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# Capturing complexity in how configurations of firm Internal Orientations impact corporate social performance outcomes: Breaking from the dominant logic of symmetric-variable to asymmetric-case-based theory and testing

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## ABSTRACT

This study exemplifies how an asymmetric and case based (configurational) research approach (using fuzzy state logic and complexity theory) is useful for conceptualization and explanation of complex topics and heterogeneous outcomes. The study here analyses the recipes (condition combinations) for Internal Orientation constructs (IO: strategic intent, CSP management, strategic orientation and industrial standards) among multi-national companies (MNCs) indicating “high” levels of corporate social performance (CSP) and the “United Nations Principles for Responsible Investment” (UNPRI) ESG factor framework (Environment, Social-human rights, and Governance) – separately and as a whole. The study applies a mixed methods research design and includes comparing ESG with financial performance across a “Top-100 Sustainable Companies Index” (n = 82 of MNCs trading on the Swedish stock exchange). The study’s findings support the core tenets of complexity theory; all four IO constructs affect a high E or S or G outcome but not all three outcomes in combination.

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## CHINESE ABSTRACT

本研究例证了不对称和基于案例（配置）的研究方法（使用模糊状态逻辑和复杂性理论）如何用于复杂主题和异构结果的概念化和解释。本研究分析了跨国公司（MNC）内部导向结构（IO：战略意图、CSP管理、战略导向和行业标准）的秘诀（条件组合），表明高水平的企业社会绩效（CSP）和“联合国责任投资原则”（UNPRI）ESG因素框架（环境、社会人权和治理）-可分割，亦可作为整体。本研究采用混合方法研究设计，包括将ESG与“100强可持续发展公司指数”（样本为82家在瑞典证券交易所交易的跨国公司）的财务业绩进行对比。研究结果支持复杂性理论的核心原则；所有四个IO结构都会导致高水平的E或S或G结果，但不是所有三个结果的组合。

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## 1. Introduction

Building on prior research in the field of corporate social responsibility (CSR) and corporate social performance (CSP) (Barnett and Salomon, 2012; Isaksson and Woodside, 2016; Kiessling et al., 2015; Wang et al., 2015), the study here exemplifies how an asymmetric and a case-based research approach (using fuzzy state logic and complexity theory) are useful for deepening understanding of complex topics, for instance, CSP, brand recognition, corporate citizenship, or corporate culture. While the foundational research assessed is the strategic aspects of multi-national companies’ (MNCs)

approach to achieve CSP, this research visits one core area of logic: the internal orientation (IO) of the firm (i.e., the tactics) and its relation to corporate social performance (CSP).

While corporate social responsibility (CSR) is expressible as “represents a differentiating factor that may be used successfully by firms to distinguish themselves within their industries” (Hill et al., 2007) the following definition better resonates with today’s globalized world: CSP includes the actions companies undertake to enhance their market persona or gestalt that are unrelated directly to their focal business but relate to stakeholder satisfaction for the sake of societal good with the purpose of creating, or enhancing, corporate social performance. CSP is the aggregate measure of firms’ CSR outcomes or results. Aggregate CSP measures are usually established by third-party-ranking institutes of market analysts, for example the “FTSE4GOOD” or the “KLD index” (Kinder, Lydenberg,

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& Domini, 2009; Mattingly, 2015; Ramchander et al., 2012). Instead of elaborating on the specifics (what activities companies engage in towards the society at large to satisfy a selection of stakeholder demands or needs), the present study describes relationship combinations (recipes) among the tactics of MNCs perceived to indicate “high” levels of CSP or all three generally accepted CSP indicators of corporate governance.

Two sides of this research demand an explanation. On the one hand we have to address the fashion in which the MNCs are structured internally to support their market efforts, and on the other hand we have to address how “good” they are in forms of acquired or achieved CSP. The following discussion addresses these two issues. First, keeping the firm demographics (firm size, industry affiliation, customer categories and market intensity) and external orientation (what the sample MNCs do in regard to their operative attempts, for instance how they interact with their customers) variables as constants (being control variables) enabled our research to focus on IO (constructed here as strategic intent with CSP efforts, responsibility management, strategic orientation of the firm and the support of industrial standards) and its indicative relationship with CSP. Second, this narrowing of most traditional research serves to exemplify the configurational analysis approach.

Third, a firm receives CSP assessments (i.e., being “scored”) by third-party CSP assessment interest groups (e.g., market analysts) which in turn are based on indexes assessing the MNCs via pre-defined measures of performance in regard to Environment, Social and corporate Governance (ESG) factors, all in accordance with the “United Nations Principles for Responsible Investment” (the UNPRI framework). Fourth, the praxis for using indexes within the CSP research field has roots in the view that G and CSP associate closely (Barnett and Salomon, 2012; Kolk and Pinkse, 2010; Waddock and Graves, 1997; Walls et al., 2012). Fifth, for the same narrowing reason mentioned above, the current study includes corporate governance (G) as a condition to exemplify the configurational analysis approach being one of the three generally accepted CSP indicators as our key foci.

The sample firms in this study ( $n = 82$  of the Top-100 firms in the Sustainability Index for Sweden) represent 46 per cent of the NASDAQ-OMX multinational companies traded on the Swedish stock exchange. These firms operate across 34 industries; yield between \$11.7 million and \$33.3 billion in annual sales revenue; engage between 1217 and 281,145 employees; and display a globalization ratio (i.e., regional sales revenue versus total sales revenue) of 18, 46, 11, and 6 per cent (domestic-, European-, American-, Asian- and African and ME sales revenue respectively); where the reason to engage in CSP was (in order of priority) Strategic Purpose, Reputation, Competitive Advantages and Market Risk reductions.

## 2. Literature review

### 2.1. Exemplifying configurational analysis

Several researchers in the field (Fiss, 2007; Ordanini et al., 2014; Woodside, 2013, 2014) that advance configurational (set-theoretic) approaches to organizational research base their fundamental premise on that recipes (i.e., patterns of attributes) include ingredients (i.e., specific features) and that some recipes are sufficient in indicating specific outcomes. Logically, while we are not writing about food but business tactics, the following analogue is interesting in our simplification efforts: not everyone likes an anchovy pizza but having anchovy on a pizza is sufficient to have the pizza eaten by someone, but/and not that it will not be called a pizza or eaten at all. Nor that such a pizza will be eaten with or without enthusiasm or in great haste post serving. A core tenet in complexity theory is that configurational analysis supports such contrarian cases. Hence, contradictive cases towards any researched main effect do happen.

In fact, contradictive cases occur frequently in data sets (e.g., 20% of the cases). Consequently, an ingredient can have either a positive or a negative influence on different cases in the same outcome in the same data set.

These prior studies point out that while theoretical discussions of configuration theory highlight nonlinearity, synergistic effects, and equifinality, conventional empirical research instead typically draws on symmetric theory and tests (for example, in form of regression analysis) that by their very nature imply the mirror effects: linearity, additive effects, and unifinality. The asymmetric case-level paradigm shift in analysis emphasizes the substantial usefulness in examining recipe outcomes as well as antecedent recipes. Logically and conjunctively, in any business related research it is impossible (or at least impossible to convince business executives) that an outcome is merely “black or white”.

The creation of such advantages is too complex to capture by traditional statistical studies (Caldart and Ricart, 2004). One cannot in real industry life expect all firms to be homogenous with homogenous outcomes – the companies and its stakeholders make it just too complex. Companies all have idiosyncrasies and variations. “Humans who operate and manage complex systems are themselves not sufficiently complex to sense and anticipate the problems generated by those systems. This is a problem of ‘requisite variety’, because the variety that exists in the system to be managed exceeds the variety of who must regulate it” (Weick, 1979, p. 112). After all, no scientific formulae are available on how to make money. If such formulae were available, there would be no need to conduct research in the business field: just apply the formulae. Many research fields (including that of business) do not enjoy the beauty of precise research (e.g., physics or chemistry) where a repeated formula will display the same outcome. The inclusion of humans, human behaviour and culture and industry specifics evidently points to that other research approaches can have its place and value to enlighten the community, to find more indications and outcomes of corporate performance whatever the definition and management foci.

While the present study assumes the reader has a general understanding (see Isaksson and Woodside, 2016, section ‘7’; Ragin, 2008) of complexity theory, Boolean algebra, and configurational analysis, the following discussion briefly explains five core tenets of the theory. In this expositional application, individual MNCs are matched with systematic cross-case analysis, where the inter-variable relations are modelled in terms of set membership, using Boolean algebra. The method identifies configurations that reflect sufficient conditions for an outcome of interest (Ragin, 2008; Woodside, 2014). The first tenet: a high positive or negative score in a simple antecedent condition may be necessary but not sufficient to indicate a high score for an outcome condition consistently. For example, large size firms may be a necessary condition for high CSP but not all large firms are high in CSP. The second tenet: a few complex antecedent conditions can instead be sufficient but not necessary for the outcome of interest. The second tenet: a few complex antecedent conditions can be sufficient but each of these recipes is not necessary for the outcome of interest. The second tenet is foundational for performing somewhat “precise outcome modelling” (cf. Hubbard, 2016) whereby a specific outcome (e.g., a subset of firms among the top 10% of firms by scores in one or all three of the ESG conditions) is identifiable consistently by a given model.

The third tenet: with a large number case sample sizes ( $n \geq 100$ ), some cases exhibit contrarian relationships for one antecedent condition with the ESG outcome. Thus, even if most MNCs’ CSP factors have a substantial effect, some MNCs without high factor scores display the same outcome – just like in real everyday business life. For example, in what complex conditions (if any) does a firm low in CSP factors achieve high overall CSP? Asking such questions recognize that high X (antecedent) relates to high Y (outcome) in certain

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