The Integration of Corporate Social Responsibility into Business Strategies

Being profitable whilst doing good

Bachelor Thesis

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ABSTRACT

Corporate Social Responsibility (CSR), defined as activities performed by businesses that go beyond legal requirements and firm-specific interests which adhere to social and ecological causes, has been placed in a strategic perspective by many notable authors before. Relying on the argument that by engaging in CSR businesses can be profitable whilst doing good, this thesis investigates how CSR can be integrated into business strategies. A framework can be constructed by linking Porter’s generic strategies with contextual corporate factors that enable the incorporation of CSR. This framework is able to provide tailored CSR practices recommended for either differentiation or cost leadership strategies.
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I. INTRODUCTION

Problem indication

Ever since the first introduction of corporate social responsibility (CSR), the concept has been widely investigated and discussed. Especially during the last few decades, many views have been expressed on why and how CSR could be incorporated by businesses. For example, Carroll & Shabana (2010) state that ‘... CSR is evolving into a core business function which is central to the firm’s overall strategy and vital to its success.’ (p. 93) Porter & Kramer (2011) see a key role for businesses in linking corporate success (economic value) and social progress (social value) by creating shared value. An optimistic view regarding CSR then assumes that corporations can be profitable whilst doing good for society, creating a win-win scenario. However, not every type of CSR activity will necessarily prove to be successful for differing businesses. Each corporation deals with its own specific context, thus I argue that there is no one-size-fits-all. In this thesis, I will evaluate the concepts of CSR and business strategies in order to provide a framework which defines how to integrate CSR, taking into account the employed strategy by a business. Using this framework, an analysis can be derived through evaluating contextual corporate factors. To demonstrate such analyses, the framework will be applied to the specific situations of Nike, Inc. and Primark, which are both active in various segments of the global apparel industry.

Problem statement

The following problem statement has been defined:

How can CSR be integrated into business strategies in order to enhance both social and ecological causes, whilst simultaneously be profitable?

Research questions

In order to provide an adequate answer to the problem statement, the following research questions have been formulated:

1. How can CSR integration contribute to the creation of competitive advantage?
2. Which contextual factors should be taken into account when integrating CSR into business strategies?
3. How can these factors be combined in order to provide a framework regarding CSR integration?

Relevance

Much literature can be found on the concept of CSR and its alleged benefits for business. However, no business is the same, since different corporations are dealing with different industrial environments and different corporate goals. The argument that is being investigated in this thesis is that different business strategies require different manners as to how CSR can be incorporated. By evaluating and combining existing literature on CSR and business strategies, I will attempt to provide
a comprehensive oversight that is able to comment on and make suggestions for the integration of CSR by companies. The aim of this framework is that it would be easily applicable for existing corporations by evaluating specific corporate factors. This applicability is demonstrated by providing two analyses of real life brands and their level of CSR integration. The thesis is original in that combines various works on CSR and business strategies as seen from different perspectives into a unique framework.

Research Design

In order to provide an answer to the research questions, I will perform a literature review. Various sources on the topic have been gathered through accessing the database of the University Library, most of those data being featured in notable academic journals. Each piece of literature or research has been carefully evaluated and critically compared to previous and comparable works. As for the corporate analyses on Nike, Inc and Primark, corporate websites and their reporting on sustainability have been consulted. Corporate statements regarding CSR activities have been aligned with findings from literature in order to draw conclusions and make recommendations regarding business practices.

Structure of the thesis

In the first chapter, I will explain some concepts related to CSR which are necessary to understand and take into account in order to provide an answer to the research questions. This chapter deals with the competitive advantage that can flow from CSR integration, as suggested by existing literature. As for the second chapter, theories regarding business strategies and CSR integration are discussed. Various contextual factors influencing the extent to which corporations are able to incorporate CSR activities are evaluated. In the third chapter, I will combine the findings from the previous chapters in order to construct a framework for CSR integration into business strategies. This framework will then be applied to the real life business cases of Nike, Inc. and Primark. In the final sections, I will conclude the findings discussed in this thesis and account for limitations.
II. CHAPTER 1: CSR

1.1 Definition and benefits

When evaluating reasons to implement CSR within business strategies, a variety of dimensions or categories can be distinguished. Carroll & Shabana (2010) define four different categories of CSR, being businesses’ fulfillment of economic, legal, ethical and discretionary or philanthropic responsibilities. The authors indicate that these responsibilities are expectations defined by corporate stakeholders and society as a whole. As for the economic responsibilities, following the ideas of Milton Friedman (1970), one could argue that business should be concerned with making a profit by the provision of demanded goods and services. The implemented laws and regulations by society and their positive and negative obligations for businesses refer to the legal responsibilities. Van de Ven & Jeurissen (2005) complement on legal responsibilities by stating that even though compliance with the law by businesses is only a beginning in the pursuit of business ethics, it is a very important step. Firms could take this responsibility even further by complying ‘… not only with the letter, but also with the spirit of the law.’ (Van de Ven & Jeurissen, p. 310) When complying with the spirit of the law, firms aim to understand the rationale of the law to enable a proper interpretation in both currently faced issues and future situations. The third category of CSR, ethical responsibilities, are described by Carroll & Shabana as ‘… a corporation’s voluntary actions to promote and pursue social goals that extend beyond their legal responsibilities. These goals are of importance to society or to different stakeholders in society, but their promotion and pursuit are beyond the corporation’s immediate financial interest.’ (p. 95) Finally, the discretionary or philanthropic responsibilities of business are described as corporate actions such as the promotion of human welfare or goodwill, with the corporation having in mind that society desires the corporation to behave as a ‘good corporate citizen’ (Carroll & Shabana, p. 96). Carroll & Shabana explain that the first two responsibilities are required by our society for businesses to fulfill, whilst the ethical responsibilities are being expected of businesses to fulfill, and the discretionary responsibilities are being desired for businesses to fulfill. These four categories combined provide a following definition of CSR: ‘The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time’(Carroll & Shabana, 2010). This definition is similar to the one by McWilliams et al. (2006), who define CSR as ‘situations where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law.’

Following Kurucz et al. (2008), Carroll & Shabana evaluate the benefits relating to the categories of CSR, starting with possible cost and risk reduction that the engagement in CSR activities could bring businesses. The authors mention Smith (2005) arguing that ‘...CSR activities in the form of equal employment opportunity (EEO) policies and practices and environmentally responsible commitments enhance long-term shareholder value by reducing costs and risks.’ (Carroll & Shabana, p. 97) Furthermore, a proactive attitude towards corporate environmentally related activities can reduce costs and risks since the business responds to current and possible future environmental regulations, and creates a more environmentally friendly image for firms. Finally, the authors explain that positive community relationships could lead to tax advantages and could ‘decrease the amount of regulation imposed on the firm, because the firm is perceived as a sanctioned member of society.’ (Carroll & Shabana, p. 97) A second benefit of CSR implementation could be the gaining of competitive
advantage by firms. In this scenario, CSR is seen as a differentiation strategy where opportunities in the form of stakeholder demands are managed in a strategic manner. The authors argue that CSR activities have the potential to enhance firm-customer relationships, brand loyalty and the securing of investment (see Carroll & Shabana, p. 97 & 98). Businesses may improve their reputation and legitimacy through CSR incorporations as a third benefit. The integration of CSR reflects that corporations care for society, and that they are ‘... able to operate while adhering to social norms and meeting expectations of different stakeholder groups.’ (Carroll & Shabana, p. 99) Moreover, by openly providing firm performance on different social and environmental issues (corporate social reporting), firms may enhance their reputation and legitimacy. A final benefit from the implementation of CSR activities is described as synergistic value creation. This implies that various stakeholder demands are being aligned with the opportunities that the corporation is exploiting.

1.2 Intrinsic versus extrinsic CSR

Evaluating the benefits of employing CSR described in the section above, it can be concluded that businesses can profit in various ways whilst doing good. Du et al. (2010) confirm this, stating that corporations engaging in CSR and being a good corporate citizen can experience increased consumer loyalty, employment seeking and investing. However, the authors explain that when ‘companies aggressively promote their CSR efforts’ (p. 9), stakeholders can become suspicious of what the company’s true motives behind the integration of CSR are. Two types of stakeholder attribution regarding a company’s CSR motives are being described: extrinsic versus intrinsic. When a company appears to be extrinsically motivated, stakeholders believe that CSR is being used in order to achieve higher profits. On the other hand, companies are regarded as intrinsically motivated when it appears that they genuinely care in an altruistic way about the cause they are supporting. Evaluating previous research, Du et al. (2010) argue that extrinsic attributions do not necessarily lead to a less favorable stakeholder attitude towards a company; rather, stakeholders ‘... are capable of perceiving and reconciling mixed CSR motives’ (p. 10), and such mixed attributions can actually cause positive reactions towards CSR employment. The authors explain that there appears to be a growing tolerance towards extrinsic motives, which implies that consumers acknowledge and approve that CSR activities can lead to businesses doing good for society whilst simultaneously benefitting from those activities. Such mixed motives do need to be clearly communicated by corporations though: inconsistencies between motives for CSR perceived by stakeholders and motives for CSR publicly stated by businesses can lead to stakeholder skepticism and decreased trustworthiness (see Du et al.p.10). In general, extrinsic motives are being underlined when there is a poor ‘perceived congruence between a social issue and the company’s business’, known as low CSR fit (Du et al., p. 12). The authors indicate that the credibility of CSR activities by companies can be highlighted by having those activities communicated by independent, unbiased sources or media, employees, and consumer word-of-mouth.

Baden et al. (2009) also discuss the difference between extrinsically and intrinsically motivated CSR, stating that CSR is nowadays often used as a marketing tool by large corporations (thus, in that scenario the motivation for engaging in CSR would be extrinsic). Furthermore, the authors mention that external pressures to employ CSR might undermine actual intrinsic motivation to engage in CSR activities: perceptions of motivations may change once people are being rewarded for something they would normally do out of personal preferences and values (see Baden et al. p. 432). Once
engaging in CSR is being experienced as an external pressure, internal rewards may be reduced, leading to a decreased motivation to engage in CSR. Such internal rewards could be ego-gratification or an enhanced self-esteem; before being experienced as an external pressure, socially responsible behavior could be linked to positive personality traits, competence and success, or foresight (see Baden et al., p. 432). The authors did find through their research that amongst their investigated small and medium enterprises, buyer pressure would be regarded as an additional incentive to engage in CSR. However, intrinsic motivation turned out to be the main reason why small and medium enterprises integrate CSR activities.

Carroll & Shabana discuss three different rationales for CSR incorporation formulated by Berger et al. (2007). The first rationale would be the social values-led model, in which CSR is implemented in organizations because those organizations truly believe in the good of it and not for economic incentives. On the other hand, the business-case model emphasizes an economic reasoning: following this rationale, CSR is being implemented when there is a positive relationship with firm financial performance. The third rationale would be the syncretic stewardship model, which regards CSR more as a concept that represents the interconnectedness between society and business: this rationale acknowledges both direct and indirect relationships between CSR and firm performance.

McWilliams et al. (2006) also discuss several theoretical perspectives on CSR previously introduced by various scholars, one of them being an agency theory perspective based on Friedman (1970). This perspective regards CSR integration as extrinsically motivated, used in order to enhance manager careers or other personal interests. Moreover, this view holds that it is better to use corporate resources on ‘value-added internal projects or returned to shareholders.’ (McWilliams et al., p. 3) Opposed to this, the stakeholder theory perspective based on Freeman (1984) states that corporations can benefit from CSR activities that are in the interest of non-financial stakeholders, and that businesses need the support of other stakeholders besides the shareholders. Following Donaldson & Davis (1991), McWilliams et al. mention the stewardship theory perspective, which describes that managers are morally obliged to what is right. This moral obligation comes with the consequence that doing what is right might not necessarily positively influence firm financial performance. As for the resource-based-view-of-the-firm (RBV), McWilliams et al. summarize that CSR can be used as a source of sustainable competitive advantage, and that managers should ‘conduct a cost/benefit analysis to determine the level of resources to devote to CSR activities/attributes.’ (p. 4) In this perspective, a theory-of-the-firm model is used that states that CSR can be implemented as part of a differentiation strategy in order to build or maintain reputation.

The discussed perspectives distinguish between intrinsic, extrinsic and mixed motivations to engage in CSR activities: the social values-led model and the stewardship theory perspective are based on the same arguments and argue that CSR should be employed because of intrinsic motivation. The business case-model is similar to the agency theory perspective in that the engagement in CSR activities in those views is exclusively extrinsically motivated. Finally, the syncretic stewardship model, the stakeholder theory perspective and the resource-based-view-of-the-firm could be regarded as providing mixed motivations for incorporation CSR into business strategies, ultimately looking for a win-win scenario.
1.3 Explicit versus implicit CSR

Businesses are different in the extent to which they engage in CSR activities and how they communicate about these activities. Matten & Moon (2008) argue that corporate choices regarding strategies are influenced by the social and political context in which a business operates. They refer to different societies, such as the American versus the European, that ‘have developed different systems of markets, reflecting their institutions, their customary ethic, and their social relations,’ (p. 406) Differences in social and political contexts between societies could then explain why certain businesses apply what they authors label as ‘explicit CSR’ and why other businesses apply ‘implicit CSR’. Explicit CSR is voluntary, where corporate activities are assumed to take responsibility for the interests of society. Policies, programs and strategies are clearly communicated towards outsiders and the perceived expectations of different stakeholders are taken into account when it comes to corporate incentives and opportunities. The application of explicit CSR is more likely to occur in liberal market economies (see Matten & Moon). On the other hand, implicit CSR is related to coordinated market economies, according to the authors. This approach implies that the corporation follows certain values, norms and rules (which are often codified and mandatory) which are of significance for their society’s interest and concerns, and is thus not voluntarily like explicit CSR (see Matten & Moon, p. 410).

Matten & Moon state that the employment of either implicit or explicit CSR depends on the one hand on the ‘historically grown national institutional framework’, which consists of the political system, financial system, education and labor system, and cultural system. These systems influence the nature of the firm, the organization of market processes and the relevant coordination and control systems. On the other hand, the choice of applying either implicit or explicit CSR depends on the organizational field of the company, which derives its legitimacy from three processes: coercive isomorphisms, mimetic processes and normative pressures (see Matten & Moon, p. 413). Coercive isomorphisms are described as ‘externally codified rules, norms or laws that assign legitimacy to new management practices.’ (Matten & Moon, p. 411) Mimetic processes are those practices that are regarded as the ‘best’ within an industry by managers in it, which are being applied when that industry is characterized by increasing uncertainty and complex technologies. The authors define normative pressures as ‘educational and professional authorities that directly or indirectly set standards for “legitimate” organizational practices’ (Matten & Moon, p. 412).
III. CHAPTER 2: BUSINESS STRATEGIES

2.1 Competitive strategy

Porter describes competitive strategy as ‘being different’, by ‘deliberately choosing a different set of activities to deliver a unique mix of value.’ (Porter, 1996) In this thesis, I will specifically focus on Porter’s two main generic strategies, cost leadership and differentiation, which stem from industry structure (see Porter, 1985) when it comes to CSR integration. The focus here lies with these generic strategies because they provide a simple and broad classification as to evaluating strategic positions. Cost leadership strategies are concerned with finding and exploiting all sources of cost advantage, whilst simultaneously there has to be ‘parity or proximity in the bases of differentiation relative to […] competitors to be an above-average performer,’ (Porter, 1985 p. 13) As for differentiation strategies, firms try to uniquely position themselves in order to satisfy specific needs that are perceived as important by many buyers in an industry, which provides those firms with a premium price (see Porter, 1985).

A strategic approach towards CSR is encouraged by Husted & de Jesus Salazar (2006), arguing that strategic CSR produces more overall social output by the entire business community compared to corporations taking an altruistic approach regarding CSR. By applying strategic CSR, an alignment of incentives will occur, driving corporations to improve their social performance and increase social output (see Husted & de Jesus Salazar). The authors claim that by taking this instrumental approach, ‘... more firms will be motivated to produce social goods under the strategic case, than by appeals to corporate altruism.’ (p. 87) It is argued that in the end, aggregated social output by all these firms will be greater than social output under an altruistic focus; CSR is regarded as a strategic investment.

2.1.1 Differentiation and CSR

McWilliams & Siegel (2001) describe CSR integration as a tactic to achieve competitive advantage, referring amongst others to Jones (1995) and a theory of the firm perspective. Following Jones (1995), corporations engaging in ethical behavior will form enduring, constructive relationships with their stakeholders, which yields competitive advantage (see McWilliams & Siegel). Taking a theory of the firm perspective, CSR activities can be regarded as a type of investment; McWilliams & Siegel state that ‘One way to assess investment in CSR is a mechanism for product differentiation.’ (p. 119) The authors mention that they expect differentiation (through CSR) in mature industries rather than embryonic and growing industries. CSR activities used as a tactic in order to achieve differentiation then can be a response to (consumer) demand, or to satisfy managers’ personal interests, according to McWilliams & Siegel. Consumers may want to indirectly support causes that are valued by them through purchasing from companies which are active in CSR, with the authors emphasizing the provision of information about CSR attributes through the means of advertising. By advertising, CSR differentiation can be successful through raised awareness of consumers who might be willing to buy products with CSR attributes. McWilliams & Siegel argue that a differentiation strategy involving CSR activities can lead to the firm building or sustaining ‘a reputation for quality, reliability or honesty’ (p. 120) Apart from consumers, firms may also experience demand for CSR activities by other stakeholders such as employees, minority and community groups, and local and state government. By engaging in differentiation through CSR, firms can gain increased loyalty, morale and productivity from workers, and an increased consumption of the firm’s products (see McWilliams & Siegel).
situations where NGOs and community stakeholders are important to corporations, Husted & Allen (2001) recommend product differentiation and the creation of new markets; having a social product that comes with a price premium could be necessary to cover costs constraints which are the result of demands from NGOs and community stakeholders.

Differentiation through CSR strategy is also elaborated on by Van de Ven (2008), distinguishing between the strategy of building a virtuous corporate brand reputation and an ethical product differentiation strategy. The first strategy entails the use of a brand promise in order to differentiate; a virtuous corporate brand explicitly states that the firm ‘excels with respect to [its] CSR endeavors’ (p. 346), thus going beyond the desire to protect and improve corporate reputation. Such branding is based on actual corporate identity; corporate communication regarding this strategy can be done through social and environmental reporting, publication of an ethical code, an interactive website, and trained personnel who embody the brand in personal interaction with key stakeholders (see Van de Ven). An ethical product differentiation strategy ‘is about differentiating a certain product or service on the basis of an environmental or social product quality resulting in brand preference, and often in a premium price.’ (p. 348) This strategy can coexist with and ‘be developed relatively independent’ (p. 348) of a corporate branding strategy: an example is the labeling of certain products, expressing specific CSR qualities. The two CSR strategies can also be combined, with a virtuous corporate brand ethically differentiating products. Arguments provided by the author for a strategic approach regarding CSR are the benefits generated for the cause that is supported by the corporation (such as funds, volunteers and public awareness), and that ‘strategic integration increases the effectiveness of corporate social initiatives in promoting good causes.’ (p. 340, see Van de Ven)

### 2.1.2 Cost leadership and CSR

As explained in the first section of the previous chapter, a possible benefit of CSR integration could be the reduction of costs and risks. Since a cost leadership strategy comprises the identification and exploitation of all types of cost advantages, integrating cost saving CSR activities within such a strategy could be considered. Husted & Allen (2001) combine the insights of various authors to state that cost savings through process innovation could be done ‘in response to social opportunities and threats’ (p. 10). The authors argue that cost leadership could occur ‘through the ability of a firm to attract and maintain an effective labor force based on its commitment to the firm’s social products’ (p. 11) or through thoroughly managed relationships with suppliers who value similar social objectives (see Husted & Allen 2001). Taking an industry structure perspective, Husted & Allen argue that having suppliers with strong bargaining power present can positively influence the level of innovation within corporations. Having CSR related innovation which could lead to competitive advantage is then reached by cooperation between the supplier and buyer; the authors state that ‘failure of information to flow freely between the firm and its suppliers in imperfectly competitive markets’ (p. 13) often prevents process innovation. Besides this buyer – supplier innovation collaboration, Husted & Allen suggest stakeholder integration regarding CSR in a cost leadership strategy. This stakeholder integration, defined as the extent to which the corporation is able to pursue cooperative, problem-solving relationships with its stakeholders, is essential for buyer-supplier innovation collaboration to work. Moreover, including employee perspectives and ideas are argued to potentially contribute to (CSR related ) innovation. For firms that particularly depend on employees as their prominent stakeholders, Husted & Allen state that employee productivity is key
and that a cost leadership strategy involving CSR has a great impact on creating competitive advantage. Process innovation can be stimulated by employee participation in decision making, thus implying a progressive decision-making orientation; following Reinhardt (1999), the authors emphasize a flow of information among employees within firms that is more free than the information flow within competing firms. Evaluating the definition for the progressive decision-making orientation by Goll & Zeit (1991), articulating ‘a proactive search for opportunities, participation, analytic decision tools, and open communication channels’ (Husted & Allen, 2001), such free flowing information streams indeed seem necessary.

Udayasankar (2008) also emphasizes the possibility of gaining cost advantages by engaging in CSR activities, stating that ‘CSR participation can also help secure more common resources, such as capital, at costs lower than competitors, since CSR initiatives are positively associated with risk-reduction’ (p. 170). Another example of achieving resources at lower costs through CSR activities could be the obtainment of (product) materials through recycling. The author examines the propensity to engage in CSR activities by taking into account firm size, relating this to firm visibility, firm resource access and firm operations. It is explained that corporations with larger-scale operations do not have to experience high additional costs when engaging in CSR activities, since economies of scales for example allow for better allocation and more efficient exploitation of firm resources (see Udayasankar). The integration of CSR activities within a cost leadership strategy can be specifically beneficial when a corporation deals with constrained access to resources and a large scale of operations: Udayasankar argues that ‘CSR can enhance the firm’s access to resources, which may be critical to derive economies of scale, and the pursuit of cost-leadership.’ (p. 172)

2.2 Contextual factors

Several factors could influence the extent to which corporations are able to integrate CSR activities into their business strategies. Such factors could be related to the environment in which the corporation operates, but might as well be comprised from more company-specific characteristics. A number of both types of factors are discussed below.

Corporate characteristics

2.2.1 Corporate image and corporate identity

It is pointed out by Van de Ven (2008) that in order for a CSR strategy to be successful, there should be an alignment with the corporate identity. However, different corporate identities can be distinguished: a corporation’s actual identity (its current attributes), the communicated identity (derived from both “controllable” and “non-controllable” corporate communication), the conceived identity (its attributes, overall image and reputation as perceived by stakeholders), the corporation’s ideal identity (market- and time-specific optimum positioning), and a corporation’s desired identity (the corporate leaders’ vision regarding the corporation) (see Van de Ven).

Van de Ven argues for an avoidance of mismatches between what is communicated about a corporation’s CSR activities (communicated identity) and the corporation’s conceived identity. The author states that both stakeholders and non-stakeholders ‘rely on the impression of a firm given by the media’ (p. 345), since assessing that firm’s actual identity is a time consuming process. When it comes to using CSR activities in order to reinforce marketing and other business goals, Van de Ven describes that having a strong reputation beforehand is necessary, and that there should be a fit
between the performed CSR activities and the firm’s core values and competencies (see p. 347). Du et al. (2010) reaffirm the importance of proper fit for performed CSR activities, since a low fit is argued to emphasize more extrinsic motives for CSR (see section 1.2). Moreover, these authors point out that corporate reputation ‘often serves as a pre-existing schema upon which stakeholders rely to interpret ambiguous information about the company’ (p. 14) and that the effects of CSR communication can ‘dampen or even backfire’ for corporations with a poor reputation, whereas good reputations can intensify these effects. As already discussed in the first chapter of this thesis, motivations behind CSR integration can vary and are not always perceived as sincere. This issue of sincerity can be avoided by aligning corporate identities, according to Van de Ven (2008).

2.2.2 Corporate standpoints regarding CSR

T. B. Porter (2008) describes a typology of CSR standpoints, based on whether CSR has a high or low priority to a business and whether shareholder value or stakeholder value is regarded as most important. These standpoints encompass strategic goals, economic rationalities, the degree of integration with primary market strategy, and implications for management (see T.B. Porter, 2008). The following strategic approaches towards CSR are constructed: the compliant position, the instrumental position, the good citizen position and the intrinsic position (see T. B. Porter, 2008). These positions can possibly change, either abruptly or gradually, and in any direction: for example, corporations could move from an instrumental position towards an intrinsic position. In the first strategic approach, the compliant position, CSR has a low priority, and shareholder value is emphasized. Businesses holding a compliant position will ‘minimize the intrusion of CSR initiatives into core strategy and business functions and isolate CSR as a separate function or department with little clout’ (p. 401) There is compliance with the law and industry regulations, but only minimal effort and measures are used to do so. Combining this position with theories described in the first chapter in section 1.2 and 1.3 respectively, one could argue that this strategic approach towards CSR is extrinsically motivated and not explicitly referred to. As for the instrumental position, shareholder value is important whilst at the same time CSR has a high priority. T. B. Porter describes this approach as “win – win” CSR, with a focus for ‘CSR strategies that add to the bottom line’ (p. 401). This position appears to be extrinsically motivated, since CSR activities are avoided when they will decrease short term performance (such as revenue or cash flows). Moreover, the instrumental position is regarded here as communicating CSR explicitly, with T. B. Porter stating that this approach ‘publicizes all actions, perhaps leaning towards exaggeration’ (p. 401). The third position is that of the good citizen, which is ‘genuinely interested in satisfying stakeholder concerns’ (p. 401), but has a low priority on CSR. External stakeholders are involved in decision making and their input is valued by businesses holding this position, and a triple bottom line is being applied: financial, social and environmental performance are balanced. This strategic approach appears to be intrinsically motivated, following a stakeholder perspective. Finally, the intrinsic position ‘fully embraces social and responsibility and fully integrates these priorities into all systems and performance metrics’ (p. 401). CSR is integrated into the business’ values, mission, strategy and operations. This strategic approach has a focus on the long term and still engages in CSR activities when they could have negative consequences for short term firm performance, making this position appear to be intrinsically motivated. It could be argued here that firms striving to build a virtuous corporate brand reputation have to fully embrace this position regarding CSR.
Corporate environment

2.2.3 Level of competition

As described by Van de Ven & Jeurissen (2005), competitive conditions that shape the market in which a corporation operates influence the success of different types of CSR implementation. The authors explain that in the hypothetical case of perfect competition, businesses cannot afford to diverge from their competitors: firms have to engage in CSR activities when those would lead to ‘cost savings, or to profitable new business opportunities’ (p. 303). In turn, such costs savings and opportunities lead to profit maximization and are necessary to pursue in order to keep up with the competitors. On the other hand, when CSR activities would lead to ‘more costs than benefits relative to the costs and benefits of the competitors’ (p. 303), firms should not engage in CSR activities. However, it is argued that perfect competition is a highly unlikely scenario to occur in reality. Van de Ven & Jeurissen therefore focus on three levels of competition intensity: fierce, strong and weak competition. Fierce competition, which is defined as ‘markets in which a firm has little or no power to influence prices,’ (p. 306) does not allow for CSR activities when they bring higher costs than the competition is facing, similar to the scenario of perfect competition. The authors however recommend the following CSR strategies for firms operating under fierce competition: ethical displacement, legal compliance and reputation protection. Such strategies are argued to be costly in the short term, but ‘sufficiently beneficial to make them the rational option under fierce competition.’ (p. 306) As for ethical displacement, a system of self-regulation of the industry should impose the same costs on all the competitors for CSR activities. Legal compliance in this case is explained as CSR, since firms are committed to comply with the law rather than taking advantage from its loopholes. Reputation protection is a preventive measure to restrict costs related to customers switching brands due to their beliefs regarding firms and their products.

When firms operate under conditions of strong competition, there is more ‘financial room to bear costs’ (p. 310) and the possibility to distinguish themselves from the competition. Van de Ven & Jeurissen even argue that CSR integration can ‘contribute to a strategy of product differentiation’ (p. 310), and the following CSR strategies are recommended: compliance with the spirit of the law, stakeholder management, brand reputation management and ethical reporting, and ethical product differentiation. As already mentioned in the previous chapter, when complying with the spirit of the law, corporations aim to understand the rationale of the law to enable a proper interpretation in both currently faced issues and future situations. The authors argue that stakeholder management can be employed in order to penalize opportunistnic behavior. This can be done by practicing social and ethical auditing, introducing an ethical committee or ethics officer, and a procedure for dealing with complaints. (see Van de Ven & Jeurissen, p. 311) As for brand reputation management, the importance of ethical and social reporting is explained: corporations gather and express the needs of stakeholders and their own performance, which gives the impression that the corporation is making an effort to inform stakeholders and take its responsibilities. A final CSR strategy which can be used by firms experiencing strong competition is ethical product differentiation. Although risky, a strategy of differentiating a product based on ‘some ethical quality or aspect’ (p. 313) can succeed if consumers value that corporation’s particular CSR strategy and are willing to pay a premium price for the product.
Oligopolistic or monopolistic markets are characterized by weak competition: corporations have a lot of market power and can thus choose to employ any of the previously discussed CSR strategies. However, Van de Ven & Jeurissen do recommend such firms to comply with the spirit of the law in order to remain in control, preventing possible government intervention. In some cases, the authors state that the employment of stakeholder management or some form of ethical reporting might be beneficial to the firm and ‘keep their key stakeholders satisfied’ (p. 314).

Campbell (2007) observes the same association between the engagement in CSR by corporations and the level of competition as Van de Ven & Jeurissen (2005), proposing that ‘corporations will be less likely to act in socially responsible ways if there is either too much or too little competition’ (p. 953), thus implying a curvilinear relationship. The author states that under extremely intense competition (similar to the level of competition described as ‘fierce’ by Van de Ven & Jeurissen), corporations might ‘act in socially irresponsible ways insofar as they believe that this will help them turn a profit and survive.’ (p. 953) Campbell explains that this is due to shareholder value and firm survival being at risk through narrow profit margins, causing the need to ‘save money wherever possible’ (see Campbell p. 953). In line with Van de Ven & Jeurissen, Campbell states that in a monopoly or oligopoly, firms face little or no competition and thus will not feel that CSR is necessary to apply in order to protect the corporate reputation or consumer loyalty. Since their consumers only have few or no alternatives at all available, corporate sales, profitability or survival are unlikely to suffer when businesses facing weak competition do not engage in CSR (see Campbell).

McWilliams et al. (2006) also discuss the influence of competition on CSR integration, summarizing from Reinhardt (1998) that ‘CSR-based strategies can only generate profit if imitation by competitors is prevented’ (p. 6); however, since CSR is highly transparent, it is unlikely that such imitation will not occur. The authors also refer to Bagnoli & Watts (2003) describing two factors influencing the propensity of firms to engage in strategic CSR. The first factor, the intensity of competition in the market, is argued to have an inverse relationship with the provision of CSR, which more or less corresponds to the arguments of Van de Ven & Jeurissen. The second factor is the extent to which consumers are willing to pay a premium for social responsibility. Furthermore, McWilliams et al. mention that CSR might lead to some early mover advantages, or could be used as a more political strategy in order to raise regulatory barriers to imitation by raising costs.

2.2.4 Institutional conditions

Campbell (2007) evaluates conditions for firms to act in socially responsible ways by looking at how institutions constrain or enable corporate behavior. The author refers to Scott (2003), stating that in our current ‘increasingly global economy’, ‘institutions beyond the market are often necessary to ensure that corporations are responsive to the interests of social actors besides themselves’ (p. 947). Campbell’s argument is that whilst basic economic factors (such as the general financial condition of the firm, the health of the economy and the level of competition faced by corporations) ‘are likely to affect the degree to which corporations act in socially responsible ways’, several institutional factors (such as public and private regulation, the presence of nongovernmental and other independent organizations that monitor corporate behavior, institutionalized norms regarding appropriate corporate behavior, associative behavior among corporations themselves, and organized dialogues among corporations and their stakeholders) influence this relationship between CSR activities and economic factors (see Campbell p. 948). Referring to previous studies, the author argues that tax law (as a property rights institution), normative and cultural institutions, the valuation of CSR by
managers, the belief of an increase in financial performance, stakeholder involvement, governmental pressure and corporate peer pressures can act as incentives for firms to integrate CSR activities. Illustrating some of the incentives mentioned above, Campbell proposes for example that the existence and enforcement of state regulatory sanctions and the ability of states to monitor corporate behavior encourages firms to act in socially responsible ways. Such regulations are argued to be more effective when they are built on ‘negotiation and consensus’ (p. 955) amongst all involved stakeholders. Besides state based regulation, Campbell discusses self-regulation within industries. He argues that such self-regulation can act as an incentive for socially responsible behavior, especially when ‘it is based on the perceived threat of state intervention or broader industrial crisis and if the state provides support for this form of industrial governance.’ (p. 956) The monitoring of behavior and the threat of exposure of corporate socially irresponsible behavior in itself can influence corporate behavior, for example by having private, independent organizations present (such as NGOs, social movement organizations, institutional investors, and the press; see Campbell). Summarizing, according to Campbell, firms will have more incentives to behave socially responsible when they operate within an environment that has various institutions that engage in the monitoring and possible correcting of corporate behavior.

Jones (1999) also emphasizes that socially responsible behavior is encouraged by certain institutional conditions, stating that ‘... the incidence of behavior consistent with the principles of social responsibility is contingent on the particular configuration of institutional elements at various levels of analysis, coupled with the presence at key decision points of people whose values incorporate social responsibility.’ (p. 173) These institutional elements include levels at the sociocultural, national, industry, firm and intra-firm, and individual level, which are all inter-related. As for the sociocultural level, the extent to which capitalist discourse is present in the social structure and normative system determines the support regarding social responsibility. For example, opposing sociocultural levels which allow differently for social responsibility would be the maximization of profit for owners versus the containing of negative externalities and promotion of stakeholder management. The second level refers to the national level of modernization or economic development and the present institutions in a nation. Jones argues that the more modernized and developed a nation is, the more open it will be towards social responsibilities and thus will be more likely to enforce for example national regulatory standards regarding environmental protection or workplace safety. The industry level is comprised of the industry’s orientation towards CSR, taking into account various factors such as the type of goods produced (industrial vs. consumer goods), the subjection towards governmental and public scrutiny, the competitive structure and rivalry within an industry, and industry culture. The author hypothesizes that secondary sector industries, consumer goods industries, high profile industries, industries with competitive rivalry, and younger industries are more prone to demonstrate stakeholder management (see Jones p.168). Jones describes the firm level as structural characteristics related to corporations such as age, competitive strategy, size and ownership structure, emphasizing the latter two. Large corporations with complicated owner structures are argued to be more likely to apply instrumental stakeholder management. Finally, the individual level is argued to be linked with the sociocultural level, since individuals are experiencing pre-existing social and cultural norms. The individual level comes down to the dominant value system that is held by the individual which influences its attitude regarding social responsibility. Jones’ main argument then is that specific institutional elements are necessary to exist at a ‘threshold level’ which structurally enable and normatively legitimize stakeholder management; in practice, values
held by decision makers will determine whether or not corporate social responsibility does occur (see Jones).

IV. CHAPTER 3: A FRAMEWORK FOR CSR INTEGRATION

3.1 Construction of the framework

By combining the factors and conditions regarding CSR integration into business strategies described in the previous chapters with either a differentiation- or cost leadership strategic approach, a framework can be developed in order to provide a comprehensible overview regarding CSR incorporation into business strategies. This framework could be used as a tool to analyze corporations and their contextual factors, in order to clarify why specific CSR strategies are being employed by those specific corporations. Moreover, the analysis that follows from the application of the framework to real-life businesses could possibly provide recommendations regarding ideal CSR strategies to those firms. As discussed in section 2.1.1, businesses following a differentiation strategy are recommended to apply CSR strategies such as responding to specific demands for CSR by stakeholders (consumers, employees, minority and community groups, the government), engage in ethical product differentiation, and / or build a virtuous corporate brand. Summarizing section 2.1.2, businesses following a cost leadership strategy could engage in CSR activities in order to achieve resources at lower cost, apply CSR related process innovation, and include stakeholder participation as CSR strategies. In the section below, each contextual factor’s implications regarding CSR strategies for differentiation and cost leadership is discussed separately. The framework flowing from these evaluations can be found in Figure 1.

Corporate standpoints regarding CSR

When evaluating how to most efficiently integrate CSR into either a differentiation or cost leadership strategy, a good starting point is to consider the specific corporate attitude regarding CSR. Relating back to section 2.2.2, this can be done by deciding which of T.B. Porter’s four corporate standpoints (2008) applies to a business. For corporations following a differentiation strategy, a compliant corporate position regarding CSR would allow for responding to some extent to demands for CSR by consumers, employees, minority and community groups and the government. As for corporations employing a cost leadership strategy whilst holding a compliant position regarding CSR, CSR activities can be integrated in order to achieve resources at lower costs (due to for example CSR activities being associated with risk reduction). These CSR strategies are regarded as most fit since a compliant position is explained to have a low priority on CSR and values shareholder value as most important. Moreover, it is argued here that for both generic strategies, CSR activities are extrinsically motivated and mostly implicitly communicated by firms holding a compliant position (see section 2.2.2). As for the instrumental position, firms are argued to hold a desire to avoid decreases in short term performance; a differentiation strategy could then respond (to some extent) to demands for CSR by consumers, employees, minority and community groups and the government, and possibly employ ethical product differentiation. A cost leadership strategy, on the other hand, besides looking for CSR activities that achieve resources at lower costs, could possibly employ CSR related process innovation and stakeholder integration that could lead to eventual cost reductions. This classification of an instrumental position assumes for both generic strategies an extrinsic motivation regarding CSR.
activities, gaining competitive advantage through CSR integration by explicitly communicating the activities. Such explicit communication could for example lead to greater visibility or improved reputation (see sections 1.2, 1.3 and 2.2.2). The good citizen position, which is assumed to be intrinsically motivated, enables ethical product differentiation next to responding to CSR demands by stakeholders for differentiation strategies. Cost leadership strategies could mainly focus on CSR related process innovation and stakeholder integration in this position; the pursuit of CSR activities which would yield resources at lower costs is possible, but does not necessarily have to be explicitly communicated. Finally, the intrinsic position is argued to be explicitly communicated, since CSR in this position is integrated into the business’ values, mission, strategy and operations. This attitude regarding CSR and its explicit communication allows differentiation strategies to build a virtuous corporate brand reputation. Cost leadership strategies holding an intrinsic position regarding CSR could focus completely on CSR related process innovation, stakeholder participation and the pursuit of CSR activities leading to the obtainment of resources at lower costs as CSR strategies. It should be noted here that corporate standpoints regarding CSR could shift gradually or even abruptly. An explanation for such shifts could be found either within a corporation itself (different preferences), but shifts could also be caused due to changes in the corporate environment (changes in the level of competition or changes in institutional pressures for CSR).

**Level of competition**

Once the corporate standpoint regarding CSR is established, environmental conditions allowing for a certain extent of CSR integration into business strategies can be evaluated. With regard to the level of competition that firms are facing, fierce competition does not seem to allow for much CSR integration in either one of the two generic strategies (see section 2.2.3). The combination of intrinsic desires for CSR and fierce competition might be especially difficult to manage; CSR activities can only be pursued if they do not yield extra costs compared to competitors. If corporations are extrinsically motivated to engage in CSR, such activities should only be performed when they would create cost advantages compared to competitors not performing such activities, or exactly because competitors are performing similar activities. In line with Van de Ven & Jeurissen (2005), ethical displacement, legal compliance and reputation protection are recommended as CSR strategies under fierce competition. Companies facing fierce competition whilst employing a differentiation strategy could, if possible, respond to demands for CSR with a specific focus on community groups and the government; cost leadership strategies could evaluate their competitors and exploit CSR opportunities in response to social opportunities and threats to achieve resources at lower costs. In the case of strong competition, the building of a virtuous corporate brand reputation or ethical product differentiation in order to gain competitive advantage should be possible for differentiation strategies. However, it is hypothesized here that intrinsically motivated firms are more likely to engage in the building of a virtuous corporate brand reputation than extrinsically motivated firms. Cost leadership strategies employed under strong competition are able to pursue all CSR activities that could lead to long run cost benefits, thus employing CSR related to process innovation, performing CSR in order to obtain resources, and stakeholder integration. It is hypothesized here that intrinsically motivated firms are more likely to engage in CSR related process innovation and stakeholder participation. Following Van de Ven & Jeurissen (2005), both differentiation and cost leadership strategies could also comply with the spirit of the law, and engage in stakeholder management, brand reputation management, and ethical reporting when dealing with strong competition. The third level, when competition is weak, does not necessarily stimulate the
integration of CSR into business strategies. As stated by Van de Ven & Jeurissen (2005), corporations facing weak competition could at least comply with the spirit of the law, and possibly engage in stakeholder management and ethical reporting. In order to maintain and possibly justify their competitive position, corporations following either one of the two generic strategies might consider applying some of the CSR strategies described above. To illustrate, one could consider De Beers, a cartel dominating the diamond industries for decades. On its website, the corporation explains how it actively engages in the Kimberley Process, to ensure that its diamonds are conflict free (see De Beers Group – Sustainability: Ethics). Even though this business has very much market power, it still feels the need to justify itself regarding activities that are prone to be criticized. A suggestion here is that intrinsically motivated firms are more likely to engage in CSR strategies than extrinsically motivated firms under weak competition.

**Institutional conditions**

It is argued here that institutional environments in which businesses operate can exhibit either conditions that are stimulating CSR integration into business strategies or conditions that are not specifically stimulating CSR integration (see section 2.2.4). Environments in which regulation and monitoring of corporations is present, whilst simultaneously employing organized dialogues between those corporations and their stakeholders are argued to be more stimulating for firms to integrate CSR into their strategies than environments which do not display these qualities (see Campbell, 2007). Other factors influencing the extent to which CSR is likely to be integrated into strategies are an environment’s sociocultural attitude regarding CSR and the national level of economic development (see Jones, 1999). Relating back to Campbell (2007), the threat of public exposure of corporate socially irresponsible behavior could also push corporations to change their business practices and adopt a more CSR-orientated approach. If an evaluation of present institutional factors indicates an environment that is overall stimulating CSR for businesses, differentiation strategies should definitely focus on demands for CSR by consumers, employees, minority and community groups, and the government. Such a CSR oriented environment could even be argued to possibly stimulate the building of a virtuous corporate brand reputation more than an environment which is not very focused on CSR. Cost leadership strategies are advised to employ stakeholder integration and CSR related process innovation through stakeholder inclusion. In the case that an environment is not so much stimulating CSR integration due to institutional factors, it is hypothesized here that firms employing differentiation strategies might be more prone to differentiate products ethically in order to gain competitive advantage than to respond to specific demands for CSR by various stakeholders. As for firms following a cost leadership strategy, it is assumed to be more likely that they will engage in CSR related to process innovation specifically through supplier – buyer collaboration and CSR activities leading to resource availability at lower costs than to focus on stakeholder integration in a not-specifically stimulating CSR environment. As previously explained in section 1.3, country-specific institutional frameworks determine whether corporations apply either explicit or implicit CSR, jointly with the organizational field of that corporation (see Matten & Moon, 2008). Two additional hypotheses are proposed here: coordinated markets will employ more CSR-stimulating institutions than liberal markets, and CSR communication will be more explicit in those liberal markets than in coordinated markets.
Corporate image & identity

Finally, an evaluation is necessary determining whether there is an alignment between a corporation’s conceived identity regarding CSR and what is communicated by that corporation about its CSR engagement (see section 2.2.1). As stated by Du et al. (2010), stakeholders as well as non-stakeholders derive their impressions of firms from the media; those firms should thus carefully communicate their intended images, which should be in correspondence with their corporate identity, so that an image can be developed in the media. For example, a firm’s conceived identity or image could reflect that stakeholders do not believe that a corporation is very active in CSR at all, whereas that corporation communicates that it engages in several types of (strategic) CSR. Relating back to Van de Ven (2008), this mismatch between conceived identity and communicated identity could be due to the corporation not having a strong reputation beforehand, or that a low fit is perceived between the corporation’s employed CSR activities and its core values and competencies. If such a mismatch or the failure to create alignment between image and identity occurs, a CSR strategy will be unsuccessful (see section 2.2.1). For example, a company that is active in the food industry would have a poor perceived fit with being active in raising HIV awareness as a CSR activity. It would make more sense for such a company to look for CSR opportunities related to for example fair trade or biological means of producing.
<table>
<thead>
<tr>
<th>Differentiation strategy</th>
<th>Corporate standpoints</th>
<th>Level of Competition</th>
<th>Institutional conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Compliant</strong>: limited response to stakeholder demands. Extrinsic motivation, implicit communication.</td>
<td><strong>Fierce</strong>: possibly respond to stakeholder demands (evaluate competition).</td>
<td><strong>Stimulating</strong>: focus on responding to stakeholder demands. Possibly build a virtuous corporate brand reputation. More coordinated markets, implicit communication.</td>
</tr>
<tr>
<td></td>
<td><strong>Instrumental</strong>: (limited) response to stakeholder demands, possibly ethical product differentiation. Extrinsic motivation, explicit communication.</td>
<td><strong>Strong</strong>: build a virtuous corporate brand reputation (intrinsically motivated), ethical product differentiation.</td>
<td><strong>Not-specifiedly stimulating</strong>: focus on ethical product differentiation. More liberal markets, explicit communication.</td>
</tr>
<tr>
<td></td>
<td><strong>Good citizen</strong>: ethical product differentiation, respond to stakeholder demands. Intrinsic motivation, implicit communication.</td>
<td><strong>Weak</strong>: all CSR strategies are possible.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Intrinsic</strong>: build a virtuous corporate brand reputation. Intrinsic motivation, explicit communication.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost leadership strategy</td>
<td><strong>Compliant</strong>: CSR to achieve low cost resources. Extrinsic motivation, implicit communication.</td>
<td><strong>Fierce</strong>: possibly employ CSR to achieve low cost resources (evaluate competition).</td>
<td><strong>Stimulating</strong>: CSR related process innovation through stakeholder inclusion, stakeholder integration. More coordinated markets, implicit communication.</td>
</tr>
<tr>
<td></td>
<td><strong>Instrumental</strong>: CSR to achieve low cost resources, possibly CSR related process innovation and stakeholder integration. Extrinsic motivation, explicit communication.</td>
<td><strong>Strong</strong>: CSR related process innovation and stakeholder integration (intrinsically motivated), CSR to achieve low cost resources.</td>
<td><strong>Not-specifiedly stimulating</strong>: CSR related process innovation through buyer – supplier collaboration, CSR to achieve low cost resources. More liberal markets, explicit communication.</td>
</tr>
<tr>
<td></td>
<td><strong>Good citizen</strong>: CSR related process innovation, stakeholder integration. Intrinsic motivation, implicit communication.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Intrinsic</strong>: completely focus on CSR related cost advantages and innovation. Intrinsic motivation, explicit communication.</td>
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</table>
3.2 Applying the framework

In the sections below, practical implications regarding both generic strategies and CSR integration are discussed through analyses following the framework from Figure 1. Nike, Inc is taken as a corporation that represents a differentiation strategy, whilst Primark represents a cost leadership strategy: as can be seen from the analyses below, taking the employment of either a differentiation or cost leadership strategy as a reference point leads to completely different CSR strategies for firms that are quite similar in their overall contextual corporate conditions. These analyses demonstrate the practical applicability of the framework that was developed in the section above.

3.2.1 Nike, Inc. – Product differentiation & CSR

Nike, Inc. is an American corporation that offers athletic footwear, apparel, equipment and accessories. Evaluating Porter’s definition of a differentiation strategy, Nike, Inc. is argued here to uniquely position its brand; it is striving to satisfy specific needs and charges a premium price for its products. Regarding its corporate mission, Nike emphasizes innovation, the desire to inspire, representing the highest service standard and building loyal consumer relationships (see nikeinc.com - About). When it comes to the currently employed CSR activities, the corporation states that it regards environmental, social and economic challenges as opportunities for change; sustainability is seen as catalyst for driving innovation (see nikeinc.com – Responsibility). Nike, Inc. engages in CSR activities such as recycling, sustainable energy technologies, improving access to sport, and The Nike Foundation investing in the development of adolescent girls. In its 2012-2013 Corporate Responsibility Report, Nike, Inc. states that it seeks ‘to deliver shareholder value through sustainable growth’ (Nike, Inc. FY13/13 Sustainable Business Performance Summary – Business Overview section) and that it aims to integrate sustainability into every aspect of its business. Central to Nike, Inc.’s CSR strategy is the innovation of manufacturing and materials. The corporation has created the NIKE Materials Sustainability Index (NIKE MSI) and a Sourcing & Manufacturing Sustainability Index (SMSI) in order to evaluate how materials and manufacturing could be improved more sustainably (see Nike, Inc. FY13/13 Sustainable Business Performance Summary). Nike, Inc. describes three strategic ways in which it argues to drive sustainable business innovation, being the provision of ‘sustainable products and services that enhance athlete performance’, the prototyping and scaling of sustainable sourcing and manufacturing models, and seeking ‘new sources of revenue not based on constrained resources’ (see Nike, Inc. FY13/13 Sustainable Business Performance Summary).

Opposed to this focus on CSR policies nowadays, in the 1990s Nike, Inc. employed a competitive, market-orientated governance of global value chains, often leading to the lowering of supplier wages and ‘sweatshop-like labor and or environmental standards’ (Lim & Phillips, 2007, p. 143). According to Nike, such circumstances occurred because the corporation did not own the factories itself, but outsourced its production to less developed countries in Asia (see Lim & Phillips, 2007). However, it was Nike, Inc. itself that was criticized for dealing with suppliers that were ‘credibly accused of wage law violations, child labor, excessive overtime, physical abuse of workers, and unsafe working conditions.’ (Lim & Phillips, p. 145) During this time, ‘CSR had become a factor in consumer choice for athletic footwear’ (p. 149), as explained by Lim & Phillips: having a good CSR image could prevent possible negative impacts for global brands such as adverse publicity, boycotts, and media exposes. Nike, Inc. had to endure severe criticism from the media and various stakeholders regarding poor practices in its supplier factories, which eventually caused the corporation to require those factories...
to comply with the Nike Code of Conduct. This development is in line with Lim & Phillip’s (2007) argument, stating that CSR concerns from global consumers can cause businesses to adapt their value chains and develop more secure relationships with their suppliers. Nike, Inc. moved from holding a compliant position regarding CSR (complying with the law in its Western home market), towards also requiring its suppliers to adhere to local standards and regulations such as minimum wage and working conditions in less developed Asian countries (see Sellnow & Brand, 2001). Eventually, the firm started to employ different means for governing its global value chains, enabling reformed relationships between the buyer and its suppliers, focusing on ‘a collaborative CSR partnership and embedded CSR values within the contractors’ business philosophy.’ (Lim & Phillips, p. 147) Evaluating CSR strategies for businesses employing differentiation strategies, Nike, Inc. has been responding to demands for CSR by stakeholders (such as consumers, employees, minority and community groups, the government) and developed its CSR further into the practices it is engaging in as of today. Reviewing its latest report on CSR, Nike, Inc. appears to aim for complete CSR integration into all its business levels: its descriptions regarding CSR bear resemblance with Van de Ven’s (2008) CSR strategy of building a virtuous corporate brand reputation. Nike, Inc.’s corporate communication regarding its CSR practices include social and environmental reporting, publication of its ethical code and having an interactive website (see nikeinc.com – Responsibility). I will now elaborate on whether these CSR strategies employed by Nike, Inc. are fit for the corporation by applying the framework that was developed in the section above, in order to provide possible recommendations.

**Nike, Inc.’s corporate standpoints**

As described in the section above, it can be argued that Nike, Inc. moved from an extrinsically motivated compliant position towards a more intrinsically motivated position towards CSR. Back in the 1990s, CSR was not integrated into the firm’s core strategy: the corporation adhered to domestic law and industry regulations, but only improved poor supplier-related circumstances in foreign environments after severe criticism. After Nike, Inc. started to respond to stakeholder demands for CSR, it appears to have become more intrinsically motivated to commit to CSR and is now claiming to aim for sustainability integration into all its business aspects. I would qualify its current position as a good citizen position (for now) rather than an intrinsic position: stakeholder concerns and environmental issues are being addressed, but there is no complete integration of CSR into the business’ values, mission, strategy and operations yet. Its main mission today is still to bring inspiration and innovation to athletes by providing good quality products and high service. It appears that Nike, Inc. is applying a triple bottom line, and (possibly) not so much engaging in CSR activities when they could have negative consequences for short term firm performance (yet). However, the firm does take measures that go further than an instrumental position regarding CSR would require, emphasizing specifically on innovation interwoven with CSR. At this moment in time, the focus appears to be on satisfying stakeholder demands for CSR whilst simultaneously contribute to finding solutions for global sustainability issues through innovation. A development from a good citizen position towards an intrinsic position would be possible, once Nike, Inc. succeeds in its goal to integrate CSR into every aspect of its business. Next to responding to stakeholder demands for CSR, the framework recommends ethical product differentiation for businesses holding a good citizen position regarding CSR. Nike, Inc. does not specifically seem to apply ethical product differentiation, but when reading the Corporate Responsibility Report, it appears to strive for the building of a virtuous corporate brand reputation by proclaiming its desire to fully integrate CSR into all its business aspects. In order to make sure that such a strategy would be successful, I would recommend
Nike, Inc. to first take the necessary steps to make the transition from holding a good citizen position towards an intrinsic position.

**Nike, Inc.’s level of competition**

The sportswear industry consists of other strong players besides Nike, Inc., such as Adidas and Puma. However, I would not qualify this industry situation as suffering from fierce competition, since players have financial room to bear costs and can distinguish themselves from their competitors: the level of competition faced by Nike, Inc. is regarded here as strong. Applying Porter’s (2008) analysis of competitive forces, it can be argued that rivalry among existing competitors in the sportswear industry is moderate to high. The largest players all have to anticipate each other’s moves, consumer preferences and new technologies. On the other hand, the threat of entry is not high: the sportswear industry has high capital requirements, large scale advantages and incumbency advantages independent of size such as established brand images. Even if new brands would enter the market, they probably would not be able to immediately compete on the same level as Nike, Inc. or Adidas. Bargaining power of suppliers is not that high either, since many factories and suppliers are available in this industry. The same goes more or less for the bargaining power of buyers, since there are many different consumers in the sportswear industry. However, consumers could influence the corporation eventually due to changing preferences or price sensitivity. Moreover, Nike, Inc. has to deal with wholesale channels, which have stronger bargaining power than individual customers. Finally, the threat of substitutes is low: there are no ‘real’ alternatives to sportswear, since for example wearing boots as a substitute for sports footwear would not allow for playing sports properly. Following Van de Ven & Jeurissen (2005) regarding strong competition and CSR, Nike, Inc. is complying with the spirit of the law, engaging in stakeholder management, brand reputation management and ethical reporting. With regard to CSR strategies and Nike, Inc.’s overall differentiation strategy, it could apply ethical product differentiation or the building of a virtuous corporate brand reputation. Evaluating the sections above, it can be argued that Nike, Inc. is striving to build a virtuous corporate brand reputation. This would be in line with the before mentioned hypothesis that intrinsically motivated firms are more inclined to develop a virtuous corporate brand reputation, assuming that Nike, Inc. is indeed applying intrinsic CSR. By endorsing on its CSR activities, Nike, Inc. could possibly differentiate itself from its competitors and gain a competitive advantage (see Carroll & Shabana, 2010).

**Nike, Inc.’s institutional conditions**

As can be seen from past affairs, Nike, Inc.’s worldwide institutional environment has been stimulating CSR. Whereas in the 1990s adverse publicity, media exposures and sociocultural attitudes basically pushed the firm to adhere to local standards and regulations besides domestic compliance, Nike, Inc. nowadays has to deal with increased industry regulation and monitoring as well. Over the past years there has been a growing establishment of several international frameworks encouraging CSR in which Nike, Inc. is involved, such as The United Nations Global Compact, The Global Reporting Initiative (GRI), the Fair Labor Association, and the Global Alliance for Workers and Communities (see United Nations Global Compact – Participants & Stakeholders). Related to the past issue with Nike, Inc. not feeling responsible for factory practices in Asian countries, it can be argued that ‘the social regulation of markets is increasingly taken up by non-governmental organizations (NGOs) which create new multi-stakeholder institutions to govern markets.’ (Marx, 2008, p. 253) Such NGOs and institutions are nowadays exerting pressure on businesses such as Nike, Inc. to engage in CSR. Evaluating both past actions in order to restore the corporate image regarding CSR practices
undertaken by Nike, Inc. and its currently employed CSR activities, the firm shows that it is responding to stakeholder demands for CSR resulting from the CSR-stimulating environment in which it operates. Following the framework, there should indeed be a focus on answering these stakeholder demands. Once the corporation ensures that the demands are continuously met, Nike, Inc. can allow itself to expand its CSR strategy to the building of a virtuous corporate brand reputation.

**Alignment communication / identity**

In order for CSR strategies to be successful, a corporation needs to have a strong reputation before engaging in those strategies (see section 2.2.1). During the 1990s, Nike, Inc.’s reputation regarding CSR was very much criticized: today however, the corporate reputation seems stronger than ever. Moreover, Nike, Inc.’s CSR activities seem to overlap with the company’s core value and competencies, since CSR employment is involved with innovation and inspiration. Nike, Inc. is communicating through its website that it is working towards achieving its ideal, desired identity of being a business that provides innovation and inspiration whilst integrating sustainability into all its business aspects. Its current actual identity is still evolving around just bringing innovation and inspiration, which is argued here to also entail the currently conceived identity. Once Nike, Inc. can realize its ideal, desired identity, it could communicate or label its CSR integration aspects more actively rather than passively through its website. Relating back to McWilliams & Siegel (2001), providing information about CSR attributes through advertising is emphasized in a differentiation strategy. Consumer awareness regarding Nike, Inc.’s desire to build a virtuous corporate brand reputation could be raised by more active advertising. This would allow for the conceived identity to transition from its current position to an alignment with Nike, Inc.’s newly integrated sustainability identity. Moving towards an intrinsic position as a corporate attitude or standpoint regarding CSR would enable Nike, Inc.’s desire for complete sustainability integration into every aspect of the business to become a reality, and lead to the possibility of building a virtuous corporate brand reputation. This could be marketed more explicitly and lead to a differentiation strategy based on innovation and inspiration through sustainability, setting Nike, Inc. apart from its competition and possibly enable the gaining of competitive advantage.

### 3.2.2 Primark – Cost leadership & CSR

The British-owned Irish clothing retailer Primark employs a cost leadership strategy, claiming to bring latest fashion for affordable prices. This strategy is possible due to Primark not being involved in advertising, focusing specifically on buying large volumes with low mark-ups, logistics, and supply chain management. Manufacturing is done in developing countries in Asia; designs are straightforward and made out of cheap materials, however the price / quality ratio appears to be sufficient. The corporation offers a diverse range of products, such as women’s- and men’s wear, home ware and accessories. All of these products are collected in usually very large stores. Regarding its CSR practices, Primark aims to include its employees, suppliers, and local and wider communities in its success by working with them in every possible way (see primark.com – Our Responsibility). Moreover, the business has joined the Ethical Trading Initiative in 2006 in order to implement code of conducts promoting respect for global workers’ rights (see ethicaltrade.org – About ETI), it supports local communities, and applies Packaging Waste Regulations. Due to being owned by parent company Associated British Foods (ABF), Primark adheres to the ABF CSR guidelines. Regarding raw materials and CSR practices, Primark has developed programmes in order to help farmers improve
the cotton they grow, increase their yields and reduce environmental impact. The corporation thus could be argued to aim to achieve CSR related process innovation, resulting in indirectly having more and better quality cotton available. Resources at lower costs through CSR practices are obtained by for example the recycling of clothing hangers and other plastics, and the reuse of paper and cardboard in Primark stores and operations (see primark.com – Our Ethics).

Similar to Nike, Inc., Primark does not own the factories that manufacture its products. However, the corporation claims to inspect each of those factories thoroughly and enforces its Code of Conduct. Such audits regarding safety, working conditions and fair wages occur before any orders are placed. However, on April 24th 2013, a building housing a factory supplying for Primark located in Bangladesh collapsed, causing a great number of victims. Primark has paid millions in aid and compensation to support the victims, and has initiated a programme of structural surveys in Bangladesh on buildings where manufacturing of the firms garments take place. Local teams composed of various stakeholders have been established to ensure compliance with international (fire) safety standards, with Primark being the first UK based retailer to sign the Accord on Building & Fire Safety. As mentioned by Husted & Allen (2001), by stimulating suppliers to adopt similar values regarding social objectives, Primark can manage relationships with those suppliers that can adhere to the cost leadership strategy. For example, manufacturing processes could adopt energy saving methods that also save costs in the long run (which would ultimately lead to the supplier products becoming available to Primark for lower prices). Applying this logic to the incident with the collapsed building in Bangladesh, suppliers that acknowledge and value building safety should be less likely to encounter future problems such as collapse and fires (which could be regarded as future risk reduction). By integrating various stakeholder perspectives, Primark engages in problem-solving relationships that could possibly lead to eventual cost reductions and future cost savings. Following Udayasankar (2008), Primark is able to integrate CSR into its core strategy because it is large enough in size: the corporation is visible and thus vulnerable to possible criticism, it has access to resources and its operations allow for CSR activities. Due to Primark’s large scale operations, CSR activities do not have to imply high additional costs: economies of scales are argued to allow for better allocation and more efficient exploitation of firm resources. In the section below, Primark’s CSR strategies are analyzed with the help of the previously developed framework for CSR integration.

Primark’s corporate standpoints
Evaluating Primark’s position regarding CSR, it is argued that the corporation holds more than a merely compliant attitude; joining the Ethical Trading Initiative, creating programmes for cotton farmers and signing the Accord on Building & Fire safety shows that Primark is willing to engage in initiatives that go beyond national laws and industry standards. It is argued here that Primark integrates CSR into its strategy because it either wants to protect its corporate reputation or because it feels an intrinsic motivation to do so, or a combination of the two. The position that appears to be most fit regarding Primark’s CSR attitude judging from the available information would be that of the good citizen. The corporation seems active in trying to satisfy stakeholder concerns, and balances financial, social and environmental performance through a triple bottom line approach. Primark is classified as holding a good citizen position rather than an instrumental one because the company does not employ explicit communication: CSR activities are passively communicated through the corporate website. No annual CSR report is being published. Primark employs the CSR strategies that are recommended in the framework for cost leadership businesses holding a good citizen position,
such as CSR related process innovation: it developed programmes aiming for quantity and quality improvement of cotton, and programmes regarding water and energy reduction methods for supplier factories. Moreover, Primark is involved in stakeholder participation, following its statement regarding the aim to include its employees, suppliers, and local and wider communities in its success by working with them in every possible way.

**Primark’s level of competition**
Primark faces competition from other clothing retailers offering trendy clothes for low prices in Europe such as H&M, Pull & Bear and Bershka (both Inditex). Similar to Primark, both H&M and the Inditex group have quite some market power, so competition is qualified as strong: evaluating Porter’s competitive forces (2008), rivalry amongst existing competitors in the low-price segment of the clothing retail industry is high. Each competitor in this segment should be able to provide the latest, on-trend fashion in approximately equal quality, for more or less similar prices. Since products offered in this segment are not very much diversified, consumers are argued to easily switch brands and would be mainly price orientated. As a consequence of this force of competitive rivalry, the threat of entry is moderate, since consumers might not have any problems switching to new brands (which generally do not have to deal with high entry barriers). However, established players will have large scale advantages over newcomers. Similar to the Nike, Inc. scenario, there are many suppliers available to firms such as Primark: bargaining power of suppliers is thus low. Bargaining power of buyers is low as well, since industry players have a large number of diverse, individual consumers. Corporations such as Primark sell directly from their own stores, so they do not have to deal with possible bargaining power of wholesale buyers. The final force, the threat of substitutes, is low in this segment of the industry: the only alternative to fashionable, affordably-priced clothing would be clothing coming from high-end, more expensive brands. Following Van de Ven & Jeurissen (2005) regarding strong competition and CSR, Primark is complying with the spirit of the law, engaging in stakeholder management, brand reputation management and to some extent, ethical reporting (through its website). The framework recommends all CSR activities that could lead to long run cost benefits to corporations facing strong competition whilst employing a cost leadership strategy: Primark is indeed engaging in CSR related to process innovation, achieving resources at lower costs through CSR activities, and stakeholder participation.

**Primark’s institutional conditions**
Similar to Nike, Inc.’s situation, corporations such as Primark which are outsourcing their manufacturing to low wage countries in Asia have to carefully balance their reputation regarding their involvement in poor practices taking place in the offshore factories. Relating back to Marx (2008), there has been a growing number of international frameworks and NGOs that have become involved in the social and environmental regulation and governing of markets, exerting pressure on firms to join their initiatives. In the case of Primark, its membership to for example the Ethical Trading Initiative stimulates its engagement in CSR activities. Moreover, it can be argued that the issue with the collapsed building in Bangladesh last year has caused extra media attention to Primark and other businesses which were involved with suppliers that were situated in that building. This incident has arguably created more attention regarding CSR and could have further increased stimulation for CSR by the environment in which Primark operates. Primark’s institutional conditions are thus argued to overall stimulate the integration of CSR into business strategies, which according to the framework would cause stakeholder participation and CSR related process innovation through stakeholder inclusion to be the most beneficial CSR strategies for businesses employing cost
leadership strategies. Evaluating Primark’s CSR activities, it could be argued that it indeed focuses mostly on those two CSR strategies.

Alignment communication / identity
Regarding Primark’s goal to include its employees, suppliers, and local and wider communities into all its processes in order to bring affordable products, the performed CSR strategies seem fit: stakeholder participation is integrated, and there is a focus on developing programmes for sustainable product realization and process innovation. Justifying cost benefits by communicating how they were achieved through CSR practices might be a very valuable strategy for cost leadership firms. Whereas Primark applies the recommended CSR strategies according to the framework, the question remains whether or not relevant stakeholders (especially consumers) actually regard Primark as a socially responsible enterprise. Another relevant issue is whether Primark consumers even care whether or not the corporation is actually socially responsible at all. Those who value CSR can find out about Primark’s initiatives easily through the corporate website, those who value low cost products over CSR will probably feel neutral regarding CSR as long as it does not affect the Primark price level. It is thus argued here that Primark properly balances its conceived identity with its communication regarding CSR. The firm does not necessarily profile itself as a corporation that completely focuses on CSR practices; however, one could easily access Primark’s employed CSR activities and policies if desired.
V. DISCUSSION

Whereas this thesis aims to establish what types of CSR activities would be successful taking into account corporate strategy in order to provide tailored recommendations, the focus is on merely two generic strategies (differentiation and cost leadership). No business context is the same, and although the classification regarding differentiation strategy or cost leadership strategy is insightful and easily applicable, there is more to strategy than just the focus on satisfying specific buyer needs or cost advantages. However, the inclusion of more details regarding an employed business strategy and CSR impacts is beyond the scope of this thesis. The framework that has been developed should be regarded as a simplified starting point in evaluating what type of CSR strategy would work for a specific business; it should be noted that corporations are dealing with dynamic and complex environments in reality. Besides the contextual factors discussed in this thesis, there could be other factors and conditions present in specific corporate environments which influence the extent to which a business would be able to apply CSR strategies.

Regarding the application of the framework to the corporate situations of Nike, Inc. and Primark, it can be argued that those two firms display similarities regarding their corporate standpoints towards CSR, the overall level of competition they face, and the institutional conditions in which they operate. Moreover, both Nike, Inc. and Primark are active in the global apparel industry. The line of thought in this thesis was that the similarities regarding contextual factors between the two companies would highlight the differences in CSR employment due to Nike, Inc. following a differentiation strategy and Primark a cost leadership strategy. It could be interesting to see how the application of the framework would turn out when matched to firms which operate in other industries than the global apparel industry, with corporations holding other positions regarding CSR, facing other levels of competition, and dealing with different institutional conditions. Finally, it should be noted that the framework was developed on the basis of theoretical implications; its practical application to the scenario’s of Nike, Inc. and Primark was based on CSR strategies that are already currently employed by those two firms.

With a growing awareness of societal problems and the involvement of business, there appears to be a focus on what the responsibility of corporations should be in both the present and future. Porter & Kramer (2011) see a key role for businesses in linking corporate success (economic value) and social progress (social value) by creating shared value. This shared value is defined as ‘policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.’ (p. 66) However, Robins (2005) amongst others expresses some concerns when it comes to the growing interest in CSR activities performed by businesses nowadays. The author argues that CSR inevitably leads to business becoming entangled in socio-political decision-making, which would not necessarily be commercially or economically beneficial for business. Contrary to this, the arguments that were developed in this thesis have emphasized that a tailored strategic approach towards CSR is possible, with a focus on the alleged benefits of CSR and its integration into business strategies. Evaluating the framework displayed in Figure 1 and the analyses regarding Nike, Inc’s and Primark’s strategic CSR practices, it can be concluded that businesses can in fact be profitable whilst doing good.
VI. CONCLUSION

It was investigated in this thesis how businesses can integrate CSR into their strategies in order to adhere to social and ecological causes, whilst simultaneously remaining profitable. First, it was explained how CSR integration can contribute to the creation of competitive advantage. The main findings indicate that engaging in CSR activities can lead to the possibility of cost and risk reduction, improved corporate reputation, enhanced legitimacy through transparent reporting of activities, and synergistic value creation. Perceived motivations regarding CSR integration can influence stakeholder attributions, which emphasizes the importance of proper fit between CSR causes and company profiles. Intrinsic, extrinsic, and mixed motivations to employ CSR activities can be distinguished, with different motivations being backed by various literary models and theories. Moreover, apart from motivational differences, it was also found that corporations can communicate their CSR activities differently. The choice as to whether communicate CSR integration implicitly or explicitly is argued to be influenced by the institutional framework and organizational field in which a corporation operates.

Businesses following a differentiation strategy that want to integrate CSR could employ the strategy of responding to specific demands for CSR from consumers, employees, community and minority groups, and the government, or apply ethical product differentiation. Moreover, they could strive to build a virtuous corporate brand reputation. Those who adhere to a cost leadership strategy are recommended to look for CSR activities that could secure resources at lower costs, apply CSR related process innovation, or engage in stakeholder integration. Regarding contextual factors that can influence the extent to which CSR can be integrated into business strategies, both corporate characteristic factors and corporate environmental factors were discussed. The importance of alignment between corporate identity and corporate image regarding CSR is underlined, relating to the corporate standpoints that firms can hold towards CSR. These attitudes regarding CSR encompass a compliant position, an instrumental position, a good citizen position or an intrinsic position. As for the level of competition, it was argued that a curvilinear relationship exists between the level of competition faced by corporations and the willingness to integrate CSR activities: firms that face either fierce or weak competition will engage in less CSR activities than firms facing strong competition. Finally, institutional conditions present in a company’s environment can be either regarded as stimulating CSR integration or not specifically stimulating CSR integration. Examples of such stimulating conditions are the presence of public and private regulation, monitoring by NGOs, and dialogues between stakeholders.

Figure 1 displays a framework that connects the contextual factors with the two generic strategies of differentiation and cost leadership, providing an oversight regarding CSR strategies. Applying the framework to the scenario’s of Nike, Inc. and Primark, it was found that those corporations are currently employing the CSR strategies that are most fit to their specific situations to a great extent. Nike, Inc. is responding to demands for CSR coming from consumers, employees, community and minority groups, and the government; moreover, it appears to be striving to build a virtuous corporate brand reputation. Primark is mostly active in CSR related process innovation and stakeholder integration.
VII. REFERENCES


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