibility as a key element of an organizations strategy’ (ISO, 2010, p. 75). With this chapter the standard stresses the communication towards stakeholders, especially through providing reports (ISO, 2010, pp. 76–78).

The standard closes with Annex A, which provides an introduction to voluntary initiatives and tools that address aspects of one or more core subjects, and Annex B that lists abbreviations used in ISO 26000.

4.3.4.2 *CSR₃ within NPOs along ISO 26000*

This section provides an overview on internal demands of organisations in relation to CSR₃. The overview refers to Chapter 6 of the ISO 26000 and its seven core subject, as shown in Figure 21. To start with, the standard differentiates between internal and external stakeholders for determination of key requirements of social responsibility (ISO, 2010, pp. ix, 69-70). However, as mentioned in the previous chapter, no further distinctions on proposals are given. Hence, an organisation has to decide whether a requirement depends on internal or external stakeholders. This is easy in the case of topics of occupational health and safety, which is usually relevant either for intra-organisational or borrowed workforce. This is why certain distinguishing characteristics will be reviewed.

In terms of claims on human rights, for instance, a distinction of the group of stakeholders is probably much more difficult, shown in the three examples which follow:

Firstly, the request to 'avoid relationships with entities engaged in anti-social activities' (ISO, 2010, p. 27) clearly seems to focus on external relationships. However, this expectation may also be applicable to subsidiary organisations, either foreign subsidiaries or domestic subsidiaries. Generally, these companies operate independently to a certain extent and the management does not have a direct impact on decisions.

Secondly, there are expectations provided by the norm, which are with respect to nonprofits, and not really to differentiate between an external or an internal stakeholder demand. In Section 6.3.9.2 of ISO 26000, it is mentioned that 'every person, as a member of society, has economic, social and cultural rights necessary for his or her dignity and personal development' (ISO, 2010, p. 30). This raises a demand of 'adapting goods or services to the purchasing ability of poor people' (ISO, 2010, p. 31). To apply this expectation with market entities, the rule of behaviour points to a customer-supplier relationship. However, this is not necessarily the case, as already mentioned by Friedman (1970): 'a group of persons might establish a corporation for an eleemosynary purpose – for example, a hospital or a school. The manager of such a corporation will not have money profit as his objective but the rendering of certain services'. Moreover, nonprofits care for beneficiaries which are either members of an organisation or consumers from outside. In terms of the requirement mentioned above, one not only needs to consider external relationships, but also the internal ones. In other words, such expectations within the standards shall be regarded as internal and external requirements.

Finally, the purely internal view of ISO 26000 will be taken into consideration. Section 6.3.10 emphasises human rights, especially fundamental principles and rights in the workplace; it 'focuses on labour issues' (ISO, 2010, p. 31). The standard argues that 'the elimination of discrimination regarding employment and occupation' (ISO, 2010, p. 31) demands 'employment policies are free from discrimination based on race, colour, gender, religion, national extraction, social origin, political opinion, age, or disability' (ISO, 2010, p. 32). Since employment policies are internal rules, it becomes

evident that this demand is given for internal purposes, even though every organisation is encouraged to ensure compliance to this rule within its supply chain.

Based on these findings, the ISO 26000 has been reviewed and evaluated with the purpose of identifying relevant internal demands and is to use with the empirical survey. For the topics of ISO 26000 which do not provide explicit internal expectation, a hybrid status will be taken.

5 EMPIRICAL SURVEY

5.1 METHODOLOGY

5.1.1 General considerations on methodology

As every organisational entity, NPOs need resources to run their business operations. On contrary to for-profit-organisations, NPOs obtain such resources not only from business activities but also from donations by their stakeholders. However, until now there is no evidence in literature if and how their behaviour on intra-organisational issues have an impact on stakeholders' keenness to donate money, material donations, or work voluntarily at an organisation.

This dissertation is going to explore the causality between the conduct of CSR₃ measures within an NPO and the perception of stakeholders at the outside of the organisation. It aims to achieve knowledge on the power of behaviour in terms of value generating or value destruction of an organisation. Hence, the basic assumption of the empirical study is that in the eye of the society as a major stakeholder respectively its individuals, the valuation of social, legal, and ethical behaviour within and outward nonprofit organisations is equal. Furthermore, the assumption is made that the society has per se a high level of trust on good behaviour of NPOs which pays off in blind faith by supporting mission-based activities. The assumption of this dissertation further deals with the idea, that society values good behaviour and is willing to sanction negative conduct of social, ethical, or legal behaviour. The study is of a quantitative approach and investigates the research question: 'Shall Nonprofit-Organisations recognize intra-organisational behaviour as a value driver?'

To give a sufficient answer the research implies all relevant aspects of CSR₃, which for this dissertation is an operational definition based on three components: firstly, there is a commonly accepted three-domain model of CSR by Schwartz and Carroll (2003), which underlines the dimensions of operation for legal, ethical, and economical activities. Secondly, the term of Company Stakeholder Responsibility (CSR₃) introduced by Freeman *et al.* (2010) widens the idea of social responsibility

to all kind of organisations and their respective stakeholders. Finally, theoretical underpinning of social, legal, and ethical requirements are taken from ISO 26000. For this, a review of different CSR norms was conducted, considering relevant aspects in terms of an NPO's business. The study's items in Chapter 5.2.2 will base on recommendations on intra-organisational behaviour taken out of the norm.

Mandatory to proceed with the survey is a proof that qualitative criteria of CSR / CSR₃ meet the objectives and goals of an NPO on theoretical basis. Moreover, it is mandatory that there is a relevance in theory of CSR / CSR₃ in terms of value creation at nonprofit organisations. These requirements have been discussed and confirmed in previous sections (see Chapter 4.2.3). The research question, however, has not been evaluated so far. The empirical evidence in terms of causality between stakeholders' assumptions and behaviour of NPOs needs to be confirmed.

The preparation of the survey design process will be described in Chapter 5.1.2. In Chapter 5.1.3 the statistical model will be developed and discussed. Following, some general thoughts relating the survey design in terms of advantages and disadvantages of self-administered surveys will be discussed in Chapter 5.1.4. Furthermore, based on the assumptions made, a set of hypothesis will be carried out (see Chapter 5.2.1) and then operationalized through relevant variables (see Chapter 5.2.2). These were underpinned by the set of relevant items based on ISO 26000.

The survey as conducted to give an answer on the research question shall be representative with respect to the German society. It furthermore shall be proceed at an online access panel for various reason, as also noted in Chapter 5.1.4. To meet the requirement of representativity, the data set collected needs to meet the following criteria relating to the German society:

- Sample group fits to the population based on age groups
- Sample group fits to the distribution of population by sex
- Sample group fits to the spreading of population by home state
- Sample group fits to the percentage of internet users in Germany
- Sample group fits to the share of population who have been working either voluntarily or as paid staff at NPOs in the past and the present

- Sample group fits to the group of population which donate to NPOs

The sample size shall meet the requirement of a sufficient testing scenario, which is met for Partial Least Square (PLS) according to different scholars by the 10 times rule. By this is meant that the sample size shall be 10 times of maximum measures pointing to a single latent variable (Hair *et al.*, 2011, p. 144). Therefore, the survey requires at least 50 participants (see Figure 25). To ensure a sufficient sample group it is target to draw a sample of at least 500 individuals. The latter shall be done in case a partial sample procedure needs to come into place.

There are to mention several limitations of the study. First and foremost, it is mandatory to understand that the relevance of an ethical, legal, and social conduct within organisations is usually not on public debate. As mentioned previously, this is probably because NPOs enjoy high trust at the society level because they are perceived as the commonly good. Moreover, it is possible that an individual has no opinion on the topic of responsibility of NPOs. Another limitation may be the process of data collection, especially in terms of a self-administered survey. These issues will be discussed in detail in Section 5.1.4.1.

5.1.2 Preparation of the survey design process

The survey design includes three major steps, as shown in Figure 22. Firstly, it includes a framework of an empirical survey to evaluate the research subject as explained in Section 1.1.

Secondly, a preparation phase sets a theoretical basis upon which to conduct a sufficient data analysis. This requires the determination of an analysis model discussing its advantages and disadvantages. Also, relevant hypotheses along a causal chain aligned with the subject of research is developed at this stage. To prepare an adequate questionnaire, the operationalisation of variables needs to be carried out. As done for this study, it is recommend to conduct a pre-test phase and a quality phase. The former in this case, took place with 20 participants who agreed to proceed with an online-survey in the first stage and a telephone interview in the

second stage. Based on the outcome of this pre-test, the quality phase comes into place for improvements of both questionnaire and hypothesis.

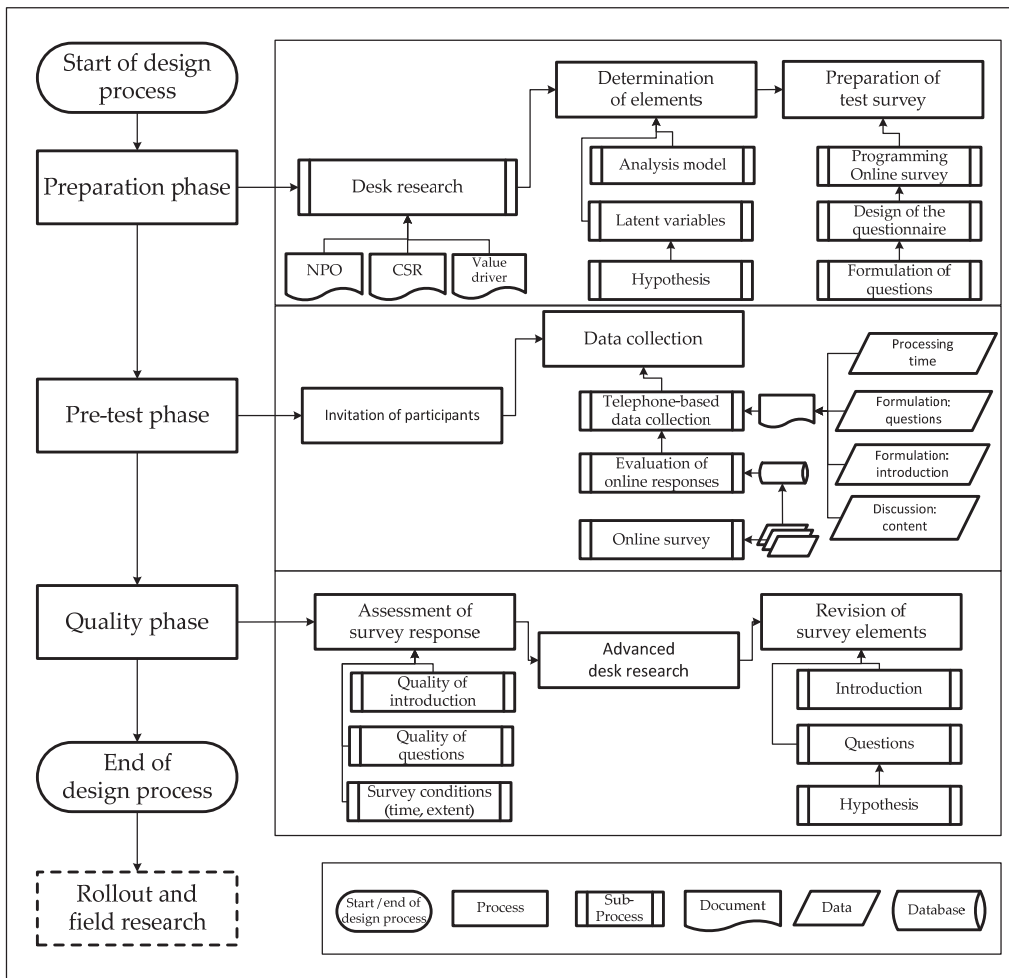


Figure 22: Design process of the empirical survey (Source: Personal collection)

The rollout phase of data collection then needs to be executed. For this dissertation, a Germany-wide survey of an online panel has been conducted. The data set that returned is used for assessment in the final step. This comprises the proof of data consistency and the application of the analysis model established in beginning of this section.

5.1.3 Model development

5.1.3.1 Preliminary considerations

The analysis model development of this study has to consider three aspects in terms of a sufficient assessment: a) there is a large number of facts and information available on CSR₃ and its probable impact on business operations, b) some precise assumptions on CSR₃ issues in terms of NPOs can be made, and finally c) such assumptions result in cause-effect relationships that have to be examined. In other words, a sufficient analysis model needs to deal with an extensive data set as well as dependencies of more than two subjects.

In consequence, a univariate model, like the regression model, which examines a dependency between one dependent variable and one independent variable, will not fulfil this requirement (Backhaus *et al.*, 2008, p. 53). For this reason, the chosen model meets the demands of handling more than one pair of variables simultaneously. It supports an analysis of individual predictions that are interconnected in a causal chain.

To meet the requirements mentioned above, a multivariate regression model is required, where multivariate is used to understand several elements as a vector (Weisstein, 2017). Due to the fact that there is a lot of information available and also precise assumptions to be made, the multi-regression model is not intended to explore, but rather to test the relationships of assumptions. Moreover, as shown in previous sections, the effects of intangible value drivers cannot be measured directly, but indirectly in terms of business success. This requires a model that supports testing of assumptions through determinable circumstances.

Having this in mind, this dissertation follows the suggestion made by Backhaus *et al.* (2011, p. 118) who describes the confirmatory factor analysis (CFA) as a sufficient model to test interconnections – so-called latent variables – because these are not directly observed through manifest variables. The next section gives a brief introduction to this analysis model.

5.1.3.2 *Confirmatory factor analysis with PLS*

The CFA model, as introduced in the previous section, is a multivariate statistical model to test how well variables connect to each other. This section gives a brief overview of the design, function, and presents some certain elements. Figure 23 shows a two-construct including the depiction of sub-models of CFA.

The structural model represents a causality given by latent variables. It is also known as the inner model and comprises exogenous variables, known as predictor variables, as well as endogenous variables as resulting variables. These variables are connected along their causality, which requires a one-sided dependency (Henseler, 2005, p. 71).

The measurement model represents a latent variable and its interconnection with manifest variables. It specifies whether a manifest variable either forms or reflects a theory. A formative connection means that manifest variables have an impact on the latent variable. It is shown with arrows from manifest variables x to latent variable ξ in Figure 23. If the influence is from the latent variable to the manifest variable, the arrow points from latent η to manifest y (see Figure 23), which is a reflective model.

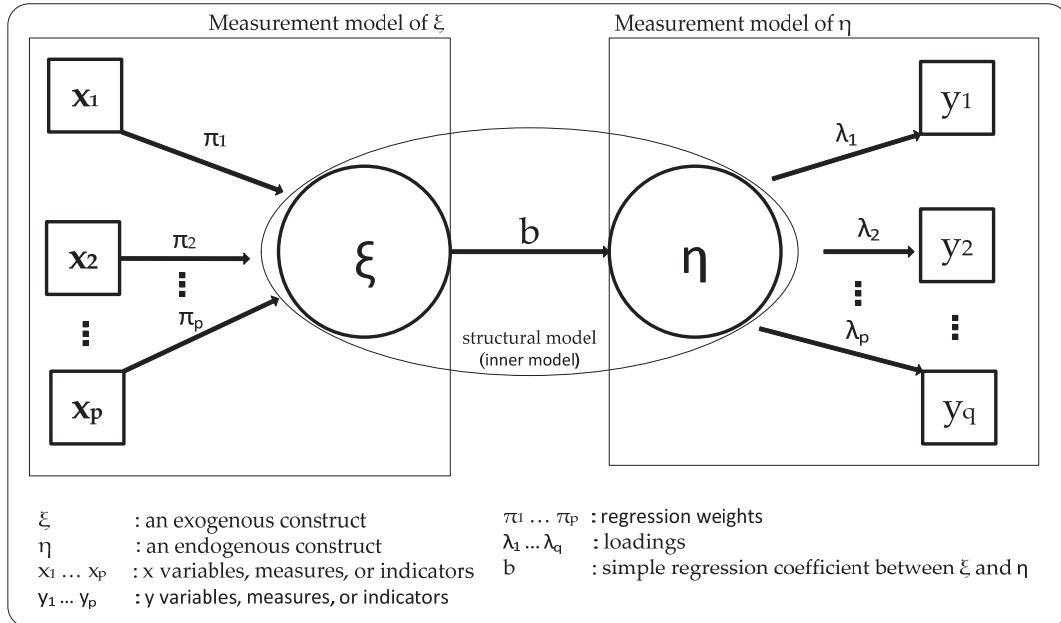


Figure 23: A two-construct CFA model (Amended from Barclay and Thompson, 1995, p. 291)

The estimator of two connected latent variables undergoes several stages. According to Barclay and Thompson (1995, p. 292), 'this process can be described as follows:

- In the first PLS iteration, an initial value for η is formed by simply summing the values y_1, \dots, y_q (i. e. the loadings $\lambda_1, \dots, \lambda_q$ are set to 1)
- To estimate the regression weights π_1, \dots, π_p a regression is done with η as the dependent variable and x_1, \dots, x_p as the independent variables.
- These estimates are then used as weight in a linear combination of x_1, \dots, x_p given an initial value for ξ .
- The loadings $\lambda_1, \dots, \lambda_q$ are then estimated by a series of simple regressions of y_1, \dots, y_q on ξ .
- The next step uses the estimated loadings, transformed into weights, to form a linear combination of y_1, \dots, y_q as a new estimate of the value of η .

This procedure continues until the difference between consecutive iterations for the stop criterion selected by the user is extremely small. [...] As a final step, the simple regression coefficient b between the component scores of ξ and η is calculated'.

Adding further latent variables demands an alteration to this procedure. Henseler (2005, p. 72) remarks that this requires two additional estimation procedures with latent variables: one to calculate the estimated value within the measurement model and one to calculate the estimated value within the structural model.

Henseler (2005, p. 74) mentions, in terms of the model fit assessment, that there is no overall quality criterion available. This means that the validation of both the structural model as well as the measurement model has to be conducted separately. To interpret the results of the estimated value of latent variables and path diagram, one has to adopt an assessment scheme of a regression analysis. Among other things, the R^2 measure at 0 indicates that the model explains none of the variability, while 1 indicates that all of the variability of the response data is around its mean. For a better understanding, R^2 is the percentage of the response variable variation that is explained in a linear model (Weiber and Mühlhaus, 2014, pp. 327–328).

A rating scheme for estimates of both path diagram and latent variables will be introduced in Section 5.3.2.2.3.

5.1.4 Design of a questionnaire

5.1.4.1 *The overall settings*

To conduct a survey, it is advisable to consider a respondent's psychology and survey design to prepare adequate settings (Iarossi, 2006, p. 155). This helps to anticipate problems and to avoid failure in the evaluation phase.

Iarossi (2006, p. 156) claims that the respondent's psychology is the key to success with surveys. It depends on the relationship between interviewer and interviewee where 'a successful interviewer must possess the ability to identify in the first few minutes of interaction which factor play a leading role in the respondent's psychological predisposition toward the survey and adopt the corresponding most appropriate persuasions strategy'. For this, he applied behaviour patterns introduced by Cialdini (1988, cited by Iarossi, 2006, pp. 156–158):

- Reciprocation – people feel obliged to give when they get; in terms of a survey it is relevant when people receive incentives
- Commitment and consistency – people strive for consistency in their commitments; with surveys this may be operationalised by requesting a message when finished with the questionnaire
- Social proof – people feel strong in a society and will adapt beliefs and behaviour; it may push interviewees to participate when interviewers point to the number of participants
- Authority – people are sometimes obedient to authorities; in this manner, it is probably helpful to incorporate officials to help influence the chance of response
- Scarcity - is a social norm that might play a role in encouraging participation; this means that respondents are more likely to comply with the request if they see it as a limited opportunity.
- Liking – people require social ties, where liking is expressed by the will to comply with people who are similar to them; an interviewer who can be identified with may attract the participant's willingness to contribute

Iarossi (2006, p. 157) argues that 'people have an innate sense of altruism' where the interviewer may also appeal to the helpful attitude of a respondent 'to increase participation'. He further describes the impact of the respondent's mood on the final outcome: 'while anger will have a detrimental impact on participation, happiness will have the opposite effect' (Iarossi, 2006, p. 158).

Faulbaum *et al.* (2009, pp. 30–31) emphasises that the form of administration of the survey should be taken into consideration: a survey is either administered by the interviewer or self-administered by the interviewee. The former means that the interviewer not only reads questions, but may also complete the questionnaire according to the respondent's answer. Then, according to Iarossi (2006, p. 155), the outcome might depend on the personal appearance, experience, expectations, and mood of the interviewer. For instance, he claims that 'relying heavily on students [...] might create problems in getting answers from senior executives. Their relative youth might create problems in getting answers from senior executives'.

A self-administered interview requires the interviewee not only to read the problem statement, but also to put the answer down on the survey form, which is either on paper or in a digital format, using computer-based or mobile-based solutions (Schneider, 2017, pp. 56, 60). The latter refers to Internet-based groups, also known as online access panels. In this sense, Schneider (2017, p. 66) points out benefits by co-operating with research institutes: due to their experience and access to pre-screened participants, they get optimal results instead of a low quality response. There is another advantage of a self-administered survey, be it pen & pencil or online: it can be done at any time and almost anywhere in the world. Nonetheless, a self-administered survey may be processed within a short time period by many interviewees (Faulbaum *et al.*, 2009, pp. 30–31; Iarossi, 2006, p. 54).

There are also some disadvantages with self-administered surveys. An example of this occurs in the case of there being further questions with the questionnaire, where no help is available to the respondent. Another issue is with illiteracy; such persons are excluded from many self-administered surveys. In Germany this affects up to 7.5 million people aged between 18 and 64 (Universität Hamburg, 2011). Finally, if the survey is conducted via the Internet, access is also limited to a certain group of the population. To put it in numbers, 83.8% of the

population has access to the Internet (ARD and ZDF, 2016a), while the group aged between 14 and 59 has access at a rate of over 97%. Of the group over the age of 60, 56.6% have access to the Internet (ARD and ZDF, 2016b).

To explore the subject of this dissertation, the advantages of a self-administered survey outweighed the disadvantages of an interviewer-administered survey.

5.1.4.2 *The introduction*

The introduction of a survey sets the tone and the success of the questionnaire depends on it. This becomes obvious when a respondent shows no interest in the subject of the survey. To avoid such negative responses, Iarossi (2006, p. 158) recommends eliciting an opinion change within respondents with 'a highly sophisticated introduction [...] to ensure participation'. Even though 'there is no single opening statement or single argument that ensures the highest level of participation in all circumstances' (Iarossi, 2006, p. 158).

One may wonder what a highly sophisticated introduction may be. It could be, for example, a well-told story, but it would have to be used carefully so as not to mislead the interviewee. Furthermore, it can contain comprehensive details in relation to the research subject. No matter how complex and how comprehensive an introduction may be, the administrator has to keep in mind that there are probably some cognitive limitations with the respondent as discussed previously.

The survey conducted for this dissertation provides a descriptive, yet neutral introduction as shown in Annex C. The introduction is used to provide brief information on relevant elements to give an understanding of the subjects of the survey.

The text body is divided into two sections: firstly, a brief introduction of CSR₃ in terms of NPOs is given, which is followed by a definition of the term NPO, its role in society and an explanation of its objectives. In order to avoid influencing responses, the introduction avoids presenting information on two major aspects:

CSR₃ within NPOs and their role as advocacy organisations in society. For better readability, negations within the text body have been avoided.

5.1.4.3 *The questionnaire*

The questionnaire of a self-administered survey is a means, where communication in this case is a one-sided activity of call and response. The desired outcome of such specific communication is either to prove or to explore opinions, beliefs, knowledge, or assumptions of the target group. Hence, a comprehensive survey needs to consider certain aspects, especially because respondents are usually not known to the inquirer (Faulbaum *et al.*, 2009, pp. 17–19). This is why the focus of the design of a questionnaire shall lie on both response strategy of an interviewee as well as the language used for the survey.

To start with, Faulbaum *et al.* (2009, pp. 17–19) claims that a question, a so-called item, gives an impulse that returns negative, neutral, or positive feedback by the interviewee. Hence, it may be complicating a situation when the subject of the survey is quite unknown to the respondent, for instance, when the questionnaire aims to explore a new field of interest. The same is also possible if reading and understanding of items require greater effort. In consequence, this may effect a negative response strategy through the respondent, thus, erroneous results in the survey are to be expected (Faulbaum *et al.*, 2009, p. 66).

Furthermore, Krosnick and Alwin (1987, p. 215) points out the effect of satisficing, which is the influence of ‘respondents with less cognitive sophistication’. Because of an excessive demand, an interviewee may become exhausted and unconcentrated, which leads to a loss of motivation. This in turn may result in abandonment. However, before that point is reached, there are some other response strategies that may apply to a respondent (Faulbaum *et al.*, 2009, p. 66):

- Primacy and recency effects – the interviewee chose either the first or last answer of an item
- Random choice – the respondent does not evaluate but choses randomly
- Acquiescence – the respondent is keen to answer positively

- Speed versus accuracy – an interviewee aims to finish as quickly as possible, hence, the questionnaire will not be read carefully and answers will be given quickly

Each item is a measure of the research object. It may explore an interviewee's knowledge on facts and figures as well as on opinions and beliefs (Schumann, 2000, p. 33). One can distinguish three types of questions (Faulbaum *et al.*, 2009, pp. 19–21): a) open-ended questions, where no answers are given and the respondent needs to formulate an unaided reply, b) closed-ended question, where all possible answers are given, and c) hybrid questions, where a respondent either chooses a proposed answer or is required to formulate an unaided reply. Finally, a specific form is the 'opinions and beliefs' question. The administrator prepares questions that require an estimation by the respondent through a Likert rating scale. The scale is an ascending or descending scheme going from total disagreement on one end to total agreement on the other. Faulbaum *et al.* (2009, p. 66) suggest a rating scale increments of 1 to 5 or 1 to 7, where 1 is either the highest or lowest grade.

Another requirement to provide good communication is with the language used to formulate an item. There are some basic requirement to support a mutual understanding between interviewer and interviewee (Schumann, 2000, pp. 61–65; Iarossi, 2006, pp. 27–28):

- Use of clear and simple language, that is anything but technical language where ever possible
- Avoiding use of doubles negation, for instance 'CSR does not intend a non-social behaviour'
- Use of precise phrases to avoid misinterpretation

Faulbaum *et al.* (2009, pp. 114–124) suggest validating each item carefully. Therefore, he provides a checklist of twelve categories comprising 40 relevant issues to identify inconsistencies within the questionnaire. To give an example, he points to a problem with grading scales where the grading scale is pre-defined from negative to positive (-5 ... +5). In this case, he stated that interviewees avoid negative grading and express their sentiment and experiences more positively. This

is why a positive grading scheme of (1 – 5 / 1 – 7) is more efficient (Faulbaum *et al.*, 2009, p. 206).

Due to the fact that the subject of CSR₃ within NPOs can be assumed to be rather unknown to the group of respondents, some requirements are taken into account to avoid a false or misleading response. The survey form is divided into two sections: on the one hand, a few questions are given to identify subgroups of the respondents, which are necessary to identify representativeness. On the other hand, to mitigate the risk of exhausting the respondents, it provides a very limited number of items so that the survey can be conducted within a maximum time of 20 minutes. Moreover, each item is formulated in a simple, clear language and provides detailed information when there is need of an explanation. The survey mainly provides items on opinions and beliefs. Because most people in Germany are aware of the use of the German system of notion, where a 1 = very good and 5 = insufficient, a rating scale is introduced in accordance with this scheme. It is mandatory to know that the items are not presented as item batteries, i.e. one item below the other, but individually. Thus, the interviewee gets one question which has to be answered in precise terms to prevent becoming exhausted and thus avoid negative responses (Faulbaum *et al.*, 2009, p. 81). This is why respondents cannot skip an item, since it is assumed that the intention is either to reply or to exit the survey (Faulbaum *et al.*, 2009, p. 81).

As mentioned in Section 5.1.1, a test phase has been conducted to eliminate unclear formulations. Before and after this phase, each item is carefully verified against probable negative side effects as mentioned above.

The following section introduces the set of hypotheses and their relation to this dissertation.

5.2 HYPOTHESIS AND CAUSAL CHAIN

5.2.1 Formation of hypothesis

5.2.1.1 *Equivalence of internal and external CSR₃*

Society does not only recognise the good cause of an NPO by its mission and vision statement, the trust that they enjoy is also because of their rootedness in society. This is made particularly evident, as mentioned in Section 2.1.4.5, by the fact that one in five people have worked voluntarily for nonprofits, while one in three donate to nonprofits. This is why in Section 4.1.3 this dissertation emphasises the idea that NPOs per se, are recognised as moral organisations, which are irreproachable in matters of social behaviour and integrity. This is so even though just four of five NPOs consider CSR₃ as part of their management and operational issues (see Section 4.1.3).

As this dissertation will determine the impact of CSR₃ within NPOs as a public success factor, the first hypothesis on CSR₃ is to determine the equivalence of internal and external CSR₃ as perceived by society, where no distinction is made between the requirements of the inner and outer world:

Hypothesis 1 (H1) – Equivalence of inner and outer CSR₃

Society expects the equal treatment of CSR₃ topics in the inner and outer world of the organisation.

It is expected that Hypothesis 1 will prove true, hence, the next question arises: what exactly does society expect from an NPO in terms of internal CSR₃? This will be elaborated in the next section.

5.2.1.2 *Willingness to participate*

As discussed in Chapter 4.1, a nonprofit essentially needs to implement CSR₃ activities within its business. The reason is two-folded: on the one hand, with CSR₃ the qualitative criteria meets the formal objectives of an NPO. On the other hand, a nonprofit is a public asset and CSR₃ has a mandatory role in such relationships.

However, the question remains of why so much effort is spent on CSR₃ activities within the organisation and what the outcome might be.

This leads to Hypothesis 2 (H2), where the assumption is made that society expects not only social behaviour with the outer world, but also the implementation of CSR₃ measures within organisations. The positive expectation on implementation of social rules stimulates an individual to contribute either in financial or in non-financial ways. Hence, this dissertation assumes *Hypothesis 2 (H2) – Willingness to participate*:

The higher the fulfilment of society's expectation in terms of internal CSR₃, the greater the willingness of participation.

The correlation between these two factors is assumed to be very strong, due to the fact that if the fulfilment of an individual's expectation is felt, it may trigger the will to participate; 'to be a part of the good'. However, in this case there is also a need to explore whether non-mission based CSR₃ activities have the same value to society than mission based activities. This means that CSR₃ with mission-based activities is obvious while additional services provided for internals are probably unintended for several reasons. One may also wonder if efforts of internal CSR₃ should be recognised by the society as being sufficient.

5.2.1.3 *Reward of good behaviour*

The third hypothesis will discuss the dependency between the will of participation and the actual participation activities of a donor:

Hypothesis 3 (H3) – Reward of good behaviour

The higher the will to participate, the higher the actual participation when CSR₃ within NPOs is actually carried out.

An individual, for instance, donates because he or she expects the organisation to implement CSR₃ measures. In this sense he or she give a reward for good conduct, which is based on the human nature (Roth, 2015).

To make a further assumption, this nonprofit usually does not report on its internal activities, because it believes that it is commonly known as being trustworthy in society. However, if by chance the donor got information on successful implementation of CSR₃ measures within the organisation, one may wonder if the fulfilment of such an expectation may have an impact to the donor. Will it return a positive, negative, or a neutral attitude towards the donor, and furthermore, how will a donor reward such CSR₃ activities within an NPO? It is to be assumed that the accidental uncovering of CSR₃ activities within an organisation results in neither a disadvantage nor an advantage to an organisation. In other words, society will not be surprised when NPOs are actually moral institutions. Therefore, a supposed weak link between willingness to participate and the increase of donations is to be expected.

As discussed in Section 4.1.2, some NPOs take the role of advocacy organisations. They either do this because they are experts in their field of mission-based activity, or because they place themselves in this role. Nevertheless, good behaviour becomes a major part of legitimacy; but as declared by Plato: 'who will guard the guardians' (from the Latin phrase 'Quis custodiet ipsos custodes?' Aguilera and Judge, 2014, p. 15).

5.2.1.4 *Sanction of misconduct*

The previous section deals with the question of how a donor may behave if expectations of CSR₃ activities within NPOs prove true. The same problem arises when the contrary comes to light: what might happen when an individual figures out that assumptions of the good behaviour of NPOs are unsubstantiated, as outlined in Section 4.1.3? The same question appears when an NPO does not fulfil its social, ethical, and legal contractual requirement, withholds information from the public, or is dishonest with its stakeholders as stressed in Section 2.1.1.2? In other words, how would a stakeholder respond in such cases – is he going to sanction misbehaviour (Roth, 2015)? This leads to *Hypothesis 4 (H4) – Sanctioning*:

The higher the willingness to participate because of CSR₃ activities within NPOs, the higher the willingness to sanction negative behaviour.

There is to mention, however, that this hypothesis puts the interviewees in the position of a decision maker, which he or she might not be in real-life. In Germany, a decision to close nonprofits depends either on the executive level of a nonprofit itself, or in some cases on the judicial body. Due to the fact that this dissertation asks for the opinions of stakeholders, the outcome is most obviously not to observe in real life. The population is usually not faced with such legal actions (see Chapter 2.2.5.3). The result of this hypothesis is not possible to forecast: on the one hand, it is assumable that the survey will turn out a weak correlation between the will to participate and the will to sanction negative behaviour of nonprofits, because they do not expect to have such power. On the other hand, it may be that they have accepted their power by applying a high sanctioning of misconduct (Milgram, 1963)

5.2.1.5 *Efficiency and effectiveness*

In Section 2.2.4.2 it was been stressed that the German DZI accepts that a maximum 30% of donations received are taken for administration and marketing. Organisations which exceed the limits will not be certified, moreover, those which do not make this disclosure will probably be officially named and shamed, as mentioned in Section 4.1.1.3. However, an organisation will incur costs with the implementation of CSR₃ (see chapter 3.1.1). This then culminates with *Hypothesis (H5) – Use of funds*:

The more seldom an individual donates, the higher is his expectation of the use of funds for mission-based activities.

The reason is related to the group of stakeholders, which is very heterogeneous as illustrated in Section 2.1.4.5. Some stakeholders are supposed to donate every day, which refers to the theory of donating wages by personnel, while other stakeholders donate very irregularly to nonprofits.

This assumption stresses the idea of belonging: a very high ownership gets individuals involved and makes information on the needs to run a sufficient organisational structure available. In other words, those who donate regularly to an NPO, get a realistic impression on the income-outcome ratio of this organisation.

5.2.1.6 Presentation of the causal chain

In the previous sections, five hypotheses on CSR₃ within NPOs have been introduced. The causal chain model for this dissertation as presented in Figure 24, provides the dependency of the hypothesis and its variables.

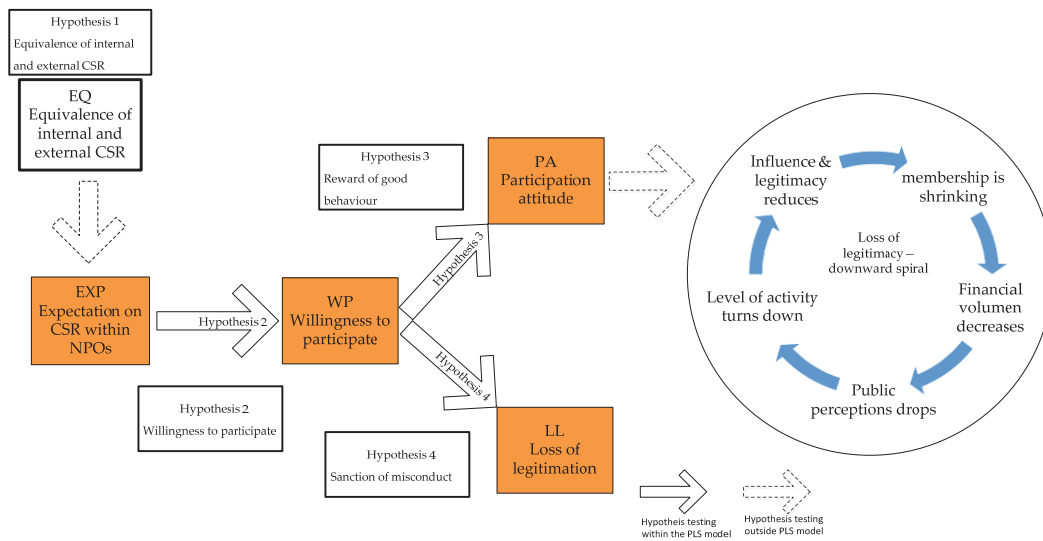


Figure 24: Causal chain for CSR₃ within NPOs (Source: Personal collection)

With respect to the subject of research, Hypothesis H1 discusses the question of whether society expects nonprofits to deal equally with internal and external CSR₃ issues. Like Hypothesis H5, H1 is not part of the causal chain and will be tested independently.

H2 depends on an individual’s expectations in relation to CSR₃ activities and his or her willingness to participate. For this, two variables are required to measure behavioural dependencies in terms of an individual’s satisfaction: on the one hand, there are individual’s expectations of good behaviour, while on the other hand there is the effect caused only by trust of certain behaviour. Next hypothesis H3 questions the impact of an individual’s will to participate and his actual participation in case of good behaviour by an organisation. Hence, a further variable is required to measure the construct of participation attitude. The loss of legitimation caused by fraud and abuse may lead to distrust. The latter is, in terms

of trust, 'not just return to complexity as a neutral point. In fact, it leads to the negative and requires certain avoiding strategies' (Luhmann, 2000, p. 93). This will be represented through the measurement of Hypothesis H4. Finally, the model will be completed with a variable to measure the impact of an individual's willingness to participate in his or her endeavours to sanction misconduct.

As a part of the causal chain, the question of how an NPO overcomes the breach of trust and its disappearance from the market, will be discussed in theory-based manner. This will done based on the concept of 'the vicious cycle', introduced in Section 2.2.6.3.

5.2.2 Operationalisations of the variables

5.2.2.1 *Equivalence of internal and external CSR₃*

In the following sections the basis for the creation of the questionnaire will be discussed. The final set of questions is presented in Annex D.

To start with, Hypothesis H1 explores a subjective feeling on the equivalence of internal and external CSR₃ activities of an individual. As a result of this, the respondents will be ask about their opinion of equivalence in relation to specific requirements linked with following requirements of ISO 26000:

- Item EQ1 – Discrimination
 - Human rights issue: discrimination and vulnerable groups – 'people are discriminated against because of their race, cultural identify and ethnic origin'(ISO, 2010, pp. 29–30)
- Item EQ2 – Social Equality
 - Organisational governance and social responsibility – '[...] promote a fair opportunity for underrepresented groups [...]', (ISO, 2010, p. 22)
 - Human rights issue: discrimination and vulnerable groups – 'other vulnerable group [...] the elderly [...] illiterate people, [...] and minority and religious groups'(ISO, 2010, pp. 29–30)
 - Labour practices issue: conditions of work and social protection – 'equal pay' (ISO, 2010, p. 37)

- Item EQ3 – Transparency
 - Organisational governance: ‘establish two-way communication processes with its stakeholders, identifying areas of agreement and disagreement and negotiating to resolve possible conflicts’ (ISO, 2010, p. 22)
 - Human rights issue: resolving grievances – ‘an organization [...] should be legitimate. This includes clear, transparent and sufficiently independent governance structures’ (ISO, 2010, p. 27). Also, it has to be ‘clear and transparent. Although confidentiality might sometimes be appropriate, the process and outcome should be sufficiently open to public scrutiny and should give due weight to the public interest’ (ISO, 2010, p. 28)

Moreover, to conduct an easy interpretation of results, the item provides a Likert scale from 1 (totally agree) – 5 (totally disagree) scale-based response. The evaluation is carried out by using descriptive statistics. Since the research subject on CSR₃ within NPOs is quite unknown to the public, people might not yet have formulated a position on this case. It is expected that a great number may give a rating of 3, which in this case equates to an ‘I do not know’. Hence, to meet the requirement of the hypothesis H1, the items EQ1 – EQ3 will be proved as true a) if more than 70% of the respondents indicate that CSR₃ is needed within an NPO by giving ratings of 1 and 2, b) if less than 10% of the respondents indicate that CSR₃ is not needed within an NPO by giving ratings of 4 and 5, and c) the median and mode of all three items prove results ≤ 2 .

5.2.2.2 *Expectations on CSR₃ within NPOs*

To explore the expectation of CSR₃ measures within a NPO certainly requires more than a ‘yes’ or ‘no’ answer given by an interviewee. This is not only because the interviewees need to know something more specific about CSR₃, this is also because it is about their opinions and beliefs with such a broad subject. This is why the expectation is not to measure it directly, but rather for it to become part of the causal chain as a latent variable. The item is designed as a scale-based response, which accepts a 1 (totally agree) – 5 (totally disagree). Furthermore, the main topic with this variable is to explore expectations on intra-organisational CSR₃, thus, each item is linked to an issue of ISO 26000. Hence, the basic question with each item is:

'Would you expect a nonprofit to implement CSR₃ activities within its own organisation?'

The manifest variables will consider:

- Item EXP1 – Equal Pay
 - Labour practices issue: employment and employment relationships – 'provide equal pay for work of equal value' (ISO, 2010, p. 37)
- Item EXP2 – Health & Safety
 - Labour practices issue: health and safety at work – 'develop, implement and maintain an occupational health and safety policy based on the principle that strong safety and health standards and organizational performance are mutually supportive and reinforcing' (ISO, 2010, p. 39)
- Item EXP3 – Transparency
 - This item is identical to EQ2 because it not only explores the opinion in terms of equality between internal and external CSR₃, but far more than this, it connects the respondent's opinion on equality with a rule on how to deal with social requirements.
- Item EXP4 – Resource Saving
 - Environmental issue: sustainable resource use – 'implement resource efficiency measures to reduce its use of energy, water and other resources, considering best practice indicators and other benchmarks' (ISO, 2010, p. 44)
- Items EXP5 – Transparency
 - This item is identical to EQ3 because it not only explores the opinion in terms of transparency between internal and external stakeholders, but over and above this, it connects the respondent's opinion on transparency with rules on how to deal with legal requirements.

All of these items reflect the opinion of an interviewee with respect to the requirement of intra-organisational CSR₃. It is notable that the lines between the question on equality of internal and external CSR₃ are often blurred, since the characteristics overlap to some degree: one cannot solely implement CSR₃ activities for the business environment. This is why item EXP3 and EXP5 may be used to

determine both the interviewee's opinion on equality as well as the implementation of CSR₃ in an organisation.

5.2.2.3 *Willingness to participate*

The next latent variable measures the respondent's willingness to participate. It has been argued that trust is a driver to motivate people to participate, hence, one needs to know how strong trust of a nonprofit needs to be to stimulate involvement. The manifest variables therefore underline the basic question posed to the interviewee of: how much would you be involved with this organization? Involvement, in this case, means financial or non-financial participation, the latter being either a donation in kind or donation through voluntary work.

As implemented in the previous section, the items are combined with the question and a contextual story told about intra-organisational CSR₃ measures taken in ISO 26000:

- Item WP1 – Human Rights
 - This item is similar to EQ1 and EQ2 and points to an organisation's due conduct on human rights. As suggested in Section 5.1.4.1, this item adds the authority needed to highlight the importance of CSR₃, especially with respect to the UN's framework and requirements on human rights, listed and discussed in Section 4.3.2. Also, altering the story line may prevent the interviewee losing interest while processing the survey form.
- Item WP2 – Resource Savings
 - This item is similar to EXP4. Nevertheless, it addresses a different type of organisation, which was mentioned in the introduction as well, due to the fact that the survey does not focus on one specific type of organisation.
- Item WP3 – Corruption
 - Fair operating practices issue: anti-corruption – 'support and train its employees and representatives in their efforts to eradicate bribery and corruption [...]' (ISO, 2010, p. 48)
- Item WP4 – Human Rights

- Community involvement and development: education and culture – ‘consider facilitating human rights education and awareness raising’ (ISO, 2010, p. 64)

This item seems to be a repetition of WP1, even though its focus lies on a different specific requirement of ISO 26000. However, this may help to bring to mind relevant details on human rights for interviewees.

Involvement becomes measurable with these items, where each provides a scale-based response of 1 (totally agree) – 5 (totally disagree).

5.2.2.4 *Participation attitude*

With Hypothesis H3, it will be determined whether a potential donor would increase their donations when CSR₃ in NPOs is instated. In other words, one may ask if a donor would fear high costs and low benefits of internal CSR₃ activities or would welcome internal CSR₃ activities for whatever reason. Hence, to measure the impact of trust when it proves true, another variable needs to be established. The basic assumption of this latent variable is that an individual who has already donated to a nonprofit, is willing to donate in the future as well. This is the basis of these items that reflect the individual’s attitude, combined with recommendations of the ISO 26000:

- Item PA1 – Staff Development
 - Labour practices issue 5: human development and training in the workplace – ‘provide all workers at all stages of their work experience with access to skills development, training and apprenticeships, and opportunities for career advancement, on an equal and non-discriminatory basis’ (ISO, 2010, p. 40)
- Item PA2 – Health & Safety
 - Labour practices issue: conditions of work and social protection – ‘ensure that the conditions of work comply with national laws and regulations and are consistent with applicable international labour standards’ as well as ‘provide decent conditions of work with regard [...] health and safety [...]’

- Item PA3 – Resource Saving
 - Organisational governance and social responsibility – ‘develop strategies, objectives, and targets that reflect its commitment to social responsibility’ and ‘use financial, natural and human resources’ (ISO, 2010, p. 22)

This item is a repetition of EXP4 or WP2 only in its specifics. In fact, the item not only addresses the objective of an efficient use of resources, but also the forward looking management to satisfy current stakeholders and those in the future.
- Item PA4 – Social Involvement
 - Labour practices issue: conditions of work and social protection – ‘respect the family responsibilities of workers by providing reasonable working hours, parental leave and, when possible, childcare and other facilities that can help workers achieve a proper work-life balance’ (ISO, 2010, p. 37)

This variable will be rated on a Likert scale-based measure from 1 (totally agree) – 5 (totally disagree).

5.2.2.5 *Loss of legitimation*

The basic issue of this latent variable is the question of how an individual may decide when misconduct in terms of an internal CSR₃ requirements occurs. Therefore, three different aspects of the ISO 26000 are combined with the idea of shutting down an organisation:

- Item LL1 – Labour Law
 - Labour practices issue: conditions of work and social protection – ‘respect the right of workers to adhere to normal or agreed working hours established in laws, regulations or collective agreements. It should also provide workers with weekly rest and paid annual leave’, and also ‘compensate workers for overtime in accordance with laws, regulations or collective agreements’, (ISO, 2010, p. 37)
- Item LL2 – Resource Saving

- Organisational governance and social responsibility – ‘create and nurture an environment and culture in which the principles of social responsibility’, (ISO, 2010, p. 22)
- This item repeats items WP2, EXP4, and PA3; the claim of wasting resources does not only affect ethical and financial requirements. With this item, the respondents need to consider why those who should have known kept quiet. It is implied with this item, however, that there is most probably pressure on the employees and speaking one’s mind seems to be very difficult.
- Item LL3 – Fraud
 - Organisations and organisational governance – ‘demonstrate leadership commitment and accountability’ as well as ‘use financial, natural and human resources efficiently’ (ISO, 2010, p. 22)
Fraudulent activities by organisations violate the law, hence, there is a problem with the legal domain of CSR₃ (see Section 3.4.3).

The items that reflect a loss of legitimation variable depend on opinions and beliefs. As mentioned, the core is to identify to what extent an individual is willing to sanction misconduct. Thus, the measure of the Likert scale-based response starts at 1 (shut down the organisation in any case) to 5 (in no case). Even though the LL is negative to the respondents, the hypothesis asks for a positive correlation. Thus, it should be mentioned that results within the PLS construct may show a positive term, if people were to agree to sanction misconduct.

5.2.2.6 *Efficiency and effectiveness*

Hypothesis H5 emphasises the idea of people’s expectations on efficiency and effectiveness. Moreover, the hypothesis doubts that most people have a feeling for the effort required to conduct CSR₃ activities, either through special trainings, courses, special processes, and so on. Item EE1 is an open-ended question, where respondents are required to specify the maximum amount of their donation that they expect to be used for mission-based activities. Even where some respondents might give answers at either a maximum or minimum level, it is assumed that results give an impression of donor mindsets. The evaluation will be done in

correlation with the donation frequency item. As already mentioned in Section 2.1.4.6 as well as 5.2.1.5, it is assumed that there is a relation between donation frequency and expectation of the use of funds.

5.3 SURVEY RESULTS

5.3.1 Quality of data set

The quality of the data set is based on four factors, which depends on the problem of satisficing as discussed in Section 5.1.4.3: a) compliance to filling out the questionnaire honestly and sufficiently, b) incomplete participation, for instance, the respondent is allowed to answer by indicating 'I don't know', c) refusal, the interviewee replies dishonestly to the items, and d) cancellation of the survey form. In terms of quality of this data set, as special focus lies on b, c, and d.

To avoid the b-problem, this survey technically requires each item to be processed by the interviewee. Thus, the problem of an incomplete data set is avoided. However, the effect is either to proceed further or to drop out. Continuing with the survey may result in either proceeding dishonestly or honestly in the questionnaire. This leads to problem c, which is behaviour of refusal. This means that a respondent who is not willing to give proper answers may present three approaches. The first is to click on each question with the same response level (1 - 1 - 1 - 1 - ..., 3 - 3 - 3 - 3 - 3) to get to the end quickly. The second approach is to click through the questions in a specific rhythm (1 - 2 - 3 - 4 - 5 - ...). Thus, these two strategies show clear patterns within the sample that can be discovered easily. A cross-check of the sample regarding these strategies was carried out and no corresponding record has been found.

The third approach by an interviewee may be to click (1- 1 - 5 - 2 - 2) through the items without reading and replying sufficient to the content. This strategy is difficult to detect by only checking the sample set. Thus, the implementation of the appropriate test questions is in need. Such questions repeat the content given previously, either in the same way or slightly modified, but in response to the same

content. The administrator then needs to check if there are inconsistent replies in the sample data.

To uncover such misconduct, some test items have been included into the survey on CSR₃ within NPOs, as mentioned in Section 5.1.4.3. These have been verified and no problems or contradictory statements could be found within the sample.

In the next section, tests on representativity and goodness of fit of the model will be provided.

5.3.2 Model fit

5.3.2.1 Representativity of the survey

This chapter gives a brief overview on the quality criteria of representativity of the sample. In this sense, a sample can be either the population as a whole or a partial sample. Representativity means that a sample reflects relevant criteria of the whole population, even though only a small group is observed (Bortz and Döring, 2006, p. 740). However, to conduct a comprehensive survey one needs to ask the whole population, which is quite impossible (Mory, 2014, p. 320). Thus, a partial survey will be ample.

For this dissertation a survey was carried out through an online access panel from the 8th of March 2017 to the 16th of March 2017. It aims to explore expectations of the German society in terms of CSR₃ within NPOs. To follow the rules of representativity, the sampling procedure comprise relevant statistical characteristics in terms of age, sex, home state, Internet access, working with NPOs, and donators to NPOs in Germany.

| State | Participants in percent | | | German population in percent | | |
|--|-------------------------|----------------|----------------|------------------------------|-----------------------|-----------------------|
| | Total | Female | Male | Total | Female | Male |
| Baden-Württemberg | 13,70 | 7,59 | 6,11 | 13,24 | 6,68 | 6,56 |
| Bavaria | 15,51 | 8,09 | 7,43 | 15,63 | 7,90 | 7,73 |
| Berlin | 4,79 | 3,30 | 1,49 | 4,28 | 2,18 | 2,10 |
| Brandenburg | 2,97 | 1,98 | 0,99 | 3,02 | 1,53 | 1,49 |
| Bremen | 0,66 | 0,17 | 0,50 | 0,82 | 0,41 | 0,40 |
| Hamburg | 2,15 | 1,16 | 0,99 | 2,18 | 1,11 | 1,06 |
| Hesse | 7,43 | 3,63 | 3,80 | 7,52 | 3,81 | 3,71 |
| Mecklenburg-Vorpommern | 1,82 | 0,99 | 0,83 | 1,96 | 0,99 | 0,97 |
| Lower Saxony | 9,57 | 4,79 | 4,79 | 9,65 | 4,88 | 4,76 |
| North Rhine-Westphalia | 21,45 | 10,07 | 11,39 | 21,74 | 11,07 | 10,67 |
| Rhineland-Pfalz | 4,95 | 2,15 | 2,81 | 4,93 | 2,50 | 2,43 |
| Saarland | 1,16 | 0,50 | 0,66 | 1,21 | 0,62 | 0,59 |
| Saxony | 5,28 | 1,82 | 3,47 | 4,97 | 2,52 | 2,45 |
| Saxony-Anhalt | 2,64 | 1,49 | 1,16 | 2,73 | 1,39 | 1,35 |
| Schleswig-Holstein | 3,47 | 1,65 | 1,82 | 3,48 | 1,78 | 1,70 |
| Thuringia | 2,48 | 1,32 | 1,16 | 2,64 | 1,33 | 1,31 |
| Total in percent (total in numbers) | 100 (606) | 50,70 (307) | 49,30 (299) | 100 (82,175,684) | 50,70 (41,661,531) | 49,30 (40,514,213) |

Table 9: Comparison of population in Germany and numbers of participants, survey CSR₃ within NPOs, (Source: Personal collection with amendment to Statistische Ämter, 2017)

A sample group of 743 people were invited to participate in the online survey. In total 606 participants finished the survey, which is a participation rate of about 82%. Bearing in mind that neither an 'I don't know' response nor skipping of items to get to the following question was allowed, the outcome is rather reasonable. However, it should be mentioned that neither the number of cancellations nor the

time that it took to respond to a single item was recorded, thus, one cannot draw any conclusion on participant behaviour.

In Table 9, the distribution of the sample data, divided by sex and home state in Germany, is represented. As a result, the comparison between sample group and population almost corresponds in numbers, even though there are observable differences. It should be mentioned that the survey covers participants in an age category up to 16, while figures available from Statistische Ämter / Germany reports on the entire number of inhabitants (age 0 - ...). Therefore, slight differences are acceptable in terms of distribution of characteristics on both the participants' sex as well as their home state.

| Age category | Participants in percent | German population with Internet access in percent |
|--------------|-------------------------|---|
| 14 – 29 | 19.64 | 25.30 |
| 30 – 49 | 34.65 | 36.40 |
| 50 + | 45.71 | 38.30 |

Table 10: Comparison of population with Internet access in Germany and numbers of participants in percent by age category, survey CSRs within NPOs (Source: Personal collection with amendment to Statistische Ämter, 2017)

Another criteria to observe is the age category in terms of participation in the survey. Hence, a comparison with respect to the population having Internet access in Germany and the proportion of respondents in this study is given in Table 10. Looking at the figure, one sees that there is a deviation in the age category 14 – 29 and with the group aged 50 and over. The former is reasonable since younger people aged between 14 and 16 years do have access to the Internet, but are excluded from participation at online access panels. Nevertheless, the difference between the two percentages seems to be low enough to be regarded as statistically admissible, because of the inherent fluctuation of the samples in the sampling technique.

To ensure that the received responses reflect German society and its connection to NPOs in general it is possible to check the correlation of the sample group with existing data regarding known behaviour and experiences.

As stated in Section 2.1.4.5, about 34% of the German population currently donate to NPOs. The result of the item DF shows that $n = 200$ of $N = 606$ of the sample group donate at least once a year to NPOs. This shows that the sample group with a donation frequency rate of about 30% is inside the typical range in relation to the whole German society.

With the question of working relationships, the sample group shows a small variance based on existing data for the whole German population.

There can be several reasons for this variance, but the main assumption lies in the fact that existing data only seems to ask for current working relationships. Based on the relevance of this study, the sample group has been asked to state whether they have worked as paid employees or voluntarily for any NPO at any point in their lives. This fact allows the assumption to be made that the responses must be higher than in known studies on German society.

This turned out to be true, since 66% of the respondents indicated that they had never worked for a NPO, 4.5% indicated that they had worked as either paid employees or both paid and voluntarily, and 29% had only worked voluntarily.

Comparing the response rate of 29% with the fact that about 20% out of German society currently support NPOs voluntarily, the respondents show the expected rise in numbers.

| NPO workers | No | As paid staff | Volunteer | Paid staff and volunteer |
|--|---------------|---------------|---------------|--------------------------|
| Participants in percent (in numbers, N=606) | 66,2 (401) | 3 (18) | 29,4 (178) | 1,5 (9) |

Table 11: Results of item EWV 'working as staff at nonprofits', survey CSR₃ within NPOs (Source: Personal collection)

To summarise, comparisons in terms of cluster groups on age, sex, home state, donations frequency, and working as staff clearly show that the sample meets the requirements of representativity on an online access panel with respect to the German population.

5.3.2.2 Goodness of fit

5.3.2.2.1 Preliminary considerations

A measure of the model fit returns the deviation of observed values and expected values (Garson, 2016, p. 62). As mentioned in Section 5.1.3.2, there is no overall quality criteria available to assess the model fit. Thus, this section will verify the goodness of fit of the statistical model along with the causal chain shown in Figure 25. All statistical analyses were carried out with the latest software packages from SmartPLS 3 (Ringle *et al.*, 2015).

To conduct the tests, the causal chain presented by its latent variables Expectations on CSR₃ (EXP), Willingness to Participate (WP), Participation Attitude (PA), and Loss of Legitimation (LL) and their respective manifest variables were prepared in smartPLS as shown in Figure 25. The first step is to conduct tests on the measurement model to prove the latent variables and their manifest variables.

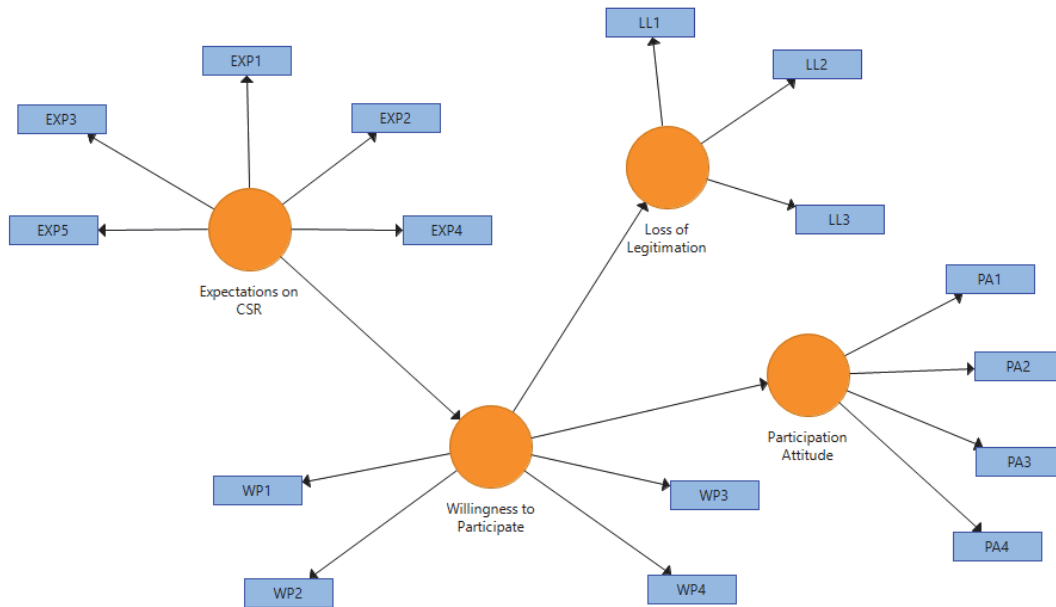


Figure 25: Statistical model and causal chain presented in smartPLS, survey CSRs within NPOs (Source: Personal collection, Ringle *et al.*, 2015)

5.3.2.2.2 Test of the measurement model

As elaborated in Section 5.2.2, the measurable items of this dissertation are mirrors of the opinions and beliefs of a respondent. Hence, there is a reflective connection designed between manifest variables and latent variables in this model.

To begin with, the reliability test of Cronbach's Alpha (α) is used as a measure of correlation of an item set. This criterion identifies the reliability of a construct. To be reliable the value range needs to be $0 < \alpha < 1$. For a three-item construct, the value has to be set at $\alpha \geq 0.6$. When comparing more than four items, the value needs to meet $\alpha \geq 0.7$ (Ohlwein, 1999, p. 224). Thus, the results of calculations $\alpha_{EXP} = 0.831$, $\alpha_{WP} = 0.745$, $\alpha_{PA} = 0.775$, and $\alpha_{LL} = 0.652$ confirm reliability of the analysis model.

This is then followed by checking the reliability of the items for outer loadings. It is to specifically test for loadings, weightings and the significance of the standardised indicator loadings. A result of ≥ 0.7 will be ample. According to

Hulland (1999, p. 198) for exploratory studies loadings, ≥ 0.4 will meet the requirement. The test of significance through the p-value or probability value is commonly accepted. A p-value ≤ 0.05 indicates strong evidence against the null hypothesis, a higher number rejects the null hypothesis. The null hypothesis means the nullity of the proposed hypothesis in terms of the research objects. Table 12 presents the results of the constructs. All items are above the limits and provide significance through the p-value.

| Construct | Latent variable | outer loadings | p-value |
|----------------------------------|-----------------|----------------|---------|
| Expectations on CSR _s | EXP1 | 0.746 | 0.000 |
| | EXP2 | 0.701 | 0.000 |
| | EXP3 | 0.832 | 0.000 |
| | EXP4 | 0.780 | 0.000 |
| | EXP5 | 0.792 | 0.000 |
| Loss of Legitimation | LL1 | 0.839 | 0.000 |
| | LL2 | 0.647 | 0.000 |
| | LL3 | 0.772 | 0.000 |
| Participation Attitude | PA1 | 0.664 | 0.000 |
| | PA2 | 0.714 | 0.000 |
| | PA3 | 0.841 | 0.000 |
| | PA4 | 0.840 | 0.000 |
| Willingness to Participate | WP1 | 0.798 | 0.000 |
| | WP2 | 0.625 | 0.000 |
| | WP3 | 0.731 | 0.000 |
| | WP4 | 0.847 | 0.000 |

Table 12: Standardised indicator loadings (outer loadings) of the items, survey CSR_s within NPOs (Source: Personal collection)

Garson (2016, pp. 63–64) suggests the composite reliability (CR) as an alternative to Cronbach's Alpha because 'compared to Cronbach's alpha, composite reliability may lead to higher estimates of true reliability'. The value varies between 0 and 1, while the minimum is at 0.6 (Bagozzi and Yi, 1988, p. 82; Homburg and Baumgartner, 1998, p. 361). The results of measures with latent variables of the measurement model are $CR \geq 0.8$, which 'is considered good for confirmatory research' (Daskalakis and Mantas, 2008, p. 288).

The Average Variance Extracted (AVE) is a quality measure of how a latent variable explains its indicators. The value range of AVE is $0 < AVE < 1$, while the measure is sufficient at $AVE \geq 0.5$. This means that more than 50% of variance of each indicator is to be explained by the latent variable. The findings on $AVE_{EXP} = 0.595$, $AVE_{WP} = 0.570$, $AVE_{PA} = 0.591$, and $AVE_{LL} = 0.573$ indicate a good fit (Bagozzi and Yi, 1988, p. 82; Homburg and Baumgartner, 1998, p. 361).

In Table 13, the final results of testing Cronbach's Alpha, composite reliability, and AVE are given. These fulfil the requirements and will therefore be used for further analysis.

| Latent variable | Cronbach's Alpha | Composite Reliability | Average Variance Extracted (AVE) |
|-----------------|------------------|-----------------------|----------------------------------|
| EXP | 0.831 | 0.880 | 0.595 |
| LL | 0.652 | 0.799 | 0.573 |
| PA | 0.775 | 0.851 | 0.591 |
| WP | 0.745 | 0.840 | 0.570 |

Table 13: Results of Cronbach's Alpha, Composite Reliability, and AVE for constructs of the measurement model, survey CSR₃ within NPOs (Source: Personal collection)

To test the fit measurements model, a discriminant analysis with two verifications must be conducted. Therefore the Fornell-Larcker criteria (Fornell and Larcker, 1981, p. 46; Homburg *et al.*, 2008, p. 287) have been used, which states that each construct's AVE should be higher than its squared correlation with any other construct. In Table 14 the diagonal values show the AVE, while the R^2 values of the latent variables are presented below. Fornell and Larcker suggest that the discriminant validity is proved sufficient when AVE is greater than R^2 , which is verified in this case.

| Latent variable | EXP | LL | PA |
|-----------------|-------------------------|-------------------------|-------------------------|
| EXP | 0.772 (AVE) | | |
| LL | 0.333 (R ²) | 0.757 (AVE) | |
| PA | 0.401 (R ²) | 0.242 (R ²) | 0.768 (AVE) |
| WP | 0.702 (R ²) | 0.392 (R ²) | 0.477 (R ²) |

Table 14: Discriminant analysis of the latent variables, survey CSR_s within NPOs (Source: Personal collection)

The second criteria is the measurement of the cross loadings of each item. Among others, Chin (1998, p. 321) as well as Grégoire and Fisher (2006, p. 39) recommend that loadings should be much higher on their respective construct. Looking through the results given in Table 15, the cross-loadings of the items with their manifest variables confirm this requirement.

In short, the measurement model was tested on the basis of different criteria in this section. The indicators show that the model fits well, and therefore, it will be used for further analysis.

| Manifest variable | Latent variable | | | |
|-------------------|-----------------|-------|-------|-------|
| | EXP | LL | PA | WP |
| EXP1 | 0.746 | 0.225 | 0.231 | 0.442 |
| EXP2 | 0.701 | 0.226 | 0.331 | 0.445 |
| EXP3 | 0.832 | 0.257 | 0.325 | 0.616 |
| EXP4 | 0.780 | 0.295 | 0.323 | 0.581 |
| EXP5 | 0.792 | 0.272 | 0.330 | 0.589 |
| LL1 | 0.335 | 0.839 | 0.202 | 0.390 |
| LL2 | 0.094 | 0.647 | 0.153 | 0.176 |
| LL3 | 0.255 | 0.772 | 0.190 | 0.265 |
| PA1 | 0.186 | 0.096 | 0.664 | 0.228 |
| PA2 | 0.186 | 0.096 | 0.664 | 0.228 |
| PA3 | 0.357 | 0.237 | 0.841 | 0.440 |
| PA4 | 0.390 | 0.237 | 0.840 | 0.453 |
| WP1 | 0.592 | 0.338 | 0.352 | 0.798 |
| WP2 | 0.400 | 0.245 | 0.317 | 0.625 |
| WP3 | 0.454 | 0.256 | 0.356 | 0.731 |
| WP4 | 0.638 | 0.333 | 0.412 | 0.847 |

Table 15: Cross-loadings of the measurement model, survey CSR₃ within NPOs, (Source: Personal collection)

5.3.2.2.3 Test of the structural model

In this section the inner model comprising exogenous variables, known as predictor variables, as well as endogenous variables, known as explanatory variables, will follow.

Among others, Lohmöller (1989, p. 60) and Chin (1998, pp. 324–326) suggests loading of the paths coefficients between latent variables must be at least > 0.2 . As presented in Table 16, the data set fulfil this demand.

| Hypothesis | Path structure | Path coefficient | p-value |
|------------|----------------------|------------------|---------|
| H2 | EXP \rightarrow WP | 0.702 | 0.000 |
| H3 | WP \rightarrow LL | 0.392 | 0.000 |
| H4 | WP \rightarrow PA | 0.477 | 0.000 |

Table 16: Path coefficients of latent variables, survey CSR_s within NPOs (Source: Personal collection)

The explained variability through the coefficient of determination R^2 for endogenous constructs of the structural equation model shall be evaluated next. The criteria below is based on (Chin, 1998, p. 323), who for a study suggests R^2 of 0.67 as substantial, 0.33 as moderate, and 0.19 as weak. Falk and Miller (1992) recommend that R^2 should be ≥ 0.10 in order to be deemed adequate to the variance explained of a particular endogenous construct. Cohen (1988) estimates R^2 at 0.02 weak, 0.13 moderate, and 0.26 substantial. Hair *et al.* (2010) suggest applying levels in line with the research context since '[...] in the case of large samples [...] even small R-squared values (e.g., 5% or 10%) can be statistically significant'.

The research done for this dissertation represents a large sample including a large number of people. Moreover, one may argue that the topic of this dissertation is currently not a topic of public debate. Thus, only a few people are assumed to have formed an opinion about this topic. Hence, the evaluation will use the following criteria for regression coefficient:

coefficient = 1 perfect correlation

0.7 < coefficient \leq 0.99 very strong correlation

0.5 < coefficient \leq 0.69 strong correlation

0.3 < coefficient \leq 0.49 moderate correlation

$0.1 < \text{coefficient} \leq 0.29$ weak correlation

$0.0 < \text{coefficient} \leq 0.10$ no correlation

The results of R^2 with respect to the endogenous constructs are weak in terms of $R^2_{LL} = 0.154$ and $R^2_{PA} = 0.228$. With respect to $R^2_{WP} = 0.493$ a moderate variability within the model is to observe. However, none of the variables show a lack of correlation.

The effect size f^2 is a quantitative measure of the strength of the correlation between two variables. Results of the calculation provides an $f^2_{EXP \rightarrow WP} = 0.974$, $f^2_{WP \rightarrow LL} = 0.182$, and $f^2_{WP \rightarrow PA} = 0.295$. According to Cohen (1988), one should regard f^2 effect size, where 0.02 represents a weak, 0.15 a moderate, and 0.35 a strong effect. As shown above, the variables are at least at moderate levels.

The absence of multicollinearity between endogenous variables will also be evaluated. Huber *et al.* (2007, p. 108) suggest using the Variance Inflation Factor (VIF), which is critical when $VIF \geq 10$. The measurement results in Table 17 indicate that this critical limit will not be achieved.

The estimation of goodness of prediction will be verified by the Stone-Geisser Q^2 for the endogenous latent variable (Stone, 1974; Geisser, 1975). They suggest a $Q^2 \geq 0$ to meet the criteria sufficiently. With respect to the findings of $Q^2_{WP} = 0.265$, $Q^2_{PA} = 0.119$, and $Q^2_{LL} = 0.078$, one can rate the results as being sufficient.

Finally, the Standardized Root Mean Square Residual (SRMR) as a measure of quality of fit will be taken into account for testing the model fit (Weston and Gore, 2006, p. 743). This measure is commonly used in the context of evaluating latent variable models. According to Hu and Bentler (1999, p. 27), 'a cutoff value close to 0.08 for SRMR' is acceptable for model evaluation. In terms of testing the model fit of this dissertation, the SRMR is at 0.078. Hence, the SRMR meets the requirements as well.

| Item (1) | EXP1 | EXP5 | EXP3 | EXP4 | EXP5 | LL1 | LL2 | LL3 |
|-----------|-------|-------|-------|-------|-------|-------|-------|-------|
| Inner VIF | 1.736 | 1.604 | 1.945 | 1.683 | 1.788 | 1.189 | 1.330 | 1.424 |
| | | | | | | | | |
| Item (2) | PA1 | PA2 | PA3 | PA4 | WP1 | WP2 | WP3 | WP4 |
| Inner VIF | 1.381 | 1.462 | 1.652 | 1.617 | 1.649 | 1.230 | 1.432 | 1.843 |

Table 17: Inner VIF values of manifest variables, survey CSR₃ within NPOs (Source: Personal collection)

To sum up, the tests applied to the structural model have given reasonably good estimates. However, there is a weak correlation according to the explained variability R^2 for endogenous constructs. This requires further discussion and is covered in the following section.

5.3.3 Validation of hypothesis

5.3.3.1 Equivalence of internal and external CSR₃

A basic assumption, as encapsulated in Hypothesis 1 of this dissertation, is that society expects treatment of CSR₃ topics in the external and internal world of the organisation on an equal level. This has been operationalised in Section 5.2.2.1 through item EQ1 – Discrimination, item EQ2 – Social Equality, and item EQ3 – Transparency. These items, with respect to the three-domain model by Schwartz and Carroll, are located in the ethical-legal domain.

It has been stated that H1 will be confirmed true when a) statistical measure of mode as well as median of EQ1, EQ2, and EQ3 ≤ 2 , b) more than 70% of respondents giving ratings of 1 and 2, and c) less than 10% of the interviewees giving ratings of 4 and 5. Results are represented in Table 18.

In fact, this results in not only a high expectation for the conduct of nonprofits, but also an equivalence of internal and external CSR₃ in the eyes of society. Hence, Hypothesis H1 is confirmed and the analysis hypothesis can be evaluated, which is done in the next section.

| Measure / Item | Mode | Median | Likert rating 1 + 2 in percent (in numbers, N = 606) | Likert rating 4 + 5 in percent (in numbers, N = 606) |
|----------------|------|--------|--|--|
| EQ1 | 1 | 2 | 71,1 (431) | 5,1 (31) |
| EQ2 | 1 | 1 | 83,5 (506) | 3,3 (20) |
| EQ3 | 1 | 1 | 86,3 (523) | 2,6 (16) |

Table 18: Results of Hypothesis H1 - Equivalence of internal and external CSR₃, survey CSR₃ within NPOs (Source: Personal collection)

5.3.3.2 Willingness to participate

It is only because the model fit of both the structural model and the measurement model is good, that the following sections will proceed with the evaluation of the analysis model. Thus, the focus on validation lies on the results of the latent variables presented in Table 16.

To start with, in the first Hypothesis H2, willingness to participate is an assumption of the dependency between expectations of a stakeholder as the principal of a nonprofit. The principal lacks information but overcomes this through trust that 'to be good' means to act in such a way, even though society remains outside. Those who trust are willing to give support. Thus, H2 questions how trustworthy nonprofits are per se to their stakeholders.

Looking at the final results, the correlation between the two latent variables Expectations on CSR₃ and Willingness to Participate is at 0.702 and provide a significance p-value < 0.05 (0.000). Underlying the correlation table given in Section 5.3.2.2.3, the assumption proves a very strong correlation at an acceptable significance level. In consequence, the hypotheses is confirmed and one may accept the strong link with German society's expectation of CSR₃ within NPOs and stakeholders' willingness to participate.

5.3.3.3 Reward of good behaviour

Hypothesis H3 also focusses on a principal-agent problem with respect to hidden actions, where the donor as the principal uncovers intended behaviour

through the nonprofit as the agent. In this manner, H3 seeks a positive relationship between the parties. Therefore, the operationalisation process regards requirements that cut across all relevant domains of the CSR₃ model of 2003, which is the legal-ethical domain.

The data set of the survey presents path loadings at 0.477 between the latent variables of Willingness to Participate and Participation Attitude. Even though this provides a moderate correlation, one may argue that this result is marginally below the strong correlation measure. Furthermore, the significance of the construct is evaluated at a p-value less 0.05 (0.000).

In other words, there is an obviously correlation between the principal's mindset measured by the motivation to donate and expectations of non-mission based activities. Thus, H3 deals with opinions and beliefs regarding the mindset of society as a whole, for whatsoever reasons, which seems to be confirmed through the survey.

5.3.3.4 *Sanction of misconduct*

Hypothesis H4 focusses on the role of society where there is need to take control. In this manner, the final hypothesis of the analysis model questions whether society pays attention when a breach of trust comes to light and one has to sanction misconduct, and if so, how this is done.

To investigate H4, the latent variable WP connects with the latent variable LL. Hence, the items of the questionnaire give a scale-based rating to explore the opinion of loss of legitimation and return findings on the level of sanction for misconduct. As expressed in Table 16, measurement between these two variables is moderate at 0.392, while a significant p-value < 0.05 (0.000) is given.

In short, this hypothesis is to be kept in terms of the overall discussion on relevance of CSR₃ within NPOs.

5.3.3.5 Efficiency and effectiveness

As mentioned previously, H5 is not part of the analysis model. Even though it determines society's dilemma of common understanding in terms of business aspects. As mentioned in Section 5.2.2.6, Hypothesis H5 will explore the attitude of society with respect to the costs and rational use of funds by nonprofits. Therefore, the assumption is made that the more frequently the donation is made by an individual, the more insight there is on organisational requirements. This means that frequent donation may return a better acceptance on business requirements, such as cost of administration, marketing, and operation.

| Donation frequency | Mean (EUR) | Median (EUR) | Standard deviation (EUR) | Sample size – number of participants (percentage of total) |
|----------------------|------------|--------------|--------------------------|--|
| Never | 83.05 | 90 | 22.66 | 124 (20.46) |
| Once, so far | 79.93 | 82,50 | 23.11 | 40 (6.60) |
| Irregularly | 82.43 | 85 | 17.40 | 242 (39.93) |
| Annually | 82.04 | 82,50 | 18.94 | 74 (12.21) |
| Biannually | 73.17 | 80 | 21.17 | 30 (4.95) |
| Quarterly | 79.19 | 80 | 20.37 | 47 (7.76) |
| Monthly | 77.71 | 80 | 17.76 | 45 (7.43) |
| Weekly or more | 80.00 | 85 | 18.71 | 4 (0.66) |
| Total results | 81.27 | 85 | 19.77 | N = 606 (100) |

Table 19: Results of Hypothesis H5 – donations on average arranged according to groups of donation frequency, survey CSR₃ within NPOs (Source: Personal collection)

The results presented in Table 19 provide an overview of variable EE1 clustered through item DF donation frequency, which is the frequency of donations replied by the interviewee. As shown in the table, the average sample group expects 81.3% of donations to be used for mission-based purpose of an internationally operating NPO that only place paid employees in jobs. Looking through the figures, there is no distinctive sign between the results of the different

groups, even though one might argue that the group of participants donating biannually or more, expects slightly less to finally be used for the purpose of the organisation than the total average. However, this result is certainly not significant, and in consequence, H5 should be rejected.

5.3.3.6 *Summary of validation of hypothesis*

According to H1, it turns out that society expects an equal treatment of demands on legal, ethical, and economic issues. Moreover, it makes no difference whether demands are made on intra-organisational activities or on the outside world of nonprofits.

Since the model fit of the analysis model is good, a further evaluation of hypotheses H2, H3, and H4 is conducted. The analysis model is sufficient in terms of the figures calculated. Thus, the results give proof of validity, reliability and significance of hypotheses formulated in this dissertation. In fact, there is evidence of the power of trust in the respectable behaviour of nonprofits. The construct returns an impression on behavioural change when either positive or negative conduct comes to light.

In summary, Figure 26 represents the reflective analysis model including latent variables and manifest variables, where figures on the arrows indicate calculation results of path loadings with the p-value in brackets. The line thickness of the arrows gives a graphic representation of the loadings between variables.

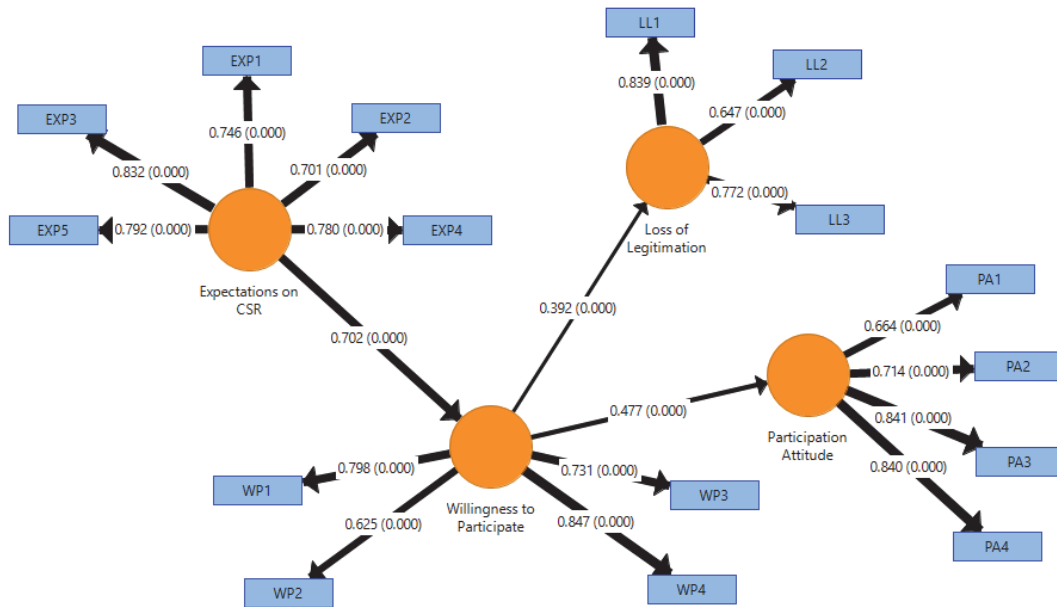


Figure 26: Results of the NPO survey presented in smartPLS, path coefficients and p-values in brackets, survey CSR_s within NPOs (Source: Personal collection, Ringle *et al.*, 2015)

Finally, the hypothesis that stakeholders understand the dilemma of costs despite the requirement of efficiency and effectiveness, needs to be rejected. There is no evidence that the group of people which donate more often accept the justifiable requirement of business costs of an NPO.

6 FINDINGS

6.1 FINDINGS FROM THEORETICAL ASSUMPTIONS

In the remainder of this dissertation, findings and conclusions of the impact of intra-organisational Company Stakeholder Responsibility activities to result in success for nonprofits, will be discussed. Therefore, a general understanding of nonprofit organisations needs to be formulated. This is why a discussion on different terms for such organisations has been introduced. The lack of a common definition of what a nonprofit organisation is, has led to issues with the identification of facts and figures provided either by public authorities or by other parties. This is why details that third parties have on organisations are used carefully in this dissertation. However, there is the economic term NPO, which is in use by economists and originated in the US.

The term NPO implies nongovernmental ownership, a nonprofit-distributing attitude, volunteers attracting operations, and a formal constitution. The NPO term is different from the NGO term in its use in language of economics, as well as by the government. Nonetheless, for this dissertation the use of the term NPO is synonymous with the NGO term. This is done with respect to their basic demand of a non-profit-distributive attitude, but also their independence from the government or privately owned organisations. One may accept that these characteristics are necessary for classifying such organisations.

NPOs provide services and products either within the market sector where there is competition with for-profit entities, or NPOs distribute solely on the charity market. In both cases, NPOs have to satisfy stakeholder needs, while making profit demands the running of operations. These objectives are versatile in terms of stakeholders since there is no specific group, but rather several groups of them. However, stakeholders become principals while an NPO is the agent so that not only mission-based objectives are fulfilled. Internal stakeholders are, for instance, employees and managers while external stakeholders are the government, society,

market entities, and beneficiaries. A very special link with NPO stakeholders is donation, through which the necessary funding for most organisations to run their business is received. In this dissertation, several reasons to donate have been discussed: there is, among others, altruism, generosity, calculating behaviour, and also just to be asked for support at the right time.

NPOs as service companies are usually driven by their employees and managers. Hence, the achievement of objectives mainly depend on peoples' mindset which works with an NPO. Therefore, the principal-agent theory and its connection with the concept of the stimulus-contribution theory, has been introduced. This is necessary to understand human psychology while overcoming information asymmetry, hidden intentions, hidden characteristics, and hidden actions. These all play a major role in the assumption in terms of CSR₃ within NPOs and its perception by society. The mandatory role of trust to support relationships and to return social responsibility becomes part of the principal-agent paradigm. Another mandatory finding in this case, is that NPOs are not only agents, but also assets of society. This provides two more conclusions for this dissertation. On the one hand, an agent needs to be transparent and has to provide efficient reporting on its activities. On the other hand, the claim of being an asset to the society induces operating as a respectful part of society.

The theory-based finding of NPOs as assets of society requires a refocus on claims made by their stakeholders in terms of responsibility. Therefore, a review of the Corporate Social Responsibility term results in the framework of the three-domain model of CSR₃ meets the operational demands of nonprofits. Moreover, this model provides a set of quality criteria for CSR₃ activities with its economical demands, ethical requirements, and legal entitlements. In fact, each formal objective of NPOs meets the requirements of the quality criteria of CSR₃, either fully or in part. On this point, the conclusion is that the CSR₃ model fulfils the criteria of being a value driver of a nonprofit.

However, a claim is made that there is need to alter the definition of CSR₃ because of its hard-coded, for-profit-oriented attitude. Hence, this dissertation suggests an operational definition to apply to nonprofits' operational business: Company Stakeholder Responsibility (CSR₃) is the responsibility of an organisation

to take care of the impact of decisions made or activities conducted. By implementing CSR₃, the organisations show that they are being responsible to society, the environment and government through transparent and ethical behaviour at present and in the future.

The former findings have given an impression of the role of value generating through CSR₃ at NPOs. The ability to attract stakeholders, to increase its value as an intangible asset, and the people stimulating capability within NPOs, was revealed. Based on recommendations of the holistic CSR₃, standard ISO 26000 'Guidance on Social Responsibility' is a premise for equality between intra-organisational CSR₃ and extra-organisational CSR₃. Moreover, the assumption is made that misbehaviour along the CSR₃ demands lead to a gradual loss of legitimacy and possibly disappearance from the market. This chain of cause and effect between loss of legitimacy and the decreasing level of activity becomes a theory-based part of the causal chain of this dissertation.

6.2 FINDINGS FROM THE SURVEY

Some of the theory-based findings on CSR₃ within NPOs discussed in the previous chapters, needed to be proved. This is why a representative survey aimed at an online access panel was conducted based on five hypotheses.

The first hypothesis discussed the point of view of internal and external treatment of CSR₃ through NPOs. As expected during the formulation process, this hypothesis was confirmed as being true. Thus, one supposes for German society, that no difference between internal and external treatment of CSR₃ issues is expected. However, Hypothesis H5 uncovers a lack of understanding of business requirements by society. The use of funds for administration and marketing purposes of an internationally operating nonprofit is at a ratio of one in five. This means that on average, society expects on average 81.3% of donations to be used for mission-based activities, where independent institutions grant up to 30% for the use of non-mission based activities. It could be stated that this expectation is difficult to meet with respect to the cost of operation. Even though the hypothesis needs to be rejected, the question of what reason people estimate such low use of

funds for non-mission-based activities, may still arise. There are at least three scenarios to discuss: plainly speaking, the donation comes from the individuals' pocket with the aim of supporting the mission-based activity. In this manner, the donor expects a careful use of the funds. Secondly, an individual is not aware of the costs of business operations. Thus, the cost structure of running a company is not commonly known to society, since this is neither general knowledge nor publicly announced (Spengler and Priemer, 2011, pp. 17–36). Finally, the problem in some cases is with the nonprofits' marketing claims, which in the past had often falsely promised that 'every single EURO directly benefits...' (Münz, 2007, pp. 207–221; Scheen, 2011). Even though nonprofits in Germany have change their slogan to 'every single EURO is required...' as commonly perceived, a high expectation of donors has already been triggered by these organisations to a certain extent.

The analysis model in this dissertation, as presented in Figure 26, discusses three hypotheses along four latent variables. All of the constructs have been proved true by the survey result, however, the results will be evaluated in the following paragraphs.

The first Hypothesis H2, is about trust in terms of a relationship between the donor and beneficiary. It is stated that the higher the expectations of CSR₃ activities within NPOs, the higher the willingness to participate. The latter is meant by either donating in kind, or participating on a voluntary basis. However, it is obvious that some individuals do not fulfil this requirement. The reason may lie in the intentions of an individual that are not necessarily driven by altruism, generosity, or any reasons other than those of personal connection to the organisation. It is notable that the outcome of the hypothesis meets the requirements of considerations.

The next hypothesis, H3 of the analysis model, deals with the question of participation. Despite the prediction made, the outcome of the survey is at a moderate level rather than a weak level. One may wonder what reasons take effect on the participation level and why this is the case. The consideration for this hypothesis was that society will not be surprised when NPOs are actually moral institutions. Thus, the assumption was that uncovering good behaviour does not trigger an individual to become more involved with an organisation's business. Looking at the results, this assumption seems to be correct for a certain group of

the population. Others however, are willing to give reward in accordance to reaching their expectations. Nevertheless, it remains uncertain whether participation increases as a reward for good behaviour or because the donor otherwise considers increasing costs to achieve planned activities. The survey's outcome for H3 proves that organisations which do not lose a donor's confidence, can generate donations through CSR₃. In this sense, CSR₃ within NPOs is positively valued.

Hypothesis H4 falsifies H3. According to Popper (Popper and Keuth, 2005 (1935), pp. 9, 62-63), proving the falsification of a hypothesis as well as disproving the logic behind an assumption are both mandatory. This is why H4 predicts negative behaviour in the case of breach of trust. In other words, this hypothesis deals with the outcome of a hidden action when misconduct comes to light. As elaborated in the formulation of this hypothesis, a result was difficult to forecast. However, a moderate result as given by the survey reflects the expected behaviour as discussed in H3. Even though the coefficient by comparison is less than that of H3, there is obviously an equivalence between these items. The low results may reflect issues as identified previously, which is in real life the lack of power to carry out legal steps aimed an NPO guilty of misconduct. Nonetheless, H4 expresses that a certain part of society is willing to conduct serious sanctions in relation to misconduct in CSR₃ within NPOs.

7 CONCLUSIONS

CSR₃ as Company Stakeholder Responsibility, provides quality criteria which meet the formal objectives of a nonprofit-distributive organisation and its respective stakeholder groups. Furthermore, CSR₃ improves management processes, increases confidence, and attracts the support of stakeholder groups. In addition, stakeholders are willing to honour good behaviour and sanction misconduct.

The number of recommendations on intra-organisational CSR₃ in the ISO 26000 seems to be rather small. However, neither an NPO nor its stakeholders should underestimate the time and effort that is required to implement a sufficient CSR₃ programme within an organisation. This is true when the implementation of an integrated system that provides policies in writing and a regularly self-assessment are to be carried out.

The study reveals that society's trust in nonprofits to apply CSR₃ within its organisation is of great importance. It became obvious that there is a positive response from donors when organisations are actually aware of responsible behaviour. Furthermore, the society is willing to penalise misconduct in terms of social, legal and legal requirements through organisations. Therefore, it is necessary that both stakeholders as well as organisations need to take advice from the conclusion.

On the one hand, stakeholders in an NPO are required to accept their role as the guards of the guardians. In fact, NPOs understand themselves as advocates of society with respect to their own mission-based activities. They further claim to be moral institutions, hence, they get donations and support from society. Also, they are partners to market entities and give proof of green investing. However, there is often a lack of direct assignment by individuals in society. In other words, the role of an NPO is either assigned by a third party or by the organisation itself. Therefore, assuming the good behaviour of an NPO is necessary, but not a sufficient condition to obtain trust.

On the other hand, the conclusion dealing with nonprofits is also versatile. As already mentioned, trust is certainly a key to success in terms of CSR₃. However, trust is not everything; there is a need to underpin a confident relationship. This means that nonprofits need to implement relevant measures that prove good behaviour in terms of economic demands, ethical requirements, and legal entitlements. Even though CSR₃ activities in nonprofits have not recently been targeted by stakeholders, it is to be expected that sooner or later this focus may turn. A further conclusion is the professionalisation of nonprofits, where there is the demand to become economic entities while keeping their specific features as nonprofit-distributive organisations. In other words, an NPO has to keep in line with its mission and vision statements while becoming a professional entity, otherwise it may lose sight of its provision. The time and effort required to implement CSR₃ within an organisation is the next aspect. This points to the fact that there is obviously an uncertainty in the society. The survey results clearly show that society lacks a clear understanding of the cost structures of an NPO. As a matter of fact, it is necessary to give a true and fair view on such matters for a better understanding on the part of the stakeholders.

There is also a conclusion to get the topic of CSR₃ to life within the 3rd sector. In fact, it is advisable that nonprofit organisations recognize the power of CSR₃ as a value creating activity. In this manner, the recommendation needs to go far beyond the German quote 'Do good and tell people about it'.

Nonprofit organisations need to recognize not only the power of their stakeholders but also their needs in relation to communication requirements. As mentioned in previous chapters, stakeholders' satisfaction relies upon confidence building measures: well organised management issues, sufficient accounting and efficiency reporting, and social marketing not only in relation to their mission-based activities. Far more than this, it becomes evident that intra-organisational behaviour is observed and critically valued. As mentioned in Chapter 4.1.3, about 82% of NPOs in Germany claim to recognize CSR as relevant for management and operations. However, just 16% of German NPOs state to have a fully integrated system to observe and measure relevant activities. Hence, there is a need of improvement due to lack of efficiency measurement, which is a mandatory part of

the obligation against an NPO's stakeholder. In other words, it is advisable that nonprofits change their self-perception from being a per se social, legal, and ethical behaving organisation to an organisation with having a self-commitment of an overall CSR₃ behaviour. As long as it is no a standard within the 3rd sector, it is obviously a value creating matter. And finally is it a good preparation to fulfil the CSR₃ standard when it then becomes standard within the sector.

In short, to answer the research question emphasized with the beginning of this dissertation: NPOs shall recognize CSR₃ within their organisation as a value driver. This is why nonprofits are required to prove and then to implement relevant activities. The reasons are various: to make their operational business transparent, to protect and increase their value, and to remain a social asset.

8 LIMITATIONS OF THE STUDY

The term CSR as used by scholars as well as by practitioners focuses solely on the demands of large corporations. In fact, there are many similar concepts available, which refer to the responsibility of a corporation. Moreover, there is not only one, but many operational definitions of CSR available. Because of this, it is mandatory to identify and define CSR that suits a nonprofit's requirements sufficiently. Hence, this dissertation provides an operational definition based on suggestions of Freeman *et al.* (2010) and ISO 26000 (2010) as the Company Stakeholder Responsibility (CSR₃).

The same problem appears with the almost identical terms, NPO and NGO. Likewise, with the CSR term, there is no commonly accepted definition for nonprofit-distributive organisations available. This leads to uncertainties in literature and in communications, particularly when presenting figures and facts. Even though terms and definitions suggested in this dissertation are used carefully and verified for applicability, these cannot be regarded as being commonly accepted.

Secondly, the survey itself underlies some limitation as well. As mentioned in previous chapters, the survey collated responses from an online access panel. Thus, the proof of representativity was confirmed as being true. However, due to the fact that there is limited Internet access for some groups in Germany, the assumption is made that some people might have been excluded from the survey. Moreover, this survey gives a representation of German society. In other words, this survey gives evidence of the mindset of Germans in terms of CSR₃ within NPOs. This is not only because western society deals with multiple understandings of social responsibility, but also points to the issue of who has to fulfil the claim.

Another limitation of the survey is the intended response behaviour. A common problem, as mentioned previously, is that the respondent in an Internet-based panel cannot ask the interviewer for further explanation if items are unclear, and thus, is left to his or her own devices. Moreover, the questionnaire does not provide a storyline, but rather single problem statements that point to the relevance

of CSR₃ within NPOs. In fact, since no example is given, respondents have to answer to the best of their ability. Therefore, it remains uncertain whether respondents are referring, in their answers, to the interests of a local sports club or an international aid organisation. The same is true for the trustworthiness of an organisation. If the interviewee focuses only on a very trustworthy organisation, the answers given will usually be one-sided. False response behaviour may also occur, because the questionnaire prohibits skipping items and does not allow an 'I don't know' answer. In this manner, a respondent that lacks abstract thinking may return to problems to process the questionnaire sufficiently. In the best case, the respondent cancels participation, and in the worst case, the answers given are meaningless. Despite all efforts taken to avoid such errors, such behaviour may influence the data set that reports on opinions and beliefs of individuals.

In relation to the survey, it must be noted that analysis has been conducted on only the formulated hypotheses H1 – H5. This dissertation focuses on opinions and beliefs of society and thus, no specific cluster analysis has been carried out because this would be beyond the scope of this work.

Thirdly, there is a possible limitation in the overall issue of CSR₃ within NPOs. This study is based on the assumption that an individual has an opinion on the two topics and can therefore respond adequately. Nevertheless, there is no current ongoing debate on these issues in society. In other words, the problem statement is not present in the minds of individuals. It must also be noted that the survey on two very complex subjects of investigation may return vagueness in the data set. According to this, the answers given may not be repeatable in further studies.

9 RECOMMENDATION FOR FURTHER RESEARCH

To begin with, it has already been stressed that there is a lack of terminology for NPO and CSR as commonly used by scholars. This requirement not only touches on scientific issues, but also on real-life problems. If accountability of NPOs not only in terms of CSR becomes tangible on a national and international level, a clear distinction is a pressing issue that has to be developed in details. The operational definition of NPO and CSR₃ may help to keep the debate on this issue ongoing.

There is a recommendation for further analysis based on theoretical findings made in this dissertation. Nevertheless, the assumption was accepted and used in this dissertation that NPOs belong to society as institutional, social assets. Additionally, following this assumption, it has been stated that NPOs as agents and society as principals, are in a respective principal-agent relationship. Nonetheless, in a theoretical framework, this holds that the assumption should be further examined to be confirmed in everyday business operation. The same question appears in terms of the ISO 26000 standard chosen to identify intra-organisational requirements. In fact, the examination of fit to NPO requirements was carried out to qualify items of the questionnaire. Thus, it might be reasonable to verify the framework for practical use.

The next topic relies on the survey carried out in this dissertation. As mentioned previously, this study was conducted by questioning a sample of German society. To get a better understanding of the impact of CSR₃ within NPOs in western countries, it might be advisable to undertake the survey in other European areas. Furthermore, it is imperative to know that the aim was to explore the opinions and beliefs of society as a whole. Since this was beyond the scope of the dissertation, no further data analysis has been carried out. Therefore, it is recommend to apply further studies for interpretation purposes and to gain scientific knowledge on specific groups of the population.

The final issue to focus on in further studies, lies in the rejected Hypothesis H5. There is an obvious discrepancy between the expectations of society and the real requirements of NPOs in the use of funds. This results a two-fold problem. On the one hand, there is only a small amount of research available that gives insight on the cost structure of NPOs. On the other hand, as a result of the study, it turns out that the society demands a high use of funds for mission-based activities. Research on this issue might uncover both the reason for the lack of business know-how, and transparency of costs in the operations of NPOs.

10 SUMMARY

This dissertation deals with the question of whether intra-organisational CSR₃ shall be recognized as a value driver for NPOs, brief summary of which is given in this chapter.

An NPO is a self-governed, formal, and structured organisation that is separate from the state and is nonprofit-distributing. Furthermore, the concept of voluntary involvement is within the scope of their aim, and their objective is to provide something meaningful to the public. NPOs are in need of help from the intra-organisational and external-organisational environment. An NPO is a multistakeholder organisation that needs to identify relevant drivers for a sufficient value creation process. The latter has to meet the criteria of the value driver and specific organisational objectives.

The CSR₃ term in this dissertation stands for Company Stakeholder Responsibility, which is derived from the commonly known concept of Corporate Social Responsibility. It is defined as the responsibility of an organisation to take care of the impact of decisions made or activities conducted. NPOs, by implementing CSR₃, show responsibility for society, the environment and government through transparent and ethical behaviour at present and in the future.

A verification of the formal objectives of nonprofits in relation to the quality criteria of CSR₃ was carried out. Based on these theoretical findings, ISO 26000 has been reviewed and evaluated with the purpose of identifying relevant internal demands and to be used in the empirical survey. The survey was operationalised through five hypothesis and conducted at an online access panel with respect to representativity in terms of the German population. The evaluation of the survey proved the research subject that NPOs shall recognize CSR₃ within NPOs as a value driver. Some limitations of the study, such as the lack of definitions of terms, obstacles in the survey design, absence in the minds of the individuals, have been identified.

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APPENDICES

Annex A – Formal objectives of NPOs vs. qualitative criteria of CSR

| Formal (strategic) objectives | Operational goals of NPOs | Qualitative criteria of CSR | | |
|-------------------------------------|---------------------------------|-----------------------------|-----------------|-----------------------------------|
| | | Improving reputation | Risk management | Business & stakeholder management |
| Core objectives | Quality of the NPO | | X | X |
| | Ability for adaption on changes | X | X | X |
| | Innovation force | X | X | X |
| Purpose of an organization | Effectiveness | X | X | X |
| | Efficiency | X | X | X |
| Employees of an organization | Satisfaction | | | X |
| | Performance | | | X |

(Source: Personnel Collection)

Annex B – Qualitative criteria of CSR versus operational goals of NPOs

| Qualitative criteria of CSR | Elements of qualitative criteria | Core objectives of NPOs | | | Purpose of an organization | | Employees of an organization | |
|--|-------------------------------------|-------------------------|---------------------------------|------------------|----------------------------|------------|------------------------------|-------------|
| | | Quality of the NPO | Ability for adaption on changes | Innovation force | Effectiveness | Efficiency | Satisfaction | Performance |
| Improvement of reputation and image | Claim for legitimacy | | | | X | | X | |
| | Claim for future expectations | | X | X | X | X | X | |
| | Claim for financial performance | | | | | X | | |
| Risk management | Avoiding financial losses | | | | | X | | |
| | Strengthen value chain activities | | X | X | | | | |
| | Supporting principal-agent relation | | | | X | | X | |
| | Implementing management concepts | X | | | | | | |
| | Information asymmetry | X | | | X | | X | |
| | Avoiding boycotts | | X | | | | | |
| Business & stakeholder management | Strategic advantage | X | X | X | X | X | X | X |
| | Moral duty of a company | | | | X | | X | X |
| | Degree of self-initiative | X | X | X | | | X | |
| | Stakeholder approach | X | X | X | X | X | X | X |
| | Social network | | | | | | X | |
| | Trust | X | | X | X | X | | X |
| | Enabler of business excellence | X | X | X | X | X | X | X |

(Source: Personnel Collection)

Annex C – Introduction to a survey on CSR within NPOs

Original version

Diese Umfrage beschäftigt sich mit der Frage, ob gemeinnützige Organisationen besonderes Augenmerk auf Nachhaltigkeit in ihrem Wirken legen sollten.

Nachhaltigkeit und Unternehmensverantwortung bedeutet, dass eine Organisation nachhaltig auf seine Mitmenschen achtet, die Natur schützt und achtsam mit Geld umgeht. Eine Organisation übernimmt durch nachhaltiges Wirken eine tragende Rolle in der Gesellschaft.

Gemeinnützige Organisationen sind zum Beispiel: Heimat- oder Sportvereine, Feuerwehren, Rettungs- und Katastrophenschutzorganisationen, politische Parteien, private Hochschulen, Wirtschaftsverbände und viele mehr. Sie übernehmen für unsere Gesellschaft viele wichtige Aufgaben. Gemeinnützige Organisationen wirken auf lokaler und Landes-Ebene, deutschlandweit, europaweit und außereuropäisch. Sie sind häufig Stimme der Bürger und wollen diese Welt zumeist ein klein wenig besser machen. Hauptamtliche (bezahlte), ehrenamtliche (unbezahlte) Arbeitskräfte und die Gesellschaft als Spender tragen maßgeblich zur Erfüllung der Aufgaben gemeinnütziger Organisationen bei.

English version

This survey deals with the question if nonprofit organizations shall pay high attention on sustainability with their operations and activities.

Sustainability and social responsibility in terms is that an organization has a long-term commitment to its fellow human beings, moreover, it develops self-regulatory measures to protect the nature and take care with the use of money received. Thus, an organization becomes a vital player in society through its sustained practices.

Non-profit organizations are, for example: home associations, sports associations, fire brigades, voluntary rescue and disaster protection organizations, political parties, private universities, economic associations and many more. They

take over many important tasks for our society. Non-profit organizations operate locally, on state level, across Germany, across Europe and outside Europe. They are often voice of the citizens and want to make this world a little bit better. Full-time (paid) workers, voluntary (unpaid) workers, and the society contribute decisively to the fulfillment of the tasks of non-profit organizations.

Annex D – Questionnaire (items)

| <i>English version</i> | <i>German version (original)</i> |
|------------------------|----------------------------------|
|------------------------|----------------------------------|

Item (cluster): Sex

| | |
|---|--|
| <i>Are you male or female? 1 = female, 2 = male</i> | <i>Sind Sie männlich oder weiblich? 1 – weiblich, 2 - männlich</i> |
|---|--|

Item (cluster): Age

| | |
|------------------------|--------------------------|
| <i>How old are you</i> | <i>Wie alt sind Sie?</i> |
|------------------------|--------------------------|

Item (cluster): Country

| | |
|----------------------------------|--|
| <i>Which state are you from?</i> | <i>Aus welchem Bundesland stammen Sie?</i> |
| | <i>BE Berlin</i> |
| | <i>HH Hamburg</i> |
| | <i>NW Nordrhein-Westfalen</i> |
| | <i>BY Bayern</i> |
| | <i>HE Hessen</i> |
| | <i>SL Saarland</i> |
| | <i>MV Mecklenburg-Vorpommern</i> |
| | <i>BW Baden-Württemberg</i> |
| | <i>NI Niedersachsen</i> |
| | <i>RP Rheinland-Pfalz</i> |
| | <i>TH Thüringen</i> |
| | <i>ST Sachsen-Anhalt</i> |
| | <i>SN Sachsen</i> |
| | <i>SH Schleswig-Holstein</i> |
| | <i>BB Brandenburg</i> |
| | <i>HB Bremen</i> |

Item (cluster): Donation Frequency (DF)

| | |
|--|---|
| <i>Do you donate money or gifts in kind to non-profit organizations?</i> | <i>Spenden Sie Geld oder Sachspenden an gemeinnützige Organisationen?</i> |
| No | nein |
| Once, so far | bisher einmalig |
| irregularly | unregelmäßig |
| yearly | jährlich |
| biannually | halbjährlich |
| quarterly | quartalsweise |
| monthly | monatlich |
| Weekly or more | wöchentlich oder häufiger |

Item (cluster): Employee, Worker, and Volunteer (EWV)

| | |
|--|---|
| <i>Have you ever worked at a nonprofit organization?</i> | <i>Sind oder waren Sie bei einer gemeinnützigen Organisation tätig?</i> |
| no | nein |
| yes, as a paid staff | hauptamtlich |
| yes, as a volunteer | ehrenamtlich |
| yes, as a volunteer and as a paid staff | haupt- und ehrenamtlich |

Item EQ1 – Discrimination

| | |
|--|--|
| <i>Accepting deviant opinions, other cultural beliefs, unfamiliar morals and other ways of living - all this is tolerance.</i> | <i>Abweichende Meinungen, andere kulturelle Überzeugungen, unbekannte Sitten und andere Lebensweisen zu dulden – das alles ist Toleranz.</i> |
| <i>What is your expectation on a scale from 1 (fully expected) to 5 (not at all expected) that non-profit organizations promote and foster tolerant interactions with minorities in the population as well as dealing with minorities among their own employees?</i> | <i>Wie hoch ist Ihre Erwartung auf einer Skala von 1 (voll erwartet) bis 5 (überhaupt nicht erwartet), dass gemeinnützige Organisationen den toleranten Umgang mit Minderheiten in der Bevölkerung genauso pflegen wie den Umgang mit Minderheiten bei den eigenen Mitarbeitern?</i> |

Item EQ2 – Social Equality

| | |
|---|--|
| <i>Non-profit organizations want to make our world at least a little better and focus on the improvement of human coexistence, nature conservation or economic tasks.</i> | <i>Gemeinnützige Organisationen wollen unsere Welt zumindest ein klein wenig besser machen und setzen dazu Schwerpunkte in der Verbesserung des menschlichen Miteinanders, im Naturschutz oder in wirtschaftlichen Aufgabenstellungen.</i> |
| <i>Based on your opinion: How important, on a scale from 1 (absolutely important) to 5 (not</i> | |

| | |
|--|--|
| <p><i>at all important), is it that a human rights organization not only in society but also within its own organization respects the unrestricted social equality of all employees?</i></p> | <p><i>Wie wichtig, auf einer Skala von 1 (absolut wichtig) bis 5 (überhaupt nicht wichtig), ist es Ihnen dabei, dass eine Menschenrechtsorganisation nicht nur in der Gesellschaft sondern auch innerhalb der eigenen Organization auf die uneingeschränkte soziale Gleichbehandlung aller Mitarbeiter achtet?</i></p> |
|--|--|

Item EQ3 – Transparency

| | |
|---|--|
| <p><i>On a scale of 1 (very important) to 5 (absolutely not) how important is it to you that a charitable organization deals with its volunteers or full-time staff just as trustworthy, transparently, honestly and fair as with the people which donate money or gifts in kind to the organization?</i></p> | <p><i>Auf einer Skala von 1 (sehr wichtig) bis 5 (absolut nicht) wie wichtig ist es Ihnen, dass eine gemeinnützige Organization mit seinen ehrenamtlichen oder hauptamtlichen Mitarbeitern genauso glaubwürdig, transparent, ehrlich und fair umgeht wie mit den Menschen, die Geld oder Sachen für die Arbeit der Organization spenden?</i></p> |
|---|--|

Item EXP1 – Equal Pay

| | |
|--|---|
| <p><i>How much on a scale from 1 (absolute) to 5 (not at all) do you expect from a world-wide working social-non-profit organization that it pays equal salaries to its employees for the same type of work inside the same country?</i></p> | <p><i>Wie sehr auf einer Skala von 1 (absolut) bis 5 (überhaupt nicht) erwarten Sie von einer weltweit arbeitenden, sozial-gemeinnützigen Organization, dass diese Mitarbeiter in einem Land für die gleiche Arbeit gleichwertig bezahlt?</i></p> |
|--|---|

Item EXP2 – Health & Safety

| | |
|---|---|
| <p><i>Would you expect on a scale of 1 (yes, absolute) to 5 (not at all) that an international aid organization in Germany develops a high standard for occupational health and safety to implement in all countries, even if those guidelines in many countries by far exceed country-specific laws?</i></p> | <p><i>Würden Sie erwarten, auf einer Skala von 1 (ja, absolut) bis 5 (überhaupt nicht), dass eine internationale Hilfsorganisation in Deutschland einen hohen Standard für den betrieblichen Arbeitsschutz zur Umsetzung in allen Ländern entwickelt, auch wenn diese Vorgaben in vielen Ländern weit über die landestypischen Gesetze hinausgehen?</i></p> |
|---|---|

Item EXP3 = EQ2 – Social Equality

Item EXP4 – Resource Saving

| | |
|---|---|
| <p><i>How important, on a scale from 1 (absolutely important) to 5 (absolutely not important) is it for you that an aid organization does not only help people but makes efficient use of energy and water within one's own organization?</i></p> | <p><i>Wie wichtig, auf einer Skala von 1 (absolut wichtig) bis 5 (absolut nicht wichtig), ist es Ihnen, dass eine Hilfsorganisation nicht nur Menschen hilft sondern innerhalb der eigenen Organization die effiziente Nutzung von Energie und Wasser sicherstellt?</i></p> |
|---|---|

Item EXP5 = EQ3 - Transparency

Item WP1– Human Rights

| | |
|---|--|
| <p><i>The United Nations (UN) has defined human rights as the highest measure for dealing with people – this includes the right to asylum, the right to rest and leave, the right to work and the treatment without harassment, such as the threat of arbitrary dismissal,</i></p> <p><i>Imagine: you plan to donate to a charitable organization that is active worldwide and which is confronted with different cultural and social perspectives. Do you expect this organization to respect the UN human rights within the organization?</i></p> <p><i>Please respond on a scale from 1 (full expected) to 5 (will not be expected).</i></p> | <p><i>Die Vereinten Nationen (UN) haben die Menschenrechte als höchstes Maß zum Umgang mit Menschen bestimmt - dazu gehört neben dem dem Recht auf Asyl auch das Recht auf Erholung und Urlaub, Recht auf Erwerbstätigkeit und auch die Behandlung ohne Schikane, wie beispielsweise die Androhung willkürlicher Entlassung.</i></p> <p><i>Stellen Sie sich vor: Sie wollen an eine gemeinnützige Organization spenden, die weltweit tätig ist und sich mit unterschiedlichen kulturellen und sozialen Sichtweisen konfrontiert sieht. Erwarten Sie von dieser Organization, dass sie die UN-Menschenrechte auch innerhalb der eigenen Organization einhält?</i></p> <p><i>Bitte antworten Sie auf einer Skala von 1 (volle erwartet) bis 5 (wird nicht erwartet).</i></p> |
|---|--|

Item WP2– Resource Savings

| | |
|---|---|
| <p><i>You plan to donate money or gifts in kind to a globally operating, non-profit sports organization or you plan to provide voluntary work to this organisation: Do you expect this organisation to implement extensive measures for energy and electricity savings?</i></p> | <p><i>Sie wollen Geld oder Sachen an eine weltweit arbeitende, gemeinnützige Sport-Organization spenden oder ehrenamtliche Arbeit leisten: Erwarten Sie, dass diese weitreichende Maßnahmen zum Energie- und Stromsparen umsetzt?</i></p> |
|---|---|

Please rate this on a scale from 1 (definitely yes) to 5 (certainly not).

Bitte bewerten Sie dies auf einer Skala von 1 (definitiv ja) bis 5 (ganz sicher nicht).

Item WP3– Corruption

You plan to donate money or gifts in kind to a globally operating, non-profit aid organization or you plan to provide voluntary work to this organisation: How high is your expectation on a scale from 1 (very high) to 5 (no expectation at all) that the organization encourages its employees to refuse bribery and corruption, even though this makes their work difficult or even impossible in many countries?

Sie möchten Geld oder Sachspenden an eine weltweit arbeitende Hilfsorganisation spenden oder ehrenamtliche Arbeit leisten: Wie hoch ist Ihre Erwartung auf einer Skala von 1 (sehr hoch) bis 5 (überhaupt keine Erwartung), dass die Organization ihre Mitarbeiter darin bestärkt, Bestechung und Korruption zu unterlassen, obwohl das deren Arbeit in vielen Ländern erschwert oder sogar unmöglich macht?

Item WP4– Strengthen Human Rights

How important is it to you that non-profit organizations which you want to support financially, with donations in kind or with voluntary work, conduct awareness raising on human rights within its staff members?

Please rate this on a scale from 1 (definitely yes) to 5 (certainly not).

Wie wichtig ist es Ihnen bei gemeinnützigen Organisationen die Sie finanziell, mit Sachspenden oder mit Arbeitskraft unterstützen wollen, dass diese innerhalb der Belegschaft ein Bewusstsein für Menschenrechte fördern?

Bitte bewerten Sie dies auf einer Skala von 1 (definitiv ja) bis 5 (ganz sicher nicht).

Item PA1– Staff development

Lifelong learning is seen in the working world as an important measure for personal and operational success. In contrast, there are costs that an employer must cover, for example, for the absence of the employees.

You donated money to a charitable organization. You subsequently note that the organization is also spending donations for employee training programs.

How likely on a scale of 1 (I donate much more) to 5 (I am stopping to donate) is it that you continue to support this organization?

Lebenslanges Lernen wird in der Arbeitswelt als wichtige Maßnahme für den persönlichen und betrieblichen Erfolg gesehen. Dem gegenüber stehen Kosten die ein Arbeitgeber abdecken muss, zum Beispiel durch Abwesenheit der Mitarbeiter.

Sie haben an eine gemeinnützige Organization Geld gespendet. Sie stellen im Nachhinein fest, dass die Organization ihre Spenden auch für Fortbildungsprogramme der Mitarbeiter ausgibt.

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| | <p>Wie wahrscheinlich auf einer Skala von 1 (ich spende viel mehr) bis 5 (ich höre auf zu spenden) ist es, dass Sie diese Organization weiterhin unterstützen?</p> |
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Item PA2– Health & Safety

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| <p><i>You have donated money or gifts in kind to a charitable organization or you conducted voluntary work for this organization. By reading newspaper reports you get to know that this organization is taking care for health care measures that go far beyond legal requirements.</i></p> <p><i>How likely on a scale of 1 (I donate much more) to 5 (I am stopping to donate) is it that you continue to support this organization?</i></p> | <p>Sie haben Geld oder Sachspenden an eine gemeinnützige Organization gespendet oder ehrenamtliche Arbeit geleistet. Sie stellen durch Zeitungsberichte fest, dass diese Organization für Maßnahmen der Gesundheitsvorsorge aufkommt, die weit über die gesetzlichen Anforderungen hinaus gehen.</p> <p>Wie wahrscheinlich auf einer Skala von 1 (ich spende viel mehr) bis 5 (ich höre auf zu spenden) ist es, dass Sie diese Organization weiterhin unterstützen?</p> |
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Item PA3– Ressource Saving

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| <p><i>You have donated money or gifts in kind to a gymnastics club or you conducted volunteer work for this club. In its annual report, the club declares that it intends to implement not only the legally required measures, but also far-reaching measures to reduce energy, water and gas consumption.</i></p> <p><i>How likely on a scale of 1 (I donate much more) to 5 (I am stopping to donate) is it that you continue to support this organization?</i></p> | <p>Sie haben Geld oder Sachspenden an einen Turnverein gespendet oder ehrenamtliche Arbeit geleistet. In seinem Jahresbericht erklärt der Verein, nicht nur die gesetzlich notwendigen Maßnahmen sondern weit darüber hinausgehende Maßnahmen zur Senkung des Energie-, Wasser- und Gas-Verbrauchs durchführen zu wollen.</p> <p>Wie wahrscheinlich auf einer Skala von 1 (ich spende viel mehr) bis 5 (ich höre auf zu spenden) ist es, dass Sie diese Organization weiterhin unterstützen?</p> |
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Item PA4– Social Involvement

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| <p><i>You donated money, donations in kind or volunteer work to a non-profit organization. Through press reports, you find out that the organization also shows social commitment outside its scope, for example, an environmental organization operates</i></p> | <p>Sie haben Geld, Sachspenden oder ihre ehrenamtliche Arbeitskraft an eine gemeinnützige Organization gespendet. Durch Presseberichte stellen Sie im Nachhinein fest, dass die Organization auch außerhalb ihres Aufgabenbereichs soziales</p> |
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| <p><i>kindergartens for its own employees at its larger sites.</i></p> <p><i>How likely on a scale of 1 (I donate much more) to 5 (I am stopping to donate) is it that you continue to support this organization?</i></p> | <p><i>Engagement zeigt, beispielsweise betreibt eine Umweltorganisation an seinen größeren Standorten Kindergärten für die eigenen Mitarbeiter.</i></p> <p><i>Wie wahrscheinlich auf einer Skala von 1 (ich spende viel mehr) bis 5 (ich höre auf zu spenden) ist es, dass Sie diese Organisation weiterhin unterstützen?</i></p> |
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Item LL1– Labour Law

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| <p><i>You regularly donate money to a local, non-profit organization. Through a public court process, you get the information that their employees were forced to work overtime for many years. Holiday entitlements were denied and salaries were based on the low-pay sector. Everyone in the organisation knew about it, no one said anything against it.</i></p> <p><i>Imagine you would have the decision-making power to close the association because of these incidents: How likely on a scale from 1 (sure yes) to 5 (definitely no) would you close the organisation?</i></p> | <p><i>Sie spenden regelmäßig Geld an eine örtliche, gemeinnützige Organisation. Durch einen öffentlichen Gerichtsprozess erfahren Sie, dass deren Mitarbeiter jahrelang zu unbezahlten Überstunden gedrängt wurden, Urlaubsansprüche verwehrt und dazu noch Niedriglöhne gezahlt bekamen. Jeder im Verein hat es gewusst, keiner hat etwas dagegen gesagt.</i></p> <p><i>Stellen Sie sich vor, Sie haben die Entscheidungsbefugnis, den Verein aufgrund der Vorkommnisse aufzulösen: Wie wahrscheinlich auf einer Skala von 1 (sicher) bis 5 (ausgeschlossen) wäre es, dass Sie den Verein auflösen?</i></p> |
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Item LL2– Ressource Saving

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| <p><i>You regularly donate money and voluntary work to an environmental protection organization. A press release tells you that during the past years, their offices and sites have wasted energy, water and gas. Everyone in the organisation knew about it, no one said anything against it. Imagine you would have the decision-making power to close the association because of these incidents: How likely on a scale from 1 (sure yes) to 5 (definitely no) would you close the organisation?</i></p> | <p><i>Sie spenden regelmäßig Geld und Arbeitsleistung an eine Umweltschutzorganisation. Durch einen Pressebericht erfahren Sie, dass deren Büros und Standorte jahrelang Energie, Wasser und Gas verschwendet haben. Jeder in der Organisation hat es gewusst, keiner hat etwas dagegen gesagt.</i></p> <p><i>Stellen Sie sich vor, Sie haben die Entscheidungsbefugnis, die Organisation aufgrund der Vorkommnisse aufzulösen: Wie wahrscheinlich auf einer Skala von 1 (sicher)</i></p> |
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| | bis 5 (ausgeschlossen) wäre es, dass Sie die Organization auflösen? |
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Item LL3– Fraud

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| <p><i>You are a paying member of a charitable organization. The press tells you, that during the past years, executives and employees have been using cars for private trips and rooms for private celebrations.</i></p> <p><i>Everyone in the organisation knew about it, no one said anything against it.</i></p> <p><i>Imagine you would have the decision-making power to close the association because of these incidents: How likely on a scale from 1 (sure yes) to 5 (definitely no) would you close the organisation?</i></p> | <p><i>Sie sind zahlendes Mitglied einer gemeinnützigen Hilfsorganisation. Durch die Presse erfahren Sie, dass von Führungskräften und Mitarbeitern seit vielen Jahren Autos für Privatfahrten und Räume für Privatfeiern ohne Gegenleistung verwendet wurden. Jeder in der Organization hat es gewusst, keiner hat etwas dagegen gesagt.</i></p> <p><i>Stellen Sie sich vor, Sie haben die Entscheidungsbefugnis, die Organization aufgrund der Vorkommnisse aufzulösen: Wie wahrscheinlich auf einer Skala von 1 (sicher) bis 5 (ausgeschlossen) wäre es, dass Sie die Organization auflösen?</i></p> |
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Item EE1 – Efficiency and Effectiveness

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| <p><i>You donate 100 euro to a non-profit organization, which operates worldwide and which exclusively employs paid staff.</i></p> <p><i>How many Euros have to be used solely for the organization's charitable purpose?</i></p> | <p><i>Sie spenden 100 EUR an eine gemeinnützige Organisation, welche weltweit tätig ist und ausschließlich hauptamtliche, bezahlte Mitarbeiter beschäftigt.</i></p> <p><i>Wieviele Euros müssen im gemeinnützigen Ziel der Organisation ankommen?</i></p> |
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