



The new strategic marketing battleground: Corporate Social Responsibility

**This paper looks at how multinationals are
integrating Corporate Social Responsibility
into their marketing strategy to build and
sustain a competitive advantage.**

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What is Corporate Social Responsibility (CSR)?

A widely used definition of Corporate Social Responsibility comes from the World Business Council for Sustainable Development who states that it is the “continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families and the local community and society at large. (World Business Council for Sustainable Development 1999)

The Corporate Responsibility Index (2007) states that Corporate Social responsibility is achieved when “a business adapts all of its practices to ensure that it operates in ways that meet, or exceeds, the ethical, legal, commercial and public expectations that society has of business.”

Corporate Social Responsibility is closely related to ideas such as sustainability, corporate citizenship, the triple bottom line, socially responsible investment, and corporate governance. (The Prime Ministers Community Business Partnership 2007) It can be measured using instruments such as the Corporate Responsibility Index and the Dow Jones Sustainability Index

In recent times, a number of corporate frauds (e.g. Enron, HIH) have demonstrated that a singular goal of profit maximization can lead to unethical conduct. Chakraborty et al (2004) showed that a profit maximization focus can trigger a variety of unethical practices including: bribery; deceptive advertising; launching unsafe products; creative accounting; and withholding information from shareholders and the public. The negative outcomes of a shareholder focus only have given rise in importance of corporations considering all stakeholders via Corporate Social Responsibility.

Why should business engage in Corporate Social Responsibility?

There are several benefits of engaging in Corporate Social Responsibility and each of these is looked at in turn below.

Improved financial performance

In a literature review on the topic, Gardberg and Fombrun (2006) found that most empirical studies “focused heavily on demonstrating a link between social performance (CSR) and financial performance with the majority claiming to have uncovered a systematic link between the two.”

Luo & Battacharya (2006) found that “Corporate Social Responsibility contributes positively to market value suggesting that managers can obtain competitive advantages and reap more financial benefits by investing in Corporate Social Responsibility”. Their study specifically

uncovered that for “a typical company with an average market value of approximately \$48 billion, a one unit increase of Corporate Social Responsibility ratings would result in approximately \$17 million more profits on average in subsequent years”

Reduced exposure to reputational risk

A corporate reputation is often built over decades, but can be destroyed in an instant through corruption scandals or environmental accidents (Wikipedia 2007). Examples of reputational breakdowns include Union Carbide in India and Big Tobacco in the US (Chakraborty et al 2004). Engaging in Corporate Social Responsibility can offset these reputational risks.

Enhanced brand image and corporate reputation via positive PR

Positive media coverage due to Corporate Social Responsibility adds value to the brand and corporate reputation. Philanthropy and other social activities (excluding cause-related) have “a high position impact on relationship and social measures of performance” according to Chahal and Sharma (2006)

Campbell and Slack (2006) found that the “rate of charitable giving against profit is found to respond positively to public visibility.” This study suggests that corporations with high visibility (often consumer brands) are more likely than low visibility corporations to engage in philanthropy to improve their corporate reputation in the eyes of society.

Corporate Social Responsibility can also assist in building differentiation from competitors. A good example of this benefit is The Body Shop. By focusing on Corporate Social Responsibility companies can maintain long-term relationships with stakeholders and build strong brand image and competitive advantage, which is difficult to imitate (Aaker, 1996).

Increased customer loyalty

Customers now have increased access to information and this increases the risk of companies being found out for unethical practices. For example, criticisms of Nike’s operations in Asia in the 1990s forced the company to alter its manufacturing processes. In order to redeem its strong customer loyalty, Nike changed many of its labor, environmental and reporting practices, and regularly insists on independent inspections of local subcontractors. (Gardberg and Fombrun 2006).

Luo & Battacharya (2006) found that Corporate Social Responsibility “increases customer satisfaction which in turn leads to positive financial returns”. They suggest that building customer satisfaction is an “important intermediate step in converting Corporate Social Responsibility into financial gains.”

Improved culture and recruitment, motivation and retention of staff

Chahal and Sharma (2006) found that “the degree of organization culture and ethical values has a positive impact on economic performance (profitability, market share and sales volume); relationship performance (employees, channel members and consumers satisfaction and retention) and social performance measures (social return on investment (SROI)).

In addition to improving culture, Corporate Social Responsibility has positive impacts on staff recruitment and retention. McKeon (2006) stated that “employees expect their employer to have an enlightened attitude to the community”. Chakraborty et al (2004) showed that Corporate Social Responsibility results in “a bonus in terms of stronger staff bonding with the organisation and stronger motivation. This can be converted into higher productivity, better product quality, better and faster implementation of the needed changes and innovations”

Esquel Group, part of the apparel industry with most of its employees in the Asia Pacific, is a good example of the positive effects of Corporate Social Responsibility on staff. Esquel Group's core strategy is to create an “eCulture”. The eCulture refers to ethics, environment, exploration, excellence, and education, all of which are key elements of Corporate Social Responsibility. As a result progress has been made in terms of “increased productivity, diversity and learning and talent depth”. (Bell 2005).

Improved government relations and reduced regulatory intervention

Gardberg and Fombrun (2006) found that “in emerging markets, governments often award privileged contracts to global companies because of their superior reputations” for Corporate Social Responsibility. There is a high expectation with these contracts that the multinational companies will contribute to the local community and economic development.

Assists multinationals in overcoming the liability of foreignness in new markets

Gardberg and Fombrun (2006) also argued that Corporate Social Responsibility is a “strategic investment comparable to R&D and advertising which can create intangible assets that help companies overcome nationalistic barriers, facilitate globalization, and out compete local rivals.”

Corporate Social Responsibility therefore enables global companies to operate across diverse local markets through providing “legitimacy, reputation, and competitive advantage to overcome a liability of foreignness, which refers to the cost incurred by foreign subsidiaries in excess of those of their domestic counterparts.”

What should businesses be aware of when engaging in Corporate Social Responsibility?

The economist Milton Friedman (1970) argued that Corporate Social Responsibility is a distraction from a “a corporation's principal purpose to use its resources and engage in activities that maximize returns to its shareholders, while obeying the laws of the countries within which it works” According to Munilla and Miles (2005), another economist Adam Smith also argued 200 years ago that “the general welfare was better served by people pursuing their enlightened self-interest than by misguided attempts to serve society.” These ideas are contrary to that of Corporate Social Responsibility.

Despite this McKeon (2006) raises a good point in that virtually all detractors of Corporate Social Responsibility come from the sidelines. “They tend not to be business managers trying to satisfy shareholder expectations. Equally they tend not to represent the community sector. No the opponents tend to be academics, consultants, members of think tanks and professional opinion writers.”

Another aspect to be aware of is that if companies talk the Corporate Social Responsibility talk, they must walk the walk or they will be found out. For example, Shell has a much publicised Corporate Social Responsibility policy and was a pioneer in triple bottom line reporting, however a scandal in 2004 over the misreporting of its oil reserves seriously damaged its reputation. (Wikipedia 2007)

How multinationals companies are integrating Corporate Social Responsibility in their strategy to build and sustain a competitive advantage.

Chakraborty et al (2004) stated that while “the World Trade Organisation is giving undreamt of freedom to businesses, they also greatly increasing their Corporate Social Responsibility.” Particularly in developing countries, multinationals are expected to go beyond earning just profit for the shareholders to become primary engines of growth, job creation, innovation, and exports.

Michael Porter said that “corporations can use philanthropy to improve their competitive context”. Corporate philanthropy is defined as “the act of corporations donating a portion of their profits or resources to a nonprofit cause or organization” (Milam, 2005). According to Wyner (2006) corporate philanthropy is exhibited in three general categories: corporate giving via cash or non cash donations to non for profit organisations; philanthropic sponsorships, and; cause-related marketing which generally links a corporate donation to product sales.

Corporate philanthropy is a key aspect of Corporate Social Responsibility for multinational organisations. Miles and Covin (2000) developed a Corporate Social Responsibility framework that proposed “that firms tend to relate to environmental management either by mere compliance or strategically leveraging CSR as a means to create and renew competitive advantage.” Munilla and Miles (2005) stated that “the strategic perspective can be used as a foundation for building competitive advantage by both enhancing firm efficiency and, simultaneously, increasing the value of the firm’s market offering to specific market segments.”

The framework can be broken down into a continuum based on the source of competitive advantage derived from Corporate Social Responsibility expenditures. This continuum goes from *compliance* (“perceived as a cost of doing business”), to *strategic* (“perceived as an investment in the firm’s set of distinctive competencies”), to *forced* (“perceived as a “tax” being mandated by NGOs or other external stakeholders that will diminish the firm’s ability to create value for shareholders”) (Munilla & Miles 2005)

Compliance Corporate Social Responsibility

Exxon is an example of a company that takes the compliance perspective. The Economist (2003) notes that Exxon’s efforts are focused on “generating the highest sustainable economic returns possible for shareholders and intentionally avoiding budgeting for nonmandated environmental and social issue expenditures.” This compliance approach to CSR has helped Exxon deliver better financial returns than its main competitors.

Strategic Corporate Social Responsibility

Westpac is an example of a multinational (Australia, New Zealand, and the Pacific) corporation taking a more strategic stakeholder approach to Corporate Social Responsibility. In a recent 2006 brand advertising campaign, Westpac revealed a new corporate slogan: “every generation should live better than the last”. The Westpac website states that “at Westpac, we believe that the best

decisions are ones that not only work towards a sound financial future...but also work towards a more responsible future for the community and our environment.”

In order to help every generation live better than the last, Westpac have undertaken several initiatives. In 2003, Westpac became one of only ten banks worldwide, and the only Australian bank to adopt the Equator Principles. “The Equator Principles provide a framework to ensure project loans are only provided to sponsors that can demonstrate their ability and willingness to ensure projects are developed in a socially responsible manner, following sound environmental management policies” (Westpac website 2007).

Westpac engages in philanthropic sponsorships of rescue services and surf life saving. They also use cause-related marketing through discounts on a range of energy-friendly products and services, such as cash back on solar panels if you have a Westpac home loan. Westpac reduces paper wastage by providing customers with the opportunity to move to electronic statements.

Finally, Westpac engages in corporate giving through getting staff involved with the Generation W volunteer bus. “In the past year, two thirds of our employees undertook some form of community volunteer work, and around one third participate in mentoring programs or use their work-related skills to benefit community organisations.” (Westpac website 2007).

Westpac have been rewarded for their Corporate Social Responsibility efforts by being named the number one global bank in the Dow Jones Sustainability Index (DJSI) for the last five years. This award confirms that Westpac are integrating Corporate Social Responsibility in their strategy and consequently building a sustainable competitive advantage.

The Body Shop is another global corporation who takes the strategic approach to Corporate Social Responsibility. The Body Shop promotes products under the philosophy of "profits with principles" (Dowling 2004). This is today still a differentiating positioning in the cosmetic market.

Forced Corporate Social Responsibility

According to Munilla and Miles (2005), in some cases, particularly for multinational firms, there will be “pressure from non government organisations or other external stakeholders to take a certain position with respect to Corporate Social Responsibility”.

For example, Exxon were recently working in Africa (Chad) on a large oil and pipeline project. During this \$3.5 billion project, Munilla and Miles (2005) note that “Exxon was pressured by environmental and human rights NGOs to invest in schools, public health clinics, management assistance to local entrepreneurs, and even pay for local ritual chicken sacrifices, expenditures that Exxon would not normally undertake.”

However, the preferences of Western NGOs who Exxon were attempting to appease were in conflict with the local residents. Useem (2002) remarked that “the NGOs wanted Cameroon’s rain forests untouched whereas local farmers plead for Exxon to clean them with chain saws. The NGOs wanted roads routed around villages, whereas villagers would sneak out at night to move road markers closer to their homes.”

A forced position on Corporate Social Responsibility is not an approach to building and sustaining competitive advantage. (Munilla & Miles 2005)

Conclusion

Most multinationals companies engage in some form of Corporate Social Responsibility. However those taking the compliance or forced perspective are less likely to build sustainable competitive advantages, other than just making extraordinary short term profits, when compared to those taking the strategic perspective. A strategic approach to Corporate Social Responsibility involves a combination of corporate giving, philanthropic sponsorships and cause related marketing.

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