



# Corporate social responsibility and classical competitive strategies of maritime transport firms: A contingency-fit perspective



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## ABSTRACT

Drawing on path dependence theory, this paper argues that the financial benefits from engaging Corporate Social Responsibility (CSR) are contingent on the primary competitive strategy employed by shipping firms. Survey data were collected from 223 shipping firms operating in Singapore and analysed using hierarchical regression modelling. The results reveal that there are greater financial benefits for shipping firms employing the strategy of differentiation (rather than that of low-cost) to implement CSR by virtue of greater mass in existing complementary resources (operational fit) as well as inherent congruency with customers' value orientation (customer fit).

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## 1. Introduction

Over the past decades, the classical or traditional methods employed for competition in maritime transport are low-cost and differentiation strategies (Lagoudis et al., 2006; Lindstad et al., 2016). The low-cost strategy involves minimising total cost such as reducing non-essential service features and optimising capacity utilisation, whereas the differentiation strategy involves focusing on customer relationship management, brand identification and goodwill, and improving transport service level such frequency, speed, and reliability.

In recent years, corporate social responsibility (CSR) has received renewed attention from shipping firms as a strategy to complement their classical competitive strategies. CSR is defined as 'the integration of social and environmental concerns in the business operations of shipping firms and in the interaction with stakeholders on a voluntary basis' (Pawlik et al., 2012, p. 206). Drobetz et al. (2014) reported that most shipping firms today are practising CSR and are integrating it into their businesses at the strategic and visionary level. Their findings are consistent with Lam and Lim (2016) who reported that 94% of the surveyed shipping firms practised some form of CSR in their organisations.

However, practising CSR does not necessarily confer the same amount of benefits to all shipping firms. This has been shown in the studies of Lu et al. (2009), Drobetz et al. (2014), and Yuen et al. (2016). Yuen et al. (2016) introduced contingency theory to explain this phenomenon, where the benefits of CSR are underpinned by the favourability of the internal and

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external environments of shipping firms. Some of the contingency factors that have been explored and known to moderate the relationship between CSR and performance include firm size, financial leverage, ownership structure, and sector. For instance, large shipping firms tend to benefit more from implementing CSR due to the greater availability of slack resources, and greater institutional pressure exerted by stakeholders to practise CSR.

However, a majority of the current CSR research on maritime transport has analysed contingency variables such as shipping firms' characteristics, which are exogenous. The question of whether the effect of CSR on financial performance is contingent on the configuration of a firm's existing resources and capabilities has been largely overlooked. This study seeks to draw a relationship between the financial benefits of engaging CSR and the existing resources of shipping firms by arguing on the theoretical grounding of path dependence theory. The theory highlights that 'history matters' in how well a company can benefit from engaging new activities such as CSR (Tang et al., 2012). In this context, the 'history' of a shipping firm refers to the existing configuration of its resources and assets, which is collectively shaped by the shipping firm's competitive strategy i.e. to compete based on cost or differentiation.

Drawing on this theory, this study proposes that the existing configuration and amount of complementary resources that a shipping firm possesses underpin the amount of financial benefits it can gain from engaging CSR. While existing resources of a firm can be configured or bundled to support low-cost or differentiation strategies (Thompson et al., 2012), this study hypothesises that shipping firms employing a differentiation strategy (rather than low-cost strategy) to compete in their markets receive greater benefits from implementing CSR on account of greater internal (operational) and external (customers) fit in their approaches.

This study begins by reviewing and synthesising contemporary literature on competitive strategies and CSR in maritime transport. Thereafter, the interaction between both concepts was reviewed. Subsequently, measurement items were developed and an internet survey was administered on shipping firms in Singapore. The obtained data were analysed using hierarchical regression modelling and simple slope analysis. Finally, the paper describes the results and concludes with discussions on the implications, limitations, and recommendations for future research.

## 2. Literature review

The current paper analyses the relationship between CSR and financial performance in maritime transport firms through the theoretical lens of path dependence theory. Applying it to this context, the theory suggests that the benefits of engaging CSR are contingent on how well a shipping firm's existing resources and capabilities facilitate and complement the implementation of CSR.

This section begins by reviewing the two broad strategies (i.e. low cost and differentiation strategies) that shipping firms can adopt to configure their existing resources and capabilities, and compete in the market. Thereafter, it discusses how the benefits of implementing CSR differ between shipping firms employing low-cost strategies and those employing differentiation strategies on the basis of operational fit and customer fit.

### 2.1. Classical competitive strategies in maritime transport

In general, there are two broad strategies that can be adopted by shipping firms to configure their resources, capabilities or value chain activities, and compete in the maritime transport sector (Lindstad et al., 2015; Panayides, 2003). They are low-cost and differentiation strategies. Although both strategies are important and should be pursued simultaneously by a firm, Porter (1996) stressed that there should be a dominant strategy that takes priority over the other. This is because value chain activities supporting both strategies are to some extent conflicting, and trade-offs are often necessary for a firm to gain a sustainable competitive position in the market.

A shipping firm that pursues a low-cost strategy competes on price, i.e. freight rate or other equivalences (Lagoudis et al., 2006). In this case, it adopts a low-cost position by achieving economies of scale in operations, centralising facilities and functions, adopting tight financial accounting, minimising service features, adopting lean supply chain management, and minimising expenditures in areas such as advertising, research and development, and brand-building (Acquaah and Yasai-Ardekani, 2008).

Alternatively, a firm can employ differentiation strategies by incorporating buyer-desired attributes into its service (Kotler and Armstrong, 2010) and this can also apply in the case of shipping firms. In general, shipping firms can differentiate by improving: (1) time performances such as reliability, speed, and frequency of shipments, (2) customer relationships through brand-building activities, advertising, and providing responsive customer services, or (3) quality such as safety and security of shipments (Lagoudis and Theotokas, 2007; Shin and Thai, 2015). Successful differentiation allows a shipping firm to charge a premium for its services, increase sales by attracting potential customers, and build customer loyalty.

In general, the aforementioned classical competitive methods or strategies have been shown to positively influence the financial performance of a firm (Lindstad et al., 2015; Panayides, 2003). Nevertheless, the following hypotheses are proposed to confirm the cited studies and provide a basis for further discussion in the context of maritime transport.

**H1.** Low cost strategy positively influences the financial performance of a shipping firm.

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