IJISET - International Journal of Innovative Science, Engineering & Technology, Vol. 2 Issue 8, July 2015.
www.ijiset.com
ISSN 2348 – 7968

Reasonable Advantages of Strategic Corporate Social Responsibility Management – An Assessment

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Abstract: *The problems of hunger, ignorance, ill health, high mortality and illiteracy are most acute in rural areas. This is not only because of shortage of material resources but also because of defects in our planning process and investment pattern. India has the potential to meet these challenges in rural areas. However, the efforts of Governments may not be adequate to provide basic services to its citizens. It is being increasingly recognized that progress and welfare of a society is not only the responsibility of the Government alone, but many more stakeholders need to be involved to attain the development goal (Save the Children Sweden, 2007). The corporate sector has a pivotal role to play in ensuring private investment flows to those rural areas that have been left out of the development process so far and also to work for sustainable development of rural areas in general.*

Key words: CSR, competitive advantage, Strategic management, corporate management.

INTRODUCTION

Thus, the present article is justified by the lack of academic production regarding CSR, business strategy and issues involving competitive advantage. As the broadening of studies in the field and the dissemination of theories are important undertakings, the discussion on such issues serves as motivation and helps generate new theories, ways of thinking and paradigms. The present work seeks to enrich the discussion on social responsibility and contribute to the existing literature on the associations between CSR, business strategy and competitive advantage. The following research question was drafted: How can social responsibility strategies create competitive advantages? The major objective of this article is to analyse a case study and the literature from the most diverse fields on how social responsibility strategies can create competitive advantages.

In order to achieve this main objective, it was necessary to establish the following specific objectives:

1. Discover the association between social responsibility, corporate strategy and competitive advantage;
2. Define the context of social responsibility in corporate strategy;
3. Clarify the potential of social responsibility for creating competitive advantage;

STRATEGIC SOCIAL RESPONSIBILITY:

Following a global tendency, corporations are currently more concerned with social responsibility (Halme, Roome, &Dobers, 2009). There is a trend toward promoting corporate changes with deep strategic implications that must be associated with business strategies in the company in order to be efficient (Coutinho & Macedo-Soares, 2002). According to Andrews (1987), strategic management is a decision-making standard in a corporation that ends up determining objectives, policies and plans in order to achieve goals. The strategies define what businesses the companies run, the economic and non-economic nature of their actions and contributions, and the relationship between shareholders, employees, clients and the community (Andrews, 1987). A corporation may deal with a number of different businesses. There is a difference between corporate strategy, which is from the corporation, and business strategy, which is from a business unit or company that makes up the corporation. In this paper, the term corporate strategy has been chosen to denote strategies in general. According to Andrews (1987), corporate strategy is much more complex than just economic choices, as executive decisions end up influencing and impacting a large number of stakeholders who are either directly or indirectly associated with the company. Social responsibility has become indispensable (Mintzberg, 1983). The strategic decisions of large companies involve social as well as economic consequences, which are intimately connected. Porter and Kramer (2006) discuss the existence of the interdependence between corporations and society, since a company’s activities have a direct impact on the communities with which they work. This can lead to either positive or negative consequences. Strategists and executives should take into account societal expectations and decisions, as there can be some attractive alternatives when goodwill or services to society are considered. Decisions from the strategy formulation process should take into account the positive and negative impacts that may arise, not only for the business itself, but also for stakeholders and society in

ISSN 2348 – 7968

general. Hence, the Ethos Institute (2007, p. 78) has adopted the following definition of strategy and CSR:

Corporate social responsibility is a form of management that is defined by the ethical relationship and transparency of the company with all the stakeholders with whom it has a relationship as well as with the establishment of corporate goals that are compatible with the sustainable development of society, preserving environmental and cultural resources for future generations, respecting diversity and promoting the reduction of social problems. The Harvard Business School strategy model has always included social responsibility as a main element of strategy formulation (Husted & Allen, 2000). The authors cited also state that, in the management literature, ethics and social responsibility have been frequently connected to corporate objectives and incorporated into business speeches. Pearce and Doh (2005) state that social responsibility is currently a universal notion in business. It has been incorporated by top management as an integral component in executive jobs. It is motivated by personal values and altruism as strategic advantages that can be developed. Andrews (1987) also speaks of the importance of the objectives of executives in guiding and choosing strategies. A change of executives can lead to a change in strategy, as different executives have different assumptions. The same phenomenon is emphasised by Mintzberg (1983) and Pearce and Doh (2005), who address CSR strategies, as the motivation to act socially responsibly changes according to the values of each executive.

IMPORTANTMODULES OF CORPORATE SOCIAL STRATEGY:

The modelling of the essential components of social strategy is a necessary element for characterising such strategies. Andrews (1987) points to the four components of the strategy formulation and decision, which are: (a) market opportunities; (b) corporate resources and skills; (c) values and aspirations; and (d) knowledge of obligations to society and shareholders. Thus, the author includes a variable that corresponds to concerns with society among the essential elements of the social strategies. Husted and Allen (2001) use business strategy tools and concepts to formulate new models of social strategy. Social corporate strategy therefore needs to be linked to the following four elements: (a) structure of industry (Porter, 1986); (b) internal resources of the firm (Barney, 1991); (c) corporation ideologies and values; and (d) the relationship with stakeholders. We can see a similarity between the elements these authors consider in the formulation of social strategies and the elements of corporate strategy observed by Andrews (1987). For Molteni (2006), social responsibility is part of corporate strategy, as it can help corporate management find innovative solutions based on the expectations of stakeholders. The author proposes an innovation model based on social responsibility, affirming that this can be a creative factor in the development of competition.

A company can use social initiatives to improve its competitive context, enhancing the quality of the business environment in the places it operates. Focusing on context allows the company to increase its potentialities in the support of social responsibility actions and contribute toward society in a structured fashion. Consequently, the company's action should be directly connected to its core business in order to maximise the potential of these actions (Porter & Kramer, 2002; Zadek, 2005, 2006). An alignment of business strategy, social responsibility action and core business activities should occur in order to achieve efficient corporate social strategies. To improve this alignment Zadek(2005, p. 5) proposes analysing the relationship between strategy, leadership and excellence through engaged learning. To represent the concept, the author suggests a triangle with the following components: At the top there is business strategy itself, how far does your company's business strategy embrace corporate responsibility at its heart. In the middle, we have learning: engaged learning, engaging with society. Society means many different possible players: civil activists, labour, government, other businesses domestically, locally, internationally — whoever you engage within your business. At the bottom left, we have leadership. What we mean by that is companies who are able to operate in the discomfort zone, driving innovation along the axis of responsibility and the company's core strategy. On the right is operational excellence. Excellence is another kind of leadership, but not discomfort. Excellence is when you know what to do and you just do it incredibly well — if you like, an operational excellence.

Reasonable advantages of Corporate Social responsibility:

Corporations face an increasingly competitive and globalised environment where business activities and perceptions are placed under escalating scrutiny. Hillman and Keim (2001) identify CSR activities as a form of corporate differentiation that generates a competitive advantage, for example in securing investment capital. Barney (1991) indicates that positive corporate reputation is likely to be a source of sustained competitive advantage, since the relationships between a corporation and its stakeholders are socially complex and therefore imperfectly imitable.

Hart (1995) was the first to apply the RBV framework to explain why firms engage in environmental responsibility. Some firms are able to establish a sustainable competitive advantage through the resources or capabilities created from environmental responsibility programmes (Hart, 1995). Three areas of strategic capability were identified: pollution prevention, product stewardship, and sustainable development. Sustainable development in this framework refers to mitigating the negative link between economic development in developed countries and resultant environmental degradation in the developing world (Hart, 1995). This provides a focus that is aligned with concepts in CSR literature. However, the scope of CSR has extended from focusing mainly on environmental issues to integrating economic growth with both environmental protection and social equity (Branco& Rodrigues, 2006; European Commission, 2002). From an RBV perspective, all CSR activities should generate a resource for the firm that is a source of competitive advantage. A more structured model of the profit-maximising firm was created by McWilliams and Siegel (2001), who provided a framework for establishing the level of investment that any specific firm should make in CSR programmes, based on cost-benefit analysis. The framework argues that the firm will invest in CSR to the extent to which consumers or other stakeholders value the 'social' attribute of the firm or product. McWilliams and Siegel (2001) considered CSR to be a mechanism of product differentiation. Demand for CSR attributes is generated by consumers and other stakeholders such as investors, employees, and community groups. Consumers seek CSR attributes because they wish to support firms that devote resources to CSR, or value the intangible attributes such as a reputation for quality and reliability that may be associated with firms engaged in CSR.

Studies of the financial performance of firms with CSR programmes have highlighted a particularly useful distinction between the effectiveness of CSR activities that are altruistic (such as social issue participation) and strategic (such as stakeholder management) (Hillman & Keim, 2001). Strategic CSR has a positive correlation with financial performance and a negative correlation with altruistic CSR (Hillman & Keim, 2001). Stakeholder management investments provide a basis for competitive advantage by creating resources and capabilities for the firm that are difficult for competing firms to emulate or substitute. By developing longer-term interactions with stakeholders that are relational rather than transactional, the firm develops a capacity to expand its set of value-creating exchanges with customers, suppliers, employees, and communities that cannot be readily copied (Hillman &Keim, 2001). Social issue participation does not generate a competitive advantage because it is largely a transactional investment which can easily be duplicated by competing firms (Hillman & Keim, 2001). The findings of these studies suggest that many altruistic types of CSR practices, such as triple bottom line reporting or local social issues participation, are relatively easily duplicated by numerous organisations. On the other hand, longer-term relationships are not easily copied. This suggests that CSR practices that are related to symbolic management of stakeholder expectations may not be as valuable to the firm as relationships that constitute actual networks of support for the organisation. However, there has been little explication in the literature of how organisational practices related to relationship management might provide such a competitive advantage. The following section, therefore, examines the public relations literature related to relationship management to provide further insights into the strategic role that public relations may play in contributing to the strategic advantage of the firm.

SOCIAL RESPONSIBILITY AND COMPETITIVE ADVANTAGE

Social responsibility has become a strong and irreversible part of corporate actions. When managed effectively, CSR programs and projects can create significant benefits in terms of reputation and returns as well as the motivation and loyalty of employees. CSR can also contribute toward strengthening valuable partnerships (Pearce &Doh, 2005). Husted and Allen (2001) state that CSR strategies can create competitive advantages if used properly, pointing out that there is a positive association between strategic social responsibility actions and competitive advantage. Zadek (2005) identifies three generations of companies in relation to their responsible competitiveness (Figure 1). First-generation companies have a short-term, pain alleviation strategy. Second-generation companies establish strategic planning and risk management policies. Third generation companies incorporate the concept of social responsibility into their strategy.

In contrast to Zadek’s model, researchers in strategy consider reputation to be an internal resource that should be well managed, as it is an important differentiating aspect and potential creator of competitive advantage (Mahon, 2002). According to Mahon (2002), researchers in marketing, public relations and communication have shown corporate reputation to be a crucial element in increasing the purchase of products and services. For Logsdon and Wood (2002), reputation is a powerful concept for business, government and non-profit organisations. Executives and administrators as well as both internal and external stakeholders use reputation to evaluate and communicate their perception of business and corporations. Therefore, a good reputation can produce better results for the company.

CSR should help enhance this reputation and, consequently, create competitive advantage .Ashley (2002) states that CSR is currently a source of competitive advantage that companies should employ in the quest for greater competitiveness and better results. According to Barney (1991), the creation of competitive advantage occurs through the implementation of strategies that add value and create benefits for one company when another company fails to do so. Competitive advantage can be achieved through internal resources or a group of internal resources from the firm. However, to obtain this advantage, the resources must be (1) valuable, exploring the opportunities and neutralising threats to the environment of the firm; (2) rare, not being present in any rival or potential rival company; (3) inimitable, so that others cannot imitate them; and (4) non-substitutable, meaning they do not have strategic equivalents (Barney, 1991).

In the CSR field, the emphasis on internal resources is expressed in a large number of studies (Castelo Branco& Rodrigues, 2006; McWilliams & Siegel, 2001; McWilliams *et al.*, 2006; Russo & Fouts, 1997). We can start from the assumption that CSR can be considered an internal resource of the firm. Applying the definitions developed by Barney (1991), in order to create competitive advantage, CSR actions should be valuable, rare, inimitable and non-substitutable. We can also say that CSR is a group of resources, as it encompasses different dimensions that can be considered internal resources, such as corporation values, business ethics, the relationship with stakeholders (Donaldson & Preston, 1995; Freeman, 1984), social projects, corporate reputation, etc. Business managers face two other dimensions related to strategic CSR: centrality and specificity (Burke & Logsdon, 1996; Husted,

2003). Centrality is high as far as CSR actions are coupled with corporate mission. Specificity is high when CSR action imitability faces barriers that are difficult to overcome. On the other hand, centrality is low when CSR actions are far from corporation core activities and specificity is low when these actions are easily replicated. A company can create social projects connected to its core business that are valuable, rare and inimitable, thereby creating competitive advantage (Burke & Logsdon, 1996; Husted, 2003).

Thus, a group of intangible resources, such as good corporate governance, efficient execution of innovative social projects and ethical management in business, can be a differentiating source of competitive advantage. However, it is important to say that there is only the creation of competitive advantage through CSR if the benefits to society really exist, as such benefits should be implicit to the philosophy of social strategies (Husted & Allen, 2001). To be a source of competitive advantage, CSR actions should create real and consistent results for society. Increased concern with external aspects as an internal value to strategic social decisions leads to reflection regarding courses of action, analysing and anticipating the effects of the corporation behaviour while predicting the potential positive or negative consequences (Alessio, 2003). According to Zadek (2005), for companies in which CSR is rooted, it is not difficult to meet new market expectations, such as dealing with corruption, human rights, environmental management in the supply chain, etc.

Competitive Advantage

The data collected for the Carrefour case study offer evidence of some benefits obtained through CSR actions, including employee motivation, image and reputation enhancement as well as awards. For instance, Carrefour's volunteer programme plays an important role in employee motivation. However, there are as yet no records on the results, and measuring methods need to be employed in the stores where this programme has been implemented. “The benefits [from Carrefour's volunteer programme] generally lead to greater motivation, enjoyment, happiness and a feeling of content for being part of Carrefour. This is something really difficult to measure. We perceive the result as good. You notice there is a different environment in the stores where the volunteer program has been implemented, but it is difficult to measure. We haven't adopted a method for measuring this type of result yet”. Despite the feeling of content that helps motivate employees, Carrefour's CSR actions and, in this particular case, the volunteer programmes are not enough to offer other advantages, such as, employee retention, which could be an important competitive advantage. According to direct information from a Carrefour manager, employee retention is considered difficult to obtain if only taking the CSR contribution into account, but CSR together with other variables can make a difference in employee retention.

“The volunteer programme won an award. The education for citizenship programme, which offers classrooms for our employees, won another award. There was the World

Environment Day, which we have promoted since 2002 and got the 'top social' award and also an award from the GVF for social responsibility in the retail sector". From the United Nations, Carrefour has received the UN Civil Society Awards, regarding CSR in Colombia, where the company helped families grow alternative crops in cooperation with a governmental campaign to combat drugs (CSR Globe, 2009). Other awards related to CSR are listed for Carrefour's activities in Spain, Italy, Malaysia, Argentina, Poland and France (Carrefour, 2009). In the beginning, the company appreciated awards for CSR actions using similar activities undertaken by competitors. The company currently uses such awards in order to gain recognition and with the intention of being mirrored for benchmarking, thereby influencing other businesses to adopt responsible behaviour.

The company intends to become a global reference for CSR, particularly in the retail sector and as a result add even more value to the Carrefour brand in order to expand its competitive advantage in the highly competitive supermarket industry. "We expect to become a reference in the modern retail sector [while] addressing health, consumer safety and environmental preservation. This is our ambition, our mission. You can bet on it. It is in people's minds and we are going to achieve it – to become a reference in environmental protection, health and consumer safety". The major competitive advantage for Carrefour through CSR is mainly related to image and reputation, which are important advantages according to Mahon (2002) and Logsdon and Wood (2002). These aspects are also internal resources that are difficult for competitors to copy (Barney, 1991). However, there is always the possibility of other companies acquiring a good reputation through CSR, which once achieved would even the score or at least reduce Carrefour's advantage. In the following section, a theoretical framework is presented that takes into account the theoretical references addressing social corporate strategy and competitive advantage, as well as the Carrefour case study.

Concluding Remarks:

The aim of the present paper was to seek answers to the following question: "How can social responsibility strategies create competitive advantage?" In order to answer this question, a review of the literature was carried out and a case study was examined. Regarding the association between social responsibility, corporate strategy and competitive advantage, the information provided herein can be used by companies that intend to create competitive advantage. However, there are many factors that influence this association, such as organisational values, the relationship with stakeholders, the external environment and competitive context, internal resources, the ideologies of top management and community expectations.

These factors should be addressed in future empirical studies seeking to understand the influences governing the strategic management of social responsibility. A framework for a corporate social responsibility strategy was drafted as a consequence of the development of the main question, considering the basic elements of values, the understanding of the relationship with and importance of stakeholders, the analysis of internal resources and skills, opportunities in the external environment and industry structure. The competitive advantage that stems from social responsibility can be seen through the direct influence of its resources, creating an improvement in reputation and image, the retention of exceptional people, employee motivation, aggregate value, better economic performance provided by social responsibility aligned with corporate strategy, innovative and efficient projects, better environmental performance, better social performance and improvement in corporate governance. Such elements are intangible resources; they are rare, irreplaceable, inimitable and valuable.

Finally, according to Husted and Salazar (2005), CSR strategies resolve the existing tension between social objectives and profitability, as society and shareholders expect both and the results should be positive. Thus, it is important for companies to take into account the strategic actions of social responsibility, which can bring positive results in both economic as well as social terms, thereby resolving the issue of the social objective of the organisation. Due to the expansion of the social responsibility field, further topics should be addressed with the intention of adding to current studies. The authors showed the existence of the intense association between social responsibility, corporate strategy and competitive advantage. Thus, we may creatively consider way of evaluating the implications of theoretical-empirical studies.

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