A Social Responsiveness Approach to Stakeholder Management: Lessons from the Canadian Banking Sector

Mark Fuller
St. Francis Xavier University

This paper explores the relationship between business objectives and social responsiveness toward stakeholders in terms of stakeholder management activity. It employs an empirical grounded study of the Canadian banking sector that involved semi-structured interviews combined with archival documents analysis. Findings suggest managers in mature industries with business growth-oriented objectives and a proactive responsiveness toward stakeholders are likely to engage in stakeholder management activities commonly associated with corporate social responsibility. Implications for managers include the need for multi-dimensional strategic planning. Implications for researchers suggest a need to re-conceptualize management studies to nurture interdisciplinary research on business strategy.

> We looked at the correlation across twenty industries between profitability and size. In only one industry is there a statistically significant correlation between size and profitability and that industry is the banking industry and the correlation is negative. So the bigger they get, the less money they make.
>
> Gary Hamel (1999)

INTRODUCTION

At the intersection of competitive strategy and stakeholder management lies an interesting question: what role if any can stakeholders play in changing the dynamics of competition within an industry? If competition is intense, innovations are easily imitated and dominant firms have achieved success through more effective economic-centred stakeholder relationships, what hope is there for less advantaged firms in the industry? Can economically disadvantaged firms compete through the acquisition and exercise of social or political capital? This paper explores how changes in business motivations combined with the tactical use of social responsiveness are related to the generation of non-economic competitive advantages and the stakeholder management activity that results.

An empirical grounded study was conducted with four firms from the Canadian banking sector. Thirty executives were interviewed using semi-structured interviewing techniques; interviews ranged from thirty to ninety minutes in duration. Archival document analysis was used to examine some 296 documents including annual reports, public accountability reports, senate testimony by banking officials, along with regulatory and governmental filings in order to triangulate the data. This study is methodologically original in that it simultaneously examined several firms within a single industry along multiple stakeholder perspectives from economic, political and social dimensions. Findings from the Canadian banking sector suggest growth-oriented firms which are proactive in their responsiveness to stakeholders are actively engaged with stakeholders and are more likely to engage in activities stakeholder management activity associated with corporate social responsibility (CSR). We begin this discussion by defining business motivations.

Business motives involve a set of objectives that underpin corporate goal setting and business activity and within each type of objectives, a set of tactics through which the objectives may be operationalized (Baysinger, 1984). The use of objectives to manage external environmental factors is well suited to a stakeholder perspective toward strategic management and consists of growth, defensive and process-related objectives (Kotter, 1979; Baysinger, 1984). Growth objectives are intended to reduce external dependency and may involve capacity expansion, vertical and/or horizontal integration-related activities. Defensive objectives are premised upon protection for the existing business from loss to rivals or other external stakeholders such as governments. Process objectives focus upon securing and expanding the processes by which business activities are conducted.

Operationalizing each set of business objectives are social responsiveness tactics. These include proactive, accommodative and reactive tactics that serve as a social response to stakeholder interests and which differ by the level of engagement by the firm with respect to stakeholder inclusion (Wilson, 1975; Carroll, 1979). Proactive tactics involve the shaping of stakeholder activity in order to achieve business objectives. Accommodative tactics involve the balancing of multiple stakeholder interests with those of the firm. Reactive tactics involve low levels of stakeholder engagement and a resistance to stakeholder interests (Wilson, 1975; Carroll, 1979; Meznar & Nigh, 1993). This perspective has salience in the financial services sector because of the highly regulated manner in which economic-based competition occurs and the diverse expectations of multiple stakeholders.

GROWTH OBJECTIVES

According to various industry sources, financial service firms in Canada typically employ a three-prong business strategy: to retain existing clientele, to grow the portfolios of their clientele, and to attract new clientele from their rivals. In traditional markets, these objectives are becoming harder to achieve because isomorphic forces – competitive imitation by rival institutions – that produce a lack of differentiation in products and services as a director of one financial institution acknowledged. Yet the pressure to grow the business is intricately linked to the conception of business success financial institutions have defined for themselves. As an investor relations executive explained in reference to stakeholder expectations,

> The way they look at it is…do you believe that the organization is well managed and that the organization is successful? You know if the organization is successful, it's growing. If it's growing its share price will grow all other things being equal.

Three tactics – proactive, accommodative and reactive approaches[1] – provide the means through which a financial institution's growth objectives may be pursued.

Growth Objectives and Proactive Tactics

Proactive approaches to Growth objectives involve innovative approaches to business growth and may produce significant changes to relations among different stakeholder groups (Wilson, 1975; Carroll, 1979). Tactics may include organic and non-organic methods for changing the nature of stakeholder relationships. Among the organic methods are new business development and niche-market competition. Non-organic methods include mergers and acquisitions that change the nature of competition or the balance of power among competing financial institutions.

An organic approach to proactive growth involves new business development, whether through capacity expansion, vertical or horizontal integration, to discover non-traditional market segments with long term growth potential. The provision of basic financial services is one example. RBC is piloting a concept known as “Cash & Save” for inner-city urban neighbourhoods as a means of offering cheque cashing, bill payments, wire transfers and money orders (RBC, 2005, 10). This service offers higher margins than traditional service offerings but at rates less expensive than typical cheque cashing services. It also enables the bank to develop business relationships with a market segment that is traditionally underserved with conventional service offerings.

Micro-finance initiatives are another niche-market example of proactive business growth. These activities, also known as micro-credit, involve loans to consumers and small business that may or may not be secured by collateral. VanCity (1998, 19) adopted a micro-financing program to reach out to the entrepreneurial sector, and while the sector is small, it represents an important component of VanCity’s lending portfolio. National Bank has also reported strong growth with its micro-credit activities (National Bank of Canada, 2005, 25). A variety of micro-financing programs exist at other banking institutions and credit unions, the long term profitability of which is not at all clear. In contrast to the Canadian marketplace, micro-credit markets are thriving in China with companies such as Citigroup, GE Money and HSBC staking their claim. As David R. Nissen, the president and CEO of GE Money explained, "we don't buy growth, we grow what we buy" (Shameen & Brady, 2005). Yet depending on how these initiatives are implemented, growth can be both significant and rapid in its occurrence.

Non-economic competition may also provide opportunities for organic growth. Methods may involve the use of corporate sponsorships and donations to build brand identity that may enhance the likelihood of repeat transactions and further differentiate the bank from a reputational perspective. Four sponsorship and donations professionals all concurred that such activities can add goodwill, build reputation and contribute significantly to brand enhancement. One of the limiting factors is the lack of a revenue line from which to benchmark the return on investment. Accordingly, senior management may be unwilling to invest much time or effort in these activities. As one sponsorship professional commented,

> We had a very short window of opportunity to prove ourselves. So when you’re in a corporate function and you don’t have any revenue, you have a very short window to win the respect of and the support of your generating partners.

As a result, opportunities for organic growth arising from non-economic competition may go untried, may be under-funded, or may be prematurely concluded due to a lack of organizational support elsewhere in the bank.

An alternative tactic to organic growth includes mergers or acquisitions which change the nature of competition in the industry. Among Scotiabank’s priorities are strategic acquisitions, this from an institution that already has an extensive international presence. According to the bank, “we’ve demonstrated over the years that the potential for increased growth from new operations is significant” (ScotiaBank, 2005, 4). In a similar vein, TD Bank intends to “continue the acquisition strategy throughout New England and other niche areas of the United States” (TD Bank, 2005, 32). As a rival banker explained concerning the TD approach to acquisitions,

> TD bought Canada Trust because they wanted to get bigger into the retail space in Canada. They went ahead and bought them. And they paid four times book, which is astronomical with an IRR [internal rate of return] of about six percent. Very low return on that invested capital. But they did it for a strategic reason. And their strategic reason is that this acquisition was one in a lifetime. There weren’t five Canada Trusts out there to get. And if you didn’t take it when it was available there wouldn’t be another opportunity. And at some point in time, twenty years from now, that thing will pay off. In the short term, it won’t pay off. So you know you’re looking at people doing these sorts of acquisitions even though from a financial and an economic perspective they may look difficult to justify.

The constant demand to grow combined with the slow pace of organic growth and the limited opportunities for domestic acquisitions of financial institutions encourage non-organic methods such as foreign expansion or greater exposure to non-traditional markets. As one banker outlined concerning the move toward non-traditional lending markets,

> The sub-prime market are customers who the banks would not normally touch…it's a huge untapped market…It's a high risk, high yield type of business. Why are they going into that? They're going into that because they've tapped out the traditional markets. They've reached their ceiling on a lot of markets that have become saturated. So they have to look at how can to grow revenue. In order to do that, they may have to go down market, to generate rewards or to generate revenue. And that's always a difficult thing for an organization to do, especially a bank.

Whether by acquisitions or new business development, growth in sub-prime markets is difficult because it increases the risk profile of the lending portfolio which in turn may influence debt rating agencies to lower their evaluations of financial institutions that pursue these opportunities. Yet it has an attractiveness arising from the higher interest rates such loans can yield, therefore providing more potential opportunities for a financial institution to service the needs of other stakeholders, such as investors or members. Given the expectations of stakeholders toward organizational growth, especially from shareholders and senior management, financial institutions in Canada may find that mergers and acquisitions are the quickest, though not necessarily the most profitable, proactive pathway to growth.

Observation 1: Proactive Growth Tactics – Stakeholder-based pressure to grow the business leads to strategic choices among organic and non-organic methods. Organic options include both economic and non-economic methods, but the pace of growth and sustainability are uncertain. Non-organic methods include mergers and acquisitions which quickly increase the asset base, but may involve a profitability trade-off, at least in the short run. Domestic mergers and international acquisitions remain a desired method for business growth among financial institutions.

Growth Objectives and Accommodative Tactics

Accommodative tactics involve bridging activities on the part of the organization, an adaptive balancing between external and internal stakeholder influences (Wilson, 1975; Carroll, 1979; Meznar & Nigh, 1993). Examples of economic-based tactics emphasize market forces for competitive advantage and include addressing customer inclusion, whether through improving customer satisfaction or better tailoring product offerings to stakeholder groups. These modify the product and/or service offerings to better address the needs of one or more stakeholder groups.

A number of financial institutions are currently exploring accommodative tactics as part of their strategic priorities. In the area of customer satisfaction, for example, the Bank of Montreal has pledged to "drive revenue growth by providing a superior client experience, earning a larger share of customers' business" (BMO, 2005a, 3) among other tactics. Tailored product offerings are the favoured approach of the Laurentian Bank with "the goal to accelerate the growth of our business operations. With this in mind, our initiatives will include enhancing our product offering to ensure even more added-value to our clients" (Laurentian Bank, 2005, 19). These initiatives require a modicum of business adaptation; much less than stakeholder shaping proactive growth, but much greater accommodation than reactive-based approaches. It balances the competing perspectives of multiple stakeholders. As one banker explained:

> Rather than thinking about "is this the right product for the customer?", now our financial advisors' bonuses are based on client portfolio growth, so growing the clients' portfolio but also the client satisfaction scores. [From the perspective of a financial planner, the question becomes] "How do I get my kids through college? It's by pleasing you, the client." So that's a very consumer oriented way of approaching it as opposed to the traditional [approach].

The above example illustrates the balance between addressing the needs of the clientele but also considers the needs and motivations of the employees upon whose service the bank depends for improved client satisfaction. This balanced approach considers the needs of multiple stakeholders – the hallmark of an accommodation tactic – but in so doing may limit growth potential to the prevailing industry dynamics.

Observation 2: Accommodative Growth Tactics – This type of growth activity involves revenue expansion within the confines of existing industry dynamics. Balancing the competing needs of multiple stakeholders, the benefits accruing to any one stakeholder are measured by the capacity of other stakeholders to adapt within the existing parameters of the dominant industry norms. The most frequently applied of the three growth tactics in the Canadian banking industry, it involves the pursuit of an optimal balance between stakeholders in the attempt to maximize financial performance.

Growth Objectives and Reactive Tactics

A reactive orientation toward a growth strategy is somewhat dichotomous. Whereas growth implies an increase in revenue, profitability, productivity or some other metric, reactive postures are associated with low activity on the part of the firm (Wilson, 1975; Carroll, 1979; Meznar & Nigh, 1993). Alternatively, reactive strategies may be conceived as those in which growth potential is intentionally restrained. One might associated corporate social responsibility (CSR) activities as falling into this category but that is not necessarily so.

Corporate social responsibility may be viewed by some as a restraint on the firm's growth activities. The oft-cited belief of Milton Friedman that corporations have but one obligation – to increase the returns for stockholders as much as possible – is among the most classic of arguments in this regard. However the view among some executives is changing (Friedman, 1962; McClaughry, 1974). The corporate social responsibility movement is gaining momentum and management perspectives in the Canadian banking sector have begun to reflect this change. When asked whether a bank would be reducing its growth potential because of additional compliance and regulatory requirements such environmental issues, privacy, and health and safety that may be broadly associated with corporate social responsibility, one banker replied "no, well I mean you're probably adding to your costs but I don't know that you're limiting your growth potential." That was not the perspective at the turn of the millennium.

In 2001, public accountability statements from corporations in Canada were fully voluntary. Speaking before the Standing Senate Committee on Banking, Trade, and Commerce, Peter Downing of TG international testified in favour of Bill C-8, *An Act to establish the Financial Consumer Agency of Canada*, which among other requirements would make such statements mandatory for financial institutions with equity exceeding $1 billion. In his testimony, Mr. Downing was asked what reactions he had received to his proposal (Canada, 2001). In addition to a mere acknowledgement that his proposal had been received by the Department of Finance Canada, he said,

> I approached four banks. One of them was very nasty to me because they thought I had criticized them. Another said they would do it if it ever happens. The other two did not reply. This reporting practice is not yet accepted, but it is becoming a business practice. The idea of what we are asking for in these public accountability statements is becoming expected business practices and banks do not know it yet but it will be good for the banks.

Since public accountability statements were mandated by the federal government in 2001, their use has spread from three financial institutions – RBC, and VanCity and Metro credit unions – to include the six largest banking institutions (Downing, 2001). The qualities of the initial effort and questions why such reporting requirement have not been mandated for more corporate entities have been raised by some critics. Compared to an identified best-in-class effort of VanCity, criticisms include inconsistency in the methods used from year to year that impairs comparisons over time, variance in the depth of the information provided, a lack of targeted action plans and a lack of external verification by an outside auditor (Downing, 2003). To remedy this situation would have required more effort on behalf of the financial institutions to improve their reporting methods.

Since that time, corporate social responsibility offices have been formed in most financial institutions that did not already have them to co-ordinate the collection of documentation for social reporting initiatives as well as the initiation and/or monitoring of CSR activities within the banks. Yet the extensive information requirements of reporting agencies demand such an effort upon existing staff that limited time or resources are available for rolling out new change management initiatives. Greater institutional support for the corporate social responsibility functions may be required for this situation to change.

Constraining improvements to corporate sustainability reporting are a lack of institutional support and resources. Factors such as limited budgets, lack of staff, insufficient organizational empowerment, diffuse responsibilities for these efforts within the organization and uncertain inter-departmental co-operation were cited by multiple individuals as impediments to their corporate social responsibility efforts. Within the next five to ten years, one executive expected movement to occur on CSR activities but also acknowledged that "big institutions like this with long histories and traditions don't change even in five years." Another banker said of a rival's CSR efforts "they just kind of dabble in it but they…there's nothing specific" and of a second rival,

> I don't think they have much traction on it…they're not very focused. I don't think they know actually what they want to do in the CSR thing so it's a bit here, a bit there…And in terms of internal policies, all the types of things that you need as part of your infrastructure, they just don't have any of that. And I just don't think they have a big interest in it.

Another banker suggested that there exist obstacles within the bank by employees who lack the understanding, acceptance or support of these initiatives which inhibit the ability to improve their CSR activities:

> I think actually given its size the level of red tape is pretty reasonable. But there is a decision-making process and you need the buy-in of many because CSR is a cross-functional concept. You need the buy-in of many different areas across the bank and sometimes you stumble on people that get it and are very positive about it. And you encounter people who just think it's a waste of time so you have to keep working at it and work on those people who find it a waste of time. And then find people they respect and then target them. It's very much a process of finding your advocates and creating advocates in the organization for what you're doing.

While the CSR staff involved uniformly exhibited both enthusiasm and passion for their work and for their respective institutions, their ability to carry out their duties could be enhanced by a greater commitment to corporate social responsibility as a component of a proactive growth strategy rather than either a reactive or an accommodative response.

Observation 3: Reactive Growth Tactics – Resistance to change that contributes to growth is the primary characteristic of reactive growth strategies. When public accountability statements and corporate social responsibility efforts were completely voluntary, they conformed to this characteristic to a significant degree; today the industry has moved toward a more accommodative approach with respect to CSR initiatives but the level of commitment still varies among institutions and has yet to reach the point of being a proactive growth strategy.

DEFENSIVE OBJECTIVES

> Why is it always bigger and better and higher? Why isn't it just 'do it so-so'? How about just managing? How about just moderate growth? How about just what we did last year? What's

> wrong with that? Is that bad? Why is it always bigger, better, more growth, and that's the standards we get measured by?

The above statement from a senior Canadian banking executive highlights the importance of strategic pursuits that are not exclusively growth-based but nonetheless sustain the current performance of the organization. Baysinger (1984) referred to these motivations as *domain defence*; here we use the more common parlance of defensive objectives. They refer to activities which safeguard the existing operations of the financial institution and are as necessary to sustaining the organization as are strategic priorities which grow the business. Adapting the work of Wilson (1975) and Carroll (1979), this classification of business strategies can be sub-divided to include proactive, accommodative and reactive strategies.

Defensive Objectives and Proactive Tactics

Among the defensive strategies for which financial institutions are most proactive are those of a reputation risk management nature. Risk management involves a number of aspects beyond reputation including credit granting, environmental management, foreign exchange, and interest rates. From the administrative functions surveyed at four institutions, reputation risk was an issue about which their activities seemed particularly concerned.

Representatives from a number of administrative departments across four institutions were interviewed with reference to their stakeholder management practices. One of their leading concerns involved reputation risk and strategies for defending, if not improving, the reputation of their particular institution. When queried as to the qualitative contributions the corporate social responsibility department made to their institution, one banker commented "employees feel strongly about social, environmental, ethical programs; [they] are relevant to them and employees believe that they are relevant to clients and customers and they believe that [our bank] has a strong reputation in that area." Another CSR-affiliated banker in another institution expressed a similar viewpoint:

> I think part of it is reputation risk management; protecting and enhancing the bank's reputation. I think stakeholders really do find it important that companies take the time to meet with them and it makes a difference. Even if they're not hearing exactly what they want to hear and aren't getting the results, the fact that a company as large as [our bank] makes the time to sit down and to discuss the issues and that there's even a resource in place that has some knowledge about the issues they're interested in because some of these are pretty obscure issues for the bank. So, I think that's one way that we add value.

The consequences of not sufficiently considering potential impacts upon the bank's reputation when carrying out business activities not only are reputational, they can also involve severe financial ramifications. As a rival banker remarked,

> You've seen what happened to CIBC with Enron. And they're not out of it yet. I mean that's $2.4 billion and they're still going. So is being ethical and compliant…does it improve your bottom line? I would say yes it does because it's very clear to me in the negative that [if] you don't [that the potential for litigation and financial consequences are dire].

These implications for a financial institution's reputation necessitate an effective compliance strategy that impacts both employee and client stakeholders. The compliance department is a vital linkage in the relationship between employees, customers and other risk-concerned stakeholders. As one compliance executive explained in reference to reputation enhancement and its relationship to effective stakeholder management practices,

> over time that leads to a reputation generally in the marketplace and that can just be good for morale. It's nice not only to work for an organization where you believe that you're doing the best for the client. But to believe that everybody in the organization is doing best for the client and that that's the culture.

When employees engage in reputation stakeholder enhancing risk management activities their actions affect the firm's corporate culture and the company's business-client relationships. As one human resources specialist commented,

> Our corporate image and the value of our brand is a critical part of the selling process…it's one in the same and we're very, very conscious of that. There are some deals we'll say no to because we may feel it's not the right fit for our brand or it might do damage…It's really a different playing field now in my view given a number of things that happened in the US and a few in Canada around where companies have lost really their value, their brand because of bad behaviour and those kinds of things. We're very, very conscious of what we enter into in terms to protect brand. But they're one in the same for me. Other people may have different opinions. But, you know, we're selling the brand. We're selling the product. It's all one in the same.

Reputation plays a significant role in the view of the bankers interviewed. From the ability to attract top tier employee talent to maintaining and growing client relationships, threats to a financial institution's image and brand were of critical importance. Therefore, a proactive approach to defensive strategic management should include a comprehensive approach to reputation risk management.

Observation 4: Proactive Defensive Tactics – Strategies that defend the bank's operating environment in a proactive manner can reduce the impact of negative events. One example of such a strategic approach is focused upon reputation risk management. Extensive thought and consideration factor into the risk-based decisions financial institutions make and yet some institutions are occasionally tinged by issues of a reputational nature. However risk management practices continue to evolve in an attempt to maintain and enhance the social capital of financial institutions in Canada.

Defensive Objectives and Accommodative Tactics

Strategies of a defensive nature that involve accommodative tactics balance the competing needs of multiple stakeholders while supporting the existing operations of the financial institution. An example of this may be found in employee diversity initiatives. Some executives lament that employee diversity initiatives appear to have languished, reducing the extent to which sustainable business practices might be premised upon a truly representative workforce.

Financial institutions have expressed significant concern with diversity initiatives. The Bank of Montreal states that "a fully engaged, diverse workforce will enable us to more effectively serve the communities in which we do business" (BMO, 2005b, 32). Indeed, employment diversity is among TD Bank's financial indicators to the extent that they declared "making diversity a business priority" (TD Bank, 2005, 120) among their goals from the previous year. Additional workforce diversity was also a goal of the Scotiabank (2005, 7). Initiatives in the area of diversity however have met with some internal scepticism as to the depth of the commitment

Despite the efforts to date, diversity results in Canadian financial institutions appear to be a work in progress. As one banker offered in reference to their diversity initiatives,

> The rate of progress has not continued. Some would argue it is actually rolling [backward] and I do not mean [only in our bank] but just generally in the world, specifically when it comes to women and their promotion.

As indicated in Table 1, the presence of women in senior management roles varies from a low of 23% to a high of 26%; members of visible minorities from 20% to 24%; Aboriginal persons from 1% to 2% and persons with disabilities from 2% to 5% among the largest five domestic banks.

TABLE 1
EMPLOYEE DIVERSITY ON A PERCENTAGE OF TOTAL EMPLOYMENT BASIS (2005)

Bank	Women in Senior Management (%)	Members of Visible Minorities (%)	Aboriginal Persons (%)	Persons with Disabilities (%)
BMO	35.2%	21.5%	1.2%	2.7%
CIBC	30.7%	24.3%	1.8%	4.8%
RBC	35.9%	22.8%	1.6%	2.9%
Scotiabank	28.4%	20.0%	1.2%	4.2%
TD Bank	23.0%	22.7%	1.1%	2.0%

Sources: 2005 Public Accountability Statements for each institution.

As noted below in Table 2, female directors occupy as few as 18% and not more than 28% of director positions among Canada's seven largest domestic institutions. Further, with just two directors of these seven institutions under the age of 45, the message would appear to be youthful executives less than 45 years of age need not apply. It is reasonable to conclude, therefore, that while many diversity initiatives exist, they have yet to radically alter the workforce dynamic of Canadian financial institutions, at best representing an accommodation-based defensive strategy.

TABLE 2
BOARD DIVERSITY (2005)

Bank	Board Size (Members)	Male Directors (%)	Female Directors (%)	Average Age (Years)	Average Age (Years)
BMO	15	80%	20%	59	49~67
CIBC	18	72%	28%	57	49~68
Laurentian	13	77%	23%	N/A	N/A
National Bank	14	79%	21%	58	37~63
RBC	17	82%	18%	58	45~68
Scotiabank	16	75%	25%	60	48~68
TD Bank	16	81%	19%	60	43~67

Sources: 2005 Management Information Circulars for each of the financial institutions.

Observation 5: Accommodative Defensive Tactics – Balancing the needs of competing stakeholders to secure the current performance of a financial institution is a characteristic of this tactical approach. The strategic use of diversity initiatives by financial institutions may be an example of such a strategy. The commitment to these strategic priorities, however, should not be taken for granted. If the state of diversity among financial institutions is an indicator of an accommodative defence strategy, results can be slow to achieve with stakeholders and even if continuously addressed, may be perceived among employees as actually being stagnant or on the decline.

Defensive Objectives and Reactive Tactics

Whereas Defensive objectives involves strategies designed to protect the operations of the firm, reactive tactics imply low levels of business activity in response to demands by external stakeholder entities. Certain aspects of regulatory compliance fall within this categorization. This arises in part from the increasing use of principles-based regulation relative to rules-based requirements. The application of principles-based regulation leaves open the possibility of greater ambiguity than does a specified activity barred under a rules-based directive. As one compliance executive said,

> We're finding that the regulators more and more will see examples of where there was no specific rule in the area or worse there was a rule in the area that you're complying with and they come back on it and say that wasn't enough. And so if that happens with someone else you go gee…none of us really knew that that was the expectation. …We all acted in good faith and we could look at a regulation and say we had a process that we all agreed was adequate. Apparently the regulator doesn't agree. We're going to have to up our game.

An example of this difficulty involved the practice of high closings at RT Capital Management in the late 1990s, then a subsidiary of the Royal Bank. As a compliance executive from a rival institution explained,

> A high closing just means on a very thinly traded stock you tried very hard to do the absolutely last transaction of the month. And you do it in an inflated price and then [when] your portfolios will be valued you get a higher commission. So as soon as it's explained simply I think you understand it's kind of cheating and not fair to people and so on…tricky. Well they had been doing it. Now as soon as that came out everybody ran…I'd never heard of high closing until it hit the paper. So they didn't have any policies…

Following an Ontario Securities Commission investigation, it was discovered that nine traders, executives or directors of RT Capital – including its compliance officer – knew of or were engaged in high closing activity that was contrary to the public interest. These high closings involved 53 incidents with 26 different Canadian equities listed on the Toronto Stock Exchange. The matter was settled with RT Capital being fined $3 million, and each of the nine being fined a small amount and with the exception of one executive whose securities license was permanently terminated, each receiving a suspended license (OSC, 2000). Said one compliance executive, "they were fined. The officers were fined. The compliance officer was fined. But they could not actually get their reputation back…so eventually Royal Bank had to sell that business."

A review of RBC's annual reports, management information circulars and public accountability statements from 1999 to the present make no reference to the OSC investigation. The sale of RT Capital for $313 million was referenced as part of three other businesses sold in 2001 for the reason all four "were not core to the retail strategy of the platform" (RBC, 2001, 3). Otherwise, only the subsequent sale of the firm and its impact on the financial statements are mentioned. In defence of RT Capital, then chairman and now the Canadian Ambassador to the United States, Michael Wilson explained that the intention of the sale predated the OSC settlement and was a response to clients' desires to take advantage of expanded foreign content holdings permitted by the government that a sale to UBS Asset Management could provide (UBS, 2001).

The allegedly slow response of RBC to acknowledge the original investigation led to criticism of the response in addition to criticism of the actual behaviour (Fotheringham, 2000). Incidents such as these have provided lessons to other institutions concerning the risk of reactive tactics.

> You need to send out the right messages in the right way. You need to have clear, consistent communication and if you made a mistake, you need to explain why it happened

> and what you're doing to ensure it doesn't happen again. You cannot guarantee it, but you can try.

Compliance systems may not eliminate unethical behaviour, but these impacts can fester if the reactive tactics firms employ to resolve crises and repair damaged reputations are slow in addressing stakeholder concerns.

Observation 6: Reactive Defensive Tactics – A strategic option available to firms to protect their current activities involves reactive strategies. However, as reactive strategies involve low responsiveness on behalf of the firm, they are not recommended in cases where the stakes are significant, such as those involving reputational risks to a financial institution arising from ethical lapses in behaviour. This strategic and tactical posture is best reserved for low impact, low influence scenarios. The fallout of the RT Capital situation is illustrative of the risks associated with a reactive approach to compliance-based defensive strategies as compared to the use of a proactive strategy which might have mitigated the consequences, if not prevented the use, of high closing activities.

PROCESS OBJECTIVES

Whereas defensive objectives are premised upon supporting the organization's existing business activities, process objectives involves safeguarding the legitimacy of the methods employed (Baysinger, 1984). Proactive maintenance strategies expand the autonomy of firms in managing their process activities. Accommodative strategies balance the needs of competing stakeholders toward process operations. Reactive strategies involve reluctance on the part of the organization toward a particular aspect of process redesign.

Process Objectives and Proactive Tactics

Proactive tactics toward process objectives involve not just the safeguarding of existing work processes but the expansion of process autonomy (Baysinger, 1984). This autonomy permits firms a broader array of process options from which to choose in the conduct of their business activities than would otherwise be possible. Initiatives seeking to clarify bank merger guidelines are one example of a proactive approach toward process objectives.

One of the process issues in which banks and credit unions have expressed significant interest are the release of merger guidelines by the federal government. These guidelines would detail the manner in which large Canadian banks could have merger proposals considered for review, irrespective of whether the actual merger was or was not approved. Previous guidelines had been issued when Paul Martin was the Minister of Finance following the failed merger attempts in the late 1990s. According to one government affairs executive,

> He issued guidelines as to how two big banks could propose a merger and what would need to be looked at in terms of an approval process. And those guidelines sat there and the green light was on after 2001. But then when there started to be rumours in the industry that people were starting to think about perhaps putting something forward, the government yanked them and said 'oh no, we're not quite comfortable with them. We need to study them.' And they've been studying them ever since. So what we need are guidelines back on the table that either say they're not comfortable dealing with mergers for x period and put it off or express the guidelines and allow banks to put a proposal forward. And if the proposal's not accepted then, you know, we can live with that. But we just need the rules.

Given that reissuing and/or clarifying the merger guidelines may lead to further consolidation in the financial services sector, credit unions have also taken notice. "The credit union system has been in there saying 'okay, if you let them merge we want first dibs at all the branches that get closed across Canada. We want to take over those branches,'" said a credit union official.

Insurance companies have seen the possibilities that might accrue from a clarified merger process. Dominic D'Alessandro, the CEO of Manulife Financial suggested mergers be permitted, "whether bank with bank, bank with insurer, or insurer with insurer" he told the audience at their most recent annual general meeting, adding that "it is highly unlikely that the aspirations of the ten or so large institutions that make up the bulk of our financial services industry can be satisfied through domestic demand alone" (Norris, 2006). Yet there was a contradiction in his position, which would entail expanded process autonomy for financial institutions of a kind consistent with proactive growth objectives. With reference to the desire of banking institutions to be able to sell insurance directly through their branches, D'Alessandro said "I don't see any great advantage in it -- for anyone . . . other than perhaps some small benefit for the banks themselves" (Church, 2006). However providing direct insurance services through retail channels is consistent with a process autonomy perspective that one might expect from banks pursuing a proactive Process objectives strategy.

Observation 7: Proactive Maintenance Tactics – The pursuit of a proactive maintenance strategy involves radical changes to business processes. These changes may be complementary to that of a proactive growth strategy; indeed, the two may occur in tandem in many cases. This would be warranted in situations where existing work processes are insufficiently scalable to support an expanded business frontier, or when business process re-engineering would allow greater efficiencies, improved synergies or added effectiveness to be realized in conjunction with business growth.

Process Objectives and Accommodative Tactics

Despite the myriad of stakeholder demands, some can be accommodated while still protecting fundamental processes and the current extent of organizational autonomy. One example of this involves the introduction of the Personal Information Protection and Electronic Documents Act (Canada, 2000). The new privacy act came into force on January 1, 2004 and among its requirements mandated that corporations be able to explain the purpose and use of personal information collected from customers. This posed a challenge to financial institutions given the size of their organizations to ensure each employee would be capable of explaining the necessity for the information collected. As a compliance officer explained,

> We have [a large number of] people in the branches. Do they all know why we ask for a piece of information? It'd be nice if they gave a consistent answer. We looked at all of the products, and we said 'what kind of information do we ask for?' Basic description information, name, address, so on. Is it information to support credited adjudication? What's your income? How long have you been on your job? That kind of thing. And we categorized all of the information on all of our applications…so that if you don't know the answer you can go [to a reference source] and you can find out…so that you can give that answer.

The requirement to comply with new regulations necessitates a balancing of stakeholder interests. In the case of the privacy act, it involved the abilities of bank employees to understand and to consistently disseminate information on the bank's data collection practices with expectations of client stakeholders that their privacy would be ensured. This is an example of how existing bank processes can be protected while still accommodating the interests of the bank's various stakeholders.

Observation 8: Accommodative Maintenance Tactics – The adjustment of business processes to address the concerns of internal or external stakeholders is a hallmark of this strategic approach. This can be achieved by maintaining a particular business policy while adjusting the procedures through which it is implemented. One of the key issues involves the speed at which the accommodation occurs; this may vary depending upon the nature of the stakeholders' concerns, their influence upon the firm and the importance of the issue to the organization.

Process Objectives and Reactive Tactics

There may be occasions wherein the legitimacy of an organization's processes becomes the subject of scrutiny by external stakeholders, and the remedies proposed by such stakeholders are met with reactive tactics. These tactics may affect the pace of change management due to an inability of the firm to respond effectively to external stakeholder expectations. The issue of access to basic banking services illustrates the difficulty of change management implementation as an outcome of reactive tactics.

In February, 1997, an agreement between the federal government and major Canadian banks reduced the identification requirements to open a bank account – such requirements being viewed as an access barrier for less affluent Canadians (Department of Finance Canada, 1997). Later that same year, the Task Force on the Future of the Canadian Financial Services Sector produced a background report which noted the continuing difficulty of low-income Canadians in opening a bank account and in cashing federal government issued cheques (Canada, 1998a, 24-28). It was the perspective of the Task Force (Canada, 1998b, 163) that:

> We are sceptical that the February 1997 agreement is making a substantial difference. We believe that the major problems preventing further progress are attitudinal and cultural, not problems of process. It appears that notwithstanding the stated policy of the banks, and some bright spots in actual practice, there is still a considerable problem 'on the ground' in serving a class of customer that is not likely to be profitable to the branch. The increased trend in all financial institutions to focus more resources and attention on profitable customers is exacerbated in this situation by stereotypical attitudes toward individuals with low incomes. Unfortunately, this is a problem not simply of attitudes of some bank employees but of attitudes toward low-income individuals that are more general in our society.

In 2003, Access to Basic Banking Services Regulations came into effect; these mandated the previously negotiated minimum identification requirements for opening a new bank account (Canada, 2003a). In 2005, a representative of the Financial Consumer Agency of Canada testified before the Senate Committee on Banking, Trade and Commerce that in 84% of the attempts by mystery shoppers, new accounts were successfully opened in accordance with governmental regulations and that in 91% of attempts, federal government cheques were successfully cashed (FCAC, 2005; Canada, 2005). It was the perspective of the Commissioner of the Financial Consumer Agency of Canada that "while there is always room for improvement, the overall results are positive" (FCAC, 2005). However, as Senator Massicotte (Canada, 2005) said,

> I have a different take on it. In my opinion, this means a failure rate of 16 per cent and 9 per cent in complying with Canadian government regulations. That seems high to me. If I drive too fast and a policeman stops me, and it was only the first time even though I might have been speeding before, unfortunately, my argument will not wash. I will still end up with a ticket. I have a hard time accepting 16 per cent and 9 per cent. I am surprised that they are so high.

When the Senator queried a representative of the Canadian Bankers Association whether a significant decline in the failure rate could be achieved, on the order of 1% to 2% a year, the representative responded "to err is human", suggesting a reactive posture (Canada, 2005). Banking institutions' inability to reduce these incidence rates to lower levels reflect a reactive tactical response, one that suggests weaknesses in training and operational processes linger. These weaknesses might not be tolerated in industries where quality control programs such as six sigma initiatives produce fractional deficiencies. This example highlights the deficiency of a reactive tactical approach: that progress, if measured, may not meet with strategic targets that, if defined, are subsumed by other strategic priorities for which the benefits are greater to a wider array of stakeholders. This is not necessarily the fault of the financial institution per se, but more accurately it may reflect a confluence of competing stakeholder expectations that dominate their priorities.

Observation 9: Reactive Maintenance Tactics – Of the nine sets of social responsiveness tactics, this category of strategies is among the lowest priority from a strategic management perspective. With growth strategies, even reactive tactics may contribute to enhanced organizational performance. Reactive tactics in support of a Defensive objectives strategy are important because to do otherwise is to risk ignoring threats to the existing activities of the firm. Yet with reactive maintenance strategies, the issues may lack salience and the stakeholders the necessary influence so as to warrant much organizational effort. Further, even if the organization is receptive to the influence of stakeholders about the processes under discussion, the ability to affect change may be reduced due to competing priorities of a higher importance.

Significance of Business Objectives

Growth, defensive and process objectives are the three avenues through which firms may guide their activities. With respect to organizational growth, a disparity exists between the growth venues banks wish to pursue and those avenues for which they are permitted. With the lack of merger guidelines inhibiting domestic consolidation, financial institutions have turned to international acquisitions and accommodative strategies to improve their bottom line. Innovative opportunities for organic growth have been slow to materialize, allowing for newcomers to the industry to flourish, such as VanCity or ING Direct with their competing business models premised upon virtual banking methods. Domestic banks employing proactive approaches have responded with non-organic growth via foreign acquisitions.

Defensive strategies are those of a business retention nature and focus upon the existing revenue streams of the organization. Tactics include risk management, aspects of employee engagement such as diversity management, compliance and legal affairs activities. While financial institutions are involved in each of these activities, some are more proactively engaged than others in leveraging these activities strategically to support competitive advantages. The ability to sustain these differences over time is not certain as management priorities shift the organizational focus to other issues.

Maintenance strategies focus upon change in business processes. Proactive tactics employ business process re-engineering to gain competitive advantages. Accommodative tactics involve the adjustment of business processes to balance the expectations of various stakeholders in order to protect key business processes. Reactive tactics seek to resist the influence of stakeholders upon the business processes of the firm. Of the three maintenance tactics, the focus in banking circles appears strongest with growth and least active with reactive tactics. The table below highlights the differences in tactical approaches across the various business objectives.

Corporate Social Responsibility as a Consequence of Mature Markets, Growth Objectives and Proactive Social Responsiveness

This research suggests that firms in mature industries which pursue growth objectives in combination with the use of proactive tactics are more inclined to actively engage in stakeholder management. Conversely, firms situated in mature markets and that are pursuing defensive or process-related strategies are less active in stakeholder management activities. These findings reinforce the conclusions other researchers have drawn that stakeholder management activity can support the generation of social capital (Park & Luo, 2001). In the case of actively stakeholder-managing companies, all of which have articulated growth-oriented strategies, we have also noted the presence of corporate social responsibility departments within all firms. Further, our research indicates the manifestation of corporate social responsibility activities in a diverse range of areas.

TABLE 3
SUMMARY OF BUSINESS OBJECTIVES AND TACTICAL APPROACHES

Business Objectives	Social Responsiveness Approach to Stakeholders		
	Proactive	Accommodative	Reactive
Growth Objectives	Firms engage stakeholders to pursue organic and non-organic approaches to growth; stakeholder inclusion is extensive.	Firms choose bridging activities to balance internal and external stakeholder pressures; stakeholder inclusion is moderate.	Firms focus upon a limited set of activities while responding passively to stakeholder pressures; stakeholder inclusion is low.
Defensive Objectives	Firms actively shape stakeholder demands to safeguard their operations, such as via risk management.	Firms balance multiple stakeholder demands for purposes of maintaining existing operations.	Firms constrain their efforts to existing operations by deflecting stakeholder demands.
Process Objectives	Firms seek stakeholder engagement to expand their autonomy and re-engineer their process activities.	Firms adjust to varying stakeholder demands to protect existing processes.	Firms resist or respond passively to stakeholder demands due to competing priorities or inertia.

These activities included workplace diversity, corporate philanthropy, environmental and social-related issues. Internal advocates of these issues were frequently identified as the chief executive officer, members of the board of directors, and staff affiliated with CSR and corporate philanthropy departments. Individual personnel in non-CSR-related departments were occasionally cited as champions of CSR-related initiatives though there was no consistent pattern among firms as to the originating department from whence these initiatives began. These findings suggest that corporate social responsibility may be a consequent of growth-oriented firms existing in mature markets while actively pursuing stakeholder management behaviour. Such findings would add to established antecedents of CSR which include government regulation, market orientation (Qu, 2007); the presence of continuous innovation, a low level of dynamism and munificence (Husted & Allen, 2007); as well as CEO leadership and a low power distance culture (Waldman, Sully de Luque, Washburn, House, et. al., 2006). These results have important implications for both managers and researchers.

IMPLICATIONS AND CONCLUSION

This paper highlights new competitive opportunities for managers seeking to overturn a market leader and conversely represents a threat to the strategic security of dominant firms. The potential for managers to achieve economic gains through political or social competition is not new (Baysinger, 1984; Hillman & Hitt, 1999; Hillman & Keim, 2001; Park & Luo, 2001; Keim, 2002; Wu & Choi, 2004; Hillman, 2005). What is unique about this particular research are the strategic implications of the empirical findings.

Firms wishing to grow their operations, and with a willingness to actively engage their stakeholders in their activities, are likely to turn to political or social competition when opportunities for economic competition are constrained by the actions of dominant firms. Yet empirically we have found that dominant firms do not ignore these alternative competitive environments, some even embrace them. Consequently, economic, political and social strategic planning needs to be unified into a singular, cohesive business strategy. Otherwise, managers are likely to shift their strategic activities from one competitive environment – economic, social or political – to the next as the cost-benefit trade-off changes with the strategic responses of rivals. However the financial benefits to the firm of any economic, political or social strategic choice leave much room for both ambiguity and variation. This situation poses a considerable challenge for managers to analyze due to information asymmetry, cognitive bias, resource availability and various institutional factors that would impact upon their evaluations. Perhaps the more significant trade-off for market following firms entertaining an integrated strategy of economic, political and social competition may be substituting industry dynamics from a situation whose outcomes are unfavourable though predictable to one that is potentially favourable but uncertain.

This research, combined with existing literature in the field of non-economic competitive strategy, is opening a new chapter in strategic management research. Stakeholder management, particularly as it concerns political and social issues, should not be hived off from business policy discussions but rather should inform these dialogues. Both groups of researchers will find many common points of interest as a result of these efforts. Unfortunately, even the Academy of Management separates these fields when researchers from each have much in common – and much to share – with one another.

The strategic management literature is largely dominated by the perspectives of the strategic positioning framework and the resource-based-view (Porter, 1979, 1980; Wernerfelt, 1984; Porter, 1985; Barney, 1991). Yet there still exists much opportunity in the literature for expanding these theoretical premises to explicitly include political and social competition rather than viewing them as adjuncts to economic-centric perspectives. Game theorists also have an opportunity to address issues that arise when firms employ multi-dimensional business strategies across the economic, political and social competitive environments. Similarly, it seems needlessly constraining to research issues of a political or social context without also considering the strategic opportunities for managers of firms to differentiate their offerings and yet opportunities for interdisciplinary research on business strategies are constrained by intellectual departmentalization within management studies.

The integration of political and social issues within a broadened strategic management field will unfortunately prove challenging. These fields are highly fragmented within both the Academy of Management and the extant literature – the former having at least three internal divisions who can lay claim to this topic – and yet the issues are increasingly overlapping. The current organizational schema in management studies – and the different theoretical traditions, methodological practices and lexicons associated with each – may be too onerous an obstacle for the integrated study of economics, politics and social issues in business strategy to flourish. Yet this effort is necessary as the subject of our management studies – firms and their managers – increasingly necessitate a multi-dimensional, interdisciplinary perspective.

NOTES

1. Proactive, accommodative and reactive approaches to strategic activity have been adopted and adapted to the stakeholder literature from works by Wilson (1975), Carroll (1979) and Clarkson (1985).

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