Corporate Social Responsibility as a Business Strategy for Market Expansion

Sandhya Bele
Research Scholar, Indian Institute of Technology
Bombay, Mumbai, India

Sarita Bele
Research Scholar, R. A. Podar College of Commerce & Economics, Mumbai, India

Abstract: In the present era of globalization, the consumer behavior and their demands reflect the change in the cycle of global market and its leading competition. Increasing competitiveness has become an emerging challenge for firms to remain their presence in the global market. The notion of corporate sustainability with the growing concern of global environment and its competition escalates firms to transform their business strategies. The concept of Corporate Social Responsibility (CSR) in organizational behavior is no longer exception to this. It is evolving as a one of divergence in their business strategy. Recently, it has been viewed as influential determinant in market success rather than mere social responsibility and their obligation. The present study focuses on understanding the role of CSR in the context of the dynamic organizational environment. It also seeks to identify CSR as a business opportunity in terms of its brand value creation and provides a theoretical framework to understand CSR as a determinant for market expansion.

Keywords: Corporate Social Responsibility, Market Expansion, Externality.

I. INTRODUCTION

In the open market, the consumer-centric approach leads to create a direct impact on the firm’s performance. The strategic decisions of businesses along with their management policies are responding to the changing consumer behavior. In today’s global competitive environment the industries worldwide is at a critical to meet consumer expectations. They are entangled with multiple aspects such as increasing profits or decreasing loss, maintaining quality, enhancing the market share, take care of environmental standards, retain key talent and much more. The skyrocketing competition between profit making players have compelled the organization to think seriously about customer acceptance at every level along with dynamic business
strategies. The role of Corporate Social Responsibility (CSR) as a business strategy is not an exception. The dilemma of CSR in the form of its need in corporate governance is well known around the world and much discussed; where India is not an exception. In the year 2005, about a hundred Indian companies have signed the United Nations Global Compact where the concept of CSR is associated with Principles of Responsible Investment (PRI) and Socially Responsible Investment (SRI), by the United Nations. Its concern is with the alignment of business operations and strategies with ten universally accepted principles. These principles are broadly divided into four major categories pertaining to human rights, labor, environment and anti-corruption (Athreya, 2009). The role of CSR in emerging market is also crucial in terms of its positive as well as negative implications for the financial performance of the companies. Traditionally, it's viewed as an increase in operating expenses in the short run. Recently, it has been seen from the perspective of organizational sustainability in the global era. Other implications and aspects of CSR like brand image, goodwill is not just confined to national boundaries, but also it has a significant contribution at transnational level to build brand value.

The organizations are rethinking and evaluating to entangle CSR as a determinant of market expansion to tap market opportunities. In this context, the present study draws some insight on the influential relationship between the role of CSR and market adaptability in terms of market expansion. The present study focuses on understanding the role of CSR in the context of the dynamic organizational environment. It explores different perspectives of CSR in the form of brand value creation and its inclination on financial performance. The study seeks to develop a theoretical framework to understand CSR as an influential determinant of market expansion.

II. CSR: THEORETICAL BACKGROUND AND CONCEPT

The CSR defines as “the process of communicating the social and environmental effects of organization’s economic actions to particular interest groups within society and to society at large” (Gray et al. 1987). The Terminology of word ‘CSR’ itself can be defined as the responsibility of corporates toward society at large. The role of CSR is not only confined to societal aspect, but also
the internal environment in terms of addressing the issues of employees as internal customer (McWilliams et al. 2006).

The four models of CSR consist of Gandhian Model, Nehruvian Model, Milton Friedman Model and Freeman Model (Kumar et al. (2001). The Gandhian Model is based on a philanthropic approach by concern employer, whereas the Nehruvian model concern with centralization of authority by state-driven policies which involve state ownership and extensive corporate regulation and administration for e.g. Legislative actions. The Milton Friedman Model deals with owner objectives and strategies for the management of business. Lastly, The Freeman Model consists of stakeholder's responsiveness, which recognizes their direct and indirect interests. In this sense, the economic interest should bind with social performance. It is concerned with protecting the interest of all actors which are affected by business policies which consist of society, environment etc. It is not only concerned with protecting the interest of society and the environment, but also concern with protecting the economic interests of its own stakeholders who could be shareholders, employees etc.

A. THE IMPLICATIONS OF CSR AND EXTERNALITY

In the year 2005, The European commission has declared the concerned year as a year of corporate social responsibility by realizing the need of CSR in corporate governance. The United Kingdom government also has taken a step ahead by establishing CSR as a separate department in the ministry of commerce and industry, whereas in the United States there is no governmental regulation for CSR initiatives. On the contrary, companies have a market tendency to use code of conduct that determines the values and principles through which company structure as a whole should aspire to follow. In contrast, Japanese companies follow the trend which can be statistically significant in terms of its return. Regardless of specific provisions regulating CSR there is less attention paid toward social aspects of CSR. However, in this context, the 1988 law that promotes specific non-profit activities is of major significance (Torres et al. 2012). In India, the enactment of CSR by clause 135 of the Companies Act, 2013, shows dynamics in organizational development as developing countries are moving in the global phase.
The concept of externality deals with the aspect where production activity of one’s led to have an impact on third parties who are not directly connected with their business. The CSR produces externality as its positive as well as negative implications on financial performance. It also signifies the development of brand image which could possibly enhance goodwill in a competitive market. The CSR activity increases the cost of the company which detracts firm’s financial performance (Friedman, 1970; McWilliams & Siegel, 1997; Jensen, 2002) whereas an increase in operating expenses puts an economic disadvantage in a competitive market (Cocharan & Wood, 1984). On account of Positive connotation it implies that CSR is a formal instrument which has a positive impact on the creation of social screening that led to increasing financial performance in the long run (Barnett & Salomon, 2006). The concept of social screening implies with the creation of social capital, which are closely related to CSR. CSR and social capital develop strong relations as it seeks to have collaborative actions of all its stakeholders for good cause. It also led to the formation of specific relational skills which are considered as dimensions of social capital (Degli & Portale, 2011). The development of CSR instrument based on social screening helps to improve financial performance of firms (Barnett & Salomon, 2006).

III. THE ROLE OF CSR AS BUSINESS STRATEGY

In India, the notion of CSR has begun with charity followed by a philanthropic approach, further viewed from the perspective of the legal obligation. In today’s competitive global market, this trend is experiencing dynamic change which led to evolve CSR as a business strategy. The CSR has potential to provide a competitive advantage to the firms which concerned with a number of business benefits, including lower costs; reduced risk; higher revenue; the better reputation; access to talent and capital, etc. (Athreya, 2009). In contrast, several studies have observed that CSR is also viewed as economic disadvantage in a competitive market, because of its commitment towards operating expenditure. It also has a close relationship with social performance and potential to attract resources (Cocharan & Wood, 1984; Waddock & Graves, 1996), obtain quality employees (Greening & Turban, 2000) market its products and services (Fombrun, 1996; Moskowitz, 1972). Thus, it creates unforeseen opportunities in which one of
them could be sources of competitive advantage (Porter, 1991; Porter & Van der Linde, 1995).

There is growing pressure on management to increase their involvement in CSR from employees, suppliers, community groups, NGOs, and government (McWilliams et al. 2006). From its historical footprints as mentioned earlier, other drivers for CSR consist of the shrinking role of government as facilitator, demands for greater disclosure to increase accountability, increased customer interest and their demands, growing investor pressure to increase returns, competitive labor markets include their role as internal customers, and supplier relations for future prospects. CSR is driving factor which influences different organizational developmental aspects like improved financial performance, lower operating costs, enhanced brand image and reputation, increased sales and customer loyalty, product safety, material recyclability, and greater use of renewable resources, etc. CSR is emerging as a 'hard' commercial factor, linked directly to profits and brand value (Gupta & Sharma 2009).

The strategic importance of creating “shared values” for both society and company is integral to maximize long-term shareholder value and its competitiveness in the global market place (Porter & Kramer, 2011). Further, CSR as competitive strategy may increase a company’s competitiveness (Flammer, 2013). The value of good reputation created by way of CSR makes the difference while expanding business into new territories (Anderson & Bieniaszewska, 2005). Thus, in this background, CSR would be potential determinant for market expansion, whereas the purpose of market expansion could be economies of scale, technology transfer, development of new market, etc.

IV. CSR AS A DETERMINANT OF MARKET EXPANSION

The global market and its growing competition highlight the need of business expansion realm of corporate sustainability. Term corporate sustainability implies with consistent existence in the market and increase in market share. The study conducted by Choi & Mogyoro has identified internal as well external factors of market expansion. The internal factors are based on the resource-based view like international experience and business relatedness whereas external factors consist of external barriers and competition. The
The notion of CSR can be used as a potential instrument which may influence these determinants of market expansion. In this regards the following discussion, incorporates:

The Internal factors consist of two aspects, namely Business Relatedness and Parent International Market Experience. Earlier the concepts of resources were considered as land, labour, capital, etc. which mostly deemed to be tangible. The emerging trends of global competition have led to the transition from these traditional assets to intangible assets like goodwill, brand value, tacit knowledge, etc. In this regards knowledge, experience, core competencies and learning playa significant role to enhance firm’s competitiveness (Pehrsson, 2001). Innovational also competitiveness where CSR activities have the potential to foster such innovation (Gupta & Sharma, 2009). It has been argued that companies respond to competition by adopting CSR activities in which elicit these valuable resources enable companies to improve their competitiveness which is crucial in today’s global market, e.g., resource-based view of the firm (Hart, 1995; Russo & Fouts, 1997). The firms collaborate with each other to adopt strategies that are related to products, services and markets (Palich et al., 2000; Rumelt, 1982; Pehrsson, 2004). The firms also collaborate with other firm for technology adoption to remain competitive in the global market. High business relatedness depends upon core competencies which highlight the firm’s ability to deliver unique and differentiated value to its customer (Goddard, 1997). The role of core competencies is crucial, which provide potential access to many markets and strive for broader market scope (Prahalad & Hamel, 1990). The CSR activities create firms’ value in the market wherein to tap this value the firm’s ability plays a significant role. It ultimately reflects on financial performance.

In project analysis, the market analysis is one of the significant step which concerns with collecting information on market condition to understand the potential demand for a particular product, knowledge, information about competitors, etc. This is also applicable in an international context where a good knowledge of international market condition strengthens the firm’s competence. With regards to this, the firms who engage in CSR activities gives the signal as that they are not only socially responsible firm but also accountable and reliable toward its stakeholders. In the context of market expansion, the firm who has got a
strong existence in CSR activities attracts the potential investors to invest in their company. Companies who adopt CSR activities represent themselves as socially responsible corporate citizen in the global market. It gives a signal as they are competitive enough in corporate governance. It also gives signals to new as well as existing investor as they are not only socially responsible but also they are capable of taking care of their funds on financial ground.

The role of industrial organization is crucial in strategic management. It has been argued that industrial structure does have an impact on competitiveness and profitability (Pehrsson, 2008c). In this context, the external factor that consists of Competitive Environment and Competitors plays a significant role. The concept of the business environment is concerned with understanding all the aspects of surrounding of the market and its functionaries. The context of the environment is crucial in order to plan for future business policies and to alter existing business practices which may have significantly influenced the market. The management has to adopt the flexible business strategies with the change in competitive environment. The competitive environment assessment involves competitor’s scope for product range, customer types, the amount of customers and where customers are geographically located (Pehrsson, 2008a).

The knowledge of the competitive environment is also necessary to keep watch on competitor’s business strategies, their resources and capabilities that are revealed in the market. This information needed to alter strategy attributes, (inputs, outputs, size, administrative, structure, technologies, skills) to create an identity in the market (Porac & Thomas, 1990). As mentioned earlier that CSR and company’s competitiveness are highly correlated, with regards to this companies are eager to leverage “triple bottom line” (Flammer, 2013). The concept of “triple bottom line” was coined by John Elkington in 1994 consist of three aspects namely economic, social and environment. Hence, following arguments provides detailsto understand how CSR as a business strategy alters the determinant of market expansion with respective to the competitive environment and competitors.

The CSR helps companies to differentiate themselves from other competitors and attract new customers, which enhance their competitiveness (Flammer, 2013). In this
regards, it is important to note that the role of CSR is not only confined with the creation of social capital but also in terms of change in their perception. CSR could be a possible solution to change the perception of the consumer. The CSR helps to create social capital in which one of its dimensions involves building trust among its stakeholders (Degli&Portale, 2011). In the case of consumer durable goods CSR can be used to give signals as a responsible corporate citizen. It leads to changes in purchasing behavior and prevent themselves from an exogenous increase in competition (Flammer, 2013). In this context, CSR can be used as a business strategy to fend off competitors. CSR act as a signal to the society to show that they are accountable and socially responsible. The role of CSR is crucial in product market competition, which influences purchasing decision of individual customers. The firm enjoys the benefit like reduction in price elasticity of demand where consumers are willing to pay high prices for “ethical” goods (Flammer, 2013). They also signal to its consumer about product quality. However, it may further attract and develop a new range of consumers as “green” consumers (Baron, 2008; McWilliams & Siegel, 2001; Reinhardt, 1998). It is quite applicable to those companies who operate their business operations in the business-to-consumer (B2C) sector where purchasing decision shown as responsive to those who engage in CSR activities (Lev, Petrovits, & Radhakrishnan, 2010). Adequate concentration on CSR activities also produces a positive externality in terms of signaling to concern governments that ultimately would indulge them for giving incentives to them who are socially responsible corporate citizens. Conclusively, CSR as a potential instrument and business strategy is important which influence the determinants of market expansion.

VI. SUMMARY AND CONCLUSIONS

The role of CSR is not only confined to developing healthy relations among its stakeholders through creating brand value, but also in the form of potential opportunity for market expansion. The notion of CSR helps to change the perception of consumer who makes business to firms, also indulges them to change in their purchasing behaviour by way of building trust. CSR as a business strategy also led to the creation of brand image and signaling effects towards its different stakeholders in terms of reliability and quality services in the global
market. Hence, it is important to understand the context of CSR as potential formal instrument which is one of the influential determinants could be used to influence the determinants of market expansion.

This study attempted a review of the theoretical foundation that forms the basis for CSR as a determinant of market expansion. Further, it provides an overview of the analytical framework that had to explain business expansion of conglomerations. It also provides a theoretical framework to influence these determinants in the context of CSR as a strategic approach. The major contribution of this study concerned with identifying the CSR perspectives in various analytical frameworks of business expansion. The present study comprises urgent need to incorporate attention of research scholars for further statistical investigation in this area.

REFERENCES


