

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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# CONTENTS

| Sr. No. | TITLE & NAME OF THE AUTHOR (S)  | Page No. |
|---------|---|----------|
| 1.      | <b>CHALLENGES OF MANAGING DEVOLVED FUNDS IN THE DELIVERY OF SERVICES: A CASE STUDY OF MOMBASA COUNTY</b><br><i>HADIJA ABDUMLINGO &amp; DR. FRED MWIRIGIMUGAMBI</i>  | 1        |
| 2.      | <b>CUSTOMER RELATIONSHIP MANAGEMENT STRATEGIES FOR RETAIL BANKING IN INDIA</b><br><i>T. P. SARATHI, DR. S. E. V. SUBRAHMANYAM &amp; DR. T. NARAYANA REDDY</i>   | 5        |
| 3.      | <b>STRATEGIC IMPLICATIONS OF CORPORATE SOCIAL RESPONSIBILITY INITIATIVES</b><br><i>ASHFAQ AHMAD &amp; DR. N. P. SHARMA</i>  | 8        |
| 4.      | <b>STUDENT MOTIVATION, STUDYING AT HIGHER EDUCATION: A CASE OF BOTH UNIVERSITY</b><br><i>SHYNET CHIVASA &amp; RODRECKCHIRAU</i>   | 12       |
| 5.      | <b>INSTITUTIONAL ANALYSIS ON POVERTY REDUCTION PROGRAM IN THE SOCIETY: A CASE STUDY OF NATIONAL PROGRAM FOR COMMUNITY EMPOWERMENT OF INDEPENDENT URBAN (PNPM-MP) IN SEMARANG, INDONESIA</b><br><i>MUNAWAR NOOR, DR. Y. WARELLA, DR. SRI SUWITRI &amp; DR. HARDI WARSONO</i> | 18       |
| 6.      | <b>PREDICTING DEFAULTS IN COMMERCIAL VEHICLE LOANS USING LOGISTIC REGRESSION: CASE OF AN INDIAN NBFC</b><br><i>MOHIT AGRAWAL, DR. ANAND AGRAWAL &amp; DR. ABHISHEK RAIZADA</i>  | 22       |
| 7.      | <b>RISK DISCLOSURE BY SELECT INDIAN BANKS WITH REFERENCE TO IFRS 7 / IND AS-32: A STUDY</b><br><i>DR. PRANAM DHAR</i>   | 29       |
| 8.      | <b>E-GOVERNANCE: EXPLORING CITIZEN'S BEHAVIOR IN INDIA</b><br><i>KOMAL CHANDIRAMANI &amp; MONIKA KHEMANI</i>  | 38       |
| 9.      | <b>RECENT INITIATIVES TOWARDS CSR IN INDIA</b><br><i>ALPANA</i>   | 42       |
| 10.     | <b>HIGHER EDUCATION FOR SUSTAINABLE DEVELOPMENT: QUALITY PERSPECTIVE</b><br><i>DR. A. SUBRAHMANYAM</i>  | 46       |
| 11.     | <b>QUALITY MANAGEMENT PRACTICES IN MANUFACTURING SECTOR</b><br><i>SUPRIYA CHOPRA</i>  | 49       |
| 12.     | <b>PROBLEMS OF MUTUAL FUND IN INDIA</b><br><i>NEERAJ RANI ANEJA</i>   | 58       |
| 13.     | <b>HOMESTAYS FOR THE DEVELOPMENT OF TOURISM IN THRISSUR DISTRICT</b><br><i>HELNA K PAUL</i>   | 64       |
| 14.     | <b>MERGERS AND ACQUISITIONS IN BANKING SECTOR</b><br><i>NAND LAL</i>  | 68       |
| 15.     | <b>MEDICAL TOURISM OF INDIA: HIGH QUALITY &amp; AFFORDABLE INTERNATIONAL PRICE</b><br><i>NAMAN PANWAR</i>   | 72       |
|         | <b>REQUEST FOR FEEDBACK &amp; DISCLAIMER</b>  | 78       |

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**STRATEGIC IMPLICATIONS OF CORPORATE SOCIAL RESPONSIBILITY INITIATIVES**

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**ABSTRACT**

*In this article we try to analyze the strategic implications of Corporate Social Responsibility (CSR) initiatives on the two sample selected banks in India. We try to empirically investigate this by means of a sample of 205 executives. The estimation results show that for these two, sample selected banks, CSR is a strategic tool to achieve competitive advantage.*

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**KEYWORDS**

Banks, Corporate social responsibility, Competitive advantage, Stakeholders, Strategy.

**INTRODUCTION**

Companies are under rising pressure from various stakeholders to be socially and environmentally responsible. Companies are embracing CSR programs (Bhattacharya & Sen, 2004; Brown, 1998; Drumwright & Murphy, 2001; Joyner & Payne, 2002; Murray & Vogel, 1997), because they consider CSR to be a critical strategy issue (McWilliams, Siegel, & Wright, 2006; Siegel & Vitaliano, 2007; Orlitzky, Siegel, & Waldman, 2011). The question of whether social or environmental responsibility enhances profitability yields inconsistent results. Some research reports a strong correlation between sustainability ratings and financial returns (Godfrey, 2005; Orlitzky, 2005) and others find a general consumer unwillingness to forego better-quality products or lower prices in order to support a cause (Barone, Miyazaki, & Taylor, 2000; Brown & Dacin, 1997; Sen & Bhattacharya, 2001). Aguinis (2011) concisely captured several key elements of CSR when he defined it as “context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance”. Proponents of a more expansive view on CSR, in contrast, contend that businesses ought to use their power and resources for “broad social ends and not simply for the narrowly circumscribed interests of private persons and firms” (Frederick, 1960; Davis, 1960; McGuire, 1963). Socially responsible firms should first achieve their economic goals and fulfill their legal obligations. However, they also should adhere to ethical standards not mandated by law and engage in some philanthropic or other discretionary activities that help address the needs of society (Carroll, 1979; Wartick & Cochran, 1985; Wood, 1991). Therefore, some conclude that businesses must consider the needs and desires of society at large and do more than simply maximise profit. The amount of resources companies put toward CSR has increased over the past several decades. Most of the large companies established programs for philanthropy and developed explicit codes of ethics by the end of the 1980s (Business Roundtable, 1988). As of 2004, over 80% of Fortune 500 companies explicitly touted multiple aspects of CSR on their websites (Bhattacharya & Sen, 2004). In other words, CSR has become a mainstream concern, and many companies now question how rather than whether they should address it (Smith, 2003). Efforts to document and understand the antecedents and consequences of CSR for firms have been a major focus of research in recent years (Aguinis & Glavas, 2012; Margolis & Walsh, 2001; Pelozo & Shang, 2011). The body of empirical evidence indicates that CSR is positively associated with firm reputation and financial performance (e.g., Margolis & Walsh, 2001, 2003; Orlitzky & Benjamin, 2001; Orlitzky, Schmidt, & Rynes, 2003; Pelozo, 2009), which has led many in the field to endorse the notion that CSR benefits firms. On the other hand, some researchers urge caution because existing studies have several methodological limitations; for example, large companies are over represented in study samples, key control variables are missing from some analyses, there is uncertainty about how well existing measures operationalise key constructs, and nearly all studies are correlational and unable to determine whether CSR improves financial performance or vice versa (e.g., Griffin & Mahon, 1997; Margolis & Walsh, 2003; McGuire, Sundgren, & Schneeweis, 1988; Pelozo, 2009; Ullmann, 1985; Waddock & Graves, 1997).

**LITERATURE REVIEW**

According to Carroll (1979), CSR is a multi-dimensional construct, consisting of four types of responsibilities: economic, legal, ethical and discretionary. Economic responsibilities include the obligations for businesses to maintain economic wealth and to meet consumption needs. Legal responsibilities imply that businesses must fulfill their economic mission within the framework of legal requirements. Ethical responsibilities require that businesses abide by the moral rules defining appropriate behaviors in society. Discretionary responsibilities are tantamount to philanthropic responsibilities and reflect society’s desire to see businesses contributing to its development. Earlier research on the CSR and business performance link have reported a negative relationship (e.g. Vance, 1975) or no relationship (e.g. Upperele et al., 1985), however more recent studies on the linkage have provided more consistent empirical evidence showing a positive relationship between CSR and business performance (Russo and Fouts, 1997; Waddock and Graves, 1997; Maignan et al., 1999; Luo and Bhattacharya, 2006). The discrepancy between the earlier and more recent studies might result from the fact that business environments change and the current business environments are becoming more favorable towards businesses that place an emphasis on CSR. In a survey Smith (1996) found that 88 per cent of consumers in the study are more likely to buy from a company that is socially responsible. Empirical evidence demonstrates a positive impact of CSR on organizational performance (Maignan et al., 1999). CSR refers to the concept that business has broader societal interests to consider not just the financial interests of the organisation (Sen and Bhattacharya, 2001). In addition, to meeting societal obligations, it is being argued that a more socially responsible organisation will engender enhanced business performance, including greater customer based brand equity. Maignan and Ferrell (2004) argue for a broader more integrative approach that considers multiple stakeholder perspectives and CSR initiatives, including the “bundling together of various social responsibility initiatives”. It is believed that firms with good social responsibility may attract better employees and increase current employees’ motivation, morale, commitment, and loyalty to the firm (Jones, 1980; Lam, 2009; Lindgreen et al., 2009). According to Cegarra-Navarro and Martínez-Martínez (2009), Galbreath (2009) and Simson (2004), firms can leverage successful CSR based track records to entice high-quality job applicants and improve morale of existing employees. It can be assumed that employees have better self-images when they work for a company that has a reputation for socially responsible behaviour (Porter and Kramer, 2006; Rowe and Schlacter, 2001; Roth, 2005). It is vital for today’s organizations to be able to manufacture and deliver quality products and services cost-effectively. Therefore, managers may have some instrumental motives to push for CSR when social initiatives are directly related to the greater competitiveness of the firm, such as by

protecting a company’s reputation (Bansal and Clelland, 2004). Several authors have found a link between CSR reputation and consumer response. For instance, Lichtenstein et al. (2004) found that the firm’s CSR reputation had an impact on perceived corporate benefits (measured as a function of store loyalty, emotional attachment and store interest). However, Berens et al. (2005) found no direct effect between corporate associations (measured as CSR reputation) and product attitude (measured as a function of appeal, reliability and quality) or purchase intentions. In a study using bank respondents, Marin and Ruiz (2007) found a direct association between a customer’s attraction or liking for the bank and the bank’s reputation for caring on a battery of CSR related causes, such as communities, environment, philanthropy and disadvantaged groups.

**HYPOTHESIS**

The overall research problem is stated as an investigation into the effects of CSR initiatives on the competitive advantage of the firm and the following hypotheses will be used to guide the study.

H1. There is a positive relationship between CSR initiatives and competitive advantage of the firm.

**RESEARCH APPROACH & METHODOLOGY**

The research began with examining the secondary data followed by the collection of primary data. Primary data comprised of interviews and questionnaires. The interviews were conducted with the personnel in CSR Core group, Human Resource personnel, Corporate communication personnel, public relations personnel, finance personnel and other employees of two financial institutions of State Bank of India and J & K Bank. The respondents were selected on the basis of Simple Random Sampling Method (SRSM). Using this sampling procedure a total sample size of 205 respondents were chosen, which included 101 respondents from Jammu & Kashmir Bank and 104 respondents were chosen from SBI. Five point Likert-scale (5=Strongly Agree, 4=Agree, 3=Neither Agree nor Disagree, 2=Disagree, 1=Strongly Disagree) was used to assess the strategic implications of corporate social responsibility initiatives on the banks in india.

**TABLE 1: RESPONSES FOR THE STATEMENTS RELATED TO THE STRATEGIC IMPLICATIONS OF CSR ON THE PERFORMANCE OF J&K BANK AND SBI**

| S.No. | Statement   | Scale                      | Banks         |          | Total |
|-------|---|----------------------------|---------------|----------|-------|
|       |   |                            | J&K Bank %age | SBI %age |       |
| 1     | The effectiveness of corporate social responsibility activities has a positive impact on your organisation.             | Strongly Disagree          | 1.0           | 1.0      | 1.0   |
|       |   | Disagree                   | 2.0           | .0       | 1.0   |
|       |   | Neither Agree Nor Disagree | 7.9           | 3.8      | 5.9   |
|       |   | Agree                      | 43.6          | 54.8     | 49.3  |
|       |   | Strongly Agree             | 45.5          | 40.4     | 42.9  |
| 2     | CSR has positive strategic implications on the performance of your organisation.  | Strongly Disagree          | 1.0           | 1.0      | 1.0   |
|       |   | Disagree                   | 4.0           | 5.8      | 4.9   |
|       |   | Neither Agree Nor Disagree | 17.8          | 10.6     | 14.1  |
|       |   | Agree                      | 47.5          | 51.9     | 49.8  |
|       |   | Strongly Agree             | 29.7          | 30.8     | 30.2  |
| 3     | There is a positive relationship between CSR initiatives and competitive advantage of your organisation.                | Disagree                   | 1.0           | 1.9      | 1.5   |
|       |   | Neither Agree Nor Disagree | 27.7          | 26.0     | 26.8  |
|       |   | Agree                      | 56.4          | 49.0     | 52.7  |
|       |   | Strongly Agree             | 14.9          | 23.1     | 19.0  |
|       |   | Strongly Disagree          | 1.0           | 1.9      | 1.5   |
| 4     | CSR is a strategic tool to achieve competitive advantage for your organisation.   | Disagree                   | 2.0           | 6.7      | 4.4   |
|       |   | Neither Agree Nor Disagree | 27.7          | 22.1     | 24.9  |
|       |   | Agree                      | 46.5          | 50.0     | 48.3  |
|       |   | Strongly Agree             | 22.8          | 19.2     | 21.0  |
|       |   | Disagree                   | 5.0           | 7.7      | 6.3   |
| 5     | Investing in CSR has resulted in differentiation and hence given competitive advantage to your organisation.            | Neither Agree Nor Disagree | 37.6          | 23.1     | 30.2  |
|       |   | Agree                      | 46.5          | 51.9     | 49.3  |
|       |   | Strongly Agree             | 10.9          | 17.3     | 14.1  |
|       |   | Disagree                   | 12.9          | 12.5     | 12.7  |
|       |   | Neither Agree Nor Disagree | 32.7          | 30.8     | 31.7  |
| 6     | By being ethical corporate citizen and investing in CSR, the operational efficiency of your organisation has increased. | Agree                      | 44.6          | 53.8     | 49.3  |
|       |   | Strongly Agree             | 9.9           | 2.9      | 6.3   |

**TABLE 2: T-TEST BETWEEN J&K BANK AND SBI FOR THE CONCERNED STATEMENTS**

(COMPARATIVE TEST TO DETERMINE DIFFERENCE OF OPINION IF ANY BETWEEN THE EMPLOYEES OF J&K BANK AND SBI FOR THE CONCERNED STATEMENTS)

| S.No. | Statement   | Bank    | Mean | Std. Deviation | t value | P value |
|-------|---|---------|------|----------------|---------|---------|
| 1     | The effectiveness of corporate social responsibility activities has a positive impact on your organisation.             | JK Bank | 4.30 | 0.78           | -0.295  | 0.076   |
|       |   | SBI     | 4.33 | 0.64           |         |         |
| 2     | CSR has positive strategic implications on the performance of your organisation.  | JK Bank | 4.00 | 0.85           | -0.400  | 0.690   |
|       |   | SBI     | 4.05 | 0.85           |         |         |
| 3     | There is a positive relationship between CSR initiatives and competitive advantage of your organisation.                | JK Bank | 3.85 | 0.66           | -0.815  | 0.416   |
|       |   | SBI     | 3.93 | 0.75           |         |         |
| 4     | CSR is a strategic tool to achieve competitive advantage for your organisation.   | JK Bank | 3.88 | 0.81           | 0.851   | 0.396   |
|       |   | SBI     | 3.77 | 0.90           |         |         |
| 5     | Investing in CSR has resulted in differentiation and hence given competitive advantage to your organisation.            | JK Bank | 3.63 | 0.74           | -1.413  | 0.159   |
|       |   | SBI     | 3.78 | 0.82           |         |         |
| 6     | By being ethical corporate citizen and investing in CSR, the operational efficiency of your organisation has increased. | JK Bank | 3.51 | 0.84           | 0.392   | 0.695   |
|       |   | SBI     | 3.47 | 0.74           |         |         |

\* The difference of opinion is significant at P value less than 0.05.

**CONCLUSION AND DISCUSSION**

As shown in table 1 highest number of respondents from both the banks agree to all the statements mentioned above. Therefore we can conclude that the results are in accord with the null hypothesis H1 which stated that there is a positive relationship between CSR initiatives and competitive advantage of the firm.

As shown in table 2 there is no significant difference of opinion between the employees of J&K Bank and SBI for the mentioned statements. Therefore we can conclude that the opinion of the employees of J&K Bank and SBI is almost the same for these statements.

The research suggests that integrating commercial interests with socially responsible behaviour is in the interest of the sample study banks. Therefore socially responsible behavior must become the part of the core strategy of these banks in order to flourish in this competitive market place. The corporate social responsibility activities of these banks must be effective so as to have positive impact on the society and the environment in which they operate which in turn will have positive impact on these organisations. Since it is shown in the research that corporate social responsibility has positive strategic implications on the performance of the sample study banks. Therefore it is recommended that these banks must invest in CSR for improving their overall performance. As shown in the research, CSR initiatives are adding value to these banks. Therefore it is recommended that these banks must take CSR initiatives for value addition. As is evident from the research that there is a positive relationship between CSR initiatives and competitive advantage of these banks. Therefore in order to stay ahead from the competition these organizations must take CSR initiatives. The findings also suggest that CSR is a strategic tool to achieve competitive advantage for these banks. Therefore it is recommended that CSR must become the part of the strategy of these banks for achieving competitive advantage. The research also suggests that investing in CSR has resulted in differentiation and hence given competitive advantage to these banks. Therefore it is recommended that these organizations must invest in CSR to differentiate themselves from the competition and to achieve competitive advantage. The findings also suggest that by being ethical corporate citizen and investing in CSR, the operational efficiency of these banks has increased. Therefore it is recommended that in order to increase operational efficiency, these banks must invest in CSR and do their business ethically.

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