

# The Role of Corporate Social Responsibilities (CSR) in Maximizing the Firm's Profitability for Sustainable Competitive Advantage

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## **Abstract**

This study explores the role of Corporate Social Responsibilities (CSR) in maximizing the firm's profitability for sustainable competitive advantage in Indonesia. CSR refers to the obligation of corporations to consider not only shareholders' interests, but also the interests of other stakeholders, like employees, customers, suppliers and communities directly affected by corporate actions. CSR nowadays is approached as a shared value, recognizing that not only the conventional economic needs but also societal needs define the market. A corporate social agenda has moved from simply helping to reduce social and environmental harm to improving social conditions as a way to strengthen its core business strategy to maximize its profitability for a sustainable competitive advantage. This study uses personal interview with respondents of selected companies from various industries in Indonesia. The interviews' results are emphasizing the four major aspects which explains how exactly is the role of CSR in the firm's profit maximization. First is the company's brand image will be affected by the CSR, leading the company to accordingly gain the trust from the customers, the customers' trust is the second aspect. Third is by doing CSR, the sense of proudness towards the company felt by the employees will increase, this will increase the employee' productivity. Last but not least is the enrichment of the human beings across the company, this will create a harmonize atmosphere and simply promote a healthy society. In conclusion, these four major aspects will interact with one another and influence the profit maximization, which means eventually will as well act as a sustainable competitive advantage for the company.

**Keywords:** Corporate Social Responsibility, Maximizing Profitability, Sustainable Competitive Advantage.

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## **1. Introduction**

One of the most prominent concepts in the Indonesian culture will be “gotong royong”, which simply means shared responsibility. Everyone is ready to provide helping hands in any situation. While this principle seems to be more evident in the rural areas these days, the spirit is deeply rooted in the heart of all Indonesians. Thus, Corporate Social Responsibility to all stakeholders should not be something new in the Indonesian culture.

Public have started to turn to major corporations, which have reaped the most benefits from society and have the resources and understanding to solve social and environmental issues related to their respective missions, to start taking action as tackling such issues is seen to be a shared responsibility. In fact, as governed by the Law of The Republic of Indonesia number 40 of 2007 concerning Corporation Act (UU No 40/2007), CSR is mandatory for Indonesian-listed companies. Per Article No 66 section 2 of UU No 40/2007, corporations must disclose their CSR activities in the annual reports.

However, in this era, CSR policies should not only be seen as a mere fulfilment of government’s requirement or an ingrained part of culture. CSR should be seen as a tool that maximize profitability of a corporation. It is evident from the fact that the number of people becoming socially conscious when purchasing items are also increasing. Indonesians are more willing to pay more to buy products from companies which are committed to make a difference. According to The Nielsen Global Survey of Corporate Social Responsibility (2014), more than 6 in 10 consumers in Indonesia (64%) are more willing to pay extra for products and services that come from companies who are committed to making positive social and environmental impact. This pool of socially conscious buyers is a potential market that can be targeted by corporations in Indonesia to maximize their profitability.

Besides that, since profit maximization and sustainable growth of a company depends on a safe and healthy physical and social environment, funding solutions or solving social problem around the world lies within the self-interest of multinational corporations. In other word, contributing to the community and environment will benefit the corporations themselves in the long run, creating a sustainable competitive advantage.

This study aims to establish the role of CSRs in maximizing the firm’s profitability for sustainable competitive advantage. The study gives qualitative information on how CSRs work as a source of sustainable competitive advantage to maximize profits based on interviews with informants from six different industries in Jakarta. The interviews will provide useful insights on how CSRs may play a part in maximizing the firm’s profitability.

The significance study is to provide the information to corporations about the role of CSRs in maximizing the firm’s profitability for sustainable competitive advantage. Not only that, this study also aims to encourage more companies to plan CSR projects that will not only create extensive environmental and social impacts for the community but also help them establish a sustainable competitive advantage.

## **2. Literature Review**

The modern era of Corporate Social Responsibility started in 1950s. At that time, CSR was more widely known as social responsibility. Howard R. Bowen (1953, p. 6) offered the definition of social responsibilities to be the responsibilities of business practitioners to define policies, make decisions and take actions that are enticing towards the objectives and values of society. Another early definition of modern CSR came from Keith Davis (1960, p. 70). For him, social responsibilities refer to businessmen's decisions and actions that are at least somewhat aimed at something beyond the firm's economic goal.

Expanding Davis' definition of social responsibilities, McGuire (1963, p. 144) stated that a corporation has responsibilities to society which extends not only beyond economic but also legal obligations of the firm. He precisely emphasized society as the object of obligations. Walton (1967, p. 18) brought in the idea of volunteerism into picture as he believed that in the concept of social responsibility, there should be aspect of intimate relationship between the corporation and the society, something that managers should remember about and, thus, there is a degree of volunteerism in social responsibility as managers strive towards maintaining that relationship.

A socially responsible corporate is also seen to be the one which manages to strike a balance between multiplicity of interests including interests of employees, suppliers, dealers, local communities and the nation (Johnson 1971, p. 50). He also threw the idea of social responsibilities viewed as a tool for profit maximization (p. 54) and utility maximization (p. 59).

However, despite the growing views of what CSR accounted for and the possible values of it, the advocates of Shareholder - Owner Value (OV) view believed that management's only responsibility was profit maximization (cited in Maruffi & Petri 2013). Milton Friedman wrote a famous article in 1970 entitled "The Social Responsibility of Business is to Increase its Profits". According to Friedman (1970), the sole social responsibility of a corporation is to make use of its resources as efficient as possible in order to maximize profit through business activities and free competition while remaining under the law.

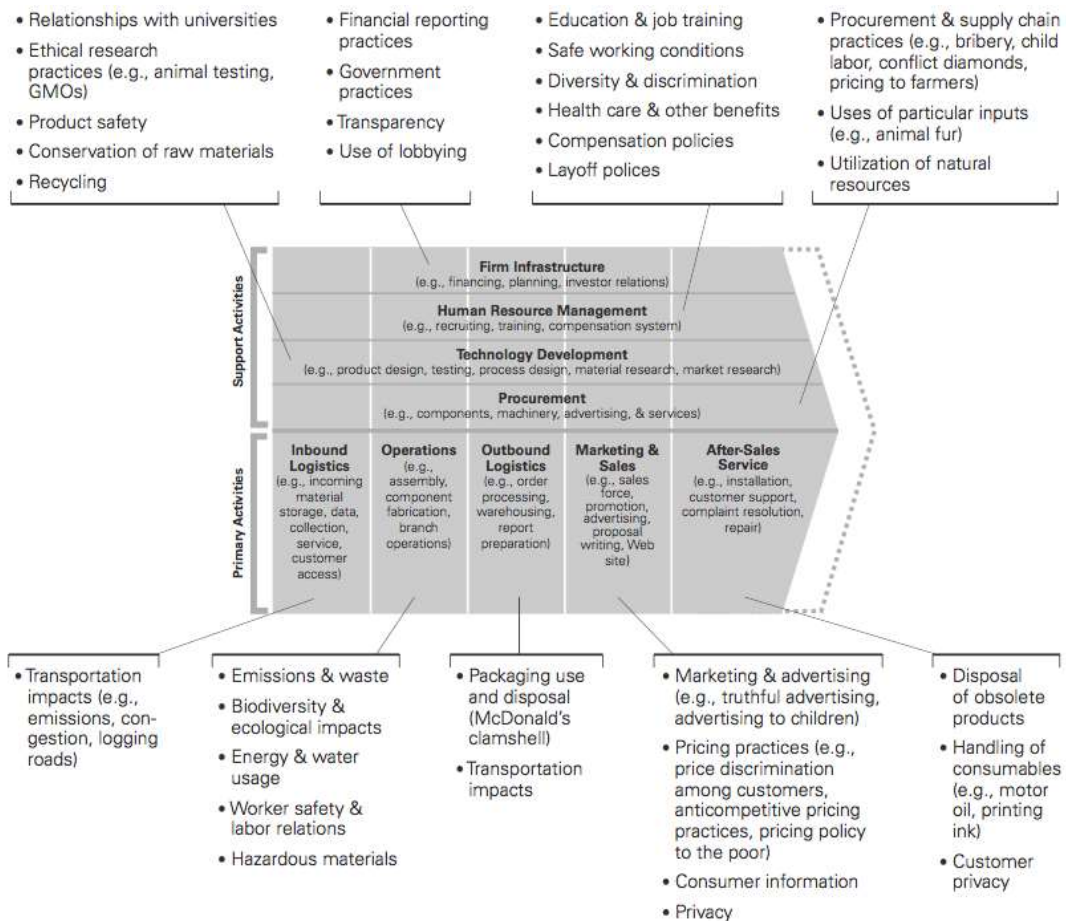
In the 1980s, the concept of CSR started to develop further. One of the main opposition of Friedman's view came from Freeman who popularized the Stakeholder Theory. Corporate governance did not only take into account shareholders' interests, but also the interests of other stakeholders, like employees, customers, suppliers and communities directly affected by corporate actions (Freeman 1984). This concept personalized social responsibilities by specifying the specific groups a corporation should take into consideration in its CSR orientation and activities. The stakeholder nomenclature defines the societal members or groups who are most important to business and to whom it must be responsive (Carroll 1991, p. 43). Freeman et al. (2010) also made a distinction between the original concept of CSR which focused on returning profits to society and integrated CSR. Integrated CSR is defined as the integration of social, ethical and environmental concerns into the management criteria for corporate strategy. This concept views CSR as a potential tool for value creation. There are five dimensions of corporate strategy that enable to relate CSR to value creation: centrality (closeness to the firm's mission and objectives), specificity (ability to capture private benefits by the firm), proactivity (planning in anticipation of social trends), voluntarism, and visibility (projects observable by stakeholders) (Burke & Logsdon 1996).

The potential relationship between CSR and value creation was further brought up by Michael Porter and his co-authors Kramer and Van der Linde (1995) as they saw that the expenditure of company's fund to lessen environmental impact as an opportunity to improve competitiveness. Porter and Kramer (2002), writing on corporate philanthropy, also advocate for strategic CSR, i.e. corporate actions that not only

benefit society but also improve the corporate competitive context, instead of giving pure donations that, at most, enable cause-related marketing. Improving competitiveness will then help to maximize profitability of a firm.

Profitability is one of a company's three main goals besides survival and sustainability. Profitability can simply mean the capacity of the firm to make revenues (Gibson & Boyer 1979) or more specifically the ability of a given investment to earn a return from its use (Howard & Upton 1961). With this definition from Howard and Upton, profitability can be seen as an indicator how efficient the operations of a firm in making use of its investment. To ensure that investment in CSR will help increase returns and thus maximize profitability, it can then be analyzed with the same value chain framework devised by Porter (1985) as a powerful analysis tool used for strategic planning in a corporation (Porter & Kramer 2006). Activities in the value chain will in many cases have a direct impact on society, and being able to improve its activities based on social issues may lead to not only profitability maximization but also competitive advantage.

**Figure 1: Mapping the Social Impact of the Value Chain**



Source: Michael E. Porter (1985)

According to Barone and DeCarlo (2003), a competitive advantage is basically what the company will eventually achieve through serving better values to the markets, it can be in the form of low prices, or simply offering a differentiation of a product or services that are probably priced slightly or much higher. In simple terms, competitive advantage is the most contributing factor of what makes a company better than its other competitors in the industry. Often being the reason of customer' trust and loyalty. When it comes into creating a competitive advantage, the company must be able to tell the most crucial core of competitive advantage: benefit. This means the company must articulate to the customer about the benefit they will get from the products of the company, and also how that benefit may bring greater value to the customer compared to other competitors' products. Hence, a competitive advantage of the company would broaden the company's opportunity to exceed what the competition has or does. Porter (1980) explained three main ways to achieve competitive advantage: cost leadership, differentiation and focus strategy. However, in this era, the concept of CSR can actually be seen as a way to achieve not only competitive advantage, but a sustainable one.

Sustainability is a keyword to be emphasized here. According to World Commission on Environment and Development (1987), sustainability is defined as meeting the needs of the present without compromising the ability of the future generations to meet their own needs. By considering the definition of both competitive advantage and sustainability, sustainable competitive advantage can be defined as the attributes of a firm that makes it superior than its competitor in the long-term.

For CSR to be able to play a role for sustainable competitive advantage, however, its concept has to be expanded. The relationship of corporations and society is further deepened through the concept of shared-value (Porter & Kramer 2011). The basis of this approach recognizes that not only the conventional economic needs but also societal needs define the market. A corporate social agenda has moved from simply helping to reduce social and environmental harm to improving social conditions as a way to strengthen its core business strategy (p. 6). As a business cannot solve all problems in the world, it can focus on social issues that intertwine with its core business. The cause should not be evaluated based on its worthiness but on its ability to bring about shared value - important for the society and fundamental for the business. In the long run, shared value leads to a stronger and more sustainable value chain, forming a sustainable competitive advantage for the company.

### **3. Methodology**

This research uses the qualitative method. The data was taken from the results of interviewing six respondents coming from various industry backgrounds in Indonesia. The questions that are addressed to the respondents are mostly about the awareness of the respondents about the importance of Corporate Social Responsibility such as what they know about CSR and how CSR is being done in the each of the respondent' company, and also how much does CSR impact the company. Last but not least, the questions will narrow down to the relationship between CSR in maximizing profit and creating competitive advantage. The data will be observed by researchers and presented in the form of tables for later being transformed into a conclusion.

The use of qualitative method through personal interviews is seen suitable for exploratory nature of this study. The semi-structured interview was used to ask more questions depending on the responses from the interviewees to extract further details and opinions in the context of the study (Marshall & Rossman

1989). Also, as the role of CSR continues garnering different perspectives from different individuals depending on the nature of its business. is depending on the nature of business activity is dynamic because it involves different perspectives and understanding of different individuals, it is best understood through qualitative method (Ezzy 2002).

The key interview question is: What do you know about corporate social responsibility? How is the practice of CRS in your company? How much does CSR impact your company in term of firm's profitability for sustainable competitive advantage?

#### 4. Results and Discussion

This part presents the feedback from the personal interview with six informants from various industries in Indonesia on the role of CSR in maximizing profit for sustainable competitive. Table 1 summarizes the profile of the informants. The informants were asked questions pertaining to the practice of CSR in their organizations and their opinions on the role and importance of CSR.

**Table 1: Informants' Brief Profile**

Code	Position	Principal Activity
R1	Director	Consulting
R2	CSR Manager	Hospitality
R3	Operations Manager	Social
R4	Vice President of Public Relations	Manufacturing
R5	HR Director	Healthcare
R6	PR Director	Education

R1 argued that CSR should be embedded even inside the business model of a company, and giving back to the society is not just in the form of philanthropy. TF 1 said:

*Nowadays, CSR has been transformed into CSV (Company Shared Values), although many have not realized about this transformation but we are getting there. Basically, CSR and CSV are the same, it is simply that CSV means embedding CSR in the business model. Companies are supposed to do many good deeds for the society, and not just in the form of philanthropy, because then the CSR would never lead to a competitive advantage. We should take a look at our internal and ask whether the company has achieved the three bottom lines or not. Those three bottom lines are; Social impact (people), environmental impact (planet), and financial impact (profit). If all these triple bottom lines are achieved, the company will not only have a sustainable competitive advantage, but also a rapid development. And it is what most likely will help the company to maximize its profitability.*

R2 contended that sharing wealth and happiness, doing good deeds for the society is not only going to prosper the surrounding, but also the CSR doer. TF 2 stated:

*In general, CSR absolutely will help the company to build this image of wealthy, to be the company that is being looked up by many, and to have its own competitive advantage. As a company, it is simply wrong for us to just go to work and make income out of that work without any willingness to be aware about the surrounding of the place we work in. CSR allows the company to be aware of what is going on in our workplace' surroundings, and it also helps the company to help its surrounding. To make it simple, CSR is actually the sharing of wealth, the sharing of happiness. That is the basis of what CSR truly is. Now, from the business point of view for the company doing the CSR (in this case, hospitality industry company), nowadays it is surprising how most of the customers that come to us will likely to value the company more once they know that the company they are putting their trust in is doing CSR and care about the environment. Of course, trust as something so hard and valuable to get, is going to make the company gain the customer's loyalty. I believe it is what going to bring this hospitality company to its competitive advantage and accordingly profit maximization.*

R3 pointed out that aside from the wealth that is being shared to the community, what the company can achieve from doing CSR is also the behavior change that can eventually lead to profitability and competitive advantage. TF 3 uttered:

*Most of the time, people think that CSR is only about giving out money, especially in the eyes of CSR receiver. They tend to immediately associate CSR with money. Truth is, however, CSR is a highly encouraging system that company can use in order to develop human beings, that is a more concrete form of CSR. We have to do it both ways, internally and externally. First, the internal, we must try to change the behavior of the internal system (in this case, the employees). As we are successfully developed a CSR-based mindset on the people inside, it will be easier to bring out to people in the surrounding of the company (the external), and to engage with the environment and change the behavior of the people. There is nothing wrong with trying to get profit, but social value is supposed to be embedded inside the system of the company itself. We have the people, we have the planet, but if we have make the people to have the awareness and willingness to save the planet. Afterwards the competitive advantage will be shaped and it will lead the company to maximize it profitability.*

R4 argued that doing CSR has helped the company the most in terms of increasing the productivity of the employees.

*I personally experience that doing CSR will not only create a sense of belonging to the society towards our company, but also the sense of proud from the employees. This proud feeling they have, makes their productivity increases so rapidly. They are also showing more excitements towards upcoming events that are going to be involving the society in the process. This increased productivity is surely tied up with a loyalty. Slowly we see a massive performance in the company's profitability. And if the question is also about competitive advantage, actually all those together; employees increased productivity, employee loyalty, and eventually lead to excellent profit maximization is a proof of how CSR is strongly impacted the creating of a sustainable- very sustainable in fact, competitive advantage.*

R5 contended that the CSR is strengthen the relationship between the workers with the customers that it brings a very harmonize atmosphere in the company.

*It is amazing, really, to see this strong relationship between both; the employees and the customers slowly being built as we are consistently held CSR events. As for the customers, it is not that we are hoping for them to come back as often as possible, no. It is more like, "If there is a next time you will be in need of a healthcare assistance, we will be pleased to be your first choice". And believe me, we can see it, we can see the trust, and it is amazing. Seeing the trust and loyalty from the customers is automatically help the employees to perform better. I personally feel CSR that can be used as a weapon for companies in any kind of industry in order to achieve a competitive advantage. CSR is something to be proud about. And I believe a great profit is going to follow along the line.*

R6 stated that CSR has to be in line with the business and the program itself has to bring a sustainable impact to the community as well as the company.

*CSR is giving back a share of what we gain to the community. As our company profits from giving education, our CSR program is to give an affordable education for people alongside our main program. We give an affordable English class for elementary school children with our students as the teacher. When Implementing CSR, the important thing to remember is to give a program that is beneficial for the society in a long term and is sustainable for the society. CSR does not affect directly into the company's profit, however it is a sustainable investment as in the long run it will raise our company's reputation which is much more important than a short term profit. CSR does lead our company in building competitive advantage, it helps us create a better brand image that will increase our reputation. The ideal time to hold a CSR event depends on the program. Since CSR program in our company is to create an affordable class, the ideal time for such program is to hold it continuously.*

The overall result from all six informants is that CSR is something to be done continuously for the impacts to be felt. CSR is supposed to enrich the quality if the people, the environment, and the financial aspect of the company. Table 2 summarizes the informants' feedback into several key values.

**Table 2: Summary of Informants' Feedback**

Code	Main Points	Key Values
R1	CSR is to enrich the company in terms of the triple bottom lines; Social impact, environmental impact, and financial impact. Only then a sustainable competitive advantage can be achieved.	Triple bottom line and rapid development.
R2	Customers nowadays seek for a company that cares about the environment.	Company's brand image and customer loyalty.



R3	CSR is to help develop the human beings that surround the environment.	Mindset enrichment.
R4	By doing CSR, the sense of proud felt by the employees towards the company will increase their productivity.	Employees' productivity.
R5	Customers will put their trust to a company which they believe is rooted their values in good deeds for the society.	Customers' trust.
R6	CSR is giving the company a long-term benefit by creating a good company branding or reputation, which will eventually contribute to profit maximization and competitive advantage' sustainability.	Company's reputation.

In other words, we can determine the role of CSR in 4 major aspects: From the company' reputation, the customers' trust and loyalty, the employees' productivity, and the mindset enrichment of all the parties affected by the CSR activities. Eventually all these 4 aspects will interact one another. As a result, CSR gives the company a rapid development, which will impact the profit maximization, and a sustainable competitive advantage will be achieved.

## **5. Conclusion**

The results gained from six informants interviewed lead us to this following conclusion. The CSR is not just an agenda to be done by the company for the sake of self-branding. It is, in fact, one of needs for the company which if being done will help to increase a sense of well-being in the company' internal system. CSR serves a purpose as a bridge between the companies and other parties that are likely to be affected by the company. The parties that directly affect the process of maximizing profitability are the customers (how the company's brand is in the eyes of the customers), the employees (how the employees perceive the values of the company. This will lead them to decide whether or not to give their loyalty to the company), and the society around the company (whether they have a sense of belonging towards the company or not).

First and foremost, when it comes to the customers it is quite surprising of a fact that people do care about finding a company which has an aligned value with theirs. Nowadays, preserving the environment has been made as a priority by most people, including the current and future customers for a particular company. Doing CSR and promoting how the company puts great concern for the society and the environment will likely to increase the company's branding in the eyes of the customers. All of those will lead to the formulation of customers' loyalty. Loyalty is going to be one of the most contributing factor of the company's profitability maximization especially if it comes from the customers. Hence, the CSR activities may create a sustainable competitive advantage in terms of increasing customers' loyalty.

Second is from the employee' point of view. By seeing the company does CSR activity, the employees will automatically see how much of careness being given by the company to the society, and it will determine how the employees perform. The employees may start having this proud feeling towards the company, and it will lead to an increased productivity and loyalty from the employees. Surely, those will

contribute as well to the sustainability of the company's competitive advantage, because a great performance from an employee is positively correlated with the profit maximization.

Last but not least is the society surrounds the company. It is important to create a sense of belonging towards the company in the society. This sense of belonging will contribute to the long-term benefit of the company through the branding it has in the eyes of the society.

Overall, doing CSR means not only to do good deeds for the society but also to engage the company' internal: employees, to the company' external: the environment and the people. CSR is something to be done continuously because only then the impacts can be seen. CSR means paying attention to the well-being of the company, develop the human beings inside and outside of the company, creating a welfare in the company, the society, and the environment it is located in. and because of the great values imbedded inside the CSR, it truly is a weapon that can be used in order to achieve sustainable competitive advantage, which is helpful in profit maximization.

What can be done for future research is to deepen the analysis between the CSR and the company performance in terms of the employee' productivity. It is necessary to emphasize more about the correlation between CSR activities and the employee' productivity. It is also recommended to find various variables regarding the employee' productivity in order to further analyze the impact of CSR to the mindset and behavior of the employees.

## **6. Limitation**

This study is only focus on analyze the role of corporate social responsibility in maximizing the firm profitability. It has some limitation:

- a. The sample is only 6 respondents in Indonesia. Further research need to expand the respondent's size into large group. It will increase the generalize result.
- b. This study is only chosen respondents from 6 industries. The future research may add financial, e-commerce, technology, etc.

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