Corporate Social Responsibility
and the Emergence of Competitive Advantage –
A Dynamic Capabilities Perspective

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Graz, April 2013
**Author’s Declaration**

Unless otherwise indicated in the text or references, this master thesis is entirely the product of my own academic work. All literal quotations and corresponding reproductions of other people’s thoughts are clearly indicated. This thesis has not been submitted either as a whole or in part for a degree at this or any other university or institution. The printed version at hand is equivalent to the submitted electronic one.

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Date                                                Signature
Abstract

The Dynamic Capabilities View and Corporate Social Responsibility (CSR) gained more and more importance in recent years due to increasing globalization and the social and environmental problems involved for enterprises in dynamic markets with increasing competition. Therefore the question arises how companies can adapt to changing market conditions, integrate CSR in the firm’s Strategic Management and gain Competitive Advantage.

The master thesis at hand addresses this question in its two main parts. Part one consists of a literature review and comprises theories of Competitive Advantage and its connection to Dynamic Capabilities and CSR. The gained knowledge is then used for the second part, which includes the conceptualization of a model to illustrate an integrated view of CSR, Dynamic Capabilities and Competitive Advantage.

The results show that corporations have to develop and deploy CSR-Dynamic Capabilities in a changing market environment. As a result, Competitive Advantage can be achieved. CSR-Dynamic Capabilities are organizational processes used within a Corporate Social Strategy, with CSR being integrated in a firm’s strategy together with the goal of profit-maximization and Stakeholder Management. CSR-Dynamic Capabilities comprise the company’s ability to make timely and market-oriented decisions and its ability to perceive opportunities and threats. Furthermore, they include the potential for an effective reconfiguration of organizational processes, the transfer of these to other business units, and continuous learning. The right timing of actions, the inimitability and the non-substitutability of the firm’s resource base created by Dynamic Capabilities can then lead to Sustainable Competitive Advantage.
Acknowledgements

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My final words go to my family. I am grateful to my two siblings, especially to my sister Martina, who backed me up during my years of study and whose support is with me in whatever I pursue. A particular thought and expression of thanks go to my mum, who sadly did not live to see this special part of my life.
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List of Abbreviations

CA    Competitive Advantage
CSR   Corporate Social Responsibility
DCV   Dynamic Capabilities View
IO    Industrial Organization
e.g.  exempli gratia (for example)
et al. et alii (and others)
etc.  et cetera (and so forth)
FMA   First-mover advantage
FMAs  First-mover advantages
i.e.  id est (that is)
p.    page
pp.   pages
R&D   Research and Development
RBV   Resource-based View
SCA   Sustainable Competitive Advantage
SMA   Second-mover advantage
3BL   Triple Bottom Line
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Chapter 1

Introduction

1.1 Background

As markets become more globally integrated, enterprises have to cope with various new challenges. These range from the emergence of new forms of technology to an increase in competition and uncertainty in price development. In addition, customers' preferences and needs are subject to changes. Or as Porter and Kramer (2011) sum it up, business has been facing major social, environmental and economic problems in recent years.

In this connection climate change, community health and business sustainability are some of the most pressing issues. Companies and their managers are increasingly involved in these areas. Their clients and their business partners are also confronted with these themes.

As a consequence, increasing attention is paid to Corporate Social Responsibility (henceforth CSR) in the business world. The findings of an international survey on CSR in 2008 reflect this new focus. The results show that approximately 80% of the 250 largest companies worldwide issued reports on CSR, compared to about 50% in 2005 (KPMG 2008).

By dealing with CSR it turned out that it is difficult to define the term in a uniform way. Therefore various definitions can be found throughout the academic literature. In connection with this, there is also a debate of whether the current wave of increasing engagement in CSR is only motivated by profit-maximizing behavior of companies. Hence the question arises whether CSR is linked to the companies' profits and if not, why companies should exercise CSR in the first place. But before arguing any further, an initial definition of the term CSR is needed. The definition depends on the various interpretations of the term within the literature and the official definition of the European Commission (for more details on this point, see European Commission 2006).
CHAPTER 1: Introduction

Definition 1: Corporate Social Responsibility (CSR)

Corporate Social Responsibility describes a company's voluntary integration of economic, environmental and social actions into its business activities, taking into account the relationships to its shareholders and stakeholders.

Of course, reporting CSR and implementing it within an organization and outside the company are two different things. There is the risk that CSR strategies are only told to the public to create the impression of a so-called "socially responsible" company – an enterprise which cares about social, environmental as well business issues.

It is often argued that CSR reports have only been established to communicate ethical commitment to the public. In connection with this allegation, the term "greenwashing" arose. This term describes PR methods and advertisements which are especially aimed at creating a responsible and environmentally friendly image of a company (Seele 2007).

As a consequence, the term "socially responsible" has already been substituted by "socially concerned" in recent publications (see e.g. Kopela and Brand 2011). However, for this master thesis, the former term will be applied since it is most commonly used within the literature on CSR.

The increasing number of CSR reports noted by KPMG (2008) mentioned above is also an indicator that this comprehensive field of research needs to be investigated more closely. It is a signal of increasing global interest in the topic. Executives have to make decisions whether and which activities should be conducted that are environmentally and socially friendlier. In addition, attention must be paid to finding out how potential strategies can be pursued by staying competitive.

Another critical issue to deal with are human rights. Wrong decisions in this area may lead to major business problems and a negative corporate reputation. A recent example is Apple, a company which was confronted with the issues mentioned. The enterprise was and still is subject to intense criticism concerning its Chinese suppliers due to unsafe and unhealthy working conditions in Chinese factories which were revealed. As a consequence, Apple's reputation has been tarnished (Skinner 2011).

Moreover the attention a company pays to the social and environmental consequences of its activities is closely connected with its performance and profits. The example of Apple shows that the whole supply chain network may be affected, as suppliers may stop deliver-
ing their components. In addition, customers could stop buying the final products. Hence, an enterprise should consider CSR-related activities which could place it in a better competitive position. However, a company has to consider how to combine CSR-related tasks with long-term business objectives. The expression "long-term" is used because business conditions change very quickly and frequently. There are several events within the business world that have led to an increase in discussions about the social and ethical responsibility of companies, e.g. financial scandals such as those of Enron and Deutsche Telekom, the increase in globalization and an increase in start-up companies and in competition. Furthermore, debates about increasing profits of companies and downsizing have arisen.

A company therefore not only has to focus on operative activities – the company must also integrate CSR in its Strategic Management. The latter is considered in this master thesis as enterprises should pursue pursuing strategies that allow them to adapt to changes in their business surroundings. The reason for that is that factors influencing CSR modify over time, e.g. environmental problems or technology. Such variations are the reason why the Dynamic Capabilities View (henceforth DCV) is the main theoretical approach in this master thesis. This perspective mainly focuses on a company's adaptation to variations within the field of business activity by means of Dynamic Capabilities. These are appropriate "...to match and even create market change." (Eisenhardt and Martin 2000, p. 1007). Moreover, the connections between CSR and Dynamic Capabilities were rarely investigated in recent publications. Exceptions are e.g. Lattemann et al. (2007) and Ramachandran (2011), whose publications will be referred to later on.

It stands to reason that a company cannot always implement CSR strategies and have a better market position at the same time. Consequently a company should integrate CSR in its long-term business decisions, which gives it the possibility to build up a Competitive Advantage (henceforth CA). At first, a general definition of CA is used for further work:

**Definition 2: Competitive Advantage (CA)**

Competitive Advantage exists when a firm realizes more economic profit than the average economic profit of other companies competing within the same market (Besanko et al. 2007).

From the definition above it is obvious that it is necessary to realize profits to achieve CA. Profits allow a company to remain in business and provide products and services at a com-
petitive price. With reference to Definition 2 and CSR, a company has to choose strategies that are characterized by profit maximization and engagement in CSR. Superior performance and CA can then be achieved through social actions in combination with an efficient exploitation of the company’s resources and capabilities (Husted and Allen 2011). Consequently a trade-off arises, as engaging in CSR results in social actions which cost money. Hence, a company is faced with a trade-off between engaging in social actions on the one hand and profit-maximization on the other (Ramachandran 2011).

The aspects discussed above can be summarized as the main points of this master thesis. These aspects are also reflected in its title and are listed again below.

- CSR as a global issue of increasing interest in the international business world and Strategic Management.
- The implementation of CSR in accordance with profit-maximization to achieve CA which requires a firm to have higher economic profit than its competitors.
- The development of Dynamic Capabilities as a response to social, environmental and business needs and changes which in order to generate and sustain CA.

Related to the previous remarks it must be mentioned that integrating activities connected to CSR in a firm’s strategic thinking may require various changes within the organization. These range from modifications in the production process to a commitment to safety at work and environmentally sustainable partners. It is not the task of this master thesis to take a closer look at the processes and procedures within an organization. The aim is to show how Dynamic Capabilities may help a firm implement CSR and achieve CA.

A personal interest in the previous points is just one decisive reason for choosing the subject of this master thesis. The background for this personal motivation to write it is discussed in the next subsection.

1.2 Motivation

As a consequence of the ongoing debate on CSR, the term is widely used in business literature. The publications contain theoretical papers which relate CSR to economic approaches such as Agency Theory and especially the Resource-based View (henceforth RBV) of the firm. Many of these theoretical perspectives were taught in the context of courses within the masters program of business administration offered at the Institute of Organization and
Economics of Institutions at the University of Graz. Further research themes at the institute include the identification of links between CSR and Corporate Performance as well as exploring organizational structures and the associated implications regarding CA. Diverse courses offered at the Institute of System Sciences, Innovation and Sustainability Research at the University of Graz additionally dealt with CSR, CA and sustainability issues.

Out of personal interest in the issues mentioned above, my decision was taken to write a master thesis on CSR and its link to one of these theoretical perspectives. Another inducement was an interest in the question of under which circumstances enterprises have an advantage over their competitors and how associated explanatory approaches can be elaborated and illustrated by theoretical frameworks and formal models.

After creating a mind map, it was clear that the master thesis should adopt the form of a literature review due to the comprehensive literature existing on CSR and Dynamic Capabilities. The procedure follows the approach of Lattemann et al. (2007). The latter addressed the question whether CSR can be seen as a dynamic capability. The work at hand helps fill a gap in research as Lattemann et al. (2007) point out that the relationship between Dynamic Capabilities and CSR has not been analyzed in recent publications.

Beside the mentioned theoretical papers, there are also empirical papers of CSR in business literature. The subsequent work considers theoretical as well as empirical publications. The reason for this choice will be given later on. First, the structure of this master thesis is presented.

1.3 Frame of Reference

The frame of reference shown in Figure 1 below reflects the structure of this master thesis and shows its field of examination.

It is evident from Figure 1 that the overall field of research is Strategic Management. The arrows highlight the sequence of the working process of the master thesis at hand. The frame of reference helps understand the whole research project and its main parts. The illustration of the structure of the master thesis also shows the corresponding chapters and reveals that not all relevant areas of the theoretical foundations are factored into the field of examination.
Firstly, an overview of the state of the art and the research scope will be given. Then, theoretical approaches within Strategic Management will be used to examine the research questions. The former explain the emergence and sustainability of CA. After that, implications for CA within the field of CSR are going to be elaborated. For that purpose, the DCV will be used.

As can be seen in Figure 1, different theories within Strategic Management are taken into account. The conceptualization of the model afterwards refers to the DCV, CSR and CA. This is illustrated by the shades in Figure 1. It serves to visualize the gained knowledge about CSR, Dynamic Capabilities and CA. In addition, it serves to show their interrelations. At this point, the difference to the approach by Lattemann et al. (2007) becomes apparent, whose work serves as a starting point for this master thesis: a literature review will be carried out to conceptualize a model. This model serves to illustrate the results and develop theories within this field of research. By contrast, Lattemann et al. (2007) carried out a case study for testing their hypotheses and did not investigate in detail the effects on CA.
**Figure 1: Frame of reference of master thesis**

**CHAPTER 1: Introduction**

**MASTER THESIS**
"Corporate Social Responsibility and the Emergence of Competitive Advantage – A Dynamic Capabilities Perspective"

<table>
<thead>
<tr>
<th>Components</th>
<th>Chapter</th>
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<tbody>
<tr>
<td>State of the Art and Research Scope</td>
<td>1</td>
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<tr>
<td>Theories of Competitive Advantage in Strategic Management</td>
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<td>CSR in Strategic Management</td>
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<tr>
<td>Conceptualization of a Model for an Integrated View of Corporate Social Responsibility within a Strategic Management Perspective</td>
<td>5</td>
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<td>Discussion of Results and Implications for CSR Strategy Development</td>
<td>6</td>
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<tr>
<td>Conclusion and Recommendations for Future Research</td>
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It can be argued that the conceptualization of the model is the unique selling proposition of the master thesis – therefore it is especially highlighted in Figure 1.

The end of the master thesis is formed by a concluding summary which comprises the gained knowledge of the entire work. A detailed explanation of the single chapters is provided in the ensuing reader’s guide.

It is obvious from this frame of reference that various theoretical approaches are used to conceptualize a model. To gain an insight into this extensive field of research, it is outlined in the following subsection.

1.4 Field of Research

In this thesis, the theoretical foundations of Strategic Management are going to be discussed and the question how a company can generate and sustain CA is going to be addressed. The following paradigms deal with this problem and are relevant for this master thesis:

- Time-based Theories of Competitive Advantage
- Resource-based View
- Dynamic Capabilities View
- Industrial Organization View

The focus within this master thesis is on the DCV, which is reflected in its title. Various scholars argue that the perspective of Dynamic Capabilities can be classified within the RBV. Advocates of this argument are Teece et al. (2007) and Yang et al. (2007). In addition, Husted and Allen (2011) argue that the establishment of Dynamic Capabilities is a central issue within the RBV.

It is undisputable that the DCV is closely rooted in the RBV. But it is more appropriate to consider it as a single paradigm explaining CA. One reason for this is that the Dynamic Capabilities approach has gained more and more significance in recent years. That is mainly because it deals with the generation and sustainability of CA in dynamic business environments. Moreover, there are major differences between the RBV and the DCV, which will be discussed in chapters 2 and 3. Consequently the term "Resource-based Perspectives" seems appropriate to include both theoretical approaches. This is shown in Figure 2, which illustrates the different components of the field of research.
CHAPTER 1: Introduction

Figure 2: Field of research of master thesis

Figure 2 illustrates that the overall field of research is Strategic Management. It deals with "… the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages." (Enz 2009). The structures and boundaries of companies and markets are analyzed. Different strategic interactions between enterprises are discussed, too. In addition, this field of research considers actions beyond the internal boundaries of a firm, e.g. the identification of key stakeholders and the search for potential business partners. This is also essential when addressing CSR issues, as the competitive environment of a company comprises a vast number of stakeholders. Therefore Strategic Management is widespread within academic literature and has especially gained importance in connection with CSR in recent years due to an increase in environmental and social debates in the media and the business world.

As Figure 2 above indicates, the focus of this work's research activity is CSR and CA within Strategic Management. Explanatory frameworks for CA are going to be reviewed. Both theoretical and analytical models as well as empirical investigations and case studies in the field of CSR are also going to be explored.

It is undisputed that there is no uniform accepted theory of CA. For this reason, the term "Theories of Competitive Advantage" is used. Nevertheless, various theoretical frameworks try to explain how a firm can generate and sustain CA, e.g. with reference to the market power of firms. There are also approaches which consider company's capability to
acquire and develop resources as the source of CA. These views are summarized by the term "Resource-based Perspectives" introduced above and include both RBV and DCV.

Lieberman and Montgomery (1998) argue that the branch of research regarding First-mover advantages (henceforth FMAs) and the RBV have developed independently. Beside FMAs, there are also discussions on Second-Mover Advantages (henceforth SMA) and Late Mover Advantages within the literature of Strategic Management. Therefore the term "Time-based Perspectives for CA" is introduced to encompass these three perspectives.

According to Enz (2009) there are different perspectives of Strategic Management. Of those, the following need to be considered more closely:

- Traditional Perspective of Strategic Management
- RBV
- Stakeholder Approach

The first point considers the company as an economic entity. It is argued that it is necessary to analyze the internal and external environment to formulate strategies. In general, the RBV considers a company as a collection of resources, skills and abilities. The Stakeholder Approach places a company within a network of relationships that exists between the company and other groups and constituents (Enz 2009). There is a special focus on the Stakeholder Approach in this master thesis, as it was already mentioned in a first attempt to define CSR (see Definition 1). The link between CSR and the Stakeholder Approach is discussed in detail in chapter 4.

1.5 State of the Art

Although the term CSR is widely used in business literature, there is a lack of a uniform and accepted definition of the term. Many authors have sought to define the construct of CSR and its related activities (see e.g. Baron 2010, Kopel 2009 and McWilliams et al. 2006). In addition, there is also no clear consensus concerning the comprehension of CSR in theory and its practical implementation. Consequently, the concepts and definitions are manifold. Recommendations for companies concerning the implementation of CSR are also diverging due to the diversity of social and environmental activities and the lack of a clear-cut definition and categorization of CSR.
As has been mentioned earlier, theoretical papers submit CSR to economic approaches such as Agency Theory and the RBV. Generally speaking, the Agency View examines incentive-optimal arrangements in the presence of asymmetric information. Relating this theory to CSR, it can be stated that opportunistic and self-serving managers may use CSR to improve their personal status. Furthermore, CSR activities may lead to a reduction in shareholder wealth. Advocates of this view are of the opinion that the only social responsibility of a firm is an increase of its profits (Friedman 1970). This approach is called the "Shareholder View" within the literature of Strategic Management.

By contrast, advocates of the RBV discuss the question whether engagement in CSR can put an enterprise into a better competitive position. They argue that this can be achieved through an efficient use of a firm’s resources. The latter should be used and combined in a way which enables a company to attain a superior market position. This argument supports the intention of a socially responsible firm, which is to address social and environmental needs (Mair and Marti 2006).

But nowadays it is the Stakeholder Approach which is most widely discussed and mainly accepted within the field of CSR. Its advocates argue that it is not sufficient to focus on the needs of the shareholders. Instead, managers have to satisfy a variety of constituents who have an influence on the corporation. These constituents are the stakeholders including customers, suppliers and employees. Shareholders and stakeholders have to be treated equally, which implies that the success of a company is connected with satisfying non-economic and economic interests (Freeman 1984). Moreover, the Stakeholder View is connected with CA as the way relationships between the company's shareholders and stakeholders are dealt. This influences the bargaining position and reputation of a corporation and can lead to a CA by taking different stakeholders into account (McWilliams et al. 2006).

When addressing CSR-related issues, what is often mentioned is strategic CSR (see e.g. Baron 2010 and Kopel 2009). However, this aspect is not addressed in this master thesis as the objective here is to assemble the comprehensive literature of the topic. Nevertheless, companies have to integrate CSR activities in their long-term business activity. Therefore strategic considerations are taken into account when using the term "CSR".
Within the field of Strategic Management, scholars have also tried to identify strategies that comprise CSR activities (see e.g. McWilliams et al. 2006). Authors elaborated formal models including Kopel (2009), who investigated conditions under which an enterprise can develop a FMA when the firm engages in socially responsible activities. The author shows that "Only if the outcomes of CSR initiatives are highly specific to a firm (i.e. CSR spillovers are quite low), a first mover advantage exists." (p. 17) He also finds out that "… the CSR leader can achieve and sustain a competitive advantage only if it can also capture the value that it is creating with its activities in CSR." (p. 17).

This question, to wit whether CSR leads to CA, was also addressed by Hart (1995) in a more theoretical paper. He applied the RBV framework to CSR and concluded that environmental social responsibility can constitute a resource and capability for a company. It can lead to sustainability in CA (Hart 1995). Other scholars have also linked theoretical approaches to CSR, e.g. the RBV. Advocates of this line of research are e.g. Branco and Rodrigues (2006), who argue that the latter approach to Strategic Management "… can contribute to an analysis of CSR by offering important insights to how it can influence a firm’s financial performance." (p. 120).

By contrast, there are only a few publications, including Ramachandran (2011) and Lattemann et al. (2007), who deal with CSR in conjunction with Dynamic Capabilities. Latter point out that the relation between Dynamic Capabilities and CSR has not been analyzed in recent publications. This master thesis therefore intends to advance this line of research. Lattemann et al. (2007) addressed the question of whether CSR can be seen as a dynamic capability. They investigated the resulting consequences for a company's strategy and CA in hyper competition. This task was carried out by means of a literature review in combination with a case study. The differentiated framework of this master thesis is explained afterwards.

1.6 Research Scope

1.6.1 Methodology and related Purposes

The research method in this thesis is an analysis of the literature within the field of research shown in Figure 2. It forms the theoretical foundation of this master thesis. The comprehensive literature on CSR, Dynamic Capabilities and CA is going to be condensed.
The main task is to collect relevant data in publications. Scientific information is taken from journals and books. These are accessed through offline and online research, especially by using the ISI Web of Knowledge and its citation map. The focus lies on published works between 1990 and 2011. However, it is essential to take some older publications into account in order to evaluate the emergence of theoretical economic perspectives. The publications will be reviewed and discussed in order to conceptualize a model and therefore they form an important part of this master thesis (see Figure 1).

Theoretical papers are taken into account as well as empirical studies. In addition, analytical approaches and case studies are incorporated. As models from game theory are often used to show the effects of social investment in Bertrand and Cournot competition, scholars use analytical models to investigate the behavior of social responsible companies. The main results of such perspectives from game theory influence subsequent work, too. Using microeconomic models and game theory has also become a central analysis method in Strategic Management. These tools are used to examine the effects of social responsible companies in competition with companies who do not carry out CSR-related actions (for more details on this point, see e.g. Husted and Allen 2011, Kopel 2009 and Kopel and Brand 2011).

However, no empirical data will be collected and no hypotheses will be set up and tested, as this master thesis is an analysis of literature combined with the conceptualization of a model.

The stated theoretical procedure is used because there is an increase in CSR-related publications. A theoretical point of view therefore seems appropriate for discussing the comprehensive literature. Moreover, it is more efficient to gather the results of empirical studies and formal models and integrate them in a model. This way, a condensation of the extensive literature is possible. Finally, this method allows future examinations of the results in a more analytical and empirical matter.

This methodology also aims at opening up new ideas and more insights into the extensive field of CSR. It can assist a deeper understanding of the complex relationships between CSR, Dynamic Capabilities and CA.

Afterwards, a model is going to be conceptualized by using the gained knowledge and findings. This part coincides with "Theory Development" in the frame of reference (see...
It aims at illustrating how CSR as a dynamic capability can lead to the emergence of CA. The conceptualization of the model serves to provide an overview of the relationships between CSR, Dynamic Capabilities and CA and will be performed within a Strategic Management Perspective.

By using the methodology presented above, the following formulated research questions can be answered.

1.6.2 Research Questions

Considering the previous remarks and extending the work of Lattemann et al. (2007), the main research questions are as follows:

**Research question 1:**

What are the relationships between Corporate Social Responsibility and a firm’s Dynamic Capabilities?

**Research question 2:**

Can CSR activities be considered as Dynamic Capabilities which lead to Competitive Advantage?

From these research questions, subquestions with the corresponding objectives of master thesis were derived. These subquestions are needed to fulfill the overall research objective of answering the main research questions. Together they form the basic structure of the master thesis and thus of the literature review and the theoretical illustration. They are listed in Table 1 below, which also shows the corresponding part of the frame of reference (see Figure 1).
CHAPTER 1: Introduction

Main research question 1

What are the relationships between Corporate Social Responsibility and a firm’s Dynamic Capabilities?

Subquestions and related objectives of master thesis

| How can firms generate and sustain CA? | - Literature review of CA within Strategic Management (theoretical approaches) |
| How did the Dynamic Capabilities View evolve? | - Evolvement of the DCV |
| - Links between Dynamic Capabilities and CA |
| How does the topic of CSR find expression in academic literature? | - Historical development of CSR within Strategic Management |
| - Indicating the relationships between CSR, Shareholder View and Stakeholder Theory and CA |
| - Illustrating strategic implications of CSR |
| - Identification of connections between CSR and Dynamic Capabilities |
| Which definitions of CSR, CA and Dynamic Capabilities are suited for elaborating the effects of CSR on CA? | - Definition of the terms CSR, CA and Dynamic Capabilities |
| - Limiting the boundaries of CSR to obtain a basis for the conceptualization of the model |
| - Comparison of generic strategies and strategies including CSR |

Main research question 2

Can CSR activities be considered as Dynamic Capabilities which lead to Competitive Advantage?

Subquestions and related objectives of master thesis

| How can CSR as a dynamic capability lead to CA? | - Analysis of how CSR as a dynamic capability can generate CA |
| - Conceptualizing a model for an integrated view of CSR, Dynamic Capabilities and CA |
| What implications for strategy development can be identified? | - Showing opportunities for companies by integrating CSR in their strategies including the results of the model |

Table 1: Research questions and related objectives of master thesis

As Table 1 shows, a main part of this master thesis is a literature review on the emergence of the DCV out of the RBV and on the field of CSR. Regarding the main research ques-
tions it will be stated how both perspectives explain the emergence of CA within Strategic Management.

Table 1 also shows that definitions are provided within this master thesis. This is to simplify the analysis of relationships between CSR, CA and Dynamic Capabilities as there are no consistent and generally accepted definitions of these terms. Additionally it would be impossible to investigate interrelations between different publications without a consistent terminology based on general definitions. The adapted definitions are indicated clearly within this master thesis and are also summarized in the appendix. Therefore it is not useful to provide an extensive list of existing definitions and concepts. Instead, an overview of the literature is given which is followed by separate definitions of the relevant terms. Another objective is then to compare generic strategies in Strategic Management with strategies which include CSR. The related strategic implications will be explained in chapter 6 of this thesis.

The research questions listed above were elaborated to achieve the main objectives of this master thesis, which are summarized in the following subsection.

1.6.3 Main Objectives

This master thesis addresses the following main research question within the field of Strategic Management by integrating CSR: Why are some firms able to achieve CA while others are not? In line with this, Porter and Kramer (2006) noted that a large number of companies invest corporate resources in CSR but only a few are able to reach a CA. This work also deals with this issue, but through the lens of Dynamic Capabilities.

The thesis and its results should furthermore provide an academic contribution for future research on CSR, which is not only limited to a literature review from a Dynamic Capabilities perspective. The thesis can also serve as a starting point for computer simulation models. Such models enable investigations of how CSR as a dynamic capability of an enterprise can affect its CA. With reference to this, Zott (2003) built a formal dynamic capability model to refine his theoretical propositions with computer simulation analysis. This research work helped to understand how different attributes of Dynamic Capabilities can lead to different intraindustry firm performances. On a related note, another purpose of this thesis is to identify relationships between CSR and Dynamic Capabilities. Therefore it could support theory development within these fields of research.
To sum up, the main objectives can be specified as follows:

- Advancement of the field of research on CSR, CA and Dynamic Capabilities within Strategic Management.
- Providing a deeper understanding of the interrelations between CSR and CA through the lens of Dynamic Capabilities.
- Gaining new ideas and more insights into the extensive field of CSR.
- Illustration of the effects of CSR as a dynamic capability on a firm’s CA.
- Conceptualization of a model to get an overview of the complex relations between CSR, CA and Dynamic Capabilities.
- Supporting theory development within the fields of CSR, CA and Dynamic Capabilities.
- Providing a starting point for both computer simulation and analytical models.

The applied research scope mentioned in this section follows the structure of this master thesis. A detailed explanation of the single chapters is provided in the following reader’s guide.

1.7 Reader’s Guide

Figure 3 below shows a detailed view of the master thesis.
As can be seen from the illustration above, the remainder of this thesis is structured as follows: Chapter 2 introduces the basic theoretical concepts underlying the research questions. It deals with theoretical approaches that explain the emergence and sustainability of CA within the field of Strategic Management. This is necessary to have an understanding of the background and the topicality of CA. The chapter goes into more detail on the evolution of the DCV as it is its main theoretical background. A brief introduction to the Resource-based Perspectives is given because they can be seen as the roots of the DCV.
Chapter 3 summarizes the emergence of CA under the perspective of the DCV. One main part is to lead the way to a definition of Dynamic Capabilities appropriate for this master thesis. The focus here is to find connections between Dynamic Capabilities and CA. Moreover, sources of potential debates and confusions within the literature are discussed.

Chapter 4 then consists of another literature review: the one concerning the field of CSR within Strategic Management. This chapter addresses the question of how CSR may lead to CA. A definition of the term "CSR" appropriate for this master thesis will also be provided in chapter 4.

Subsequently, chapter 5 deals with the conceptualization of a model in order to obtain an integrated view of CSR, Dynamic Capabilities and CA. The knowledge and ideas gleaned from chapters 2, 3 and 4 provide the basis for this model, which serves to visualize potential relationships between those three aspects.

Afterwards, the results are going to be discussed in chapter 6, i.e. whether and how CSR can generate CA as a Dynamic Capability. In addition, the implications for CSR strategy development are elaborated.

Finally, chapter 7 concludes the master thesis. It comprises an integrative summary of the work and also presents recommendations for future research.

This reader’s guide also reflects the research questions of the master thesis. Chapters 2, 3 as well as chapter 4 help to answer the first research question: What are the relationships between CSR and a company's Dynamic Capabilities? By contrast, the purpose of chapters 5 and 6 is to answer the second main research question, to wit whether CSR activities can be considered as Dynamic Capabilities and lead to CA.

As the reader’s guide as well as the frame of reference already indicated, the first literature review contains theoretical background about the emergence of CA within Strategic Management. This is the content of the following chapter.
Chapter 2

Explanatory Approaches for Competitive Advantage in Strategic Management

The emergence and sustainability of CA is one of the emphases in Strategic Management. The reason for this focus is an increase in competition in national and international markets (Teece et al. 1997).

Companies not only have to make decisions about their products, their organization and market entries to survive in the business world. They also have to decide how they can be better than their competitors in the long term. Therefore they have to look beyond their internal boundaries and integrate their external market environment and relationships to their stakeholders into their considerations.

CA is also inevitably connected with a firm’s success or failure: it is about achieving a superior position within a market. In order to prosper, a company not only has to reach an advantageous position, it also has to keep it and achieve Sustainable Competitive Advantage (henceforth SCA).

Although there is no uniform theory which explains how a company can achieve and sustain CA, there are different paradigms which address this question. They are illustrated in following Figure 4 – the discussion afterwards starts with Time-based Perspectives.
CHAPTER 2:  
Explanatory Approaches for Competitive Advantage in Strategic Management

2.1 Time-based Theories of Competitive Advantage

In general, time-based competitive theories include strategies that deal with the introduction of new products or services and the opportunities involved for companies to generate CA. This is of importance especially in marketing and innovation management. First-mover, second-mover and late-mover advantages belong to this category. The discussion below will only refer to the first two terms. This is because they play an important role within the field of CSR: strategies including social actions involve proactivity, which describes "… the ability of the firm to anticipate social trends through its initiatives." (Husted and Allen 2011, p. 95). Furthermore, there is mainly a distinction between first movers and second movers throughout the business literature. A comparison between SMA and late movers is rare. Thus, the main objective in the following sections is to point out how the timing of competitive actions and companies' responses influence the competitive dynamics of a market. In addition, the following reflections help identify connections between Time-based Perspectives and Dynamic Capabilities.

2.1.1 First-Mover Advantages (FMAs)

A first-mover advantage (henceforth FMA) can be defined as "… a firm’s ability to be better off than its competitors as a result of being first to market in a new product category." (Suarez and Lanzolla 2005, p. 121). If there is no comparable product on the market when a company wants to launch its new one, then the company tries to achieve CA by implementing such a strategy. It is also useful to distinguish between a durable and a short-lived FMA. The former leads to an improvement of the company’s market share or profitability in the long term. In this connection it has to be noted that, of course, no CA is infinite. But it is important to realize that enterprises tend to dominate the product market for
many years. The only requirement for achieving this is to build up a FMA (Suarez and Lanzolla 2005).

Cost advantages and learning effects are the main sources for a FMA. The reason is that successful early entrants can achieve higher market shares than their competitors. Since unit production costs decrease with cumulative output, the company entering early can achieve a cost advantage. One requirement is that the company can maintain its market share and that learning is kept within the firm. Consequently the company can also offer higher prices as it is a temporary "monopolist" if it serves the demand of a large customer base. In line with this, the first mover also has the possibility to gain SCA. This can be achieved by earning above-average returns until competitors respond effectively. Another way is to gain customer loyalty. The latter can be obtained through branding or corporate reputation. Furthermore relationships with suppliers can be established. First movers can consequently protect their products or technology through patents. This may lead to entry barriers which can keep competitors out of the market (Lieberman and Montgomery 1988).

Since learning effects are mentioned as special parts of Dynamic Capabilities (Zollo and Winter 2002), a first link between a FMA and Dynamic Capabilities emerges.

By contrast, an enterprise which responds to a competitive action of the first mover successfully enjoys a SMA. If a company responds quickly, it may win over some of the initial customers of the first mover. The second mover also has the possibility to gain customer loyalty and to learn about the market through observation of the first-mover's actions. Furthermore the second mover avoids costs for R&D if the product is successfully imitated. Nevertheless, a rapid response to the first mover’s actions is often not possible. The reasons are manifold, e.g. lacking resources or capabilities within the company (FinancialTimesLexicon 2012, Lieberman and Montgomery 1998).

However, a FMA is not always successful. In some cases, second movers and late movers benefit. CA in such cases arises in many cases from free-rider effects, i.e. a follower company can benefit from the first mover’s investments. Among the latter belong investments in infrastructure or immaterial aspects such as customer’s initial awareness of products (for more details on this point, see Lieberman and Montgomery 1988).

The main advantage for second or late movers is that they do not have to bear the total costs involved with R&D. Moreover, they can observe the reactions of the customers. It is
advantageous for the following companies because it is very difficult for incumbents to adapt to environmental changes. As a result, it is very difficult to have a long-lasting FMA without adapting a company's organization. This is because the success or failure of a FMA is not only limited by the product itself – it is also rooted in the market situation and the competitive landscape. Thus the success is influenced by various factors such as product cycle, market cycle, network effects and product complexity (Lieberman and Montgomery 1988).

Throughout the literature, there are different examples of FMAs, e.g. the introduction of Apple's Personal Digital Assistant "Newton" in 1993 (Bayus et al. 1997). In addition, there are also examples within the field of CSR, which is discussed below through the lens of Dynamic Capabilities.

2.1.2 First-Mover Advantages and the Link to Corporate Social Responsibility and Dynamic Capabilities

The launch of the "Toyota Prius" and the success involved for the company illustrates a FMA for the Japanese car producer. This example can be assigned to the field of CSR because the hybrid vehicle is equipped with an alternative drive engine and less fuel consumption and emissions. Toyota was the first to market hybrid fuel, which includes gas and electricity, for cars. With the launch of its model in 1997 in Japan, the company preempted its competitors. Toyota benefited from a FMA. The hybrid vehicle has also become a standard for hybrid cars. As a consequence, the company had the opportunity to take the lead in the production of hybrid cars in Japan in the year of the launch (Rowley 2006).

The example of Toyota above illustrates how important timing is within the field of CSR, as resources inevitably become scarce due to an increase in globalization and competition.

A further example of a FMA and CSR is the introduction of an environmentally friendlier dismounting system of BMW. The firm enjoyed a FMA due to its commitment to product stewardship. Due to legal restrictions, BMW developed a new recycling strategy. The reasons were planned legal restrictions in 1990. The market situation was characterized by only a few companies dealing with dismounting. BMW then decided to cooperate with those companies and developed a new design which allowed for environmentally friendlier dismounting. The new system became the standard and therefore many competitors were
forced to found new companies for dismantling. But since this was connected with higher costs, BMW achieved a FMA and in turn generated CA (Hart 1995).

The examples above indicate that it is not only the existing company's resource base which affects the timing of an entry. The company's capabilities also play an important role because the entry into a new market does not only depend on managerial choices. If firms have weaker capabilities than others, they are forced to enter later (Lieberman and Montgomery 1998). The example of Toyota supports this argument as other companies within the industry had not developed the technology for producing a hybrid engine. Hence it can be argued that it is essential to possess capabilities within a company to achieve a long-lasting FMA, i.e. SCA. Here, a further connection to the DVC appears, which deals with a company's ability to adapt to environmental changes.

It is now obvious that timing plays an important role in achieving CA. This is of great importance, especially within the field of CSR. That is because developments in society, the business world and the environment require continuous adaptation to the changing conditions. If a firm is able to put its product or services on the market on time or even anticipate potential modifications, it has a great chance to be better off than its competitors. To undertake these actions, a company needs the corresponding capabilities.

What is essential is that the sustainability of a FMA and thus CA depends on the initial resources of the first mover and the resources and capabilities developed after the market entry (Lieberman and Montgomery 1998). In order to achieve a CA, these resources must be superior compared to the first mover’s competitors. From this follows that Dynamic Capabilities, i.e. capabilities that are constantly strengthened and developed over time, play an important role when sustaining a FMA and consequently generating an SCA. Hence, a definition of Dynamic Capabilities has to include the timing of entry, which will be discussed in chapter 3.

Beside Time-based Perspectives of CA, the IO View also deals with the competitive behavior of corporations.

2.2 Industrial Organization View

This approach provides explanations for the emergence of CA and studies the strategic interactions of enterprises. It considers the structure of enterprises and boundaries between companies and markets. On a related note, the IO view addresses questions concerning the
organization of firms, their competitive behavior within a market, market power, innova-
tiveness, etc. Microeconomic models and game theory are mainly used to examine a com-
pany's actions and market opportunities.

Within this field of research, Michael E. Porter made influential contributions. His theories
gained importance throughout the academic literature. Strategic Management and IO texts
inevitably contain his models and theories. When studying different journals, it becomes
obvious that there are different theoretical debates about the topicality and the relevance of
his papers today (see e.g. Bowman 2008 and Foss 1996). Nevertheless, Porter’s contribu-
tions to Strategic Management in conjunction with IO were incontestably essential. Teece
et al. (1997) argue that M.E. Porter’s Competitive Forces Framework can be considered
one important approach within the field of Strategic Management. Other models by Porter
include the Structure-Conduct-Performance Paradigm and Porter’s Value Chain Concept
(for more details, see Pfähler and Wiese 2008 and Porter 1999, 2008).

An approach closely connected to the IO view is the Strategic Conflict Approach. It anal-
yses competitive dynamics by applying game theory (Yang et al. 2007). It is argued that
superior performance can be achieved and sustained by competing through a clever se-
quence of moves and counter-moves in a well-defined strategic game, e.g. pricing and in-
vestment strategies (Truch 2004, Yang et al. 2007). Although this shows that the Strategic
Conflict Approach is closely related to IO, Yang et al. (2007) state that both perspectives
have to be considered separately. But since the Strategic Conflict Approach also uses game
theory to explain competitive interactions, it is consequently considered as a part of the IO
view.

Another explanatory approach of CA within Strategic Management includes the RBV, the
DCV and the Competence-based View. These are called the Resource-based Perspectives.
The following section is narrowed down to their main advocates and their contributions.
This should not undermine the importance of other scholars, but it would go beyond the
scope of this master thesis to cover all details of theoretical precursors.
2.3 Resource-based Perspectives

2.3.1 Resource-based View (RBV)

The RBV is widely spread within the field of Strategic Management. It can be seen as one of the most influential frameworks. Consequently, many other disciplines have been related to this perspective, e.g. Mahoney (2001) discusses the differences and similarities between resource-based approaches and transaction cost economics. According to the author, the former view considers assets and capabilities as the origins of CA. It also deals with its strategic development. Mahoney (2001) also argues that both perspectives can be seen as complementary approaches. This coincides with the view of Proff (2007), who argues that the resource-oriented view explains efficiency rents with a better use of existing resources. Thus Resource-based Perspectives can be covered separately from other approaches in Strategic Management.

Generally speaking, the RBV arose due to shortcomings of the Structure-Conduct-Performance paradigm within IO. These shortcomings mainly occurred because a firm’s success is determined by its external environment as well as by events within its own organization, e.g. the company’s history and its corporate culture (Barney et al. 2001, Russo and Fouts 1997).

The resulting new approaches have their origins in the work "The Theory of the Growth of the Firm" by Edith T. Penrose. It was first published in 1959 and can be seen as the root of the RBV. Penrose considered companies as "... administrative organizations that are collections of heterogeneous productive resources that have been historically determined." (Locket 2005, p. 85). Penrose is regarded as the founder of the "Traditional RBV", which was characterized by resource heterogeneity and path dependency. She saw the company as a bundle of resources composed of physical assets and mainly human resources. The question of how much value is created thus depends on how these resources are deployed, i.e. how they are combined within the organization (for more details, see e.g. Penrose and Pitelis 2009).

Penrose's fundamental ideas were the starting point for other theorists to refine the RBV. In addition, evolutionary theories arose which provided analogies to the biological concepts of variation, heredity and selection – often referred to as the Darwinian process of selection. Evolutionary theories address questions regarding social and economic phenomena in
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terms of processes of change. These processes are derived from the Darwinian perspective of evolution. One of the main contributions in evolutionary theories is the model by Nelson and Winter (1982). The authors elaborated an evolutionary framework where companies possess path-dependent knowledge bases. Therefore, there is a connection to the RBV, as unique historical conditions affect the firm’s resources (Montgomery 1995). Moreover, evolutionary theories are one of the starting points of the DCV since the latter deal with processes of change.

It was mainly the publications of Wernerfelt (1984) and Grant (1991) who shaped the further development of the RBV. Wernerfelt (1984) was the first scholar who divided resources explicitly into tangible and intangible assets. Tangible assets comprise financial, organizational and physical resources. Intangible assets include technological resources, human resources and reputation. The latter not only include the expertise of employees, but also their loyalty, commitment and the overall behavior within a firm (Wernerfelt 1984).

According to Wernerfelt (1984), CA is rooted within a company. CA can emerge if the assets are valuable and inimitable. Grant (1991) extended this vision and states that CA is not only achieved through a subset of resources which are rare and valuable. He argued that its emergence is also determined by the management’s abilities and the company’s competences and capabilities. These factors mainly contribute to a firm’s performance and in turn to an increase in the competitiveness of an enterprise (Grant 1991).

Since the mentioned publications did not explicitly deal with SCA, the publications of J.E. Barney can be seen as a historical milestone in the development of the RBV. His theories gained importance and acceptance within the literature. This can mainly be ascribed to the fact that his papers dealt with SCA, which up to that time had not been analyzed. Thus Barney can be seen as the pioneer of the “Modern RBV”.

Barney (1991) states that sustainability in CA is not normally the case. The internal competences of a company have to be applied to its external environment. Then a corporation can develop a successful strategy. Furthermore it is necessary for SCA that the firm’s resources show the following four characteristics, also called "VRIN-criteria" (Barney 1991):
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➢ Valuable
➢ Rare
➢ Inimitable
➢ Non-substitutable

These four criteria can be seen as the most influential scheme in describing the sources of resource-based SCA. Resources, and a combination of resources respectively, which are valuable, rare and inimitable, can lead to the creation of CA. In this way, they provide a company with a largely stable market position. This advantage can be sustained over longer periods of time, to the extent that an enterprise is able to protect its products and/or services against resource imitation, transfer or substitution (Barney 1991). According to Barney, firm resources are “... all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc., controlled by the firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness ...” (Barney 1991, p. 101).

The definition above claims that capabilities can be counted among firm resources. This does not seem to be applicable, as Amit and Schoemaker (1993) already distinguished between both terms. According to the latter, resources are non-specific to the company whereas capabilities are specific to the company. They state that capabilities are mainly used within the company. But capabilities can also be used for transferring knowledge between different subsidiaries. They can be the source of CA since they are, like intangible assets, more difficult to imitate. Furthermore, firm-specific intangible assets are more likely to be a source of CA (Barney 1991). Eisenhardt and Martin (2000) argue that CA can be achieved through integration, development and reconfiguration of resources. The latter statement reveals that the ability of firms to further develop an existing resource base is essential for keeping an advantageous position in a market.

The classification of capabilities among a firm’s resources carried out by Barney (1991) is only true in a wider sense, however, as SCA can mainly be achieved through intangible assets, which are a firm's skills and capabilities. Therefore both terms are defined separately in the following way:
Definition 3: Resources

Resources are firm-specific tangible or intangible assets used for creating a certain output.

Definition 4: Capabilities

Capabilities are a firm’s ability to utilize its resources in an efficient way so that they result in firm-specific outputs.

The VRIN characteristics revealed that mainly intangible assets and in further consequence competences are necessary for SCA. As a result, new theories were developed to deal with these subjects. They are denoted with the term "Competence-based View" in academic literature (see e.g. Sanchez and Heene 2010). Their core argument is that a resource base is not sufficient to sustain CA. Additional competences and capabilities are required for a successful deployment of a firm’s resources. The Competence-based View is therefore a valuable development of the modern RBV. Nevertheless, it is characterized by a static point of view (Priem and Butler 2001). It is therefore also a step towards the development of the Dynamic Capabilities Perspective.

Of course, traditional and modern RBV as well as the Competence-based View explain why a firm is successful at a certain point in time. But they cannot identify how enterprises can gain and sustain CA in dynamic markets characterized by changes in the environment. This problem is also called "causal ambiguity" and refers to the difficulty of identifying what leads to a firm’s CA. It arises "… when the link between the resources controlled by a firm and a firm’s sustained competitive advantage is not understood or understood only very imperfectly." (Barney 1991, pp. 108-109). Of course, it is can be a source of CA if competitors do not know exactly how a firm attained a better position. From another point of view, it can be a problem for CA if a firm is not able to identify how the market leader was able to achieve an advantage. Causal ambiguity is also under debate within the field of Dynamic Capabilities. Therefore it will be discussed in detail in chapter 4 since the DCV is the main theoretical approach of the master thesis at hand.

Beside the static view and the problem of causal ambiguity, the fulfillment of every single one of the VRIN criteria is also a point of criticism within the RBV. It is nearly impossible that all resources fulfill every characteristic (Barney 2001ab, Priem and Butler 2001). This
point is where the DCV has its origin. Its historical development can be illustrated as shown in Figure 5.

**Figure 5: Evolution of the Dynamic Capabilities View in Strategic Management**

Due to a faster changing environment, executives have to make faster and more spontaneous decisions with increasing frequency. Therefore, the DCV gained prominence within business literature. The key arguments of this approach form the content of the next subsection.

### 2.3.2 The Dynamic Capabilities View (DCV)

#### 2.3.2.1 Key Arguments of the Dynamic Capabilities View

Very generally speaking, the DCV arose because of shortcomings of the RBV and the Competence-based View. It addresses the question of how the firm’s resources can be integrated, developed and reconfigured to reach SCA in dynamic markets. In the latter, the fulfillment of the VRIN criteria is not sufficient for sustainability in CA, because resource heterogeneity across firms is probably less strong than assumed (Eisenhardt and Martin 2000).

The central idea of the DCV is that to survive in the business world, companies have to be responsive to environmental changes and dynamic markets. In an environment which is characterized by turbulent modifications, it is not possible to generate and sustain CA with
an unmodified resource base. Here, the DCV comes into picture: the adaptation involved is achieved by changing the existing bundles of resources. This is done by creating new resources, processes and routines – by developing Dynamic Capabilities. In line with this, Wright et al. (2001) argue that not only resources can be seen as the source of CA; firms can generate CA by configuring their resources as well as their capabilities.

The most influential and most frequently cited work dealing with Dynamic Capabilities is that of Teece et al. (1997), who originally introduced the concept of Dynamic Capabilities. Teece et al. (1997) developed a framework for analyzing how firms can create wealth and sustain CA in an environment which is characterized by rapid technological change.

Of course, the limits of dynamic markets and the definition of Dynamic Capabilities are open to various interpretations. Consequently, their constraints have to be determined. Therefore the next section deals with the construct of Dynamic Capabilities and potential debates and confusions within the literature.

2.3.2.2 An Overview of the Literature of Dynamic Capabilities

Within the literature of Dynamic Capabilities, there are empirical as well as conceptual publications, whereas the latter prevail.

The authors of conceptual frameworks try to explain how the capabilities of a firm can be defined and deployed efficiently. On a related note, Eisenhardt and Martin (2000) state that Dynamic Capabilities "… consist of identifiable and specific routines." (p. 1107). They point out that Dynamic Capabilities may not necessarily result in a positive outcome. A general reason for this is uncertainty, e.g. uncertainty in the prediction of a dynamic capability’s impact on existing firm resources (Eisenhardt and Martin 2000).

On the other hand, empirical studies concerning Dynamic Capabilities have also been conducted. Advocates of this line of research are e.g. Karim and Mitchell (2000), who examined an acquisition process to find out whether it can be seen as a dynamic capability. The study was conducted by examining five high-tech firms. The result was that acquisitions allow firms to reconfigure their existing resources, i.e. firms can change them over time. Therefore, the company has the possibility to exploit opportunities in its environment and avoid failure. Within the investigated firms, new product development was linked to advancement in firm-specific competences (Karim and Mitchell 2000).
There are also various attempts which try to categorize Dynamic Capabilities (see e.g. Winter 2003 and Zahra et al. 2006) since they depend on various factors, e.g. on the dynamics of a firm’s environment (Ambrosini and Bowman 2009).

However, the fact that there are few empirical studies within the DCV compared to conceptual papers is not surprising. One reason may be that work within this field of research did not start until the publication of Teece et al. (1997). It is obvious that it takes some time until a theory has been developed and empirical studies have been conducted.

Another reason may be that Dynamic Capabilities are not clearly defined. It is therefore difficult to find a consensus on the components of this construct. Hence, empirical tests and comparisons between studies are rare, if not impossible. Therefore the following part provides an insight into the construct of Dynamic Capabilities in order to have a basis for a definition, which will be needed for the work later on.

2.3.2.3 Towards a Definition of Dynamic Capabilities

Dynamic Capabilities are a special form of capabilities, but there is still no consistent definition of the term. However, there is a large number of definitions, examples of which are given in Table 2 below. The selection refers to those works that are cited in the majority of publications.

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Definition of Dynamic Capabilities</th>
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<tbody>
<tr>
<td>Teece et al. (1997)</td>
<td>Dynamic Capabilities refer to &quot;... the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. Dynamic Capabilities thus reflect an organization’s ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions.&quot; (p. 516)</td>
</tr>
<tr>
<td>Eisenhardt and Martin (2000)</td>
<td>“The firm’s processes that use resources - specifically the processes to integrate, reconfigure, gain and release resources - to match and even create market change. Dynamic Capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die.” (p. 1107)</td>
</tr>
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Table 2: Chronological overview of definitions of Dynamic Capabilities
**CHAPTER 2: Explanatory Approaches for Competitive Advantage in Strategic Management**

**Zollo and Winter (2002)**

"A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness." (p. 340)

**Zahra et al. (2006)**

Dynamic Capabilities are "... the abilities to reconfigure a firm’s resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker." (p. 918)

**Teece (2007)**

Dynamic Capabilities are "... unique and difficult to replicate". (p. 1320). Furthermore, they "... can be harnessed to continuously create, extend, upgrade, protect, and keep relevant the enterprise’s unique asset base." (p. 1320)

**Augier and Teece (2007)**

"Dynamic Capabilities refer to the (inimitable) capability firms have to shape, reshape, configure and reconfigure the firm’s asset base so as to respond to changing technologies and markets." (p. 179)

**Helfat et al. (2007)**

A dynamic capability can be defined as "... the capacity of an organization to purposefully create, extend or modify its resource base." (p. 4)

**Wang and Ahmed (2007)**

Dynamic Capabilities are "... a firm’s behavioral orientation constantly to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage." (p. 35)

**Barreto (2010)**

"A dynamic capability is the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base." (p. 271)

<table>
<thead>
<tr>
<th>Author(s)</th>
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<tbody>
<tr>
<td>Zollo and Winter (2002)</td>
<td>&quot;A dynamic capability is a learned and stable pattern of collective activity through which...</td>
</tr>
<tr>
<td>Zahra et al. (2006)</td>
<td>Dynamic Capabilities are &quot;... the abilities to reconfigure a firm’s resources and routines...</td>
</tr>
<tr>
<td>Teece (2007)</td>
<td>Dynamic Capabilities are &quot;... unique and difficult to replicate&quot;.</td>
</tr>
<tr>
<td>Augier and Teece (2007)</td>
<td>&quot;Dynamic Capabilities refer to the (inimitable) capability firms have to shape, reshape...</td>
</tr>
<tr>
<td>Helfat et al. (2007)</td>
<td>A dynamic capability can be defined as &quot;... the capacity of an organization to purposefully...</td>
</tr>
<tr>
<td>Wang and Ahmed (2007)</td>
<td>Dynamic Capabilities are &quot;... a firm’s behavioral orientation constantly to integrate,...</td>
</tr>
<tr>
<td>Barreto (2010)</td>
<td>&quot;A dynamic capability is the firm’s potential to systematically solve problems, formed...</td>
</tr>
</tbody>
</table>

**Table 2: Chronological overview of definitions of Dynamic Capabilities**

Table 2 shows that several authors have elaborated their own definitions, which are mainly adaptations of the original definition by Teece et al. (1997), i.e. they refined the original definitions of earlier authors. Some scholars also addressed Dynamic Capabilities extensively without providing a separate definition. Among these are Schreyögg and Kliesch-Eberl (2007) who do not elaborate a definition within their publication. They even do not even mention Dynamic Capabilities because they consider organizational capabilities not to be completely flexible. According to them, it is not possible to only add a dynamic com-
ponent. The authors argue furthermore that it is not essential to develop organizational capabilities and to use them efficiently. It is also necessary to handle the risks. A framework is therefore established which comprises two levels and is called "Dual-Process Model of Capability Dynamization". The two levels are the implementation of appropriate capabilities and the monitoring of capabilities (for more details, see Schreyögg and Kliesch-Eberl 2007).

With the help of Table 2, it is possible to find some generally accepted characteristics of the Dynamic Capabilities construct. It can be argued that there is a general consensus among the various scholars on what Dynamic Capabilities look like. By investigating the various definitions, the following common characteristics become apparent:

- **Dynamic Capabilities** refer to changes in the firm’s environment, e.g. technology and market conditions.
- Dynamic Capabilities can generally be seen as organizational processes.
- Dynamic Capabilities change a company’s resource base.
- Dynamic Capabilities are path-dependent (Zollo and Winter 2002).
- A firm’s Dynamic Capabilities are embedded within an enterprise (Eisenhardt and Martin 2000).

It also becomes obvious that there are constraints in the construct of Dynamic Capabilities:

- A dynamic capability is not a spontaneous reaction to changes in a firm’s environment (Barreto 2010, Helfat et al. 2007, Schreyögg and Kliesch-Eberl 2007, Zollo and Winter 2002).
- The implementation of Dynamic Capabilities is intentional, i.e. the latter do not appear within a firm’s organization at random (Helfat et al. 2007 and Zahra et al. 2006).

Considering the previous remarks, it can now be argued that Dynamic Capabilities are linked with the deliberate intention of a company to change its resource base. This happens due to changes in a firm’s environment or because of processes within an organization itself. Therefore, Dynamic Capabilities describe the ability of a firm to adapt successfully to such variations.

But these definitions are also potential sources for confusion. First of all, both "resources" and "capabilities" have already been defined based on their meaning within the Resource-
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based Perspectives (see Definition 3 and 4). A dynamic capability is therefore not a resource or a capability, although it is a process according to the sources above. Yet this process has its roots in the use of resources. Capabilities can furthermore only be developed through the use of existing firm resources or bundles of resources, i.e. in the way the company staff deploys them. In line with this, capabilities are often defined as a special type of resources, but always explicitly separated from the term resources (Makadok 2001).

More importantly, the two words of the term "Dynamic Capabilities" can be interpreted differently. The term "dynamic" can refer to the capabilities themselves, i.e. that they are dynamic and that Dynamic Capabilities change over time. But dynamic can also refer to a modification in a firm’s resource base, i.e. the resource base of a firm is modified over time by Dynamic Capabilities. Nevertheless, the introduction and consideration of the term "dynamic" is necessary in the DCV as it describes "… the capacity to renew competences so as to achieve congruence with the changing environment …" (Teece et al. 1997, p. 515).

In line with this, the dynamic of markets can also be interpreted in different ways, which is one main argument for the exploitation of Dynamic Capabilities.

Teece et al. (1997) define dynamic markets as fast changing environments. To limit this definition, the terminology of Pfeffer and Salancik (2003) is used. The authors state that dynamic markets are characterized by the following attributes:

- Dynamic
- Complexity of relationships
- High uncertainty

Dynamic refers to the circumstance that information is not available or non-qualified to undertake forecastings about potential variations. Complexity means type, number and interactions of factors which affect decisions and relationships. Together with a high uncertainty in the development of internal and external circumstances, these factors are common characteristics in dynamic markets (Jurkovich 1974, Pfeffer and Salancik 2003).

In line with this, Eisenhardt and Martin (2000) distinguish between moderate, high and low velocity markets. However, the distinction between stable and dynamic markets seems sufficient to answer the research questions. In addition, if this master thesis considered different types of economic dynamics in markets, various kinds of Dynamic Capabilities would also have to be investigated. This can be considered as a recommendation for future
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research for which the work at hand can serve as a basis. Furthermore, it is true that the social and environmental context in which business operates is uncertain, complex and dynamic. These three characteristics are the attributes of dynamic markets stated above and therefore the adaptation of this simple differentiation according to Jurkovich 1974 and Pfeffer and Salancik 2003 is appropriate to address CSR-issues.

Consequently, Dynamic Capabilities cannot be defined as a capability in the sense of the RBV. In further consequence it is helpful to see the expression "Dynamic Capabilities" not as separate words but as a single one.

To sum up, Dynamic Capabilities can be seen as future-oriented, whereas capabilities are static, i.e. they refer to a firm’s activities which are implemented for present competition. "Dynamic" refers to the way a firm’s resource base is changed. This happens in a dynamic environment through capabilities.

As a result of former deliberations, the decision has been made to use the definition of Barreto (2010) for subsequent work:

**Definition 5: Initial Definition for Dynamic Capabilities**

"A dynamic capability is the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base." (Barreto 2010, p. 271)

This definition is appropriate for answering the research questions, since time-based strategies to achieve CA are also taken into account. Well-timed decisions are essential to survive in an increasingly competitive landscape, as examples mentioned in the context of CSR have already shown. This link between FMA and DC also becomes obvious if we look at an attempt at categorization within the DCV. Collis (1994) divided capabilities into four types and showed that Dynamic Capabilities and capabilities are often treated as autonomous constructs. Collis (1994) emphasized that it is essential to develop new strategies before competitors do. Timing is consequently necessary to have an advantage within a market. Furthermore, enterprises have to deploy capabilities to outperform competitors. In line with this, "... the capability that wins tomorrow is the capability to develop the capability to develop the capability that innovates faster (or better), and so on." (Collis 1994, p. 148). Here, the importance of timing also becomes obvious. A firm can leapfrog its competitors by developing capabilities and change its resource base prior to them. Hence, CA
can arise. And since it was already argued that the term Dynamic Capabilities should be used as a single one, the previous remarks point out the connection between a FMA and DC.

To sum up, the main difference to the aforementioned theories of CA is that Dynamic Capabilities influence the static abilities of a firm. Basically, it is assumed that Dynamic Capabilities differ from mere capabilities. Hence, they enable a company to adjust in the course of time (Teece et al. 1997 and Zahra et al. 2006).

At this juncture, the DCV is not discussed in further detail. It will be more closely examined in the following chapter 3, which focuses on CA and Dynamic Capabilities.
Chapter 3
Dynamic Capabilities and Competitive Advantage

There are various views within the DCV and Strategic Management that address the question of how CA can be generated. Potential links are also seen differently: there are advocates who argue that there is a direct relationship between Dynamic Capabilities and CA (see e.g. Teece et al. 1997), scholars who point out that this link is indirect (see e.g. Griffith and Harvey 2006) and advocates of other fields of research within Strategic Management who argue that CA arises because of other circumstances (see chapter 2). These points will be discussed in detail further below. Before that, it is necessary to define Dynamic Capabilities to have a starting point for investigating how they can lead to CA.

3.1 Defining Dynamic Capabilities

The work so far has been pointing out one common element within the DCV: the role of Dynamic Capabilities is to have an influence on the firm’s existing resource base, i.e. they transform it in a specific way. This should result in a new bundle or configuration of resources. The newly created resource base can then generate or even sustain the CA of an enterprise. This happens through an increase in its rate of economic profit (see Definition 1) and depends on the value a firm creates (Spulber 2009). Therefore, Dynamic Capabilities have to increase the value of a firm to achieve and generate SCA.

Generally speaking, the value depends on a company’s output. The output of Dynamic Capabilities is a new created resource base by means of the firm’s abilities. Therefore the former cannot contribute to CA if they do not help create new resources – in such a case Dynamic Capabilities would not be valuable.

The preceding chapters have also shown that Dynamic Capabilities are a special type of process. In addition, they reflect the potential of a firm to adapt to environmental changes. On a related note, Bowman and Ambrosini (2003) point out that the construct of Dynamic
Capabilities is not only one single process. They build on the work of Teece et al. (1997) and argue that Dynamic Capabilities comprise the following four types of processes (Bowman and Ambrosini 2003):

1. **Reconfiguration**
   
   This aspect describes the transformation and/or recombination of resources. An example for this point is the consolidation of support functions in an organization.

2. **Leveraging**
   
   Leveraging deals with the replication of a process or a system. Such a system either operates from one business unit to another or it extends a resource. Leveraging means for example the application of a brand to a new range of products.

3. **Learning**
   
   Learning allows for a more effective performance of tasks. This leads to a more efficient outcome. The latter can be a product which is more successful because the team in R&D has learned from previous developmental defects.

4. **Creative Integration**
   
   This subprocess refers to a company’s ability to achieve a new resource configuration by integrating its resources.

These four processes help to understand how Dynamic Capabilities operate. Furthermore, they reveal what they consist of. Consequently, the definition of Barreto (2010) is modified to take CA into account. This is done by including the value of Dynamic Capabilities necessary to generate CA.

As a result, the following definition reflects the main components of the construct Dynamic Capabilities. It is illustrated in Figure 6 below.

**Definition 6: Dynamic Capabilities**

Dynamic Capabilities are a firm’s potential to systematically solve problems, formed by its ability to sense opportunities and threats, to make timely and market-oriented decisions and to change its resource base through reconfiguration, leveraging, learning and creative integration (Barreto 2010, Bowman and Ambrosini 2003).

The definition above includes the identification of opportunities and threats and integrates the results of chapter 2 regarding the literature overview of the Dynamic Capabilities Per-
CHAPTER 3: Dynamic Capabilities and Competitive Advantage

spective. The construct referring to Definition 6 can therefore be illustrated as shown in Figure 6.

Figure 6: Components of the construct of Dynamic Capabilities

Figure 6 shows parts of the work of Teece (2007), who discusses the micro-foundations of Dynamic Capabilities. The present refinement of the DCV comprises: sensing opportunities and threats, seizing opportunities and managing threats as well as reconfiguration. This framework is used indirectly, since it is part of the adapted Definition 6, which also includes managerial behavior as a component by mentioning the search for opportunities and potential threats in the external environment. This is rather a managerial decision and reflects the ability of a firm’s management than a dynamic capability itself, but it may lead to the development and deployment of Dynamic Capabilities (Helfat et al. 2007). Hence, it has to be part of the construct. This again reflects that Dynamic Capabilities do not only refer to a change in a firm’s resource base; they also refer to a modification of a firm’s capabilities over time.

So far, an appropriate definition for the term Dynamic Capabilities has been elaborated (Definition 6). It serves as a basis for examining their potential links to CA afterwards.
3.2 The Link between Dynamic Capabilities and Competitive Advantage

Generally speaking, there are three different scenarios within the literature that deal with the creation of CA through Dynamic Capabilities.

The first scenario is that Dynamic Capabilities exist but lead to failure, i.e. no CA arises. In the second case, Dynamic Capabilities can generate temporary CA. Here, the achieved superior position lasts for a short period of time. In this connection, Teece et al. (1997) argue that there is an explicit link between a firm’s Dynamic Capabilities and the emergence of CA. The authors point out that the deployment of Dynamic Capabilities leads directly to CA. The third scenario is that the exploitation of Dynamic Capabilities leads to CA indirectly. Advocates of this point of view are Griffith and Harvey (2006), who argue that this can only happen if the newly created resource base is difficult to imitate by the firm’s competitors. This argument reveals a relationship to the RBV and Barney’s VRIN doctrine. The characteristics "inimitable" and in further consequence "non-substitutable" are essential for achieving SCA within the modern RBV. Applied to the DCV, sustainability in CA can only be achieved if the resource base is difficult to imitate. As a further example, Eisenhardt and Martin (2000) state that Dynamic Capabilities cannot create CA per se. They argue that it is essential to deploy Dynamic Capabilities prior to the competitors. This again reveals the connection of Dynamic Capabilities and a FMA discussed in chapter 2. In line with this third point, Bowman and Ambrosini (2003) state that Dynamic Capabilities have an indirect effect on CA because Dynamic Capabilities are not linked to a resource base per se, but to the resource base's change. Bowman and Ambrosini (2003) therefore can be counted among those advocates within the DCV who see an indirect link between Dynamic Capabilities and CA. In this context, Zott (2003) argues that "… Dynamic Capabilities are indirectly linked with firm performance by aiming at changing a firm’s bundle of resources, operational routines, and competencies, which in turn affect economic performance." (Zott 2003, p. 98). Generally speaking, Helfat et al. (2007) argue that "… Dynamic Capabilities do not necessarily lead to competitive advantage." (p. 140). The authors state that Dynamic Capabilities lead to a change in a firm’s resource base. In contrast to previous remarks, however, they note that the VRIN characteristic "valuable" does not (necessarily) exist. Therefore, the new resource base is not valuable and can only contribute to competitive parity. It is also possible that it is even of no relevance for the market. Hence, Dynamic Capabilities may have a negative effect on a firm’s results. Since
CA can only be achieved through better results relative to the company’s competitors (see Definition 1), CA cannot arise. The last two possible effects of Dynamic Capabilities on CA are competitive parity and failure. The latter means that no CA will arise (Ambrosini and Bowman 2009).

The previous elucidations are also shown in Figure 7 below. It illustrates the different types of the emergence of CA within the DCV.

![Types of Competitive Advantage within the Dynamic Capabilities View](image)

**Figure 7: The Emergence of Competitive Advantage through Dynamic Capabilities (referring to Ambrosini and Bowman 2009)**

It is mainly the advocates of the DCV who argue that the sources of CA lie in learning and organizational routines, e.g. internal growth and transfer of know-how. The possession of such abilities is limited as they cannot be purchased solely through market transactions. Of course, specialized workforce can be hired, but it essential to keep knowledge within a company and expand it to operate in dynamic markets. That is because Dynamic Capabilities are not firm-specific. In addition, an inimitable and valuable resource base may lead to SCA in conjunction with the right timing of actions (Eisenhardt and Martin 2000, Griffith and Harvey 2006, Helfat et al. 2007).

Hence it can be argued that the imitation of a firm’s abilities has to be at least difficult, or that the firm must improve its capabilities, e.g. learning, before its competitors can catch up. To illustrate it with an example, Toyota’s rivals like GM and Ford had to learn how to
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acquire the same technology. Meanwhile, Toyota was able to improve its own gained knowledge and increase technological process and capabilities after offering the first hybrid vehicle. Therefore, the company could sustain its FMA (Rowley 2006).

To achieve sustainability in CA, Dynamic Capabilities have to result in a resource configuration which is valuable for the internal organization and inimitable for rivals within the market. This is because a firm’s CA can be diminished over time due to replicability and imitability. The former arises due to an expansion within a company. Imitability is caused by replication from competitors (Teece et al. 1997). In addition, CA is limited by internal and external factors. Therefore, these influencing factors have to be integrated in the conceptualization of a model in chapter 5 and are discussed in the following section.

3.3 Sustainable Competitive Advantage and Dynamic Capabilities

The position of a firm and its history influence its present and its future, as it was already argued within the RBV. But the literature of Dynamic Capabilities reveals some key influencing factors which are additionally responsible for the success or failure of an enterprise. These are illustrated in Figure 8 below and discussed afterwards in more detail, as it has been done by Ambrosini and Bowman (2009). The reason is that they did not put a focus on the effects on CA – they discussed the question whether Dynamic Capabilities are a useful construct in Strategic Management and pointed out that even though they are, they should be included in other fields of inquiry (Ambrosini and Bowman 2009).

![Figure 8: Influencing Factors on Competitive Advantage through Dynamic Capabilities (referring to Figure 6 and Ambrosini and Bowman 2009)](image-url)
Reconfiguration, leveraging, learning and integration are the main processes of which Dynamic Capabilities consist. These processes influence the firm’s ability to solve problems and to sense opportunities and threats (Bowman and Ambrosini 2003). As an example, learning contributes to the potential to solve problems since it leads to performing tasks more effective. This, in turn, influences a firm’s ability to sense opportunities and threats. In addition, timely and market-oriented decisions are closely connected to past decision-making behavior – events from past periods influence the deployment of Dynamic Capabilities in the present and future (Ambrosini and Bowman 2009).

The question now arises whether and which other influencing factors are present in the DVC compared to other explanatory approaches within the field of Strategic Management. Porter (1991) argues that positions and path dependency influence a firm’s success or failure. Positions can relate to a company’s assets, which include tangible and intangible assets. But positions can also be considered as being of an external character, e.g. the position of an enterprise in relation to its competitors and the institutional environment. Such circumstances influence the deployment of Dynamic Capabilities, as firms with an established customer base within a market may achieve better results. This, in turn, may lead to CA.

Paths are very important, since a company’s past has an influence on the present and future behavior of the organization. It also influences the learning of an organization and is influenced by the behavior of managers (Ambrosini and Bowman 2009). Porter (1991) already argued that initial conditions and managerial choices influence CA. The same is true for Dynamic Capabilities – Teece et al. (1997) argue that the past and the present influence and limit future events. On a related note, Eisenhardt and Martin (2000) state that managers play a key role in adapting an organization to environmental changes. This is because they make decisions which inevitably affect the deployment of Dynamic Capabilities. In line with this, Teece et al. (1997) argue that "… Dynamic Capabilities reside in large measure with the enterprise’s top management …" (p. 1346). Furthermore, they state that Dynamic Capabilities are influenced by past organizational processes due to path dependency. Since Dynamic Capabilities are also characterized by continuous learning and repetition (Zollo and Winter 2002), Dynamic Capabilities can be seen as path-dependent processes due to the evolution of a new resource base over time.
Managerial behavior as an influencing factor on Dynamic Capabilities has also been addressed by Harreld et al. (2007), who highlight that executives have to deal with the development of Dynamic Capabilities and must have two abilities. These are as follows (Harreld et al. 2007):

1. The ability to sense modifications within a firm’s environment.
   This includes e.g. potential opportunities for the company with regard to technological development and new customers.
2. The ability to recognize possibilities and potential threats in a firm’s environment, which refers to the statement that managers have to seize opportunities and threats "… by reconfiguring both tangible and intangible assets to meet new challenges." (p. 25).

It should be added that the managers’ abilities depend on their motivation, their skills and their experiences (Zahra et al. 2006).

Another influencing factor on Dynamic Capabilities and consequently SCA is a major problem which was already discussed in chapter 2: causal ambiguity. This term refers to the difficulty of identifying "what" leads to a firm’s CA. In this context, it was argued that it is necessary for a firm to either achieve inimitability or to improve its capabilities over time to achieve SCA. In the latter case, the leading company always remains in the top position, as competitors may be imitating, but since the firm learns over time, it is continuously ahead. Nevertheless, a CA which is based on capabilities is difficult to imitate, even when the competitors know what capabilities are responsible for the firm's superior position (Saloner et al. 2001). This problem of causal ambiguity, which has already been described, is therefore also an influencing factor on Dynamic Capabilities and shown in Figure 8 above.

The problem of causal ambiguity is prominent throughout the literature of Strategic Management. It arises "… when the link between the resources controlled by a firm and a firm’s sustained competitive advantage is not understood or understood only very imperfectly." (Barney 1991, pp. 108-109). It is therefore an isolating mechanism that helps a firm sustain CA within the RBV. But this is also true for the Dynamic Capabilities Perspective. Since it is not possible for managers to fully understand how sources of CA arise, they cannot identify their own sources of success either (Barney 1991). Hence, causal ambiguity
can arise inside as well as outside the firm. Therefore, we can distinguish between internal and external causal ambiguity. Whereas the former can help achieve CA, the latter can help an enterprise generate SCA (Saloner et al. 2001).

Internal causal ambiguity prevents the replication of resources from competitors. Since it relates to situations where connections between actions and performance are unclear, a difficulty to identify factors responsible for performance arises between firms. Thus it is not possible for competitors to get to know the reasons for a corporation’s success and consequently, they cannot identify what they should imitate (Ambrosini and Bowman 2010, Lippman and Rumelt 1982).

External causal ambiguity helps a firm keep its generated CA. The competitors are not able to identify how it was attained. Furthermore, they cannot identify the firm’s resources and consequently cannot imitate and/or catch up to the leaders. The Sony corporation serves as an example. Sony has a CA because it can produce compact consumer goods. The difficulty for competitors lies in the imitation of the firm’s capability to miniaturize its products. They cannot identify how Sony is able to generate capabilities in design and manufacturing. This difficulty allows Sony to attain CA and generate SCA. In order to achieve this, the company has to continue learning and developing its abilities over time (Ambrosini and Bowman 2010, Saloner et al. 2001).

Of course, it is necessary to identify all elements which can lead to the emergence of a firm’s CA. Since structures and individual attributes are very complex in their nature, it is not enough to imitate only some elements. This tacit nature of capability-based advantage arises because the construct of Dynamic Capabilities mainly consists of knowledge, which is mainly embedded in learning. In this connection, one requirement for SCA may be the accumulation of tacit knowledge so that other firms cannot easily imitate it (Saloner et al. 2001). This has already been revealed when defining the construct of Dynamic Capabilities.

The work so far served to point out the links between Dynamic Capabilities and CA. To answer research question 1, it is necessary in a further step to review the literature of CSR, which will be conducted in chapter 4. By means of this literature review, the interrelations between Dynamic Capabilities, CSR and CA can then be pointed out in chapter 5.
Chapter 4

Corporate Social Responsibility in Strategic Management

Companies today not only have to cope with expectations regarding the production of goods and services. They also face social and environmental issues and are confronted with the support of social and environmental needs, e.g. environmental protection, poverty reduction and working safety. Since these aspects belong to the field of CSR, the term has gained more importance in business literature in recent years.

Chapter 2 already revealed that the primary objective of every firm is to consistently make profits which exceed its cost of capital to outperform its competitors and achieve and sustain CA. Since the determination of long-term objectives and their implementation in order to achieve these goals can be defined as corporate strategy, the emphasis in this chapter is to identify what CSR stands for, how it affects a firm’s strategic decisions and how it can be used for generating and sustaining CA. But first of all, the historical development of CSR is discussed to gain an overview of the evolution of the term and its components.

4.1 Historical Development of Corporate Social Responsibility

The term CSR is characterized by a long history within business literature dating back to the 1920s. Back then, profit-maximizing behavior of firms was characterized by not being the most important aspect in business, i.e. social, environmental and ecological needs were also taken into account. Their integration into firm’s strategies was considered to be the source of a win-win-situation (Hansen and Schrader 2005).

In the next few decades, the role of managers was mainly the core of debates about CSR. In addition, conceptualizations of CSR arose which defined the term as a social obligation to pursue policies and to undertake decisions desired from society (Maignan and Ferrell 2004). Although A.B. Carroll is often considered as the founder of modern CSR, the author himself states that H. Bowen with his work "Social Responsibilities of the Businessman",
published in 1953, should be seen as the "… Father of Corporate Social Responsibility" (Carroll 1999, p. 270). Bowen’s work marks the starting point of the modern period of the literature on CSR, as it included wide approaches to business responsibilities, e.g. stewardship and rudimentary Stakeholder Theory (Carroll 1999, Windsor 2001).

After attempts to formalize CSR and define exactly what the term stands for in the 1960s, the literature on the issue was mainly characterized by M. Friedman’s view of CSR (Carroll 1999) in the 1970s. It can be seen as the starting point for linking the Shareholder View within Strategic Management to CSR. For Friedman, an action only counts as an act of CSR if it is unprofitable. Other scholars have already taken a similar view. One of these advocates is D. Baron, who distinguishes CSR from strategic CSR. Whereas CSR is driven by altruistic motives and is unprofitable, strategic CSR is profitable (Baron 2011).

In the 1980s, one of the most prominent works that influenced CSR debates was that of R.E. Freeman dealing with Stakeholder Theory (Windsor 2001). It states that there is a wide range of potential stakeholders, who affect the success or failure of a company (Freeman 1984).

More empirical research regarding CSR began in the 1980s. The issue was especially linked with Corporate Financial Performance, and research focused on potential interrelations between the two fields (Lee 2008). It is in this period the question regarding the effects of CSR for organizations and business communities was also addressed (Carroll and Shabana 2010).

This fact leads to the literature in the 1990s, in which the concept of CSR was the main focus of debates and publications, together with Corporate Social Performance and Stakeholder Theory. Furthermore, CSR was used as the starting point for other related concepts and themes such as Corporate Citizenship and Corporate Governance (Carroll 1999). In this context, Wood (1991) was among the first who highlighted the importance of effects and performances in debates on CSR.

In the 21st century, the issue of CSR gained increasing public prominence. The reasons for this are highly-publicized events such as the collapse of Enron, the introduction of hybrid cars or debates about climate change and working conditions. In addition, the academic literature regarding the Stakeholder Approach both grew and broadened. Moreover, the Stakeholder Theory established itself as the dominant paradigm within the field of CSR.
(McWilliams and Siegel 2001). In line with this, corporations "… should take responsibility for the improvement of world-wide social and environmental conditions." (Windsor 2001, p. 245). The move to deal with CSR further and more intensively is reflected by the release of the European Commission’s Green Paper, which offers a European framework for CSR (Carroll and Shabana 2010).

The examination of the historical development of CSR revealed that the most durable and influential concepts of CSR are the "Triple Bottom Line" (henceforth TBL) of CSR and the CSR pyramid by A. Carroll (1991). Both concepts belong to the most cited works within the research fields of CSR and Strategic Management.

4.1.1 The Triple Bottom Line of CSR

The original concept of the TBL is attributed to J. Elkington and dates back to the mid-1990s. The idea behind it is that a firm’s success should not only be measured by financial standards, but its ecological and social performances also have to be taken into account. The concept states that enterprises should prepare three different and quite separate bottom lines and goes along with a coordination of their corporate objectives and strategies within the following three areas. These "3P" are also taken into account when a firm reports its business performance (The Economist 2012, Norman and MacDonald 2004):

- Economy (Profit): An organization’s economic value after deducting costs.
- Environment (Planet): Measures a firm’s sustainable environmental practices.
- Society (People): The society expects fair and beneficial business practices regarding labor and community.

The whole concept is illustrated in Figure 9 below.
The TBL has gained more importance as a business tool in times of CSR. For a long time, cost-cutting had been top priority in business. The social and environmental costs involved in production and services were often hidden. But after some time, they became increasingly apparent to consumers, e.g. an exploitation of cheap labor. Therefore, there was the need of a concept which comprised not only the traditional measure for corporate profit, but also for environmental and social aspects.

However, it is difficult to measure environmental and social accounts in the same terms as profits, which is in terms of money. This is the case if you want to measure the full cost of an oil-tanker spillage in monetary terms, or the cost of depriving children of their freedom to learn by making them work at a young age (The Economist 2012). Thus the three separate parts of the TBL cannot be added up so easily. Norman and MacDonald (2004) argue in this context that the TBL framework is an unhelpful addition to current discussions on the subject. However, this framework was especially established for the financial industry. Dealing with CSR concepts and integrating them in the firm’s strategic considerations often provides an incentive. The reason for this is the idea of a win-win-situation in which enterprises, the environment and society can profit from sustainable business, e.g. by improving educational opportunities. This not only helps to build the reputation of a firm – it may ultimately help to improve the human resource pool available for hiring new employees (The Economist 2012).
One example for an enterprise integrating CSR and the TBL is Spar Austria. The company states on its website that it pursues its business by considering the TBL, i.e. social, ecological and economic activities are used to create value. The result is a threefold benefit: benefit for society, the customers and the enterprise. Social responsibility is provided by an education of trainees specialized in organic food as well as various public initiatives regarding healthy nutrition. Furthermore, the company offers various environmental programs and contributes to climate protection by offering regional products and through short hauls. The third line, which refers to economic responsibility, is pursued by being Austria's largest regional supplier (Spar 2012).

The concept of the CSR pyramid by A. Carroll (1991) is linked to the one of the TBL, as economic, environmental and social elements are present in both models. It is currently one of the most influential frameworks in CSR research.

### 4.1.2 Carroll's CSR Pyramid

The CSR pyramid by Carroll (1991) has its starting point in a paper on Corporate Social Performance. Carroll (1979) categorized the term CSR into four layers. These were named economic, legal, ethical and discretionary responsibilities. They reflected that "… the history of business suggests an early emphasis on the economic and then legal aspects and a later concern for the ethical and discretionary aspects." (Carroll 1979, p. 500). Later, Carroll presented his model as a pyramid, building on his 1979 paper and on previous definitions of CSR. The result was a categorization of social responsibilities, according to which CSR encompasses (Carroll 1991):

- **Economic Responsibilities**
  
  A company should be profitable – it is the foundation of every business activity and the bottom of the CSR pyramid. Without being profitable, a company cannot survive in turbulent environments. Furthermore, it does not have the necessary financial assets to undertake other CSR-related activities. This part of the pyramid can be seen as closely connected to Friedman’s view, who argues that "true" CSR is socially irresponsible (Friedman 1970).

- **Legal Responsibilities**
  
  This refers to the obligation to law, i.e. the law must be seen as the company's codification of right and wrong.
CHAPTER 4: Corporate Social Responsibility in Strategic Management

- Ethical Responsibilities
  This part describes an enterprise's duty to avoid harm and therefore to do what is right and fair.
- Philanthropic Responsibilities
  The fourth point states that a firm has to function as a good corporate citizen. It forms the top of the pyramid.

Carroll (1991) pointed out that the components of this model were not mutually exclusive. The categorization should help managers to see that there are various duties a firm has to fulfill. The pyramid’s constituents are therefore in constant tension to each other (Carroll 1991). His model has frequently been reproduced in CSR journals as well as by the author himself. Carroll added other themes to his originally model, e.g. Corporate Citizenship (for more details on this concept, see Carroll 1998). In addition, he also tried to incorporate stakeholders into his original model. The meaning of every single categorization has been extended and can be illustrated as shown in Figure 10.

![CSR Pyramid Diagram]

**Figure 10:** The CSR pyramid integrating stakeholders (referring to Carroll 1991, 2004)

The concept of the CSR pyramid has also been empirically tested and the concept was be largely supported by the findings (for more details on this point, see Pinkston and Carroll 1994). Moreover, various studies showed that academics within the field of CSR have
mostly drawn on Stakeholder Theory (Garriga and Melé 2004). In line with this, Lattemann et al. (2007) argue that it is widely accepted that CSR follows a Stakeholder Approach.

The remarks above reveal that Stakeholder Theory is one of the most frequently mentioned frameworks in publications concerning CSR. But within Strategic Management, there are also many publications which deal with a categorization of CSR. These range from the identification of various CSR theories and related approaches (Garriga and Melé 2004) to the distinction of different views of CSR regarding the role of business in society (Lantos 2001). Consequently, there are many attempts at trying to find a clear-cut definition of the term. For this master thesis, it is appropriate to determine a generic definition of CSR, which is discussed in the next subsection.

4.2 Integration of Corporate Social Responsibility into Strategies

There are numerous authors who conducted literature reviews of CSR definitions (see e.g. Carroll 1999). Within the development of the CSR debate, various terms related to CSR have arisen, e.g. Corporate Financial Performance and Corporate Social Performance. Therefore, it is necessary to find a definition of CSR which can be delineated from these expressions. Corporate Financial Performance can be defined as the measured results of a company in monetary terms due to its business activities and policies, e.g. the return on investment. Vogel (2005) views Corporate Social Performance as actions which are required beyond business activity and compliance with government requirements. He argues further that there is no distinction between morally motivated actions and actions motivated by social pressure. This idea is taken up by Baron (2006) who clearly distinguishes between Corporate Social Performance and CSR: the former refers to social actions of enterprises whereas the latter refers to social actions which are motivated by a moral duty. Since there is a connection between the terms, it can be argued that CSR emphasizes obligation and accountability to society. By contrast, Corporate Social Performance emphasizes the results of companies. Therefore, it is more closely linked to Corporate Financial Performance and can be delineated from CSR. This argument is reinforced by studies in which Corporate Social Performance is used as a variable to measure how a firm operates in a socially responsible way, i.e. how it engages in CSR activities (see e.g. Promberger and
This approach is followed within this work, because it distinguishes between both terms.

Various organizations also provide a variety of definitions of CSR, e.g. the European Commission defines CSR as "... a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis." (EuropeanCommission 2006, p. 5). This voluntary aspect coincides with the view of other scholars, e.g. Vogel (2005). On a related note, Dahlsrud (2007) emphasizes the voluntary dimension of CSR, whereas McWilliams and Siegel (2001) argue that the term can be seen as the fulfillment of responsibilities which go beyond those required by markets or law, i.e. CSR refers to "... actions that appear to further some social good, beyond the interests of the firm ..." (p. 117). This component of CSR as a voluntary behavior on the part of firms was already included in the initial Definition 1.

The historical review of the literature of CSR showed that the evolution of the concept took place over several decades. Therefore its terminology also changed over time, which suggests that definitions and conceptualizations of CSR will continue to evolve in the future as a result of economic, political and social developments. These changes are an argument for the decision to use the DCV in this thesis as the scientific approach in conjunction with CSR. However, definitions only reflect a local situation and are characterized by a static point of view. The increasing globalization also means that they are strongly influenced by global trends and laws. Thus it is appropriate to use a very general definition of CSR. Nevertheless, the term has to be delineated from other expressions associated with it. Table 3 summarizes the final definition of CSR used within this master thesis, as well as the definitions of related expressions.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Corporate Social Responsibility</td>
<td>CSR describes the voluntary integration of economic, environmental and social actions of a firm into its business activities, taking account of relationships to its shareholders and stakeholders. (Definition 1)</td>
</tr>
<tr>
<td>Corporate Social Performance</td>
<td>Corporate Social Performance is a variable which measures how a firm engages in CSR (Promberger and Spiess 2006).</td>
</tr>
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</table>

Table 3: Definition of CSR and delineation from related terms
### Corporate Governance

The concept of Corporate Governance is linked to a principal-agent relationship: the investors act as the principals, whereas the managers are the agents who are employed by the investors. Furthermore, the managers run firms on their behalf. The interests and objectives of both parties differ. Corporate Governance is therefore "… concerned with ways of bringing the interests of the two parties into line and ensuring that firms are run for the benefit of investors." (Mayer 1996, p. 5)

### Corporate Citizenship

- **Europe**: A concept which is superior to the one of CSR and comprises sponsoring, charitable contributions and engagement (Loew et al. 2003).
- **US**: Corporate Citizenship is a sub-area of CSR characterized mainly by voluntary engagement of the firm, which means that it is "… used in a sense quite close to corporate philanthropy, social investment or certain responsibilities assumed towards the local community." (Garriga and Melé 2004, p. 57)

<table>
<thead>
<tr>
<th>Table 3: Definition of CSR and delineation from/of related terms</th>
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<tbody>
<tr>
<td><strong>Corporate Governance</strong></td>
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</table>
| **Corporate Citizenship** | ➢ Europe: A concept which is superior to the one of CSR and comprises sponsoring, charitable contributions and engagement (Loew et al. 2003).
➢ US: Corporate Citizenship is a sub-area of CSR characterized mainly by voluntary engagement of the firm, which means that it is "… used in a sense quite close to corporate philanthropy, social investment or certain responsibilities assumed towards the local community." (Garriga and Melé 2004, p. 57) |

Beside attempts to define CSR, there are various publications which link it to theoretical approaches of Strategic Management and try to integrate it into corporate strategies. Baumgartner and Ebner (2010) elaborated diverse sustainability strategies: introverted, conservative, extroverted and visionary strategies that should help a company to integrate CSR into its business activities (for more details on this point, see Baumgartner and Ebner 2010).

The theoretical approaches of Strategic Management linked to CSR are mainly the Shareholder and Stakeholder Theories, which form the content of the next subsections.

### 4.3 Corporate Social Responsibility and Shareholder Theory

The Shareholder View within Strategic Management has its roots in neoclassical economic theory, i.e. it defines CSR only in economic, profit-making terms. Advocates of this line of research argue that maximizing shareholder wealth is the main goal of corporations and of managers. The idea behind this is a continuous business expansion and profit-
maximization. Any investment in corporate social activity should only be made if it results in an increase in shareholder wealth. If social demands only impose costs on the company, then related investments in those needs should not be implemented. Thus according to this view, corporate resources should only be used to increase the wealth of a firm’s shareholders by seeking profits (Friedman 1970). However, socio-economic and economic objectives can be pursued in the long run. Devoting resources to society at a certain point in time, for instance, "… makes it easier to attract desirable employees …" and "… it may reduce the wage bill …" (Friedman 1970).

One main argument within the Shareholder Perspective is that the shareholders are the owners of the company, whereas the task of managers is to use the firm’s resources in a way which is related to its profits. A problem now arises when discussing CSR from this angle. CSR-related objectives cannot be directly shown in an increase in profits, at least not immediately. Therefore, CSR is often regarded as a tool for generating long-term owner value. In line with this, it "… should be considered as a form of strategic investment." (McWilliams et al. 2006, p. 4).

There are also contemporary advocates of the Shareholder View who defend the corporate objective of maximizing shareholder wealth but who are not necessarily against the engagement in CSR activities. They argue that the pursuit of profit-maximizing behavior leads managers to decisions which enhance the outcomes not only for the firm, but also the results for stakeholders (Jensen 2001, Sternberg 1997). In line with this, Lantos (2001) states that a firm should obey the law and be ethical despite the focus on shareholder wealth maximization. Here the connections to the CSR categorization model by Carroll (1991, 2004) become apparent, where both the ethical component and the necessary obligations by law included.

Within academic literature, the Shareholder Perspective is the main assumption regarding decision-making in enterprises. Nevertheless, a firm’s business should be responsible towards its workers, the community and other stakeholders. Of course, the result may be that an enterprise has to sacrifice some profits (Bernstein 2000). But from a strategic point of view, profit-maximizing behavior can be pursued in conjunction with the satisfaction of the interests and needs of stakeholders. According to Jensen (2000), long-term value maximization can be seen as an enterprise’s objective. Furthermore, the author argues that this
goal helps to integrate the interests and needs of a company’s stakeholders. To give an example, an incentive for employees to work for a company can be its equipment, e.g. safe and environmentally friendly working machines. Investments in these assets, which can be seen as social investments in a wider sense, may result in a potentially greater workforce available.

In contrast to the Shareholder Approach, the Stakeholder Theory suggests that managerial decisions should not only focus on shareholders. Other groups and constituents have to be considered. The integration of Stakeholder Theory into the field of CSR is discussed below.

4.4 Corporate Social Responsibility and Stakeholder Theory

Business literature describes stakeholders in many typologies, e.g. Freeman (1998) defines stakeholders as "… groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions." (p. 174).

The most widely accepted and frequently cited definition is the one by Clarkson (1995), who distinguishes between primary and secondary stakeholders. The former are those "… without whose continuing participation the corporation cannot survive as a going concern" (Clarkson 1995, p. 106). This group comprises shareholders, investors and the government and is characterized by providing infrastructure and markets. Primary stakeholders also offer regulations and laws which a firm has to observe. By contrast, secondary stakeholders "… influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival." (Clarkson 1995, p. 107).

Concerning the CSR engagement of enterprises, the Stakeholder Theory personalizes social responsibilities by identifying and addressing groups or persons to whom companies are responsible and should be responsive (Carroll 1991). But the classification of stakeholders has something in common with attempts at trying to characterize the term in detail: It reveals one problem regarding CSR by describing stakeholders as groups or individuals and excluding the natural environment. The reason for this exclusion is that the latter is not a human group or institution, such as customers, the government or employees (Buchholz 2004). Therefore, it can be argued that the natural environment itself cannot be seen as a stakeholder (Phillips and Reichart 2000). Nevertheless, it has to be considered within the
CHAPTER 4: Corporate Social Responsibility in Strategic Management

decision-making process, as changes in the natural environment such as ecological disasters and the scarcity of raw materials affect a firm’s success. In addition, people may have an interest in sustaining the natural environment for their own life and the life of the future generations. Therefore, the environment should be integrated in decision-making structures (Jacobs 1997). In line with this, Kopel (2009) also points out that CSR activities are considered within the literature as strategic investments which may influence a firm’s stakeholders.

As a consequence, the classification of stakeholders referring to Clarkson (1995) is used within this master thesis, but in an extended way:

**Definition 7: CSR Stakeholders**

Stakeholders are those persons and groups "... without whose continuing participation the corporation cannot survive ..." They "... influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival." (Clarkson 1995, p. 106-107). The natural environment also has to be considered as being a type of stakeholder, in the sense that its development and changes have to be integrated in corporate strategies.

The definition above includes arguments by Clarkson (1995) and the consideration of the natural environment. It is illustrated in Figure 11.
Figure 11 shows that the natural environment has to be integrated when identifying stakeholders. Firms have a social responsibility to its primary and secondary stakeholders. This means that executives not only have to consider shareholders in their decision-making process – anyone who is affected by the company’s activities must be integrated. As a consequence, three different ways of implementing Stakeholder Theory can be identified. These are as follows (Donaldson and Preston 1995):

1. Descriptive/empirical Way:
   This way of using Stakeholder Theory aims at describing and analyzing characteristics of a firm.

2. Instrumental Way
   This kind of implementation is prescriptive in nature. It aims at the identification of links between the objectives of an enterprise and its stakeholder management, e.g. profitability.

3. Normative Way
   The normative way of using Stakeholder Theory is characterized by the objective of examining the functions of companies. These are interpreted and followed by an identification of "… moral and philosophical guidelines." (Donaldson and Preston 1995, p. 71).

For this master thesis, the second point is of importance. That is because the implementation process is interested in examining how stakeholders can be considered in a way that enhances financial performance and efficiency. Regarding the underlying research questions, this can be interpreted as follows: the firm’s stakeholders are seen as "resources" to achieve superior performance which may result in CA. In other words: the interests of the firm’s stakeholders have to be taken into account in the managerial behavior of a firm characterized by maximizing shareholder wealth. In this sense, the interests of the stakeholders are also seen as means to achieve higher corporate goals, e.g. profit maximization and in turn CA. Jawahar and McLaughlin (2001) sum it up by arguing that this view of the stakeholder perspective sees the overall objective of a firm in the "… marketplace success, and stakeholder management is a means to that end." (p. 399).
Thus, Stakeholder Management helps to pursue high profits when engaging in CSR. This argument is also reinforced by Porter and Kramer (2002), who argue that the argument of M. Friedman has two implicit assumptions, which are as follows:

1. Economic and social objectives are seen as separate and distinct goals.
2. Companies do not provide a greater benefit when addressing social objectives than it is provided by individual donors.

Furthermore Porter and Kramer (2002) highlight that firms do not operate completely independently from the society in which they are active. Managers who undertake CSR activities do not necessarily misuse financial resources of the company which legitimately belong to the firm’s shareholders. This is because "… in the long run […], social and economic goals are not inherently conflicting but integrally connected." (Porter and Kramer 2002, p. 59). In line with this, Kitzmueller (2008) argues that strategic CSR activities are fully compatible with profit-maximizing behavior of firms.

The subsections above extend the former assumptions of this master thesis. Hence its main topics are as follows:

- Consideration of Stakeholder Theory and especially Instrumental Stakeholder Theory
- Profit-maximizing behavior of firms when undertaking CSR activities since Stakeholder and Shareholder Views do not have to be seen as mutually exclusive
- Including the natural environment in a firm’s stakeholders, together with primary and secondary stakeholders
- Considering CSR in the strategic dimension to investigate CA through DC.

As a consequence of integrating the Stakeholder View into CSR, executives have to develop and pursue a framework to manage the various groups and individuals (Freeman and Velamuri 2006). It is necessary to integrate stakeholders into the decision-making process and into the associated managerial behavior involved (Garriga and Melé 2004). This is also because the dialogue with stakeholders "… not only enhances a company’s sensitivity to its environment, but also increases the environment's understanding of the dilemmas facing the organization." (Kaptein and Van Tulder 2003, p. 208). Hence, CSR has important strategic implications for a firm when stakeholders are taken into account. This is discussed in the following section.
4.5 Formulation of Corporate Social Strategy

Since an enterprise has to deal with a large number of different businesses and stakeholders, the strategies as well as the associated decisions of executives involve social and economic consequences. Porter and Kramer (2006) state that the activities of firms have a direct impact on their communities. The existence of relationships between a firm and society may therefore result in positive or negative consequences for the corporation. Thus managers have to take social expectations into account, i.e. potential positive and negative impacts of CSR engagement. These have to be included in strategy development as well as in the implementation process. In line with this, the Harvard Business School model of strategy includes social responsibility as an element in the formulation of strategies, as ethics and social responsibility are also linked to corporate objectives (Husted and Allen 2001).

Academics and institutions have also tried to define CSR as a form of management in order to include its strategic implications in corporate strategies. As an example, CSR has been seen as "... a form of management that is defined by the ethical relationship and transparency of the company with all the stakeholders ..." and "... the establishment of corporate goals that are compatible with the sustainable development of society, preserving environmental and cultural resources ..." (EthosInstitute 2007, p. 78).

In order to examine the effects of CSR in the strategy formulation process, a generic definition of the term "strategy" needs to be provided by identifying its components. It is often argued that strategy is the set of actions taken to achieve aims, whereas these aims are separated from the term. As an example, Wright, Kroll and Parnell (1998) state that "Strategy refers to the top management’s plans to attain outcomes consistent with the organization’s mission and goals." (p. 4). Since the objective of this master thesis is to show the effects of CSR on CA, strategy is defined as generically as possible. Andrews (1987) defines strategy as the objectives of a firm and how an organization tries to reach these objectives. This thesis follows his definition, as both the objectives of a firm and the plans to achieve them are included.

Andrews (1987) identifies, moreover, the components of strategy formulation: market opportunities, corporate resources and skills, values and aspirations, knowledge of obligations to society and shareholders. These components are related to some basic assumptions
of this master thesis. Whereas the firm’s resources and human skills refer to the DCV, obligations to society and shareholders reflect the objective of profit-maximization and Stakeholder Theory. Market opportunities concern the potential to achieve and sustain CA by recognizing potentials in good time, e.g. by being the first mover in a new market segment and surviving in dynamic markets by developing Dynamic Capabilities. Therefore, the view on strategy by Andrews (1987) is most appropriate for further research within this master thesis.

To focus on CSR, the term "Corporate Social Strategy" has been introduced in literature to refine generic definitions of strategy. By using business strategy tools, e.g. game-theoretical models, Husted and Allen (2001, 2011) formulated social strategy models and investigated effects of CSR and stakeholder engagement on CA. They identified key elements of social strategy, which show similarities to the elements of strategy by Andrews (1987). To illustrate this, Table 4 compares the components of both definitions.

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<tbody>
<tr>
<td>Market Opportunities</td>
<td>Industry structure (Porter 1991)</td>
</tr>
<tr>
<td>Corporate resources and skills</td>
<td>Internal resources of the firm (Barney 1991)</td>
</tr>
<tr>
<td>Values and aspirations</td>
<td>Corporation ideologies and values</td>
</tr>
<tr>
<td>Knowledge of obligations to society and shareholders.</td>
<td>Relationship with stakeholders</td>
</tr>
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</table>

Table 4: Comparison of Corporate Strategy and Corporate Social Strategy

The components of Corporate Social Strategy listed in Table 4 will be revisited in chapter 6. The questions will be addressed how a company can balance the interest of its stakeholders and integrate these social and environmental demands into its strategies. For conceptualizing the model in chapter 5 below, the term strategy has to be defined in detail. Since Husted and Allen (2001, 2011) already introduced the term Corporate Social Strategy, it is used but in a more general way. This is because the focus of the work at hand is on the DCV and not on the strategy development and implementation process itself.

Definition 8: Corporate Social Strategy
Corporate Social Strategy refers to the Strategic Management of a firm and comprises its objectives and the way the organization tries to reach these objectives by taking into account CSR (Andrews 1987, Husted and Allen 2001, 2011).

The reasons for integrating CSR in a firm’s strategies are manifold and form the basis for the firm’s success or failure in a competitive landscape. Since natural resources will become increasingly scarce and expensive, firms have to use environmentally friendly systems to produce and sell their products. In addition, the environment of an enterprise will change in the years to come. And what is essential to know is that the external circumstances which are characterized by dynamism require flexibility in order to adapt to changes (Werbach 2009). Since flexibility is one main component of a firm’s Dynamic Capabilities, a first link between CSR and the DCV can also be identified.

Strategy formulation in conjunction with CSR requires the integration of the interests of the company's shareholders and stakeholders and the objective of maximizing shareholder wealth. Thus CA can be achieved, as higher profits relative to the competitors lead to a superior position in a market. Since this is a very general formulation of how CSR can lead to CA, this question has to be addressed in more detail. This is done in the following section with a focus on a firm’s RBV in order to provide a basis for chapter 5, in which the model which includes the DCV is conceptualized.

4.6 Corporate Social Responsibility and Competitive Advantage

Related to Corporate Social Strategy, Husted and Salazar (2006) conducted a study to investigate CSR strategies of firms. The authors concluded that firms pursuing Corporate Social Strategies should always have the intention of improving their economic and social performance. In addition, their results showed that strategic investments which try to simultaneously achieve the maximization of both profit and social performance create better results for firms. Such strategic investments provide benefits for the firm and advantages for society. For example, enterprises can improve their corporate reputation and therefore have access to better qualified workforce. What is important is that the study revealed that a firm can add value and obtain CA through CSR activities, but it has to act strategically (Husted and Salazar 2006). This strategic importance of CSR has also been identified by Kopel (2009), who states that "… an increasing number of research contributions on CSR
activities of business firms recognize the long-term investment characteristic of CSR decisions." (p. 2).

As CSR became an indispensable part of company strategies in recent years, the activities of firms were also affected. What needs to be known is that CSR results in benefits for the firm itself and society as a whole. The outcomes range from an increase in the company’s reputation to employee loyalty. Furthermore, CSR can help maintain and strengthen relationships with business partners along the whole value chain (Pearce and Doh 2005).

CSR strategies can, moreover, generate CA because there is a positive relationship between actions of strategic social responsibility and CA (Husted and Allen 2011). Product differentiation is seen as one main creator for CA in the field of CSR, together with an increase in the firm’s reputation. Regarding product differentiation, McWilliams and Siegel (2001) state that "CSR attributes are like any other attributes a firm offers" (p. 125). In other words, CSR activities can be put on one level with other economic projects a firm wants to implement (Porter and Kramer 2006). Corporate reputation is seen as an internal resource for a firm to create CA. The reason is that reputation supports the selling of products and/or services (Mahon 2002) and results in higher profits and hence can generate CA.

Furthermore, internal and external stakeholders refer to reputation to evaluate business activities and firms. This view of a company mainly influences their perceptions of the firm and its engagement in CSR (Logsdon and Wood 2002).

Consequently, CSR can be seen as a tool to improve both reputation and the sales of products and services. A good corporate reputation as well as product differentiation can additionally result in a better performance for the firm. Consequently, CA can be achieved, as higher profits can be generated.

To examine the effects of CSR on CA, the main arguments of the RBV will now be used. Barney (1991) states that CA can be achieved by implementing strategies that add value and create benefits for one company when another firm fails in doing so. The author also introduced the four VRIN characteristics which a firm’s internal resources must dispose of to achieve CA. Hence these four aspects can be used in connection with CSR as well. CSR and the RBV have already been connected in various publications on Strategic Management. These works are both empirical and theoretical in nature (see e.g. Branco and Rodrigues 2006, McWilliams and Siegel 2001, McWilliams et al. 2006 and Russo and Fouts
1997). By integrating the arguments of Barney (1991), it can be stated that CSR activities must also be valuable and rare to be a source of CA. CSR can therefore be considered as an internal resource of a company, since it incorporates relationships with stakeholders, corporate values, business ethics, reputation, etc. (Donaldson and Preston 1995, Freeman 1984, Logsdon and Wood 2002).

According to Barney (1991), SCA can then be achieved if a firm can protect its products and/or services against resource imitation, transfer or substitution. Regarding CSR, this means that actions involved must be characterized by inimitability and non-replicability to be the source of SCA. Since intangible resources, e.g. knowledge of innovative social projects and ethical management, help a firm defend its product and/or services against imitation, these are sources for CA. Nevertheless, CA can only emerge through CSR if the benefits to society really exist. CSR actions should therefore create real and consistent results for the firm’s shareholders and stakeholders (Husted and Allen 2001).

It is important to say that it is easier for companies to meet new market expectations, e.g. human rights and environmental management in the supply chain, if CSR is rooted within the firm. This is because the company can protect its knowledge of and experiences in social actions and their implementation more easily. Furthermore the members of the organizations can also learn from earlier mistakes and act in a more flexible way. This is of particular importance for the following chapter, as the development of abilities and flexibility are components of Dynamic Capabilities.
Chapter 5
Integrated View of Corporate Social Responsibility, Dynamic Capabilities and Competitive Advantage within a Strategic Management Perspective

The preceding literature reviews referred to the main theoretical foundations of this master thesis shown in the frame of reference: Dynamic Capabilities and CSR in Strategic Management. The focus was on highlighting their connections to CA. The aim of this chapter is to integrate this gained knowledge into a model. It should give an integrated view of CSR and CA through the lens of Dynamic Capabilities within a Strategic Management perspective.

For conceptualizing the model, it first has to be examined whether the DCV is useful for investigating CSR issues. Of course, one of the main assumptions in earlier remarks was that CSR themes are characterized by dynamic markets. As the latter are one reason for applying the Dynamic Capabilities Approach, it is necessary to address the question whether dynamic markets also appear in connection with CSR. It has already been implied preliminarily that this is the case due to manifold reasons, such as an increase in globalization, competition and legal restrictions, changes in technology and innovation processes, or scarcity of resources. However, the connection has not been examined in detail and will therefore be done now.

5.1 The Dynamic Capabilities View as an Appropriate Approach to Address CSR-related Issues

In order to adapt the DCV to address CSR, one first needs to take a look at the attributes of dynamic markets. This is because the latter are a prerequisite for the adaptation of the Dynamic Capabilities Perspective. For this purpose their attributes dynamics, complexity and
high uncertainty (Pfeffer and Salancik 2003) are taken into account and adapted to the three main areas of CSR: economy, environment, society. These three aspects were shown as the main areas of CSR, identified by the Triple Bottom Line of CSR and Carroll's CSR pyramid (Carroll 1991, 2004). Figure 12 below illustrates the connections between the areas of CSR and the attributes of dynamic markets.

The illustration above shows the various interrelations between the characteristics of dynamic markets and the main facets of CSR, which concern the economy, the environment and society. In line with this, Carroll (1991) argued that the fields of his CSR pyramid cannot be seen as mutually exclusive. In addition, problems in these areas are closely connected to each other, e.g. a firm should act as a good corporate citizen (philanthropic responsibility) and should also be profitable (economic responsibility) to have the necessary financial assets for investing in environmentally friendly equipment (environmental bottom line).
Figure 12 can also be interpreted to the effect that it shows how the three attributes of dynamic markets are reflected within the areas of CSR. This is illustrated by the arrows and can be interpreted as follows:

- Environmental problems are characterized by high uncertainty and dynamics.
  Environmental issues are characterized by high uncertainty and dynamics regarding available information on resource depletion or natural disasters and their consequences. Government regulations and legislation are also part of this attribute.

- Social problems are characterized by high uncertainty and complexity.
  Social questions are influenced by a number of factors and their interactions, e.g. child labor, safety at work or the availability of healthy drinking water. This complexity affects the decision-making process within a firm, for example when deciding on the use of safety devices within a production process. Social problems are furthermore characterized by a company's various relationships with its stakeholders. These relationships are complex themselves, as a large number of CSR stakeholders have a direct or indirect effect on business activities. The needs of CSR stakeholders are highly uncertain, as their expectations and demands can change very quickly. On a related note, social problems require the new configuration of resources (Gilbert 2005). The latter is one characteristic of Dynamic Capabilities.

- Economic problems are characterized by complexity, high uncertainty and dynamics.
  Economic difficulties not only arise due to environmental and social issues, which are dynamic and highly complex themselves. Due to globalization, a firm also has to think about long-term decisions regarding its locations (Pfähler and Wiese 2008). This results in the necessity to consider the costs and benefits involved, which becomes more difficult when environmental and social issues are taken into account as well.

The remarks above reveal that CSR activities are characterized by the attributes of dynamic markets. Since the latter form a basis for using the DCV, Dynamic Capabilities are a useful concept to be used when addressing questions regarding CSR. This is especially important if the mentioned trade-off occurs, as a company's special abilities permit it to achieve CA in line with profit-maximizing behavior and CSR engagement.
5.2 General Framework for Model Conceptualization

With an understanding of the fundamental theories stated in the previous chapters, a general framework for the model conceptualization can be illustrated as shown in Figure 13 below. It represents the initial point for the conceptualization of the model later on.

The motives for integrating CSR into a firm’s Strategic Management mainly comprise the firm’s response to social, environmental and economic circumstances within its environment. This includes the exploration of new market opportunities as well as the development and fostering of relationships with the company’s stakeholders. Since CSR is characterized by dynamic markets, companies with specific Dynamic Capabilities can increase their effectiveness in these tasks and furthermore better adjust to sudden changes in their environment.

The decision to integrate CSR into a firm’s Strategic Management is then followed by the development of a strategy which includes CSR's aspects. For this purpose, the term Corporate Social Strategy was introduced (see Definition 8). By means of this type of strategy, a company can achieve CA, which is illustrated by the two arrows in the upper part of Figure 13. The figure also points out the necessary use of Dynamic Capabilities. It is shown that the latter are developed over time to achieve a new resource configuration for a better performance relative to the firm’s competitors.

Of course, this is a very general view and hence the knowledge gained from the literature reviews in chapters 2, 3 and 4 has to be incorporated.
5.3 Key Insights from Theoretical Foundations

In order to look at the individual components of the general framework for the model conceptualization in more detail, the following organizational processes are used to examine the relationships between CSR, Dynamic Capabilities and the resulting CA. They reflect the concept of Dynamic Capabilities and refer to Ambrosini and Bowman (2009), Barreto (2010) and Bowman and Ambrosini (2003):

- Potential for systematical problem solving: ability to sense opportunities and threats as well as to make timely and market-oriented decisions.
- Potential to change current resource base: Reconfiguration, leveraging, learning and creative integration.

5.3.1 CSR, Dynamic Capabilities and Competitive Advantage

The literature reviews earlier on in this thesis point out that one theoretical approach within Strategic Management is closely connected to the DCV: Time-oriented Theories of CA. Within the latter category, the field of a FMA has shown various links to how a firm can gain CA through Dynamic Capabilities. One example within the field of CSR was highlighted: the launch of the Toyota Prius, the first hybrid car. It reflects how important timing is to achieve CA in markets where social, environmental and economic problems emerge and change. It was argued that the sustainability of a FMA depends on a firm's initial equipment and on its capabilities developed after the market entry. Furthermore, companies with weaker capabilities are forced to make a later entry and thus cannot achieve a FMA so easily. Hence it is necessary to develop and deploy capabilities before the competitors. If this is achieved, an enterprise can outperform current and potential rivals by being a first mover (Collis 1994, Lieberman and Montgomery 1998).

In addition, a firm can gain an SMA by observing the actions of the first mover. This has to be done constantly to be successful. Nevertheless, the success is limited as a rapid response is often not possible due to a lack of resources or capabilities (Lieberman and Montgomery 1998).

The preceding literature review also reflects that Dynamic Capabilities can be seen as organizational processes within a firm. They result in a change of the initial company’s re-
source base and are mainly built up within the company. They help a firm adjust to changes in dynamic markets over the course of time.

What also became apparent in chapter 3 is that Dynamic Capabilities can lead to temporary or sustainable CA. In addition, there are various factors which influence the success or failure of the deployment of Dynamic Capabilities. According to Ambrosini and Bowman (2009) these are the firm’s path, its position and managerial behavior as well as causal ambiguity. On a related note, it is very important to build on the accumulation of tacit knowledge to generate and sustain CA (Saloner et al. 2001).

Sensing such potential opportunities and threats regarding CSR includes a continuous monitoring and scanning of both the company’s stakeholders and environment over time. Dynamic Capabilities can therefore help a firm to gain the latest knowledge of environmental changes, which gives it the possibility to take any appropriate measures before other enterprises do or even before other variations appear. Therefore, an enterprise has to make investments in monitoring procedures. The organizational processes have to be improved and strengthened, e.g. through employee training in scanning the company's environment and by hiring professionals who provide information about recent legal restrictions, etc. With the help of the accumulated knowledge, creative integration and leveraging can be accomplished in a more effective way. That is because newly available resources or a new technology can result in a more exhaustive recombination of resources. As a result, a new product/service or a better performing of support functions within the organization or the supply chain is possible.

As Dynamic Capabilities also refer to the realignment and reconfiguration of resources and processes, continuous employee training and education can be implemented in a faster way. Therefore a firm can increase its efficiency in terms of technological innovation as well as the adaptation to legal changes and the expectations of CSR stakeholders. The flexible organizational structure of a firm allows a faster restructuring of internal processes at lower costs, which can increase a firm's profits. Enterprises which are able to deal with and adapt to regulations and laws can achieve one main objective of CSR stakeholders: social support and legitimacy. This has also been addressed by Zhao (2012) who identified diverse types of "… CSR-based political legitimacy strategies …" (p. 439) to point out that companies have to manage the relationship with the government strategically as they are
influenced by political institutions, e.g. through their regulations. The adoption of these strategies differs across multinational companies and the investigated enterprises in China and Russia (Zhao 2012).

The remarks above reflect that the opportunity to achieve CA is founded in the long-term monitoring of the firm’s environment. This mainly includes the consideration of CSR stakeholders as they include, among others, potential customers with specific needs and expectations. Only by considering these demands, an appropriate product and/or service can be developed and offered. Another example of the consideration of CSR stakeholders is the constant adherence and the maintenance of relationships to other firms within the company’s supply chain to identify their environmental awareness. Hence, CSR Stakeholder Management is an important part within the firm’s Strategic Management and will therefore be discussed in an individual subsection below.

5.3.2 CSR Stakeholder Management by developing and deploying Dynamic Capabilities

Chapter 3 showed that integrating Shareholder View and Stakeholder Theory into CSR strategies is not impossible. The pursuit of profit-maximizing behavior can be implemented by taking stakeholders into account. Since the latter can be seen as strategic investments to achieve long-term value maximization (Kopel 2009), it can be argued that both shareholder wealth maximization and Stakeholder Management should be integrated when implementing CSR activities. As a result, a firm can achieve higher profits and gain CA, as the latter are a prerequisite for CA. Consequently, a company should treat every intention regarding CSR like any other economic plan. The executives have to weigh the associated costs and benefits. Then they have to decide whether the project should be implemented or not.

However, including a firm’s stakeholders in the strategies and the decision process becomes inevitable. That is because there is a large group of individuals and institutions who directly or indirectly affect the transactions of firms. The discovery of CSR stakeholders (see Figure 11) revealed that the natural environment has to be included in a firm's strategy as well. Although it cannot be seen as a stakeholder in terms of business administration, its development has to be taken into account.
As stakeholders can be treated as "resources" which help a company enhance financial performance, they have to be identified and developed over time. The number and power of stakeholders have to be identified, their needs and expectations elaborated and relationships with them established and fostered. Stakeholder Management can help a firm pursue high profits while engaging in CSR. These tasks can be performed by continuously monitoring over time and if a company can sense opportunities and threats. The latter are the organizational processes of which the construct of Dynamic Capabilities consists (Ambrosini and Bowman 2009, Teece et al. 1997).

On a related note, Dynamic Capabilities emphasize variations in a company's abilities to quickly adapt to an ever-changing environment, i.e. they refer to its organizational performance (Teece et al. 1997) which may lead to CA. For that reason, firms have to develop Dynamic Capabilities in order to meet the changing demands of their CSR stakeholders. The failure to satisfy customer demand or to provide safe products may result in losses and hence cannot lead to CA. In addition, the whole supply chain can be affected in a negative way. That is because an individual firm is part of a whole value chain system (Porter 1991). If a corporation does not meet environmental regulations required by its downstream customers or by its suppliers, it may be unable to outpace its competitors. The adaptation to governmental instructions is furthermore affected by the firm's potential to systematically solve problems, e.g. timely decision-making, which is one part of the construct of Dynamic Capabilities.

An enterprise can also take active steps to influence the expectations and needs of the CSR stakeholders. By persistently monitoring the stakeholder's demands, a firm can take actions to negotiate or influence the actions of the stakeholders, e.g. by promoting the firm's CSR engagement. This can be achieved through information on the company's website or through using other media.

It is obvious that CSR Stakeholder Management comprises various organizational processes which reflect the construct of Dynamic Capabilities: when implementing a CSR project, the stakeholders involved have to be identified and analyzed. Afterwards, relationships have to be established and maintained. This includes investigating how much power the various stakeholders have. It is also essential to continuously monitor the development of their needs and expectations. Moreover, it is necessary to explore at intervals whether and
which stakeholders have emerged. This requires the ability of the organization to perceive opportunities and threats. The latter aspects are components of both CSR Stakeholder Management and Dynamic Capabilities. By developing and continuously improving abilities, a firm can achieve and sustain CA. That is because the mentioned abilities are mainly tacit knowledge embedded within the firm. Hence a resource base can be protected from imitability and replication – two main factors essential for indirectly generating SCA (Helfat et al. 2007).

For an integrated view of the theoretical backgrounds explained above, a model will be conceptualized in the following subsection.

5.4 Model Conceptualization

The motives for integrating CSR into Strategic Management are now indisputably present in the current business world, and they are:

- Continuous changes in the firm’s environment regarding social, economic and environmental issues
- Profit-maximization in conjunction with CSR as corporate goals
- Meeting the demands of the company’s CSR stakeholders
- Emergence and Sustainability of CA.

Since both profit-maximization and stakeholder engagement are not mutually exclusive, these objectives can be pursued and integrated into a firm’s Corporate Social Strategy. By serving the needs of its CSR stakeholders, a company can influence the latter’s commitment to the firm and gain customer loyalty. Hence, trust can be established which leads to a constant position in a market through loyal clients.

The influencing factors of Dynamic Capabilities must also be considered in Strategic Management. These include the internal and external position of a firm, the company’s path, the managerial behavior within the organization and the problem of causal ambiguity. These aspects influence the deployment of Dynamic Capabilities and must be integrated into the model, which is shown in Figure 14 below.
CHAPTER 5: Integrated View of Corporate Social Responsibility, Dynamic Capabilities and Competitive Advantage within a Strategic Management Perspective

![Diagram of the model for integrated view of CSR, dynamic capabilities, and competitive advantage](image)

**Figure 14:** Model for Integrated View of CSR, Dynamic Capabilities and CA within a Strategic Management Perspective

- **Incorporation of CSR into the firm’s Strategic Management**
  - Corporate Objectives
    - Maximizing shareholder wealth
    - Engagement in CSR
    - Competitive Advantage

- **Corporate Social Strategy**
  - Implementation
    - Development and deployment of Dynamic Capabilities

- **Dynamic Capabilities**
  - Potential for systematical problem solving
  - Ability to make timely and market-oriented decisions
  - Ability to sense opportunities and threats
  - Potential to change current resource base
    - Reconfiguration
    - Leveraging
    - Learning
    - Creative Integration

- **New Resource Configuration**
  - Flexible organizational structure to adapt to social, environmental and economic changes in the firm’s business environment
  - CSR stakeholder management
  - Accumulation of tacit knowledge
  - CSR engagement
  - Sustainable research and innovation
  - Reengineering
  - Cost-effectiveness

- **Competitive Advantage in dynamic CSR markets**
  - Failure
  - Competitive parity
  - Temporary CA
  - Inimitability
  - Non-Substitutability
  - Timing
  - Sustainable CA

**Influencing Factors**
- Dynamic CSR markets
- Causal Ambiguity
- Position
- Path
- Managerial Behavior
Figure 14 represents the "unique selling proposition" of this master thesis. It is a model for an integrated view of CSR, Dynamic Capabilities and CA within a Strategic Management Perspective. It is the unique selling proposition of this master thesis because it integrates the Dynamic Capabilities framework into the field of CSR by taking into account various academic publications dealing with these subjects. Moreover, an illustration is established which can be seen as the extension of the work of Lattemann et al. (2007). It also extends the line of research regarding Dynamic Capabilities and CSR, which is scarce in business literature.

Figure 14 concentrates the gained knowledge of the literature reviews. The top of the figure shows the main components of how a firm can integrate CSR into its Strategic Management and achieve CA. Since the business world is facing social, environmental and economic challenges, a company has to incorporate CSR into its strategic business activities. After this decision, a Corporate Social Strategy is pursued, which includes the consideration of CSR projects and engagement in various areas of CSR. By implementing this strategy with the help of Dynamic Capabilities, CA can be achieved. This happens in CSR markets, in which social, environmental and economic issues are present and which are characterized by dynamics, complexity and high uncertainty. Since the latter three points are characteristics of dynamic markets (Pfeffer and Salancik 2003), the term "dynamic CSR markets" is used. Moreover, this underpins the decision to use the DCV for investigate CSR-related issues.

A closer examination of Figure 14 and a discussion of its implications will be provided in chapter 6 below. It also includes implications for CSR strategy development.
Chapter 6
Discussion of Results and Implications for CSR Strategy Development

In the preceding chapters, the Dynamic Capabilities framework was used to analyze how CSR can lead to CA within the field of CSR. Literature reviews in these fields of research led to the conceptualization of a model for an integrated view shown in Figure 14. The illustration already showed that the strategy-implementing process consists of the decision to integrate CSR into the firm’s Strategic Management and the pursuit of a Corporate Social Strategy with the aim to achieve CA. This is illustrated at the top of the model.

One corporate objective is the generation of profits in order to reach a superior position within a market (see Definition 1). Consequently, CSR projects can be implemented if the necessary financial assets are available due to successful sales of its products and/or services.

The model in Figure 14 also shows that a firm’s Corporate Social Strategy itself has to incorporate Dynamic Capabilities in the sense that it is the way how corporate goals should be implemented. In times of increasing globalization and competition, these are: the maximization of shareholder wealth, engagement in CSR and the emergence of CA. On a related note, a firm’s voluntary engagement in CSR is desired from society. The latter desires economic, legal, ethical and philanthropic responsibilities of firms which are the main components of CSR (Carroll 1991, 2004). These corporate objectives can be pursued as since both profit-maximization and stakeholder engagement are not mutually exclusive. The Corporate Social Strategy itself consequently leads to CA in dynamic CSR markets by developing and deploying Dynamic Capabilities in the long term.

The bottom left part of the model shows the organizational processes of which Dynamic Capabilities consist. Through the systematic solving of problems and the changing of a
current resource base, a flexible organizational structure can be achieved. Therefore, the company has to possess the abilities to make timely and market-oriented decisions and to sense opportunities and threats. In order to achieve a new resource configuration, the enterprise furthermore has to be equipped with reconfiguration, leveraging, learning and creative integration capabilities. These various elements are part of the process and directly impact the resource base of a firm, which is in turn the source of the corporation’s CA (Barreto 2010, Bowman and Ambrosini 2003). Within the model, the term "CSR-Dynamic Capability" is introduced to clarify that CSR can indeed be seen as Dynamic Capability. The reasons can be stated as follows. A firm has to make use of the processes mentioned above to adapt to changes in its environment regarding CSR-related problems, e.g. technological modifications, legal regulations and environmental problems.

These CSR-Dynamic Capabilities mainly consist of tacit knowledge, e.g. learning. They have an impact on the company's performance and hence they can increase the firm’s profit. Through CSR Stakeholder Management, potential needs of customers can be identified to develop a product tailor-made for the customer, e.g. a product with a more environmentally friendly packaging. New target customers can be identified who can increase the profits as loyalty to greener products can be built up. Consequently, CA can be achieved.

Against this background, four possible scenarios can emerge, which are shown in the left part of Figure 14 (Ambrosini and Bowman 2009):

1. Failure: No emergence of CA
   
   Due to the factors of high uncertainty, complexity and dynamics in CSR markets it may happen that despite the deployment of Dynamic Capabilities, no CA can be achieved.

2. Competitive Parity:
   
   If Dynamic Capabilities in CSR markets only result in a new resource configuration but competitors cannot be outperformed, e.g. because they possess better resources or capabilities and have a FMA, competitive parity arises.

3. Temporary CA:
   
   Short-lived CA is the most frequent case in dynamic markets as circumstances change very quickly, i.e. social, environmental and economic modifications occur
constantly and often abruptly. Hence, CA is usually temporary rather than sustainable.

4. Sustainable CA:
   If a company is able to accumulate tacit knowledge and protect its products and/or services from imitation and substitution, SCA can be achieved. This can be achieved through patents, employee loyalty and commitment. That is because Dynamic Capabilities mainly consist of tacit knowledge, e.g. learning processes and the ability to make timely decisions.

Along with these four scenarios it must be noted that a time-oriented CA can result in anything from a short-lived CA to an SCA. If a company has the abilities to undertake CSR activities before its competitors, it can gain a FMA. Therefore it is necessary for a company to develop and deploy capabilities before its competitors – and constantly. These Dynamic Capabilities then help the enterprise outperform current and potential rivals by being a first mover (Collis 1994, Lieberman and Montgomery 1998).

On a related note, an SMA can also be achieved by observing the actions of the first-mover. This has to be done constantly in order to be successful. The monitoring of the first mover's activities also comprises Dynamic Capabilities, e.g. a firm's ability to replicate a process or a system after having identified how the first mover gained its superior position. But the success of an SMA is limited as a rapid response of the second mover is often not possible due to a lack of resources and capabilities (Lieberman and Montgomery 1998).

To sustain a CA generated from CSR-Dynamic Capabilities, their imitation has to be difficult. Furthermore, the new resource configuration has to be characterized by non-substitutability in conjunction with the right timing of actions (Eisenhardt and Martin 2000, Griffith and Harvey 2006, Helfat et al. 2007). This is incorporated in the model in Figure 14 on the right and again reveals the importance of the accumulation of tacit knowledge as it can be protected from imitation more easily.

However, there are various factors which influence the success or failure of the deployment of Dynamic Capabilities. These are causal ambiguity, the firm's position, its path and its managerial behavior (Ambrosini and Bowman 2009). These factors are shown in the bottom right corner of Figure 14. Dynamic CSR markets are also given as one single factor, as their dynamics, high uncertainty and complexity have a continuous influence on a
firm's position. As an example, the high uncertainty in environmental problems can lead to sudden changes in a firm's position, e.g. ecological disasters which may destroy subsidiaries or factories. As a result, a company can lose its generated CA. Causal ambiguity can be seen as one factor which helps a firm achieve CA as competitors cannot identify how a firm was able to outperform other companies. But it may also limit the success if an enterprise cannot identify all resources and capabilities of a competitor which led to one's CA. Positions refer to a firm's assets, on the one hand, and to its position in the market relative to its competitors on the other. Path dependence is of great importance in developing Dynamic Capabilities. As initial conditions and managerial choices influence the future behavior and position of a firm, past organizational processes and managerial behavior influence its ability to develop and improve its abilities (Harreld et al. 2007, Porter 1991 and Teece et al. 1997). The model points out that the influencing factors have an influence on both CA and the resource configuration of the firm.

The resulting new resource base allows an adaptation to social, environmental and economic changes in dynamic markets, all of which are CSR issues. This is done by means of the following actions which can be undertaken by the firm through Dynamic Capabilities:

- **CSR Stakeholder Management**, which includes the maintenance of relationships and the establishment of networks with the firm’s stakeholders
- **Accumulation of tacit knowledge** to achieve SCA
- **CSR engagement**, i.e. tasks which result in a better outcome for society and the environment
- **Sustainable research and innovation** to develop new products and/or services which satisfy the needs of CSR stakeholders and may lead to an increase in profits
- **Reengineering** due to the flexible organizational structure of the firm. Reengineering refers to the application of new technology and management science for the modification of existing systems, e.g. products and organizational processes. It aims at making them more efficient and responsive
- **Cost-effectiveness**, since CSR projects can be treated like every other economic project. Executives have to weigh costs and benefits and then decide whether to implement the plan or not. By this behavior, cost-effectiveness can be achieved, as it refers to the extent to which a project or plan is expected to achieve its results at a lower cost compared with alternative projects.
The conceptualized model helped to demonstrate that CSR involves organizational processes which are components of the Dynamic Capabilities construct. The engagement in CSR can therefore be seen as a source of CA. That is because the development and deployment of CSR-Dynamic Capabilities lead to a change in a firm’s current resource base, which in turn generates CA and leads to an increase in profits.

Within the discussion of CSR Stakeholder Management, it was argued that a company can influence the behavior of its stakeholders by promoting its CSR engagement. Such public relations practices strengthen relationships between the organization and the stakeholders. The asymmetric information between both parties influences trust and loyalty. Therefore a higher propensity to stay in a relationship with a firm results in a greater commitment of the stakeholders to the company. CSR reporting and publicity consequently affect the external appearance of a company. That is the reason for the importance to verify CSR activities externally, e.g. through esteemed and well-known agencies. In line with this, McWilliams et al. (2006) argue that firms have difficulties in disclosing the business drivers of CSR investments, e.g. promoting its products and building up its reputation. This is closely related to causal ambiguity as the latter helps a firm keep its CA by keeping knowledge within the own organization. On the other hand, firms cannot catch up with market leaders if they cannot identify a company's CSR practices which lead to success.

Although the conceptualized model shows how CA can be achieved by the use of CSR-Dynamic Capabilities, it is a theoretical framework. Therefore it serves as a basis for theory development within CSR and business administration to obtain empirical evidence. That is because Dynamic Capabilities were identified in a very general way as various interpretations were included. This was considered necessary as a company has to perform a large number of different tasks to deal with CSR. In line with this, Eisenhardt and Martin (2000) also used a very broad definition of Dynamic Capabilities. According to these authors, organizations should always be able to learn, react in a flexible way and stay competitive. This requires a continuous absorption of social, environmental and economic signals from the organization’s environment, which results in the risk to lose its capacity to act. The members of the organization are moreover at risk of becoming cognitively overloaded and therefore the whole organizational system can suffer from too much information. One possible solution may be the distinction suggested by Schreyögg and Kliesch-Eberl (2007). The authors argue that two levels have to be considered when deploying Dynamic Capabil-
CHAPTER 6:
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...ities: the implementation itself and the monitoring of capabilities. This allows both a monitoring of the firm’s environment and risk management. Consequently, predictors for changes can be recognized and then incorporated into the organization's decision-making process (Schreyögg and Kliesch-Eberl 2007).

The conceptualized model illustrated in Figure 14 points out the strategic importance of incorporating Dynamic Capabilities, which evolve over time, and the strategy implementation process including CSR. As a Corporate Social Strategy comprises the consideration of the industry's structure, a firm's internal resources as well as corporate values and the relationship to the firm’s stakeholders (Husted and Allen 2001, 2011), Dynamic Capabilities have to be developed to deal with these aspects and to implement corporate objectives. As an example, the component "relationship to the firm’s stakeholders" can be addressed by CSR Stakeholder Management.

However, the model is of theoretical character as no empirical examination of the model has been conducted. Nevertheless, it can serve as the basis for further empirical investigations and theory development within the field of CSR, Dynamic Capabilities and CA. As Dynamic Capabilities result in a new resource base for the firm, a new resource base can be seen as the output. The question now arises how this resource configuration can be interpreted in monetary ways. This leads to the final chapter 7 of this master thesis. It comprises an integrative summary of the work, including the answer of the research questions and recommendations for future research.
Chapter 7
Conclusion and Recommendations for Future Research

"The theoretical and practical importance of developing and applying dynamic capabilities to sustain a firm's competitive advantage in complex and volatile external environments has catapulted this issue to the forefront of the research agendas of many scholars" (Zahra et al. 2006, p. 917). This quotation reveals the fact that the DCV has gained importance in academic literature and in Strategic Management, as the emergence of CA is one of their main issues discussed. In addition, the subject of CSR has gained more and more attention in recent years as a consequence of increasing academic publications as well as publicity on the subject in the media. The reason for this increased interest is that firms are increasingly faced with social, environmental and economic problems (Porter and Kramer 2011). Therefore, the question arises for executives how the firm can gain and sustain CA in markets where such problems appear and related circumstances also change very quickly in times of globalization and increasing competition. Moreover, the CSR markets are characterized by the attributes of dynamic markets: dynamics, high uncertainty and complexity (Pfeffer and Salacik 2003). Hence the DCV can be used to address the question within Strategic Management, since dynamic markets are one requirement to use this theoretical approach for investigations.

Although the literature on CSR, Dynamic Capabilities and CA is very comprehensive, there are few publications dealing with their interrelations. Exceptions are, for example, Lattemann et al. (2007), who addressed the question whether CSR can be seen as a Dynamic Capability in hypercompetition. The authors point out that the connections between CSR and Dynamic Capabilities were rarely examined in recent publications. This master
thesis aimed at advancing this line of research. In contrast to the work of Lattemann et al. (2007), it comprises literature reviews and the conceptualization of a model to answer the research questions "What are the relations between CSR and a firm’s Dynamic Capabilities?" and "Can CSR activities be considered as Dynamic Capabilities which lead to CA?" within a Strategic Management perspective.

Regarding the first research question, various theoretical approaches within Strategic Management were discussed which explain how the DCV evolved and how CA can be achieved. It was shown that the DCV has its roots in the RBV of the firm. Later on it was shown that in the discussion on how to achieve CA through Dynamic Capabilities, scholars also make recourse to the RBV, i.e. they state that a firm's resource base has to be inimitable and non-substitutable in order to be the source of SCA. These conditions must occur in conjunction with the right timing of actions (Helfat et al. 2007), which shows the link to time-oriented theories of CA. The mentioned requirements of the firm's resource base are also present within the RBV, whose advocates argue that a firm’s resources have to fulfill the VRIN characteristics to generate CA (Barney 1991).

The literature reviews have shown that there are various definitions both of Dynamic Capabilities and of CSR. Therefore, own definitions were elaborated for this master thesis to address the research questions. They are summarized in the Appendix.

All observations above also lead to the answer of research question two: By developing and deploying Dynamic Capabilities, CSR activities can be performed in a way that lead to CA. According to the DCV, this leads to a new resource base of the firm, which may result in CA if it is superior to the one of its competitors. That is because Dynamic Capabilities influence the firm's resource base. As the latter is the source of CA, a firm can achieve CA by developing Dynamic Capabilities. The goal of profit-maximization can also be pursued since a better performing of tasks leads to higher productivity and because it is one objective within the Corporate Social Strategy of an enterprise. For example, a company can easily offer innovative products and be first on the market if the organization is able to discern opportunities and threats in CSR markets. Thereby it may achieve a FMA.

Regarding future research, one main question arises: Is it possible to test the conceptualized model in an empirical way? Figure 14 reveals that Dynamic Capabilities involve various levels which may be considered in further empirical investigations, such as the Dy-
namic Capabilities itself, the output and what indeed makes up the capabilities. This last point is mentioned because this master thesis focused on the main organizational processes which can be seen as CSR-Dynamic Capabilities. No closer look was taken at the various components of these organizational processes and what these processes comprise in detail.

In line with this, Zollo and Winter (2002) argue that Dynamic Capabilities can improve financial performance, e.g. in terms of return on sales. Furthermore, the authors argue that business performance can also be improved, e.g. in terms of market share and product development. These arguments reflect the connection of the firm’s resource base to profit increase: an improvement in financial performance in turn results in higher profits because of the better return on sales. In addition, a higher market share can lead to more potential customers for greener products and therefore to higher sales revenues.

The findings of this master thesis, explained in detail in chapter 6, extend the discussion of CSR, Dynamic Capabilities and CA and focus both on Shareholder View and on Stakeholder Theory. The links between the DCV and CSR were identified. Furthermore, the importance of integrating stakeholders into the firm’s Strategic Management was highlighted. In addition, it was revealed that Stakeholder Management can be pursued in conjunction with the goal of profit-maximization. The conceptualized model can now serve as a starting point for further development, since it compresses the literature on CSR, Dynamic Capabilities and CA. Therefore, it is the unique selling proposition of this master thesis, as it distinguishes it from other publications on these subjects by illustrating their interrelations and how a firm can achieve and sustain CA.

Moreover, a computer simulation analysis could be conducted, e.g. to test the results of the model empirically. In such an analysis, the elaborated construct of CSR-Dynamic Capabilities could be separated into the different levels mentioned earlier Zott (2003) made a distinction between Dynamic Capabilities and company performance to analyze via computer simulation how differential intraindustry firm performance arises. The author built a model in which Dynamic Capabilities operate on a firm’s resource position. This in turn determines the performance of an enterprise in a competitive market (for more details on this point, see e.g. Zott 2003).
References


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Appendix

Applied Definitions within the Master thesis

Definition 1: Corporate Social Responsibility (CSR)
Corporate Social Responsibility describes a company's voluntary integration of economic, environmental and social actions into its business activities, taking into account the relationships to its shareholders and stakeholders.

Definition 2: Competitive Advantage (CA)
Competitive Advantage exists when a firm realizes more economic profit than the average economic profit of other companies competing within the same market (Besanko et al. 2007).

Definition 3: Resources
Resources are firm-specific tangible or intangible assets used for creating a certain output.

Definition 4: Capabilities
Capabilities are a firm’s ability to utilize its resources in an efficient way so that they result in firm-specific outputs.

Definition 5: Initial Definition for Dynamic Capabilities
"A dynamic capability is the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base." (Barreto 2010, p. 271)
**Definition 6: Dynamic Capabilities**

Dynamic Capabilities are a firm’s potential to systematically solve problems, formed by its ability to sense opportunities and threats, to make timely and market-oriented decisions and to change its resource base through reconfiguration, leveraging, learning and creative integration (Barreto 2010, Bowman and Ambrosini 2003).

**Definition 7: CSR Stakeholders**

Stakeholders are those persons and groups "... without whose continuing participation the corporation cannot survive ..." They "... influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival." (Clarkson 1995, p. 106-107). The natural environment also has to be considered as being a type of stakeholder, in the sense that its development and changes have to be integrated in corporate strategies.

**Definition 8: Corporate Social Strategy**

Corporate Social Strategy refers to the Strategic Management of a firm and comprises its objectives and the way the organization tries to reach these objectives by taking into account CSR (Andrews 1987, Husted and Allen 2001, 2011).