

Corporate Social Responsibility I

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Special Topics in Internationalization

Università degli Studi di Bergamo

Dipartimento di Scienze Aziendali

Bergamo, ITALY

What Did We Learnt in WEEK 5-2?



■ Key Points

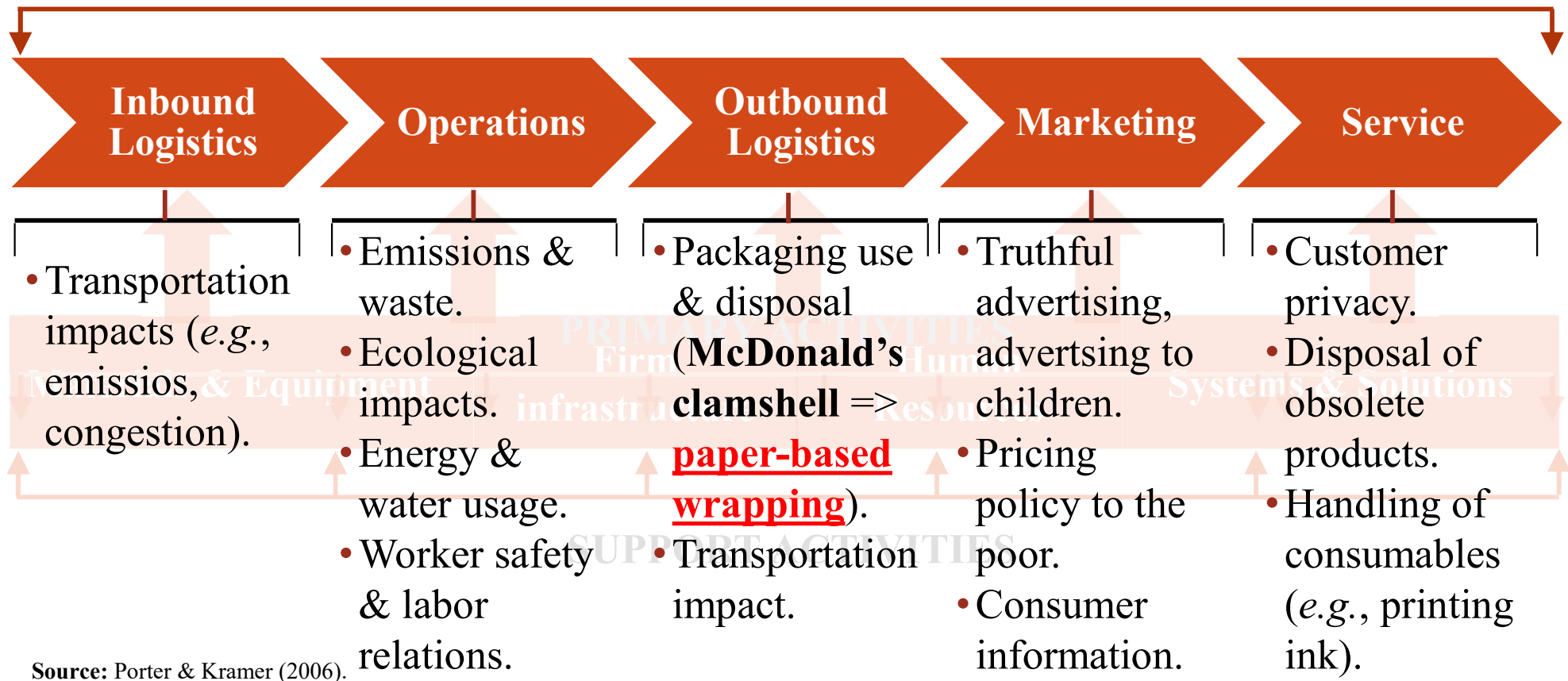
- ❖ The definition of sustainability;
- ❖ Triple bottom line strategies;
- ❖ Primary stakeholders vs. secondary stakeholders;
- ❖ An instrumental view of CSR vs. a normative view of CSR;
- ❖ 4 CSR strategies (*i.e.*, **i:** reactive = deny, **ii:** defensive = admit, **iii:** accommodative = accept, & **iv:** anticipate = anticipate);
- ❖ Socially responsible investment (SRI);
- ❖ Green consumers & green procurement; &
- ❖ 4 schools of thought for CSR (*i.e.*, **i:** moral obligations, **ii:** sustainability, **iii:** the license-to-operate approach & **iv:** reputation).

What Did We Learnt in WEEK 5-2?



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

PRIMARY ACTIVITIES



Source: Porter & Kramer (2006).

What Did We Learnt in WEEK 5-2?



■ 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. • Good governance 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. |
|---|---|--|---|



SUPPORT ACTIVITIES

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

Source: Porter & Kramer (2006).

Corporate Social Responsibility II

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Bergamo, ITALY

Corporate Social Responsibility II



■ Kawai et al. (2018)

- ❖ Sofia Manno
- ❖ Megan Lamplough

■ Meyer (2011)

- ❖ Luca Martinelli
- ❖ Savanna Djumaeva

■ Tatoglu et al. (2014)

- ❖ Lucrezia Merello
- ❖ Assia Britel

Kawai et al. (2018). “Stakeholder Pressures, EMS Implementation, & Green Innovation in MNC Overseas Subsidiaries”, *International Business Review*.

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Introduction



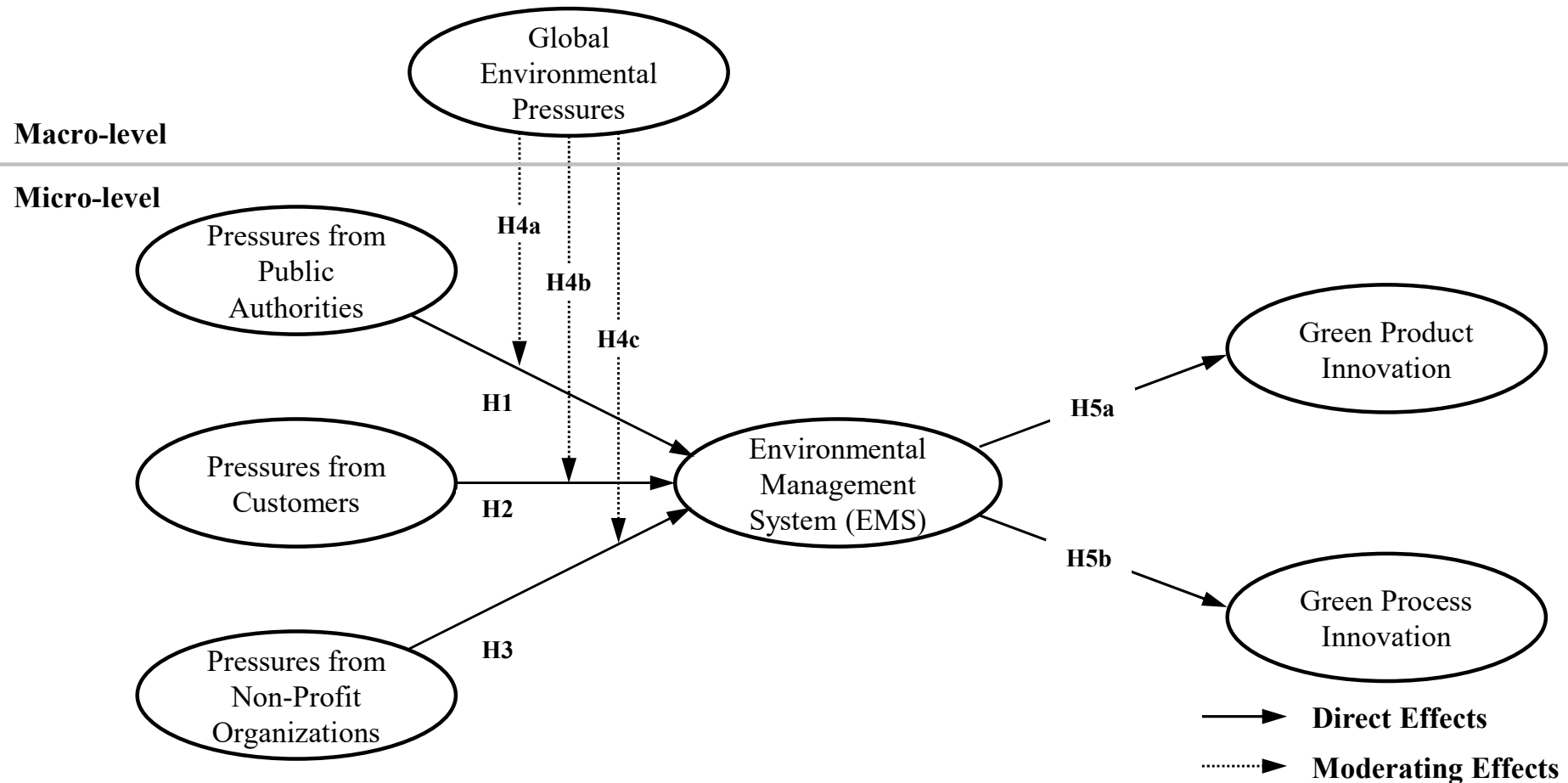
■ Why Research on MNC Subsidiary Green Innovation?



Theoretical Background & Hypotheses



■ Proposed Conceptual Model

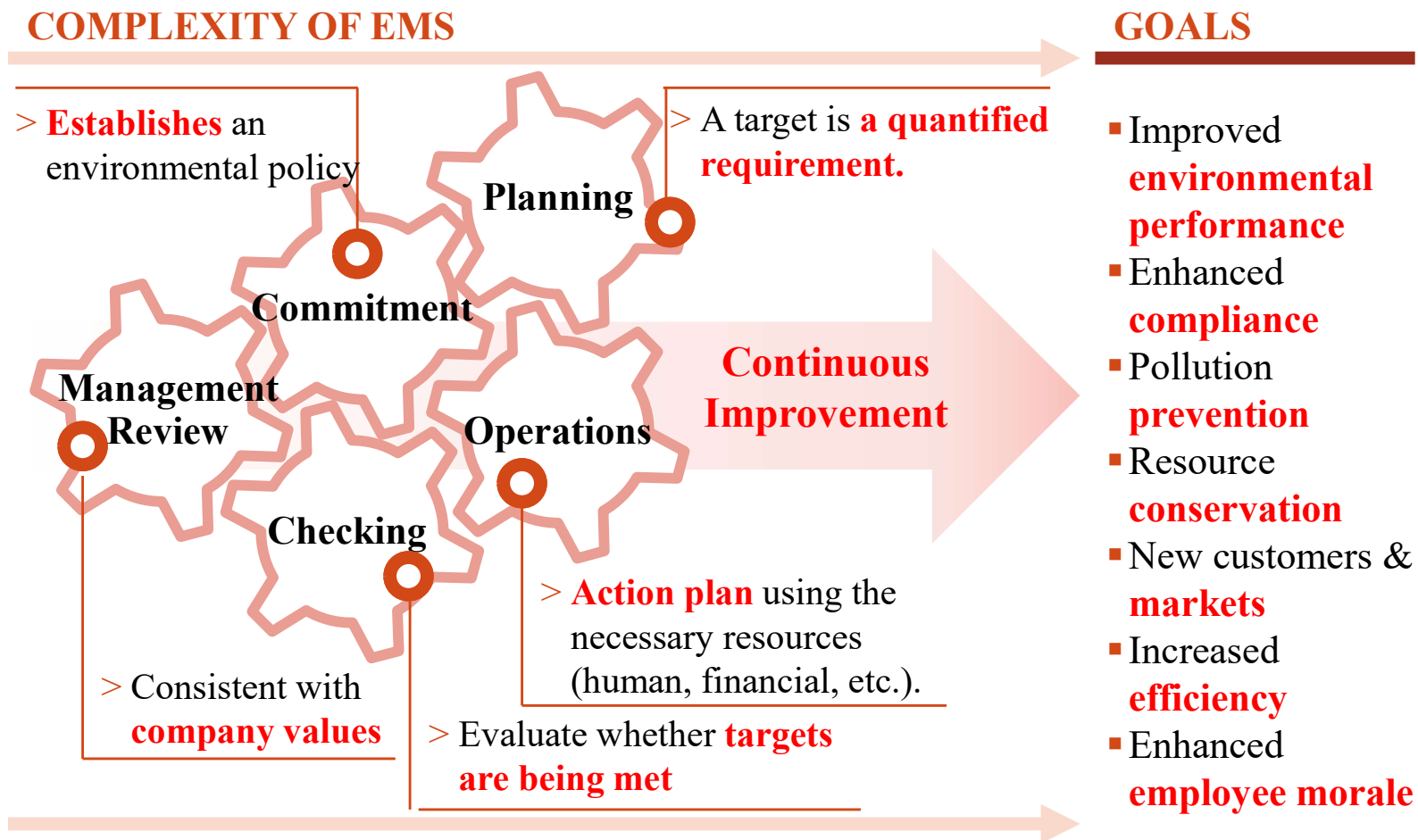


Source: Own illustration.

Theoretical Background & Hypotheses

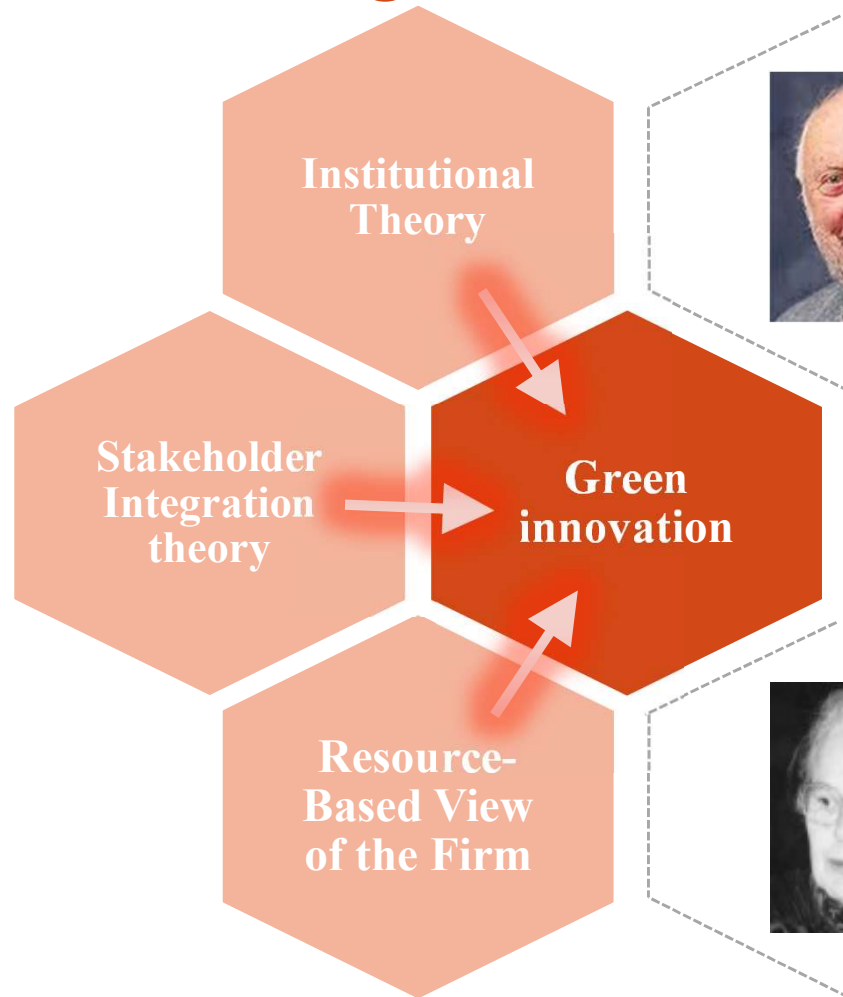


■ Environmental Management System (EMS)





■ 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).

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

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).

Pressures from Customers

Pressures from Non-Profit Organizations

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'-copping** 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

– **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).

Pressures from
Customers

– **NGOs** may directly **punish** firms with polluting activities by **filing lawsuits** (Henriques & Sadosky, 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).

▶ Pressures from
**Non-Profit
Organizations**

– Firms are required to exercise environmental management policies to **improve their social legitimacy** (Berrone et al., 2013).



■ EMS & Green Innovation

❖ EMS Provides Companies with Benefits !

- A **bundle** of environmental practices (Darnall et al., 2008, 2010).
- Ensures that organizations **monitor** the potential **environmental costs** of their business activities (Darnall et al., 2008).
- Contributes to building **trust-based relationships** with external & internal stakeholders (Walley & Whitehead, 1994).
- **Sources** of pollutant emissions & chemical spills are **identified** promptly (Kesidou & Demirel, 2012).
- Acts as a **signaling function** of a firm's green profile (Wagner, 2007).
- **EMSs as symbolic actions** in enhancing **external legitimacy** under greater societal & institutional pressures (Darnall et al., 2008).



■ 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:** 1000 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.

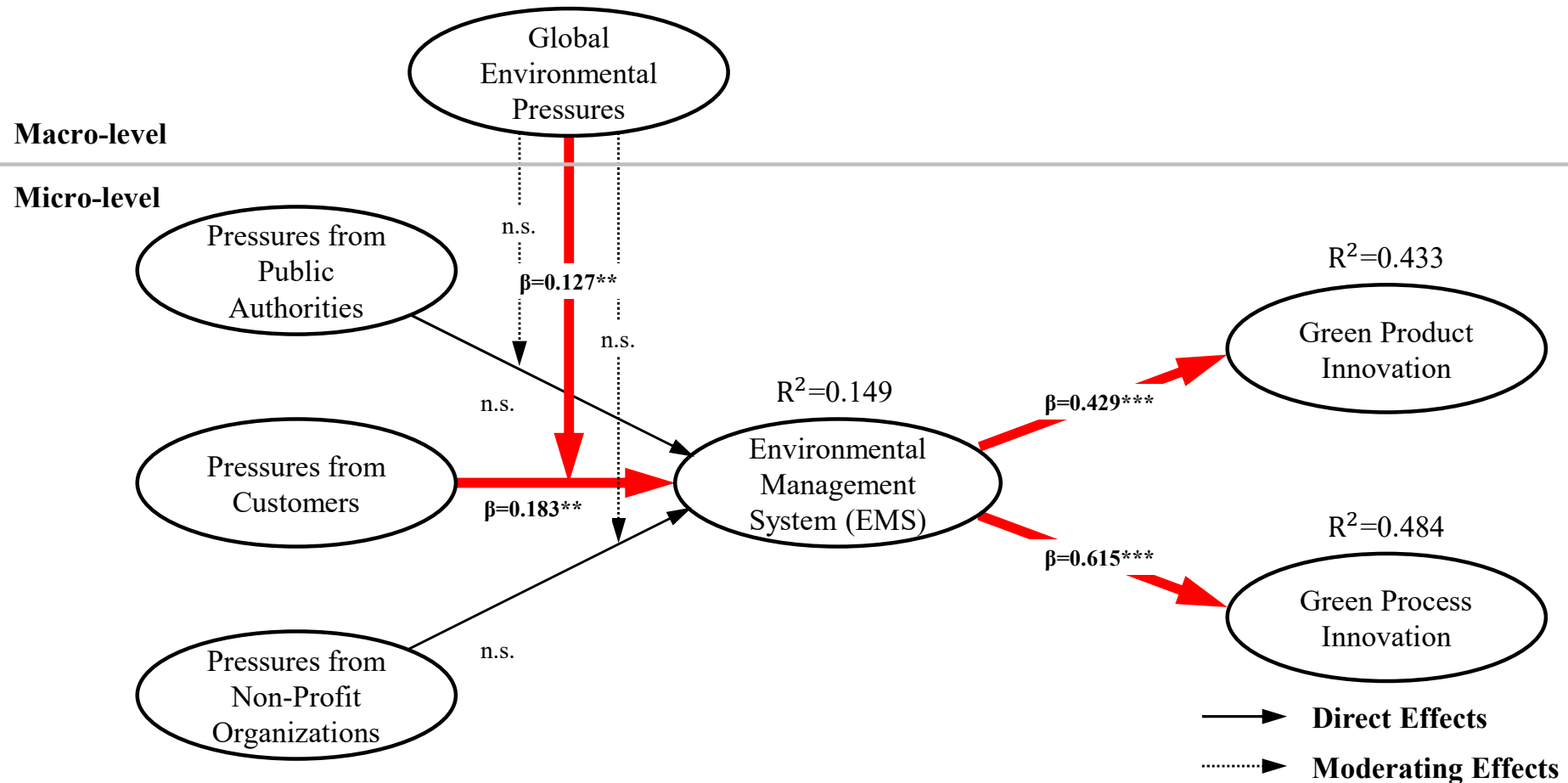
■ Statistical Method

- ❖ 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.

Meyer, K. (2011). *“German Chamber of Commerce Develops Social Responsibility in China”*.

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“GCC Develops Social Responsibility in China”

■ Introduction

❖ German MNCs in China

- German companies have been operating in **the Greater Shanghai area** since **1984** when **Volkswagen (VW)** established the first major foreign joint venture in the area.
- By the 2010s, **young people started to look for more than a salary** when choosing their jobs; social organizations were highlighting poor practices, & national & local governments put **pressures on firms to raise their standards for labor, environment, & transparency.**
- In view of the **evolving challenges in Chinese society**, & the wish to grow deeper roots in the society, the **German Chamber of Commerce (GCC)** launched **an initiative** entitled ‘**China – more than a market**’.
- Large companies (*e.g.*, VW, Bosch) often have well-developed programs of engagement with their diverse sets of stakeholders, but **SMEs lack resources for a comprehensive approach to CSR.**

“GCC Develops Social Responsibility in China”

■ ‘3’ Sets of Key Stakeholders

❖ Local Employees & Their Families

- The **recruitment & retention** of skilled employees has been a major challenge for businesses in China, as **young people in particular** quick to **change jobs** when offered a **better salary** or **financial incentives**.

❖ The Chinese Government

- Principally, **social policy** is a **responsibility of government** in China.
- **Business initiatives** have to **complement** rather than compete with the **official policy**.

❖ Corporate Headquarters

- **HQs** have to be convinced to **allocate resources to social causes**.
- **HOWEVER**, from the perspective of **corporate boards in Germany**, **stakeholders in China** were **not a major concern** & they **lack deep understanding** what types of initiatives are appreciated in China.

“GCC Develops Social Responsibility in China”

■ What CSR Activities Are Effectively Undertaken?

❖ Engagement in Education – Vocational Training

- *Schenck* (a subsidiary of *Duerr*) & *Krones* support classes at **local colleges** that **train employees in skills**, needed in the **machine tool industry**.

❖ Supporting the Families of their Employees

- Some organize **family days with sport activities** for all generations.
- Others invite **family members to visit the workplace** or **open their sport facilities** for family members on the weekend.

❖ Collaborations with Local Universities

- **Research support or sponsorship.**
- *Bayer* collaborates with **Tonji University** in Shanghai by **sponsoring (1) a Chair for Intellectual Property, (2) an Eco-Construction Academy & (3) an annual Sustainable Development Forum.**
- *Freudenberg* **rebuilt a school damaged by the 2008 Sichuan earthquake.**

“GCC Develops Social Responsibility in China”

■ What CSR Activities Are Effectively Undertaken?

❖ Supporting Volunteer Work by Employees

- *SAP* gives its employees a ‘**social sabbatical**’ that they can spend on volunteer work in social organizations, & also **makes its software available to NGOs.**

❖ Contributions to Key Government Policy Agendas

- **Many products produced by German companies are aimed to help tackle broader social & environmental objectives – (1) environmental pollution, (2) universal health care & (3) food security.**

❖ Support for Relief Action after the Sichuan Earthquake

- **Corporate philanthropy.**
- **Many companies donated medical equipment, or volunteer staff in local or national emergencies.**

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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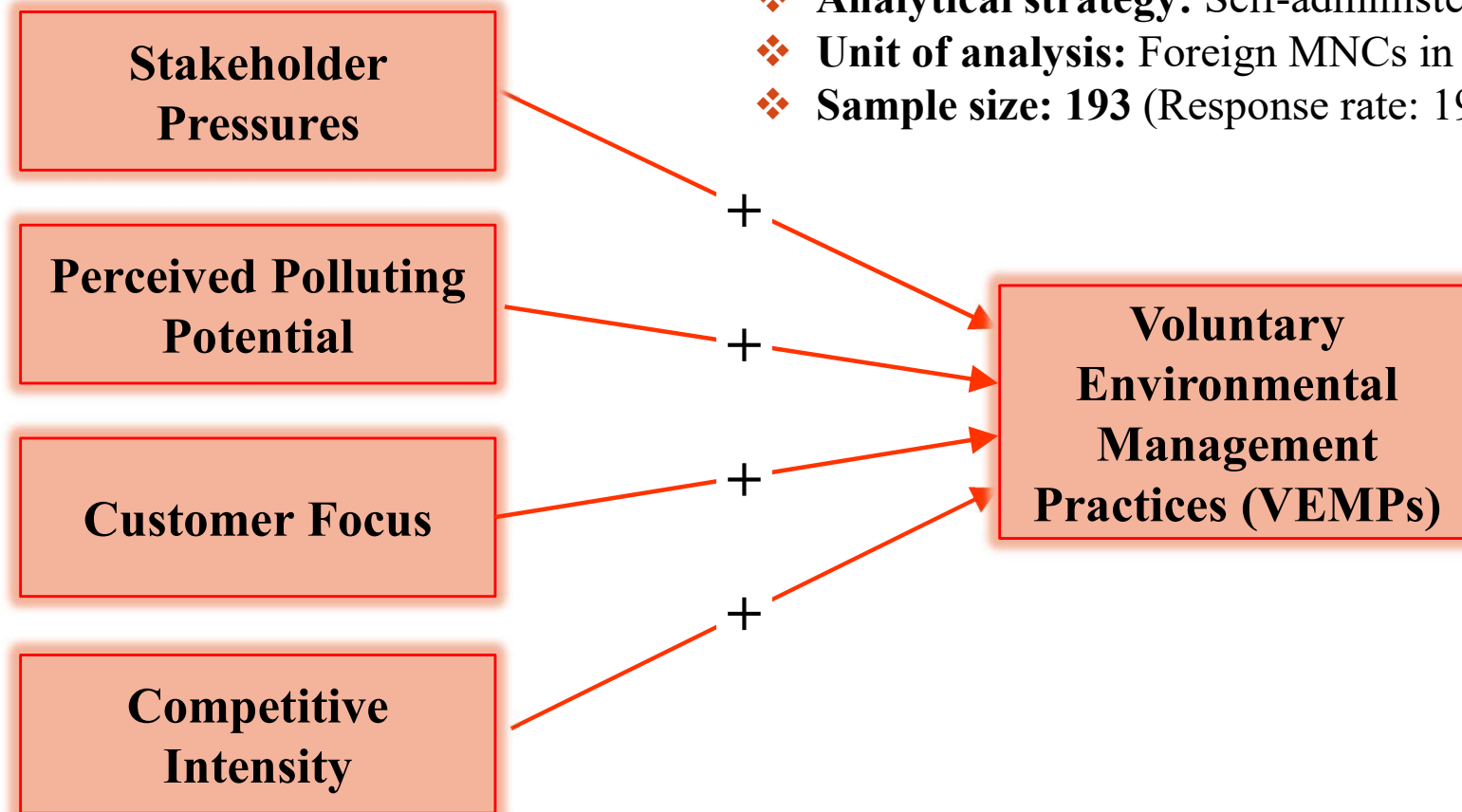
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Determinants of VEMPs of MNE Subsidiaries



■ Conceptual Framework

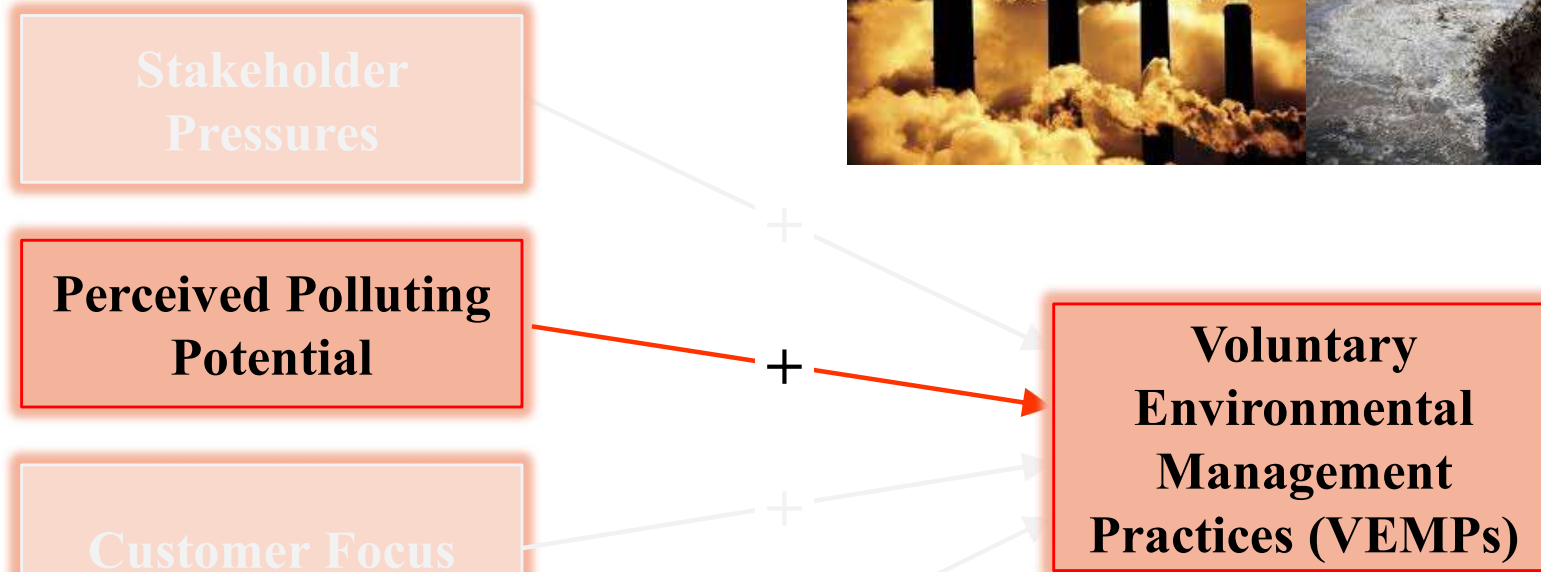


- ❖ **Theory:** Institutional theory & RBV.
- ❖ **Analytical strategy:** Self-administered survey.
- ❖ **Unit of analysis:** Foreign MNCs in Turkey.
- ❖ **Sample size:** 193 (Response rate: 19.3%).

Determinants of VEMPs of MNE Subsidiaries



■ Hypothesis 2



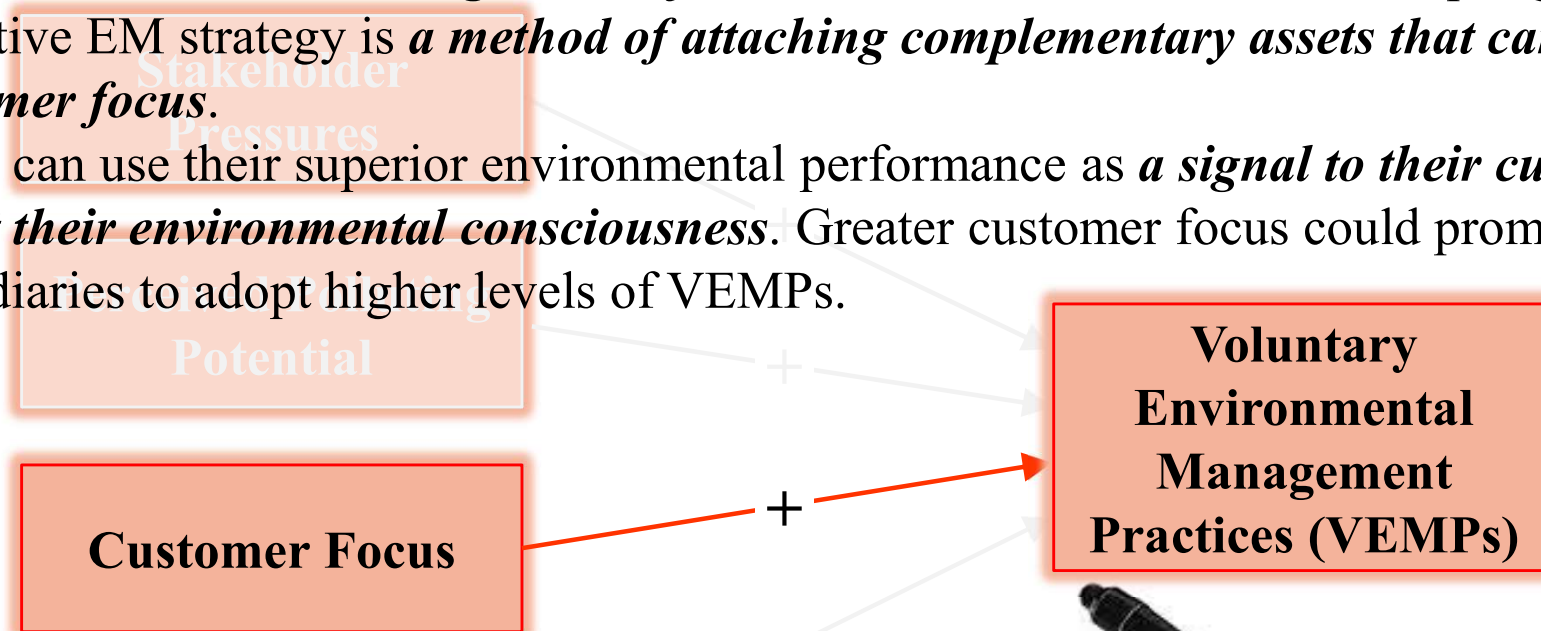
- ❖ *Highly visible organizations* are more likely to attract the *attention of interested parties*, & in turn are more exposed to institutional pressures in the social system.
- ❖ *Pollution levels* can become '*news*' both to the media & the investors.
- ❖ One effective set of *legitimacy-seeking behaviors* 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.

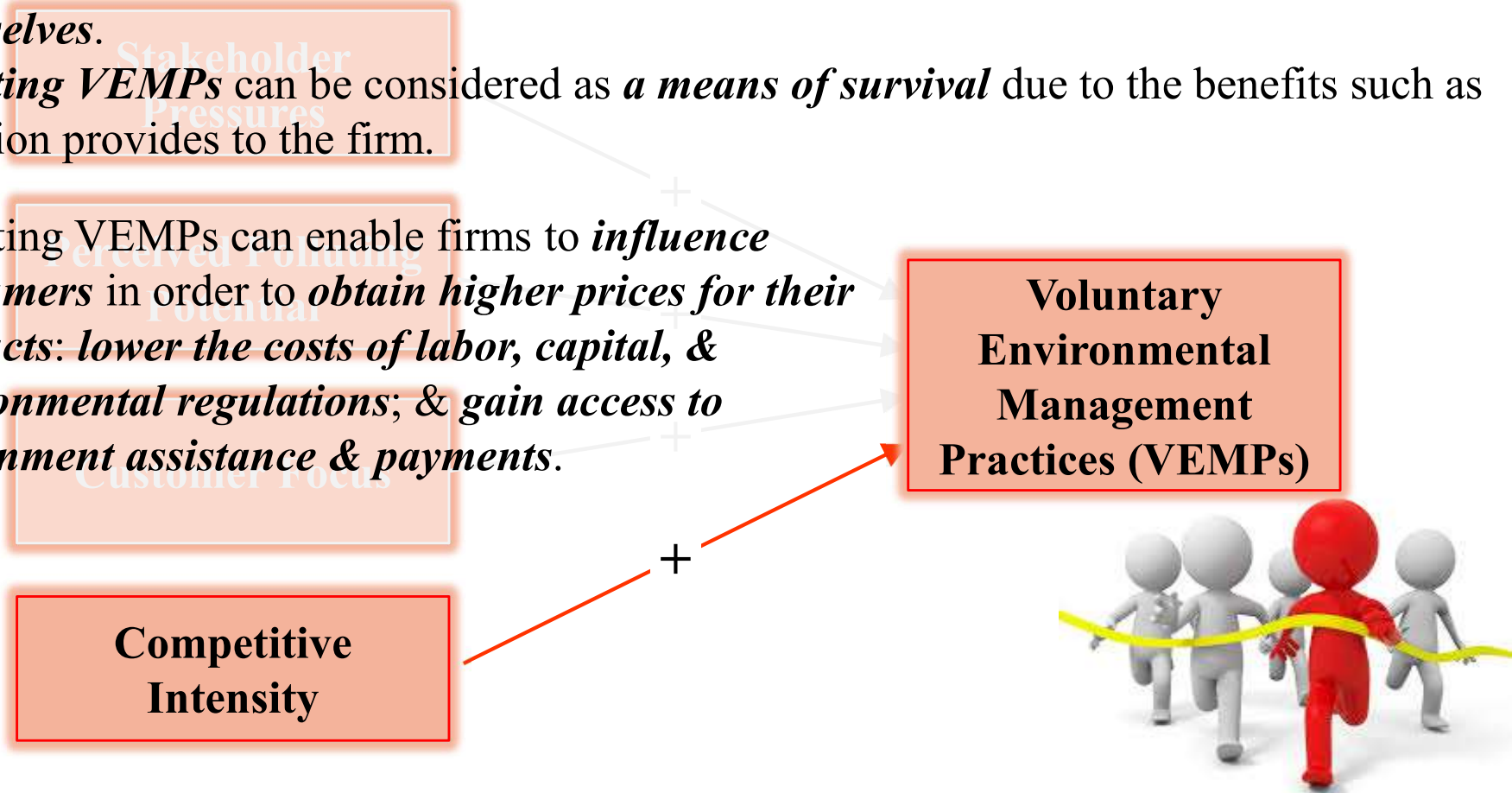


Determinants of VEMPs of MNE Subsidiaries



■ 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.

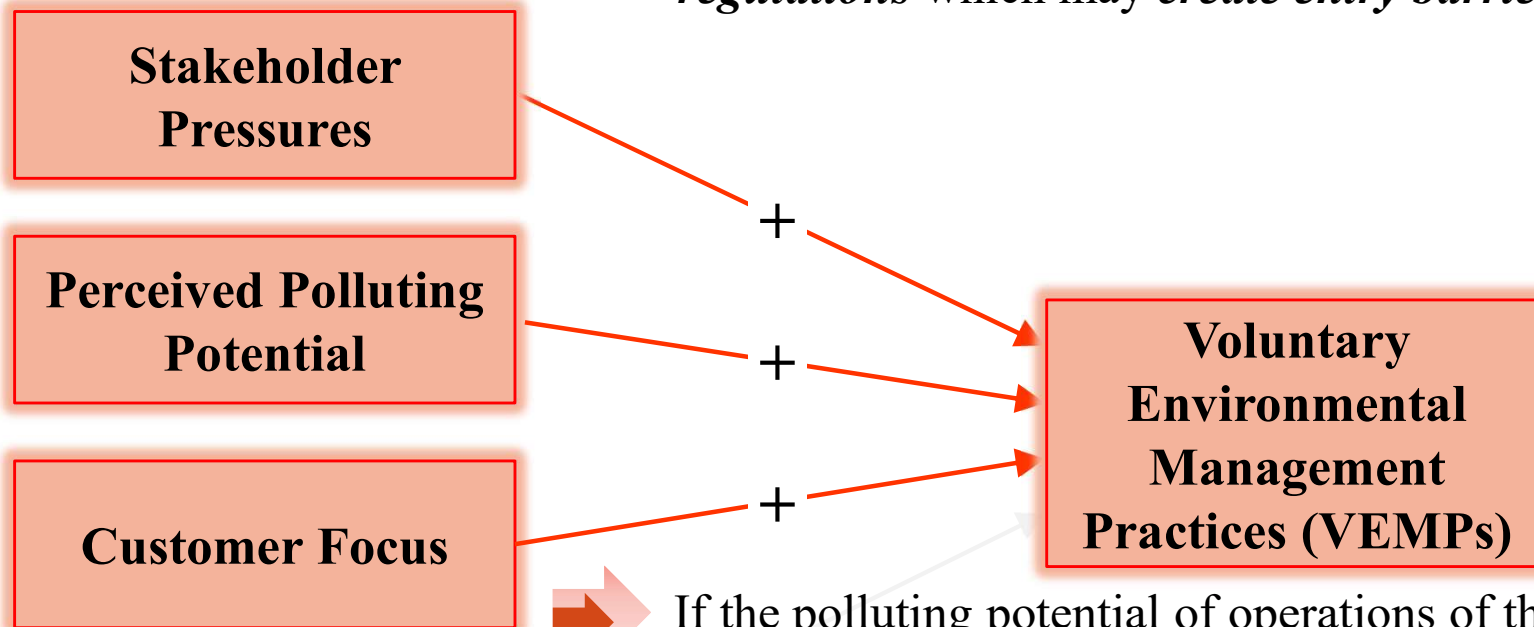
Determinants of VEMPs of MNE Subsidiaries



■ 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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