CORPORATE SOCIAL RESPONSIBILITY AS A TOOL FOR GAINING COMPETITIVE ADVANTAGE

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ABSTRACT: The profit maximization objective of business organizations have created business environments where managers are expected to solely achieve this objective regardless of the influence their business has on the society they operate in. Corporate social responsibility encompasses the business organization’s economic, legal, ethical and philanthropic expectations placed on the organization by the society. While many scholars and managers view CSR as a waste of a business’ resources, advocating that the sole aim of an organization is to maximize profit, and that managers are not well trained to perform CSR activities, other scholars and managers have deeply studied and promoted the benefits of CSR, one of which is the ability of CSR activities to serve as a strategic tool for gaining competitive advantage, especially in small businesses in Nigeria that face steep competition from established international organizations that benefit from economies of scale and are able to provide the same goods and services to consumers at a cheaper price and sometimes better quality. This study adopts a case study methodology in analyzing the strategic benefits derived by House of Tara, a small businesses operating in the beauty and makeup industry in Nigeria as a result of the CSR activities initiated and implemented by its management team. House of Tara has grown from a door to door makeup business to a major player in the beauty and makeup industry in Nigeria and other West African countries. Based on this study, it is concluded that CSR does have a strategic role in gaining competitive advantage such as consumer (external) and employees’ (internal) loyalty.

INTRODUCTION: The debate on Corporate Social Responsibility (CSR) is intersected at the point where one hand of the spectrum analyze that the numero uno objective of a business organization is to maximize profit and shareholders wealth, thus managers should focus singularly on this objective and ignore any diverting activities such as CSR activities which may hinder managers from advancing the primacy of shareholders (Friedman, 1970; Jensen, 2000; Pfeiffer and Jones, 1998; Vroom and McCann, 2009, Ejumudo, Edo, Avweromre and Sagay, 2012), on the other hand researchers such as Barnard (1938), stipulate that CSR activities can foster businesses’ profit maximization objective, through its ability to serve as a strategic tool for gaining competitive advantage, as measured through loyalty from various parties of the organisation’s stakeholders such as customers, employees, government and society, resulting from the business’ involvement in corporate social responsibility (Ejumudo, Edo, Avweromre and Sagay, 2012; Sharp and Zaidman, 2009; Saeed and Arshad, 2012).

Corporate social responsibility (CSR) is defined as a business organization’s economic, legal, moral, social and environmental responsibility (Barnard, 1938). Ejumudo, Edo, Avweromre and Sagay (2012) defined CSR as the commitment of companies towards encouraging community growth and development and voluntarily eliminating practices that are not in accordance...
with public interest. Saeed and Arshad (2012)
analysing CSR from the competitive advantage
viewpoint define CSR as an effective management
tool used to strengthen the organisation’s
performance through a better image in the
stakeholder’s mind.

Following the above definitions, it is thus safe to
posit that while organisations by law are expected to
perform ethically as defined by the society they
operate in, the ability of a firm to engage in
additional CSR activities may have the ability to
foster the firm’s repetitional capital both internally
and externally (Crowther and Aras, 2008). This
study aims at linking CSR with competitive
advantage for small business in industrialised
industries in Nigeria from a strategic management
perspective, thereby enriching the discussion on
social responsibility and contributing to existing but
scarce literature on CSR as a strategic tool to gain
competitive advantage.

Literature Review: Corporate Social
corporate social responsibility (CSR) as the means
through which a corporation is held accountable for
any of its actions that affect people, community and
its environments. Similarly, CSR is defined as the
continuing commitment by organizations to behave
ethically and contribute to economic development
while improving the quality of life of the workforce,
their families and the local community and society at

Crowther and Aras (2008) outline four different
definitions of CSR, firstly as the relationship
between global corporations, governments of
countries and individual citizens, secondly, as the
relationship between a business organization and the
local society in which the organization operates,
thirdly, as the relationship between the business
organization and its stakeholders and fourthly, a
business’ responsibility towards its future and that of
members of the society. Adeyanju (2002) explains
that CSR is concerned with treating the stakeholders
of a firm ethically or in a socially responsible
manner. Commonly agreed, CSR is thus viewed as
the relationship between a business organization and
the society it operates in (consisting of the
organization’s stakeholders).

Carroll’s pyramid of corporate social
responsibility: Carroll (1991) divided the
definition of CSR into four aspects: the
economic, ethical, legal and philanthropic
aspects, all illustrated via a pyramid. Where CSR
is considered to be framed in such a way that the
entire range of business responsibilities is
embraced. The economic component of the
pyramid which serves as the base deals with the
corporation’s responsibility to make profit, the
legal component highlights the organization’s
ability to comply with laws and regulations,
while the ethical responsibility focuses on how
an organization embraces values and norms, and
finally, the philanthropic responsibility of the
organization covers those actions that are
expected from a company as a good corporate
citizen (Adeyanju, 2012).

The Principles of CSR: Following the debate on
the right definition of CSR, Crowther and Aras
(2008) outlined three basic principles utilised in
testing the activities carried out by management
in order to ascertain the extent to which CSR
activities are carried out.

These principles are:

1. Sustainability: This analyzes the impact
   actions taken today have on the future
   (Crowther and Aras, 2008), it mostly deals
   with the scarcity of resources, especially
   non-renewable resources such as coal, iron
   or oil, e.t.c. Thus sustainability in CSR is
   concerned with the effectual management
   of resources consumed by the organisation,
   to ensure the resources are regenerated at
   an even faster rate than been used up
   (Crowther and Aras, 2008).

2. Accountability: This is concerned with an
   organisation recognising that its actions
   affect the external environment, and
   therefore assuming responsibility for the
   effects of its actions. More specifically, the
   concept implies a reporting of those
   quantifications to all parties affected by
   actions of the organisation, thereby
   necessitating the development of apposite
measures and reporting or performance to stakeholders (Crowther and Aras, 2008).

3. Transparency: This refers to the extent at which an organisation’s report reveal pertinent facts of the impact of the actions of the organisation, i.e. an organisation’s ability to avoid disguising in reporting necessary information needed by stakeholders. Thus the information provided to the organisation’s stakeholders from the organisation’s reporting procedure/instrument should be obvious (Crowther and Aras, 2008).

Corporate Social Responsibility objective as oppose to profit maximization objective of a firm: Bowen (1953) alongside other Utilitarian champions of corporate social responsibility such as Bentham, Locke and J.S. Mill posits that the business organisation’s mission should not be exclusively economic but the social implication of their decision should be taken into cognisance, thus putting the greater good of the people above the good of the individual in this case the business organisation (Crowther and Aras, 2008). Dahl (1973) maintains that it is mandatory for enterprises, especially large enterprises to view themselves as social enterprises whose main responsibility is serving the public, similarly, Carrol (1979) attests that business encompasses the economic, legal, ethical and discretionary expectations that society has of the organisation at any given time. In more recent literature, Balabanis, Philips and Lyall (1998) acclaim that managers should play an increasingly active role in the welfare of the society.

On the other hand of the spectrum, Milton Friedman, as quoted in Stohl (2005) amongst other scholars, conclude that the social responsibility of a business organization is to increase its profits, i.e. to make as much money as possible while conforming to the basic rules (embedded in law and culture) of the society, thus managers should squarely face this responsibility which they are trained for, rather than performing “societal” responsibility. Levitt (1958) further mentioned, “government’s job is not business and businesses job is not government”. Other promoters of this side of the CSR argument are Hetherington (1973), who opines that there is no justification for shareholders to willingly accept an amount of corporate non-profit activity, which appreciably reduces either dividends, or the market performance of the stock, Drucker (1984), who states that businesses should turn a social problem into economic opportunity and economic benefit into productive capacity, into human competence, into well-paid jobs, and into wealth, thus rather than “giving” back to the society, a business manager should be actively searching for social problems and exploiting them to become wealth (Crowther and Aras, 2008).

Theories highlighting the intersection between CSR and Profit maximization: Agency Theory: The relationship between the manager and the shareholders of an organization is seen to be as that of an agent and principal, where the agent (managers) are expected to act in the best interest of the principal (the shareholders), it is thus assumed that irrespective of personal interests, managers will make the same decisions that the shareholders will make under any given circumstance, that would lead to a maximization of their wealth (McWilliams, Siegel and Wright, 2005).

The agency theory therefore seeks to understand and explain what really happens in practice in the relationship between the agent and the principal, recognising that managers are in practice unlikely to ignore their own self-interest in making decisions. The agency theory assumes that both the principal and agent are rational economic persons, that act consistently and rationally, both possessing variant preferences, beliefs and information and attitude to risk, wishing to each maximize the value or benefit they place on any economic good they receive, i.e. their utility (Donaldson and Preston, 1995).

Simply put, the shareholders supply capital to the firm and hire managers to act on their behalf, while managers allocate the firm’s resources between productive investments and the consumption perquisites, thus the decision to perform CSR activities, and the extent to which CSR activities are performed by any given organisation, is dependent on the trade off between the managers ability to manage his
external environment while meeting the objectives set out by his internal environment, these internal environment objectives are usually outlined in the principle - agent agreement between the shareholders and the managers (Crowther and Aras, 2008). An agency theory perspective implies that CSR is a misuse of corporate resources that would be better spent on value-added internal projects or returned to stakeholders (McWilliams, Siegel and Wright, 2005).

**Freeman Stakeholder theory:** This theory supports the functioning of CSR activities by managers, asserting that managers are not only responsible to shareholders, but also to other stakeholders of the organization, which includes the organisation’s employees, customers, suppliers, local community organisations, government, amongst others, which constitute the society the business operates in. Following Chester Barnard’s (1938) inducement - contribution framework, the propounder of the Freeman Stakeholder theory, R. Edwards Freeman argues that it is beneficial for the firm to engage in CSR activities, as this will help positively shape the perception of the firm by its non-financial stakeholders. The theory was further analyzed by Donaldson and Preston (1995), who assumed the position of moral and ethical justification of CSR activities, and the influence of these activities on the business (McWilliams, Siegel and Wright, 2005).

**Resource-based-view of the firm:** Following the above theories, and explaining for the strategic implication of CSR activities on the business organisation, it thus becomes imperative for the resource based view of the firm to be visited. The resource based view theory in the context of the implication of strategic CSR activities on the businesses’ competitive advantage assumes the business organisations are made up of heterogeneous resources and capabilities (Wernerfelt, 1984; Barney, 1991), thus a firm’s ability to gain competitive advantage will be dependent on how valuable, non-sustainable, rare and non-imitable these resources are. Empirically tested, Russo and Fouts (1997) accepted the alternate hypothesis that firms with higher levels of environmental performance had superior financial performance than others. McWilliams and Siegel (2001), similarly tested the impact of social responsibility on firms, through their simple model which comprised of two companies producing identical products, except one firm added an additional “social” attribute or feature to the product, which was valued by some customers and other stakeholders. It was observed that the business organization with the added social benefit outperformed the other. Similarly, Branco and Rodrigues (2006), Barney (1991), and Oliver (1997) express CSR as an essential resource for business organizations, acknowledging that organizations can capitalize on their unique resources for sustainability, which must meet the Resource based view (RBV) criteria of: valuable, inimitable, rare and immobile, thus building unique resources such as reputation, employee capabilities, and knowledge and network of relationships (Motilewa, Onakoya, Oke, 2015).

It is however essential for managers to perform a cost benefit analysis to determine the level of resources to devote to CSR activities/attributes. I.e. assessing the demand for CSR against the cost of satisfying this demand (McWilliams, Siegel and Wright, 2005)

**Strategic management and social responsibility:** Strategic management as defined by Andrews (1987), is an organization’s decision- making standard that determines the objectives, policies and plans outlined in achieving organizational goals. For the scope of this paper, corporate strategy is adopted to denote general strategies developed by managers in an organization. In view of the relationship between strategic management and social responsibility, Porter and Kramer (2006) discuss the presence of an interdependent relationship between corporations and society, and the possible influence (positive and negative) that relationship can have on the organization. Strategy and CSR as defined by the Ethos Institute (2007) is a structure of management that depicts the ethical relationship and transparency between a business organization and all its stakeholders, inclusive of the formation of corporate goals that are well-suited
with the sustainable development of the society, through the preservation of environmental and cultural resources, and the respect for diversity and support of reduction of social harms. Mintzberg (1983) and Pearce and Doh (2005) assess CSR strategies as a business organization’s drive to act socially responsibly, which is embedded in corporate objectives of organizations.

CSR should be considered as a strategic investment of a firm because it is an integral element of a firm’s business and corporate-level differentiation strategy. Even when not directly tied to a product feature or production process, CSR can be viewed as a form of reputation building or maintenance. McWilliams and Siegel (2001) suggest that CSR activities be included in strategy formulation and that the level of resources devoted to CSR be determined through cost/benefit analysis. The provision of CSR will depend on R&D spending, advertising intensity, the extent of product differentiation, the percentage of government sales, consumer income, the tightness of the labour market, and the stage of the industry life cycle (McWilliams and Siegel, 2001). It is hypothesised that some level of CSR will maximise profits while satisfying the demand for CSR from multiple stakeholders, which can be determined by the cost-benefit analysis. In a study by Reinhard (1998), it is observed that firms engaging in CSR-based strategy can only gain competitive advantage through this strategy when they prevent competitors from imitating same strategy.

Conclusively, Burke and Logsdon (1996), Husted (2003) and Zadek (2005) outline that the following variables: social strategy, internal competencies and resources, organisational values, market opportunities, structure of the industry and stakeholders should be connected with the core business of the organisation in formulating the organization’s social corporate strategy (Porter and Kramer, 2006),

**Freeman’s Types of social strategies:** Freeman (1984), and Freeman and Gilbert (1988) categorised social responsibility strategies into the following:

1. Stockholder Strategy: Maximise benefits to stockholders or “financial stakeholders”
2. Managerial Prerogative Strategy: Maximise the interest of management
3. Restricted Stakeholder Strategy: Maximise the interest of a narrow set of stakeholders (usually the consumers or the society)
4. Unrestricted Stakeholder Strategy: Maximise the interest of all stakeholders
5. Social Harmony Strategy: Act to maintain or create social harmony
6. Rawlsian Strategy: Act to raise the level of the worst-off stakeholder,
7. Utilitarian Strategy: Maximise benefits to the society
8. Personal Projects Strategy: Maximise ability of corporate members to carry out personal projects.

**Measurements of strategic social responsibility:**

**Customer loyalty as a result of reputation capital:** Reputations are results of a competitive process where business organizations indicate their key characteristics to stakeholders with an intention of maximizing their socioeconomic and moral status (Saeed and Arshad, 2012). Reputation capital refers to a stakeholder’s perception of the value of an organization, resulting from their interaction with the organization (Oswald, 1996). This can be related to customer’s willingness and intention to purchase a good or service, desirability for employees and employees’ strong desire to be identified with the organization (Caruana, 1997). The relationship between CSR and reputation capital views the ability of CSR activities to drive the above listed measurements for reputation capital, thereby leading to increased organizational gains as a result of increased customer confidence in services which influence buying decisions, and increased employees drive for good performance (Putnam, 1995; Roberts and Dowling, 2002).

**Employee Satisfaction as a result of Social Capital:** Internal CSR practices views a business organization’s commitment to improving the lives of its staff, through such practices as talent development, employee rights, diversity management and work safety and health, which are positively linked to emotional and normative
commitment of employees, thus influencing their perceptions about the organization and their willingness to be productive, thereby bonding the human resources of an enterprise to form a cohesive workforce, that is, social capital, thus serving as a competitive advantage firms can bench on (Saeed and Arshad, 2012).

Social capital refers to features of social organization that create an environment of mutual benefits and coordination (Putnam, 1995). Commonly understood as a resource that inheres in social relations and networks formed by goal orientation and shared trust (Leana and Van Buren, 1999), thus resulting in customer loyalty and trust. CSR has been proven to create reliable social networks for organizations and social capacity (Goddard, 2005) initiating and facilitating strong work network, relationship and custom, which enhance cooperation and collective action (Putnam, 1993). Good corporate social capital can serve as a guarantee for high performing workers, thus serving as an indicator of its ability to attract talented employees (Hamori, 2003).

**CSR and Product Differentiation:** Through the inclusion of special “social” features in products, business organisations are able to leverage on differentiation, which can strengthen or maintain the organisation’s reputation, thereby adding value to the firm, in addition to allowing the firm meet a particular market demand (Formbrun and Shanley, 1990).

**CSR and Reputation Enhancement/Protection:** Organisations that publish annual reports on social responsibility, mostly multinational corporations engage this as a form of reputation enhancement/protection, thus deriving great benefits. Business organisations undertake CSR reputation enhancement/protection in two forms:

1. Persuasive CSR advertising, which attempts to positively influence consumer tastes for products with CSR attributes.
2. Informative CSR advertising, which simply provides information about the CSR characteristics of CSR managerial practices of the firm.

Milligram and Roberts (1986) asserts that consumers most often view a high level of CSR advertising as a signal of product or firm quality.

**METHODOLOGY:** This study carried out a qualitative research in examining the extent to which corporate social responsibility can serve as a strategic tool for gaining competitive advantage for small businesses operating in Nigeria. Through a case study approach, the study reviewed existing literature on House of Tara, a makeup business operating in the beauty and makeup industry in Nigeria. The study analysed how the organization is able to survive competition in an international brand dominated market and gain recognition in the industry as the “brand of the people” through engagement in CSR activities.

**CSR in Nigeria:** The emphasis on corporate social responsibility in Nigeria arose following the arrival of Shell-BP, a multinational oil corporation on discovery of oil in Oloibiri in the Niger Delta region of Nigeria in 1956. Following the ecological damage as a result of the exploration of this oil, in the 1990s, various ethnic groups especially in the Niger Delta region began to demand compensation for these damages to the land, water and air, which resulted in terrible health conditions and a loss of livelihood in fishermen dominated villages. Today, demand for compensation through CSR activities by organizations has extended to all businesses operating in all industries, especially larger corporations who are seen to be able to “afford” these CSR activities (Motilewa, Onakoya, Oke, 2015).

**Background to case study: House of Tara:** House of Tara International is the leading beauty and make up company primarily in Nigeria and other Western countries in Africa. Set up in 1998, the organization has three main streams: a makeup studio, a makeup academy and a makeup product line. In the fully dominated makeup industry in Nigeria, with international products such as MAC; MaryKay; Maybelline, House of Tara has been able to distinguish itself,
upgrading to the status of a market leader through its ability to participate in CSR activities focused on empowering women and raising young entrepreneurs in the beauty industry. Today, House of Tara has grown from a makeup company to a women development brand.

**CSR activities engaged in by House of Tara:** In its mission statement, House of Tara carefully outlines its commitment to touching as many lives as possible, which has been embedded in the very core of the organization’s culture. The organization’s CSR activities are targeted at building and supporting women across Africa, starting from Nigeria. Some of the CSR projects carried by House of Tara include:

- **Breast cancer awareness:** Partnerships with Genevieve Pink Ball Foundation through provision of increased funding for quality breast cancer research.
- **Scholarship into the house of Tara make-up schools for budding makeup artists.**
- **Beauty Business on the Go (BBOG):** In partnership with First City Monument Bank, Nigeria, House of Tara has dedicated a platform to groom women that have passion to become beauty representatives.
- **100 voices:** An initiative to create awareness and support their make-up artists who decide to build their own businesses.

**Strategic Benefits of House of Tara’s CSR activities:** House of Tara has in its seventeen years of existence established its brand as both a makeup brand and a “society responsible” brand, one that is very interested in the development of women across Africa, thus Nigerians have gotten attached to the brand not solely because of the quality or price of the product, in comparison to other international brands that operate in same market, but consumers get the satisfaction that for every purchase they make, the organization is able to further develop the society through its various CSR activities, thus increasing the organization’s reputation among its various stakeholders.

Also, House of Tara heavily invests in training its workers, providing them with an avenue to collaborate with the organisation should any of their workers decide to start their own beauty firm, thus creating a body of employees that are very passionate about the brand and the success of the organisation. The first international recognition of the brand in Africa’s SMME awards in South Africa in 2007, was a result of the brand’s social responsible activities, which further created brand awareness, thus serving as a source of advertisement.

However, it is essential to note that while House of Tara actively participates in CSR activities, the CSR activities have been strategically linked with the organisation’s mission of empowering women through beauty an makeup entrepreneurship.

**CONCLUSION AND RECOMMENDATION:** Corporate social responsibility, if strategically implemented, has the ability to serve as a strategic tool for gaining competitive advantage, especially in an industrialised industry, where competition is stiff. Two major measurements of the influence of CSR on the competitive advantage of firms are the creation of reputation (external) and social (internal) capital. It was observed in the case of House of Tara, that the organization established itself as a market leader in its industry, effectively competing and gaining competitive advantage over international makeup brands by fully engaging in CSR activities that helped build a strong army of customers and workers. It was also observed that the CSR activities engaged in by House of Tara, was strategically linked to the objective of developing women beauty entrepreneurs in Africa.

Thus managers are advised to strategically outline CSR activities such that they are linked directly to the objective of the firm as stated in its mission. It is also recommended that small businesses that want to compete effectively in an industry should see the society they operate in as king, as the society’s acceptance of the business will determine whether or not the business will perform effectively, as is observed with the level
of acceptance Nigerian’s have for the House of Tara brand, which has enabled the organization to compete effectively and even gain market leader position.

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