Differentiated CSR: Standing apart from the CSR crowd.

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With Corporate Social Responsibility’s (CSR) widespread proliferation comes the risk of its own redundancy as managers emulate perceived best practice CSR campaigns. This paper offers a theoretical conceptualization for how CSR activity can contribute to a firm’s social reputation when industry CSR initiatives are homogenous. It proposes that by differentiating the firm’s CSR actions from the CSR among firms intra-industry, focal firms can distinguish themselves from their CSR rivals. The conceptual model presented proposes that the enactment of a specific CSR type (e.g., differentiated CSR) when derived from resource endowments and embedded within a firm’s core strategy, may increase CSP and improve social reputation.

INTRODUCTION

“If all firms behaved responsibly...then at least some of the advantages a firm receives from being more responsible than competitors would disappear” (Vogel, 2004: 34).

Corporate Social Responsibility (CSR) has become a prominent business practice with well over seventy percent of companies reporting some CSR activity (KPMG, 2013). However, the widespread adoption of CSR can potentially become its greatest liability as it dilutes a firm’s ability to differentiate itself. The common use of CSR as means for reputation enhancement may have plateaued as CSR advantages decline in a highly CSR homogenous industry.

Managing CSR or Managing CSR Ratings?

CSP performance rankings have become increasingly important to firms who are pressured to perform beyond financial performance and find ways in which a firm will measure up to “a broader set of societal expectations” (Waddock and Graves, 1997: 303). Hence, managing CSR programs has become a dedicated organizational function; however, there is still a great deal of ambiguity behind how to best manage CSR activity and its reporting to offset its investment (Wang, Tong, Takeuchi, & George, 2016). Moreover, managers cite a lack of understanding concerning what works well and what does not when it comes to CSR initiatives, leaving them to manage CSR ratings about their competitors. The purpose of this paper is to advance CSR research concerning the manner of CSR activity and its impact on CSP reputation. If all firms report involvement in the same type of CSR activity, then a firm deploying a differentiated CSR initiative should strengthen its effect on social reputation, resulting in an above normal CSP rating. An above normal CSP rating would then be sustainable provided the CSR initiatives cannot be replicated.

The proposed conceptualization addresses the distinction between the differentiation of CSR strategy and the enactment of CSR as a differentiation strategy. To date, typical approaches to CSR are to use it as
a device to differentiate a brand, product or service. No study has considered the strategy of differentiating one’s CSR program and practice from the CSR initiatives undertaken by industry rivals. Drawing on the literature of the resource view of the firm, the paper argues for an examination of a differentiated CSR strategy and its potential potency to strengthen the CSR-based reputation. Within the RBV framework, firm capabilities, when derived from internal strategic inputs and resource endowments, can become sources of advantage provided they are valuable, rare, inimitable and non-substitutable (Barney, 1991). Theoretically, the firm’s capability to produce a differentiated CSR strategy derived from firm-specific resource endowments and inextricably linked to its core strategy would be difficult to imitate. Moreover, differentiation of CSR will likely be determined by the homogenous attributes of CSR initiatives in industries that can influence firms to mimic or adopt similar CSR strategies (Elchoueri, 2014). Strategy can easily be imitated -- in the absence of isolating mechanisms to protect imitation -- across firms within an industry (Powell, 1992). As such, the article proposes structural isolating mechanisms of organizational culture and managerial capability as drivers necessary for producing sufficient positive effect of CSP to achieve a sustained CSR-based reputation for they are most cited as variables for consideration within the CSR domain.

The paper contributes to the CSR literature by giving exclusive attention to the concept of a novel and differentiated CSR for distinguishing a firm’s CSP from its direct competitors. The remainder of the paper is organized as follows. First, it reviews current literature on CSR-based reputation. It then presents a theoretical model, along with propositions, to consider main and moderating effects of differentiated CSR on firm reputation. The concluding section discusses implications for managerial practice as well as research limitations and opportunities for future research in what continues to be a very rich and rewarding field of inquiry.

LITERATURE REVIEW AND THEORETICAL CONCEPTUALIZATION

How Does CSR Create Social Value Over Costs?

Theoretical understanding on how social benefit creates greater value over costs for organizations is unclear since empirical findings to date are ambiguous. Few studies have explored how a firm can deploy a CSR strategy to maximize benefits and what form it should take. Smith (2003) alludes to the continuing uncertainty surrounding CSR’s form and scope. Basu and Palazzo (2008) cite the rising nature of homogeneity in CSR initiatives and call for a greater understanding of specific CSR activities. When industry approaches become homogenous, strategic differentiation from rivals’ actions can produce superior performance (Dentchev, 2004; Porter, 1996). How does a firm differentiate and build its social reputation if all firms are practicing homogenous CSR activities? The effectiveness of CSR as a source of differentiation depends on the relative social performance of its competitors (Baron, 2006). Thus, firms should consider the strategic use and potential for communicating the differentiation of the CSR strategy itself on firm reputational performance. Differentiated CSR will go into the pursuit of producing enhanced CSP, and CSP’s effects, if maintained, should yield a greater reputational image for the firm relative to competitors.

Reputation Building and the Firm’s Stated Intent

Fombrun (1996) defines reputation as “a perceptual representation of a company's past actions and prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals” (p. 72) arguing for its potential power in measuring company performance. Reputations are formed by the “stated intent of the organization, its resulting actions, and stakeholders’ beliefs about its prospects and valued outcomes” (Dowling and Moran, 2012: 27).

CSR-derived social performance has been found to influence the outcome of firm reputation positively. Bear, Rahman and Post (2010) found board gender composition enhanced firms’ CSP ratings, which then influenced corporate reputation. In an analysis of U.K. firms, Brammer and Pavelin (2006) produced results suggesting an appropriate fit is required to match a firm’s, social performance
initiatives to the nature of its business activities. Firms that meet the social expectations of related stakeholders and demonstrate sensitivity to industry-specific issues that are salient (i.e., environmental impacts of auto manufacturers) can impact firm reputation within their sector. These findings indicate that managing CSR strategies as a core competence may contribute to reputational advantage. Analogous to firm strategic functions of advertising and customer service, CSR communication strategies and their implementation will yield intangible benefits of reputation enhancement and goodwill. However, CSR policy must be integrated into the organizational culture to positively contribute to organizational image building (Rishi and Moghe 2013) and value creation (Porter and Kramer, 2006).

Dowling and Moran (2012) characterize two models of reputation building, the "built-in" model and the "bolted-on model of reputation building. The "built-in" model emerges from the strategic commitment of the organization offering the "best chance of securing a sustainable competitive advantage, (p.25). The "bolted-on" model which can “foster a reputation that is less consistent with principle actions of the organization and less credible” (p. 25) leading to a vulnerability to competitive imitation. A built-in model of a differentiated CSR campaign would signal a firm’s stated intention to form a strong reputation for its CSR commitment, as opposed to the “bolted-on” approach to reputation building, akin to CSR window-dressing.

**Strategic Homogeneity of CSR Initiatives**

The measure of CSR’s strategic value cannot simply be determined by its strategic deployment by a focal firm. Instead, its value is predicated on the relative nature and form of the CSR of rival firms within its competitive environment (Moura-Leite, Padgett & Galan, 2012). Widespread adoption of CSR can become its greatest liability, diluting a firm’s ability to differentiate itself through its typical CSR investments. Porter and Kramer (2006) caution against using CSR in nonproprietary ways. If disconnected from a firm’s core strategy, it serves no strategic value. Moreover, CSR may only create value under specific firm and industry circumstances. It may be that differentiated CSR has a stronger effect on firm CSP at high levels of homogenous CSR activity than at lower levels (see Figure 1).

Strategic homogeneity is the "extent to which strategic resource allocations of different firms within an industry follow the same pattern,” (Zhang & Rajagopalan, 2003: 331). Mauri and Michaels (1998) analyzed firm and industry effects on core strategies and found that competitors participating in the same industry are inclined to develop homogenous competitive strategies. Finkelstein and Hambrick (1990) have described this phenomenon as strategic conformity or the “extent to which a firm’s strategy adheres to the central tendency of its industry” (p.1). Godfrey, Hatch, and Hansen (2010) also found across six investigated CSR constructs of CSP strengths that opportunities for socially responsible behaviors "may be dependent on industry context, and particular responses to those opportunities may be common throughout an industry" (p . 323). They concluded that highly regulated environments firms might be more likely to adopt similar CSR activities . In their analysis, the authors identified industry clusters and examined CSR investment similarities within. As expected, each cluster was found to invest similar in CSR activity. Manufacturing and services firms invested most heavily in employee, environmental, and product CSRs. Firms involved in public utilities and energy extraction invested most heavily in environmental CSR (in support of risk mitigation hypotheses) whereas banks and financial services invested most heavily in community relations.
DiMaggio and Powell (1983) asserted that firm behavior is influenced by industry actions, standards or best practices as firms strive to gain legitimacy among stakeholders, and therefore, adopt isomorphic tendencies with their strategic actions. A tendency toward similar or homogenous CSR initiatives may likely drive similar CSP rankings on intra-industry firms, negating any effect CSR would have on reputation. Thus, industry influences will likely play a role in managers’ decisions regarding whether, when and how to enact CSR initiatives. Given the uncertainty surrounding CSR’s efficacy and bottom line impact, managers may replicate perceived successful CSR initiatives of their rivals in order to minimize risks associated with their own CSR investments.

Additionally, the CSP rating systems may exacerbate the phenomenon of homogenous CSR strategic decisions. Managers will likely assess competitive actions and work to meet stakeholder expectations based upon the types of CSRs yielding the most favorable measures. Further, rivals may attempt to neutralize a CSP ranking advantage by copying and perhaps improving upon the focal firm’s CSR initiatives and policies. Kinder, Lyndenberg, Domini (KLD), the dominant CSR ratings indicator, examines CSR for seven parameters. Social issues are often strongly defined by sector or industry level, the implication being industry context is an important factor in CSR strategy decisions. Managers looking to augment their CSP performance scores will be inclined to devise CSR strategies and initiatives linked closely to those specific performance rating categories most salient in their given industry. For example, environmental remediation is clearly salient in the oil drilling industry, thus elevating environmental CSP ratings, while philanthropy may be more salient in pharmaceuticals and healthcare sectors. Present research on CSR homogeneity examines CSR variation among global MNCs by country and culture while few have considered CSR variance among firms intra-industry. One exception is an empirical conducted by Hull and Rothenberg (2008) who found that firms within a largely undifferentiated industry that used CSR were, in fact, able to stand out among rival firms. In the 2008 study, the authors explored whether differentiation -- by way of achieving a better CSP score within an industry -- would positively impact firm performance. The study’s comparison of levels of differentiation (in terms of aggregated rates of CSP) is insufficient; rather levels of differentiated CSR (or how distinct the CSR strategy is relative to industry competitors where most CSRs are homogenous) will better inform CSP performance differences. “Differing forms of CSR can be expected to have non-identical effects” (Hoepner, Yu & Ferguson, 2010). Therefore, I expect differentiated CSR will be responsible for the greater efficacy of CSP in an industry where CSR homogeneity is pervasive.
P1: Differentiated CSR initiatives will have a positive effect on firm reputation among firms in an industry where CSR homogeneity is high.

Moderating Effect of Core Proximity

A firm can achieve rents not because it has better resources, but rather the firm’s distinctive competence in making “better use of its resources” (Penrose, 1959: 54). Any advantage achieved by a differentiated CSR initiative may depend on the strategic proximity of the CSR strategy to the firm’s core foundation, begetting its unique distinction. Porter and Kramer (2006) cautioned against using CSR in nonproprietary ways, disconnected from a firm’s core strategy. The authors maintain that when resources are bundled in ways inextricably linked to a firm’s core strategies, they create competitive advantage. Together, these resource activities become distinctive competencies that enable innovation, efficiency, quality and customer value in order to leverage a distinct or competitive advantage. Alternatively, “bolted-on” initiatives, due to the distal position to core strategy, may not sustain reputational gains long term (Dowling & Moran, 2012). It can be expected differentiated CSR program, derived from a firm’s core strategy, will take on its own distinction and resist imitability. “Strategy-based reputations, or those that are “built-in” to the organization’s DNA tend to be meaningfully different from those of one’s competitors because they are based on either the normative, economic or competitive logic of the organization” (Dowling & Moran, 2012: 26) making replication by competitors more difficult due to its intangible character. Furthermore, strategy-based reputations become fundamental drivers of core operations perpetuating the cycle of favorable reputational outcomes that imply honest and reliable future behavior and resonate well among stakeholders. Falkenberg and Brunsael (2011) found when competitors imitate rivals who hold a temporary advantage; it can become the norm for the industry, driving a strategic necessity to change and compete more actively. Further, the authors found that a complex and valuable CSR activity could generate strategic advantage provided the CSR initiative was based on the values of the firm and leveraged through the reputation of the firm. This implies the relationship between CSR activity and reputation are influenced by the nature and form of CSR. When the nature of the CSR strategy is loosely coupled to the firm strategy, reputation cannot be leveraged for the long term. Creating a CSR strategy-based reputation via a differentiated CSR initiative, firmly “built-in” to a firm’s foundation, should theoretically be sustainable:

P2: The closer the proximity of a differentiated CSR strategy to a firm’s core strategy, the more likely its social reputation will be sustained.

Moderating Effect of Isolating Mechanisms

The above argument postulates “built-in” differentiation of CSR should theoretically enhance the inimitability needed for reputational gains to be sustained. While inimitability may influence the extent to which CSP can be sustained, there are organizational contexts that may contribute to a greater likelihood that barriers to imitation remain intact, thwarting rival replication. Isolating mechanisms are enacted to prevent rivals from identifying specific causes and sources of strategic advantage and allow a firm to erect and strengthen barriers to imitation. Duration of a firm’s competitive advantage is directly related to the strength of its ‘isolating mechanisms’ (Hatch and Dyer, 2004; Rumelt, 1984). These mechanisms represent organizational phenomena such as aspects of corporate culture, managerial capabilities, information asymmetries and property rights (Hooley, Greenley, Fahy and Cadogan, 2001). Key isolating mechanisms of corporate culture and managerial capabilities are most cited in the CSR literature (Moan, Lindgreen & Swain, 2009; Doppelt, 2003; Lyon, 2004; Rishi & Moghe, 2013; Purang & Sharma, 2007; Maier & O’Toole, 2002). Strengths residing in both these mechanisms would enhance organizational CSR performance, with respect to management’s ability to identify, define, gain buy-in and orchestrate best CSR strategies. Moreover, in order to be effective, the firm’s culture must embrace the CSR-orientation, adopting governance and process changes needed to fulfill the firm’s CSR objectives.

The resource-based view states that advantages occur from the bundling of firm-specific differences to produce persistent, above normal rents (Teece, 1982; Rumelt, 1984; Wernerfelt, 1984; Powell, 1992). These differences may be skills (Powell, 1990; 1992) or other organization attributes such as culture
A differentiation advantage occurs when a firm can deliver benefits that exceed competing products or brands, which will lead to greater value for customers and superior performance. This positional advantage describes a firm’s leadership position within an industry, which can also impact firm reputation.

CSR activities that result in developing a good reputation for the firm are often “hard to imitate” (Doppelt, 2003; Lyon, 2004). A firm’s ability to prevent imitation of its bundled resources through distinct application in strategy will create barriers to imitation. If differentiated CSR is firmly embedded into business-level strategy, competitors may be challenged to identify the causal factors leading to that advantage. Inimitability and the leveraging of CSR activities are needed for attaining (Falkenberg & Brunsael, 2011) and sustaining CSP advantage and are believed to relate strongly to firm reputation. By examining CSR initiatives in terms of their rareness, inimitability, and non-substitutability, we may be able to predict which are likely to serve the firm better and which will become a burdensome add-on cost factor after short-term advantage. Powell (1992) stresses the need for built-in embeddedness of strategy supported by the presence of isolating mechanisms to protect against competitive actions. This conceptualization considers two isolating mechanisms related to organizational structure: culture and management capability that are likely to be associated with superior CSP produced from differentiated CSR.

Culture

Organizational culture refers to the "underlying values, beliefs, and principles that serve as foundation for the organization's management system as well as the set of management practices and behaviors that both exemplify and reinforce those basic principles" (Denison, 1990 : 2). There is a widely held view that “changes required to progress towards CSR often require fundamental shifts in organizational culture” (Maon, Lindgreen & Swain, 2009; Doppelt, 2003; Lyon, 2004; Calabrese, Costa, Menichini, Rosat & Sanfelice 2013). In a study of an Indian firm, Richi and Moghe (2013) conclude CSR needs to be integrated into the organizational culture. This requires core social and cultural values are developed at the individual level. If not, employees may deem CSR-related activity as “burdensome” which may negatively contribute toward the building of the organization’s image and reputation. According to Morsing, Schultz and Nielsen (2008) employee ownership and full organizational support are pivotal to the success of CSR communication sustainability and its efficacy to building firm trustworthiness.

It is more difficult to imitate organizational competencies residing in managerial systems or organizational culture. The presence of a prominent CSR-related culture and its underlying values should be an influential component for the success of CSR in an organization (Purang & Sharma, 2007; Rishi & Moghe, 2013). Therefore, I offer:

\[ P3: \text{The positive relationship between differentiated CSR and reputation is stronger among firms with a higher level of CSR-oriented organizational culture.} \]

Management Capability

Within the resource-based framework, capabilities are firm specific and used to engage firm resources, such as implicit processes to transfer knowledge within the firm (Makadok, 2001). It is the role of the firm’s management to ensure this engagement is carried out effectively. Tang, Hull, and Rothenberg (2012) identified endogenous factors, including the manner in which managers can organize resources to conduct CSR strategy in order to improve firm performance. Superior resource managerial capabilities are found to be an important source for generating the necessary above normal rents for firms (Barney, 1991; Hambrick & Mason, 1984, Penrose, 1959). These management capabilities are especially relevant for the allocation and deployment of organizational resources (Barney, 1991). Similarly, Mahoney (1995) found managerial attributes might satisfy the conditions for achieving and maintaining advantage. More importantly, managerial resources can be firmly embedded within a firm and offer experience and tacit knowledge relevant to executing CSR strategies. Management capability and competence in strategy design and implementation may be a necessary and fundamental condition for the continued success of a differentiated CSR strategy.
DISCUSSION AND FUTURE RESEARCH

Scholars argue for the positive association between CSP and financial performance despite elusive findings to date. This article proposes scholars pivot from an emphasis on financial performance outcomes toward advancing a deeper examination of CSR’s efficacy in the form of above normal reputation, not above normal returns. The theoretical model recognizes reputation as a critical outcome of CSR and, consistent with scholars’ assertions, produces potential for achieving a social and reputational advantage (Fombrun, Gardberg & Barnett, 2000; Porter & Kramer 2006). Specifically, the paper proposes that the CSR-related construct in need of further exploration is not just CSR activity, (in terms of whether or not) rather the strategic differentiation of the CSR activity (in terms of what and how). The paper conceives of a theoretical model that contributes to the emerging CSR research in several important ways. First, it conceives of a novel and differentiated CSR strategic approach by considering differentiated CSR as a competitive competence and strategic input for distinguishing a firm’s CSP from that of its direct competitors. This general framework may advance the notion that differentiation of a firm’s CSR can produce higher relative levels of CSP and improve reputation.

Second, this conceptualization casts a new lens onto how we should be viewing CSR as a strategic input to generate improved social performance and its effects on firm reputation. Prior studies emphasized when and how CSR’s product or operational differentiation effects will enhance firm reputation and improve economic performance. I expect CSR can produce first order differentiation by way of differentiating the CSR strategy itself. Assume we have two competitors implementing identical CSR program initiatives. This conduct should lead to homogeneous CSP ratings. Now assume all competitors in their relative industry were to implement identical CSRs. Following this logic, the theory proposed here asserts there would be no CSR-specific advantage to be had in that industry because all competitors were implementing homogeneous CSR initiatives.

Third, this conceptualization invokes theory grounded reasons from the resource-based view (RBV) of the firm proposing the phenomenon to be explored is not CSR itself leading to CSP, but rather the degree of differentiation of the CSR strategy and its moderating influence on relative CSP to improve firm reputation. The framework invites the extension of CSR research to consider not just the effects of CSR on nonfinancial performance outcomes, rather to advance a fine-grained examination of the efficacies of CSR’s form and scope. It suggests that specific CSR typology is a salient construct deserving greater scrutiny. Content analysis of CSR reporting by firms following the reputation-building framework articulated by Dowling and Moran (2012) may offer insight into the communication and signaling of the firm’s CSR-building intention. This exploration may yield new answers to the outstanding question of how social benefit can be accomplished without undue stress on internal resource allocation decisions and guide managers to establish practices that better balance and decouple CSR decisions against strictly financial performance demands.

Lastly, the conceptual model addresses firm and industry levels of analysis -- the market environment, and organizational capabilities -- to shape business strategy and performance, additional elements that shall contribute to the literature. Strategy research often emphasizes one level of analysis over another: “researchers interested in characterizing the environment have typically been content with very simple models of the firm” and vice versa (Bridoux, 2004: 1). Aguinis and Glavas (2012) also point to a gap in the CSR literature in terms of its emphasis on a singular analysis level.

The widespread proliferation of CSR activity calls for a closer examination of how CSR will create value under specific firm and industry circumstances. The differentiated CSR construct proposed would be instrumental in assessing how CSR initiatives yield different benefits for the firm making such investments. Within an industry comprised of homogenous CSR initiatives, the unique development of a differentiated and “built-in” CSR strategy derived from inimitable resource competencies may impact reputation outcomes in order to contribute to an improved understanding of the practitioner’s paradox.
concerning how social benefit can create value over costs for organizations. Continued analysis of firm and industry levels represents a meaningful advancement of scholars’ CSR understanding. Studies that can better investigate firm decision-making behavior against industry factors to assess performance variations would bring new depth to the current CSR literature. The implication for CSR managers is equally important. The conceptualization underscores the importance of integrating firm-based strategies within industry positioning in the CSR space.

However, the conceptual framework offered here is limited in scope, indicating the need for further discussion and development. Firstly, it is recognized that the CSR - reputational gain relationship may only hold under certain conditions of deploying a differentiated CSR strategy. With this model, I hope to advance the discussion of manner or type of CSR. A firm's CSR strategy is influenced by multiple factors beyond those considered here, providing an opportunity for future investigation. And, while the framework suggests inimitable resources are necessary to erect strategic barriers against competitive CSR mimicry, it neglects the specifics in terms of the kinds of tangible and intangible resources when producing CSR activities that will more likely contribute to the increased performance results. Intermediate hypotheses could be proposed that explore the specific resources and capabilities that generate differentiated CSR strategy and the extent to which these capabilities are competitively rare, valuable, inimitable and causally ambiguous. Nevertheless, the question of which competencies are CSR-specific has not been fully answered (Nijhof, de Bruijn, Fisscher, Jonker, Karssing and Schoemaker, 2006). Research into this aspect may offer a clearer understanding of the categories of resource competencies that are necessary to successfully manage CSR initiatives. Further, examining adjacencies to other corporate strategic inputs such as customer relationship management or R&D management and promotional management may offer insights.

Lastly, the proposed model relies on secondary data measures. Indeed, measures of CSP have been problematic (Hull and Rothenberg, 2008; Margolis and Walsh, 2003). Researchers continue to examine best measures of CSP (in absolute and relative terms), and perhaps future research along these lines can hone our understanding of such.

In conclusion, the article has identified differentiated CSR as a novel and unexplored construct in the CSR literature and encourages a reexamination of CSR-based reputation as a salient performance outcome. A conceptual model purporting communication of a differentiated CSR strategy will potentially enhance firm CSP ratings and consequently firm reputation relationship. This approach shifts the discussion from the conflicting and fragmented views revolving around the CSP-CFP linkage. The article discusses potential boundary conditions of intra-industry CSR homogeneity and isolating mechanisms to be considered, representing industry and firm level factors of relevance. Firms adopting CSR’s should allow for a comprehensive assessment of external industry economics and internal firm capabilities in order to devise strategically mindful initiatives of distinction. Finally, limitations of the model are acknowledged, and suggestions for future direction of research are offered to put forward a new phase of CSR research related to its implementation efficacy for more precise managerial prescriptions.

REFERENCES


