The Effect of Corporate Social Responsibility on Competitive advantage of Brewery Firms in Ethiopia.

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Abstract

Every business enterprise operates within a given society and the relationships that a business has with the society have been discussed by several scholars in the context of corporate social responsibility. The basic idea of CSR is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behavior and outcomes. The main purpose of the study is to determine the effect of CSR initiatives on competitive advantage of brewery firms. The study employed explanatory research design and convenience sampling technique was applied to select 375 samples; however, statistical data was collected only from 341. Primary data were collected through survey questionnaire. The data were analyzed through descriptive and inferential statistics by using SPSS version 20. The result of the study has shown that there is a relationship between social responsibility dimensions and competitive advantage of firms. The results reveal that both CSR aspect of employees and environment have significant and positive effect on the competitive advantage of firms. However; CSR towards customers and local community have insignificant effect on the companies’ competitive advantage. The result also depicted that the aggregate result of CSR has significant and positive effect on competitive advantage of firms. It is recommended that brewery firms that want to compete effectively in an industry should be able to use their social initiatives strategically to achieve competitive advantage at least in the long-run.

Key words: Brewery, competitive advantage, CSR

Introduction

The roots of corporate social responsibility (CSR hereafter) may be traced many years back to the beginning discussions on what social responsibilities companies had and its concept has a long and ever changing history going through several periods. However, the concept of CSR has been discussed in the academic literature since 1950s.

In the CSR literature, a great deal of definitions is presented an exceptional definition does not exist. This is on the grounds that CSR is a term that overlaps different terms and is utilized synonymously with others; it is not easily defined (Matten and Moon, 2008). Van Marrewijk (2003) additionally contended that the social responsibility of business will vary from company to company and will vary in different contexts.

The ambiguity of CSR is not only related to its definition but also to its conceptualization (Valor, 2005). Several terms have been utilized to represent CSR, for example, corporate citizenship, corporate social performance, corporate philanthropy, corporate responsiveness, cause related marketing, corporate social profitability, business ethics theory, stakeholder theory, corporate accountability and social obligation. All of these terms are linked to organizations’ social responsibility; however, there are still some conceptual and perhaps semantic differences among them. The different concepts mentioned above are sometimes used interchangeably and all of them have embraced the CSR idea and are quite compatible with CSR.

CSR refers to a company’s commitment to operate in an economically and environmentally sustainable manner, while acknowledging the interest of a variety of stakeholders and maximizing economic, social and environmental value. It is a holistic concept that can mean different things to different groups and stakeholders. Central to the operations is the belief that both businesses and individuals have responsibilities (Lee, 1997). According to the definition given by the International Organization for Standardization (ISO), CSR is taken to mean a balanced approach for organizations to address economic, social and environmental issues in a way that aims to benefit people,
communities and society. It also concerns a role of business firms in the society and the society’s expectation on the firms. CSR is a voluntary obligation and the management must involve in their firm’s CSR activities. The measurement of CSR for sustainable development can be made in 3 dimensions, i.e. economic, social and environmental dimensions. European commission (2011) also stated that CSR as voluntary integration of social and environmental initiatives into corporate strategies and practices as well as corporation’s interaction with stakeholder such as shareholders/investors, employees, customers, suppliers, local community, and advocates who protect environment.

Firms must have a social responsibility initiative to consider the interest of all parties that could be affected by their activities (Lantos, 2001). Managing a good relationship with stakeholders by considering their needs and demands affected the firms’ long term success (Branco and Rodrigues, 2007). This means that in order to ensure the long term survival, organizations must take into account their stakeholders needs and demands.

According to Meehan et al (2006) CSR can be integrated in the organization’s strategic management process and be a source of competitive advantage. It can be a key ingredient in the overall organizational success. Smith (2003) argues that companies may build their competitive advantage through CSR strategies. He explains that a firm’s social responsibility strategy, if genuinely and carefully conceived, should be unique. This uniqueness may serve as a basis for setting the firm apart from its competitors and, accordingly, its competitive advantage. Therefore, the main purpose of this study is to determine the effect of CSR on the competitive advantage of brewery firms in Ethiopia.

**Statement of the problem**

Corporate social responsibility currently is an interesting issue of discussion and affects the image of numerous companies, where their image got harmed in light of different CSR issues like environment pollution, child labor, poor working condition, more damage to the society, etc. Promoters of CSR have contended that organizations should integrate economic, social and environmental concerns into their business strategies, their management tools and their activities, going beyond compliance and investing more on human, social and environmental capital (Belal and Momin, 2009). Moreover, Lee and Park (2010) noticed that the concept of CSR has been recognized as an important element for business success.

The subject of corporate social responsibility is a Perplexing one for any industry, not the least so for the brewery industry. Alcohol industry actors (producers, distributors, etc.) believe that a systematic integration of CSR into their business practices can make a positive influence on their economic, social, and environmental performance (Juscius & Kondratuuk, 2012).

By investing in CSR, companies are investing in sustainability and broader economic, social, and environmental objectives. CSR remains a beaming light of success for enhancing the role of business in society, but is also a continuing challenge to which organizations must remain vigilant, especially in emerging markets (Juscius and Kondratyuk, 2012).

Examining the social responsibility of firms and its effect on competitive advantage is unequivocally important for brewery companies to enable them to integrate CSR into their core business strategy with the aim that they can get advantage out of it in the long run. To this end the question as to the influence of CSR initiatives on the competitive advantage in the industry remains unknown and requires further examination. Therefore, this research study will determine the effect of CSR initiatives on the competitive advantage of brewery firms from employees’ perspective. This is due to the fact that CSR initiatives can be better understood from an employee’s perspective (Rodrigo & Arenas, 2008). Their CSR perceptions are more precise; they are well-informed and are often involved in CSR initiatives by actively participating. However, Employees as a unit of analysis have received limited attention in the past CSR literature (Aguilera et al., 2007).

**Objective of the study**

The main objective of study was to determine the effect of corporate social responsibility on competitive advantage of brewery firms in Ethiopia.
The specific objectives were:
1. To ascertain the effect of employees aspect of CSR on competitive advantage.
2. To determine the effect of customers aspect of CSR on competitive advantage.
3. To ascertain the effect of local community aspect of CSR on competitive advantage.
4. To determine the effect of environmental aspect of CSR on competitive advantage.

Hypothesis:
H1: Employees aspect of CSR has a significant and positive effect on competitive advantage.
H2: Customers aspect of CSR has a significant and positive effect on competitive advantage.
H3: Local community aspect of CSR has a significant and positive effect on competitive advantage.
H4: Environmental aspect of CSR has a significant and positive effect on competitive advantage.
H5: CSR initiative has a significant and positive effect on competitive advantage.

Literature Review
Theoretical Foundation

The CSR debate has revolved around two hierarchical positions; namely shareholder theory and stakeholder theory. These are basically two opposite views that explaining the role of businesses in the society. The shareholder theory is explained based on the classical approach to business, according to this theory a firm’s responsibility rests solely with its shareholders (Cochran, 1994). On the other hand stakeholder theory contends that organizations are not only accountable to its shareholders, but should balance a variety of stakeholder interests (Van Marrewijk, 2003).

Shareholder theory

The basis for arguments in favor of shareholder theory is the traditional paradigm of the firm which in turn rooted from Adam Smith’s notion of economic theory. Adam Smith (1863, as cited in Lantos, 2001) was perhaps the first to espouse the market value maximization perspective when he argued that by pursuing profits, corporations produce the greatest social good because the invisible hand of the capitalist market ultimately helped solve society’s problems. Lantos (2001) utilized the term economic CSR to refer to profit oriented CSR activities, which absolves corporation from social contribution since they pay taxes and wages to employees rather than enslaving them (Marcoux, 2000).

Friedman offered the dominant and the well-known view representing the economic approach separating social functions from business functions; he argued that the business of business is business (Klonoski, 2001). Friedman (1998), the major proponent of this approach, who argued companies should behave honestly; that is they do not engage in deception and fraud. This economist contends that the motive of the company is to make profits for shareholders. The only responsibility of business is to utilize its resources to engage in activities intended to increase its profits so long as it stays within the rules of the game. Since managers are agents of the shareholders they have a responsibility to conduct business in accordance with their interest. This is by and large to make as much money as possible and maximize their wealth. Under this perspective, since shareholders are the owners of the company and hence the profits belong to them, requiring managers to pursue socially responsible objectives may be unethical, because it requires managers to spend money that belongs to other individuals. Asking companies to engage in social responsibility activities is thought to be harmful to the foundations of a free society with a free enterprise and private property system, therefore; social problems ought to be left for the state to address. Levitt (1958) also believed that companies should be concerned with improving production and increasing profits while abiding by the rule of the game, which include acting honesty and in good faith, and that social problems should be left for the state to address.

Other contemporary authors argued shareholder value maximization as the objective function to all organizations but are not necessarily against the social responsibility activities by organizations (Sundaram and Inkpen, 2004). Essentially, these authors contend that having more than one objective makes trouble for managers and some difficult might happen in their decision making. On the one
hand, having stakeholder view maximization as objective is believed to lead managers to decisions that improve outcomes for multiple stakeholders.

However, some scholars believe that CSR is often useful in generating long-term owner value. For some time the contentions that have been given for Strategic CSR occur, at least in part, from the classical view that the only objective of business is to maximize shareholder wealth and that a firm should engage in CSR initiatives only if it permits to create value for owners. This approach is synthesized by McWilliams and Siegel (2001). They contend that decisions concerning CSR should be treated by managers precisely as they treat all investment decisions. Some Authors assert that CSR should be considered as a form of strategic investment (McWilliams et al., 2006).

Stakeholder Theory

Low and Cowton (2004) argued that shareholder theory and the belief that companies should be run purely in the interest of their shareholders has been challenged over the last decade. Agatiello (2008) argued that the notion of profit maximization as the prime objective of the firm is an observable fallacy. He asserted that the nature of the firm in modern times is too complex to explain through such reductionist theory. Indeed Agle and Mitchell (2008) found its opposing theory, stakeholder theory being “alive, well and flourishing”. This is because, the economic approach overlooked the fact that in the effort to maximize profits, corporations do affect multiple stakeholders and this argument has seen to contribute to the development of stakeholder theory of the modern corporation (Bitcha, 2003).

Stakeholder theory depends on the idea that beyond shareholders there are several agents with an interest in the actions and decisions of firms (Branco and Rodrigues, 2007). According to Freeman (1984), companies are not only accountable to their shareholders, but should also meet the interest of a group of various stakeholders who can influence or are influenced by the achievement of an organization’s objectives. According to Bruno and Nichols (1990), a stakeholder is a term which denotes any identifiable group or individual who can influence or are influenced by organizational performance in terms of its products, policies, and work processes. Therefore, Organizations have responsibilities that go above making money because of their great social and economic power. According to this theory, the success of the company depends mainly on how well manage relationships with many key groups, which consist of customers, employees, suppliers, financiers and other important community organizations with which cooperates. On each of these groups, including those with whom it has no legal, contractual relations is seen as a group with some participation (some stake) in the activities of the enterprise (Robins, 2008).

CSR and Competitive Advantage

The link between CSR and competitive advantage is often viewed as promising if social needs, environmental limits and corporate interests are well coordinated within it. It provides a mutual value for the company and the society (Porter and Kramer 2011). Husted and Allen (2001) state that CSR strategies can create competitive advantages if used properly, pointing out that there is a positive association between strategic social responsibility actions and competitive advantage. According to Meehan et al (2006) CSR can be integrated in the organization’s strategic management process and be a source of competitive advantage. It can be a key ingredient in the overall organizational success rather than a means of draining its resources.

Conceptual Model

In this research, social responsibility which is measured with 4 indexes using questionnaire is considered as independent variable and competitive advantage as dependent variable.

Social responsibility
Research Methodology

This study employed explanatory research design. It has been used to establish the magnitude, direction and significance of various effects of corporate social responsibility initiatives on competitive advantage of brewery firms. Creswell (2005) asserts that explanatory research design can be used to predict an outcome such as competitive advantage of the company.

The brewery firms included in this survey study was five major Ethiopian firms. The samples utilized in this study were drawn based on convenience. Convenience sampling is commonly used when the researcher does not have access to all the population, and decides to include individuals that volunteer to participate in the study (Johnson & Christensen, 2004). The researcher has chosen this technique as it was difficult to carry on a probability sampling technique due to the following reasons: some of the respondents were reluctant to involve in the survey, employees working in some departments were not accessible due to field work as part of their regular duty, and even in some department, employees were also working on a shift basis in every eight hour in a day. Yamane (1967) provides a simplified formula to calculate sample sizes. This formula was used to calculate the sample sizes.

\[ n = \frac{N}{1 + N(e)^2} \]

Where \( n \) is the sample size, \( N \) is the population size, and \( e \) is the level of precision. Therefore, 375 samples are calculated from the population of employees in the brewery firms, which was estimated to be 6000.

The researchers employed survey questionnaire. The questionnaire was designed in a structured manner which captures all the variables under study. In this case, there were closed ended questionnaire which allow for various responses by the respondents. These were administered through drop and pick method to the respondents. Therefore, after the questionnaires were thoroughly reviewed, 375 copies were sent out as planned but 341 copies were fully completed and valid.

For all the measures, employees’ participants were asked to respond to a five-point Likert-type scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Items were averaged to form the indices of the variables with larger numbers indicating higher levels. Corporate social responsibility and Competitive advantage of the companies were measured using 22-item and 5 (Reputation, community relations, employees’ loyalty, motivation and turnover) item scale respectively.

In this research study quantitative research was carried out and thus, involved some quantitative analyses with the use of statistical tools (descriptive and inferential). Though there are several software packages for the analysis of quantitative data, the researcher utilized SPSS version 20.
Table 1. Demographic characteristic of the sample respondents

<table>
<thead>
<tr>
<th>Demographic variables</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>244</td>
<td>71.6</td>
</tr>
<tr>
<td>Female</td>
<td>97</td>
<td>28.4</td>
</tr>
<tr>
<td>Total</td>
<td>341</td>
<td>100.0</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-25</td>
<td>88</td>
<td>25.8</td>
</tr>
<tr>
<td>26-35</td>
<td>177</td>
<td>51.9</td>
</tr>
<tr>
<td>36-45</td>
<td>64</td>
<td>18.8</td>
</tr>
<tr>
<td>Over 45</td>
<td>12</td>
<td>3.5</td>
</tr>
<tr>
<td>Total</td>
<td>341</td>
<td>100.0</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical &amp; vocational educ.</td>
<td>101</td>
<td>29.6</td>
</tr>
<tr>
<td>Diploma</td>
<td>117</td>
<td>34.3</td>
</tr>
<tr>
<td>Degree and above</td>
<td>123</td>
<td>36.1</td>
</tr>
<tr>
<td>Total</td>
<td>341</td>
<td>100.0</td>
</tr>
<tr>
<td>Work experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>191</td>
<td>56.0</td>
</tr>
<tr>
<td>6 to 10 years</td>
<td>100</td>
<td>29.3</td>
</tr>
<tr>
<td>Above 10 years</td>
<td>50</td>
<td>14.7</td>
</tr>
<tr>
<td>Total</td>
<td>341</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Survey data

Table 2. Descriptive statistics and correlations and reliability test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)CSR towards Employees</td>
<td>-.462</td>
<td>-.125</td>
<td>3.51</td>
<td>.92</td>
<td>1.000</td>
<td>.454*</td>
<td>.482*</td>
<td>.476*</td>
<td>.489*</td>
<td>.914</td>
</tr>
<tr>
<td>(2) CSR towards Customers</td>
<td>-1.031</td>
<td>1.521</td>
<td>4.11</td>
<td>.74</td>
<td>.454*</td>
<td>1.000</td>
<td>.700*</td>
<td>.714*</td>
<td>.525*</td>
<td>.886</td>
</tr>
<tr>
<td>(3)CSR towards local community</td>
<td>-.821</td>
<td>.655</td>
<td>3.96</td>
<td>.79</td>
<td>.482*</td>
<td>.700*</td>
<td>1.000</td>
<td>.686*</td>
<td>.488*</td>
<td>.887</td>
</tr>
<tr>
<td>(4) CSR towards Environment</td>
<td>-.831</td>
<td>1.350</td>
<td>4.02</td>
<td>.71</td>
<td>.476*</td>
<td>.714*</td>
<td>.686*</td>
<td>1.000</td>
<td>.642*</td>
<td>.882</td>
</tr>
<tr>
<td>(5) Competitive Advantage</td>
<td>-.918</td>
<td>.746</td>
<td>4.03</td>
<td>.81</td>
<td>.489*</td>
<td>.525*</td>
<td>.488*</td>
<td>.642*</td>
<td>1.000</td>
<td>.903</td>
</tr>
</tbody>
</table>

*. Correlation is significant at the 0.05 level (2-tailed).

Table 3. Multiple regression analysis.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Competitive advantage</th>
<th>Collinearity statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>t-values</td>
</tr>
<tr>
<td>CSR towards Employees</td>
<td>.227*</td>
<td>4.795</td>
</tr>
<tr>
<td>CSR towards Customers</td>
<td>.087</td>
<td>1.383</td>
</tr>
<tr>
<td>CSR towards local community</td>
<td>-.012</td>
<td>-1.919</td>
</tr>
<tr>
<td>CSR towards Environment</td>
<td>.480*</td>
<td>7.681</td>
</tr>
</tbody>
</table>

Model fit statistics.R^2 = 46.%,F=71.421*

Dependent Variable: competitive advantage
* Indicates variables significant at P<0.05

Table 4. simple regression analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.912</td>
<td>.204</td>
<td>4.471</td>
</tr>
<tr>
<td></td>
<td>CSRRATING</td>
<td>.799</td>
<td>.052</td>
<td>15.500</td>
</tr>
</tbody>
</table>

Dependent Variable: competitive advantage
Significant at P<0.05

Result and Discussion

As Table 1 below has shown that among 341 respondents, the majority (71.6 %) of respondents was male and 28.4% was female. About half percent of respondents were between the ages of 26 to 35 (51.9%). More than one third of respondents (36.1 %.) who attended first degree and above. More than half percent of employee respondents (56.0%) were working from 1 to 5 years.
The hypotheses were tested using multiple regression analysis. The normal distribution condition for the dependent variable and degree of multicollinearity in the independent variables were assessed prior to the regression analysis.

Reliability test has been carried out in the analytical process. Cronbach's alpha was calculated to test the level of consistency among the items. Alpha coefficient for independent variables and dependent variable were above 0.70, which indicated an acceptable level of reliability (Nunnaly and Bernstein, 1994). Correlation coefficient indicated that there were some interesting positive and significant relationships between the constructed variables. The skewness and the kurtosis statistics for the dependent as well as the independent variables fell within the range commonly used to establish whether a variable is normally distributed. Multicollinearity was not an issue either as the Variance Inflation Factors for all the independent variables were under 3.176, far below the recommended cut-off level of less than 5 (Hair et al., 2010). The four independent variables measuring corporate social responsibility were regressed against the dependent measure of competitive advantage.

The result of multiple regression analysis in the Table 3 has depicted that the first and fourth hypothesis that showing CSR towards employees ($H_1$), and CSR towards environment ($H_4$) will result in higher level of company’s competitiveness were confirmed in a statistical significant way ($\beta=.227$, $t=4.795$, $p<0.05$) and ($\beta=.480$, $t=7.681$, $p<0.05$) respectively. On the contrary, the proposition that employing CSR toward customers ($H_2$) and CSR toward local community ($H_3$) will result in higher levels of company’s competitiveness were not supported in a statistically significant way ($\beta=.087$, $t=1.383$, $p=0.05$) and ($\beta=-.012$, $t=-.191$, $p<0.05$) respectively. R square indicates the extent or percentage the independent variables explained the variations in the dependent variable. From the result shown, independent variables can explain 46% of the variations in dependent variable (competitive advantage). However, the remaining 54% is unexplained in this research study. Based on the result of simple regression analysis shown in Table 4, the aggregate result of CSR affects positively and significantly the firms’ achievement of competitive advantage so that it is supported since the $P$ value is 0.000 which is less than the significance level of 0.05 ($H_5$).

Conclusions

Based on the conceptual framework of the current study, the researcher utilized four key dimensions of CSR towards employees, customers, local community environment.

Corporate social responsibility, if strategically implemented, has the ability to serve as a strategic tool for gaining competitive advantage, especially in an industrialized industry, where competition is stiff. The major measurements of the influence of CSR on the competitive advantage of firms are the creation of reputation, offers greater turnover, improves community relations, employees’ loyalty and motivation.

In this study, the relationship between social responsibility of companies and competitive advantage was examined. The results demonstrate that there is a relationship between social responsibility dimensions and competitive advantage of firms. The results reveal that both CSR aspect of employees and environment have significant and positive effect on the competitive advantage of firms. However; CSR towards customers and local community have insignificant effect on the companies’ competitive advantage. The study also revealed that the aggregate result of corporate social responsibility has positive and significant effect on the competitive advantage of brewery firms. The result is consistent with the finding of Al-Sukkar A.S., et al (2013) which found that there is a statistical significant influence of social responsibility on achieving competitive advantage.

Thus, managers are advised to strategically outline CSR activities such that they are linked directly to the objective of the firm as stated in its mission. It is also recommended that brewery firms that want to compete effectively in an industry should be able to use their social initiatives strategically so as to gain competitive advantage at least in the long-run.
Limitation and direction for further research study

Earlier studies on CSR issues have mainly obtained information from specific stakeholder groups such as managers, employees, consumers, investors and other stakeholders; however, the findings are hardly comparable with previous studies. The sampling technique that was utilized also limits the generalizability of the current study. The overall model was significant and the four variables of CSR have explained about 46% of the variance in the competitive advantage variable. Therefore, future research should address the remaining variables represented 54% which was unexplained in the current study. The study uses only employees as a unit of analysis; future research can extend the survey to other stakeholders to evaluate their perspectives. The current study is limited in its scope only to the brewery firms. Therefore, future studies should include other alcoholic and nonalcoholic beverage industries.

References:


