CSR as Social Competitive Advantage

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Abstract

With Corporate Social Responsibility's (CSR) widespread proliferation comes the risk of its redundancy as managers emulate best practice campaigns. We argue that typical CSR initiatives are not sufficient in deriving long-term value, but rather add to a firm's cost. Conceptualizing CSR as a strategic capability, we theorize that firms can attain above normal social performance reputation from CSR that is differentiated from peer firms or is related to the firm's core competence. Drawing on the resource-based view and using panel data from the Morgan Stanley Capital International (MSCI-ESG) database, the study finds empirical support that CSR initiatives will positively influence corporate social performance more effectively under conditions of (1) linking the CSR to the firm's core organization strategy; or (2) crafting valuable and relatively unique variations of CSR to confer a social reputational advantage among industry rivals.

Building on recent conceptual advances in the corporate reputation literature, the study finds empirical support for two key characteristics relevant to Dowling & Moran's (2012) reputation building framework: points of difference, or the level of uniqueness in CSR strategy relative to competitors' CSR initiative (identified as Differentiated CSR for the purpose of this study) and points of proof, or the built-in approach, defined as one which is embedded and aligned within a firm's core competence and strategy. We identify these characteristics of CSR as necessary to drive enhanced CSP outcomes. Specifically, we test whether a firm will outperform industry rivals in CSR-based reputation when applying these proposed CSR characteristics.

The resource-based view of the firm offers an important framework for CSR researchers and practitioners to apply when analyzing how CSR activity can best be leveraged and assessed. RBV requires that the criteria of valuable, rare, and inimitable or difficult to replicate are met in order for a strategic capability to offer an advantage. Applying this resource-based framework, hypotheses proposed and tested are:

Valuable:	H1: Evidence of a CSR program will have a positive effect on CSP.
Rare:	H2: Differentiation in CSR form will be positively associated with CSP.
Inimitable:	H3: The degree to which CSR is built-in the firm's core strategy will be positively associated with CSP.

The study uses ten years of data from 2003 to 2012, a period marked by its escalation in growth of first time corporate reporting of CSR activities (KPMG, 2016), intended to capture the recent trends of CSR growth. By 2005, CSR reporting climbed nearly 60 percent over the preceding year (CR Perspectives Global Reporting, 2013) signaling a more rapid diffusion of CSR activities in the ensuing years. The sample is obtained from the Environmental, Social and Governance factors (ESG) database provided by Morgan Stanley Capital International (MSCI). The final sample size of 2560 observations (i.e., 256 firms over 10 years) was contingent upon data availability for panels across all variables. We use random effects GLS regressions to model the relationship between the predictor and dependent variables. The four industries Energy, Healthcare products/service, Real Estate and Utilities are drawn from the Industry Group sector selected are based on criteria of (1) high/low contrast on measures of the extent of industry CSR intensity and (2) sufficient and comparable sample size of firm members within each industry group.

Findings support Dowling & Moran's assertion that for CSR, reputation building characteristics associated with points of difference, (differentiated CSR) or points of proof (built-in CSR), will contribute to a firm's ability to outperform industry rivals with improved CSP strength scores. We found evidence of a corporate CSR campaign will improve CSP and is significant (coefficient of .29 at $p<0.001$). Differentiated CSR was also found to be positively associated with CSP and significant at .940 at $p<0.001$. The greater the degree of built-in CSR was found to be positively associated with CSP and significant at a coefficient of .250; $p<0.001$.

The empirical findings contribute to previous literature on CSR strategy calling for the disaggregation and evaluation of the specific CSR characteristics that drive effective CSP results for individual firms. Few studies have drilled down to the level of the seven CSP dimensions and more than forty forms assessed on the MSCI-ESG database. We find considerable support for the use of novel or differentiated CSR initiative to enhance CSP ratings and garner advantage of corporate social performance. To the best of our knowledge, no study has thus far considered the *differentiation of one's CSR and practice* from other initiatives undertaken by competing firms. Consistent with the resource-based theoretical perspective, when CSR can be enhanced, maintained and not duplicated, it can act as a strategic capability to generate social competitive advantage (Husted & Allen, 2010).

In conclusion, CSR initiatives will positively influence corporate social performance more effectively under conditions of (1) linking the CSR to the firm's core organization strategy; or (2) crafting valuable and relatively unique variations of CSR to confer a social reputational advantage among industry rivals. We offer a theoretical and practical framework for examining CSR's potential, recognizing that CSR strategies are neither universally implementable, nor the outcomes universally consistent. Unless we view CSP as an outcome itself, we can neither assess the importance of CSR's influence on it, nor link the idea of CSR to the fundamental logic of the organization and its ability to produce advantages in the form of socially derived corporate reputation. In this view, CSP serves as a social performance benchmark of the firm and builds on CSP's linkage to performance by way of corporate reputation.