

# Strategic CSR through Innovation and Top Management Team Decision Making: Evidence from Eco-Friendly Automobile Industry Case Analyses

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**Abstract**—Our research derives strategic CSR in the lens of resource-based view (RBV) to scrutinize eco-friendly automobile industry. According to RBV, the ramification of strategic CSR is treated as firm-specific resource that provides competitive advantage. Cases of innovative eco-friendly automobiles are considered to initiate strategic CSR exploiting long term values driven by the determinants of innovation and top management long term orientation (LTO). We conduct case analysis focusing on eco-friendly innovation technology competent companies including Toyota, Volkswagen, General Motors, Daimler, and Ford. We selectively limit our analysis with Hofstede's long term orientation criteria researching on 5 automobile companies. We contend that top management teams' (TMT) long term decision making toward innovation derived from nationality renders differences toward deviation of eco-friendly strategic CSR and performance. We propose that firms with long term oriented TMTs prefer strategically innovative decision making assessing long term profitability. Our result comprises with the fact that Toyota's top management will derive innovation through strategic CSR exploiting long term performance compared to competing firms in the eco-friendly automobile industry.

**Index Terms**—strategic CSR, eco-friendly automobile industry, top management team, resource-based view

## I. INTRODUCTION

Corporate social responsibility (CSR) has gained momentum in the last few decades in contemporary corporate practices and academics on a wide range of issues. Manifold corporations are encouraged to behave socially responsible [1], [2] and vigorously engage to advance social benefits to rejuvenate performance [3]. Corporations are utilizing CSR as a mechanism to address social and environmental issues to achieve competitive success.

Reference [4] purports that firms vigorously understand creating and capturing value through connecting CSR strategically [5]-[12]. Strategic CSR coupled with innovation evolve into 'Innovative CSR' enhancing technologies to create new value for various

stakeholders [13]. Strategic CSR provides valuable resources for the firm [14] to foster innovation [15]. Moreover, Scholars like [16], [17] stress the fundamental imperatives of top management's decision making assessment regarding CSR activities to achieve performance. These strategic determinants are fundamental imperatives to strategic CSR and performance.

Nowadays, automobile manufacturers are aggressively initiating strategic CSR imperatives that would trigger competitive advantage to create long term values. The eco-friendly automotive industry has penetrated into an age of competition for strategic CSR. Reference [18] purports that automobile manufacturers are building consensus on environmental social responsibility that would eventually lead to sustained competitive advantage. Reference [19] asserts that automotive manufacturers have introduced various technologies and strategies regarding eco-friendly innovation. TMTs of the automobile firms have confronted recondite strategic uncertainties to exploit sustaining competitiveness in the transformation of eco-friendly industry trend.

Stemming from this contention, the research question is relevant to what determines strategic CSR and performance. Though strategic CSR research upsurge interest among manifold scholars in the field of management, study relevant to exploiting determinants of strategic innovation and top management strategic decision criteria on performance has not been discussed. The rationale for scrutinizing strategic CSR research context is germane through closely observing eco-friendly automobile industry. To the best of our knowledge, this study is the first to explore strategic CSR determinants and performance implications through the scrutiny of the eco-friendly automobile industry analysis.

The next section reviews relevant literatures on the relationship between strategic CSR and performance. We also generate hypotheses in this section. The third section elaborates data and methodology. The fourth section

reports the results through the case analysis and financial data. The last section presents our conclusions.

## II. STRATEGIC CSR AND PERFORMANCE

### A. *Strategic CSR and Resource-Based View*

Contemporary management researchers advocate that business should indulge in CSR initiatives that sustain realizing business benefits [10], [11], [20]-[27]. This format of CSR refers to strategic CSR [6]-[12].

The resource-based view [28], [29] contends that resources are central to a firm's survival that fundamentally differentiates the performance. The RBV has been widely accepted as a theory that explains the sources of competitive advantage and informs managers on how to identify these sources of competitive advantage that are valuable, rare, non-inimitable, and non-substitutable [28]. RBV perspective posits that it is significant for firms to generate strategic resources [28]. However, the notion that resource itself does not transform into competitive advantage [30], but it is quite necessary to mention the importance of the ability of the firm to combine and integrate the strategic resources that derive generation of competitive advantage. Therefore, resources developed by the firm should be aligned with the competitive context. In the reasoning, we argue that CSR activities should be aligned in the similar manner to create strategic resources for the firm.

The concept of strategic CSR asserts from the angle of a resource-based view stating that possessing and utilizing strategic resources formulate competitive advantages [28][31]. Manifold scholars have strived to assess strategic CSR through the lens of RBV. For instance, Reference [32] identified CSR actions and intricate elements of strategic resources stemming from the theoretical stance of resource-based view. Reference [33] derived the RBV framework to construct a formal model of "profit-maximizing" CSR.

Although definitions may vary, strategic CSR can be defined as any responsible activities that allow a firm to achieve a sustainable competitive advantage [10] is a business strategy that integrates core business objectives and core competencies to create business value and positive societal and environmental value that is embedded in daily business culture and operations. Strategic CSR also appends a social dimension to the value proposition by taking a strategic approach to determine what strategic activities and resources fundamentally confront satisfying both economic and societal values [34] corporate devotion to meet social responsibility with adequate strategic CSR that aligns with firm resources will obviously strengthen the competitive advantage of the firm.

The concept of strategic imperatives of CSR aligning competitive strategy is widely discussed to advocate theoretical foundation of strategic CSR in diverse

scholarly forums [35]-[37]. Reference [10] purported that the fragmentation of strategic and societal values toward glancing the context of corporate social responsibility renders limitations of analyzing prospects for appropriate social responsibility. If they were to be combined rather than segmented, it would be appropriate to discover the fact that CSR can be a source of competitive advantage. By pursuing strategic CSR, firm can increase their profitability and add values to products and services [38].

Therefore, CSR activities referred to as strategic resources will create value enhancing competitiveness for the firm. Porter and Kramer (2006) stressed that the ramification of CSR activities should be designed to enhance the value of the firm. Furthermore, they asserted that in order for CSR to be strategic, it should contribute to value chain of firm [39] or improve the context of competitiveness [38]. Strategic CSR provides opportunities of competitiveness and stemming from this vein, when a firm's CSR activities improve the context of competitiveness of the firm hence the CSR activity becomes strategic in nature [10].

### B. *Strategic CSR and Innovation*

Literatures on CSR relevant to innovation have slowly enlarged its context over the decade with the terminology "corporate social innovation" introduced by [42]. She designated that firms should use social issues as a learning laboratory for identifying unmet needs and for developing solutions that create new markets. However, as Reference [43] posits, most firms remain stagnated on simplistic CSR to reduce risks and operational cost.

Scrutiny on vast exploration of strategic CSR and innovation represents the significance of the research context. Corporations in the contemporary age must shift their attention to vigorously create long term value through strategic CSR that nonetheless generates competitive advantages. The integration of CSR as a strategic component creates value, novel ideas, and opportunities applicable through innovation which leads to sound long term performance. This 'Innovative CSR' is the key to strategic CSR and to creating new values for various stakeholders and shareholders [13].

Fundamentally, CSR can be assessed as a co-specialized asset that enhances the value of the firm's overall reputation for quality or enhances resources and capabilities [4]. This is especially the case when CSR-based innovation occurs. For example, hybrid vehicles, electric vehicles, clean diesel vehicles, bio-fuel and more are all co-specialized assets that are based on CSR-based innovation. Strategic CSR referring to innovative considerations has been assumed to create significant relevance to profitability today providing win-win outcomes demonstrating opportunities for increasing firm value. In this sense, we argue that strategic CSR derives opportunities of innovation to play a significant role for the assessment of performance.

Hypothesis1. Strategic CSR expedite innovation performance.

### C. Strategic CSR and the Logic of Top Management Team Long-Term Orientation

Reference [44] termed “strategic choice” in the ramification to clarify the distinction between operational choices due to its complex nature. Reference [45] addressed that if strategic choices possess a large behavioral component, then to some extent they reflect the idiosyncrasies of decision-makers. Accordingly, Reference [46] asserted that each top management brings their own set of “givens” to an administrative situation with cognitive base. Reference [47] insisted that managerial choice and selections are not always consistent with the rational motives but influenced by the behavioral factors of the top executives whom render strategic choice.

Reference [48] addressed that top managements’ nationality inherent traits affect individual’s behaviors. Several researches in the context of strategy suggest that executives’ nationalities have significances not only for individual personalities and top management team dynamics but also for strategic decision-making [49]-[51]. Echoing from this standpoint, innovation activities that top management derives are continuum for idiosyncratic and strategic outcomes.

Personal values are innate rigorously in the dimension of Hofstede’s long term orientation (LTO), or Confucian dynamics, referred to as ‘an acceptance of the legitimacy of hierarchy and valuing of perseverance and thrift, all without undue emphasis on tradition and social obligations which could impede business initiative, [52], [53] among five dimensions (power distance, uncertainty avoidance, masculinity, individualism, and long term orientation) cultural framework. LTO represents a range of Confucian philosophy that measures the difference between a dynamic future-oriented culture corresponding to positive and long term perspective in opposition to a static traditionally oriented culture.

Accordingly, Reference [54] argued that organizations featuring traditional orientation of cultures emphasize short term value. Such cultures are expected to be unfavorable for innovation due to imminent costs of innovation and R&D expenditures that are expensed immediately hence benefits are unlikely to be observed for several years [55]-[57].

On the other hand, Reference [58] in their study concluded that the long term oriented cultures are more favorable to organizational innovation. Cultures representing long term orientation obviously reinforce promoting new product development and innovation process in all stages by stressing future possibilities [59]. Thus, this study proposes that a long term orientation perspective stemming from nationality background

enhances business innovation and will be reflected upon the decisions of top management team.

Hence, the significance of long term perspective of TMT maintains to be the locus for the sustainable profits and future of the firm. Top management LTO is important for formulating the innovation strategy that settles the organizational climate and determines the direction of the firm. Consequently, their values, preferences, and attitudes towards risks and innovation have strong implications on the strategy and long term performance [60].

Hypothesis2. Top management team LTO expedites long-term performance.

### III. DATA AND METHODOLOGY

To vividly grant circumspect evidence to our research foundation, we observed hypothesized phenomena in the industry of eco-friendly automobile and derived intensive case analysis. We conducted case study research on five eco-friendly automobile firms to gather rich and in-depth data [61], [62]. Case study methodology is appropriate when the researchers desire to construct and test their theory in practice [62], [63]. This method is especially valuable in research fields where there are few prior researches [62], [64]. Through case studies, researchers are able to comprehend the substance and principle of the phenomena studied and to construct theory from practice [62]. In this research, case study analysis is conducted to demonstrate our suggestions identifying innovation and strategic decisions of top management teams of each firm during the research period relevant to strategic CSR and long-term performance [34].

We collected data based on three categories; innovation, top management team (TMT) LTO, and performance. Among manifold automobile companies to represent the research settings, we limit our analysis to top 5 companies chosen in the Fortune Global 500 2011 list. We sorted out the companies that reinforce eco-friendly technology in the automobile industry. Toyota Motor of Japan, Volkswagen and Daimler of Germany, and General Motors and Ford Motor of the United States are finally selected in our research.

TABLE I. ECO-FRIENDLY AUTOMOBILE COMPANY PROFILES IN 2011

Rank	Company Name	Sales (USD m)	Employees
1	<b>Toyota Motor</b>	246,831	317,718
2	<b>Volkswagen</b>	172,365	399,381
3	<b>General Motors</b>	135,592	202,000
4	<b>Daimler</b>	130,525	260,100
5	<b>Ford Motor</b>	128,954	164,000

We collected data of innovative eco-friendly technology from the press articles, industry reports, and company annual report. Specifically, we gathered interviews from press articles conducted in the research period because we believe it is necessary to acknowledge the decisions and opinions of top executives regarding strategic CSR. Financial data for performance were collected from COMPUSTAT, Dow Jones Factiva. The indication of the long term oriented decision making of TMT was rendered via LTO score from Hofstede's study and the Bloomberg database to view nationality ratio of top executives' of the firm. Table II signifies compositions of TMT derived out from our rigorous case analysis.

TABLE II. NATIONALITY OF TOP EXECUTIVES OF SUBJECT COMPANIES

	Toyota	Volkswagen	GM	Daimler	Ford
Executive	19	9	8	8	23
Domestic	18	7	7	8	20
Foreigner	1	2	1	0	3
Domestic Ratio	95%	78%	88%	100%	87%
Location	Japan	Germany	U.S.	Germany	U.S.
LTO score	78	28	25	28	25
Average Tenure	26.3	5.4	16.2	10.5	10.3

## IV. RESULTS

## A. Case Study Analysis

TABLE III. SUMMARY OF CASE ANALYSIS

	STRATEGIC CSR IMPLICATIONS
<b>Toyota</b>	Long term perspective of the top management team to devote in the development of hybrid innovation technology aligned with strategic CSR imperatives. Toyota is demonstrating strong leadership in the eco-friendly automobile industry achieving revealing long term performance.
<b>Volkswagen &amp; Daimler</b>	German automobile manufacturers improved diesel engine technology instead of competing against Toyota's hybrid innovation. Top management team has propensity to demonstrate both long and short orientation regarding strategic CSR and innovation. Performance is quite steady gradually establishing strategic CSR boundary in a different manner compared to Toyota.
<b>GM &amp; Ford</b>	Top management teams of the American automobile industry demonstrate short term orientation relevant to strategic CSR and innovation. GM gave up consistently nurturing its first electronic vehicle produced in 1996 due to immediate unprofitability. Ford was lagged behind on hybrid innovation technology. Performances of U.S. automobile manufacturers in the eco-friendly automobile industry features to be detrimental.

## B. Performance Analysis

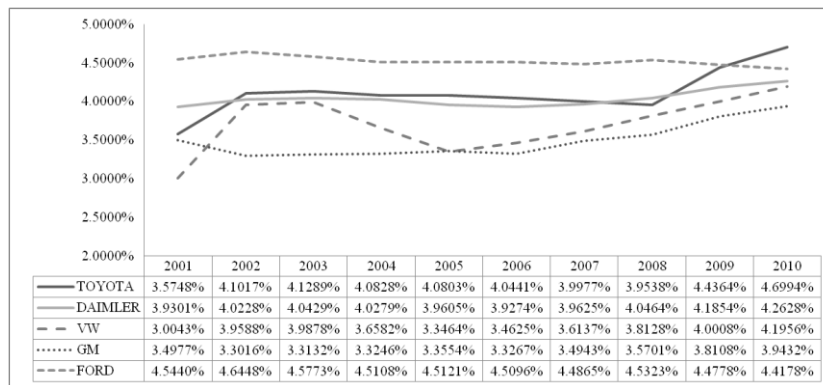


Figure 1. Accumulated average R&amp;D intensity in 2001-2010.

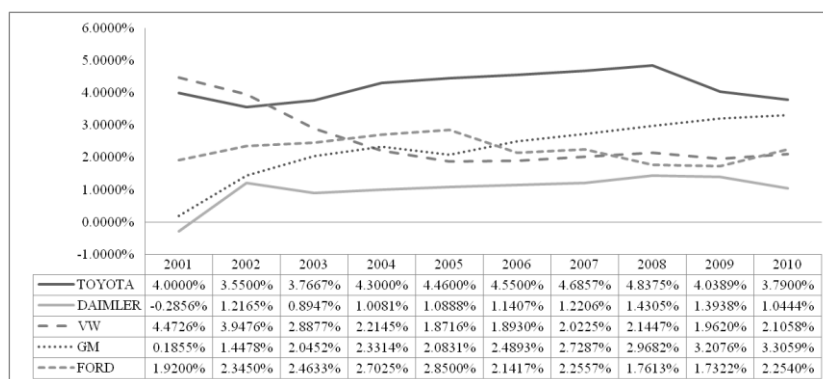


Figure 2. Accumulated average ROA in 2001-2010.

## V. CONCLUSION

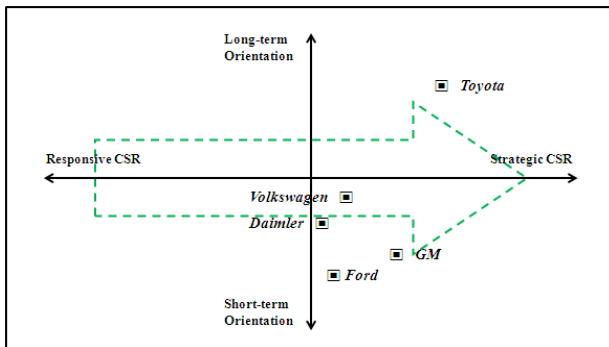


Figure 3. Proposed strategic CSR matrix of eco-friendly automobile firms conclusion

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