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Where the eyes go, the body follows?: Understanding the impact of strategic orientation on corporate social performance[☆]

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ABSTRACT

This research seeks to address two questions with respect to firm corporate social performance (CSP): (1) "do different strategic orientations have differential impacts on a firm's overall CSP?"; and, if so, (2) "is there an effect of a firm's strategic orientation on the types of CSP that a firm implements?" Using a unique dataset that combines survey data on firms' strategic orientations for 115 US-based firms with CSP data from MSCI-ESG, we empirically examine the impacts on CSP levels of four different firm strategic orientations: customer, competitor, interfunctional coordination, and shareholder. Our empirical analysis demonstrates that (1) firms with a stronger orientation toward customers have higher levels of CSP overall, and (2) when firms have a stronger customer orientation, we find that the firm has higher CSP levels in domains dedicated toward secondary stakeholders, while firms with a stronger shareholder orientation exhibit higher levels of CSP dedicated toward primary stakeholders.

1. Introduction

Over the past decade, corporate social performance (CSP[1]) has played an increasingly important role in firms' strategic planning. In 2011, over 5500 organizations issued sustainability reports, up from only 800 organizations ten years before (Mohin, 2012), and > 75% of executives believe that CSP plays an important role in maintaining a strong corporate reputation and brand equity (McKinsey & Company, 2009). The academic literature also reflects this growing focus on CSP; however, much of the previous research examines the relationship between CSP and financial performance (Margolis, Elfenbein, & Walsh, 2009; Orlitzky, Schmidt, & Rynes, 2003), or places an overemphasis on understanding the content of CSP activities (Galbreath, 2010a). As a field, management and marketing strategy does not understand the underlying mechanisms that shape a firm's CSP (Crittenden, Crittenden, Ferrell, Ferrell, & Pinney, 2011) and needs to pay more attention to the internal factors and institutional mechanisms that drive corporations to act in socially responsible ways (Campbell, 2007), a gap that we intend to address.

In her seminal paper, Wood (1991) suggests that the most important drivers of CSP will be top-management principles or values. One body of literature that has explored the impact of such principles and values on firm outcomes has been that on strategic orientation. Strategic orientation reflects the firm's philosophy of how to conduct business through a deeply rooted set of values and beliefs that guide the firm's attempts to achieve superior performance by specifying marketplace priorities that, in turn, drive a firm's marketing and strategy-making activities (Noble, Sinha, & Kumar, 2002). The present study explores the connections between strategic orientation and the extant CSP literature through the lens of stakeholder theory to develop theoretical arguments around our primary research questions: (1) "do different strategic orientations have differential impacts on a firm's overall CSP?"; and, if so, (2) "is there an effect of a firm's strategic orientation on the types of CSP that a firm implements?" Our results demonstrate that firms with a customer orientation have higher overall levels of CSP, while firms with a stronger internal orientation (IFC) have lower overall levels of CSP. Further, we demonstrate that firms with a stronger customer orientation have higher levels of CSP that are focused toward secondary sta-

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[1] We use Hopkins's (2007) definition of CSP as "voluntary initiatives taken by companies over and above their legal or social obligations that integrate societal and environmental concerns into their business operations and interactions with their stakeholders" (p. 27).

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keholders (henceforth, S-CSP); conversely, firms with stronger shareholder orientation have higher levels of CSP that are focused toward primary stakeholders (henceforth, P-CSP), and firms with stronger IFC have lower levels of CSP in both domains.

The present study examines an important gap in the literature. On the one hand, there is a well-established body of literature drawing on the seminal work of Mitchell, Agle, and Wood (1997), which examines the forces and features that drive stakeholder salience and the subsequent orientation of managers toward particular stakeholders' needs. On the other hand, there is a surfeit of work examining the financial payoffs driven by a firm's CSP activities, with > 250 papers having been published on the topic to date (Margolis et al., 2009). Our research addresses the gap between these two bodies of literature, addressing whether a given stakeholder orientation impacts a firm's CSP levels. While there is an established body of conceptual work in the stakeholder theory literature on the link between stakeholder orientation and firms' CSP, there is a paucity of empirical research addressing how those stakeholders that a firm prioritizes impacts that firm's CSP levels.

We now develop our theoretical argument for how strategic orientation and CSP are related. First, we discuss the conceptual and theoretical arguments underlying the strategic orientation and stakeholder theory literature, detailing the link between strategic orientation and CSP through the lens of stakeholder theory. We then develop our conceptual model and hypotheses of how CSP levels are impacted by the strength of firms' strategic orientations and how these strategic orientations are expected to affect the types of CSP that the firm implements.

2. Theory development

The literature on strategic orientation traces its roots to the categorization of strategic types proposed in Miles, Snow, Meyer, and Coleman (1978); however, the presently accepted interpretation of strategic orientation is often credited to two seminal works: those of Kohli and Jaworski (1990), and Narver and Slater (1990). Strategic orientation is defined as a competitive culture or philosophy of how to conduct business (Noble et al., 2002). This culture sets the organization's values and priorities in its interactions with the marketplace which, in turn, influence the firm's specific marketing and strategy-making activities and tactics (Noble et al., 2002). Strategic orientations are key organizational resources that may constitute sources of sustainable competitive advantage for firms as they transcend individual capabilities of the firm, and unify the resources and capabilities into a cohesive whole (Day, 1994); are intangible and interaction based, so they are difficult to trade and imitate (Day, 1994); and have the potential to alter existing resources to provide superior performance for the firm (Hult, Ketchen, & Slater, 2005).

Early work on strategic orientation began with the well-known aggregate market orientation construct (Narver & Slater, 1990) as the primary strategic orientation of interest. More recently, however, it has been argued that for theoretical, empirical, and methodological reasons, it is necessary to disaggregate market orientation into its component strategic orientations – customer, competitor, and interfunctional coordination (IFC) – to truly understand the impact of different strategic orientations on firm outcomes, as some types of strategic orientation may fit better with some strategic options than others (Grinstein, 2008a). Due to bounded capabilities and resources, firms tend to focus on some strategic orientations while excluding others, and each of these different orientations has distinct behavioral dimensions that will likely exert independent effects on performance and observed firm outcomes (Kohli & Jaworski, 1990; Spanjol, Qualls, & Rosa, 2011). Han, Kim, and Srivastava (1998) lend empirical support to these arguments, demonstrating that: 1) only 15.5% of firms take a balanced stance on being 'market driven' (i.e., focus equally on these three strategic orientations); 2) there are differential effects of a firm's relative weight on each strategic orientation on various outcomes; and 3) the combined effects of these orientations are not necessarily synergistic. Indeed, several studies have demonstrated that these strategic orientations differentially affect firm outcomes (e.g., Gatignon & Xuereb, 1997; Im & Workman, 2004; Spanjol et al., 2011).

Several studies have argued that the three strategic orientations noted above may be inadequate to explain the overall orientation of the firm; therefore, they are just part of a broader set of strategic orientations that an organization may possess, recognizing that there are other legitimate guiding models that can substantially influence competitive advantage (Grinstein, 2008b; Noble et al., 2002). As a result, there have been several additional strategic orientations introduced into this literature, including shareholder orientation (Fiss & Zajac, 2004). Evidence suggests that shareholder orientation is especially salient for the purposes of the present study for two primary reasons: first, since the 1970s, shareholders have substantially increased their influence on management behavior (Stockhammer, 2005). From the stakeholder theory perspective, some have argued that the "triumph of the shareholder-oriented model of the corporation" (Hansmann & Kraakman, 2000, p. 468) has resulted in firms being unencumbered by other stakeholder interests and, consequently, that a firm's future efforts will be directed toward the needs of the financial markets rather than toward those of other stakeholders (Stockhammer, 2005). Second, since Friedman's (1970) widely cited commentary on a firm's social and environmental responsibilities (or lack thereof), much of the discussion on either side of the debate has juxtaposed CSP as potentially contradictory to the interests of shareholders; in fact, the two elements have frequently been presented as diametrically opposed. Thus, given the documented impacts of shareholder orientation on a firm's attention toward other stakeholder groups, and the longstanding debate around the relationship between shareholder needs and firm CSP, we believe it necessary to include shareholder orientation in our analysis.

2.1. Stakeholder theory as a link between strategic orientation and CSP

Freeman (2010) defines a stakeholder as any group or individual who can affect or is affected by the achievement of the organization's objectives. According to stakeholder theory, it is imperative for the long-term success of the firm to acknowledge the validity and importance of stakeholder interests and to monitor, understand, and respond to the needs and concerns of its stakeholders, including its customers, shareholders, employees, community, and government (Freeman, 2010). Past work argues that stakeholders set the norms for corporate behavior since they are the ones who experience the effects of and evaluate corporate behavior (Ruf, Muralidhar, Brown, Janney, & Paul, 2001). As a result, in order for organizations to be successful the needs of multiple stakeholder groups must be taken into consideration (Berman, Wicks, Kotha, & Jones, 1999) and firms must learn to collaborate and cooperate with multiple stakeholder groups to remain competitive (Freeman, 2010).

Several authors have suggested that stakeholder theory is the most appropriate approach to studying firm CSP, and it is superior to more traditional, though widely used, conceptualizations of CSP (Clarkson, 1995; Jamali, 2008). The stakeholder theory literature defines CSP as a firm's performance in managing the economic, legal, ethical, and discretionary responsibilities to, and relationships with, stakeholders (Clarkson, 1995), and suggests that there is clear merit to understanding the importance of stakeholder relationships as a key driver of CSP (Campbell, 2007; Jamali, 2008). Broadly, this literature suggests that firms should tailor their CSP in response to the preferences of societal stakeholders (Brammer & Millington, 2003), and they must focus systematic attention to improving stakeholder relationships as a strategic tool to promote economic objectives (Jamali, 2008).

Thus, based on the preceding discussion, a firm's strategic orientation provides an indication of its priorities while attempting to achieve superior performance; stakeholder theory suggests that if attention is dedicated toward the needs and wants of a particular stakeholder

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