

Competitive advantage: csr



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CSR means that “ a corporation should be held accountable for any of its actions that affect people, their communities and their environment; it may require a company to forgo some profits if its social impacts are seriously harmful to the corporation’s stakeholders or if its funds can be used to promote a positive social good” (Frederick, Post, & Davis, 1992, p. 10). Tougher competition recently has compelled the firms to adopt something that is different from their rivals and has also put a pressure on the firms to examine their philanthropy and other social activities, by doing so the company can sometimes achieve a strategic advantage over its competitors (Burke & Logsdon, 1996). David Vogel wrote “ There is a business case for CSR but it is much less important or influential than many proponents of civil regulation believe, CSR is best understood as a niche rather than a generic strategy: it makes business sense for some firms in some areas in some circumstances. There is a place in the market economy for responsible firms. But there is also a large place for their less responsible competitors (Vogel, 2006, p. 3). This essay will outline whether and how competitive advantage can be achieved by organisations through CSR. This will be done by critically discussing what CSR is? Further emphasising on how it gives an organisation strategic advantage over its other competitors.

Various definitions of CSR have been given by various theorists, making the study of CSR even more complex. “ CSR activities have been posited to include incorporating social characteristics or features into products and manufacturing processes like aerosol products with no fluorocarbons or using environmentally-friendly technologies, adopting progressive human resource management practices like promoting employee empowerment,

achieving higher levels of environmental performance through recycling and pollution abatement like adopting an aggressive stance towards reducing emissions, and advancing the goals of community organizations like working closely with groups such as United Way. Researchers are moving beyond just defining and identifying CSR activities, to examining the strategic role of CSR in organizations.” (McWilliams, Seigel, & Wright, 2006, p. 2) There are 2 types of approaches to CSR, the charity principle and stewardship approach. Charity principle is when the companies take on a social role just because they want to; it’s a charitable deed and has nothing to do with the profitability of the company. Stewardship approach is when companies act in interest of the people that are affected by the business decisions and policies to gain an advantage, it is in line with the Friedman’s stakeholder approach explained further in the essay.

Even today companies interpret CSR as normal day to day decision making process that don’t need much expertise. It’s true that CSR is influenced highly by the moral imperative. In some situations moral implications are easy to apply like filing accounts honestly, acting ethically but sometimes the company has to weigh its moral decisions with the impact it can have on the stakeholders which can be difficult. For instance, Google’s entry in china has created a feeling of repulsion amongst its US customers towards censorship imposed by the Chinese government. Therefore in this situation one social benefit has to be weighed against another and also against the financial costs that would arise (Porter & Kramer, 2006). It is important for the companies to understand that if the prevailing approach to CSR is changed and more emphasis is given on the importance of social

responsibility like other core competencies of a firm, it can be discovered that CSR is more than just a cost, constraint or a charitable deed; it is a source of innovation, opportunity and competitive advantage (Porter & Kramer, 2006).

There are various situations under which an organization would undertake the CSR approach, “ When an organization wants to create an opportunity based on the societal trend or issue” or “ when a organization seeks to solve a business problem that can’t be solved within the traditional business boundaries” or “ When an organization seeks to protect itself from a threat posed by a societal issue.” or “ When an organization seeks to have a greater business and societal impact from its existing CSR program.” (Milliman, Ferguson, & Sylvester, 2008, pp. 30-31)

Milton Friedman in an article to New York Times said that, “ the only social responsibility of a business is to increase its profit” (Porter & Kramer, 2002, p. 6). According to Friedman the only aim of an organization is to achieve profit on the other hand Freeman argues that a firm has responsibility towards the internal or external stakeholders of the firm which should be taken into account (Galbreath, 2009). Freeman’s Stakeholder theory basically describes what a firm should do or should not do in terms of their societal responsibilities and is more inclined towards CSR. More recently, the society expects companies to behave ethically and in a socially responsible manner, that means they expect the companies to not only be interested in their profits but also pay attention to the interest of the broader group of stakeholder’s like consumers, suppliers and society at large. There has been increasing societal pressures like negative media coverage on the companies

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that are socially inactive thus driving the companies towards CSR (Pater & Lierop, 2006). But the way CSR is being practiced recently, what Freidman said is proving to be right, companies adopt for short term CSR objectives that are not coherent and diffused with the organization's mission. It is only to attain profit and earn the goodwill of its customers, employees and the local community. (Porter & Kramer, 2002). Many companies adopted CSR not because they thought it was important for the company to survive but because of the media coverage and public reaction to the issues they were involved in. for example, Nike faced consumer boycott after New York Times reported that the labour was being abused by Nike in third world countries like Pakistan and Indonesia. That's when Nike realised that it was time to act responsibly or at least 'act' to be responsible to regain one of the four 4 R's of CSR that the company was losing -Reputation.

On the other hand some other companies were successful in understanding that society and businesses are interdependent. One of them would be Mr. Steven T. Bigari, owner a string of McDonald's franchises in Colorado Springs. Steven had a problem of high turnover rates amongst his front line workers affecting the profits of the firm (Fitzgerald, 2007). The problem persisted even after giving them pay incentives. Steven concluded that the traditional HR practices were not helping and therefore he decided to look into the matter deeper and tried to find out from the workers the reason for them not coming to work regularly. He found out that many of his low wage workers had number of personal life constraints like lack of transportation, child care etc which was the key reason of high turnover. Therefore Bigari started considering various methods of how these underlying societal issues

affecting his business can be addressed. He developed programs with governmental organizations and NGO's to provide social service needed by his workers. This process took time but it also solved the problem which the traditional HR practice couldn't. Therefore by doing so, Steve was successful in achieving a much more reliable and productive workforce and also create a positive impact on the personal lives of his employees (Milliman, Ferguson, & Sylvester, 2008). Thus this shows how CSR can be used to gain economic benefits for the company by also creating a social impact.

Social and economic benefits are often seen as two distinct objectives but companies need to find out where these two objectives converge for their organization. This would enable them to acquire decent amount of economic benefits as well create a sustainable impact on the society. Competitiveness today depends on how efficiently the companies use their resources to increase productivity and exploit the opportunities. CSR has to be seen as a strategic resource which has to be exploited to gain competitive advantage out of it.

Does social and environmental consciousness actually lead to competitive advantage? This is one difficult question to be answered. Toyota Found a new market in Japan with its environmentally sound product Toyota Prius and Body Shop gained an advantage over its competitors for its safe products. Toyota took advantage of the opportunity it got to pioneer innovation to benefit the society thus generating a competitive advantage for itself. The Toyota Prius is the first successful hybrid gasoline/electric vehicle that has produced competitive advantage and environmental benefits. The car's engine is hybrid and emits only 10% of the harmful gasses that the

conventional engines produce and consume only half as much gas. The car was rated as the ' car of the year' in 2004 by the motor trends magazine. The car is associated with the slogan, " harmony between man, nature and machine" (3rd Generation Prius, 2009). This innovation has given Toyota a strategic advantage over its competitors, one of them being Ford who wants to acquire the technology from Toyota (Porter & Kramer, 2006). Competitive advantage occurs through CSR when one company implements the strategies of CSR for the benefit of the company and a competitor fails to do the same (Filho, Wanderly, Gomez, & Farache, 2010). Adoption of CSR also gives the company an opportunity to premium price its product also helping in the promotions of the product and attracting consumers which impacts positively on the company's financial performance (Mason & Simmons, 2011).

But there are other companies that have also failed in linking CSR with profitability. Therefore it's hard to say whether CSR leads to competitive advantage directly but it most definitely supports the other core competences of a firm, indirectly giving a competitive advantage. Gaining a competitive advantage by only introducing Triple Bottom Line is difficult, instead a company should focus on developing an innovative model of Triple Bottom Line.

When a consumer finds a product or a company that is more inclined towards the CSR objectives; it tends to give them an advantage over other firms in a number of ways. A few consumers are just more environmentally conscious and therefore if they find a product which is environmentally safe, they would prefer that one over the one that is not. It is important for the

companies to develop a niche market for their products. For example, body shop has distinguished itself by long term social commitment. The company should think of its long term advantages like reputation, etc that can be achieved through acting responsibly socially than the short term interests than can cause harm to the society or environment. And this approach fits perfectly if the company gains cost advantage out of it.

Nestle is a perfect illustration of how long term competitive advantage can be achieved through CSR. In 1962, Nestle was expanding in India and they got a permission from the government to build a dairy in Moga, when they started expanding in the region they realised that the farmers in India were facing problems like severe poverty, the farmers were living without the basic needs like electricity, adequate food, there was no proper transportation, telephones or medical care in the region. Farmers owned less than five acres of infertile land and kept only one cow that would produce milk sufficient for their own consumption only. The milk often got adulterated in transit because there was no proper refrigeration, transportation and way to test the quality of the milk. Therefore to solve this problem, nestle implemented CSR strategies and tried to build the factor and demand conditions in the area. Nestle built refrigerated dairy which was the collection point for milk from the farmers in town and trucks were sent from these dairies to the veterinarians, ergonomists to test the quality of the milk. Thus Nestle established a value chain similar to its value chain in its country of origin,

Switzerland. The farmers were also trained and the sick animals were taken care off. This improved the productivity of the cows and also improved the

working conditions in the area for the farmers. Initially when the company expanded in the area there were only 180 farmers supplying milk but today there are almost 75000 farmers involved with around 650 dairies in the region and the milk production has increased 50 times. Nestlé's working with the small workers gives them an advantage of saving the costs that they would have to incur if they had middlemen. Nestlé's CSR objective is part of their strategy and is adopted by them when they expand in other developing countries too (Porter & Kramer, 2006).

Also there are various standards like that can be used to create a positive impact on the stakeholders creating a strategic advantage for the company. There are various triple bottom line indicators like the GRI (global reporting initiative), ISO: 14000, ISO: 26000, EMAS (Eco-Management and Audit Scheme) that affect company's reputation to the customers, suppliers, competitors, the stakeholders basically. These standards help in developing good relations with the government. Also employees think that they are working in a company trying to save the environment thus increasing their commitment levels and increasing their chances to stay with the organization. Investors would also be interested because it would affect the share prices. EMAS and ISO don't give a full picture; these standards don't cover the social indicators whereas GRI gives a full picture covering all the triple bottom line indicators.

Most researchers agree that CSR provides an organization with various advantages and is not only useful for the society but also for the organization. " It provides with the society's favour and lowers the risks of business operations; forms the image of the corporation and improves its

reputation; stimulates the organization's innovation and creative work; helps to find easier ways to attract external sources of sponsorship; broadens markets and makes situations for sales increase; helps to attract positively motivated employees, enhances the value of human capital; stimulates the organization's culture; lowers expenditures, stimulates production and income increase, enhances the efficiency of work" (Jurašius & Snieška, 2008, p. 35).

There have been debates that more and more companies have started adopting CSR and it has moved all the way to the boardrooms. This can be proved by around 360 CSR-related shareholder resolutions being passed by the companies in 2005. These shareholder resolutions range from issues relating to labour conditions and global warming and other social problems. Out of 250 large multinationals, 64% of the companies published their CSR reports either within their annual reports or separately as a sustainability report (Porter & Kramer, 2006). Even the government has been stressing on the importance of CSR by making it mandatory for every publicly listed company to disclose its CSR related risks in the annual report. The businesses do know about these risks but they are not clear as to what has to be done to eliminate these risks and the response of companies have not been very strategic or operational. Companies come up with CSR reports but these reports don't really give an account of an articulate or strategic framework of CSR activities of the company, instead it mentions uncoordinated CSR activities carried out by the company to show its social sensitivity. Therefore it's important for the companies to turn to academic experts for advice and start thinking of CSR as a source of gaining

competitive advantage (Porter & Kramer, 2006). Companies know that addressing the societal expectations is important to keep their stakeholders happy but they are not aware about how to strategize it to gain competitive success (Galbreath, 2009).

Companies are not liable for all the social, environmental problems that occur but it is about taking the responsibility to identify the problem that they can gain a competitive advantage from and act on them. As Porter & Kramer(2006, p. 92) state, “ addressing social issues by creating shared value will lead to self sustaining solutions that do not depend on private or governmental subsidies.” Thus it can be said that by linking businesses to the societal or environmental issues, a company can develop solutions that are socially responsible that provide an operational and competitive advantage (Fisher, et al. 2009).