

## **Corporate social responsibility effects on competitive advantage**

“A research study on the influence of CSR on competitive advantage, including the influence of a firm’s reputation.



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## Foreword

In the context of my pre-master Strategic Management I have been working on this bachelor thesis. The skills and competences that I have learned during the last five months are very important to write the bachelor thesis and will eventually be useful for writing the master thesis. This bachelor thesis is focused on literature research and logical reasoning, based on the findings in literature.

The central topic of this bachelor thesis is corporate social responsibility. I find this a very interesting topic to research since it is very broad and very up to date. For example the recent oil leak caused by BP. This is a classical example of CSR. First is BP really responsible and did they acted responsibly. A few years ago BP changed its name (from British Petrol to Beyond Petrol) for CSR reasons. The goal was to change its reputation to a firm with a responsible brand.

Through this thesis I hope to contribute to the topic of CSR. I try to do this by describing scattered information in a clear way and thus give more insights about the impact of CSR on competitive advantage.

Finally I would like to thank Dr. D. Hennessy and the members of my bachelor thesis group for giving feedback on my work and the support during the process of writing this bachelor thesis.

I hope you will enjoy while reading this bachelor thesis.

Nick Willems

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## Management summary

Corporate social responsibility (CSR) is an upcoming phenomenon in industries, but also in academic literature. CSR definitions are scattered and differ from each other. Therefore it is important to define one good, complete and understandable definition. The research about CSR is scattered and is therefore difficult to understand. Central in this thesis is the influence of CSR on competitive advantage. The direct influence is examined and also the influence of CSR on a firm's reputation and the effect that reputation has on competitive advantage. The primary goal of this thesis is to understand CSR and by gathering scattered information give an answer to the problem statement. The problem statement of this thesis is; *what influence does CSR have on the firm's competitive advantage, in a resource-based view?*

Before to even begin with giving the answer to the problem statement it is necessary to get a better view of the keywords corporate social responsibility and competitive advantage. As mentioned CSR is a scattered phenomenon. There has been a lot of research on CSR (Davis & Buchholtz, 1966; Votaw & Sethi, 1973; Van Marrewijk, 2003; Panapaan et al., 2003; Kotler, 2004; Garriga & Mele, 2005; Matten & Crane 2005; Matten & Moon, 2008). But the researchers all gave other definitions to CSR (either different or, in some way, similar). This makes CSR difficult to describe in one understandable definition. In this thesis the definition of CSR is formulated after a time study over the last few decades.

CSR contains of three dimensions (economic, social and environmental) which a firm should take into account. A company must always evaluate all of their decisions; they need to reconsider the impact the decisions might have on the social system. A firm can show its commitment to improve community and its well being by engaging CSR.

The impact of CSR on the firm's reputation can be described in either a positive or even a negative way. What impact it might have depends on the perception of the customers towards the firm. The public will look at the behavior, the intention and the expenditures of the firm. If the customers accept a firm and the CSR activity, than there will be a positive impact on the reputation. A firm with a positive image among its stakeholders is seen as a more favorable firm. Reputation is an intangible resource for a firm and thus it can effect the competitive advantage. So in this way, CSR can have a positive effect on the firm's reputation: by engaging in CSR activities, a firm can improve its reputation which leads to better relations with stakeholder, the ability to attract better employees and the possibility to charge higher prices because the customers are willing to pay them.

But how can a firm gain competitive advantage? This is described with the resource-based view theory. In this theory there are conditions which underlie to competitive advantage: (1) heterogeneity, (2) ex post limits to competition, (3) imperfect resource mobility and (4) ex ante limits to competition. When the firm's resources fulfill these four conditions, a

company is able to gain competitive advantage. Some authors, like Grant (1991) suggest that not resources on its own are the basis of competitive advantage, but that a firm needs to be able to team these resources to perform tasks or activities. This is called capabilities. If a firm has resources and is able to team these resources and eventually operationalize these resources (capabilities), than a firm has competitive advantage over its competitors.

Reputation is, as mentioned above, an intangible resource. If it fulfills the requirements of a resource and a firm has the capabilities to control and manipulate these resources, a firm is able to gain competitive advantage out of this resource. Reputation can have a positive effect on the firm's reputations. A firm can build a good reputation by stable investments over time. But CSR does not only influence reputation but also other resources. CSR can lead to competitive advantage if a firm makes good use of CSR to improve the corporate reputation.

CSR can also be seen as a resource on its own, if it is used to influence business operations in a strategic way. If CSR is seen as a resource and if it meets all conditions in the resource-based theory, a company is able to gain competitive advantage. Because CSR has short-term costs and the benefit of the CSR activities is long-term, sometimes CSR is not mentioned as source of competitive advantage. But eventually CSR has an influence on the competitive advantage.

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# Chapter 1: Introduction

## 1.1 Problem background

Corporate social responsibility is an upcoming topic in industries since the eighties. Since a few decades firms engage in CSR. Some firms engage in CSR voluntary and other firms engage in CSR pressured by governments (Garriga & Mele, 2004). In (academic) literature it is also an interesting and much-discussed topic. More and more news articles, on both television and in the written media, appeared in the last few years.

To survive in industries, firms are always trying to create competitive advantage. But how can CSR contribute to create competitive advantage?

CSR and competitive advantage are both very popular in academic literature. Much research has been done on the phenomenon CSR, but there has not been much research on the influence of CSR on a firm. In this research a resource based view (RBV) of competitive advantage on the topics will eventually lead to a conclusion.

## 1.2 Main research question:

As already mentioned CSR is an upcoming topic, it's booming. This reports interest is in CSR and its effects on a firm's reputation and its competitive advantage. To investigate this, some topics/relations will be examined. These topics and relations are mentioned in the research questions below.

The following problem statement is central to this thesis:

*What influence does CSR have on a firm's competitive advantage, in a resource-based view?*

### Research Questions

*What is CSR?*

*How does CSR affect a firm's reputation?*

*In what way can competitive advantage be achieved (resource based view)?*

*How does CSR and reputation affect competitive advantage?*

### 1.3 Relevance

From an academic point of view this report will give more insights on the phenomenon CSR. The link between CSR and competitive advantage will be examined. Not only the direct influence of CSR on competitive advantage will be examined, but also the influence CSR can have by reputation, as can be seen in figure 1. Much is known about a topic, but the knowledge is scattered, and not integrated. The academic relevance is to create order out of chaos and to create a clear overview. With this further research will have an easier source from which scattered information brought together

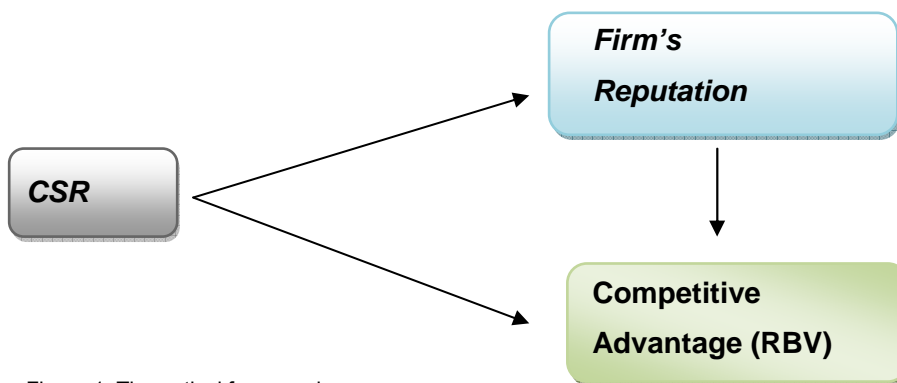


Figure 1: Theoretical framework

From a managerial point of view this report will give a clear view on the affects that CSR can have on the firm's reputation and the competitive advantage. Is CSR able to improve a firm's reputation? For managers it is important to create competitive advantage and this report will give a clear view on how CSR can influence competitive advantage.

### 1.4 Structure of the thesis

To represent the ideas and findings, this paper will follow a certain structure to outline this paper. In the first chapter this thesis will give a clear definition of corporate social responsibility. In the second chapter the influence of CSR on the firm's reputation will be examined. In the following two chapters the focus is on competitive advantage. First there a clear view on how competitive advantage can be achieved in a resource based view (RBV) and after that how CSR can lead to competitive advantage. The RBV will be used to describe this relation and to give clear insight in how CSR can lead to competitive advantage.

The last chapter consists of the conclusion, discussion and recommendations for further research. The answer to the problem statement will be given in the conclusion.

The complete structure is as follows:

1. Problem statement
2. What is CSR
3. Influence CSR on reputation
4. Competitive advantage in a Resource Based View
5. Affect CSR on competitive advantage
6. Conclusion and recommendation for further research

## **1.5 Methodology**

### ***1.5.1 Type of research***

This research is an exploratory research and as specific method it will be a literature research. This paper will rely on secondary resources only. This research does not consist of field studies or experiments, other researchers work will be the basis of the conclusions and recommendations. Used literature will consist of published articles and published books. This means that the paper thesis is based on the research design literature study (Sekaran, 2003).

### ***1.5.2 Data gathering methods***

According to Baarda & de Goede (2006) there are three separate data gathering methods, namely:

- using already existing information
- interviewing
- observation

This paper only exists out of existing articles. Studies, theories and opinions of other researchers will be discussed and used to answer the main research question (and the other questions).

Articles for this paper are gathered in the University of Tilburg electronic and physical library.

The following search terms are used to find the required literature:

- Corporate Social Responsibility (CSR)
- Stakeholders
- Reputation (management)
- Corporate Strategy
- Competitive advantage



## Chapter 2: Corporate social responsibility (CSR)

This chapter gives a clear definition of CSR. Since there are a lot of different definitions it is sometimes difficult to give a clear and complete definition. By means of a time study on the phenomenon CSR a clear definition will be given.

### 2.1 What is CSR?

The field of CSR presents not only a wide range of theories and approaches (Garriga & Mele, 2004), but also a landscape of definitions. Since the 1950's a long debate on CSR has been taking place (Garriga & Mele, 2005). In 1953, Bowen wrote the seminal book "Social Responsibilities of the Businessman". According to Garriga and Mele (2004) that book was the occasion of the shift in terminology from "social responsibility of business" to CSR.

According to Matten and Moon (2008) it is not easy to define CSR. They mention that despite the fast growing literature on CSR (and on the related concepts) it is difficult. CSR is an "essentially contested concept", "internally complex" and it had "relatively open rules of application" (Matten & Moon, 2008). According to van Marrewijk (2003), Votaw and Sethi (1973) defined CSR in a very interesting term: "It means something but not always the same to everybody". By that they mean that almost everybody has a picture with CSR or Social Responsibility, but they do not always have the same definition or thought.

It can be said that CSR is an umbrella term. "Overlapping with some, and being synonymous with other, conceptions of business-society relations" (Matten & Crane, 2005). Because it is hard to describe CSR, the thesis describes this development of CSR in the last four decades. Interesting new insights are mentioned.

Davis and Blomstrom (1966) were one of the first to describe social responsibility in a clear definition. They define social responsibility as an obligation of an individual to reconsider the impact that his/her decisions and actions might have on the social system (Davis & Blomstrom, 1966). They mention social responsibility which applies to an individual, but for firms it is almost the same; they also have to think about the impact that their decisions might have on the social system.

A link between Social Responsibility and Corporate Social Responsibility was made by the Committee for economic Development (CED). According to the CED (1971) business does not only applies on serving society, but in a broader perspective. "Business had bigger

responsibilities than only supplying goods and services, they have to facilitate a wider range of human values” (CED, 1971, p. 16).

In 1973, Davis made another contribution to CSR. He mentions CSR as the consideration/response of a firm towards issues other than the economic, technical and legal obligations which the firm already has (Davis, 1973). He suggests that firms do not only react due to economic, technical and legal obligations, but also continuously evaluate their decision-making process. According to this author this is to make sure that social responsibility is also taken into account next to the economic gains (Davis, 1973). The economic gains usually have a higher priority. This is also mentioned in the article by Carroll and Buchholtz (2008).

Jones (1980) reacts on the definition of CSR by Davis (1973). Jones (1980) states that CSR is the awareness that firms have on obligation towards society, which are others than their usual stakeholders. This obligation is higher than only meeting the legal requirements (Jones, 1980). This is comparable with Davis (1973). According to Jones (1980) policy that is called CSR has to meet with two requirements:

1. The obligation has to be voluntarily adopted
2. The obligation had to be broad, beyond the regular obligation towards shareholders, towards groups like customers, employees and suppliers, and neighboring communities (Jones, 1980, p.59-60)

What we have seen so far is that CSR is very broad and very complicated. It is clear that some aspects (e.g. reconsideration of actions, ) are connected with CSR. Panapanan, Linnanen, Karvonen and Phan (2003) mention the following three dimensions: social, environmental and economic as main dimensions of CSR. These dimensions mean that a firm should take into account these three dimensions to be corporate social responsible. “CSR is about doing business sustainably and ethically, as well as treating or at least addressing stakeholders’ concerns responsibly (Panapanan et al., 2003, p.134). In their article they refer to an investigation by Environics International in 1999. In this article it is mentioned that CSR is likely to become a pillar of performance and accountability of successful firms. This could be a link between CSR and competitive advantage, the main research question of this thesis.

So far there is spoken about CSR. Van Marrewijk (2003) suggests that CSR is part of a greater phenomenon, corporate sustainability (CS). In his findings van Marrewijk is supported by the Erasmus University of Rotterdam. They also placed CS as the ultimate goal. CSR is a stage where firms balance the triple bottom line (TBL). The TBL consists out of three parts (people, planet and profit). With people, planet and profit it’s meant the society the environment and economics. These parts are derived from the three dimensions

mentioned by Panapanaan and colleagues (2003). Below in figure 2 the relationship between TBL, CS and CSR is shown and in figure 3 contains the general model of CS and CSR. It has to be mentioned that this research will only look at CSR and will not pay attention to CS and the TBL.

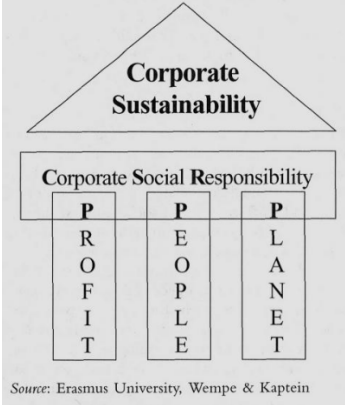


Figure 2: Relationship between 3P, CS and CSR

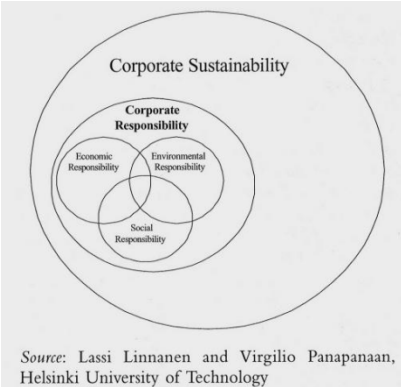


Figure 3: General model CS/CSR

In 2004 Kotler and Lee stated that corporate social responsibility is a commitment to improve the community and its well-being through discretionary business practices and contributions of corporate resources. The last part of their definition is a complement of what we have already seen.

**2.2 Conclusion**

In the last few decades much research on CSR is done and this has led to many definitions. These definitions were very scattered and sometimes they differ from each other. It can be concluded that CSR is indeed a very broad topic and that there are many different definitions over the years. CSR is, in fact, an umbrella term and with this it is meant that a company takes three dimensions into account, namely: economic, social en environmental. CSR is about doing business sustainably and ethically. A company does not only need to respond due to economic, technical and legal obligations, but a company has to evaluate their decision-making process. Just like social responsibility a company needs to think of the impact their decisions might have on the social system. CSR is a commitment to improve community and its well-being.

Above a clear definition of CSR is given which covers the most important aspects of CSR. This definition is the remainder of this research center. Since there is a clear definition it is possible to describe the affect CSR can have on a firm’s reputation.

## Chapter 3: effect CSR on reputation

*How does CSR affect a firm's reputation?*

This chapter will describe the influence CSR has on a firm's reputation. First reputation is described. Then the affect that CSR has on reputation in general is described and after that a more specific influence will be described. This is described by how the cause (CSR activity) fits to the firm and how the firm communicates its CSR activity to its stakeholders.

### 3.1 Reputation terminology

To get clear insights in the affect CSR can have on reputation it is important to understand what exactly is meant with reputation. Reputation is described by the Cambridge English dictionary (2010) as: "the opinion that people in general have about someone or something, or how much respect or admiration someone or something receives, based on past behaviour or character". This is a general definition of reputation, that is quite clear, but according to Griffin (2008) reputation is not that simple, especially when it comes to corporate reputation. According to this author corporate reputation is "the perceptual representation of a firm's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals" (Griffin, 2008, p. 11). Morley (2002) on the other hand, describes corporate reputation as the orchestration of discrete public relations initiatives designed to promote or protect the own brand and reputation.

For an individual it is important what other people think about you (Griffin, 2008). This also applies to firms. Many people have different thoughts on firms. These people are called stakeholders. According to Freeman (1984) relevant stakeholders are those who impact or are impacted by the firm's purpose. Some of these stakeholders have good thoughts and others might have bad thoughts. Butterworth-Heinemann (2005) agrees with reputation as the perception of stakeholders towards a company. Butterworth-Heinemann (2005) sees four regular stakeholders; employees, shareholders, customers, and the board of directors. As Griffin (2008) states, all of these thoughts together are called reputation. Butterworth-Heinemann (2005) states that this is important for a company to have a good reputation. This means that many people (stakeholders) have good thoughts when thinking about your company.

Also brokers look at the firm's reputation. Firms with good reputation are interesting to invest in. According to Cordeiro and Sambharya (1997) it is interesting to see that reputation is strongly influenced by non-financial components and that it could result in financial gains.

Cordeiro and Sambharya (1997) state that reputation can have value in financial terms. But according to Butterworth-Heinemann (2005) reputation is about the “cognition”, the knowledge about the organisation (expectations future behaviour of the firm). What CSR do for the firm’s reputation is mentioned in the following paragraphs. According to Griffin (2008) CSR does not shield a company from reputation risk. Can it be concluded that CSR is not the way of reputation improvement?

### **3.2 Possible effect CSR on firm’s reputation**

Yoon, Canli and Schwarz (2006) mention in their article that CSR activities have been used to react on social concerns, to create a better and more attractive reputation. Firms also engage in CSR activities to build a better (positive) relation with both customers and other stakeholders (Yoon et al., 2006). But Griffin states that (2008) using CSR, or not, does not protect a firm against reputation risk/damage. There will always be organisations or governments that try to criticize a firm’s reputation. Griffin mentioned that stakeholders might see a firm implementing CSR as a firm that confesses guilt. That a firm confesses that they do not act social responsible. Stakeholders might be suspicious and it is the firm’s goal to overcome that suspicion.

Yoon and colleagues (2008) mention that the motivation of firms using CSR is for image improvement. It is important that customers are not aware of this motive when a firm uses CSR. Of course there are firms who sincerely use CSR to improve society. A firm using CSR will be seen as insincere, when there are suspicions that the firm has ulterior goals (Campbell & Kirmani, 2000). So using CSR with some self-interest isn’t, bad as long as the customers do not get suspicious.

### **3.3 Brand/cause fit**

It is important for a firm that when they start a CSR campaign that there is good fit between the brand of the firm and the cause (charity) they support. There is a good fit between the brand and the cause when they both have the similar base (Nan & Heo, 2007). Nan and Heo (2007) also mention that the fit is high when they both share similar value (e.g. Johnson & Johnson first aid products and Red Cross). Ellen, Mohr, and Webb (2000) investigated the impact of the fit between a cause and the brand. Their opinion reflects to what Nan and Heo (2007) mentioned. In their study the participants evaluated the firm more positively if the cause (e.g. charity donation) has a high fit with the firm’s core business instead of a low fit. Ellen, Mohr, and Webb (2000) tested if customers will evaluate a cause marketing offer more positively if the donation is incongruent, rather than congruent, with the company’s core

business. As their test gave no support to this hypothesis it therefore needed to be rejected. This means that if the donation (cause) is congruent to the firms' core business customers will be more positive.

According to the research of Nan and Heo (2007) it cannot be said that a high brand/cause fit leads to a more positive attitude toward the brand than a low brand/cause fit. They found that the customers' consciousness toward the brand effects the positive attitude. If a consumer has a high brand consciousness, than they are more positive toward the brand when the CSR activity has a high brand/cause fit. They tested if exposure to a CRM component involving high (versus low) brand-cause fit will lead to more favorable attitude toward the brand. They also tested if the impact of the level of brand-cause fit (high versus low) on attitude toward the brand will be more pronounced for individuals high (versus low) brand consciousness. Their test did not give evidence to conclude that a CRM component wit high (versus low) brand/cause fit leads to more favorable attitude toward the brand. But they found prove that if the customer is brand consciousness, than a high brand/cause fit leads to a more favorable attitude toward the brand. This means that a high brand/cause fit has an influence on customers with a high brand consciousness.

### **3.4 Communication**

How a firm communicates its CSR activities to its customers and other stakeholders will determine the success of these activities (Campbell & Kirmani, 2000). It can be said that the customers are like a judge and monitor the sincerity of a firm's message. It is important that the customers get information from a neutral party instead of the firm. When the company advertises the CSR activities, the customers judge the activities as insincere; information by a neutral party is judged as sincere (Yoon et al., 2006). When the activity is seen as insincere, CSR campaigns backfire which leaves the firm with an even more negative reputation than they would have had when they did not started the campaign. This is supported by the findings of Campbell and Kirmani (2000). They found that customers judge the firm on their message and sincerity. A firm is insincere when the customers suspect the firm to have ulterior motivation when using a CSR campaign, especially if the firm advertises the campaign itself.

Expenditures also play an important role to determine the success. When customers find out that the advertisement cost are higher as the actual investment in the CSR activity they will be even more suspicious (Yoon et al., 2006). An illustrating example is Philip Morris. Phillip Morris is an international tobacco company. They spend 60 million dollars on a CSR activity but they spend 108 million dollars for communicating this CSR activity. This made the customers suspicious, which eventually led to the failure of the campaign.

### **3.5 Conclusion**

It is important for a firm to know how and what customers think about you. The reputation is important to a firm since stakeholders react to the firm's reputation. Eventually reputation could result in financial gains. Firms could use CSR with some self-interest but they need to make sure that their customers do not get suspicious. If they do get suspicious a CSR campaign might backfire and leave the company with an even worse reputation than the reputation they would have had without the CSR campaign. The CSR activity needs to fit the firm. If not it might lose some strength, especially on customers with a high brand consciousness. If a firm thinks carefully about the CSR activity it can bring benefits to the reputation.

Since there is an influence of CSR on reputation it's important to know what influence reputation can have on competitive advantage. To examine this it is important to know how competitive advantage can be achieved. The next chapter will describe the RBV of competitive advantage. From this it is possible to examine the influence of CSR and reputation on competitive advantage.



## **Chapter 4: Resource Based View of competitive advantage**

*In what way can competitive advantage be achieved (Resource Based View)?*

To describe the influence that CSR can have on a firm's competitive advantage it is important to know how competitive advantage can be achieved. A competitive advantage can be achieved if the current strategy is value creating, and is not currently implemented by present or future competitors (Barney, 1991, p. 102). In the following chapter this will be described by means of the resource based view (RBV) of competitive advantage. This chapter summarizes the theory of RBV.

### **4.1 Resource based view of competitive advantage**

To answer the main research question of this paper it is important to know in what way a firm is able to gain advantage over its competitors. I will discuss this by explaining the resource-based view of competitive advantage. This theory began to emerge in eighties and the beginning of the nineties (Peteraf, 1993). A firm possesses competitive advantage when their profit exceeds the average for its industry (Porter, 1990). The resource-based theory is based on theoretical conditions. These conditions underlie to competitive advantage. According to Peteraf (1993) there are four of these conditions, namely: resource heterogeneity, ex post limits to competition, imperfect resource mobility, and ex ante limits to competition.

#### *Resource heterogeneity*

The basic assumption of this theory is that the resources underlying productions are heterogeneous (Barney, 1991). Firms endowed with such resources are able to produce more economically and are able to satisfy customers' needs in a better way (Peteraf, 1993). "Heterogeneity implies that firms of varying capabilities are able to compete in the marketplace and, at least, breakeven" (Peteraf, 1993, p. 180). When a firm possesses marginal resources they can only break even and a firm with superior resources is able to have lower average costs than their competitors. These rents can be separate into two theories (approaches), ricardian rents and monopoly rents. These two approaches will not be discussed since they do not provide addition to the understanding of the resource-based view of competitive advantage. Regardless of the nature of the rents it is so that sustained competitive advantage requires that the condition of heterogeneity is preserved. If the



heterogeneity is a short lived phenomenon, the rents will be fleeting. This means that the conditions of heterogeneity must be relatively durable to add value (Peteraf, 1993).

#### *Ex post limits to competition*

Durable heterogeneity will be the case if there are in place ex post limits to competition as well. It means that there are forces which limit competition for the rents. There are two critical factors to reduce these limits of competition, namely: imperfect imitability and imperfect substitutability (Peteraf, 1993). To gain these imperfect imitability and substitutability, Rumelt (1984) comes up with the term “isolating mechanisms”. Isolating mechanisms are described as a phenomenon that protects individual firms from imitation of the firm’s resources by competitors. For example property rights, managerial skills and information asymmetries. They create barriers to deter competitors from imitating the firms (key) resources, capabilities and strategies (Oktemil, Greenley & Broderick, 2000).

#### *Imperfect Mobility*

The third condition for competitive advantage is that a resource is perfectly immobile. A resource is perfectly immobile if it cannot be traded (Peteraf, 1993). To understand what is meant with perfectly immobile resources Dierickx and Cool (1989) came up with some examples such as; resources with property rights, resources that are valuable within the firm that employs them, resources which are specialized to firm-specific needs. As quoted by Peteraf (1993, p.184), Williamson (1975) and Rumelt (1987) suggest some resources may be imperfectly mobile simply because the transactions costs are exceedingly high. It is important for a firm that their resources are immobile or imperfectly mobile because then the resources are non-trade able of less valuable to other firms. An addition to this condition can be made by the requirements Grant (1991) set for resources. According to Grant (1991) there are four characteristics of resources that are important determinants of competitive advantage: durability, transparency, transferability and replicability. The sustainability of competitive advantage depends on how fast a resource depreciates or becomes obsolete. This is called durability. A resource needs to be durable for a firm to gain competitive advantage. If the resource is not durable the advantage will not sustainable, because a firm cannot profit from this resource on the long term.

When a resource is transparent a competitor can easily imitate the resource (Grant, 1991).

A resource which is imitateable ensures a firm that competitors are unable to obtain the resources because of imperfections in transferability (Grant, 1991).

Resources can also be obtained by competitors by duplicate the resources. By creating imperfections in replicability a firm can protect their resources.

### *Ex ante limits of competition*

The last condition that underlies competitive advantage, according to Peteraf (1993), is ex ante limits to competition. With this Peteraf (1993) means that, prior to any firm's establishing a superior resource position, there must be limited competition for this position. This is best explained by equally endowed firms who occupy a certain location, which gives them inimitable resources over the rivals. What will happen is that there will ensue fierce competition for those locations. It is important that there will not be fierce competition for these location to ensure the resource position, because than it will be hard to obtain certain locations and gain advantage toward the competitors.

Peteraf (1993) states that these four conditions are the cornerstones of competitive advantage. A firm needs to meet to all four conditions to gain competitive advantage. In figure 4 the framework of Peteraf (1993) is depicted.

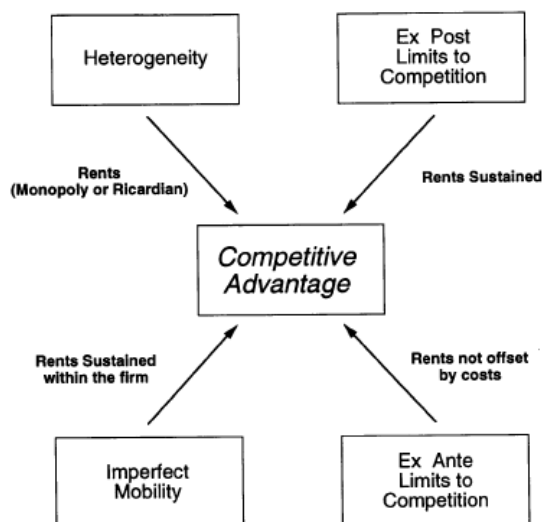


Figure 4: Cornerstones of Competitive advantage. Source: Peteraf (1993)

The four conditions are not entirely independent of each other, as might seem in figure 4. As can be concluded from the article of Peteraf (1993) the conditions are in fact related conditions. Firstly heterogeneity is the basic condition. Heterogeneity is necessary to gain sustainable advantage. Heterogeneity underlies to the other conditions but the other conditions do not underlie to heterogeneity (Peteraf, 1993).

In her article Peteraf (1993) suggests that resources are the basis of competitive advantage. Grant (1991) disagrees with this. According to Grant (1991) competitive advantage is not only achieved by the resources of a firm. He suggests that the firm's capabilities are just as important to competitive advantage as the firm's resources. Capabilities are necessary to gain competitive advantage through firm's resources. If a firm possesses resources but is not able to operate these resources they are useless. Therefore a firm needs capabilities to operate the resources.

There is a key distinction between resources and capabilities. "The firm's resources are inputs to the production process. Individual resources of the firm include items of capital equipment, skills of employees, patents, brand names and so on" (Grant, 1991, p. 118). A resource is productive and productive activity requires the cooperation and coordination of teams of resources. Grant suggests that a capability is the capacity for a team of resources to perform tasks or activity. Briefly it can be said that a resource is the source of a firm's capability and capabilities are the main source of a firm's competitive advantage (Grant, 1991).

## **4.2 Conclusion**

It can be concluded that in the resource-based view of competitive advantage resources lead to capabilities and capabilities underlie to competitive advantage. Resources must meet at least the four conditions in order to create possible competitive advantage. A firm must have capabilities to employ these resources. A Framework of the resource-based view of competitive advantage can be found in figure 5.

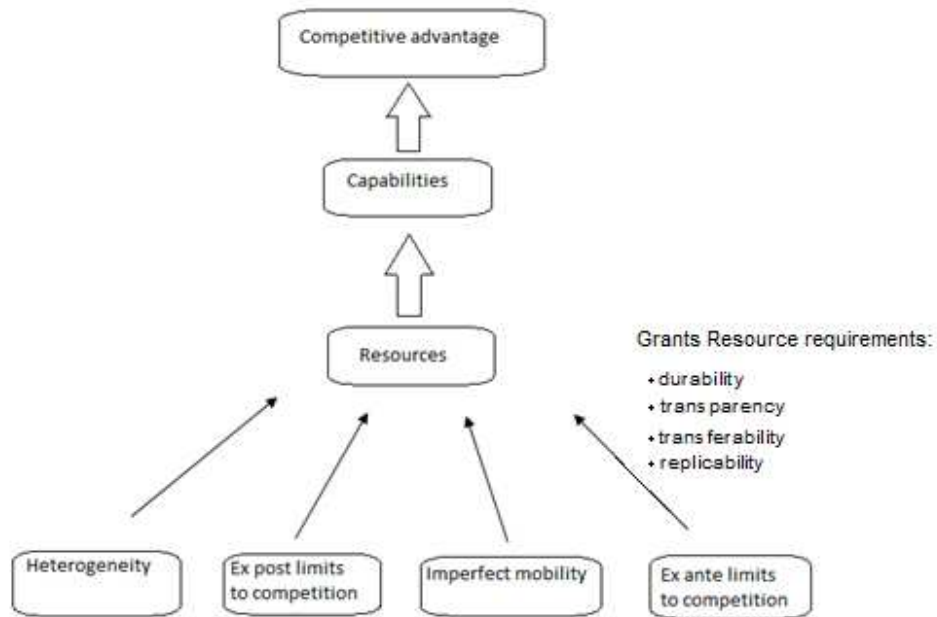


Figure 5: Resource –Based view of Competitive advantage

Since the RBV is clear it is possible to examine the effects of CSR and reputation on competitive advantage. The RBV will be the guidance for the following chapter.

## **Chapter 5: Impacts on Competitive advantage.**

*How does CSR and reputation effect competitive advantage?*

This last chapter describes the effects CSR can have on a firm's competitive advantage. CSR influences the firm's reputation and therefore it is also important to know what affect reputation has on competitive advantage. Much research is done and according to these researches CSR leads to competitive advantage, as is described in the first paragraph. Since this thesis mentions the RBV, it is interesting to know what connection CSR has with RBV, which is described in the second paragraph. In the last paragraph of this chapter CSR will be seen as a resource and how this might lead to competitive advantage.

### **5.1 CSR leads to competitive advantage**

According to Porter and Kramer (2006) there is a link between corporate social responsibility and competitive advantage. The link that is made by these authors is difficult and does not give a clear insight in how CSR affects competitive advantage. They mention that CSR and competitive advantages are linked, but they do not mention in what way. Jonker and Roome (2005) state in their article that CSR can provide firms with a unique chance for competitive advantage. Branco and Rodrigues (2006) argue that firms engage in CSR because they think that it might give them some kind of competitive advantage. Business cannot be seen separately from the society in which the firms operate and exist. Business is part of modern society. Because nowadays firms integrate CSR voluntarily in their operations, it is interesting to understand the motivation of the firms to engage in CSR activities, or so called social responsibility activities. Of course there are some drivers behind the emergence of CSR in firms operations, such as expectations of stakeholders, but CSR also has to yield some financial performance for firms. According to Porter & Kramer (1999) CSR allows firms to increase financial performance. Therefore managers must treat CSR as they treat all of their investment decisions (McWilliams & Siegel, 2001). According to Branco and Rodrigues (2006, p. 112) "there are two contrasting cases for CSR". They suggest that there is a normative case, which suggest that a firm should behave in a social responsible manner, because it is ethically correct to do so. The second case is the business case. "The business case can be presented by asking how companies view the possibility of furthering their economic success by paying attention to social responsibility" (Branco & Rodrigues, 2006, p. 112) . CSR involves some costs that need to be made and these costs are usually short-term and the benefits of these activities are often long-term (Branco & Rodrigues, 2006). CSR

does not immediately yield financial profit for every firm and thus firms often do not know if CSR leads to competitive advantage.

## **5.2 CSR from a resource-based view**

As competitive advantage so far is discussed by looking at the resource based view and thus this will also be the perspective in this section. According to literature about CSR in a resource-based view (Barney, 2001; McWilliams & Siebel, 2001; McWilliams, Siegel and Wright, 2006; Branco & Rodrigues, 2006) it is possible to see CSR from a resource-based perspective. According to McWilliams and colleagues (2006) a firm must use CSR strategically to look at it in a Resource-based perspective. They argue that engaging in social responsibility activities when it is expected that these activities benefit the firm, is a behavior that can be examined by using the resource-based view (p. 3). As already mentioned firms generate competitive advantages by affectively controlling their resources and capabilities which fulfill the requirements; valuable, rare, cannot be perfectly imitated, and no perfect substitute is available (Barney, 1991). According to McWilliams and colleagues (2006) engaging in CSR can help firms to create some of these resources and capabilities. But how firms give substance to CSR is possible with different approaches (Kramer et al., 2005). According to McGuire and colleagues (1988) CSR can lead to competitive advantage, but therefore a firm needs to make good use of CSR to reduce costs, attract and motivate employees and improve the corporate reputation. In other words, CSR can lead to competitive advantage as it is used to, or to help a firm control and manipulate its resources and capabilities.

## **5.3 Reputation in the resource-based view leads to competitive advantage**

As Carrol (1999) mentions in his article, firms integrate CSR in their operations and strategy because of certain reasons, such as public approval, attracting employees and creating a good corporate reputation. There are some benefits for firms to possess a good corporate reputation, namely that it might improve relations with external actors, such as competitors, suppliers and very important, customers. A company with a good reputation is also able to attract better employees. Firms are also able to charge a higher price for their goods and services when they have a good reputation. So CSR provides internal and external benefits, or both (Branco & Rodrigues, 2006). Engaging in CSR can help a firm to develop new resources and capabilities which are related to know-how and corporate culture. This is seen as internal benefits. External benefits on the other hand are related to corporate reputation. So according to Branco and Rodrigues (2006) corporate reputation is an external benefit.

Galbreath (2005) states that resources can be divided into two categories, (1) tangible resources such as financial assets and physical assets, and (2) intangible resources such as employees and reputational assets. Where in this thesis the effects of reputation on competitive advantage is argued it is important to know Galbreath's (2005) definition of an intangible resource: "non-physical factors that are used to produce goods or provide services, or are otherwise expected to generate future economic benefits for the firm" (p. 981). This definition is supported by Roberts and Dowling (2002) who suggest that corporate reputation can be seen as an organizational attribute that reflects the extent to which external stakeholders see the firm as a good or a bad firm. They state that corporate reputation is one of the most important intangible resources to provide competitive advantage. As cited in Branco and Rodrigues (2006, p. 122) Fombrun and Shanley (1990) suggest that there is a positive relationship between a firm's reputation and its financial performance. Reputation is an intangible resource and thus it can be seen in the resource-based view which leads to competitive advantage. Reputation is considered to be an asset which is characterized by high levels of specificity and social complexity and therefore it creates a strong resource position barrier (Branco & Rodrigues, 2006). Because reputation is not bought by a firm but created by the firm, it is non tradable and difficult to duplicate. Reputation is a difficult resource to create and it takes a lot of time. How long it takes to build a good reputation depends on the stable investments made by the firm over time. It can be said that when a firm's corporate reputation fulfills the resource requirements it is a good way to gain competitive advantage (Roberts & Dowling 2002).

#### **5.4 CSR as a firms resource**

In 1986 Barney tried to see corporate culture as a source for competitive advantage. In his article he sees corporate culture as a firm's resource and by doing this he was able to see corporate culture as a source for competitive advantage. As this thesis already mentioned CSR can lead to competitive advantage in many ways, but does CSR on itself leads to competitive advantage without affecting other resources? McWilliams and colleagues (2006) state that CSR in a resource-based perspective must be seen as an element in the firm's business strategies. CSR can be seen as a firm's resource if it is used to strategically influence business operations. When CSR influences business operations it is a resource because resources are Human, financial, physical, and knowledge factors that provide a firm the means to perform its business processes. As CSR is used in the resource-based view it is difficult because CSR is hard to define. This does not mean that CSR as a resource in the RBV theory is difficult because of this theory, but because CSR is a difficult phenomenon. It is also difficult to describe certain corporate activities as CSR activities. Supporting a charity

is CSR, but is creating a healthy work environment also a social responsible activity? If CSR is seen as a firm's resource and it fulfills all requirements as mentioned in chapter 2.2 than CSR could lead or contribute to competitive advantage.

## **5.5 Conclusion**

In this thesis competitive advantage is described by means of the RBV. CSR can be examined in the RBV and so does reputation. Since both can be seen as a resource it is possible to gain competitive advantage. Therefore they both need to meet all requirements prescribed for resources. It is difficult to see CSR as a resource since it is hard to describe what activities/actions can be seen as CSR, but when it is clear than a company can see and use CSR as a resource.



## Chapter 6: Conclusion discussion and recommendations

The last chapter of this bachelor thesis will consist of the answer to the problem statement and the research question, a discussion and finally recommendations for further research. The answer to the problem statement will consist of the answers to the research questions and this is illustrated by means of the theoretical framework.

### 6.1 Conclusion

The conclusion of this bachelor thesis is the answer to the problem statement. The problem statement is; *what influence does CSR have on a firm's competitive advantage, in a resource-based view?* To answer this question it is important that some keywords are defined. CSR is a very much researched phenomenon. Many researchers defined CSR. But CSR is an umbrella term. CSR is defined after a time study over the last few decades and in this time study revealed the most important aspects of CSR. CSR consists of three dimensions, namely; economic, social and environmental. When a company makes decisions, or in every other aspect of business, a firm must always take these dimensions into account. In fact CSR is about doing business ethical and sustainable. CSR can be compared with social responsibility. Each individual (or in case of CSR, each firm) must think of the impact that his/her actions or decisions can have on the social system. This means that a company must not only respond to economical, technical or even legal obligations, but they must act with the aim of improving community and its well-being. Business is about earning profit and CSR is about improving society. Both are important and both are necessary.

CSR is important for the firm. When engaging in CSR activities a firm might be able to improve its corporate reputation. Reputation is important for a firm. When a firm has a good reputation customers are, for example, willing to pay higher prices which leads to profitability. The impact CSR has on reputation is influenced by some aspects. First of all the CSR activity must be seen as sincere. When customers see a CSR activity as insincere the activity might fail. This means that the firm needs to make sure that customers are suspicious and that there CSR activity is seen as sincere at all times. A firm might have self-interest when engaging in CSR activities, but if the consumer gets suspicious it might backfire and leave the company with an even worse reputation than the reputation that the company would have had without the activity. Communication of the CSR activities in this case is very important. Customers always judge and monitor sincerity of a firms message. Therefore it is important that the customers get information from a neutral party instead of the firm directly.

Information of a neutral party is seen as sincere and that is the purpose of the firm. Another way how customers judge a CSR activity as insincere is when the firm spends more money on communication than on the actual CSR activity. Thus the activity backfires and again leaves the firm with a poor reputation.

CSR activities are not always effective. This is based on the fit between the firm and the cause. This is described as brand/cause fit. A CSR activity with a low brand/cause fit might achieve the same as a high brand/cause fit. However this changes if the consumer is brand conscious. Then the brand/cause fit needs to be high to achieve its goal. CSR improves reputation and therefore CSR is important for a firm.

Competitive advantage is important for a firm because competitive advantage increases benefits. A firm achieves competitive advantage when the firm acquires or develops a resource or combination of resources that allows it to outperform its competitors. This is seen from the resource-based view. Resources are human, financial, physical, and knowledge factors that provides a firm with the means to perform its business processes. If a resource meets the requirements (resource heterogeneity, ex post limits to competition, imperfect resource mobility, and ex ante limits to competition) than a firm might achieve competitive advantage. Both CSR and reputation can be seen as resources. Reputation is seen as an organizational attribute and that it reflects the extent of how stakeholders see the firm. This might be good or bad. Because of this, reputation can be seen as one of the most important (intangible) resources that a firm can possess. Reputation meets the requirements and therefore reputation can lead to competitive advantage. CSR is not easy to see as a resource, because CSR is difficult to define and therefore difficult and therefore a resource is difficult to describe as a resource. But when CSR influences business operations it can be seen as a resource. If this resource meets the requirements, than a company is also able to gain competitive advantage by means of this resource.

As said before it is difficult to describe CSR as a resource, but still CSR can lead to competitive advantage. If a firm makes good use of CSR to reduce costs, attract and motivate employees, improve corporate reputation or to develop new resources, it can lead to competitive advantage.

Competitive advantage can be directly influenced by CSR or by means of reputation. Since CSR influences reputation a company can benefit from CSR.

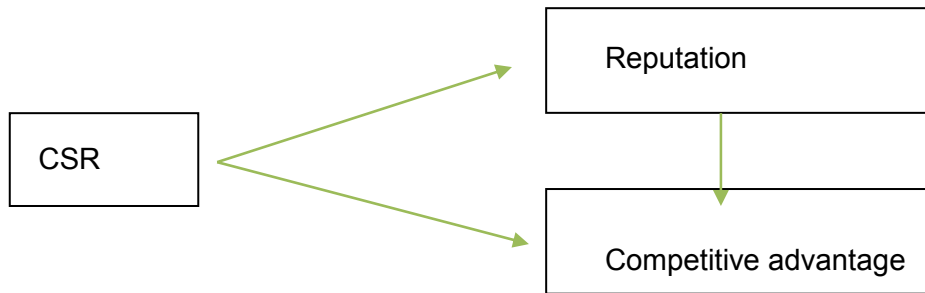


Figure 6: Theoretical framework including influences of CSR on Reputation and competitive advantage

## 6.2 Discussion

This thesis is based on high quality and important literature in the field of competitive advantage and reputation, contributing to the quality of this thesis. But this thesis is largely based solely on assumptions of other literature and therefore this thesis has little empirical evidence

During this research the difficulty of CSR has become clear. There is not a commonly used definition but there is a scattered view on CSR. As mentioned by Votaw and Sethi (1973) it means something, but not always the same to everybody. This phrase describes the difficulty of CSR clearly. Because there is not a commonly definition of CSR it is sometimes difficult to identify what is and what is not a CSR activity. Therefore it is difficult to precisely emphasize what part of competitive advantage can be assigned to CSR.

This research is focused on the influence of CSR on competitive advantage and the influence of CSR by means of reputation. It can be assumed that CSR effects other resources. It is possible that CSR influences other resources and so in multiple ways is able to influence competitive advantage.

In this thesis competitive advantage is only described by means of the resource-based view. By using other theories it may happen that there are multiple and sometimes different results. When examining the influence of CSR on competitive advantage, there appeared little or no empirical evidence for the influence of CSR on competitive advantage. This does not have any impact on the quality of the results since the results are based on high quality literature, but with more empirical evidence some results of this research might be stronger.

## 6.3 Recommendations for further research

As mentioned in the discussion, competitive advantage is only described by means of the resource-based view. A recommendation for further research is to describe the influence of CSR on competitive advantage based on other theories. Furthermore, no empirical support is

used to describe the influence of CSR on competitive advantage. It is important to more obtain empirical evidence about the influence to give it a better/stronger foundation. It's recommended not only to focus on existing academic literature, but also make use of field research in further research

This research only describes the influence of CSR and reputation on competitive advantage. A recommendation is to examine more important resources (tangible or intangible) which might influence competitive advantage and which might be influenced by CSR. When examining more important resources, the knowledge of the influence that CSR might have on resources might be extended.

Another recommendation for further research is to develop a framework to identify what can be seen as a CSR activity (social responsible activity). Such a framework can facilitate measuring the influence of CSR on competitive advantage.

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