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

Jacob Brower\textsuperscript{a,b},*, Katie Rowe\textsuperscript{b}

\textsuperscript{a} Queen's University, Smith School of Business, Goodes Hall, 143 Union St., Kingston, ON K7L 3N6, Canada
\textsuperscript{b} Senior Communications Officer, Canadian Broadcasting Corporation, St. John's, NL, Canada

\textbf{A R T I C L E   I N F O}

Keywords:
Strategic orientation
Market orientation
Corporate social performance
Stakeholder theory

\textbf{A B S T R A C T}

This research seeks to address two questions with respect to firm corporate social performance (CSP)1: (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)\textsuperscript{2} 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-
keholders (henceforth, S-CSP); conversely, firms with stronger share
holder 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 sub-
sequent 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 stake-
holder 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 or-
ientation and CSP are related. First, we discuss the conceptual and
theoretical arguments underlying the strategic orientation and stake-
holder 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 im-
plements.

2. Theory development

The literature on strategic orientation traces its roots to the cate-
gorization 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 organiza-
tion’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 sus-
tainable 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 po-

tential 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 ag-
gregate 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 rea-
sons, it is necessary to disaggregate market orientation into its com-
ponent strategic orientations – customer, competitor, and interfunc-
tional coordination (IFC) – to truly understand the impact of different
strategic orientations on firm outcomes, as some types of strategic or-
ientation 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; Spaniol, Qualls, & Rosa, 2011).
Han, Kim, and Srivastava (1998) lend empirical support to these arg-
ments, 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 re-

lative weight on each strategic orientation on various outcomes; and 3)
the combined effects of these orientations are not necessarily sy-
nergistic. Indeed, several studies have demonstrated that these strategic
orientations differentially affect firm outcomes (e.g.,
Gatignon & Yuereb, 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 orienta-
tions 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 lit-

erature, including shareholder orientation (Fiss & Zajac, 2004). Evi-
dence 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 shareholder
theory perspective, some have argued that the “triumph of the share-
holder-oriented model of the corporation” (Hansmann & Kraakman,
2000, p. 468) has resulted in firms being unencumbered by other sta-
keholder 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 en-
v
vironmental responsibilities (or lack thereof), much of the discussion on
either side of the debate has juxtaposed CSP as potentially contra-
dictory 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 im-
portance of stakeholder interests and to monitor, understand, and re-
spond to the needs and concerns of its stakeholders, including its cus-
tomers, 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 dis-
cretionary 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 so-
cietal stakeholders (Brammer & Millington, 2003), and they must focus
systematic attention to improving stakeholder relationships as a stra-
tegic tool to promote economic objectives (Jamali, 2008).

Thus, based on the preceding discussion, a firm’s strategic orienta-
tion 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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