Sustainability of CSR Projects: A Strategic Approach

Dr David Yong Gun Fie
Associate Professor, Faculty of Management, Multimedia University, Malaysia

Ajith Medis
Department of Marketing Management, Faculty of Commerce and Management Studies, University of Kelaniya

Abstract
With many developments among scholars in the world, one school of thoughts believe CSR should be used mainly as a social endeavor and the others think it should be linked to the corporate strategy for financial performance. In this context, this paper aims to observe how strategic approach of CSR initiatives leads to sustainability. The reason for this is that a developing country like Sri Lanka needs CSR projects to sustain and to achieve the set objectives instead just getting involved with philanthropic or charitable activities. The strategic antecedents recognized in this model are resource mobilization, market development and customer satisfaction and the study attempts to identify the core strategic focus of those in building CSR initiatives for sustainability. Accordingly, total of 360 shareholders/investors and managers among 40 corporates who were involved in CSR activities during 05 years after a long civil war in Sri Lanka was sampled. It has found that implementing CSR initiatives strategically aiming both resource mobilization and market development tend to support sustainability of those initiatives but aiming customer orientation has less impact otherwise. In conclusion, it is advisable for corporates to approach CSR initiatives strategically gaining a return to both the society and for them and also it is important that governments too support those initiatives in rebuilding process.

Keywords: strategic CSR, sustainability, rebuilding, resource mobilization and market development.

Background
Corporate Social Responsibility (CSR) is not a new concept in the management jargon, but perhaps this phenomenon is still a new area for certain markets in certain countries (Tirole, 2001). After the publication of Friedman’s (1970) thesis, which says the only social responsibility of a firm is to maximize profits, scholars started to develop and write various theoretical concepts in the area of corporate social responsibilities of a firm (Maigan, Ferrell, and Hult, 1999; Kuilick, 1998; Freeman 1984, Porter 1990). CSR, from that point onwards has covered many areas such as stakeholder analysis, business strategy and competitive advantage and corporates, governments, and customers. Further, research indicates that the other stakeholders have started to begin to feel the relevance and importance of CSR as meaningful managerial concept. According to Kok et al (2001) people also believe that a firm has an obligation to use its own resources with a commitment for the benefit of the society. CSR for decades has been a very critical subject among both scholars and practitioners (Carroll, 1999) and even for today it is a debatable area among them. The fundamental question is that what would be the role of a firm in the society other than their business perspective and what are their social responsibilities towards the betterment of the society. In the recent past one important argument evolved between the relationship between CSR and firm performance (Orlitzky et al., 2003). Also another factor to look is how they can be responsible to the larger society instead of engaging some charitable activities. Therefore, it is high time to search whether there is a new meaning for corporate social responsibility especially in a developing country like Sri Lanka after years of civil war.

Defining CSR
Corporate Social Responsibility can be understood in many ways as the exact definition is elusive since attitudes and beliefs fluctuate in different organizations and different situations (Kok et al,2001). Kok et al (2001) defines CSR as an obligation of a firm to use its resources in ways to benefit society with a firm commitment for sustainability irrespective of there is a direct gain to the company or not. The concept over the years according to literature started developing towards the real responsibility of a firm towards the society. The belief is that when corporates make profits/earnings through the society why not they contribute back some for the betterment of the society. In the meantime, with the new developments and more commitments from organizations towards the responsibility of a firm towards the society, researches have given special attention to the relationship between CSR and a company’s financial performance (Garone, 1999; Roman, 1999). Freeman (1984) brings two important stakeholder strategies among other: a stockholder strategy, referred as shareholder strategy and the social harmony strategy. Freeman (1984) says the shareholder strategy is to focus on profitability or ROC and the social harmony strategy is to address and balance various stakeholders of a firm.

With many developments among scholars in the world, one school of thoughts believe CSR should be used mainly as a social endeavor and the others think it should be linked to the corporate strategy for financial
The basic understanding is that organizations are accountable to a larger society (Kerin et al: 2002) as the thinking behind being accountable to the society is based on the fact that companies make their earnings from the society. At the same time, in the recent past the markets became highly competitive and the CEO’s started to feel the pressure more than any other period, one key being the raising/keeping the investor confidence. Therefore, new thinking started to emerge as Galbreath (2009) argues that although CSR discussions have generally focused on the role of business in society, at practical levels there appears to remain much confusion with respect of how to build or integrate CSR into the overall strategy of the firm. The arguments continuing as to whether it a social endeavor or business strategy. The most widely cited model of CSR is provided by Carroll (cited in Carroll...
part of the strategic domain (Galbreath, 2008). The refore, CSR decisions cannot be taken isolate and if it is business, the greater the opportunity to leverage its resources. Therefore, based on the aforesaid arguments, the business strategies. Lantos (2001) clearly explains how CSR considers to be a strategic option. He say s both the organization and society to gain a win-win situation. Therefore, CSR must be linked to the strategy in (2001) explains markets and resource mobilization as a resource based view are part of competitive advantage. Woodruff (1993) argues customer satisfaction is the next source of competitive advantage. Further, Barney capabilities of a firm. Peteraf (1993) describes that resource mobilization is part of a competitive advantage and suggests that strategic approach can develop specific market segments. This includes assessing the growth of the market, market share, nature of competition and resource requirement. In the strategic perspective of CSR, it is also important to address customer orientation of a firm. According to Narver and Slater (1990) it is the actions designed to create the value for both today and potential customers. Based on the understanding of the literature, CSR initiatives of a firm should increase or add value to the target customers for it to be strategic. Galbreath (2008) suggests that another dimension that a firm should look for is the internal resources when implementing CSR initiatives. He explains resources as activities, assets, core competencies, capabilities and dynamic capabilities of a firm. Peteraf (1993) describes that resource mobilization is part of a competitive advantage and Woodruff (1993) argues customer satisfaction is the next source of competitive advantage. Further, Barney (2001) explains markets and resource mobilization as a resource based view are part of competitive advantage. Therefore, in order to analyze strategic antecedents of CSR in this article the researcher takes resource mobilization, market development and customer satisfaction are parts of competitive advantages. In this context, the study is aiming to explore the relationship of these strategic CSR antecedents mainly resource mobilization, market development and customer orientation towards creating sustainable CSR programs.

Hypotheses
The main argument of the study is whether use of CSR as a strategic tool will lead to generate sustainability of those initiatives in a developing country. According to the previous literature, strategic antecedents of CSR are the resource mobilization, market development and customer orientation (Galbreath, 2008). As per the literature review, previous authors have explored many constructs as CSR as corporate strategy antecedents in their empirical studies. However, some determinants are commonly used by many researchers and some are limited to specific situations only.

It is paramount important for an organization to match its internal resources with changing external environment in order to enhance the performance in the long run (Learned et al, 1969; Andrews, 1971). Further studies suggests various attributes of resources such as activities (Porter, 1985), assets (Dierickx and Cool, 1989), core competencies (Prahalad and Hamel, 1990), and dynamic capabilities (Teece et al, 1997). Rumelt (1980) clearly specifies that it is important to leverage resources to capture or internalize benefits of engage in CSR initiatives to the firm. Porter and Cramer (2006) explains the importance of not isolating the internal operating units for CSR initiatives. They also categorically mention that a firm tying a social issue more closely to its business, the greater the opportunity to leverage its resources. Therefore, based on the aforesaid arguments, the researcher developed the first hypotheses to empiricallt test the argument in the present research context.

H1. Organizations who mobilize own resources for CSR initiatives tend to sustain CSR initiatives in the long run.

A market is the set of all actual and potential buyers of a good or service (Kotler et all, 2010). According to the work of Galbreath (2009) for firms to more adequately build CSR into strategy, the social dynamics variables becomes important intern of understanding the current and emerging characteristics of target markets. He further elaborate that if assessing various social factors of a given market segment is important to the general understanding of that segment, then it is also important in terms of understanding specific target
customer needs. Doane (2004) explains that CSR ultimately lies within the framework of markets, and require market based incentives for companies to invest.

H2. Organizations who focus CSR initiatives as a market development view tend to sustain those initiatives in the long run.

H3. There is a positive relationship between customer satisfaction and the duration of the CSR initiatives.

As a Strategy

The researcher started analyzing CSR by relating it to a theory of the firm, means it assume that the management of publicly quoted companies attempt to maximize profits (Jensen, 1998). Friedman, (1970) asserts that engaging CSR as a symptomatic of an agency problem or a conflict between the interest of managers and shareholders. He argues that managers use CSR as a means to improve their own political, social, or career agendas, at the expense of shareholders. Based on this thinking, resources allocated to CSR would be more wisely spent, from a social endeavor perspective, on increasing firm efficiency. Wright & Ferris (1997) has empirically tested this theory and found out that stock prices reacted negatively to announcement of divestment of assets of a firm. Waddock & Graves (1997) presented their empirical test work of the corporate social performance and say that there is a positive association between corporate social performance and financial performance. The corporate social performance (CSP) model has many in common with the stakeholder perspective, which is the most widely used theoretical framework (McWilliams & Siegel, 2001).

Based on the studies of Jensen, (1998) CSR can be considered as a form of an investment. An investment to capitalize, companies need to think strategically and act strategically. Most recent treatments have progressed towards theory development as well as empirical tests of the relationship between CSR and firm performance (Aguilera, Rupp, Williams, & Ganapathi, 2007; Orlitzky, Schmidt, & Rynes, 2003). More importantly, CSR should be integrated strategically in to the context of what the firm is trying to do. Such an approach is vital to building CSR into strategy in a way that reflects its actual business importance to the firm’s mission (Burke & Logsdon, 1996). Building CSR in the fundamental purpose of the firm-its mission—does not necessarily happen without proper reflection and understanding of the environment (and the personal values and convictions of a firm’s top leaders). Understanding the environment and its implications for the firm rests within the domain of strategy (Galbreath, 2009).

As mentioned earlier, if CSR can be viewed as an investment, one way to assess investment in CSR is as a way of product differentiation. It’s commonly accepted that product differentiation leads a way to a competitive advantage. In this way there are CSR “resources” and “outputs”. According to (McWilliams & Siegel, 2001) a firm can create a curtain level of CSR by embodying its products with CSR attributes (such as pesticide-free fruits) or by using CSR related resources in its production process (such as naturally occurring insect inhibitors and organic fertilizers). A classic example of ODEL, Sri Lankan company building CSR initiatives to embody into their product portfolio (Pilot survey, 2012) gave them a huge brand image lead to more sales and more CSR investments. Those firms taking the competitive advantage (CSR as a strategy) as their long term objective (mentioned as a mission) of CSR are likely to adopt CSR initiatives in three wide areas of company business interest: Resource mobilization, market developments and improving customer orientation.

Resource Mobilization

A resource is a stock or supply of money, materials, staff, and other assets that can be drawn on by a person or organization in order to function effectively. According to Business Dictionary it is also can be defined as an economic or productive factor required to accomplish an activity, or as means to undertake an enterprise and achieve desired outcome. Three most basic resources are land, labor, and capital; A major facet of strategy is concerned with matching internal resources with a changing external environment in a way that enhances organizational performance overtime (Andrews, 1987; Learned, Edmund Philip, Carl Roland Christensen, Kenneth R. Andrews, 1966). Further studies done by the researcher about resources have various attributes for it such as activities (Porter, 1985), assets(Dierickx & Cool, 1989), core competencies (Prahalad & Hamel, 1990), and dynamic capabilities (Teece, Pisano, & Shuen, 1997). Branco and Rodrigues (2006) suggest that CSR activities may have internal benefits by supporting a firm to develop totally new resources and capabilities and also it leads to important consequences on the creation or depletion of intangible resources. Specificity refers to the degree to which resources are leveraged to capture or internalize at least some benefits for engaging in CSR that are specific to the firm, rather than simply creating collective goods which can be shared by other in the industry, community or society at large (Porter, 1985; RUMELT, 1980).

Bhattacharya (2009) finds out the active involvement of employees as an internal resource leads to better CSR initiatives.

Market Development

According to the work of Galbreath (2009) for firms to more adequately build CSR into strategy, the social
dynamics variables becomes important interns of understanding the current and emerging characteristics of target markets. He further elaborate that if assessing various social factors of a given market segment is important to the general understanding of that segment, then it is also important in terms of understanding specific target customer needs. A market is the set of all actual and potential buyers of a good or service (Kotler & Armstrong, 2005). Customer orientation can be defined as the actions designed to understand the current and latent needs of customers in the target market served so as to create superior value for them (Narver & Slater, 1990).

Customer Satisfaction
Studies have found that the reputation of a company and the welfare of distinct stakeholder are crucial to stockholders wealth maximization and long term survival (Tirole, 2001). Also building better relations with primary stakeholders like employees, customers, suppliers and communities could lead to increased financial returns by helping firms develop intangible but valuable assets which can be sources of competitive advantages (R Edward Freeman, 1984). They also provided rational and justification for a marketing contribution to improvement of financial performance of a firm. Some of the factors identified by Srivastava are customer satisfaction, specific marketing mix actions (mobilization of resources), product equity and impact of brand equity. With respect to customer satisfaction, the relationship between customer satisfaction and stock prices suggests customer satisfaction leads to excess returns (Luo, 2007). Carroll (1991) gives facts for using CSR for economic purposes under five points: it is important to perform in a manner consistent with maximizing earning per share; it is important to be committed to being as profitable as possible; it is important to maintain a strong competitive position; it is important to maintain a high level of operating efficiency and it is important that a successful firm be defined as one that is consistently profitable.

Target Population and Sampling Frame
According to Bryman (2006) designing appropriate sampling is an important step of both qualitative and quantitative research projects. Babbie (2006) says population is the group that the conclusions are drawn upon. The population in this study is the listed companies operating at the Colombo Stock Exchange in Sri Lanka and the non-listed companies who have won international awards for CSR initiatives during last 03 year. The reason for the listed companies to be the population is that according to the triple bottom line reporting system it is mandatory for listed company to report CSR under sustainability reporting. In deriving sample, the researcher has resorted to judgmental and random sampling methods. For the research the sample was derived based on the 40 listed companies and the researcher designed the sample by analyzing the companies who are actively and continuously into CSR initiatives. In each sample entity, 10 people were identified on a random sampling basis to interview as managers and shareholders/investors which comprised to 400 respondents. The managers and companies were selected based on the amount of involvement to CSR projects and also the impact of CSR projects to company’s core business strategy. The selection of shareholders/investors, managers and beneficiaries will be on random simple sampling method as mentioned above.

Data Collection, Data Analysis and Interpretations
As per the convenience purpose the data collection for the pilot survey was done both by using electronic mail survey and field interviews. But due to the difficulties faced in terms of explaining some questions, the researcher decided the best method is to use only field surveys. The researcher used 10 personal assistance as enumerators from time to time to accompany the researcher for the purpose of convenience. The researcher has used frequency percentage to summarize, descriptive data analysis and structural equation methods to test hypotheses were used. For the purpose of descriptive data analysis, frequency analysis is used with the help of SPSS (Statistical Package for the Social Science) version 20 software.

Discussions, Conclusion and Recommendations
The main objective of the study is to examine the possibility of linking firm’s CSR initiatives to the core business and treats it as a strategy. Burke and Logsdon (1996) clarifies that the economic responsibility of a firm is to produce profits constitutes part of the firm’s formal social contracts, by identifying and exploring unmet societal needs and societal issues through strategy dimensions such as market served, customer needs and resources required to compete, a firm not only can address social opportunities that generate profits (thereby meeting its economic responsibility to shareholders), but can offer societal benefits as well. They further suggest that a properly designed CSR program with a use of resources and capabilities of the firm create value for the firm. The study has focused under strategic antecedents such as market development, resource mobilization and customer satisfaction are key questions raised from the respondents of companies to measure one component of the strategic antecedents. As far as strategic CSR is concerned, McWilliams and Siegel (2011) point out that CSR, which is embedded in an integrated strategy, may be considered as strategic CSR. They also elaborate that
it will lead to the sustainable competitive advantage.

Lawson (2011) suggests that firms that use CSR as a central element to their core business missions have a better chance of creating more business values. The reason he gives is then at the particular firm develop resources and capabilities to solve social problems that can be then applied to the organizations business operations. Lawson (2011) also says the creating a value through CSR projects to the organizations core business model can reduce cost. The reason for this is that the company use its expertise and those projects are within the company’s business domain hence, the greater monitoring can take place, thus chances of reducing the cost is high when compared to the CSR initiatives that has no understanding at all. Hart and Sharma (2004) explains that when companies use their own resources to CSR initiatives, the experience the managers are getting by dealing with specially poor communities gain larger exposure which can intern use for business gains of the operations specially when the target market is mass and low income. Therefore, as supported by literature and the study itself both quantitative study and in-depth interviews, the companies who select CSR as a strategic perspective significantly achieve greater satisfaction among shareholders and customers and lead to sustainability of selected initiatives.

This current study was focused mainly on a developing country, especially one with a market with high growth potential. The reason for this is due to the country is emerging after a long civil war, therefore, the outcome of the research may not be suitable for application to all developing countries across the globe. Therefore, the future researcher can use the same model to observe the implications in other situations.

References


