

# Three-dimensional (3d) Contribution Matrix of Mustainability Strategy, Brand Value and Financial-market Results in Car-industry

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*Financial and world economic crisis from the end of 2008 and the past 2009 had, without doubt, a very bad impact on the world's automotive giants, with significant reduction in demand. As the crisis slowly passing, again car-industry is to the front imposed by two problems: a) re-increase movement of oil prices and b) strict legal decisions about gas emissions (or fuel consumption depending on the country). The question of whether the car industry should/must invest in "green technologies" through greater or lesser commitment to the sustainability strategy, no longer sets, because the two mentioned "problems" certainly forced them, but the question is in what kind of correlation are sustainability strategy with brand value and financial-market results.*

*Therefore in this work using the triple approach, while at the same time we measure the impact (contribution) of three (3) factors in the car-industry, the impact of: 1) the sustainability strategy (Z axis), 2) brand value (Y axis), 3) Financial- market results (X axis), we'll give a one new three-dimensional (3D) matrix. This new matrix using the integral and simultaneous observations of the impact of these three factors, give answers on: what kind of position can take the car manufacturers in the car-industry, what solutions are impose to them, and what are the risks.*

## 1. Introduction

Economy and the largest companies are generally considered to be the "major culprits" for any social and economic problems, which has, on the other hand, directly led to the establishment of a large number of movements, campaigns, and citizens' initiatives to keep these "culprits" under control. Two movements are most prominent in these activities. One is consumerism (English: consumer, consumerism), the other, more important for our topic, is environmentalism (English: environment, environmentalism) which is in fact an organized campaign of citizens and government agencies oriented towards the protection and improvement of the environment.

The social movement organization has had three waves or phases. The first was started by the agencies and scientific centres for environment monitoring and protection. The second was conducted by governmental agencies and states by adopting laws and regulations to force companies to be more committed to environmental protection.

Since environmental protection is increasingly becoming a subject of both academic analyses and practice, the sustainable development has in numerous economic sectors become a *sine qua non* of further economic development. The notion of "sustainable development" was first mentioned at the UN meeting held in Rio de Janeiro in 1992; however, it was interpreted in a way that the "sustainable development" can by no means hinder the economic growth. Rather, it is to be its inte-

gral part, and the balance between the two should be possible and unavoidable. [1]

It was then that the two waves joined into one new – the third wave, called ecological sustainability. A number of companies then realised that they should lead in the environmental improvement by more cautious and more positive activities, rather than oppose the regulations and legislation.

On the micro level, the reputation and corporate responsibility are the factors that usually impact the company's business and the consumers' behaviour. On the basis of the research conducted in North America in 2001, Peter Drucker maintains that 42 percent of interviewed customers claimed that they punished socially irresponsible companies by not buying their products. [2] In the modern circumstances, the era of passive consumers has long gone, and they assume more and more power.

The response to this is the rise of the concept of a holistic marketing, to replace the traditional marketing approach. The concept of holistic marketing recognizes the "everything matters" conception and consists of four (4) integral parts: 1) relationship marketing that includes the creation of long-term relationships with clients and all other factors in the marketing chain; 2) integrated marketing, consisting of connecting marketing activities with all other activities for the purpose of creating an ultimate value for the customer; 3) internal marketing, demanding that marketing principles be adopted by all the employees, and especially by the manager; 4) socially responsible marketing, an

integrated approach in simultaneously meeting economic, ethical, moral, and ecological principles, in order to satisfy the consumers as social beings. [3]

This concept requires managers to rethink the role they play or could play and to realize that the “socially responsible business practice is becoming a source of competitive advantage“. [4] The aim is that the organization should obtain a status of a “good citizen“ and devise a strategy which protects environment and simultaneously brings profit to the organization. It is for this reason that the ecological sustainability concept, as the third wave in customer protection, is an integral part of holistic marketing.

The major problem of inconsistency in the holistic marketing implementation, primarily in the area of socially responsible marketing, lies in a potential collision between economic and social goals, as these activities are rarely adjusted to the organizational strategic goals.

Observed from the aspect of the two methodological approaches, the neoclassical (neoliberal) and interventionist, the problem of impact upon environment assumes an interesting dimension. “Every entrepreneurial decision that includes financial expenses and incomes into its calculations inevitably takes into account the undesirable effect which is not part of these calculations, but refers to the third party. Thus the building of factories causes damages to the environment and the population ... The impact of new railways or highways that makes all companies close to them profitable, can be classified as positive external effects. The negative impacts of market economy, however, prove to be dangerous especially for the so-called “no-man’s-land“, that is, the situation when there is nobody who could submit a claim for damage compensation. The mass impacts of spontaneous industrialization upon the environment, upon ecological balance, and, finally, upon man’s biological stability and adaptability have gradually grown into global issues, the most difficult the mankind has encountered so far. These issues call for organized interventions in the spontaneous market process. But then, is it always possible to differentiate between the market and non-market side effects, concerning their impact upon the environment and upon man himself? It has gradually become clear that even the most carefully planned campaigns may end into a negative effect. The problem of monitoring and regulating “external effects“ of human activities on Earth has, therefore, assumed both the national and the global character, which the market cannot solve by itself.“ [5]

One of the major weaknesses and most frequent criticism of a neoclassical or neoliberal approach in which the market can use the demand and offer leverage to

“regulate absolutely everything“, therefore, refers to the companies not being in a position to autonomously and willingly undertake steps towards solving social problems, and especially to reducing pollution.

Hence an increasing tendency towards interventionism, that is, towards adopting a set of strict legal provisions by which the corporations, both global and local ones, are forced to recognize the importance of “sustainable development“. One industry that is the first to be affected by such provisions is certainly the automobile industry.

## 2. Impact of legal provisions and oil market upon automobile industry

Stricter legal provisions related to car exhausts, i.e., gases emissions are predominantly characteristic of the European Union, however, similar measures have been undertaken by the government of the American state of California, which has in turn resulted into higher prices of products, i.e., cars. [6] Thus on 12th December, 2008 the European Parliament adopted a climate and energy package of six items, one item being that the CO<sub>2</sub> emissions from individual cars be reduced to 130 g/km by 2015. The procedure was planned to be gradual, which means that by 2012, the manufacturers should be limited to 65% of the planned maximum emission in 2015. It is important to note that 559 members of parliament voted in favour of the proposition, 98 were against and 60 abstained from voting. The same document “proposed“ that the maximum limit of CO<sub>2</sub> emission be 95 g/km by 2020, which will be subject of further debate in 2013. [7] How strict the emission limit to 130 g/km is can be understood on the basis of the statistical data for the previous years that show that a large majority of cars emitted more than 180 g/km, and even more than 300 g/km.

The reasons for such a strict legislature can be found in the demands that a better environmental protection be ensured, but also in the endeavours that the EU dependence on the petroleum market be reduced and a better energy efficiency be achieved.

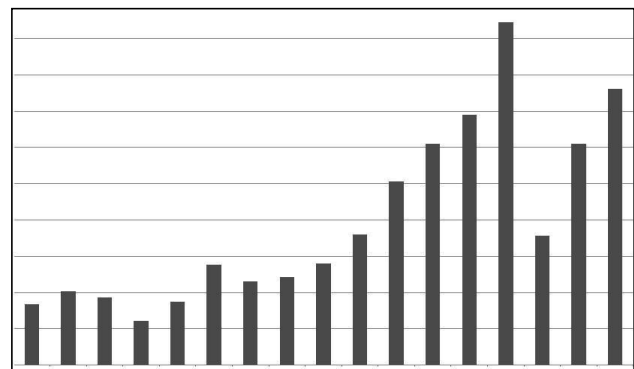


Figure 1. Oil prices in US dollars per barrel, prior and during (after) the “financial crisis“ [8]

It is evident that the normalization of the economic crisis effects results in the rise of oil price. Such a trend certainly worries the automobile industry giants, and sooner or later they will be forced to search for new alternatives.

In order that the automobile industry should keep up with strict legal requirements and constraints, but also be less dependent on oil prices, it is necessary that we think ahead and allocate ample budgets to RI (resource investigations) in the process. If the “green technologies” were taken as a factor of the company’s positioning in the branch, the manufacturers could be classed as:

1. Sustainable leaders – those who are the first to invest into new technologies, who work out new solutions and who spend large sums of money for that purpose. Such are BMW, GM, Toyota.
2. Sustainable challengers – those manufacturers who are not the leaders in investing into new technologies, who do not come up with new solutions, but copy successfully implemented and adopted solutions, striving not to let the competition gain too big and unattainable a competitive advantage, such as Daimler, i.e., its brand, Mercedes.
3. Sustainable followers – those manufacturers who are not the leaders in investing into new technologies, who do not come up with new solutions, but copy successfully implemented and adopted solutions, in an attempt to satisfy only certain standards, such as Honda.
4. Sustainable niche suppliers – those manufacturers who are not the leaders in investing into new technologies, who do not work out new solutions, but copy successfully implemented and adopted solutions, in an attempt to “enrich” only some segments of their offer with technical and technology solutions in order that they should be competitive in a niche segment, such as a B segment of small city cars, for example Fiat.

5. Potentially sustainable competitors [9] – the manufacturers such as Volkswagen who meet only the “legal” provisions regarding the CO<sub>2</sub> emissions, but do not plan any significant investments into RI, nor any “green” solutions. Thus, for example, according to the chairman of the Volkswagen group Martin Winterkorn, who gave a statement at the most prestigious Geneva Motor Show in 2009, the company would launch their first electric car in the next decade. He explained that the announcement of a new technology never means the readiness to immediately place such a solution on the market. He maintains that there is still a long journey to make towards a safe vehicle in the electric class of cars, hence one should not rush with announcements. On this occasion Winterkorn explained that Volkswagen was searching for the best, not the fastest solution.

The extent to which the ecological sustainability strategy is implemented is increasingly becoming an instrument for ranking and tracking corporations. Thus the corporations are increasingly ranked according to the indicators of their social responsibility.

### 3. Sustainability strategy contribution to business

As the world indices also show modern demands for a desirable corporate behaviour, the Dow Jones Sustainability Index (DJSI) was established in 2000, by Dow Jones, Stoxx and SAM, mutually. This is the index showing the willingness of a corporation to implement the sustainability concept and compare it to the corporations from the same branch. Thus the peak of the BMW holistic approach to strategic marketing with an ultimate compliance with the set ecological sustainability strategy came in the period after the year 2005. According to the World DJSI index, BMW was an absolute leader from 2005, until 2008, which can be seen in Table 1.

Position by DJSI world index	2002	2003	2004	2005	2006	2007	2008	2009
1	Volkswagen	Toyota	Toyota	BMW	BMW	BMW	BMW	BMW
2	/	BMW	Volkswagen	DaimlerChrysler	DaimlerChrysler	DaimlerChrysler	DaimlerChrysler	Daimler
3	/	Ford	BMW	Ford	Ford	Ford	Ford	Fiat
4	/	Volkswagen	Ford	Toyota	Renault	Renault	Nissan	Ford
5	/	DaimlerChrysler	Renault	/	Toyota	Toyota	Renault	Nissan
6	/	/	/	/	/	Volkswagen	Toyota	Renault
7	/	/	/	/	/	/	Volkswagen	Toyota
8	/	/	/	/	/	/	/	Volkswagen

Table 1. Positions of car manufacturers according to DJSI index from 2002 to 2009 [10]

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Toyota	14	12	11	9	9	7	6	6	8
Mercedes Benz	12	10	10	11	11	10	10	11	12
BMW	22	20	19	17	16	15	13	13	15
Honda	21	18	18	18	19	19	19	20	18
Ford	8	11	14	19	22	30	41	49	49
Volkswagen	35	38	42	48	56	56	54	53	55
Audi				81	79	74	68	67	65
Hyundai					84	75	72	72	69
Porsche				74	76	80	75	75	74
Ferrari								93	88
Lexus						92	92	90	96
Nissan			89	90	85	90	98		

Table 2. Brand positioning of car manufacturers as regards 100 best known brands in the world in the 2001-2009 period, according to InterBrand. [11]

It is evident that the DJSI index gains in importance and includes more and more manufacturers in all segments. It is also clear that some manufacturers depart from the sustainability concept, at least as far as large and pioneer investmants are concerned; for example, Volkswagen was the leader by this index in 2002, but at the bottom of the list in the past three years.

The question is, however, how does “the sustainability strategy affect the brand value”? We can prove that there is a direct implication of the sustainability strategy and a holistic marketing concept upon the brand position if we visit the web sites of the associations engaged in measuring and assessing the brand positions on the global market. Table 2 shows the trend in the brand positioning of the car manufacturers in the 2001 to 2009 period as regards 100 best brands in the observed years, and on the basis of the InterBrand data.

The methodology used by this consulting house consists of the comparison between a) corporate earnings; b) income the brand itself earns; and c) the strength of the brand position, to obtain the brand value in the end.

Due to the holistic marketing concept and the sustainability strategy, BMW managed to come from the 20th position on the list in 2001 to the 13th position in 2007 and 2008, to finish in 2009 as the 15th on the list.

The InterBrand explains the BMW positioning in 2008 as follows: “BMW responded to an increased demand by cleaner cars which are less expensive to drive, by investing into the workshops which are more efficient in (saving) expenses, such as the Efficient Dynamics system ... The brand stresses the efficiency as a future, with a promise that the satisfaction in driving will not

be endangered ...”. The BMW position, the fall from the 13th to the 15th position among the 100 best brands is explained in the following way: “BMW remains relatively healthy, although its income has fallen by about 5% ... The Bavarian manufacturer continues the strategy of developing highly efficient cars that promise satisfaction in driving and supplies the niches with innovative vehicles, such as a large SUV vehicle X6 ... Their innovative Efficient Dynamics concept that includes the equipment such as the Brake Energy Regeneration or the High Precision Injection proved to be an impetus to a rise in sales to more than 1,000,000 vehicles worldwide. With their Connected Drive concept, BMW introduced another future innovation, by turning the automobile into a mobile communication platform in order to increase safety, comfort and service quality. A large number of visits to the BMW newly-built temple Welt (motor show) shows that BMW continues to impress their customers.”

According to InterBrand, Mercedes has not drasticaly lost its position either, falling from the 11th position in 2008 to the 12th position in 2009, although Daimler suffered a loss of €2.6 billion in 2009, while they ended the year 2008 with a profit of €1.4 billion. [12]

On the other hand, Volkswagen is an example of a manufacturer who did not want to invest large amounts into the RI and the sustainability concept, so in Figure 2 we can see that they fell from the 35th position in 2001 to the 55th position in 2009. It is, however, worth mentioning that Volkswahen’s brand Audi moved from the 81st position in 2008 to the 65th position in 2009, without investing significantly into RI nor into sustainability concept. This is only a short-term affair, though, and the trend will continue until the

moment when “stricter“ laws have been enacted, and, on the other hand, as we have already stated, this brand will, as a member of a “prospectively sustainable competitor“, certainly just adopt the technical solutions of their competition and surpass any complications. The example of Honda, described as a “sustainable follower“, is also interesting. Due to mainly the sustainability concept, this manufacturer managed to jump from the 20th position in 2008 to the 18th position in 2009.

All the above-mentioned leads to a conclusion that there is a direct implication of the sustainability strategy and the holistic marketing upon the brand (trade mark) position on a global level, on the example of BMW at least. Despite the fact that InterBrand assigns highest rates and starts from the financial results, and then computes the brand value, in case of Mercedes, i.e., Daimler and its loss in 2009, this brand did not lose much in its positioning among the 100 most valuable brands, thanks to the sustainability concept. On the contrary, Volkswagen, a manufacturer that does not pay much attention to this concept, experienced a serious fall in the last nine years (Table 2).

On the other hand, disrespect of the sustainability strategy may cause serious problems to the corporation (brand), both in the field of demand and in the field of returns on investments for the owners. Thus General Motors (GM) announced in 2010 that they were discontinuing the production of their brand Hummer, after the negotiations on the \$150 million worth takeover by the Chinese manufacturer Sichuan Tnegzhong had failed. The reason the Chinese manufacturer did not acquire Hummer are most intriguing. Namely, the government of the People’s Republic of China stopped the negotiations with the explanation that the brand (Hummer) and its products consume enormous quantities of fuel (about 30 litres) at the moment the government promotes a higher energy efficiency policy and the reductions of emissions.

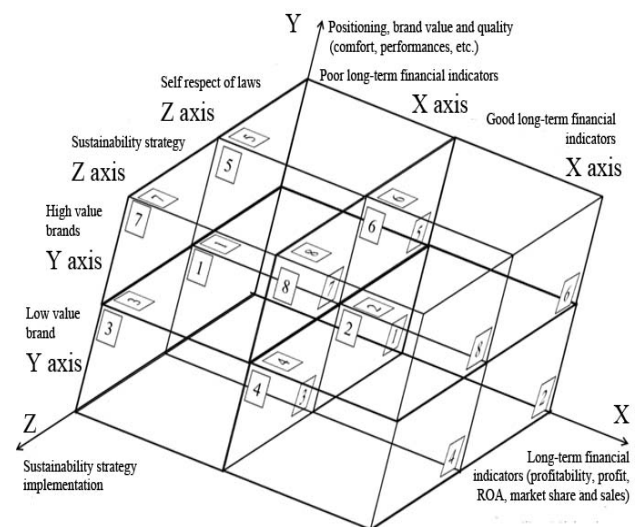
The sustainability concept is being gradually introduced by the manufacturers who want to comply to the future laws regulating the gas emissions, even in situations when this procedure is opposite to their major competitive advantage (performances) that used to be essential in their positioning on the market. A most characteristic example is Ferrari, who introduced its first electrically driven product at the Geneva Motor Show, and also changed their brand red colour into green for this model, so that the colour itself indicated that this is an eco model.

#### 4. Three-dimensional (3D) matrix

On the basis of all the above stated on the example of the automobile industry we can conclude that it is wrong or at least superficial to measure the contribution of the sustainability strategy by comparing it exclusively with the brand (trade mark) value or the financial and market results.

It is for this reason that we need a triple approach which will simultaneously measure the impact (contribution) of three (3) factors upon the company, namely: 1) the sustainability strategy (Z axis); 2) the brand value (Y axis); and 3) the financial and market results (X axis). Such an integral simultaneous approach to the observations of the impacts of these three factors upon the company is presented in Figure 2, on the example of the business and opportunities the automobile industry encounters.

Figure 2. Three-dimensional (3D) matrix of the sustain-



ability strategy, brand value and financial and market contributions to the company

In the presented matrix of the interrelations of the three mentioned factors and the possible two conditions of each of them, 8 factual positions (cubes) can be identified in which the company may find itself. Each cube presents a strategic position of a condition. Each of these eight (8) conditions will be explained in detail in this paper.

Cube 1: Represents the first strategic position which is extremely unfavourable and is not sustainable in a long term.

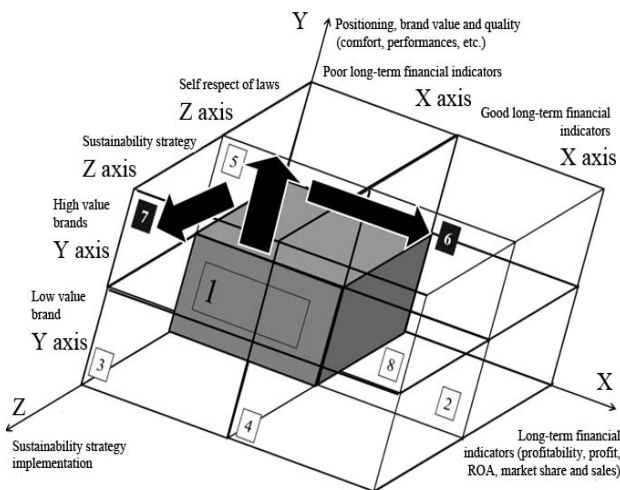


Figure 3: Strategic position (cube) 1 in the 3D matrix

The company observes only the margin of legal regulations as regards “social responsibility“ and consequently does not invest much into resources and RI. Due to low investments, solid financial results are achieved in the short term, however these results are not sustainable in the long term.

The brand has a poor position and value as perceived by the consumers, therefore it is necessary that the company should undertake steps to first move towards cube 5, for a short-term period, and towards cubes 7 or 6 for a long-term period, otherwise it may encounter serious problems.

Cube 2: This is a rather rare strategic situation in business practice, and means that the company’s brand value is low (poor quality and services etc.), that there are no significant investments into RI, hence the minimum of legal regulations is barely satisfied. However, on the other hand, the company achieves good financial and market results, even in the long term.

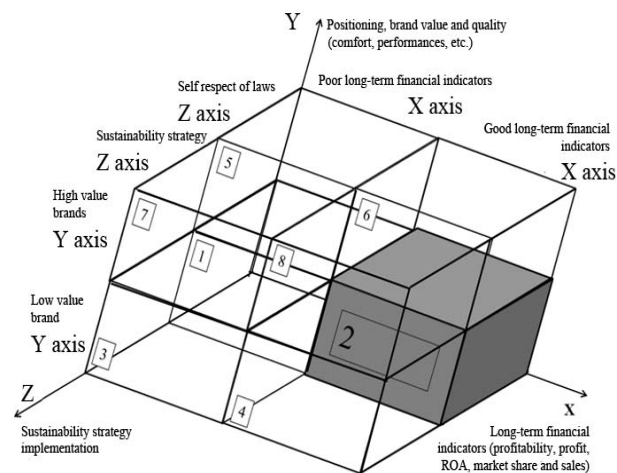


Figure 4: Strategic position (cube) 2 in the 3D matrix

This is possible only in case the company is under the umbrella of the state protectionism and is thus given a monopoly position on the market, so it does not fear either competition or the possibility that the legal regulations may be made stricter. The examples are the manufacturers on the Russian Federation market, where the state protects national manufacturers.

Cube 3: Presents a strategic position in which the company invests significantly into RI, thus being ahead of the legal regulations, but due to these large investments it achieves poor financial results. Besides, the company is working on some future solutions and pays little attention to the brand value and its own image improvement.

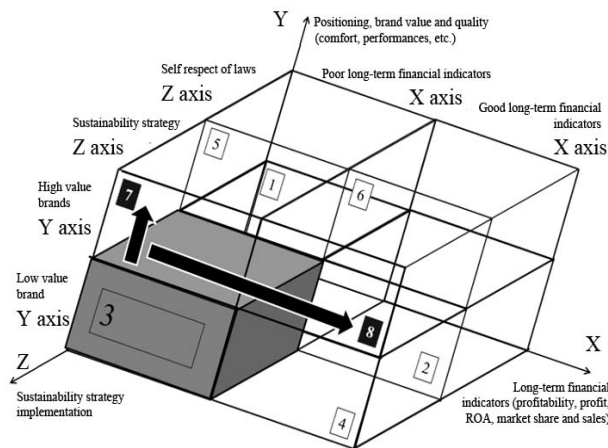


Figure 5: Strategic position (cube) 3 in the 3D matrix

In such a situation the company should invest more into a better positioning and brand value in order to move into cube 7. An example of such a strategy is the Honda business, although Table 2 shows that Honda has a highly valuable brand, according to InterBrand. Such a statement, however, cannot be universally accepted if we consider only the automobile segment.

Cube 4: Presents a strategic position that means that the manufacturer achieves good financial results with a large scope of production.

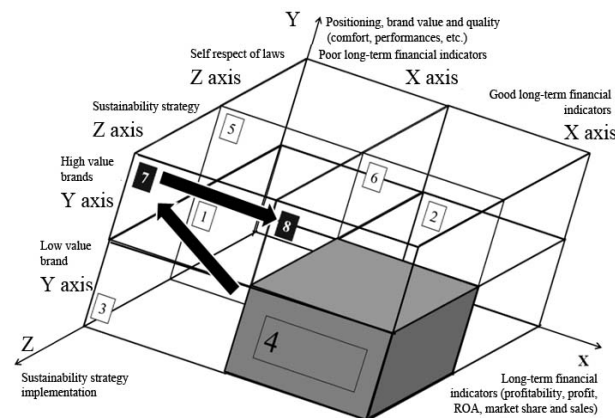


Figure 6: Strategic position (cube) 4 in the 3D matrix

The company invests large assets into RI and works out the solutions with which it goes ahead of the legal regulations, however, it has an “unfavourable“ reputation with the customers and has to devote itself to the brand value and the quality of service, that is, to move to cube 7 for a short time period, since due to larger investments into quality, image and reputation it will lose some of the profit. Thus conditions will emerge that the company should move to cube 8 for a long-term period. Citroen is one company that can represent such a strategic position.

Cube 5: This is a rather frequent strategic position in terms that the company does not invest much into RI and hence achieves good financial results in the short term, however not in a long-term period, since in the conditions of “stricter “ laws the company will find itself in problems.

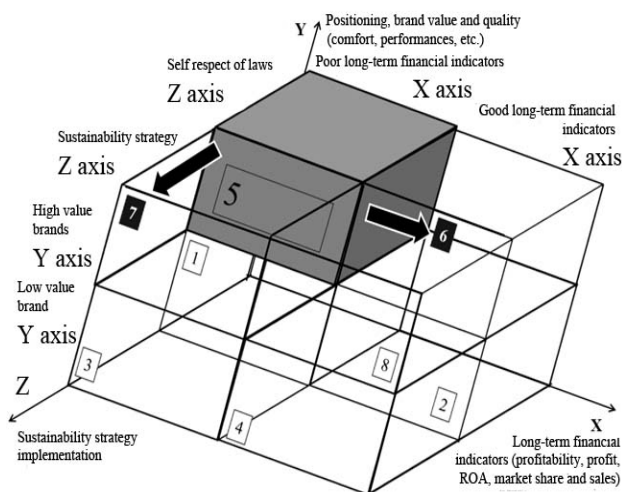


Figure 7: Strategic position (cube) 5 in the 3D matrix

The company meets only the legal regulations, but, contrary to cube 1, this company has a valuable brand, therefore it must invest more into RI and move to cube 7. This position can be identified in the business operations of Porche, who introduced numerous technical solutions to reduce emissions in 2010, however, still not enough to fully comply with the coming legal provisions (130 g/km of CO<sub>2</sub> in 2015).

Cube 6: This is a frequent state of affairs where the company invests poorly into RI and therefore meets only the minimum legal requirements for environmental protection.

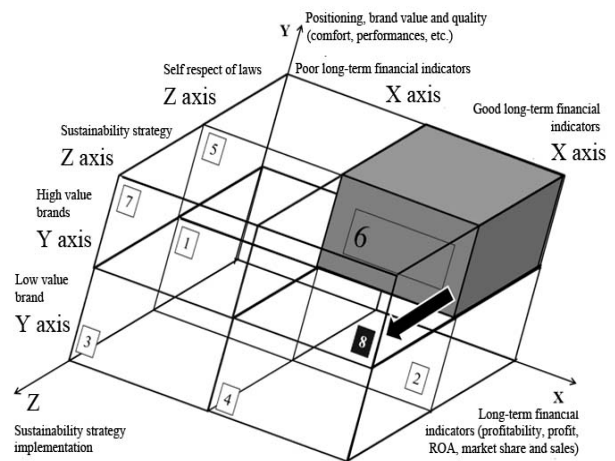


Figure 8: Strategic position (cube) 6 in the 3D matrix

The company is not much interested in investing significantly into RI since it earns good financial results implementing a strategy of scope, and the company brand is also well positioned with the customers. The company may move to cube 7 for a short-term period, due to investments into RI (i.e., copying successful solutions worked out by the competition), and then it can move to cube 8 for a long-term period. Moving to cube 7, however, means larger investments into RI, which would cause a fall in the financial results, therefore it is unlikely that companies will opt for such a step. They will rather copy from the competition and remain on the edge of the legal regulations (i.e., in cube 6). The clearest example is the behaviour of Volkswagen.

Cube 7: This is a situation where the company invests large assets and resources into RI and thus goes ahead of the legal regulations, however, this significantly burdens its financial results.

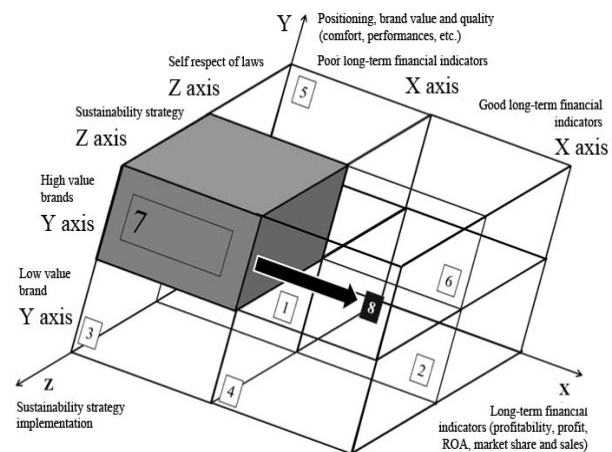


Figure 9: Strategic position (cube) 7 in the 3D matrix

The company has a valuable brand and a necessary solution is that it should increase its market share and thus achieve better financial results, i.e., a move to cube

8. The examples of such a position can be found in the business operations and the strategic positioning of BMW and Daimler (Mercedes). It must, however, be clear that these companies are forced to invest largely into RI, otherwise they could encounter the problems similar to those Porche has.

Cube 8: This is an ideal, but a most risky position. The company has a highly valuable brand and invests large assets and resources into the sustainability strategy, i.e., into RI.

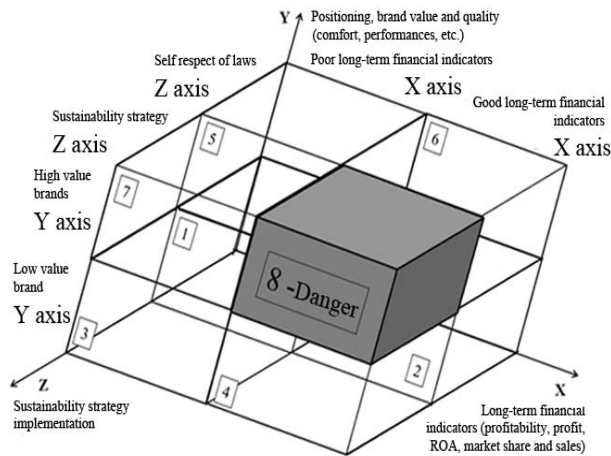


Figure 10: Strategic position (cube) 8 in the 3D matrix

The company achieves good financial results supplying a large market. This strategic position, however, carries a great risk in case of fall in global demand, when the high costs of supplying the large market and the high investments into RI will burden the financial results and threaten to bring the company to the verge of collapse. The example that ideally reflects this strategic position is that of the Japanese Toyota who ended the business year 2008 with a loss of \$4.41 billion, due to a fall in demand, to earn US \$2.344 billion by the end of the fiscal 1020 (April 2009 till March 2010). [13]

## 5. Conclusion

Regardless of the temporary disagreements as to the crucial international treaty on the reduction of gases emission, but also as regards a large number of other issues crucial to the environment, it is certain that we will reach a period of consensus and adopt stricter regulations, if not in the countries that "hinder" the treaty (the USA and others who did not sign the Kyoto Treaty or the countries that block new climate negotiations), then among the member states of the European Union.

As information reaches the prospective consumer faster and faster, due to the use of the modern ways of communication, the corporate success will increasingly be di-

rectly related to the corporate responsibility to the environment. The automobile industry is the first to be affected by both the stricter legal provisions and the keener consumer awareness, however, it will be additionally exposed to the impacts of the oil market and the activities of the competition. In such an environment the automobile industry has to take into consideration a near and turbulent future, either by investing into RI or by copying successfully implemented solutions.

The automobile industry, however, has to become a more responsible "citizen of the global society" by implementing a concept of holistic marketing and the pertaining socially responsible marketing, with a well defined and successfully implemented sustainability strategy.

In the given circumstances, the holistic marketing approach and the sustainability strategy can help the auto-sector, but also any other organization, to differentiate from the competition and meet these stricter regulations readily, retaining all its qualities in the consumers' perception. With an adequate implementation of marketing tools, the company can employ the sustainability strategy and the socially responsible marketing concept to achieve key competitive advantage.

The sustainability strategy also imposes a tremendous risk on financial indicators as a basic, although not the only goal the company pursues. The said strategy means ample investments into RI that, on the other hand, impose a necessity that a marketing sector ensure that the company can serve as large a market as possible and thus make way for a further success of the company. Hence the sustainability strategy and the holistic marketing approach in the segments such as automobile industry carry an enormous risk in case the demand for these products falls. This happened to Daimler and Toyota in 2009, and almost happened to BMW who ended the year 2009 with a modest €210 million net profit.

The implementation of the sustainability strategy and the holistic marketing approach resulted into significant savings in manufacturing and succeeded increasing both the corporate reputation and the reputation with the consumers. Contrary to these, the failure to implement the sustainability strategy may bring the manufacturer into a position that his brand is no more profitable and that it has to be cancelled, as was the case of the GM's brand, Hummer.

It is for this reason that a simultaneous measuring and tracking the implications and contributions present in the interactions of the factors of the sustainability strategy, the brand value, and the financial and market re-



sults are necessary. In this interaction and the results of the above-mentioned factors the company has to find the position that would be most suitable and really sustainable in a long-term period, and it was but the aim of this paper to prove that the “Three-dimensional (3D) contribution matrix of sustainability strategy, brand value and the financial and market results in the automobile industry“ may be implemented as a useful tool for that purpose. The matrix described may also be implemented in numerous other sectors that are confronted by strict legal regulations in relation with environmental protection.

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