

CSR orientation and organisational performance in the Australian retail industry

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Abstract

This paper aims to contribute to current business ethics literature by conceptualising the relationship between organisational culture, corporate strategy, and target stakeholders and the formation of a CSR orientation. The paper will further explore whether corporate social responsibility policies and practices will result in an overall improved positional advantage for the firm and, as a consequence, positively enhance organisational performance. These relationships will be examined within the context of the retail industry in Australia, focusing on the food, clothing and textiles, and footwear sectors.

Introduction and Research Context

The concept of corporate social responsibility (CSR) is one that has existed for a long period of time. It has, however, gained particular importance in academic literature, trade publications, and in the media in this new millennium (Anderson Jr., 1989; Hay, *et al.*, 1976). Whilst being socially responsible is often considered doing the “right thing” or being ethical, Carroll (1979) identifies that the organisation also has economic, legal, and discretionary obligations to its target stakeholders. Internal and external stakeholders are requesting that organisations act responsibly, behave ethically, and respond to the changing wants and demands of target audiences (Anderson Jr., 1989; Committee for Economic Development, 1971; Steiner, 1972). Social responsibility plays a significant role and greatly impacts the retail industry both in Australia and internationally. For the financial year ending 2006, there were almost 6,200 supermarket and grocery retailers operating around Australia (National Association of Retail Grocers of Australia, 2007). The major participants in the market (Woolworths and Coles) had almost 1,500 stores, 78-79% market share, and sales of almost \$60 billion (when including ALDI and Pick ‘n Pay (Franklins) (National Association of Retail Grocers of Australia, 2007). In the past the oligopolistic retailers Coles and Woolworths have been accused of blocking new entrants to the food retail industry as well as forcing others out and avoiding becoming involved in competition with one another (FoodBev, 2008). In addition, abuses of human rights and poor working conditions are often associated with the clothing, textiles, and footwear industries as organisations fight to compete with one another on price, keep their overall costs low but ensure high profits for their shareholders (Dickson and Eckman, 2006). The Australian retail industry, therefore, presents an important context in which to examine corporate social responsibility, its antecedents and performance outcomes.

Literature Review

Corporate social responsibility

The notion of corporate social responsibility has existed for a long period of time in the literature (Bowen, 1953; Carroll, 1979; Sethi, 1975) and in the practices of working organisations. Corporate social responsibility can be defined as those policies, activities, or behaviour undertaken by an organisation that goes beyond the traditional economic and legal obligations that the firm has with its target internal and external stakeholders (Bowen, 1953;

Carroll, 1979; Davis, 1960; McGuire, 1963). What “goes beyond” these traditional responsibilities is influenced and therefore ultimately demanded by the norms, values, and expectations of stakeholders of the organisation and are classified as being ethical or moral obligations (Frederick, 1960; Sethi, 1975). Responding to these ethical obligations must be voluntary in nature and will eventually benefit and improve the overall welfare of the community in which the firm operates (Jones, 1980). In order for these benefits to eventuate both the organisation and its stakeholders have a responsibility to work together (Anderson Jr., 1989).

Corporate social responsibility (CRS) orientation

Embedded in the RBV theory is the premise that an organisation’s distinctive or superior capabilities may be a source of advantage over competitors and lead to superior performance (Barney, 1991; Day and Wensley, 1988). Barney (2001) defines capabilities as only those firm attributes that enable the firm to coordinate and make use of its resources. Hooley, Broderick, and Moller (1998) contend that business orientations are fundamentally capabilities of the firm, as they set the firm’s direction and activities to ensure resources are fully exploited. Peterson (1989) defines business orientations as the underlying philosophies that determine the nature and scope of a firm’s activities and plans. These fundamental guiding principles determine the organisation’s basic values and goals, as well as the strategies the firm uses to compete in its marketplace (Fritz, 1996). Fritz (1996) discusses six fundamental orientations that affect corporate management. These six dimensions are market orientation, production and cost orientation, financial orientation, technology and innovation orientation, employee orientation, environmental and social orientation (Fritz, 1996). An environmentally and socially orientated firm has corporate goals pertaining to the welfare of society and the protection of the environment as well as of a positive corporate image and public opinion (Fritz, 1996). Further an employee oriented firm has employee satisfaction and a social responsibility to maintain job sites as part of its corporate goals and a financially oriented firm has goals of profit and return on investment (Fritz, 1996).

This conceptual paper proposes that corporate social responsibility may also be conceptualised as a business orientation. A firm which is considered as being CSR oriented can be said to engage in aspects of the three managerial orientations (Fritz, 1996) that are outlined above. However these three orientations are not all encompassing and do not factor in all the other elements traditionally associated with corporate social responsibility (as identified by (Carroll, 1979)). Carroll (1979) notes that organisations have four responsibilities or obligations to the society in which they operate. They are: economic, legal, ethical, and discretionary. The economic and legal responsibilities are obligations that have always existed for organisations and obligations that will continue to exist in the future regardless of further changes in the mindset of consumers (Drucker, 1984). They include producing a product that is demanded by consumers and ensuring that the organisation is obeying legislation enacted by the government at all levels. The ethical and discretionary responsibilities outlined by Carroll (1979) are not always undertaken by organisations. While some firms have always been regarded as being ‘ethical’ companies, others simply react and adapt their marketing strategies to changes in the way consumers perceive what is ‘right’ or ‘ethical’ and what is ‘wrong’ or ‘unethical’. It is difficult to determine what is deemed as ethical behaviour by a firm due to the subjective nature of the obligation. Discretionary obligations go one step further than an organisation’s ethical responsibilities with judgment as to what is involved with this responsibility left to the individual (Carroll, 1979). This study seeks to build upon the Fritz (1996) corporate management model and Carroll’s (1979) four

obligations by examining the values and attitudes, goals, and strategies associated with an organisation that is CSR oriented.

Organisational Culture

Schein (1984) defines organisational culture as “the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, and have worked well enough to be considered valid, and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.” Organisational culture helps to explain why an organisation behaves the way it does and shapes the beliefs of the employees of a firm regarding what is important and what is unimportant (Gray and Balmer, 1998). Deshpande, Farley, and Webster (1993) examine organisational culture on a two dimensional continuum (internal maintenance to external positioning and mechanistic processes to organic processes). From this two dimensional continuum an organisation can be classified as one of four distinct cultures: clan, adhocracy, hierarchy, or market. A *clan culture* is made up of cohesiveness, participation, teamwork, and a sense of family and emphasises the development of human resources, commitment, and a sense of morale. An *adhocracy culture* is known to be creative, adaptable, and entrepreneurial in nature. This culture aims to be innovative whilst allowing the firm to grow. A *hierarchical culture* is one that stresses uniformity and order while relying heavily on rules and regulations. Strategic outcomes of such a culture are a predictable, stable, but smoothly run organisation. Finally, a *market culture* emphasises competitiveness and the achievement of goals. This is believed to result in a competitive advantage as well as superiority in the market. It is believed that organisational culture influences the degree that a firm considers itself to be CSR oriented. If the shared values and beliefs of the employees of the organisation are orientated in such a way as to act and behave morally, as well as to consider the ethical demands of its stakeholders, then a firm should be better able to develop and implement socially responsible policies and philosophies. *Proposition 1: Organisational culture will have a positive relationship with CSR orientation.*

Corporate strategy

Gray and Balmer (1998) define strategy as the “master plan that circumscribes the company’s product/market scope, its overall objectives, and the policies and programmes through which it competes in its chosen markets.” Corporate strategy serves as a blueprint of the organisation’s key strategies and objectives (Gray and Balmer, 1998; Melewar and Karaosmanoglu, 2006). Corporate strategy is “the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers, and communities” (Andrews, 1997). A corporate strategy that includes goals that are considered as ethical or moral in nature and policies in which to achieve these goals will more likely develop an orientation that is deemed to be socially responsible. *Proposition 2: Corporate strategy will have a positive relationship with CSR orientation.*

Target stakeholders

Stakeholders play a large role in the formation of an organisation’s corporate social responsibility policies and practices. Maignan and Ferrell (2004) comment that there are four main categories of stakeholders. The first is organisational which includes consumers,

employees, suppliers, creditors, and shareholders). The second is the community which includes local residents and interest and lobby groups. The third is regulatory bodies including all levels of government. The fourth is the media. Buchholz (2004) adds a fifth category which is the natural environment. It can be noted that as an organisation has a large number of stakeholders it, as a result, has an extensive number of obligations to consider (Balmer, *et al.*, 2007). These stakeholders have many different demands and concerns which at times may be in conflict with the perception of the firm by its target stakeholders. An organisation that is aware of and concerned with the demands of its stakeholders has a moral obligation and, as such, an 'enlightened self-interest' in ensuring that the behaviour and activities of the organisation are in balance with its obligations to both its shareholders' and other stakeholders' interests (Balmer, *et al.*, 2007). *Proposition 3: Target stakeholders will have a positive relationship with CSR orientation.*

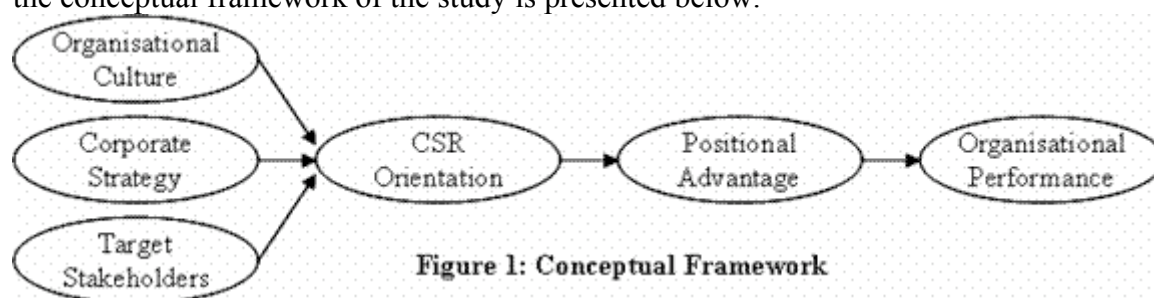
Positional advantage

Central to the conceptualisation of corporate social responsibility as a business orientation is the pursuit of a positional advantage. The sources-position-performance framework suggests that sources of advantage, such as business orientations, are transformed into positional advantage, which in turn results in superior organizational performance (Day and Wensley, 1988; Hunt and Morgan, 1995; Matear, *et al.*, 2004). Johnson (1987) argues that retailers have essentially two bases upon which competitive advantage can be sought, namely, cost-focussed and market focussed. The cost and market focus can also be considered similar to Porter's (1985) framework of generic strategies for achieving competitive advantage, which include cost leadership (input focussed), differentiation (output focussed) and focus. Where an organisation can operate at a lower cost than competitors, while offering product parity, it can achieve a cost leadership advantage (Porter, 1985). In contrast to cost leadership is the differential strategy. This strategy is the foundation of the positional advantage construct under investigation in this study. Ghosh (1994) proposes that the creation of a positional advantage based on differentiation, which he refers to as differential advantage, is necessary in order for a retailer to survive in the current competitive climate. Retailers must not only achieve differential parity, they must give consumers superior reasons to visit their stores compared to their competitors (Ghosh, 1994). Business orientations contribute to positional advantage through the creation of superior value for customers (Langerak, 2001; Woodruff, 1997). It is believed that a firm that has a strong CSR orientation will be invested in creating continual superior value not just for its customers, but for all of its target stakeholders. *Proposition 4: CSR orientation will have a positive relationship with positional advantage.*

Organisational performance

As outlined by Carroll (1979), the main obligation that an organisation has to its stakeholders is to produce goods and services to fulfil the needs and wants of society and as a result produce a profit. This is the economic responsibility of the firm. There are many critics of Carroll's (1979) economic and moral responsibilities. Milton Friedman in his influential 1962 book *Capitalism and Freedom* states that "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud" (Friedman, 1962/2002). Levitt (1958) agrees in part with Friedman's (1962/2002) statement commenting that the main function of business is to focus on obtaining the highest level of sustained profitability it can. More simply put the "corporation's business... is making money" (Levitt, 1958). However, unlike Friedman (1962/2002), Levitt (1958) is not opposed socially responsible behaviour stating that responsible activities and welfare "makes good sense if it makes good economic sense".

The firm's target stakeholders demand that the organisation invests into the community in which it is located. However, the most important question for many organisations that engage in corporate social responsibility is whether being socially responsible results in superior performance. Superior performance may indicate increased profits, achievement of strategic goals, or a competitive advantage over other businesses operating within the same industry. As the first responsibility an organisation has is an economic one to its shareholders, managers and organisations may be hesitant to invest in such strategies if a proven link between corporate social responsibility and financial performance is not made (McWilliams and Siegel, 2000). McWilliams and Siegel (2000) in their analysis of extant literature argue that there have been mixed results of the financial impact of such well-doing strategies on short-term and long-term profitability of the organisation. Orlitzky *et al.* (2003), however, discuss the link between corporate social performance and financial performance stating that evidence suggests that, as a result of a firm engaging in socially responsible practices, overall profitability of the firm will increase. There is a lack of consensus in the literature with regard to relationships between CSR orientation and organisational performance (especially in terms of the financial performance of firms) providing further support for more empirical investigation.. **Proposition 5:** *A strong positional advantage will have a positive relationship with organisational performance.* Building on the literature review and research propositions, the conceptual framework of the study is presented below.



Conclusion

The issue of an organisation being involved in socially responsible activities and policies is one that has existed in one form or another in the retail industry for a long period of time. The literature on corporate social responsibility however is piecemeal in nature and the effectiveness of a corporate social responsibility philosophy has largely been measured by examining the financial reports of the organisation. The literature further lacks substance and detail regarding the definition of corporate social responsibility with no studies existing that examine corporate social responsibility as an orientation. This article proposes that in order for an organisation to be considered as 'doing the right thing' and being ethical it must adopt a corporate social responsibility orientation that affects the behaviour, activities, and strategies of both the firm and its employees. If this is implemented this article further postulates that this philosophy will result in a positional advantage for the firm and increase overall performance with regards to both financial and strategic goals of the firm. An organisation cannot simply adopt a corporate social responsibility orientation without considering a number of important factors. This article highlights the culture of the firm, its corporate strategy, and its internal and external target stakeholders as three such factors. A combination of these three antecedents will influence the degree to which an organisation can be deemed to be CSR oriented. This study has important implications for the food, clothing and textiles, and footwear sectors of the Australian retail industry with regards to the issue of social responsibility and aims to examine a number of gaps in the literature that have been

previously outlined as well as establishing measures of determining the effectiveness of corporate social responsibility strategies other than via secondary data.

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