

Corporate Social Responsibility I

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Special Topics in Internationalization

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- 1. Introduction**
2. Stakeholders of the Firm
3. CSR in the Global Economy
4. Institutions, Stakeholders & CSR
5. Strategy & Society
6. Debates & Extensions
7. Implications for Practice



■ Learning Objectives

❖ After completing this lecture you should be able to:

- Articulate a **stakeholder view of the firm.**
- Discuss **CSR challenges** faced by firms
- Explain how **institutions** influence firms' CSR activities.
- Participate in '**2**' **leading debates** concerning CSR.
- Draw **implications for action** around the world.



■ The Definition of Corporate Social Responsibility

- > *“Businessmen were responsible for the consequences of their actions in a sphere somewhat wider than that covered by their profit-&-loss statements”* (Bowen, 1953: 44).
- > *“... implies a public posture toward society’s economic & human resources & a willingness to see that those resources are used for broad social ends”* (Frederick, 1960: 60).
- > *“... refers to a person’s obligation to consider the effects of his decisions & actions on the whole social system”* (Keith Davis & Robert Blomstrom, 1966: 12).
- > *“... begins where the law ends. A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do”* (Davis, 1973: 313).



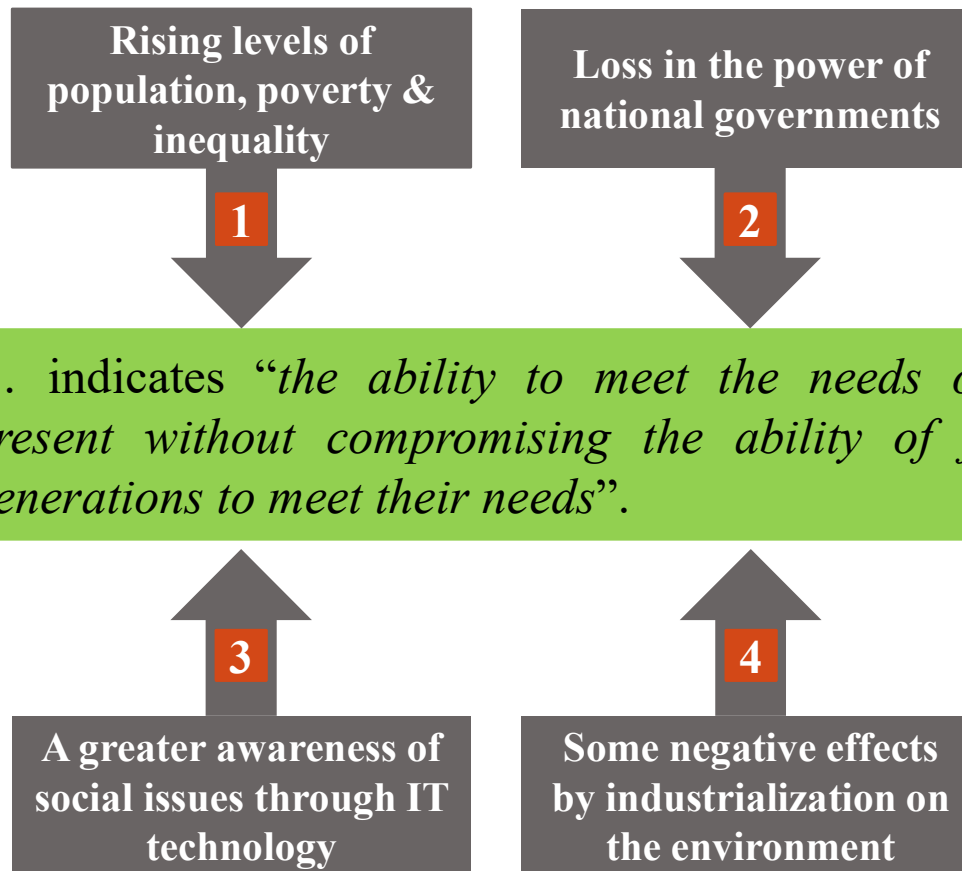
■ The Definition of Corporate Social Responsibility

- ❖ The drivers underpinning sustainability are **complex & multidimensional**.



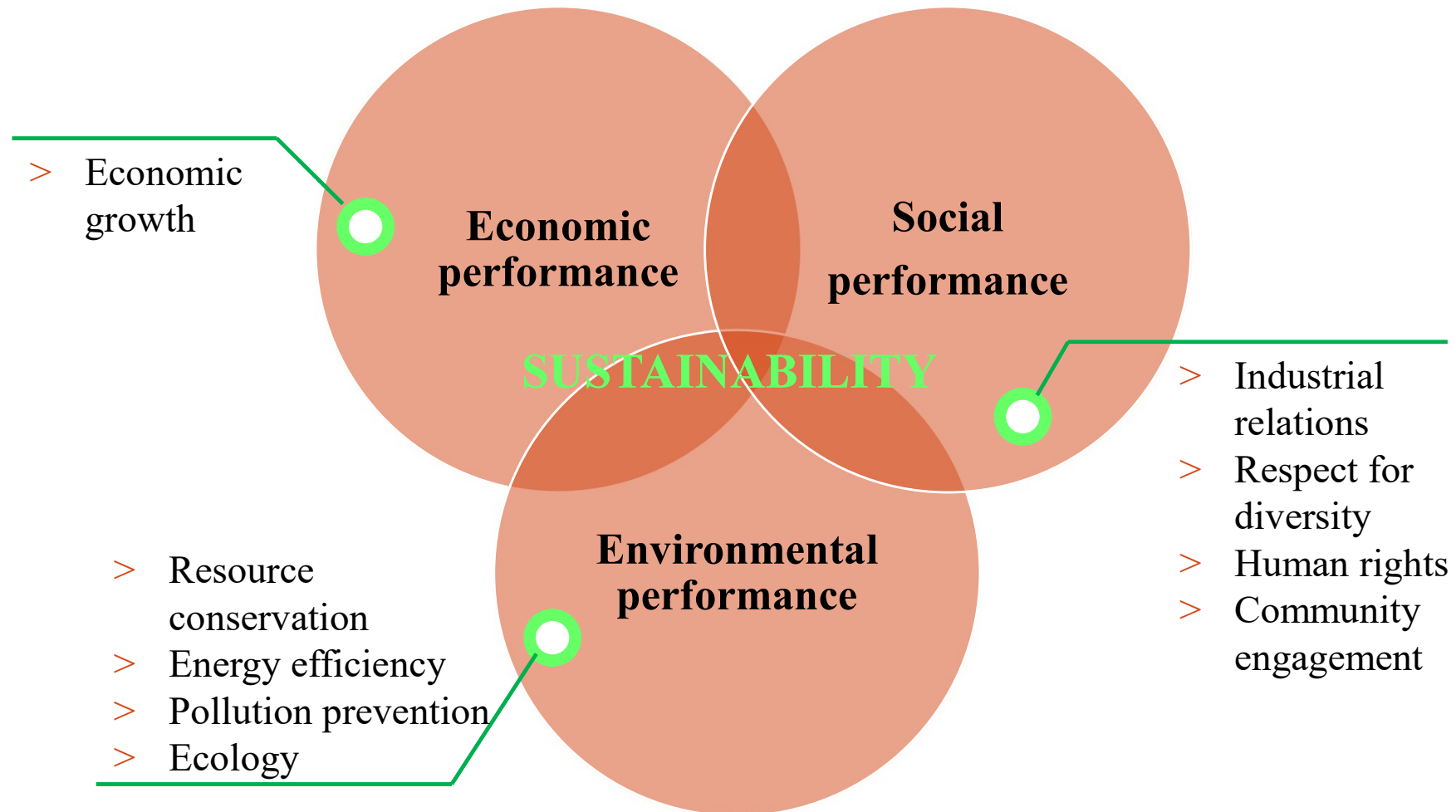
- ❖ Firms respond by developing **triple bottom line** strategies.

➔ (1) **Economic**, (2) **social** & (3) **environmental** performance (**See the next slide**)





■ Triple Bottom Line Strategies





■ UN Global Compact-Accenture CEO Study 2010

93%

of CEOs believe that **sustainability** issues will be critical to the **future success** of their business.

96%

of CEOs believe that **sustainability** issues should be fully integrated into the **strategy & operations** of a company.

91%

of CEOs report that their company will employ **new technologies** (e.g., energy efficiency, renewable energy) over the next 5 years.

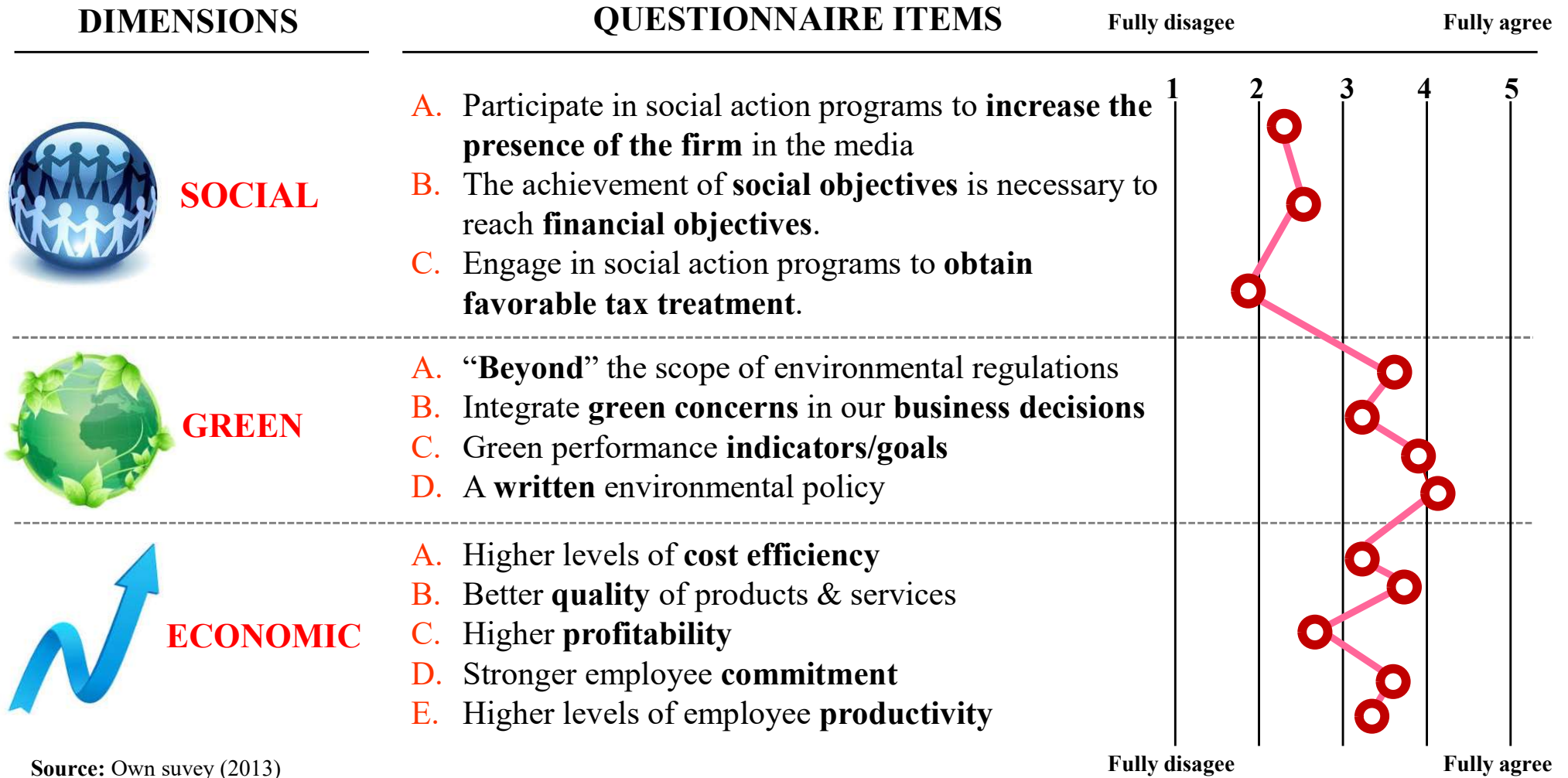
58%

of CEOs identify **consumers** as **the most important stakeholder group** that will impact the way they manage societal expectations.

Introduction



■ Responsible Investment: Survey Results (2013; N=18)



Source: Own survey (2013)



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A Framework for CSR



■ Key Characteristics of a CSR Framework

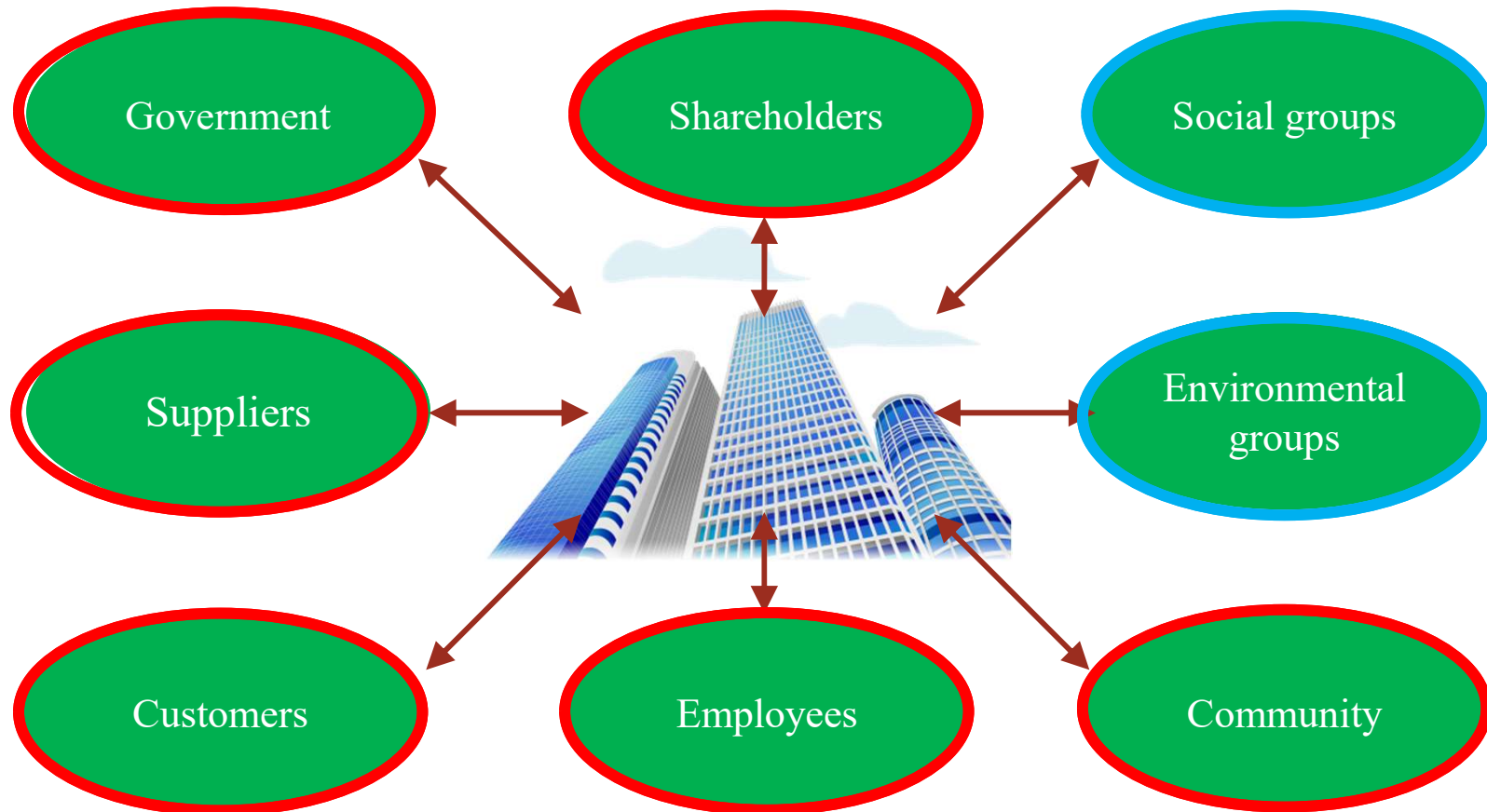


Source: Combe (2014: 471).

Stakeholders of the Firm



■ Firms & Stakeholders

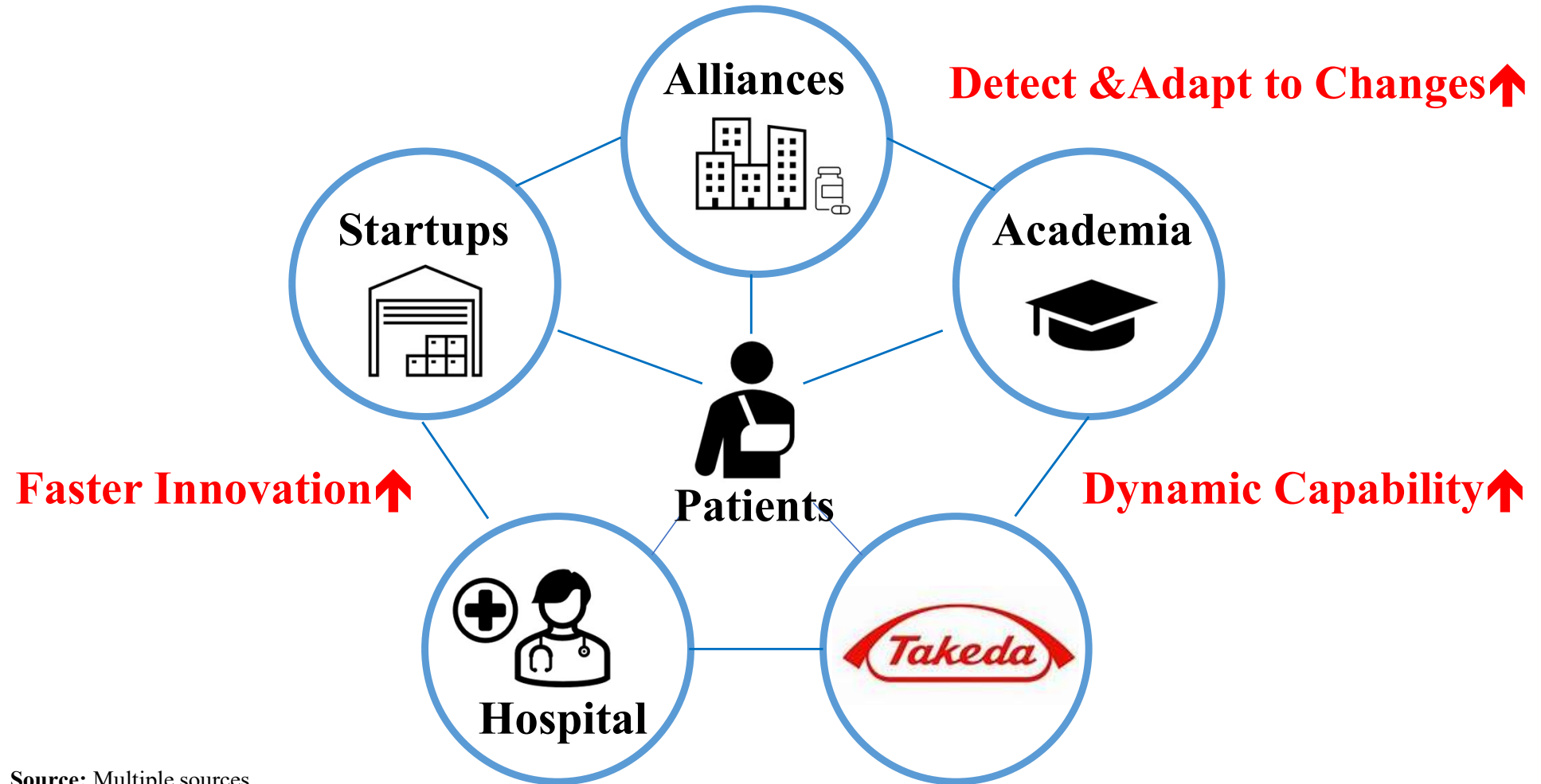


Source: Peng & Meyer (2011)

Stakeholders of the Firm



■ Example: Takeda (Japanese Pharmaceutical Company)



Source: Multiple sources.

Stakeholders of the Firm



■ '2' Perspectives on Why Stakeholders Matter

1



- > ... suggests that treating stakeholders well may indirectly help **the financial performance of the firm.**
 - Good environmental practice may **reduce wastage.**
 - Well-treated employees are more **productive.**
 - A reputation for social responsibility may **strengthen a brand & thus attract more customers.**
 - CSR is an important means to **recruit the best graduates.**

2



- > ... suggests that firms ought to be self-motivated to '*do it right*' because they have **social obligations.**
- > CSR serves as part of **moral philosophy** asset a moral duty for firms that goes beyond respecting the law & generating profits.
- > A firm's motivation to engage in CSR activities is **independent of a direct link to financial performance.**

Stakeholders of the Firm



■ Stakeholders by Economy in Descending Order of Saliience

Germany		Hong Kong		Japan		Korea		US	
Shareholders	88%	Shareholders	60%	Society	88%	Employees	80%	Shareholders	93%
Employees	82%	Society	50%	Employees	82%	Shareholders	73%	Society	71%
Society	71%	Employees	50%	Shareholders	76%	Society	67%	Employees	71%
Customers	41%	Customers	30%	Customers	59%	Stakeholders	7%	Customers	57%
Stakeholders	29%	Stakeholders	10%	Stakeholders	47%	Customers	7%	Stakeholders	21%
Suppliers	24%			Suppliers	18%			Creditors	7%
				Creditors	6%				
				Distributors	6%				
	≥2.00		1.75-1.99		1.25-1.74		1.00-1.24		<1.00

Source: Witt, M.A. & Stahl, G. K. (2016). “Foundations of Responsible Leadership: Asian Versus Western Executive Responsibility Orientations Toward Key Stakeholders” *Journal of Business Ethics*, 136: 623-638.

Stakeholders of the Firm



■ Stakeholder Conflicts

Food production

It uses a lot of environmental resources. Cattle eat a lot of grains & soya. Cattle emit a gas contributing to **global warming**. With rising income, people in emerging economies are consuming the meat content.



Daimler's case in Germany

- ❖ Job creation in emerging economies at the **expense of domestic employees & communities**.



Child labor

- ❖ Western-based NGOs expect firms not to employ **child labor**. But many of them depend on their income.



Production of garments

- ❖ Many consumers chase **low prices**: They cannot afford to buy at higher social standards? Or they do not care about the conditions under which the products are made?





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■ Global Trends

- ❖ Due to the **wave of globalization**, a number of **corporate scandals**, & need for sustainable development over the last two decades, there have been many discussions on the **significance of CSR**.
- ❖ **CSR boom in the 1970s in the USA:** The meaning of society & politics was reconsidered & large corporations were subject to criticism.
- ❖ At present, CSR has been discussed actively in not only **advanced economies** but also **emerging/developing economies**.
- ❖ Particularly, CSR is **one of the key topics** addressed by **corporations**.



■ Environment: Arbitraging or Raising Standards?

❖ Biggest Polluters?

- MNCs may have an incentive to **arbitrage on differences in environmental costs** due to heavier environmental regulation in developed countries.
- MNCs would **shift** pollution-incentive production to **‘pollution havens’** in developing countries.

❖ Improving the Environment in LDCs? (4 Reasons)

- 1) MNCs are likely to adopt **higher CSR standards** than local firms.
- 2) MNCs may gain **scale advantages** from implementing common standards across operations in different countries.
- 3) MNCs exposed to higher environmental regulations may become **early movers into new technologies**.
- 4) Higher standards **reduce risk of catastrophic events** (a high-profile media report detecting pollution the firm was not aware of).



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■ Institutional Differences

❖ Debates & practices of CSR vary across countries !

1



- > LMEs like the USA & the UK, firms are considered an economic enterprise that exists to serve the **shareholders' interest**.
- > The social responsibility of business is **to increase its profits**.
- > A strong belief in the efficiency of the market mechanism comes from strong support for **the instrumental view of CSR**.
- > **Explicit CSR:** Voluntary corporate policies & strategies.
- > **Philanthropy:** Donations for purposes that benefit the society.

2



- > Interest groups, political parties & the media often implicitly adopt a **normative view** when discussing CSR.
- > Firms engage in implicit CSR that is participation in the wider formal & informal institutions for the **society's interests & concerns**.
- > Firms pursuing implicit CSR would **not be inclined to claim special credit for doing so**.



■ Institutions & CSR Strategies

Reactive strategy

- > Deny responsibility, **do less than required.**
- > **EXAMPLE:** Ford Pinto fire (1970s)

Defensive strategy

- > Admit responsibility but fight it, **do the least** that is required (CSR as an added cost & a nuisance)
- > **EXAMPLE:** Nike (Early 1990s)

Accommodative Strategy

- > Accept responsibility, **do all that is required.**
- > **EXAMPLE:** Ford Explorer roll-overs accident (2000s)

Proactive strategy

- > Anticipate responsibility, **do more than is required.**
- > CSR as a source of differentiation & branding.
- > **EXAMPLE:** BMW (1990s)

Source: Peng & Meyer (2011)



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■ New Trends in the Market

❖ Socially Responsible Investment (SRI)

- Incorporation of a non-financial element (CSR performance) in the selection criteria for stocks for investment.

❖ Green Consumers (Ethical Consumers)

- Consumers who green-shop products that fulfill social responsibilities & environmental sustainability.

❖ Green Procurement

- In the supply chain, the company that orders parts & components requests the contractor for CSR procurement.

❖ In line with the growing global trends toward sustainability, rules, norms, & customs in the market tend to change incrementally.



■ How to Evaluate Corporate Value?

❖ Increasing Trends to Evaluate Corporate Value Based on Both Economic Impacts & Responsible Actions

- Development of environmentally friendly products.
- Energy efficiency improvement.
- Energy saving.
- Reduction of greenhouse gas.
- Diversity & fairness of personnel.
- Transparency of corporate governance.



■ How to Foster Green Consumers?

❖ Development of Consumer Literacy/Consumer Education

- How are products made?
- How are wastes disposed?
- How are the money you deposited used?
- How are environmental policies & supply chain management carried out?

❖ What Can Corporations Do?

- Corporations can design, develop, & launch new products/services characterized by eco-efficiency, consequently enhancing consumer awareness toward the environment (*e.g.*, environmental labelling, use of biomass materials, use of timbers certified by the Forest Stewardship Council).



■ '4' Schools of Thought for CSR

1 Moral Obligation

- > **Honesty** in filing financial statements & operating within the law
- > Absolute **mandates**
- > Balancing competing **values, interests & costs**



- > ... far more pragmatic.
- > ... fosters constructive, **dialogue** with regulators, the local citizenry & activists.
- > **No strategic benefit** for the business



3 The Licence-to- Operate Approach

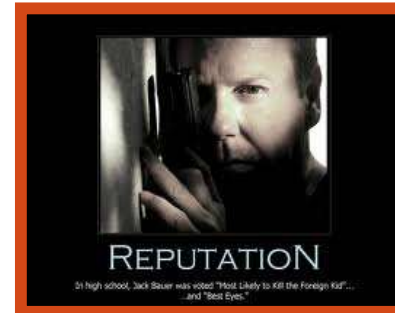
Source: Porter & Kramer (2006).

Sustainability 2

- > Companies should operate in ways that secure **long-term** economic performance.
- > **Transparency**
- > **Philanthropy**



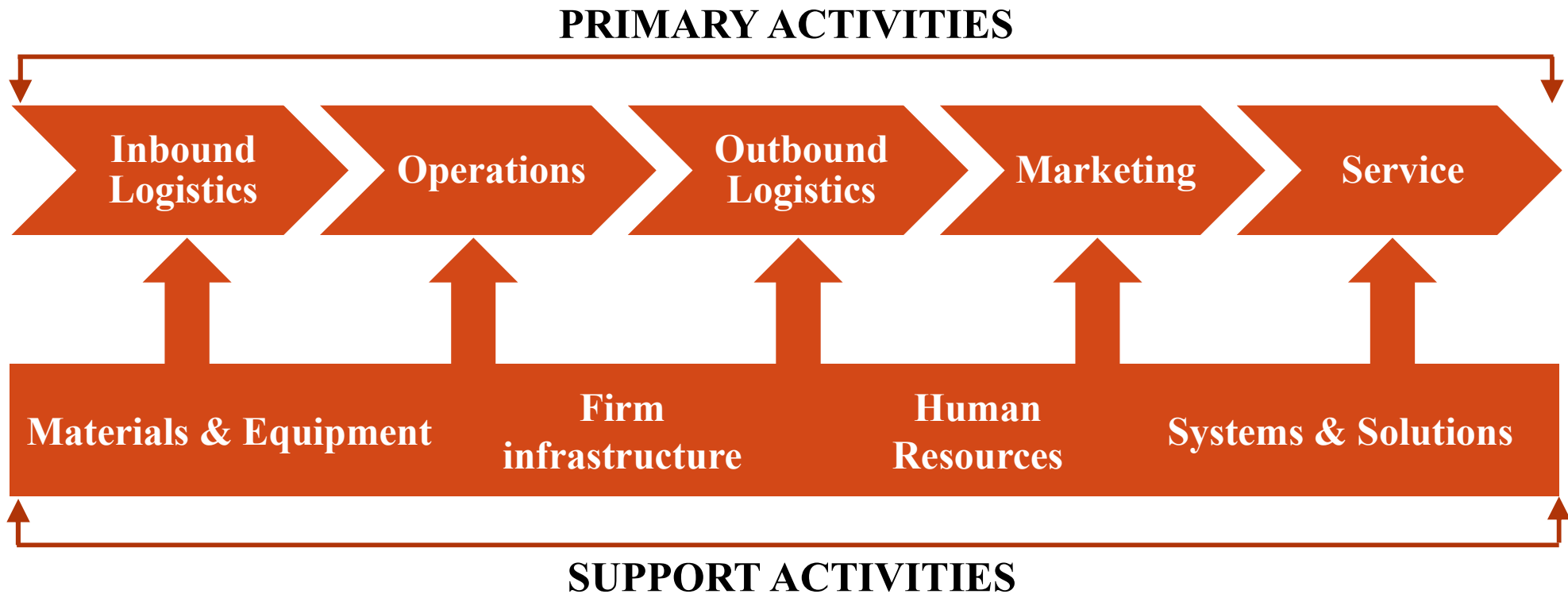
- > ... focus on satisfying external audiences.
- > Social responsibility initiatives as **a form of insurance**
- > The Body Shop, Ben & Jerry's, Patagonia



Reputation 4



■ Looking Inside Out: Mapping the Social Impact of the VC



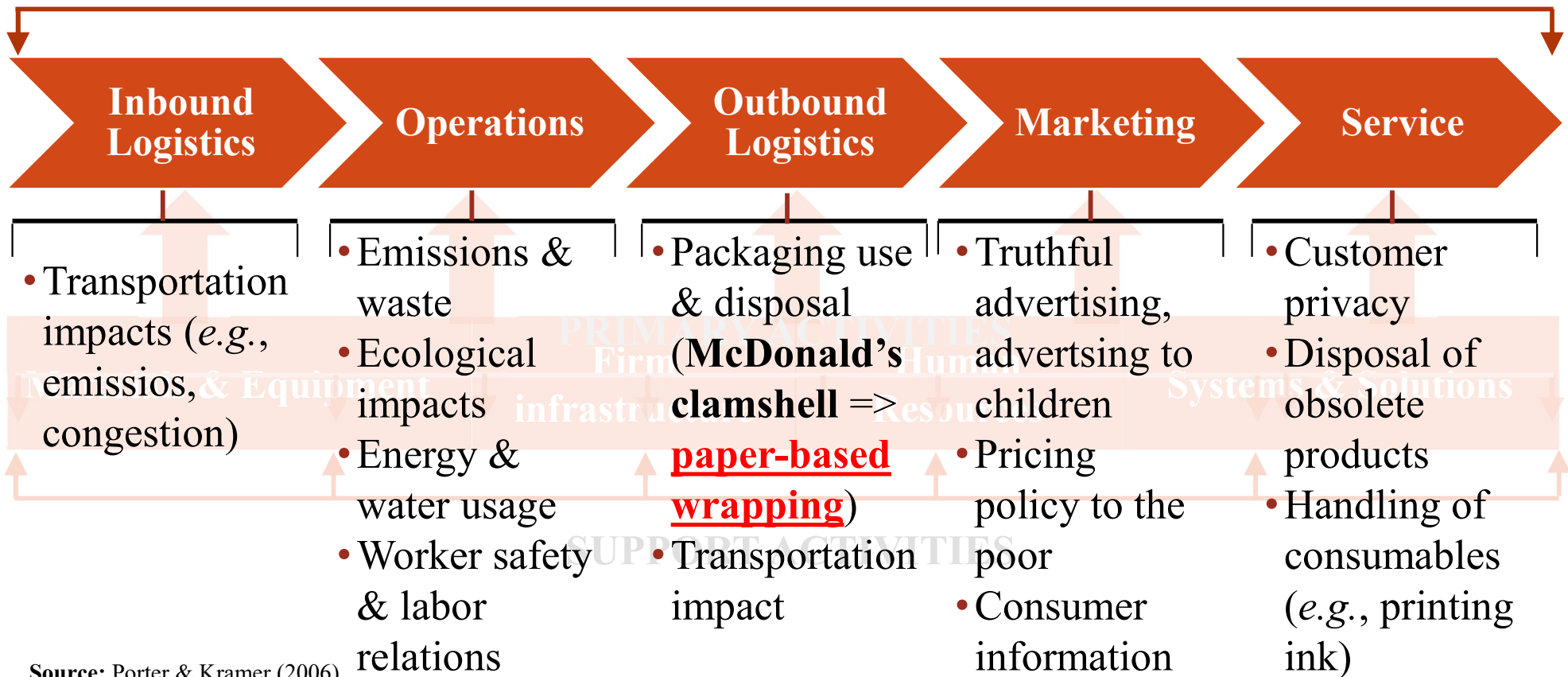
> *The firm can design a CSR strategy that maximises social benefit & economic gains.*

Source: Porter & Kramer (2006).



■ Looking Inside Out: Mapping the Social Impact of the VC

PRIMARY ACTIVITIES





■ Looking Inside Out: Mapping the Social Impact of the VC

- | | | | |
|--|--|---|--|
| <ul style="list-style-type: none"> • Procurement & supply chain practices (e.g., bribery, child labor, pricing to farmers) • Uses of particular inputs (e.g., animal fur) • Utilization of natural resources | <ul style="list-style-type: none"> • Financial reporting • Government practices • Transparency • Use of lobbying | <ul style="list-style-type: none"> • Education & job training • Safe working conditions • Diveristy & discrimination • Health care • Layoff policies | <ul style="list-style-type: none"> • Ties with universities • Ethical research (e.g., animal testing) • Product safety • Conservation of raw materials • Recycling |
|--|--|---|--|

Materials & Equipment

Firm infrastructure

Human Resources

Systems & Solutions

SUPPORT ACTIVITIES

> *The VC framework can help identify the social impact of primary & support activities.*

Source: Porter & Kramer (2006).



■ Rapid Institutionalization of CSR in Japan

❖ Institutionalization of compliance is advanced (**See next page**).

❖ WHY?

- Various scandals have occurred since the 1990s & have been severely criticized by society.
- In the middle of 2000, scandals of financial institutions increased (e.g., inappropriate accounting processing, insider trading, false statements, & inadequate business management system etc.).

❖ Various Firm-Level Measures

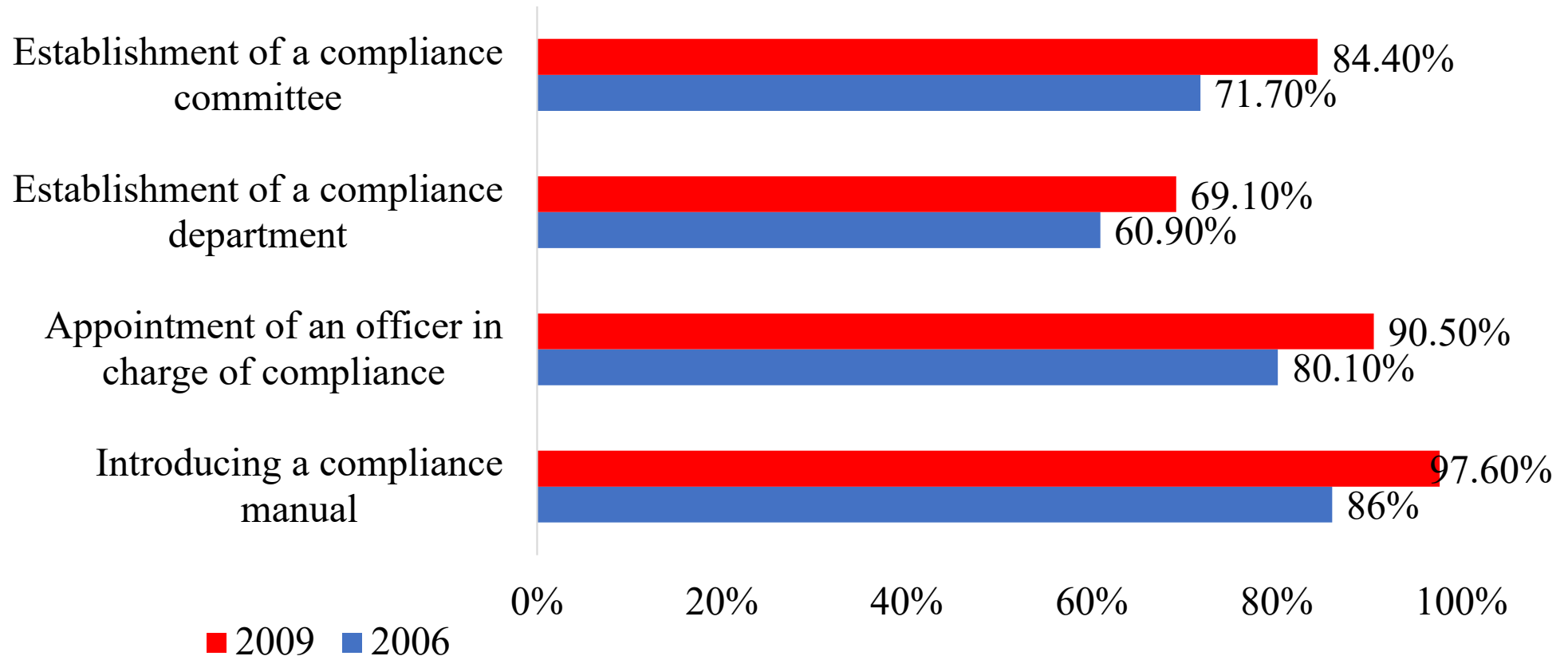
- Creating a compliance manual.
- Establishment of departments in charge of CSR & ethical behaviors.

❖ Various Responses at the Administrative Level

- Whistleblower protection system.



■ Institutionalization of Compliance Policy in Japan



Source: Tanimoto (2013: 153); Original Source: Fair Trade Commission.



■ Why Did the Institutionalization of CSR Spread Rapidly?

- ❖ In the Japanese market, companies gain **legitimacy by issuing CSR policies.**
- ❖ New institutionalism in **organizational theory** (DiMaggio & Powell, 1983)
- ❖ **Institutional isomorphism**
 - **Coercive isomorphism**
 - **Imitative isomorphism**
 - **Normative isomorphism**





■ Institutionalization of CSR Policies in Japan



Source: Tanimoto (2013: 152); Original Source: Toyo Keizai Shinposha



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■ Competitive Green Products by Japanese MNCs

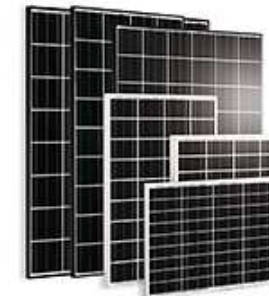
❖ Toyota (JPN)

- Prius, the **hybrid** electric/gasoline vehicle.



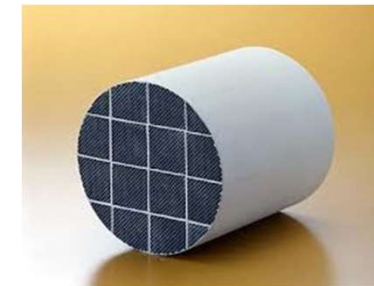
❖ Kyocera Solar (JPN)

- **Solar** modules.



❖ IBINEN Co. Ltd. (JPN)

- **Diesel Particulate Filter** (DPF):
- CO2 Emission Control at the EU level.
 - EURO 4 (2005) / EURO 5 (2009) / **EURO 6 (2014)**.





■ Consequences: A Benefit Rather Than A Cost (+)

❖ Strategic Management Scholars' Point of View

– Green innovation strengthens corporate competitive advantage (CCA) in the form of:

- ✓ **Corporate reputation** (Orlitzky et al., 2003).
- ✓ **A signaling effect** of a firm's **product & service quality** (Fisman et al., 2008).
- ✓ A **barrier** to potential competitors (Chen et al., 2006).
- ✓ **Reshaping** market boundaries (Porter & van der Linde, 1995).
- ✓ An advantageous position to attract **competent human capital** (Greening & Turban, 2000).
- ✓ High **employee commitment** (Dögl & Holtbrügge, 2013).
- ✓ Increased **social legitimacy** (Husted, 2000).

► Positive effects

Negative effects

FIRMS CAN DIFFERENTIATE THEMSELVES FROM RIVALS !



■ Consequences: A Cost Rather Than A Benefit (–)

❖ Neo-Classical Economists' Point of View (Friedman, 1962)

– Green innovation damages corporate competitive advantage (CCA) in the form of:

- ✓ **Increased costs** attributable to **regulatory compliance, coordination & monitoring** (Henriques & Sadorsky, 1996).
- ✓ Purchase of **new equipment** & acquisition of **human capital** (McWilliams & Siegel, 2001).
- ✓ **Agency problems** that arise from managers' intention to fulfill self-interests (Wright & Ferris, 1997).
- ✓ **Scarifying the potential opportunity** for firms to capitalize on valuable resources for their economic incentives (Henriques & Sadorsky, 1996).

Positive effects

▶ Negative effects

GREEN INNOVATION OFFSETS OVERALL COMPETITIVENESS.



■ Regressions of Corporate Valuation in Year $t+1$ on Corporate Social Responsibility (CSR) Score

	Tobin's Q_{t+1}	Tobin's Q_{t+1}	MTBV $_{t+1}$	MTBV $_{t+1}$
Corporate social responsibility score	0.479*** (2.60)	0.655*** (3.08)	0.492*** (2.73)	0.650*** (3.05)
Size		-0.155*** (-4.00)		-0.141** (-3.61)
Debt-equity ratio		0.023 (1.14)		0.026 (1.25)
Return on equity		0.329 (1.03)		0.350 (1.09)
Current asset ratio		1.339*** (3.93)		0.584* (1.70)
Sale growth rate		0.162** (2.46)		0.164** (2.52)
Intercept	0.950*** (4.69)	2.428*** (3.94)	0.787*** (3.96)	2.264*** (3.63)
Adj. R^2	0.327	0.330	0.313	0.297
Mean VIF	2.30	2.31	2.29	2.31
Obs	958	761	953	759

❖ CSR score is positive & significantly related to firm valuation (Tobin's Q & Market-to-book ratio) of the subsequent year.

Source: Cheung, Y. L. (2010). "Does Corporate Social Responsibility Matter in Asian Emerging Markets?", *Journal of Business Ethics*, 92: 401-413.



■ The Subject of CSR is Full of Debates !



> Is CSR good for financial performance?

- ❖ No clear results of a link between CSR & performance.
 - A reputation takes a long time to build.
 - Wal-mart or Aldi competing in very price-sensitive markets unlikely benefit from proactive CSR strategy.



> Is CSR good for society?

- ❖ Some critics view CSR activity as mere ‘window dressing’.
- ❖ An instrumental view *versus* a normative view.
- ❖ Children lost jobs as a result of anti-child labor campaigns)
- ❖ Wal-Mart’s recent drive to increase environmental standards.



> Local norms *versus* hypernorms

- ❖ Shell in Nigeria.
- ❖ Respect local norms & political sovereignty?
- ❖ The apartheid era in South Africa: BP ignored local rules that required racial segregation of the workforce.



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■ What Should Managers Care About?



- > **Understand the institutions affecting CSR !**
 - ❖ Anticipate the informal pressures emanating from a variety of social groups that influence:
 - Consumer behaviour.
 - Political processes.



- > **CSR publicity should match CSR capabilities !**
 - ❖ Align CSR practices with a firm's existing resources, capabilities, & complementary assets.
 - ❖ Failed standards & unachieved goals invite attacks from NGOs.



- > **Integrate CSR into the core activities of a firm !**
 - ❖ Treat NGOs **NOT** as threats, a nuisance, costs & liability.
 - ❖ **Adidas** have its sourcing strategy certified by NGOs.
 - ❖ **Dow Chemical** has established community advisory panels in most of its locations worldwide.

The End of Today's Lecture



ご清聴有難う御座いました。

Merci beaucoup!

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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