

# The Construction of Competitive Advantage from the Perspective of Corporate Social Responsibility

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## Abstract

**The purpose of the competitive strategy is to improve the competitive advantage and the performance of the enterprise. More and more attention has been paid to the crucial role of corporate social responsibility in the construction of competitiveness by the academic and practical circles. Based on the resource based theory and the institution theory we find the theoretical basis for a close relationship between CSR and the competitiveness of enterprises. We conclude that enterprises should implement the strategic CSR to enhance the capacity and improve the institutional environment, cultivate relational capital, which will be the effective way for enterprise to carry out the CSR activities to enhance the competitive advantage.**

## Keywords

**Corporate social responsibility, Competitive advantage, Resource based theory, institution theory.**

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## 1. Introduction

Corporate Social Responsibility (CSR) is one of the frames of reference that attempts to articulate the role that companies should play in society. In research and theoretical construction, CSR is elaborated from different perspectives, such as social performance, corporate ethics, corporate governance, social contracts, and stakeholder management. CSR is a management commitment to protect and enhance social welfare and corporate interests. Management must not only achieve internal company goals, but also social benefits. The main idea of CSR is that companies should participate in social activities, not just assume economic roles. This means that the company is not only responsible for corporate behavior and its results, but also for the social and environmental impacts it generates.

## 2. Corporate social responsibility

The view of resources considers supporting social responsibility behavior as a mechanism that can bring about a competitive advantage. Stakeholders provide organizations with various resources, such as capital, consumers, employees, materials. The system view emphasizes that CSR helps companies obtain legitimacy from stakeholders. In return for corporate socially acceptable or legal behavior, they also provide the company with a "operating license." In order to strengthen the social contract that allows companies to continue operations, companies need to take responsibility for society. In the case where the company's response to conventional competition methods has been unable to achieve a competitive strategy, the relationship capital provided by CSR is the key intangible resource for the company to obtain a competitive advantage.

### 3. Competitive Advantage

#### 3.1 The Internal Foundation of Competitive Advantage—Competitiveness

Competitiveness is the strength of an organization relative to its competitors. Traditionally, productivity has been used as a good indicator of corporate competitiveness. However, this view is based on a tangible performance measurement index system, which is insufficient because it does not take into account the important source of competitiveness of intangible capital. Enterprise competitiveness includes four elements: innovation ability, key internal and external relations, reputation and strategic assets. In this way, the competitiveness framework considers key tangible and intangible resources that can provide a competitive advantage for the business.

#### 3.2 External performance of competitiveness-competitive advantage

The concept of competitive advantage is rooted in the logic of value creation and distribution. A company has a competitive advantage when the value it creates in a transaction in which it participates is greater than the value it creates if the company does not participate in the transaction. Well-known methods of gaining competitive advantage include Porter's strategic model, business typology, resource concept, dynamic capability method, and core competitiveness theory.

#### 3.3 Competitive Advantage Theory

##### (A). View of resources

The view of resources considers the company to be a "collection of productive resources" that are used to create value and competitive advantage. The more valuable and scarce the resources, the more significant the company's advantage. The harder the company's resources are to imitate and the more irreplaceable it is, the more sustainable the company's competitive advantage. The resource perspective emphasizes the need to acquire "unique" resources.

Consistent with the concept of resources, the ethical environment created by CSR is a path-dependent asset, with a high degree of exclusivity and social complexity, thus setting up barriers to imitation. The ethical environment, such as reputation, is cultivated within the enterprise and cannot be traded on the market or acquired. In addition, because the ethical environment is intangible, it is deeply embedded in organizational culture. Considering the intangible characteristics of the ethical environment, compared with physical resources, it is more likely to become a source of competitive advantage.

##### (B). Institutional theory

Companies are embedded in a multi-level institutional environment, and corporate decisions depend on the systems they operate. The institutional environment creates a series of implicit or explicit rules about organizational structure and behavior, and companies comply with these rules in order to demonstrate the legitimacy and resources necessary to ensure development.

Institutional theory assumes that individuals tend to submit to external social pressures, while resource perspectives assume that individuals tend to optimize the economic choices available. According to institutional theory, companies make normative and rational choices (shaped by the company's social environment), while the view of resources believes that companies make economically rational choices (shaped by the company's economic environment). Institutional theory believes that external social pressures (such as government regulation and public interest groups) reduce the differences in corporate structure and strategy, while the resource concept believes that the incompleteness of factor markets (such as factors hindering resource imitation) increases difference.

Combining the view of resources and the theory of the system, the company is an entity with resource capital and institutional capital. Resource capital is an asset and ability to enhance value in a company. Institutional capital refers to a company's ability to support capital and capabilities that can enhance value. Institutional capital is the environment surrounding a resource strategy that can promote or hinder the optimal use of valuable resources. Resource capital and institutional capital, as complementary sources of competitive advantage, are acquired in different ways. Through the above

analysis, we can see that CSR can play an effective role in the construction and sustainable development of the company's resource capital and institutional capital, thereby improving the competitive advantage of the company.

### **3.4 Source of competitive advantage**

The first dimension distinguishes the physical and conscious dimensions. Tangible elements (such as equipment, raw materials) and intangible elements (such as culture, communication, and knowledge) play an important role in creating company value. As the industrial society becomes a service society, and knowledge and information become the pillars of the company's growth, the importance of intangible resources is increasingly apparent. Compared with tangible elements, intangible elements such as organizational culture are more inelastic, difficult to accumulate, and difficult to transfer; it affects and is affected by many corporate activities; it is not consumed in use. A large number of studies have shown that CSR has shown great potential in creating intangible resources for enterprises.

The second dimension is internal and external to the enterprise. The concept of resources emphasizes the importance of the company's internal resources—company-specific capabilities, knowledge, and assets in creating competitive advantage. Industrial economists point out that external factors play an important role in a company's product market. External areas include various components. They participate in transactions in products, factors, labor, and capital markets, as well as institutions. CSR helps companies effectively integrate resources from inside and outside the company, create a good institutional environment, and strengthen their competitive advantage in the market.

Two dimensions describe behavior in four areas, in which the business interacts with various components. The external material domain includes various markets--mainly products, labor, factors, and capital markets--where resources are traded between firms and various components. In the internal material area, company resources are used to produce products and provide services. Internal consciousness resources refer to the micro-culture of the company as shaped by knowledge, values, beliefs, and company systems and practices. In the field of external consciousness, including expectations, performance standards, corporate reputation and institutional environment, it has continuously deepened and formed a macro culture of the industry.

## **4. CSR and competitive advantage**

### **4.1 Theoretical basis of the relationship between CSR and competitive advantage**

Heslin and Ochoa (2008) believes that strategic CSR forms a cognitive learning laboratory, which not only provides fertile ground for organizational learning, innovation, and cultivation of core competitiveness, but also that organizations can gain knowledge in letting people understand CSR. Vilanova et al. (2009) theoretically believe that CSR and competitiveness are interconnected through a cycle of learning and innovation, in which company values, policies and practices are redefined. Marc Vilanova (2007) states that image and reputation are presented through three management processes: a). Strategy, b). Stakeholder management and, c). Fiduciary responsibility connects CSR and competitiveness. That is, adopting a CSR strategy affects image and branding, which directly affects competitiveness, because it integrates sustainable development into the company's vision through company strategy (Mintzberg, 1987, 1993), improves understanding of the complexity of the company's environment, and through stakeholders Strengthening management and relationships with key stakeholders (Donaldson and Preston, 1995; Freeman, 1984; Kay, 1993), improving organizational transparency through a trusted accountability management process (Elkington, 1998; Pruzan, 2001 Valor, 2005). Żychlewicz Maja, Krupa (2014) believes that CSR, as a tool of public relations, is an effective strategy to enhance the competitive advantage of enterprises.

### **4.2 Empirical test of the relationship between CSR and competitive advantage**

Scholars have empirically tested the relationship between CSR and competitive advantage theoretically. Mar ń L, Rubio A, De Maya SR. (2012) examined the conditions under which CSR affects competitiveness, that is, corporate strategy, scale, and the regulatory effects of the industry.

Based on empirical studies of 144 companies, the authors demonstrate that CSR has a positive impact on competitiveness. This effect is even more pronounced for large companies and companies with aggressive strategies, but there is no significant difference between the service industry and manufacturing. Competitiveness includes four dimensions: internal process, open system, rational goals and human relations. Taking 450 small and medium-sized enterprises in the manufacturing industry in Guadalajara, Mexico as a survey object, Sanchez et al. (2013) found that there is a correlation between CSR variables and competitiveness, among which competitiveness includes technology application, cost reduction and Three dimensions of financial performance.

## **5. The path from CSR to competitive advantage**

### **5.1 Implement strategic CSR to make competitive advantage sustainable**

Using CSR to gain value for the company was first described by Baron (2001) as a "strategic" CSR. Strategy The word "strategy" in CSR has two meanings. On the one hand, social responsibility should be integrated with the core business activities of enterprises to ensure that their economic activities have positive environmental and social impacts. Another implication is that the CSR method can promote the realization of the goal of maximizing corporate profits. Strategic CSR means that in order to increase product demand or reduce costs, redistribution attracts stakeholder groups. It is part of an enterprise differentiation strategy, that is, companies provide public Products (environmentally friendly and socially responsible behavior) that serve private interests by increasing sales to socially responsible consumers.

From a strategic perspective, whether CSR can become a source of great social progress depends on the choice of CSR activities. Strategic CSR can also unlock shared values by investing in social aspects in an environment that strengthens a company's competitiveness. When companies add the social dimension to their value proposition, the most strategic CSR emerges, making social impact an integral part of the overall strategy. The closer the relationship between social issues and the company's business, the greater the opportunity to use the company's resources and capabilities to gain society.

Using competitive advantage theory, the key connotation of strategic CSR is that this behavior can be integrated into the business level and incorporated into the cost leadership or product differentiation strategy of the enterprise. Strategic CSR can improve relative price or cost status on the one hand, and improve social or environmental conditions on the other.

According to the view of resources, strategic CSR behavior can enhance competitive advantage by creating and managing resources and capabilities. According to the institutional view, CSR can cultivate and maintain the company's ability to relationship with external stakeholders (hence the establishment of social capital and management reputation). These are critical to building sustainable competitive advantage.

## **6. Conclusion**

Carry out CSR activities to improve the ability of corporate relations, while enhancing the competitive advantage of enterprises, and then promote the development of the entire human society. The implementation of relationship capacity is a key condition for human development. Relational capabilities include individual and collective capabilities; it reflects human relations. A company is a network of interrelationships that affect different interrelationships between individuals and groups, and this relationship is affected by individual and group behavior. The number and quality of relationships within the company and between the company and its stakeholders affect social and economic networks. The core competence of an enterprise to successfully carry out CSR activities is to properly handle the relationship with stakeholders and enhance the relationship ability of members. This depends on the accurate positioning of the enterprise in the relationship network and adjustment

as the economic and social environment changes. If social development is understood as the improvement of relationship interests, then companies should start to improve their relationship capabilities on the one hand; on the other hand, promote the quality of the relationship between people and groups of the company, the relationship between the company and the environment through CSR activities, and realize the members of society Improvement of overall relationship quality.

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