

# Corporate Social Strategy in Multinational Enterprises: Antecedents and Value Creation

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**ABSTRACT.** In this article, we examine the relationship of the multinational firm's market environment, stakeholders, resources, and values to the development of strategic social planning and strategic social positioning. Using a sample of multinational enterprises in Mexico, we examine the relationship of these different ways of conducting social strategy to the creation of value by the firm. The market conditions of munificence and dynamism, and the resource for continuous innovation are found to be related to strategic social positioning. The social responsibility orientation of the firm is related to strategic social planning. Positioning is related to value creation for the multinational firm, but planning is not. We discuss the implications of these findings for research and practice.

**KEY WORDS:** corporate social responsibility, social strategy, value creation, multinational enterprise

In the past decade, strategic management research has turned to examining the impact of non-market

factors on competitive advantage and corporate performance. Much of this work has focused on corporate social responsibility (CSR) in the attempt to demonstrate that positive CSR can be linked to improved financial performance (Griffin and Mahon, 1997; Margolis and Walsh, 2001; McWilliams and Siegel, 2000; Waddock and Graves, 1997). To date, however, the results have been, at best, mixed, in some cases showing a positive relationship between the two; in others, a negative relationship; and in still others, no relation.

These inconclusive results, we believe, are due in large part to the failure to specify under what conditions CSR can be categorized as *strategic*. This is necessary if we are to identify when CSR can be expected to be linked to improved performance, and to discern whether managing CSR to achieve competitive advantage does, in fact, "pay off".

The impact of CSR on corporate financial performance is not simply an "academic" affair. Investors have committed to CSR via ethical investment funds (e.g., The Domini Fund, Dow Jones Sustainability Index) while firms have dramatically increased spending and involvement in CSR (e.g., U.N. global compact; firm annual reports). In short, investor and management behavior has adapted to new expectations regarding firm commitments to stakeholders and contributing to solving social problems. Many of these stakeholders, moreover, argue that CSR is positively related to firm financial performance, principally through improved reputation (Business for Social Responsibility, 2003; Harris-Interactive, 2003).

In this article, we argue that this positive relationship between CSR and financial performance will be found when executives *design* CSR projects in ways that seek to create competitive advantages

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for the firm (Burke and Logsdon, 1996). We term such intentional strategic corporate social responsibility, *corporate social strategy* (CSS). Just as business strategies allocate resources to achieve market-based competitive objectives, CSS allocates resources to meet social objectives. In both cases, the firms must achieve competitive advantage in order to achieve these objectives. In CSS, competitive advantage is a result of the fit between the firm's social strategy and the external environment, including market and non-market stakeholders, as well as the firm's internal environment, including values and resources (Andrews, 1987). We argue that without taking into account the fit between these environments and the use of CSS, the link between social performance and financial performance will be unclear, a kind of hit-and-miss proposition, much as we are observing in the literature.

Given the paucity of research dealing with corporate social responsibility in an international context (Gnyawali, 1996), we examine specifically the use of social strategy by the multinational firm in a host market. Building on the theory of resource dependency, we conceptualize the market environment in terms of its dynamism and munificence. We argue that multinational firms are more likely to use social strategy in relatively stable markets characterized by resource scarcity. Also building on the resource-dependency approach, the non-market environment is conceptualized in terms of the salience of governmental, employee and non-governmental organizational stakeholders. Salience is dependent upon the power of the stakeholder as well as the legitimacy and urgency of their interests. We argue that the more salient these governmental and community stakeholders, the greater the use of social strategy.

In order to conceptualize the multinational firm itself, we build upon the resource-based view of the firm. The firm's resources of continuous innovation and stakeholder integration, as well as its values for social responsibility and progressive decision-making, are also related positively to the development of social strategy and competitive advantage.

In order to test this theory, a survey instrument was developed on the basis of the main elements of corporate social strategy as defined above. Items to measure the market environment, stakeholder salience, and values were taken from the existing

literature. We developed measures of the firm resources of continuous innovation and stakeholder integration based on the literature. Tests of the validity and reliability of these measures demonstrate that they are valid and reliable.

Data was collected from 96 multinational enterprises operating in Mexico in 2002. The data was analyzed using different standard statistical techniques, including regression analysis. The results generally confirm the importance of three of the four sets of variables (market environment, resources, and values) in determining the development of a firm's social strategy and the relationship of a social strategy to a firm's competitive advantage. We conclude by discussing the research and managerial implications of these findings.

## Theory

### *Social strategy*

Although strategy may be planned or unplanned, deliberate or emergent (Ansoff, 1991; Mintzberg, 1990), our research into the management of firm social action, distinguishes between those firms that deliberately design and measure social action program from those that do not (Liedtka, 2000). Among the design approaches, planning, and positioning are particularly relevant to social action. Firms may be said to have social strategy based on the importance given to: (1) defining a plan for social action, (2) intensity of investment in social programs, (3) commitment of employees, (4) perceived impact of social action on competitive position, and (5) measuring outcomes of programs. Alternatively, social strategy may exist in a second sense when a firm positions itself with respect to social issues. In both cases, we are interested in social strategy as a matter of prescription, rather than of mere description. The CSR-FP literature has long shown that the mere description of the impact of CSR on financial performance has been inconclusive. We are thus interested in social strategies that evidence firm commitment and intent and thus go beyond an emergent focus.

However, whether such commitment leads to competitive advantage and superior firm performance

is a separate and vital question. Strategic management research is intractably undecided as to what conditions make planning or positioning conducive to value creation. In the 1990's, there seemed to be agreement that where markets are highly dynamic and competitive environments unpredictable (Eisenhardt, 2000) planning may be a stumbling block to success. On the other hand, recent research efforts seek to recuperate the utility of planning in complex, dynamic environments (Grant, 2002).

Perhaps, then, the only conclusion we can make regarding strategy as design is that top managers plan and position when they believe that it is useful. In general, the larger the firm, the more at stake, and the greater the perceived need for design. Not surprisingly, oil firms were pioneers in this effort (de Geus, 1988). Axiomatically, firms are more likely to formulate strategy deliberately when they perceive either that significant opportunities may be missed or that key business areas may face significant, undetected risks.

As regards social action, specifically, design then is an indication that firms perceive significant opportunity or social risk. However, such deliberate formulation is not sufficient to demonstrate that firms are seeking to create or do create value via social action.

For this reason, our definition of social strategy includes the perceived impact of social action on competitive advantage. In other words, there must be some strategic intent (Hamel and Prahalad, 1989) that confirms that the plan is directed toward the creation of competitive advantage. Strategic intent is demonstrated not just in design, but also in the management of firm resources (employee time given to social action, for example) and management policy (attention given to key stakeholders), so that a pattern of behavior emerges that indicates that the firm values social action as a means of achieving sustainable competitive advantage.

#### *Antecedents of social strategy*

Economics is fundamentally a science about the management of scarce resources. Typically, strategy has focused on both the external opportunities and threats to the firm and internal strengths and weaknesses (Andrews, 1987; Barney, 1991). We understand

both the external and internal environment of the firm to be defined in relationship to these scarce resources. Our understanding of the external environment is shaped by resource-dependency theory (Pfeffer and Salancik, 1978), while our understanding of the internal environment is shaped fundamentally by the resource-based view of the firm.

Demonstrating which firm behaviors are most likely to be associated either with social strategy as planning or positioning is a daunting task. The key difficulty emerges from the orientation of social strategy toward building intangible firm resources such as employee commitment and improved stakeholder relationships that require considerable time to develop (Barney, 1991; Hall, 1993).

In contrast to traditional strategic management approaches, social strategy focuses on the relationship of non-value chain related activities, such as corporate philanthropy, to the creation of competitive advantage. The competitive advantages firms achieve are largely relationship oriented, and affect how key stakeholders interact with the firm (Hillman and Keim, 2001).

Keeping in mind that social action is a non-value chain activity, and that therefore the process of value creation is both highly complex and long-term, it is not surprising that few firms are currently managing their social action within competitive strategy. Those that do, we would argue, are likely to be those that are also innovating in management and are prepared to seek out new ways of achieving success. We expect, then, to find a correlation between social strategy and innovative management practices such as continuous innovation and enhanced employee participation.

In sum, social action is usually oriented toward building firm resources that are not directly part of the value chain, but rather contribute to the firm's ability to build competencies in areas such as continuous improvement. In addition, we will argue that such long-term resource building is much more likely to be stimulated in an environment in which resources are scarce. Although highly munificent environments are associated with organizational slack, which makes it possible for management to experiment with non-value chain activities, the strategic imperative for corporate social responsibility by the multinational corporation arises in scarce, although relatively stable environments.

*External analysis: resource dependency**Industry environment*

Modeling the influence of industry environment on social strategy raises difficult questions that have vexed strategy researchers for the last two decades (Eisenhardt, 2000). We are faced with firm heterogeneity, permeable industry boundaries, dynamic capabilities and managerial perception of industry structure (Sutcliffe and Huber, 1998)—a complex environment that raises important challenges for understanding the impact of industry structure on the firm's business and social strategy. Industry structure is a dynamic construct by which firms define product markets and competitors (Sampler, 1998). As product markets and competitors shift their domains, so do managerial definitions of the industries in which their firms compete. For social strategists, understanding and measuring dynamic industry structure requires a rich view of firm environment in which managers assess their ability to build competitive advantage as they acquire and manage resources.

Our approach is to look at top management perceptions of industry structure via two fundamental environmental variables: dynamism and munificence (Dess and Beard, 1984; Keats and Hitt, 1988; Sutcliffe and Huber, 1998). These two dimensions of firm competitive environment are indicators of the perceived relationship a firm has with both its principal competitors and principal stakeholders. Resource dependency theory holds that managers develop strategies in response to their relative power as they compete for scarce resources (Dess and Beard, 1984; Pfeffer and Salancik, 1978). How managers perceive the terrain of the competitive industry environment (dynamism, munificence) are key indicators of managerial understanding of opportunities for engaging in social strategy and the likelihood of success.

Dynamism and munificence are derived from the environmental analysis literature (Dess and Beard, 1984; Keats and Hitt, 1988; Sutcliffe and Huber, 1998). Dynamism measures the perceived degree of difficulty in predicting external events that may affect the competitive environment (Aldrich, 1979). Munificence refers to the availability of resources to support growth in a given competitive environment

(Dess and Beard, 1984; Staw and Szwajkowski, 1975; Sutcliffe and Huber, 1998).

Creating sustainable competitive advantage in dynamic competitive environments is difficult and expensive (Miller, 1988). As such, firms in dynamic environments are more likely to experiment with non-value chain activities at home, rather than abroad. In a host country, the multinational firm is more likely to use social strategy as a way to position itself in relatively stable environments in which other forms of differentiation are more difficult or unavailable. Moreover in low munificence environments, firms may lack resources to engage in traditional product differentiation strategies. Strategic social positioning is most likely to be effective in less dynamic and less munificent markets where product differentiation is difficult and price competition is intense. In these cases, strategic social positioning may provide an important alternative to differentiate the company, its products and/or services.

**Hypothesis 1** The lower the dynamism and munificence of an industry, the greater the use of strategic social positioning.

*Non-market stakeholders*

Stakeholder theory is essentially about “managing potential conflict stemming from divergent interests” (Frooman, 1999: 193). Freeman's (1984: 46) now classic definition of the stakeholder broadly includes all persons or groups that “can affect or [are] affected by the achievement of an organization's objectives.” Although his definition is widely debated and numerous other definitions have been offered (Mitchell et al., 1997), these stakeholders form the fabric of the social structure in which firms operate and determine to whom the firm is responsible. The interaction of stakeholders with divergent interests create the issues, which provide the opportunities and threats with respect to which firms position themselves through their social products. However, not all stakeholders receive the same attention from firms because attention is a limited resource that must be allocated efficiently (Simon, 1976). A firm's attention and response to a stakeholder depends largely on that stakeholder's salience (Henriques and Sadorsky, 1999).

Stakeholder salience refers to “the degree to which managers give priority to competing stakeholder claims” (Mitchell et al., 1997: 854). According to the theory of stakeholder salience developed by Mitchell et al. (1997), salience is itself a function of the power and legitimacy of the stakeholders as well as of the urgency of the claims made by stakeholders upon the firm. Stakeholder power is directly related to the firm’s dependence on the stakeholder for valuable resources (Pfeffer and Salancik, 1978; Frooman, 1999) as well as the structure of stakeholder networks (Rowley, 1997). Empirical research has confirmed that a high correlation exists between power, legitimacy, and urgency on the one hand and stakeholder salience on the other (Agle et al., 1999). Highly salient stakeholders represent both a potential opportunity for cooperation and a potential threat to the firm (Savage et al., 1991). As the salience of a stakeholder group increases, due especially to increased power, firms tend to either develop a collaborative strategy in which they work together jointly with the stakeholder as a partner or a defensive strategy in which they reduce dependence on that stakeholder (Freeman, 1984; Savage et al., 1991).

Social strategy is possible in situations characterized by highly salient stakeholders that have the capacity to cooperate with the firm (Freeman, 1984; Savage et al. 1991). These are the “mixed-motive” stakeholders that have the potential to both collaborate with and threaten the firm, such as non-governmental organizations, employees, and governments. In such situations, the firm and its stakeholder negotiate in order to find integrative solutions in what is a “two-person, non-zero sum, explicit-bargaining game” (Frooman, 1999: 200). For example, non-governmental organizations (NGOs) and community stakeholders represent a variety of interests in the community or society at large that make demands upon the multinational firm. Such demands create additional constraints on firm performance. Such constraints, in and of themselves, imply greater costs for the firm (Palmer et al., 1995). When these organizations control access to important resources, like social capital, they have a high potential to threaten the firm’s plans. The best option for the firm to respond to such demands is by creating a social product that com-

mands a price premium from its customers. The firm thus needs to differentiate its products and create new markets for these products as have firms like the Body Shop, which has been very sensitive to the demands of animal rights groups.

Government regulators can be very important to the social strategy of the multinational firm because of their role in shaping the rules of the game (Austin, 1990; Brandenburger and Nalebuff, 1995). Still, the effectiveness of a social strategy will depend in large part upon the existence of a government or regulatory authority with the power to affect a particular industry. Unfortunately, governments are frequently subject to regulatory failure (Breyer, 1982). Sources of regulatory failure include technical and information shortcomings, jurisdictional mismatches, and public distortions (Esty, 1999). One common cause of regulatory failure, although certainly not the only one, is corruption, which undermines the ability of governments to effectively monitor and enforce public policy (Abaroa, 1999). As a result, not all regulators have power and thus salience for the firm. According to this line of reasoning, a social strategy will function best where the government is an effective and, therefore, powerful stakeholder. Thus, we propose:

**Hypothesis 2** The greater the salience of “mixed-motive” stakeholders, the greater the use of strategic social planning.

#### *Internal analysis: the resource-based view of the firm*

A model of social strategy must account not only for environmental conditions but also for firm resources. Despite the frequently vexing debate in strategic management over the influence of industry attributes (external) and firm resources (internal) on corporate performance, there is little question that a theory of the firm must account for both (Barney, 1991; Collis and Montgomery, 1995), just as a theory of human behavior must account for environmental and individual factors.

The resource-based view of the firm argues that competitive advantage depends on firm resources, which can include physical, human, and organizational capital. We tend to focus on organizational

capital because of its socially complex nature, which makes them difficult to imitate.

We will also deal in an explicit way with a particular kind of firm resource that has been largely neglected: corporate values and philosophy. Andrews (1987) originally included corporate values as one of the fundamental pillars of corporate strategy, alongside the market environment and firm resources. This focus on values was then lost in the work by Porter (1980, 1985) on industry structure. However, Barney (1986) argued that corporate culture is a kind of firm resource and can be a source of competitive advantage. As components of firm culture, values and business philosophy are also potential resources of the firm, which we bring back into the discussion, since such values are essential to a firm's identity (Albert and Whetten, 1985) and in the determination of the firm to include non-economic objectives within its mission and purpose.

#### *Firm resources*

Social strategy must answer the question: how does each resource influence corporate success and under what conditions? In the previous section, we defined a framework for industry structure and propositions for creating value via social strategies for differing industry contexts. In this section, we define firm resources and develop propositions for creating competitive advantage through the use of social action-based firm resources (Russo and Fouts, 1997; Sharma and Vredenburg, 1998).

Defining firm resources has itself proved contentious (Priem and Butler, 2001). In the article, we adopt Barney's definition from his influential 1991 article: "firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc., controlled by the firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness ...."

Though criticized as excessively broad (Priem and Butler, 2001), Barney's definition makes patent the extraordinarily rich set of resources (a.k.a. *assets*) firms may employ in the search for competitive advantage. Research on a resource-based view of the firm (RBV) has contributed to refocusing strategic management on "organizational advantage"

(Ghoshal and Moran, 1996). Possessing a resource does not mean that a firm has a competitive advantage. Strategic deployment is required. Customarily, a battery of resources must be joined together in higher-level *capabilities* that permit firms to create competitive advantages in a given industry environment (Sharma and Vredenburg, 1998). This richer understanding of competitive advantage in which firm behavior and success depends on the fit between specific firm attributes and a given competitive environment is especially vital for social strategies that frequently involve several resources and capabilities as well as both market and non-market participants (Baron, 1995).

In formulating and implementing social strategies, the role of intangible resources is paramount. Many of the benefits to be obtained by social action are tied to product and process advantages linked to firm reputation, employee motivation and stakeholder commitment. Each of these intangible resources is a dynamic social relationship that is developed over time as the firm interacts with both market and non-market stakeholders. The application of these resources to both market and social opportunities represents for each firm a unique, dynamic positioning (Eisenhardt, 2000).

Among capabilities that may be useful to the development of social strategy, two stand out: stakeholder integration and continuous innovation. First, multiple stakeholder integration occurs when several stakeholders (employees, suppliers, customers, and perhaps even government regulatory agencies) maintain important relationships that affect each other. The ability to integrate stakeholder needs and demands creates value for firms (Preston et al., 2002). For example, a supplier may be involved with the firm in project teams whose objective is to cut costs for the firm. In addition, the existence of stakeholder integration makes the use of strategic positioning more likely as the firm is sensitive to the interrelatedness of its stakeholders. Social problems are complex and often need the participation of diverse stakeholders. Those firms that understand how to communicate with stakeholders, engage in dialogue, and work collaboratively to solve problems are probably more likely to be able to engage in strategic social positioning effectively.

**Hypothesis 3** The greater the degree to which a firm possesses the resource of stakeholder integration, the greater the use of strategic social positioning.

Second, the resource of continuous innovation is highly relevant to the use of social strategy. In some sense innovation is the key to creating value for firms, whether it involves process or product innovation. Prior research confirms that there is a strong relationship between research and development and corporate social responsibility programs (McWilliams and Siegel, 2000). This relationship appears to be bi-directional. On the one hand, firms can use social programs as a way to foster product and process innovation (Kanter, 1999). In addition, social and environmental programs may help generate competitively valuable resources for the firm (Sharma and Vredenburg, 1998). On the other hand, firms that have an ability for continuous innovation are more likely to be able to leverage that same resource in other arenas, such as the development and implementation of social strategy.

**Hypothesis 4** The greater the degree to which a firm possesses the resource of continuous innovation, the greater the use of strategic social positioning.

#### *Corporate values and ideology*

According to Andrews (1987), personal and ethical values constitute the other great foundation of corporate strategy formulation, together with the market environment and corporate resources. In fact, all decisions include an element of values (Simon, 1976). According to Kluckhohn et al. (1951: 395): "A value is a conception, explicit or implicit, distinctive of an individual or characteristic of a group, of the desirable which influences the selection from available modes, means, and ends of action." The shared values, both explicit and implicit, of a socio-cultural system constitute an important part of its culture. These explicit values are captured by the concept of ideology, which is a key element in all socio-cultural systems (Geertz, 1973; Pettigrew, 1979).

We follow Trice and Beyer (1993: 33) who define corporate ideology as "shared, relatively coherently interrelated sets of emotionally charged beliefs, values, and norms that bind some people

together and help them to make sense of their worlds." Corporate ideology in this sense has been referred to as business or managerial philosophy by some authors (Alvesson and Berg, 1992) and dominant logic of the organization by others (Prahalad and Bettis, 1986) and consists of the stated values of the firm that constitutes its conceptualization of the business and its environment.

Strategic choice and performance levels are determined in part by the values and background characteristics of the top management team (Hambrick and Mason, 1984). Corporate ideology affects strategy by helping to channel available firm responses to opportunities and threats. Specifically, ideology shapes the formulation and implementation of strategy by influencing the manager's evaluation of the environment by limiting his or her vision through processes of selective perception (Goll and Sambharya, 1990). Corporate ideology is related to strategy, performance, and social responsibility because these explicit values affect the decisions made by managers based on their goals, objectives, and beliefs about how the world works (Prahalad and Bettis, 1986; Simons and Ingram, 1997). These values and beliefs can be a source of competitive advantage for the firm (Barney, 1986) and affects financial performance (Goll and Sambharya, 1990), as well as the effectiveness of corporate redesign (Miles et al., 1995) and global strategy implementation (Roth et al., 1991).

Similarly, corporate values will either support or undermine firm commitment to supporting social action. Clearly some ideologies and value systems are more likely to produce a commitment to social action than other ideologies. There is evidence that corporate ideology has at least two dimensions relevant to strategic social planning: progressive decision-making and social-responsibility orientation (Goll and Zeitz, 1991). Progressive decision-making emphasizes a proactive search for opportunities, participation, analytic decision tools, open communication channels, and participative consensus-based decision-making. Social responsibility refers to a company's commitment to participating in the solution of social problems. Subsequent research has confirmed the validity of these dimensions (Goll, 1991; Goll and Sambharya, 1995).

There appears to be a clear nexus between certain corporate values and strategic social planning. The social responsibility dimension of ideology channels

the kinds of responses that managers make to social threats and opportunities. A strong commitment to social responsibility provides a set of values that is not easily imitable by competitors (Barney, 1986; O'Reilly and Pfeffer, 2000). Research indicates that managerial values act as a frame for recognizing and evaluating social issues (Kahneman and Tversky, 1984; Sharfman et al., 2000) and the salience of stakeholders (Agle et al., 1999).

These managerial interpretations of social and environmental issues directly affect the selection of social strategies (Bansal and Roth, 2000; Sharma et al., 1999; Sharma, 2000). The social responsibility ideology of a firm is especially important for its customers who play an essential role by their willingness to pay a price premium for social products (Berman et al., 1999; Maignan et al., 1999; Menon and Menon, 1997). Without such a clear ideology, it is impossible to create differentiated social products that allow its customers to distinguish a firm from its competitors.

**Hypothesis 5** The greater the social responsibility orientation of a firm, the greater the use of strategic social planning.

A progressive decision-making orientation is especially relevant to social strategy because this orientation includes a commitment to the participation of employees in decision-making. It shares many of the characteristics of what Miles and Creed (1995: 361) call a "human investment philosophy," because of its focus on the development of the self-governance capability of employees in order to create a learning organization. Progressive decision-making appears to be positively correlated with financial performance (Goll and Sambharya, 1995). Theorists argue that the involvement of employees is the key to effective environmental strategy because it fosters process innovation (Sharma and Vredenburg, 1998). Similarly, social strategy can only be effective if information flows more freely among employees within the firm than it does within competing firms (Reinhardt, 1999). Thus, we propose:

**Hypothesis 6** The greater the progressive-decision making orientation of the firm, the greater the use of strategic social planning.

### *Consequences of social strategy*

The purpose of social strategy is to create value for the firm, especially economic value. Generally speaking such strategy creates value for the firm via the creation of a firm reputation or some form of product differentiation (Fombrun and Shanley, 1990; Reinhardt, 1999). In the case of strategic social planning, salient stakeholders and firm values trigger the use of social strategy. Industry conditions and firm resources trigger the use of strategic social positioning. Value is created when consumers are willing to pay a premium for the firm's products and services based on its involvement with and position with respect to specific social issues. Value can be created through the development of new products or services that incorporate a social component or through the creation of entirely new markets.

**Hypothesis 7** The greater the use of social strategy, either as social planning or social positioning, the greater the ability of the firm to generate economic value through its social programs.

## **Methods**

### *Data collection*

The hypotheses were examined by using data gathered from multinational corporations operating in Mexico in 2002 about their social responsibility activities for 2001. These years were characterized by economic stagnation with gross domestic product decreasing by 0.17% in 2001 and only increasing by 0.74% in 2002 (Banco de México, 2003). Mexico thus provides an excellent opportunity to test the social strategy formulation of multinational firms under adverse economic conditions.

Firms were sampled from the American Chamber of Commerce in Mexico (Amcham) membership directory. Its membership consists of both Mexican and non-Mexican firms that engage in international business transactions of some sort. We sent surveys to the chief executive officers of the 473 non-Mexican firms in the Amcham directory. We



received 96 responses to the survey, either after the initial mailing or as a result of the follow-up. This represents a response rate of 20.3%. A comparison of the early responders with late responders shows no significant difference in firm size, participation in social responsibility projects, the use of social strategy, or in competitive environmental factors. In fact, there were no significant differences in the responses to any of the survey questions. Some analysts suggest that late responders are similar to non-responders (Armstrong and Overton, 1977). The fact that no significant differences in responses were found between early and late responders suggests that non-response bias is not a problem.

The survey instrument was developed to measure the basic constructs of strategic planning, strategic positioning, value creation, dynamism, munificence, stakeholder integration, continuous innovation, NGO salience, employee salience, governmental salience, social responsibility orientation (SRO), and progressive decision-making orientation (PDO). The face validity of the instrument was determined by a detailed examination of the instrument by 10 academics and business people who reviewed the instrument for items that may have been unclear. A small pilot study was then carried out and the preliminary results found the measures to be robust.

Strategic planning was measured by asking company representatives whether the firm had a definite plan to develop social activities, the degree to which it measured the results of its activities, the extent to which employees were allowed to collaborate on social projects, the extent to which the firm invested financial resources in its social projects, and the amount of its social investments compared to the competition. Strategic positioning was measured by asking the representatives the extent to which the firm was among the first in adapting corporate practice to changing social expectations, the extent to which corporate practice surpassed existing regulatory requirements, and the relative amount of its social investments as a percentage of sales.

Value creation was measured by asking the extent to which the firm achieved certain economic objectives through its social programs. These objectives included influencing customer purchase decisions, developing new businesses with social purposes, obtaining new customers, developing new products and services, and opening new markets.

Dynamism and munificence were measured using items already developed and tested by Sutcliffe and Huber (1998). The dynamism items asked about the stability or changes in customer demand and company income that the firm had experienced. Munificence items asked about growth in the demand for products and services and in capital spending. The items for NGO, employee, and government salience were developed in prior work by Agle et al. (1999). These items asked how relevant the stakeholder group was, the time top management dedicates to the group, and the importance of satisfying the claims of the group. The items for stakeholder integration and continuous improvement were developed for this project, based on work by Sharma and Vredenburg (1998). Stakeholder integration items dealt with the ability to work with stakeholders to solve problems, engage in dialogue, and explain the firm's point of view to the community. Continuous improvement items dealt with the firm's ability to identify social opportunities based on changes in the environment and the ability of the firm to innovate and continuously improve both its operations and social impacts. Finally, the items dealing with the values of social responsibility orientation and progressive decision-making orientation were taken from prior work developed by Goll and Zeitz (1991). Social responsibility orientation items asked about the company's beliefs about monitoring opportunities to solve social problems, performing in ways consistent with philanthropic expectations, and emphasizing philanthropy as a useful measure of corporate performance. Progressive decision-making items asked about participative decision-making practices, trust and delegation in decision making, and consensus building.

In order to assess the reliability of the variables developed for this project, Cronbach's alpha was calculated for each variable. Strategic planning ( $\alpha = 0.87$ ), positioning ( $\alpha = 0.77$ ), value creation ( $\alpha = 0.91$ ), munificence ( $\alpha = 0.77$ ), dynamism ( $\alpha = 0.81$ ), stakeholder integration ( $\alpha = 0.79$ ), continuous innovation ( $\alpha = 0.81$ ), NGO salience ( $\alpha = 0.92$ ), employee salience ( $\alpha = 0.83$ ), government salience ( $\alpha = 0.92$ ), social responsibility orientation ( $\alpha = 0.72$ ), and progressive decision-making orientation ( $\alpha = 0.60$ ) were found to have satisfactory levels of reliability (Nunnally and Bernstein, 1994). Although progressive decision-making was below the

TABLE I-a  
Correlation matrices: correlations for strategic social planning

	Planning	NGO salience	Employee salience	Government salience	SRO	PDO	Firm size
Planning	1.00						
NGO salience	0.27**	1.00					
Employee salience	0.21*	0.17	1.00				
Government salience	0.11	0.36**	0.42**	1.00			
SRO	0.34**	0.47**	0.34**	0.28**	1.00		
PDO	0.15	0.13	0.50	0.32	0.44	1.00	
Firm size	0.27*	0.15	0.18	0.18	0.10	0.12	1.00

\* $p < 0.05$ ; \*\* $p < 0.01$ .

TABLE I-b  
Correlation matrices: correlations for strategic social positioning

	Positioning	Munificence	Dynamism	Stakeholder integration	Continuous innovation	Employees
Positioning	1.00					
Munificence	-0.02	1.00				
Dynamism	-0.20*	-0.13	1.00			
Stakeholder integration	0.36**	0.11	-0.01	1.00		
Continuous innovation	0.37**	0.06	-0.01	0.76**	1.00	
Firm size	0.17	0.05	-0.17	0.18	0.08	1.00

\* $p < 0.05$ ; \*\* $p < 0.01$ .

TABLE II

Regression analysis using social strategic planning as the dependent variable and stakeholder salience and firm values as the independent variables

Variable	Beta	Standard error	t-statistic	Prob.	VIF
NGO salience	0.10	0.13	0.84	0.40	1.58
Government salience	-0.04	0.13	-0.32	0.75	1.48
Social responsibility orientation	0.29	0.13	2.31	0.02	1.69
Progressive decision-making orientation	-0.01	0.12	-0.10	0.92	1.55
Employees	0.20	0.00	1.86	0.07	1.16
Food and clothing	0.21	0.45	1.45	0.15	2.10
Paper and wood products	-0.15	0.99	-1.43	0.16	1.12
Chemical, glass, and cement manufacturing	0.13	0.35	0.77	0.45	3.21
Construction	0.04	0.99	0.34	0.73	1.13
Commerce	0.21	0.52	1.60	0.11	1.71
Transport and communication	0.11	0.47	0.80	0.43	1.83
Financial services	-0.03	0.45	-0.27	0.79	1.53
Tourism and hospitality	-0.07	1.01	-0.71	0.48	1.15
Other services	0.13	0.45	0.95	0.34	1.91

Regression equation characteristics:

Adjusted  $R^2 = 0.14$ .

$F = 2.05$  ( $p < 0.05$ ).

0.70 cutoff usually recommended, it was acceptable for the exploratory nature of this research.

Construct validity was evaluated by examining the convergent and discriminant validity of the measures. Convergent validity was assessed looking at the pairwise correlations between the items for each construct. All are significant at the  $p < 0.05$  level, while 96 per cent are significant at the  $p < 0.01$  level. Therefore, there is evidence of convergent validity for the different measures.

Discriminant validity is problematic in a survey instrument, which involves self-reports because of problems related to common method variance. In order to diminish these problems, we employed a number of methods. Among others, we avoided implying that one response was preferable to another, made all responses of equal effort, paid attention to item wording, used items that were less subject to bias, and provided clear instructions (Nunnally and Bernstein, 1994, p. 391).

We carried out a post hoc analysis of the potential problems associated with common method variance using Harman's one-factor test (Podsakoff and Organ, 1986), which requires the researcher to do a

factor analysis of the variables in order to determine if a single factor accounts for the majority of the covariance in the independent and dependent variables. The indicators of the independent and dependent variables did not load on a common factor, suggesting that common method variance was not a significant problem.

In addition to the variables of theoretical interest, researchers have emphasized the need to control for firm size, industry, and risk (Cochran and Wood, 1984; Ullman, 1985; Waddock and Graves, 1997). Larger sized firms tend to have more resources to engage in strategic planning and develop social projects. Industry is relevant because the social problems faced in one industry or another can vary widely. Differences in exposure to social problems may hide the impact of environmental and firm variables on the use of social strategy.

Firm size was measured by the number of employees based on data provided in the questionnaire. Industries were classified according to the Mexican industrial classification system. Unfortunately, it was not possible to control for the differences in risk faced by the different firms.

TABLE III

Regression analysis using social strategic positioning as the dependent variable and industry environment and resources as the independent variables

Variable	Beta	Standard error	<i>t</i> -statistic	Prob.	VIF
Munificence	-0.22	0.11	-2.06	0.04	1.21
Dynamism	-0.24	0.10	-2.19	0.03	1.28
Stakeholder integration	0.00	0.16	-0.02	0.99	2.65
Continuous innovation	0.44	0.15	2.91	0.01	2.50
Employees	0.11	0.00	1.07	0.29	1.23
Food and clothing	0.06	0.43	0.43	0.67	2.12
Wood and paper products	-0.11	0.96	-1.03	0.30	1.19
Chemical, glass, and cement manufacturing	0.02	0.33	0.12	0.91	3.13
Construction	-0.06	0.97	-0.59	0.56	1.23
Commerce	0.09	0.47	0.76	0.45	1.63
Transport and communication	0.11	0.44	0.82	0.41	1.86
Financial services	-0.06	0.43	-0.50	0.62	1.54
Tourism and hospitality	0.04	0.98	0.37	0.71	1.24
Other services	-0.06	0.42	-0.42	0.68	1.88

Regression equation characteristics:

Adjusted  $R^2 = 0.20$ .

$F = 2.57$  ( $p < 0.05$ ).

#### Data analysis

Table I shows the correlation matrix for the variables. Table I-a shows the correlations for the variables related to strategic social planning. Planning is highly correlated with NGO salience, employee salience, and social responsibility orientation. Surprisingly, there was no correlation between the use of strategic social planning and governmental salience as expected. Table I-b shows the correlations for the variables related to strategic social positioning. Dynamism, stakeholder integration, and continuous innovation are highly correlated with strategic social positioning, but munificence was not.

The hypotheses were analyzed using regression analysis. The dependent variables are corporate social planning, corporate social positioning, and value creation. The independent variables in the corporate social planning model include stakeholder salience (NGOs, employees, and the government) and firm values (social responsibility orientation and progressive decision-making orientation). The independent variables in the corporate social positioning model include munificence, dynamism, stakeholder integration, and continuous innovation. The indepen-

dent variables in the value creation model included social planning and social positioning. Each of the models included the control variables. Since the dependent variable is continuous and the data are cross-sectional, ordinary least squares regression appeared appropriate.

A potential problem that may occur with such data is heteroskedasticity, which is a relationship between the error terms over a range of independent variables (Hair et al., 1992). In order to test for the possibility of heteroskedasticity, we conducted White's (1980) test. The test statistic,  $nR^2$  ( $n = 88$ , d.f. = 20), for the strategic positioning model was 9.86, and less than the critical Chi-square value. The test statistic,  $nR^2$  ( $n = 90$ , d.f. = 20), for the strategic planning model was 15.75 and less than the critical Chi-square value. Thus, we cannot reject the assumption of homoskedasticity necessary for ordinary least squares regression analysis in either model.

Another problem that may occur is multicollinearity, which refers to the linear relationship among the independent variables. The effect of multicollinearity will be to depress the significance of these variables. The variance inflation factor (VIF) is one measure of the effect the other independent variables

TABLE IV

Regression analysis using value creation as the dependent variable and strategic social positioning and strategic social planning as the independent variables

Variable	Beta	Standard error	t-statistic	Prob.	VIF
Strategic social planning	-0.11	0.13	-0.79	0.43	1.96
Strategic social positioning	0.38	0.13	2.91	0.01	1.82
Employees	0.02	0.00	0.14	0.89	1.17
Food and clothing	0.14	0.99	0.45	1.00	2.07
Wood and paper products	-0.07	0.99	-0.68	0.50	1.14
Chemical, glass, and cement manufacturing	-0.19	0.34	-1.11	0.27	3.12
Construction	-0.01	0.98	-0.13	0.90	1.10
Commerce	0.02	0.47	0.13	0.90	1.71
Transport and communication	-0.10	0.46	-0.75	0.46	1.77
Financial services	-0.11	0.44	-0.98	0.33	1.49
Tourism and hospitality	-0.17	0.98	-1.63	0.11	1.12
Other services	0.13	0.43	0.97	0.33	1.91

Regression equation characteristics:

Adjusted  $R^2 = 0.14$ .

$F = 2.26$  ( $p < 0.05$ ).

have on the variance of a regression coefficient. Large VIF values indicate high co linearity. All values of the VIF in all models were below the suggested cutoff of 5.3 (Hair et al., 1992). Thus, the problem of multicollinearity does not appear to be significant.

## Results

The first model tested the hypotheses relating to social strategy as planning to the influence of external stakeholders and firm values. Only social responsibility orientation was significantly related to social strategic planning. These results confirm hypothesis 5. Government salience, employee salience, NGO salience, and progressive decision-making were not significant. Firm size was marginally significant with larger multinational enterprises more likely to engage in strategic social planning than smaller MNEs. There were no significant industry effects. These results are summarized in Table II.

The second model of social strategy as positioning found that munificence, dynamism, and continuous improvement were significantly related to social positioning, with the hypothesized signs, confirming

hypotheses 1 and 4. However, the resource of stakeholder integration was not related to social positioning. None of the control variables had a significant impact on strategic social positioning. These results are summarized in Table III.

It should be noted that the positioning and planning approaches are not mutually exclusive and that there is in fact a significant correlation between the two ( $r = 0.66$ ).

The final model consisted of an analysis of the impact of the two kinds of social strategy on value creation for the firm. None of the control variables was significant. Social strategy as positioning did have a positive and significant impact on value creation. Surprisingly, social strategy as planning did not have a significant impact. These results are summarized in Table IV.

Given that positioning and planning do have a significant correlation between the two, the prior model was run without the positioning variable. Planning still did not have a significant impact on value creation and the significance of the regression model did not meet the 0.10 level. Finally, we conducted White's test for heteroskedasticity on the original value creation model as reported in Table IV. The test statistic of  $nR^2$  ( $n = 93$ , d.f. = 9) was 34.41, which exceeded the critical Chi-square

value. Given that impure heteroskedasticity can be due to specification error and given the fact that social planning was included in the model, when it appeared to have no impact, we reexamined the model including only social positioning as the independent variable together with the control variables. The significance of the model and of the social positioning variable remained almost identical. Once again, we calculated White's test and the test statistic of  $nR^2$  ( $n = 93$ , d.f. = 5) was only 5.28, which did not exceed the critical Chi-square value, indicating no problem of heteroskedasticity.

### Discussion and conclusions

Taken together, these results paint a fascinating picture of the use of corporate social strategy by the multinational corporation. These results suggest that the intentional use of social strategy depends upon the presence of specific configurations of industry environment, resources, and values. First, it appears as though firms with a high value for social responsibility are much more likely to engage in traditional kinds of plans for social strategy.

When social strategy is based on the firm's development of a specific position with respect to social issues, the set of relevant variables changes. The relevant variables deal with the industry environment as well as the nature of the firm's resources. Low industry munificence creates an environment of scarcity in which the firm needs to compete by positioning itself with respect to social issues. In relatively unstable environments like that of Mexico, multinational firms require stability and certainty in order to go ahead and make investments in order to position the firm with respect to social issues. In addition, the firm resources of continuous innovation are significantly related to the use of strategic social positioning. Interestingly, among the MNCs doing business in Mexico, there is a very high correlation between stakeholder integration and continuous innovation. As a result, the explanatory power of stakeholder integration was absorbed by the continuous innovation variable.

Social positioning seems to be related to value creation. The positioning of the firm with respect to social issues is clearly a way to differentiate the firm and its products and services in ways that create

value. Somewhat surprisingly, planning had no significant relationship. Together with prior research that indicates that the relationship between CSR projects and financial performance is mixed, these results indicate that part of the reason may lie in the way in which firms, or at least multinational firms, carry out CSR. Firms must proactively anticipate social issues and position themselves with respect to those issues. Planning, alone, is not sufficient.

This study has significant implications for both research and management. It appears that the presence of specific configurations of environmental factors, resources, and values is vital to the use of social strategy. In other words, the way of undertaking social strategy depends upon a fit between these factors and the strategic approach taken—planning or positioning. Further, value creation depends upon the positioning of the firm with respect to social issues. Still, there is much more to learn. What is the link between an intentional social strategy and the development of competitively sustainable advantages? How are these competitive advantages then linked to value creation? Is social strategy by design more effective than emergent social strategy (Waddock and Graves, 1997)?

Managers should find great utility in the ability to identify specific matches of firm resources, environments, values, and stakeholders to social positioning and planning. This research indicates that social strategy formulation is a sophisticated process that requires much thought beyond simply "doing good." In addition, managers need to think carefully about the firm's position with respect to social issues, if they are to create value on the basis of their social projects. Obviously, this article only provides one piece of the entire puzzle of designing an appropriate social strategy, but it helps by beginning to demonstrate how that design takes place.

In addition, this article suggests that the problem of the relationship of firm financial performance to social responsibility is a complex one, mediated by a whole series of intervening variables, such as the use of social planning and social positioning, as well as specific dimensions of the external and internal environment of the firm. The task of the researcher must be to unravel and identify the elements of the causal chain that link social projects to firm performance. Much work needs to be done. For example, researchers should examine the use of social strategy

and the creation of competitive advantage for the firm. Still by undertaking this painstaking research, scholars will be able to make specific recommendations to managers about the formulation and implementation of CSR projects that will have a significant impact on firm performance.

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