

Corporate Social Responsibility I

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Special Topics in Internationalization

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■ '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

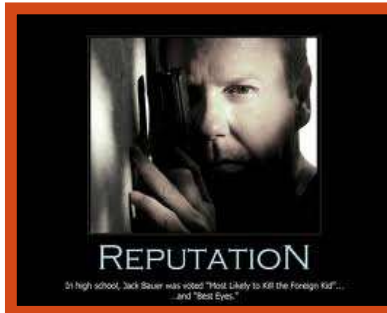
Source: Porter & Kramer (2006).

Sustainability 2

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



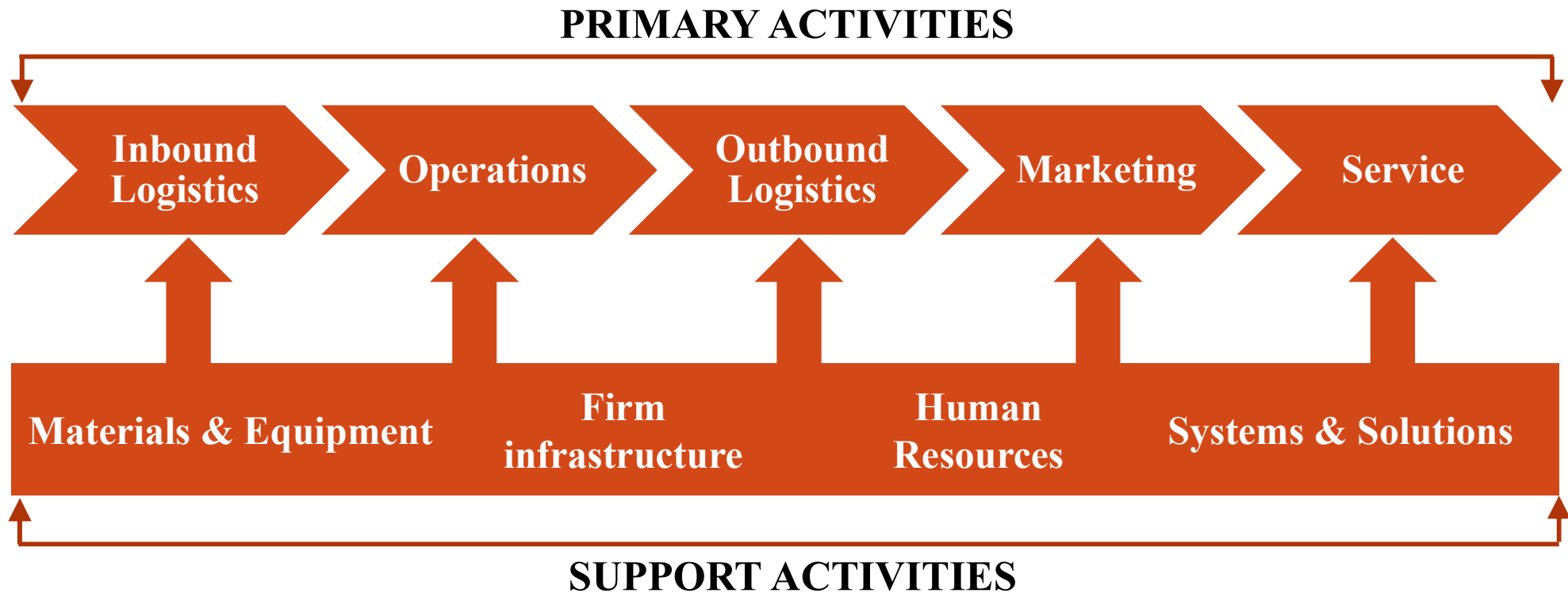
- > ... focus on **satisfying external audiences**.
- > Social responsibility initiatives as **a form of insurance**.
- > The Body Shop, Ben & Jerry's, Patagonia.



Reputation 4



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



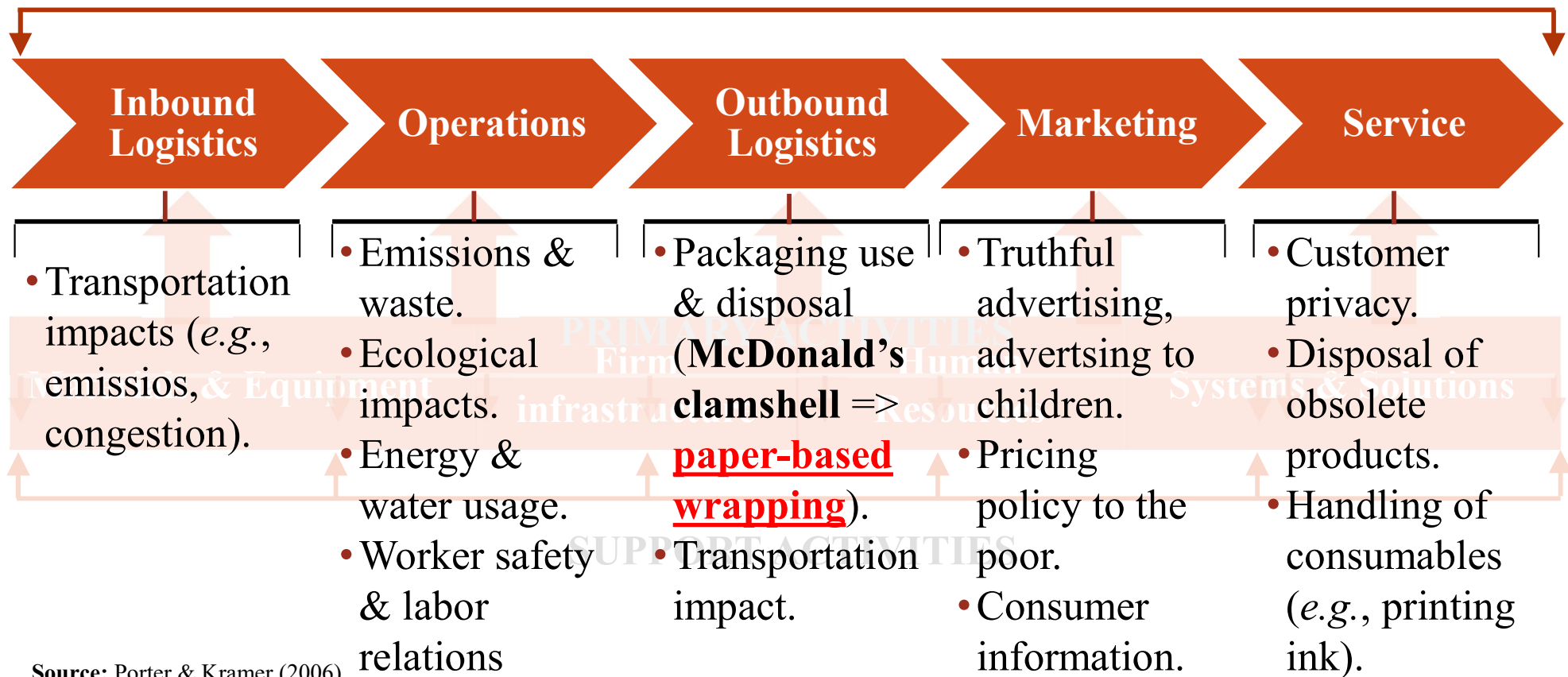
> *The firm can design a CSR strategy that maximises social benefit & economic gains.*

Source: Porter & Kramer (2006).



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

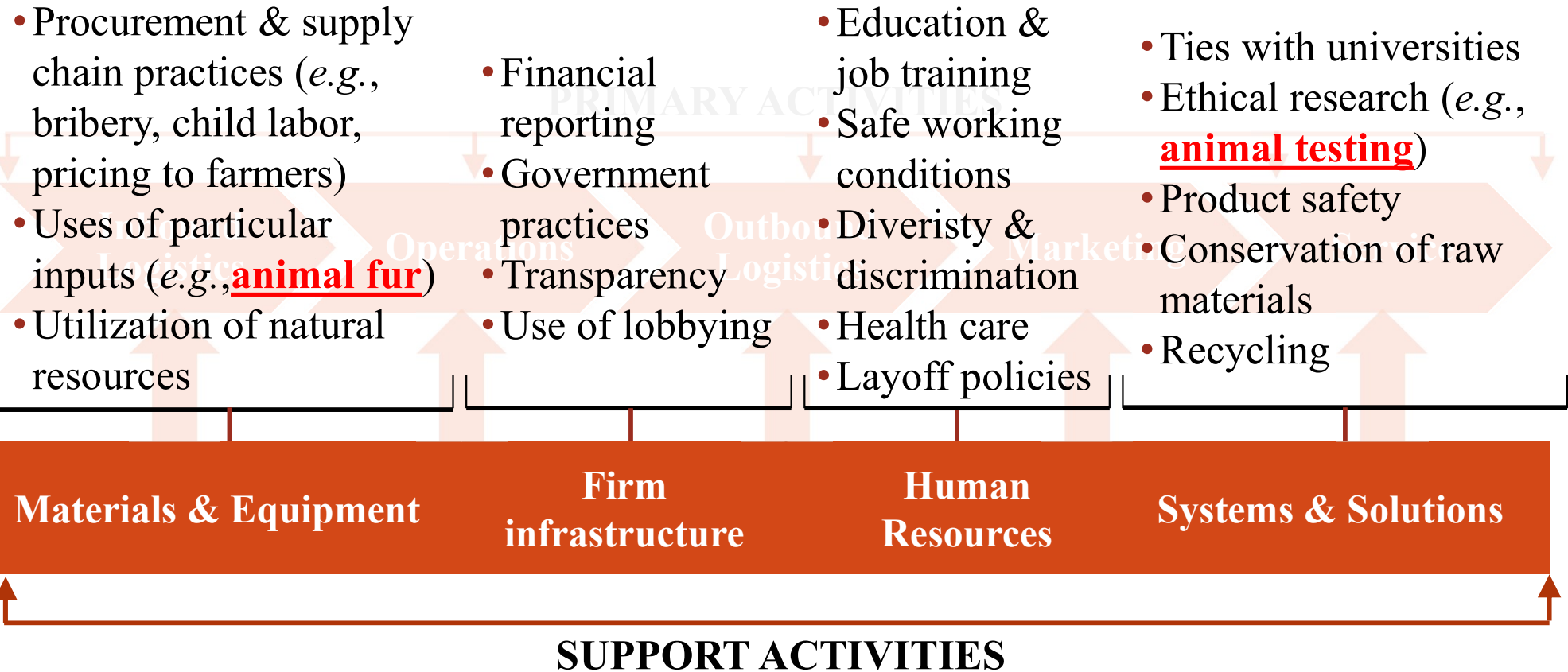
PRIMARY ACTIVITIES



Source: Porter & Kramer (2006).



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



> *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

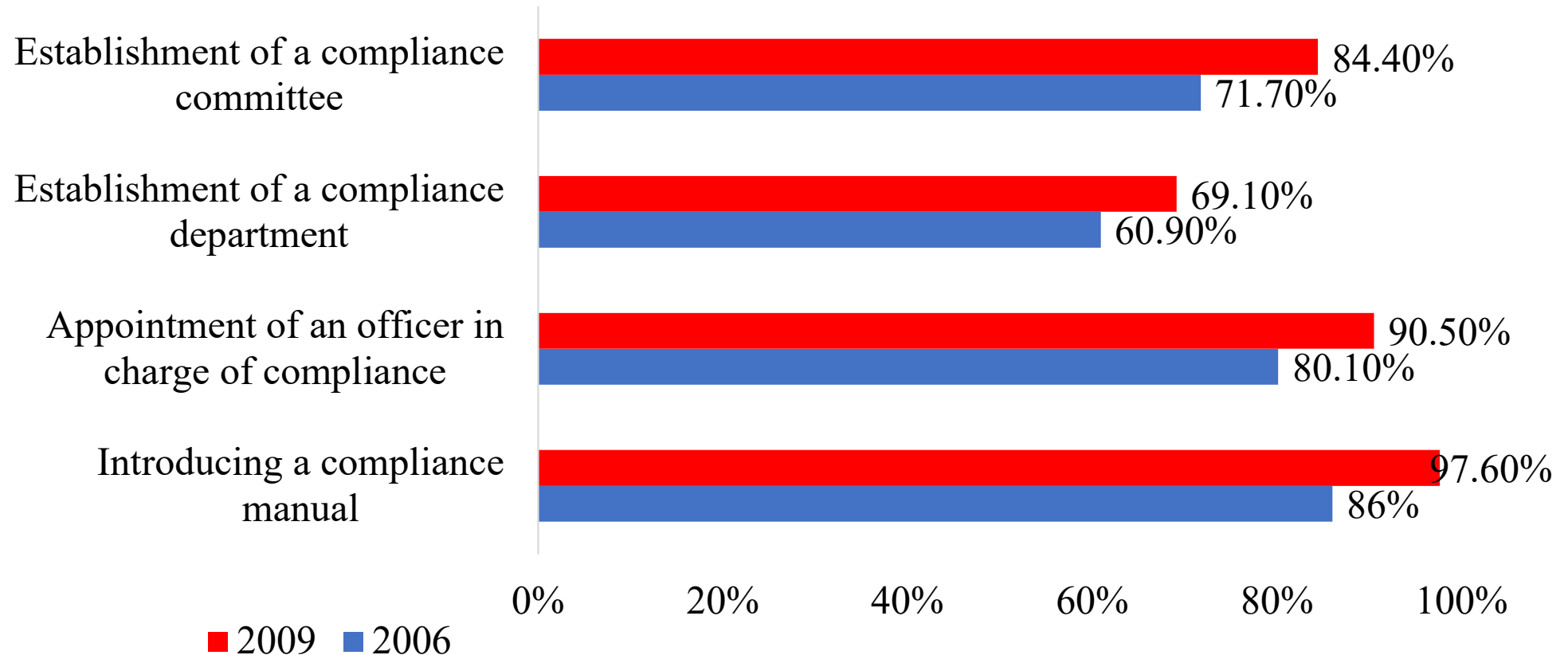
- Creating a compliance manual.
- Departments in charge of CSR & ethical behaviors.

❖ 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.



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



■ Competitive Green Products by Japanese MNCs

❖ Toyota (JPN)

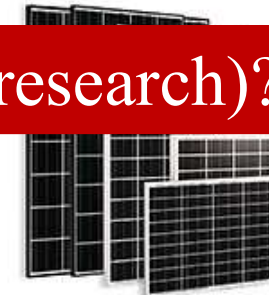
- Prius, the **hybrid** electric/gasoline vehicle.



❖ Kyocera Solar (JPN)

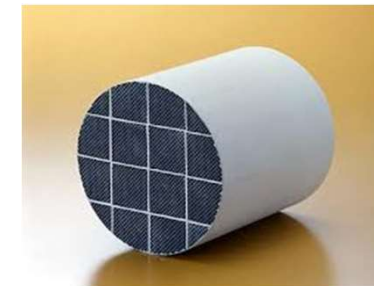
Any CSR examples (based on your own research)?

- **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).

FIRMS CAN DIFFERENTIATE THEMSELVES FROM RIVALS !

► Positive effects

Negative effects



■ 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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- ▶ 7. **Implications for Practice**



■ 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.

Our groundbreaking case against Shell's Board of Directors comes to an end | ClientEarth



- ❖ **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.

Kawai et al. (2018).

“Stakeholder Pressures, EMS Implementation, & Green Innovation in MNC Overseas Subsidiaries”, *International Business Review*.

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■ Kawai et al. (2018)

❖ *After understanding how Japanese MNC subsidiaries are positively influenced by both global stakeholder pressures & market stakeholder pressures in adopting EMS to expand the barriers for green innovation, what could be the role of emerging markets in shaping global green innovations, given that their regulatory frameworks are weaker?*
(LUDOVICO ROVEA)



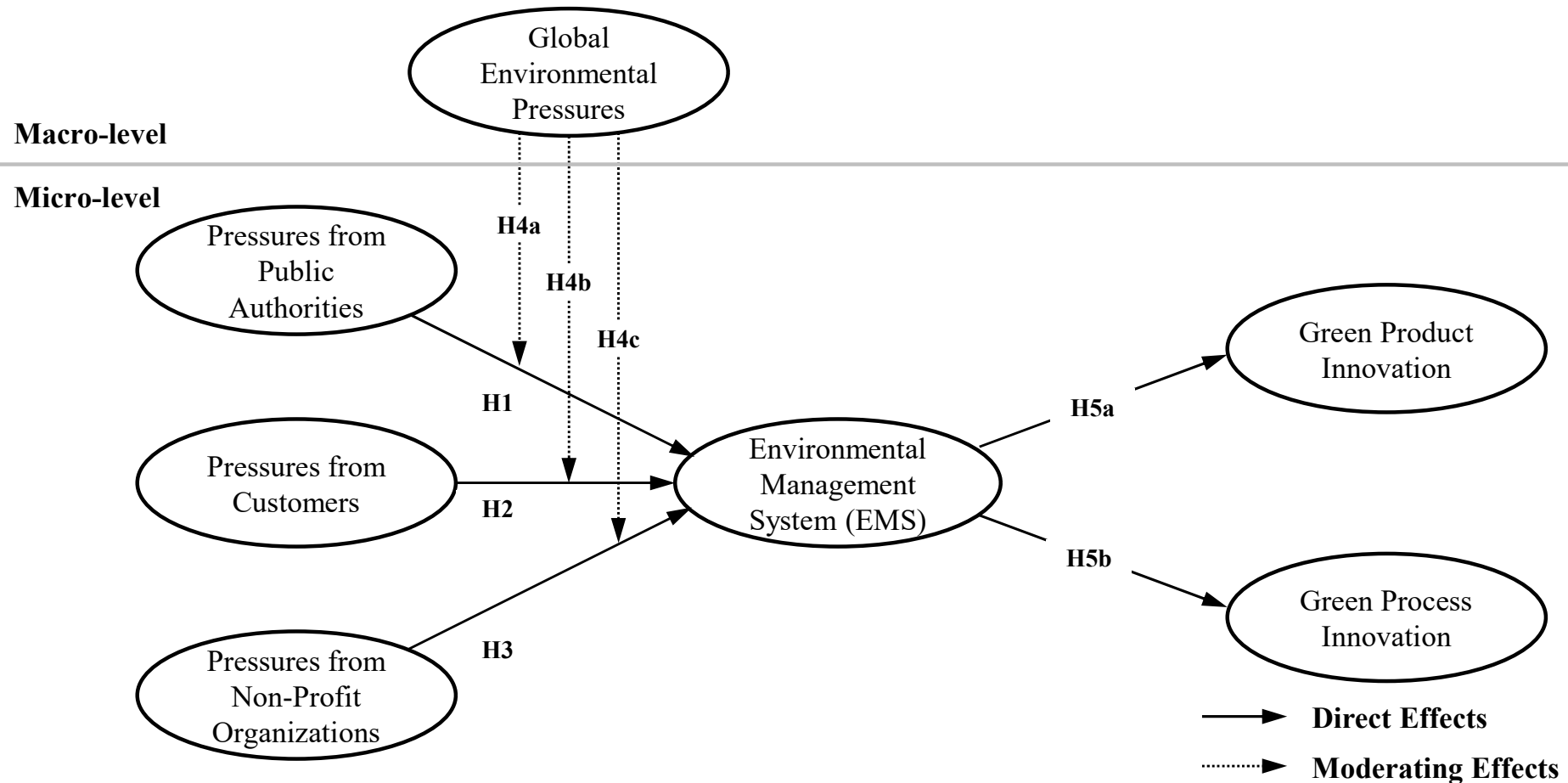
■ Why Research on MNC Subsidiary Green Innovation?



Theoretical Background & Hypotheses



■ Proposed Conceptual Model

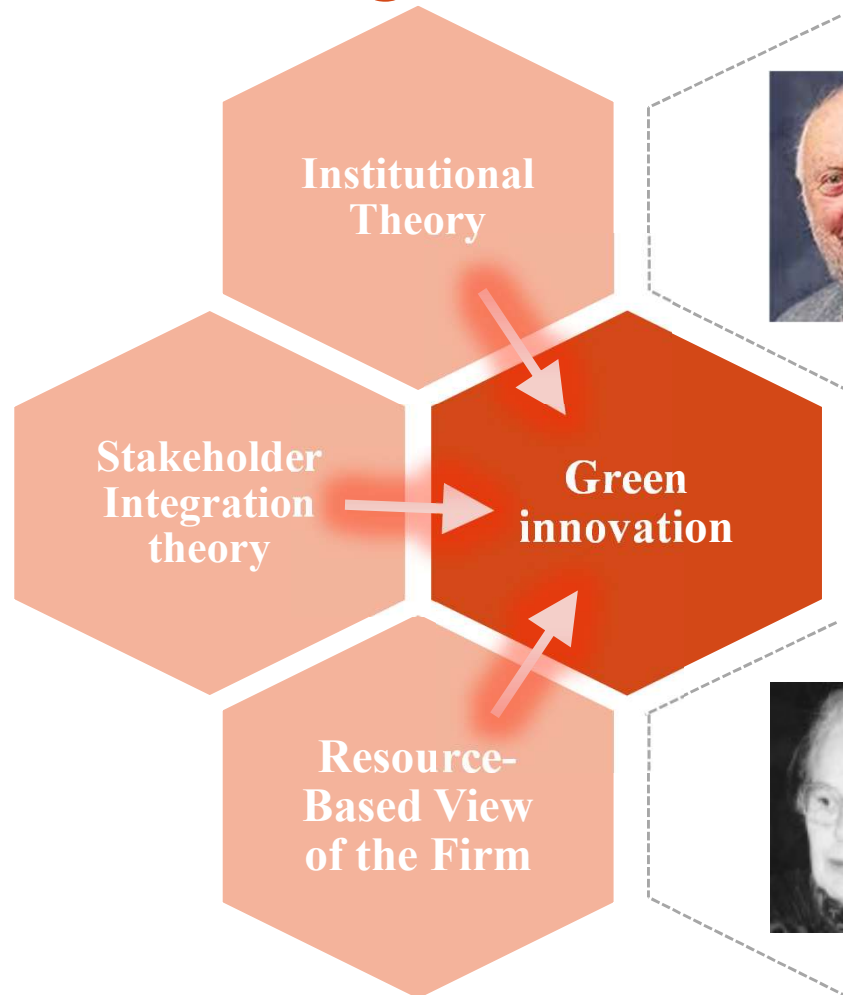


Source: Own illustration.

Theoretical Background & Hypotheses



■ An Integrated View of '3' Theoretical Perspectives



Formal rules (*laws, property rights*) & **informal restraints** (*sanctions, customs, traditions, code of conduct*)

Prof. Douglas North (Washington Univeristy)

*A theory of strategic management & business ethics that addresses **morals** & **values** in managing an organization.*

Prof. Edward Freeman (Uni. Virginia)



*Different **internal resources** shape a firm's own capabilities that become **competitive advantages**.* Edith Penrose (*"Theory of the Growth of the Firm"*, 1959)

Theoretical Background & Hypotheses



■ Antecedents: Pressures from Public Authorities (+)

▶ Pressures from Public Authorities

1 Restrictive environmental rules **safeguard** companies with specific **green technologies** from being exploited or misused by their competitors (Porter & Kramier, 2006).

Pressures from Customers

2 **Regulators** have the power to **reward firms** with environmental awareness by **stimulating demand** through consumption of environmentally friendly products (McWilliams & Siegel, 2001).

Pressures from Non-Profit Organizations

3 Firms that ignore the importance of environmental protection may often **pay enormous costs** in the form of **penalties, fines & sanctions** (Fraj-Andrés et al., 2009).

4 **Changing regulatory demands** associated with environmental sustainability would prompt managers to constantly cultivate **new resources & innovative strategies** more timely (Sharma et al., 2007).

Theoretical Background & Hypotheses



■ Antecedents: Pressures from Customers (+)

❖ Why Green Consumers Matter?

Pressures from
Public
Authorities



Customers tend to **reward** a firm's green proactivity by **renewing** their selling **agreements** & **'buy'-coting** non-green products & services (Darnall et al., 2010).

► Pressures from
Customers



Reputational assets are acquired & improved via **close dialogues** with customers so that firms pay attention to market stakeholders' interest, demands, & expectations (Branco & Roderiques, 2006).

Pressures from
Non-Profit
Organizations



Customers may & **penalize polluting firms** through **legal actions** & **put pressures on public authorities** to make strict environmental laws (Menguc et al., 2010).



■ Antecedents: Pressures from Non-Profit Organizations (+)

❖ Direct & Indirect Influence

Pressures from
Public
Authorities

Pressures from
Customers

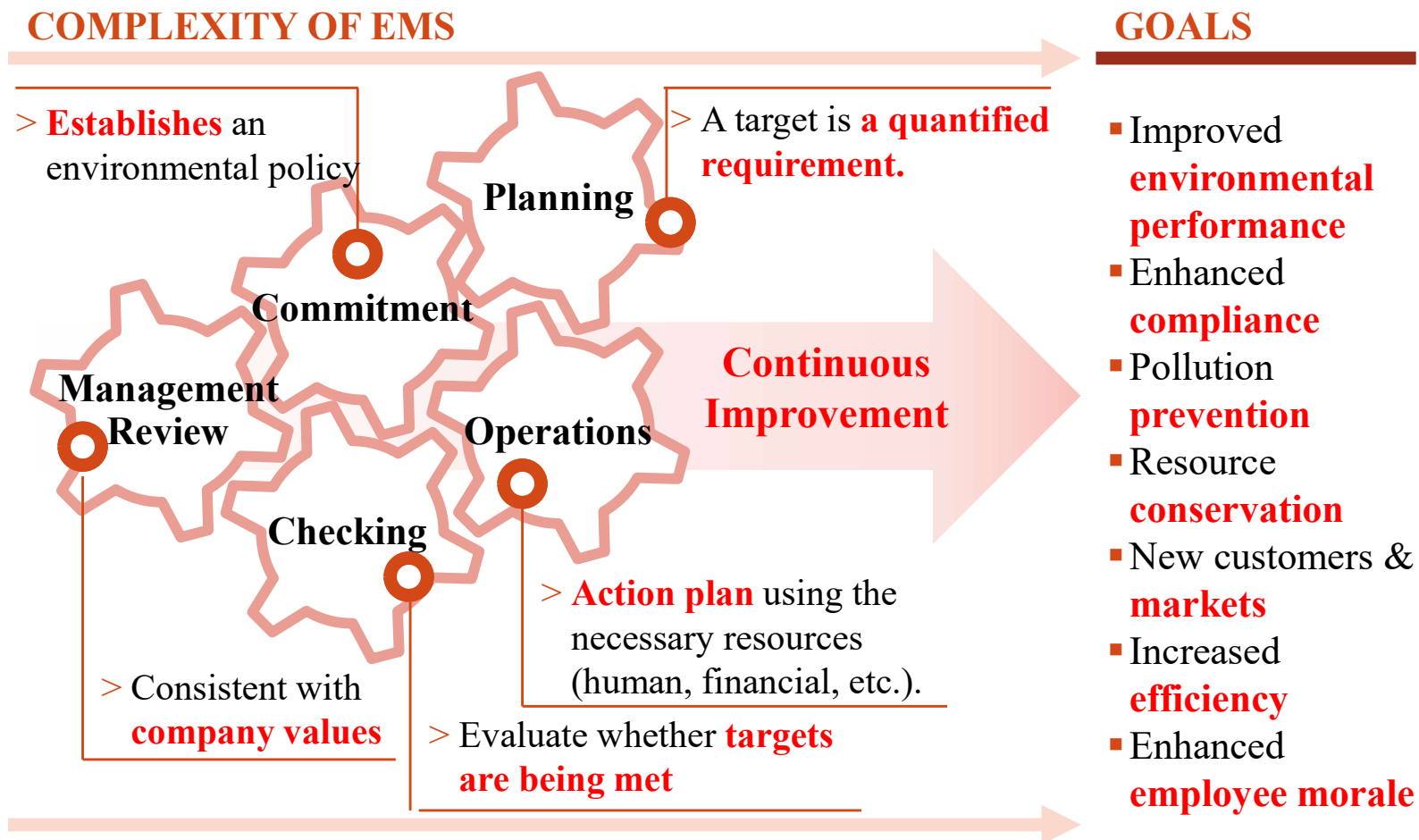
▶ Pressures from
Non-Profit
Organizations

- **Environmental-concerned NGOs** serves as **facilitators** to **shape international environmental standards** (Doh & Guay, 2004).
- **NGOs** affect the **public awareness of environmental issues** through the **dissemination of green information** (Hoffman, 2000).
- **NGOs** may directly **punish** firms with polluting activities by **filing lawsuits** (Henriques & Sadorsky, 1996; Darnall et al, 2008).
- **Social groups** may directly **influence patterns of resource flows** toward firms, particularly when firms' environmental actions are detrimental to public welfare (Kassinis & Vafeas, 2006).
- Firms are required to exercise environmental management policies to **improve their social legitimacy** (Berrone et al., 2013).

Theoretical Background & Hypotheses



■ EMS & Green Innovation





■ Global Environmental Pressures as a Moderator (+)

❖ What Complementary Effects?

- Diffusion of **global green norms** affects a variety of actors in a civil society to follow environmental laws (↑) (Lim & Tsutsui, 2012).
- The emergence of global green visions **legitimizes** the existence of local stakeholders who push public authorities to meet environmental responsibilities through civil movements (Campbell, 2006).
- **A country's participation in international environmental treaties** plays a key role in the **harmonization & coordination** of its environmental rules (Hartmann & Uhlenbruck, 2015).
- The formation of international environmental regimes **empowers** local stakeholders, including public authorities & NGOs (Kawai et al., 2018).
- Theoretical model (Lee, 2011): ☉, Empirical evidence: ✖



■ Sample

- ❖ **Data:** 1,000 North American & European subsidiaries of Japanese manufacturing MNCs/*Toyo Keizai Kaigai Shinshutsu Kigyo Soran*.
- ❖ **Respondents:** Subsidiary Directors/CSR Managers.
- ❖ **Response rate:** **123** → **12.6%** (*e.g.*, Ben Brik et al., 2011: 13%).
- ❖ **Type of data:** Primary data.
- ❖ **Research aim:** Determinants of green innovation.

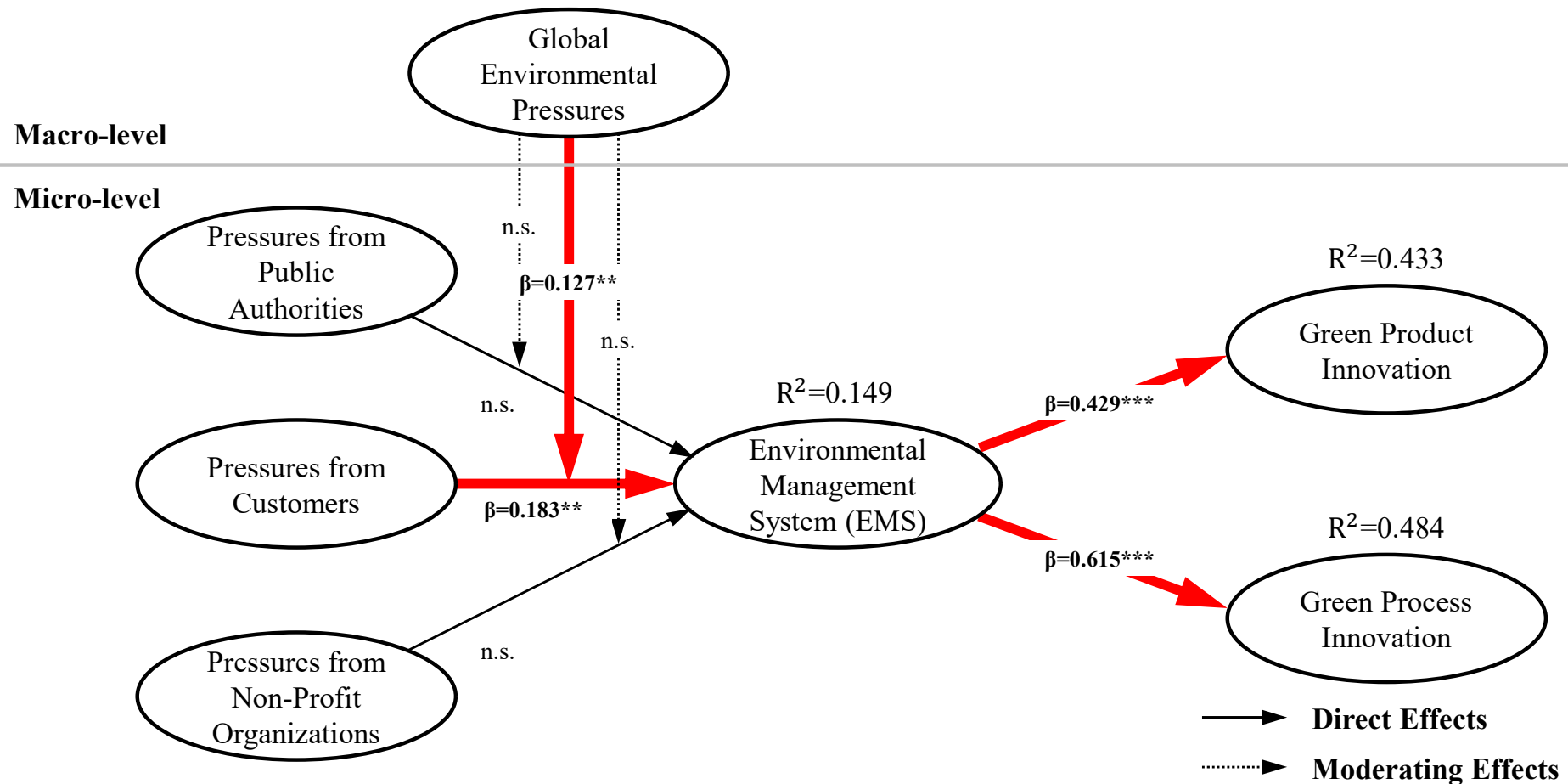
■ Statistical Method

- ❖ Partial Least Square (PLS) Analysis.

Empirical Results



Q: What is the process enabling green innovation in MNC subsidiaries?



Source: Own illustration.



■ Policy Implications



- ❖ MNCs should enhance **social & environmental awareness**, by pushing public organizations to implement **stringent environmental criteria** in host countries (Aguilera-Caracuel et al., 2012) & promote more ecologically-sustainable development (Peng & Lin, 2008).



- ❖ Many host countries should consider **foreign subsidiaries** as a source of the **technical & financial capital** needed to deal with local environmental challenges (Christmann & Taylor, 2002).



- ❖ Policy-makers should establish an environment under which **marginal & resource-deficient stakeholders** are able to **influence powerful foreign subsidiaries**.



■ Limitations

- ❖ Sample size (N=123).
- ❖ Greater than 50% of samples firms are those who are mainly in operation in 4 host countries.
- ❖ Common method variance (CMV).
- ❖ Cross-sectional data => The potential issue of reverse causality.

■ Suggestions for Future Research

- ❖ Objective data (*e.g.*, ISO14001, patents).
- ❖ Multiple respondents per MNC subsidiary.
- ❖ Industry heterogeneity.
- ❖ A longitudinal research design.

Tatoglu et al. (2014).

“Determinants of Voluntary Environmental Management Practices by MNE Subsidiaries”, *Journal of World Business*, 49(4), 536-548.

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■ Tatoglu et al. (2014)

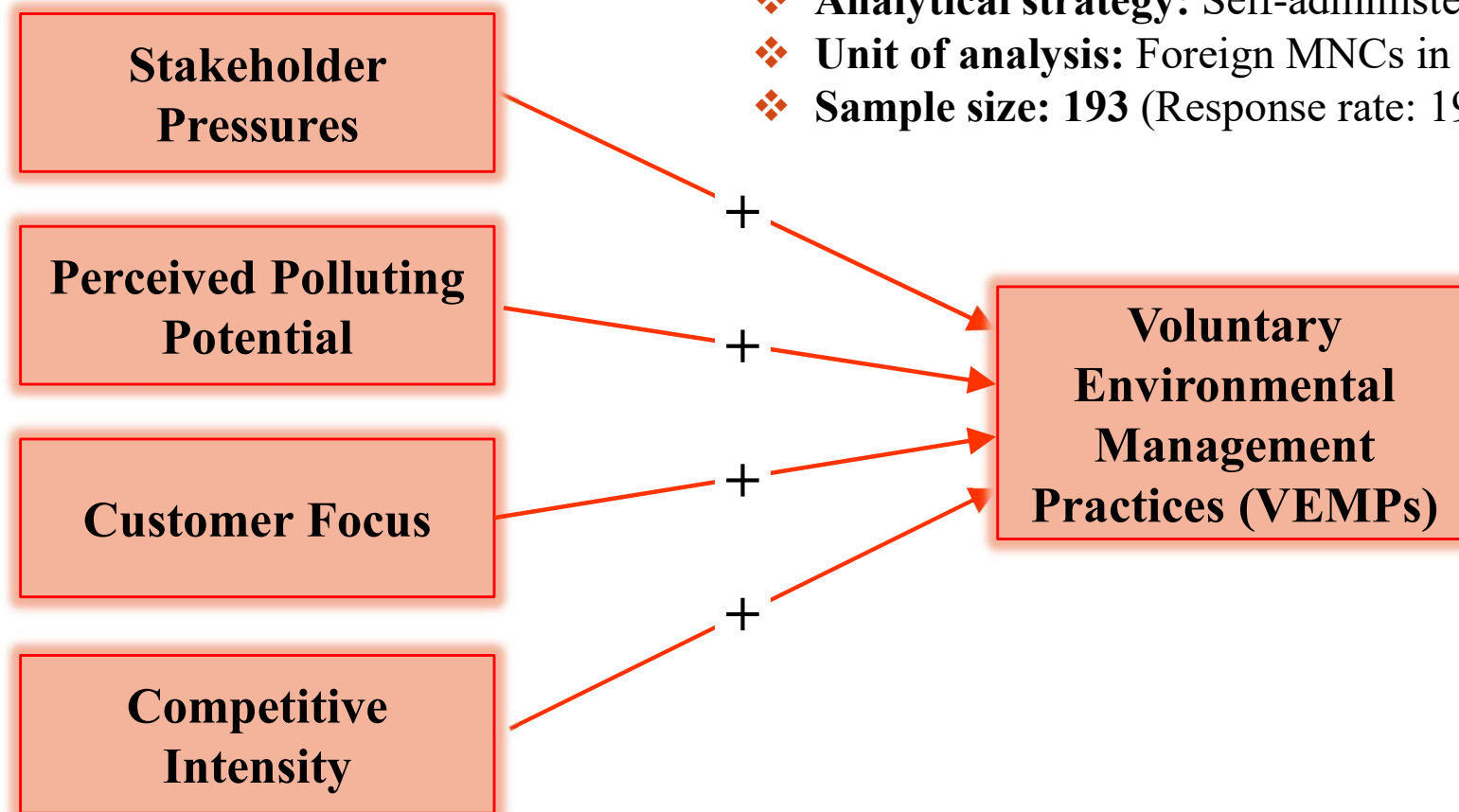
❖ “(1) *What implications could there be for an MNE subsidiary for not adopting VEMPS?* (2) *What is the relevance of stakeholders in the adaptation level of VEMPs by MNEs subsidiaries?*” **(BEATRICE CAPITANIO)**

❖ “*In emerging markets with weak environmental regulation, how can MNEs that voluntarily adopt costly environmental practices remain competitive against rivals who don't?*” **(ANIKA TREMMEL)**

Determinants of VEMPs of MNE Subsidiaries



■ Conceptual Framework

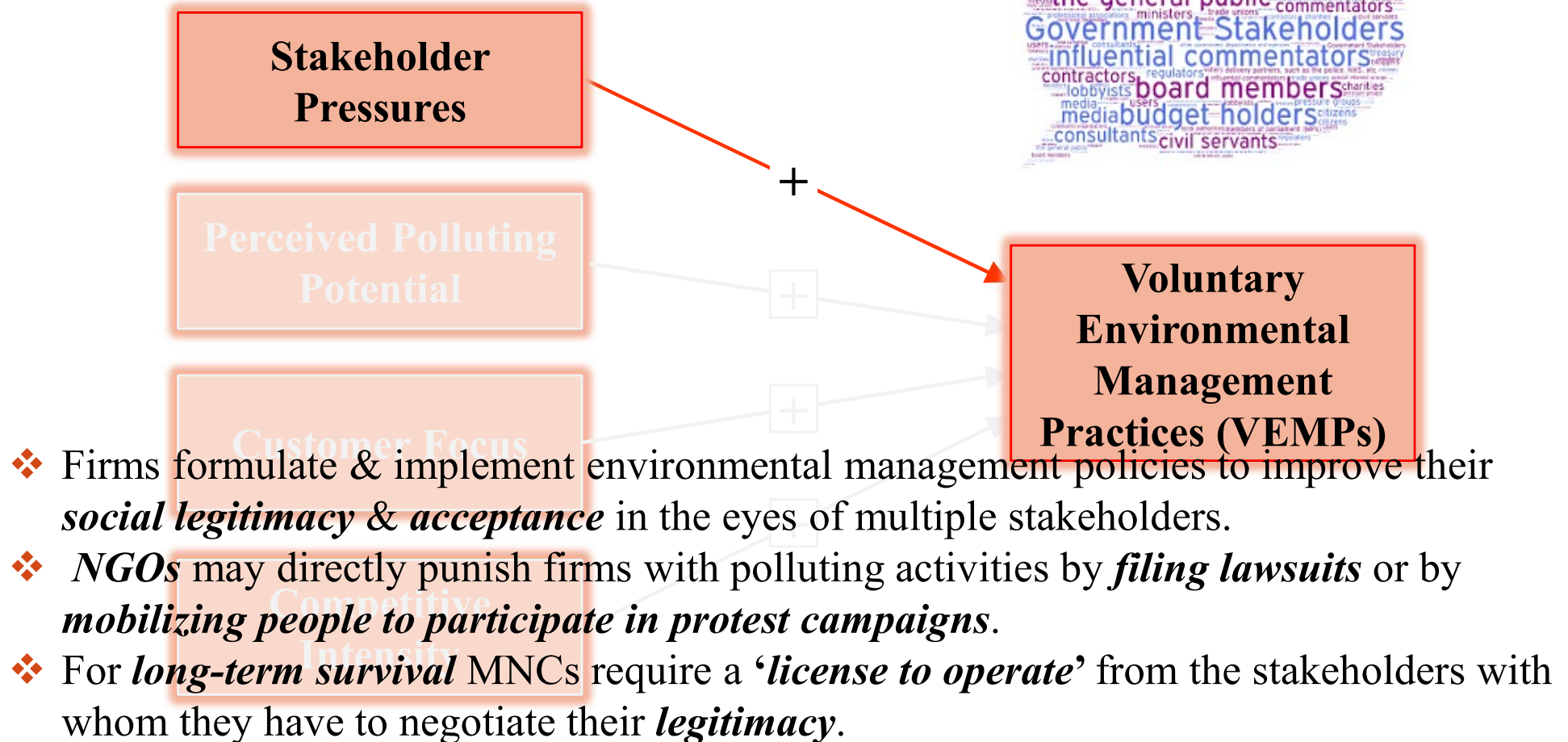


- ❖ **Theory:** Institutional theory & RBV.
- ❖ **Analytical strategy:** Self-administered survey.
- ❖ **Unit of analysis:** Foreign MNCs in Turkey.
- ❖ **Sample size:** 193 (Response rate: 19.3%).

Determinants of VEMPs of MNE Subsidiaries



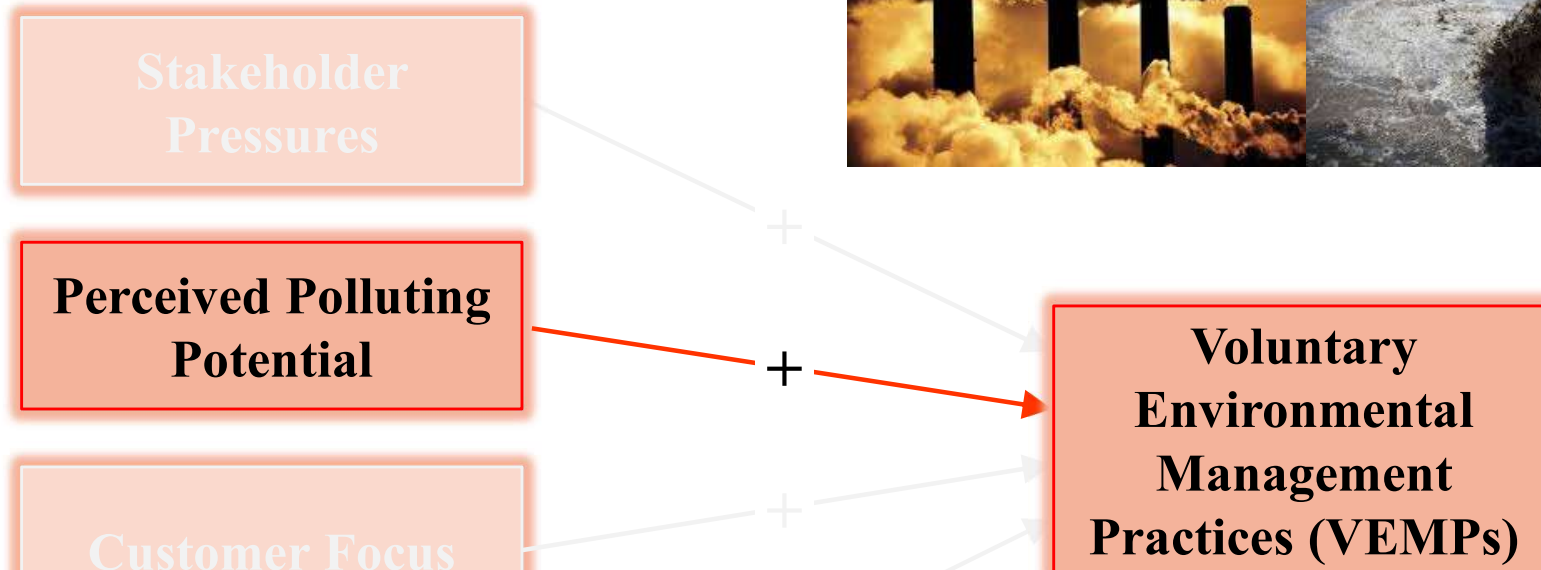
■ Hypothesis 1



Determinants of VEMPs of MNE Subsidiaries



■ Hypothesis 2



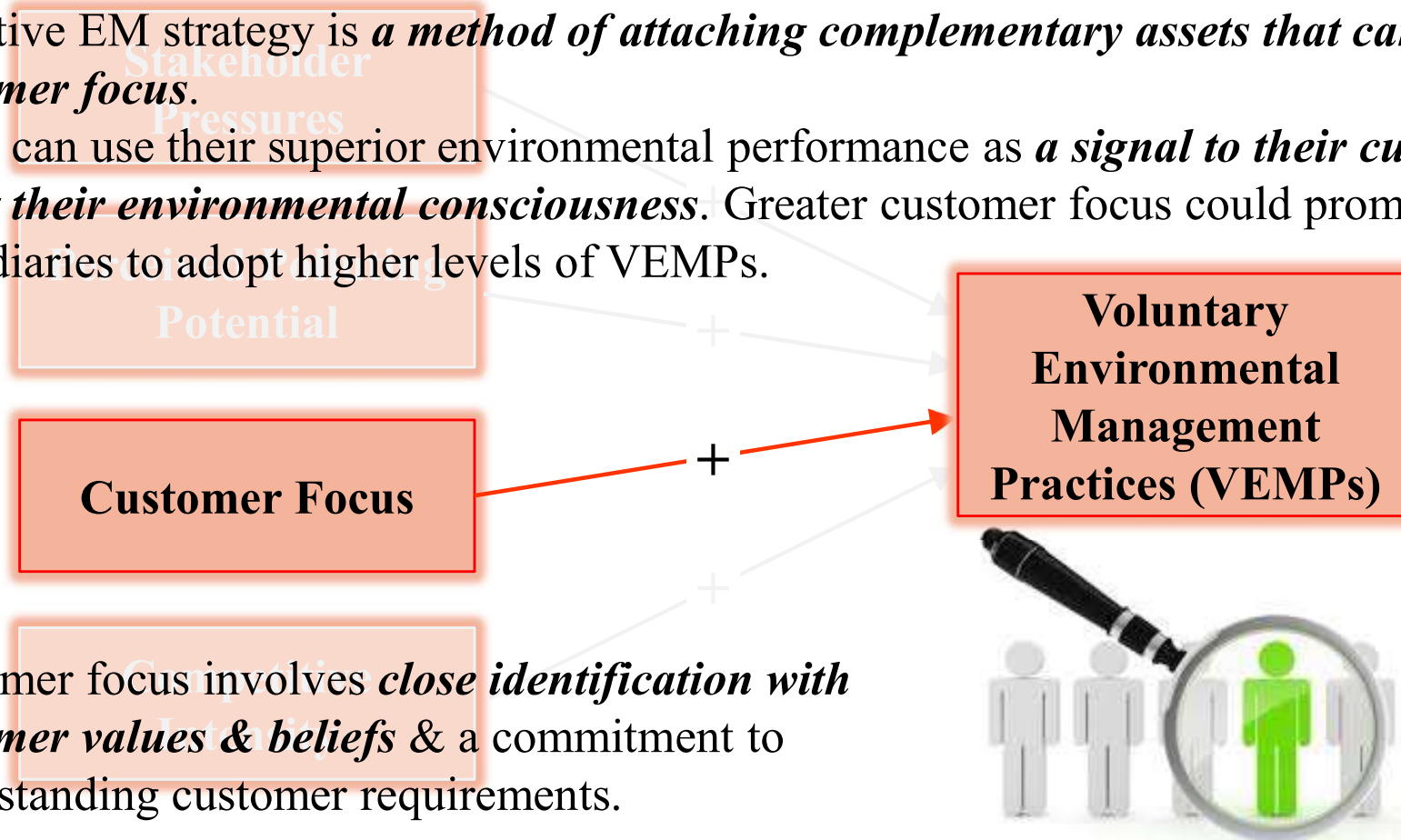
- ❖ *Highly visible organizations* are more likely to attract the *attention of interested parties*, & in turn are more exposed to institutional pressures in the social system.
- ❖ *Pollution levels* can become '*news*' both to the media & the investors.
- ❖ One effective set of *legitimacy-seeking behaviors* for MNCs is to develop & maintain *environmental performance that exceeds compliance* wherever they operate.

Determinants of VEMPs of MNE Subsidiaries



■ Hypothesis 3

- ❖ Where *customers have a high level of environmental consciousness*, adopting a proactive EM strategy is *a method of attaching complementary assets that can add to customer focus*.
- ❖ Firms can use their superior environmental performance as *a signal to their customers about their environmental consciousness*. Greater customer focus could prompt MNC subsidiaries to adopt higher levels of VEMPs.



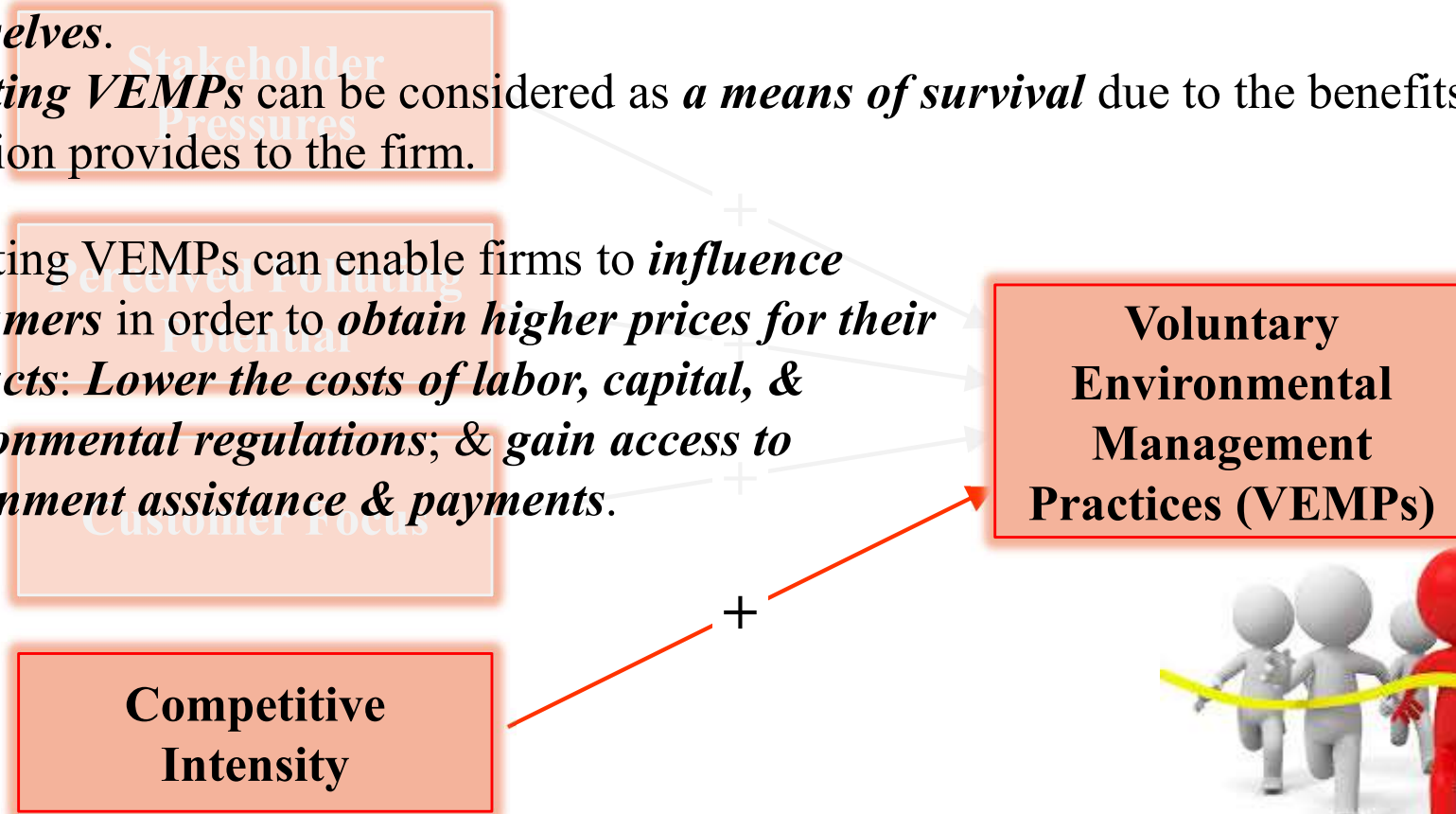
- ❖ Customer focus involves *close identification with customer values & beliefs* & a commitment to understanding customer requirements.

Determinants of VEMPs of MNE Subsidiaries



■ Hypothesis 4

- ❖ In the face of *competition*, organizations typically engage in *ways to sustain themselves*.
- ❖ *Adopting VEMPs* can be considered as *a means of survival* due to the benefits such as adoption provides to the firm.
- ❖ Adopting VEMPs can enable firms to *influence consumers* in order to *obtain higher prices for their products: Lower the costs of labor, capital, & environmental regulations; & gain access to government assistance & payments.*



Determinants of VEMPs of MNE Subsidiaries



■ Empirical Results

Variable name	Definition	Model 1		Model 2	
		β	Std. Error	β	Std. Error
<i>Independent variables</i>					
SPRS	Stakeholder pressure			0.28***	0.05
POL	Perceived polluting potential			0.18***	0.05
CFOC	Customer focus			0.39***	0.08
CINT	Competitive intensity			0.08	0.07
<i>Parent-level controls</i>					
DIVER	Diversity of foreign parent	0.06**	0.05	0.11***	0.04
ANGLO	Anglo American parents	0.42**	0.22	0.46**	0.18
EUROPE	Continental European parents	0.35*	0.21	0.45***	0.17
EMERGING	Emerging country parents	0.39	0.26	0.30	0.20
<i>Subsidiary-level controls</i>					
LN-SIZE	Ln subsidiary size	0.05**	0.03	0.05**	0.03
AGE	Subsidiary age	0.01	0.00	0.00	0.00
OWN	Ownership mode	0.12*	0.09	0.11*	0.07
<i>Industry-level controls</i>					
AUTO	Automotive, electronics and elect. eq.	0.12	0.20	0.11	0.16
FOOD	Food, textile, leather and glass	−0.12	0.19	−0.10	0.15
CHEMICAL	Chemical and pharmaceuticals	−0.14	0.21	−0.13	0.16
OTHER	Other manufacturing	0.13	0.24	0.24	0.19
TRADE	Trade and hospitality	0.09	0.20	0.17	0.15
FINANCE	Financial services and engineering	−0.35	0.21	−0.12	0.16
Intercept		3.03***	0.33	−0.78*	0.47
F-statistic			1.80**		9.38***
Adjusted R-square			0.07		0.44

Notes:

* $p < 0.10$.

** $p < 0.05$.

*** $p < 0.01$.

N = 193.

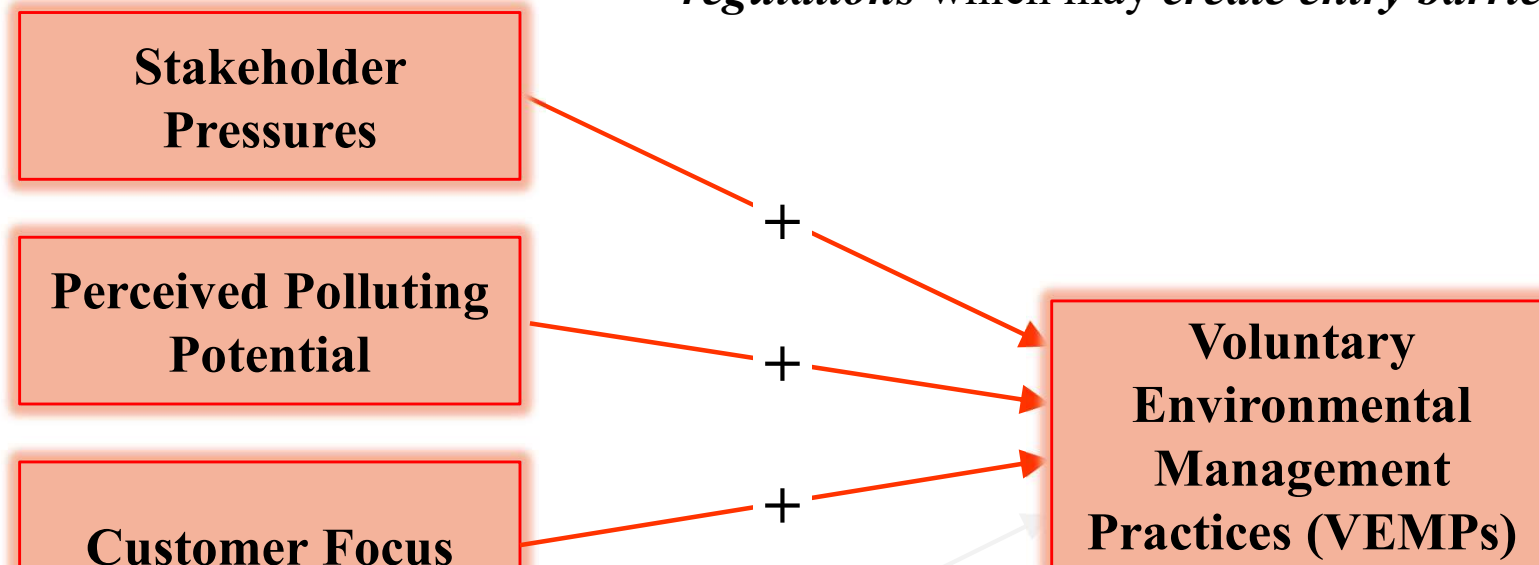
Determinants of VEMPs of MNE Subsidiaries



■ Empirical Results



MNCs may use their firm specific advantages on EM practices to *force host governments to change regulations* which may *create entry barriers* !



If the *polluting potential of operations* of the MNE subsidiary is perceived to be high, there is *a significant thrust toward adopting VEMPs* !



Voluntary participation to EM programs may be linked to the *subsidiary's concern for better responding to the needs & expectations of environmentally conscious customers* !



■ Conclusive Remarks

❖ Managerial Relevance

- *Increasing governmental regulations & stakeholder pressures for environmental accountability* have brought these issues onto the *strategic planning agenda* of most MNCs.
- MNC subsidiary managers should assess the *sources of their legitimacy* in terms of their stakeholders.
- As *MNCs are key agents* in terms of *economic & environmental development*, they can *promote social & environmental values* in the host society & simultaneously *encourage other organizations & institutions* to develop an environmentally responsible attitude.

❖ Limitations

- Limited generalizability
- Future research should consider how the VEMPs of MNC subsidiaries co-evolve with changes in the institutional environment in emerging economies.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Merci beaucoup !

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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