

Multinational Enterprises use of CSR as a Competitive Advantage

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Introduction

The world has become more focused on sustainability. Through media and with support from governments, consumers can now impact companies heavily by holding them accountable for the social consequences of their activities. Both organizations and employees rank companies on the performance of their corporate social responsibility (CSR), as a result of this, CSR has become an inescapable priority for business leaders in every country (Porter & Kramer). Multinational Enterprises (MNEs) can be heavily affected by the enormous publicity the media can bring on their brand and therefore not only hurting/helping them in the place it might occur but globally for the company. It can influence consumer purchasing behavior and can improve the reputation of a company in terms of trust. It also improves the atmosphere within an organization for every stakeholder (Bhattacharya & Luo, 2009). Most Fortune 500 companies not only engage in social responsibility initiatives, but also devote considerable resources to reporting CSR activities to a wide array of corporate stakeholders (Bhattacharya, Korschun & Sen, 2009). Corporate culture and culture in general are different all over the world, which can result in different perspectives of CSR and thus different results. The moral, ethics and values that CSR represents, can be interpreted widely different by each company/individual, even in the same industry (Gjølborg, 2010).

CSR has become an important factor for companies as well as for employees and consumers. MNEs need to know how to use their CSR as a competitive advantage. Employing CSR for competitiveness enhancement requires a drastic change in managerial thinking and new tools for supporting business activities (Calabrese, Costa, Menichini, Rosati, & Sanfelice, 2013). MNEs operate in complex transnational organizational fields with multiple, diverse and possibly conflicting institutional forces. Complex environments across the world affect a firm's adoption of CSR practices (Marano & Kostova, 2016). The aim of this paper is to further strengthen the study of using CSR as a competitive advantage, which will be useful for the leaders in MNEs and researchers. This will be done by finding compatible methods that are useful for MNEs and identifying the CSR aspects which serve as the main instruments of competitive advantages formation. With the use of various measurements and a methodological approach in compliance with former studies this will be achieved.

2. Research question

Due to time restraints and limits, the research question has been derived to the following:

“How can the top 30 MNEs in the United States use CSR as a competitive advantage?”

There has already been conducted research on MNEs adaptation of CSR in USA, which is part of the backbone for this paper. This paper aims to look at some of the methods used by MNEs to make CSR a competitive advantage, and what is necessary for creating a link between CSR and competitive advantage. As (Husted & Allen, 2006) asked in their study of the link between MNEs and CSR in Mexico “What is the relationship of global and local (country-specific) corporate social responsibility (CSR) to international organizational strategy?”

3. Empirical Background

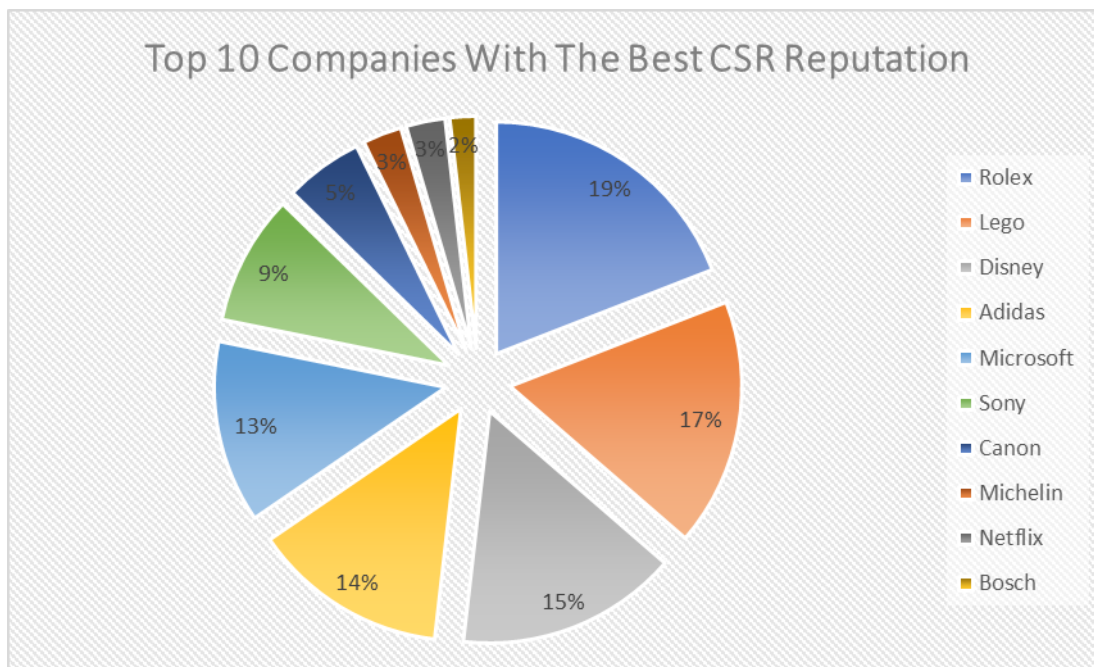
In order to understand the importance of the proposed research paper, it is crucial to understand what CSR is, furthermore how it is perceived by numerous actors and how companies can potentially benefit from it.

Corporate Social Responsibility or CSR is by the United Nations Industrial Development Organization defined as: “[...] a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.” (UNIDO, 2012). For many MNEs, CSR is based on these pillars: sustainable internal processes, trustworthiness, environmental policies, transparency, responsible production and/or purchasing, responsible employment, diversity and community involvement (Marano & Kostova, 2016). It is however important to distinguish between CSR and charity. Many CSR policies are often viewed as charity however, CSR is increasingly a part of MNE’s core policy. Research conducted by IBM amongst 250 CEOs worldwide showed that 68% have a strategic perspective for CSR – they see CSR as an integral pillar of the sustainable growth strategy for their business (IBM, 2018). A global customer survey showed that out of 10,000 customers 91% would switch to a socially responsible business if its price and quality of product/service were the same. Furthermore, consumers showed more trust in (94%) and are more loyal to (93%) socially responsible businesses. CSR also influences customer behavior regarding where they would like to work (81%). 87% will purchase a product because a company advocated for an issue they cared about and (76%) will refuse to purchase a

company's products or services upon learning it supported an issue contrary to their beliefs (Communications, 2017).

Competitive advantage

CSR can be powerful tool however one must learn how/why to use it properly. A firms CSR should be reflected in its mission, vision, value-system and the whole culture of the organization. To use CSR as a competitive advantage the companies should not be motivated to aim at the lowest short-term costs in order to get the largest short-term profit (Berkhout, 2005). Some companies might be good at mitigating many social problems and would therefore gain a competitive advantage; however, this is likely to be only temporary. Strategic CSR involves both inside-out and outside-in dimensions working simultaneously, from here the opportunities for share value springs out. Strategic CSR moves beyond charity and quick fixes of harmful value chain impacts. Innovation can benefit both society and a company's own competitiveness, typically the closer a social issue is to a company's business, the greater the opportunity to leverage the firm's resources and simultaneously benefiting society (Porter & Kramer, The Link Between Competitive Advantage and Corporate Social Responsibility, 2006). Here are the top 10 companies in the world, that have accomplished to create shared value and a competitive advantage over it's rivals.



(Source: Reputation Institute, 2019)

To create the list, RI surveyed more than 230,000 individuals in 15 countries from January to February 2019. The Companies considered for the study typically have revenue in the league of \$1 billion.

4. Theoretical background

Corporate social responsibility can be hard to measure, therefore by examining existing research in the area, I seek to gain the knowledge needed for the correct approach. This includes understanding the basic theories on which the crucial cases are based, but also spotting the common pitfalls in relation to the research topic. Through thorough reviewing of the approaches of exiting research done in relation to the relevant theory, I seek to gain knowledge of the adequate approach for this study.

Do companies want to do CSR to get a better reputation or is there more behind it? Countries institutional environments including related regulations, societal knowledge, and social norms can influence firm's adoption of CSR practices (Campbell, 2007). A research made in 2016 regarding CSR practices in MNEs, involved hypotheses that were tested and supported in a study of 710 US MNEs from 2007 to 2011 with global ties to over 100 countries (Marano & Kostova, 2016). Firms can also be driven by a profit motive if CSR investments can help avoiding negative publicity and potential consumer boycotts or to increase differentiation and reputation by appealing to socially conscious consumers. Stakeholders are increasingly holding MNEs responsible for the CSR activities of their global business partners (Browne & Nuttall, 2013). Some firms therefore choose to simply showcase charity in disguise of CSR to get goodwill. These might be costly, not long lasting and the motivation is typically not clear (Mahoney, Thorne, Cecil, & LaGore, 2013). Furthermore, the companies don't gain a competitive advantage.

Not all institutional forces in MNEs' organizational fields have the same social impact. They depend on their relative importance for the company and some are therefore more noticeable than others. Considering the relative economic dependence of the organization on the various national institutional environments it faces. Greater economic dependence on certain countries will motivate MNEs to prioritize those countries and adopt behaviors perceived as legitimate there (Oliver, 1991).

The necessary steps for finding MNE's competitive advantage(s) includes looking at MNEs value proposition, value chain and their CSR reflected on their core business, a correlation between this should appear, revealing the opportunities for competitive advantage(s). A successful operation requires a healthy society. Having a healthy society with education, equal opportunity and health care,

creates a productive workforce. Government policies, demography and efficient utilization of resources are crucial in creating productive business and are essential for efficiency and innovation. Simultaneously a healthy society requires successful companies, making them interdependent.

If NGOs, governments and other participants in civil society weakens companies ability to operate productively, they may win battles but will lose the war, as corporate and regional competitiveness fade, it will result in wages stagnating, jobs disappearing, and the wealth that pays taxes and supports nonprofit contributions cease to exist (Porter & Kramer, 2006).

The interdependence between a company and society takes two forms: Inside out linkages and outside in linkages.¹ External factors such as the society and the environment seen from a social perspective, can be more subtle in their impact on the value chain, than many managers realize, this is due to their dependence of location for starters. The same manufacturing operation will have different social consequences in China than in the United States. A company's impact also changes over time, as social standards, technology and science evolve (Porter & Kramer, 2006). Internal CSR focuses on the actions directed towards the infrastructure of the company, for example, the employees. This could be initiatives such as health insurance and education/training the employees (Arain, Hameed, Riaz, & Farooq, 2016).

Porter's model of five forces has been quoted for the last three decades and is the one, which is discussed very often. The model is constructed with the reference to the supposition that the companies have the same resources, so the competitive might of the company depends on its capability of forecasting and reaction to possible changes in the market (Juščius & Snieška, 2008). The dependency of a company and society can be analyzed with the same tools used to analyze competitive positions and developing strategies. By looking at the value chain, a firm can concentrate its adequate CSR activities to best effect. Instead of acting on well intentioned impulses or reacting to outside pressure, the firm can set a precise CSR agenda that produces maximum social benefit as well as gains for the business. It can be used as a framework to identify the positive and negative social impact of the firm's activities. The inside out linkages can range from emissions & waste to education & job training (Porter, Porter's Value chain, 1985). In addition to understanding the social influences of the value chain, it is required to understand the social dimensions of the company's competitive context, the outside in linkages in porters diamond. These are the linkages that affect a firm's ability to improve productivity and execution of strategies. This framework can show how the

¹ Also known as External and Internal CSR

conditions at a company's locations affect its ability to compete, such as availability of human resources and demanding regulatory standards (Porter, Porter's diamond, 1990).

However, these two frameworks should be used in different ways, since companies differ in numerous ways. When a company uses the value chain to sketch all the social consequences of its activities, it has created a list of problems and opportunities, that needs to be addressed, prioritized or further investigated. Companies should therefore try to clear away the negative social impacts. In the competitive context, companies cannot take on every area in the diamond. Therefore, the task is, like the value chain, to identify those areas of social context that contains the greatest strategic value. A company can here carefully choose which of the social initiatives that will have the greatest shared value and thereby benefitting both the society and its own competitiveness thus gaining a competitive advantage.

5. Research Design

5.1 Population and Sample

The population, that the results found from this project are meant to apply, is the decisions takers in MNEs in the united states. Due to time and resource limitations as a student, the MNEs will be the top 30 in the United States. It will be a helping hand in the research of how MNEs can identify its value chain and how it can create a shared benefit, thus gaining a competitive advantage as well. In terms of sample selection, a convenience sample will be the correct approach, since it is the 30 largest MNEs and therefore not a random sampling. Taken prior research within the same area into account (Husted & Allen, 2006) (Marano & Kostova, 2016), the number of firms seems reasonable. The focus of this study is on the MNEs value proposition and the link between CSR and competitive advantage.

5.2 Data collection

The study will be conducted from data of the publicly traded US MNEs listed on the Russell 3000 index and supplemented data from the S&P 500 Index. With a time interval ranging from 2015 to 2019 (with respect to the end of their fiscal year), the required information will be collected from those four years. Any companies that might have been either established after 2015 or have gone bankrupt before 2019 will be left out of the analysis. To rank the firms after their level of engagement in CSR, the necessary information will be collected by researching their website and portfolio as well as reading news articles, public statements or other sources of information concerning their involvement in CSR. Here a analysis of their value chain will be constructed and used for later testing.

Fortunately for this study, firms will often willingly share their CSR-related activities with the public as such activities, since they might have a positive impact on their brand. (Campbell, 2007).

If this information is unavailable through public research and the mentioned sources, they will be contacted via phone or mail to attain this information. If the firm is unwilling to share this information, the firm will be excluded from the study, the subsequent firm on the list will go through the same treatment until 30 MNEs are obtained².

5.3 Data Analysis

The method used for analysis of the data is using multiple regression so that statistical inferences can be drawn to the population as previous literature. Furthermore, looking at some of the MNEs core values and CSR activity close related to these values, thereby making it possible to compare to the other MNEs and rank them, thus seeing if the hypothesis is true.

Hypothesis 1

“MNEs with stronger CSR adoptions will have a better Financial Performance than those with weaker ones”

Hypothesis 2

“The opportunity to create shared value and thus gaining a competitive advantage, should be greater when a social issue is close to the company’s core.

This is the ***dependent variable***:

CSR adoptions

To measure a firm’s CSR adoptions of practices with positive or negative social and environmental impacts, data from KLD’s database will be used. KLD rates a firm’s CSR adoption measured across seven areas: community relations, diversity, corporate governance, employee relations, environment, human rights, and product quality and safety. Each category from KLD’s ratings are subcategorized into strengths, measuring whether a firm has adopted practices that create positive externalities, and concerns, assessing whether the firm has adopted practices with negative externalities (Marano & Kostova, 2016).

² (The following firm will still be presented with its original title of position e.g. company ranked nr.31 or nr.34 etc.)

Independent variables

The independent variables will be the MNEs *Financial performance* (under here a firms *Exports, Imports, FDI, Growth, ROA, R&D* etc.) to see the overall view of company's financial health, using the World bank.

Control variables

As employed by previous scholars (Marano & Kostova, 2016), firm *Size*, which may positively impact CSR, as larger companies are more likely to invest in CSR initiatives because of the greater public scrutiny over their behavior. *Profitability* is important since firms with superior financial performance may have greater resources for CSR practices. Profitability is measured as the return on assets (ROA). Research and Development (*R&D Intensity*), can influence CSR adoption and should therefore also be controlled. R&D intensity is measured as the ratio of R&D expenditures to Financial performance (sales).

The statistical data analysis will be conducted through a two-sample t-test with a significance level of 0.05. By using the independent variables and control variables, they will be regressed against the dependent variable in order to test for correlation between the variables to make sure that there is a positive and significant relationship among the indicators, using statistical software like JMP.

5.4 Limitations

The proposed research design does have several limitations. Firstly, the generalizability is constricted due to the sample size. Secondly, since the data collection is not only from databases, the availability of data could be a problem if certain firms do not wish to disclose essential information for the given analysis. Thirdly, the chosen time frame is varying from study to study and from industry to industry. It is rather difficult to find the perfect amount of time lag; however, the proposed research design applies a time interval in accordance with previous research to find a fair and adequate time frame for this study. Furthermore, it might be hard to measure and compare the CSR adoptions and impacts of the social activities done by the MNEs, since CSR can be interpreted in various ways, which should be taken into consideration when looking at the result. Finally, an increase in sample size could strengthen the proposed research question even further.

5.5 Proposed time frame

1st month: Further research of the topic and new literature will be found after revision of the chosen literature and the constructed hypothesis.

2nd month: The collection of data and reaching out to the firms without enough data. Prepare systematic storage of acquired data.

3rd month: Ensure that data is collected completely and begin statistical analysis.

4th month: Completion of statistical analysis and sketch up potential theoretical explanations to the result.

5th month: Thesis is written and completed. Intense review of the entire thesis and proofreading of the content and structure.

6th month: Proofread and revise. Hand in of thesis and preparation for oral defense.

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