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The effect of small firms' competitive strategies on their community and environmental engagement

(forthcoming in Journal of Cleaner Production)

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Abstract

Corporate social responsibility (CSR) literature holds that CSR can help firms gain a competitive advantage by enabling them to differentiate themselves from their competition and reduce costs. In the strategy literature, differentiation and cost reduction are recognized as two major competitive strategies that firms pursue to outcompete rival firms. Yet, how CSR is linked to a firm's choice of competitive strategy is not explicitly explored in the extant literature. The present paper fills this gap. Using data collected from 478 small firms representing multiple industries in the US, this paper finds that a firm's focus on competing through differentiation strategy is associated with its level of community engagement but not with its level of environmental engagement. Competing through a strategy of cost-leadership is associated with neither community nor environmental engagement. The paper concludes that, except for seeking differentiation through community engagement, the approach of small firms to CSR remains largely characterized by ad-hoc decisions with few ties to their competitive strategies. The paper advances the understanding of CSR in small firms and provides novel insights into how CSR is linked with competitive strategies.

1. Introduction

Corporate social responsibility (CSR) – business firms’ voluntary engagement in broader societal issues – was originally propounded in relation to ethical or moral concerns (Bowen, 1953). Over time, however, the notion of *moral CSR* has morphed into *strategic CSR* (McWilliams & Siegel, 2001). Firms do good, not only because it is the right thing to do but also because it helps them derive business benefits of sorts, which, in turn, help them gain a competitive advantage. This premise has been tested empirically, but the results have been inconsistent. Many studies found a positive association between CSR and a firm’s performance (Epstein & Roy, 2003; Weber, 2008), some found a negative association (Brammer et al., 2006), and others found that the two are unrelated (McWilliams & Siegel, 2000). These inconsistencies prompted two meta-analytical studies (Margolis & Walsh, 2007; Orlitzky et al., 2003) that concluded that CSR *seems* to help firms reap business benefits, further mainstreaming the strategic or the business-case argument for CSR. As the reasoning for CSR has evolved from a moral case to a business case (Panwar et al., in press), so too has the way in which CSR is conceptualized. Early scholars viewed CSR primarily in terms of social issues (Bowen, 1953); contemporary scholars conceptualize it in terms of corporate sustainability (Lozano, 2008), which denotes an integration of social, environmental, and economic issues.

While these benefits can manifest in different ways, they ultimately aim at helping a firm to differentiate itself from its competition (McWilliams et al., 2006) and/or to reduce its costs of doing business (Christmann, 2000; Weber, 2008). Fortuitously, these two potential outcomes of CSR — differentiation and cost reduction — have parallels in the strategy literature that considers differentiation and cost leadership as two major paths that firms could take to gain a

competitive advantage ([Porter, 1980](#)). In this sense, firms could leverage CSR to achieve a competitive advantage regardless of which strategy dimension they emphasize (Miller, 1988; [Spanos & Lioukas, 2001](#)). As such, previous literature has highlighted the need for integration of CSR with a firm's overall strategy ([Baumgartner & Winter, 2014](#); Galbreath, 2009; Lamberti & Noci, 2012), but it has not yet explored whether a firm's choice of competitive strategy is associated with its level of CSR engagement. This paper seeks to fill this gap.

This research was conducted using small firms because they represent a wider array of CSR motivations – from CSR as a community obligation (Fitzgerald et al., 2010) to CSR under strategic pressures (Lee, 2008). Thus, a small firm context allows us to have maximum variation in our phenomenon of interest, i.e., the link between strategic choice and CSR. Additionally because small firms exhibit different behaviors in community and environmental realms (Panwar et al., 2015), the paper separately examines the effects of two strategy dimensions (cost-reduction and differentiation) on community and environmental engagement.

This paper makes two primary contributions to the CSR literature. On the one hand, it provides insights into how a firm's level of CSR engagement is associated with its strategic choice. On the other hand, it enhances understanding about small firms' social engagement. This is a topic that remains dwarfed by a continued focus on large firms, even though small firms are now widely accepted as indispensable partners in achieving sustainability (Jenkins, 2006). The paper is structured as follows. The theoretical background includes a brief literature review about differentiation and cost-leadership paths that result in a competitive advantage. It then outlines key features of small firms' social responsibility behavior. Hypotheses concerning relationships between competitive strategies and small firm social responsibility are developed in the

subsequent section. Finally are sections on methods, results, and conclusions, which appear in that order.

2. Theoretical background

This section first explains the difference between differentiation and cost-leadership strategies and how both relate to CSR. It then addresses the specificities of social responsibility in a small-firm context.

2.1. Competitive advantage through differentiation and cost-leadership strategies

Porter (1980) maintains that a firm's long-term, above-average performance is based on its ability to achieve one of two basic types of competitive advantage — differentiation or low cost. Particularly, because a firm wants to sell its products (or services) at a price higher than the unit cost of production, it can either differentiate its product and command a premium price or produce the product at a lower cost than its competitors (Ortega, 2010). Strategy scholars have approached firm strategic posture in two ways. Some take an anatomical view (Dess & Davis, 1984; Hambrick, 1983) and consider differentiation and cost-leadership as two separate types of strategies. This position is consistent with Porter's original conceptualization in which a firm should focus on pursuing either of these two strategies in a pure form. In a sharp contrast, others ([Beal & Yasai-Ardekani, 2000](#); Gopalakrishna & Subramanian, 2001) view cost-leadership and differentiation as two dimensions of a firm's strategy and argue that in light of the dynamism and turbulence of the contemporary business environment, firms should integrate elements of cost-leadership and differentiation and thus pursue hybrid or combinative—as opposed to pure—

strategies. The case for combinative strategies has gained acceptance in the practitioners' world through the concept of a strategy clock (Bowman & Faulkner, 1997).

However, what is meant by differentiation and cost leadership? Differentiation refers to the creation of a product or service that is somehow unique from its competitors. It can be achieved through design or brand image (e.g., Ikea), technology (e.g., BMW), customer service, or other features that are valuable to customers. Additionally, a firm may choose a multi-differentiation path. An iPhone, for example, would fall into this category because Apple seeks to differentiate itself via technology, brand image, and customer service. Ultimately, differentiation aims to create brand loyalty, which in turn gives rise to price inelasticity, and enables the firm to command a premium price for its products. Successful differentiation can create competitive barriers to entry for a firm's potential competitors, while providing a firm with higher sale margins. Notably, in pursuit of differentiation, a firm must commit to costly activities, such as extensive research, product design, and marketing expenditures, which Porter (1980) argues will often make a differentiation-focused firm a high-cost producer.

How CSR helps a firm in its pursuit of differentiation has been discussed in the literature. [Reinhardt \(1998\)](#), for example, stressed the need to integrate environmental actions with a firm's overall strategy to harness the potential for product differentiation. Recently, Dangelico and Pujari (2010) concluded that CSR activities can help a firm develop a unique reputation and image. In a similar vein, others have attributed to CSR the potential to contribute to product differentiation for which customers will pay a premium (Lin et al., 2013; McWilliams & Siegel, 2001).

In contrast to differentiation, a cost-leadership focus, by definition, means that a firm aspires to become the lowest cost producer in its industry. This typically entails, "construction of

efficient-scale facilities, rigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas such as research and development (R & D), service, sales force, advertising, and so on” (Porter 1980: 35). Cost control is at the heart of a cost-leadership strategy, which allows a firm to fetch above-average returns (Miller & Friesen, 1986). A cost-leadership focused firm strives to create internal efficiencies and, therefore, has a narrow scope of search emphasis (Hrebiniak & Joyce, 1985). That is, it is often confined to finding ways to lower cost curves and increase internal efficiencies (Pelham, 1999). Such a firm builds market share via aggressive pricing and aims to maximize economies of scale. Its products are designed for easy, mass manufacturing, and it relies on state-of-the-art technologies and equipment that maximize manufacturing efficiency. In the end, cost leaders focus on price and price-conscious customers.

The existing CSR literature has presented a multi-faceted view of the interplay between CSR and a firm’s cost-leadership pursuits. Several studies have attributed a potential to reduce a firm’s overall business costs to CSR (Epstein & Roy, 2001). While some have viewed CSR as a mechanism through which a firm could gain operational efficiency (e.g., waste management), others have considered how it could help a firm to reduce several transaction costs (Orlitzky et al., 2011). However, previous literature has not considered whether firms’ strategic choices affect their CSR engagement, which, in turn, could indicate their proclivity to leverage CSR in their strategic pursuits. In the hypothesis section, we will explore this matter in the context of small firms. Before doing this, though, it is important to outline the salient features of small firms’ social responsibility behavior.

2.2. Small firms’ social responsibility

Despite the enormity of both their impact on, and contribution to, social and environmental wellbeing, small firms have traditionally received much less attention than large firms in the CSR literature (Lepoutre & Heene, 2006; [Russo & Perrini, 2010](#)). It was long held that because of the lack of required resources, small firms do not proactively engage in CSR and therefore do not warrant much attention. During the last decade, however, this judgment has changed and much more academic attention is now given to the community and environmental initiatives of small firms (Fitzgerald et al., 2010). This heightened interest results both from a positive change in small firms' outlook towards social responsibility and from an increased recognition that despite their inherent resource limitations, small firms are important actors in social and environmental sustainability. Additionally, it is now widely understood that small firms differ fundamentally from large firms and that they may not be viewed simply as smaller versions of large firms, especially with respect to their social responsibility behavior (Spence & Lozano, 2000; [Tilley, 2000](#)). Emphasizing this uniqueness, Lepoutre and Heene (2006) even coined a new term, *small business social responsibility* (SBSR), to distinguish it from CSR. The SBSR literature continues to expand ([Baumann-Pauly et al., 2013](#)).

The extant SBSR literature is unequivocal about small firms' engagement in social responsibility relative to large firms. Some studies hold that small firms are better positioned to partake in social responsibility than large firms (Longenecker et al., 2006; [Solymossy & Masters, 2002](#)). However, others ([Hitchens et al., 2005](#); Wolff & Pett, 2006) argue that small firms are less likely to engage in social responsibility. There is a general view that their impact on society and the environment is minuscule and that small firms lack the time and resources needed to focus on social responsibility activities. This debate aside, there is considerable evidence to suggest that small firms' approach to social responsibility is different from large firms' in at least

three ways: i) they approach social responsibility in a personalized and informal manner (Graafland et al., 2003; [Russo & Tencati, 2009](#)); ii) their engagement reflects the values of their owners and the needs of the surrounding community (Smith & Oakley, 1994); and 3) they engage in social initiatives less for anticipated business benefits and more out of genuine concern for the community and the environment (Fitzgerald et al., 2010). Additionally, it has been suggested that small firms are ahead in community engagement ([Russo & Tencati, 2009](#)) but lag behind in environmental matters (Hillary, 2000).

3. Hypotheses

As discussed in the previous section, the evolving SBSR literature continues to shed light on important facets of small firms' social responsibility behavior. This section addresses how small firms' social responsibility actions—specifically those in the community and environmental realms—relate to their strategic pursuits involving differentiation and cost leadership.

3.1. The pursuit of a differentiation strategy and small firms' community and environmental engagement

Compared to large firms in their industry, small firms have resource disadvantages (Ludevid Anglada, 2000) that limit their ability to pursue a differentiation strategy. Nonetheless, differentiation is important for small firms because they seek to enhance their reputation among local stakeholders to successfully compete for locally available resources (Goldberg et al., 2003) that are vital for their success. For example, by conducting youth-focused programs in a community, a small firm may create a favorable impression among the young population and

thus attract valuable human resources (Glavas & Godwin, 2013); this is a particular challenge in rural areas. A favorable local reputation may also help a firm to gain access to capital (Cheng et al., 2014). Accordingly, we argue that small firms tend to leverage their community engagement in their pursuit to differentiate themselves from the competition, and we contend that small firms leverage community engagement to differentiate themselves from regional competitors.

In the environmental realm, small firms are often considered laggards due to a variety of factors, such as a lack of stakeholder scrutiny, a low level of eco-literacy, and diseconomies of scale relative to large firms (Panwar et al., 2015). However, increasing pressures from within the supply chain for improved environmental performance have emerged lately as a major trigger for environmental stewardship among small firms (Hall, 2000; Lee, 2008). This is also evident from the increasing popularity among small firms of eco-labeling, such as Forest Stewardship Council (FSC) and Fair Trade certifications, despite the often prohibitively high costs for small firms (Chiputwa et al., 2015; Obidzinski et al., 2014). Through such labels, small firms seek to differentiate themselves from their competitors, as they strive to meet environmental standards stipulated by upstream actors in the supply chain. Thus, it can be argued that small firms leverage environmental engagement to differentiate themselves from other firms within their industry. Based on these arguments, the following two hypotheses are proposed:

Hypothesis 1a: *There is a positive relationship between a small firm's focus on competing through a differentiation strategy and its emphasis on community engagement.*

Hypothesis 1b: *There is a positive relationship between a small firm's focus on competing through a differentiation strategy and its emphasis on environmental engagement.*

3.2. The pursuit of a cost-leadership strategy and a small firm's community and environmental engagement

Small firms are constantly driven to maintain low costs as they struggle to survive amidst intensifying competition. The literature suggests that small firms engage in community matters with genuine intentions to alleviate social problems (Fitzgerald et al., 2010). As the CSR literature focusing on large firms would suggest, it is unlikely that small firms seek to reduce external risk and associated business costs through community engagement (Epstein & Roy, 2001; Husted 2005). In fact, small firms in the US enjoy a favorable public image (Panwar et al., 2014b) that provides them with a buffer against potential external risks. Moreover, given the previous knowledge that community engagement is a matter of personal pride for small firm owners (Longenecker et al., 2006), it is unlikely that they would view it as a tool to reduce the costs of doing business. Hence, we maintain that community engagement ultimately adds to a small firm's cost of doing business; accordingly, a cost-leadership focused firm would not tend to engage in community matters.

In the environmental realm, small firms' lack of resources would appear to prohibit them from taking the necessary actions, such as making a transition towards environmentally friendly processes and platforms. The upfront costs of making such fundamental changes to their operations tend to be high. The cost of capital required for necessary upgrades is often also considered too high. Although the cost of making the necessary capital investments might be high, environmental measures might be seen as investments that eventually pay for themselves. That is, a cost-leadership focused firm would be inclined to environmental measures because they can lead to gains in operational efficiency through energy saving and waste reduction (Boehe & Cruz, 2010; Heikkurinen, 2010). While small firms would need to raise the funds to be

able to invest in environmental measures, the cost-reducing impact of such measures fits the overall approach of cost-leadership (Porter & Van der Linder, 1995). In light of these arguments, the following two hypotheses are proposed:

***Hypothesis 2a:** There is a negative relationship between a small firm's focus on competing through a cost-leadership strategy and its emphasis on community engagement*

***Hypothesis 2b:** There is a positive relationship between a small firm's focus on competing through a cost-leadership strategy and its emphasis on environmental engagement*

The hypotheses are also represented diagrammatically in Figure 1.

4. Data and methods

The data were collected in the fall of 2012 by sending a questionnaire to CEOs/owners of 3,408 small US manufacturing firms (firms with less than 500 employees, as stipulated in the US Small Business Administration criteria for defining a small firm) in five industry sectors: food, wood products, furniture, paper, and chemical products. These five sectors were selected because together they represent a diverse range of organizational contexts from which to study firms' community and environmental engagement. For example, the wood, paper, and furniture sectors represent a context in which community and environmental engagement are important for organizational legitimacy (Panwar et al., 2014a). In the food sector, community and environmental engagement tend to be driven more by supply-chain demands and higher visibility to consumers (Hartmann, 2011; Maloni & Brown, 2006). The chemical sector represents a capital-intensive context that is also subject to close public scrutiny for its community and

environmental performance (Delmas et al., 2011). Moreover, these sectors are populated by a large number of small firms and hence highly appropriate for this study. For firms that had multiple manufacturing sites, individual, site-level information was requested.

The general principles of the Tailored Design Method (Dillman, 2007), a standard data collection protocol involving self-reported questionnaires, were followed. This included, for example, sending a second wave of questionnaires (three weeks after the initial wave) to improve the response rate. Four hundred and seventy eight valid responses were received for an adjusted response rate of 13.2 percent. Nonresponse bias was computed by comparing early versus late respondents ([Armstrong & Overton, 1977](#)), which is a standard process for survey-based studies. No significant differences were found in any of the variables between the two groups ($p < 0.05$); therefore, nonresponse bias is not considered to be a significant concern for the results of this study.

4.1. Measures

Community and environmental engagement. Because of the small-firm context of this study, community and environmental engagement were not assessed using readily available indicators (e.g., Kinder, Lydenberg, and Domini or KLD scores; or Fortune Rankings which are better suited for large firms). Instead, by following the scaling procedure suggested by Netemeyer et al. (2003), we drew on the existing literature to first develop a list of eight initiatives in each of the community and environment categories. The list was then sent to a select group of experts drawn from academia, non-government organizations, and industry organizations. They were asked to indicate the relevance of these initiatives for small firms across the five industry sectors. This step helped ensure the face validity of the measurement

instrument. We ended up with three community initiatives and four environmental initiatives, which were used to collect data (see Table 1). Respondents were requested to self-report, on a seven-point bipolar scale, the changes in their firm's level of engagement in community and environmental initiatives during the previous three years (1-3 representing a decrease, mid-point 4 representing no change, and 5-7 representing an increase). Bipolar scales are commonly used in studies involving firm level variables (Lee et al. 2011; [Pino et al., 2015](#)). We assessed changes (as opposed to overall level of engagement) in line with previous CSR literature ([Ruf et al., 2001](#)) that advocate this approach because they minimize the response biases that are common in CSR research.

Differentiation and cost leadership foci. Differentiation and cost leadership foci were assessed using scale items that were used in previous studies (Davis et al., 2002; Hansen et al., 2006). The differentiation scale consisted of five items and the cost-leadership scale consisted of four items (see Table 1). The scores of individual items were combined into composite variables. Respondents were asked to provide the degree to which each had been emphasized by their firm during the previous three years (2008-2011). Responses were recorded on a seven-point, Likert-type scale ranging from “very low” to “very high”.

Additionally, because previous studies have established that engagement in community and environmental activities is affected by a firm's ownership type (public versus private), age, sales volume, and industry sector, these variables were included as controls. Age and sales volume were assessed as continuous variables; industry sector and firm ownership type were assessed as categorical variables.

*****Table 1 around here*****

4.2. Data analysis

Skewness and kurtosis tests were performed to check for normality. All values (see Table 1) were within an acceptable range (Muthén & Kaplan, 1985), which means that the data were normally distributed. Measurement properties were assessed based on coefficient alphas (α) and composite reliabilities (CR) for the first-order, multi-item constructs (see Table 1). All values indicate reliable measures for the individual constructs. These tests were performed using SPSS 20.0 software.

Confirmatory factor analysis (CFA) was conducted on all first-order constructs as per the maximum likelihood procedure using robust values (Hair et al., 2006; Byrne, 2006). This test was performed using the structural equation modeling software EQS (Bentler, 2006). The measure of goodness of fit had satisfactory values ($\chi^2 = 197.4$; $df = 88$; $\chi^2/df = 2.24$; CFI=.95; MFI=0.88; SRMR=0.05, RMSEA= 0.055). Additionally, 96.7% of the residuals were distributed in the -0.1 to 0.1 range, providing further evidence to goodness of fit. Discriminant validity was assessed using the standard procedure recommended by Fornell & Lacker (1981). All pairs of constructs met the minimum criteria.

Social desirability and common method bias often affect studies involving a firm's engagement in community and environmental activities (Du et al., 2007; Husted & Allen, 2007). To minimize potential for these biases, recommendations by Podsakoff et al. (2003) were followed during the questionnaire design phase. Additionally, because respondents were asked to indicate the changes that happened within their own firms during the period under study rather than to compare their performance with competitors, social desirability bias was likely to be minimal (Ruf et al., 2001). Common method bias was assessed using Harman's one factor test by

loading all items used in the study into an exploratory factor analysis. No single factor explained more than 21.2% of the total variance, which indicates that common method bias is not a serious concern for this study.

Given the nature of the data and our stated hypotheses, ordinary least square (OLS) regression was used (Hair et al., 2006). Scores of items for each construct were first averaged and interacting variables were mean-centered to ameliorate multi-collinearity. OLS regression was conducted in two steps. In the first, reduced model, only control variables (firm ownership type, age, and size measured by sales, and industry sector) were included. In the subsequent full model, main effect variables (differentiation and cost leadership focus) were also included. Variance inflation factor (VIF) values were assessed for all variables. All values were lower than 1.4, indicating that multi-collinearity is not a problem (Kleinbaum et al., 1988).

5. Results and discussion

Table 2 provides descriptive statistics and a correlation matrix for the variables included in the study. Mean values indicate that firms are more focused on low cost strategies and that there have been larger changes in firms' environmental initiatives than in their community initiatives during the study period. A positive correlation between cost leadership and differentiation suggests that firms tend to pursue a hybrid strategy rather than pure differentiation or low-cost strategies, which is in line with many studies that take this position ([Pertusa-Ortega et al., 2009](#)).

*****Tables 2 and 3 around here*****

The results of the regression analysis are presented in Table 3. The regression results indicate that a differentiation focus is positively related ($p < 0.05$) to community engagement and therefore Hypothesis 1a is supported. As hypothesized, small firms that focus on differentiation are also likely to invest more in community engagement measures. This implies that small firms see community engagement as a way to place themselves strategically within their regional context. However, as the results also show, there is no relationship between a differentiation focus and environmental engagement ($p > 0.05$), which means that H1b is not supported. Counter to what was hypothesized, small firms do not appear to use their engagement in environmental management as a way to differentiate themselves from their competitors. While the environmental management literature has emphasized the potential of environmental investments for firms to differentiate themselves from others (Lin et al., 2013; [Reinhardt, 1998](#)), the results of this study suggest that this might not be the case in a small-firm context.

Quite surprisingly, no support was found for either Hypothesis 2a or Hypothesis 2b. That is, a cost-leadership focus does not appear to have any relationship with firms' community engagement ($p > 0.05$) or with their environmental engagement ($p > 0.05$). Regarding community initiatives, while a negative relationship was expected, the results show that the strategic approach of being a low-cost leader does not affect how they engage in community activities. This could be considered good news from a CSR perspective, as it shows that these firms' emphasis on cutting costs does not endanger their community engagement – the two are instead seen as separate activities. However, the lack of support for Hypothesis 2b suggests that low-cost leadership does not stimulate investment in environmental measures. While it has been argued that environmental investments pay for themselves eventually and are thus a good business decision if firms want to cut costs (Christmann, 2000; [Porter & Van der Linde, 1995](#); Weber,

2008), the results of this study imply that small firms do not share this belief. It might be that the firms in the sample are focused more on the short run and thus fail to see the long-term cost benefits ([Slawinski et al., 2015](#)).

Among the control variables, industry type has a bearing upon firm community engagement. In comparison with firms in the wood products industry, those in food products, furniture and paper are more likely to engage in community activities. Only the chemical firms are as active as the wood products firms. In the case of environmental engagement, only paper sector firms differ from the others, as these firms have a higher tendency to invest in environmental measures. Firm size (based on sales) does not have any relationship with community engagement, yet larger firms tend to emphasize environmental engagement more when compared to the relatively smaller firms. As mentioned in the hypothesis development, environmental engagement tends to require relative large upfront capital investments. Because larger firms tend to have more resources, it is not surprising, then, that they are more inclined to make such environmental investments. Finally, firm age and ownership type have no relationship with community and environmental engagement. Table 4 summarizes results in terms of stated hypotheses.

*****Table 4 around here*****

Based on the results of this study, it appears that the link between competitive strategy and CSR in a small-firm context remains very limited. Although small firms might be engaged in CSR activities, they do not have any clear relation to the firms' overall strategic objectives. The two types of activities, i.e., core business and social responsibility activities, are largely decoupled in the context of small firms. One explanation for these results is that small firms generally follow what Heikkurinen (2010) calls *passive CSR*. Because small firms tend to receive

less scrutiny from external stakeholders, such as NGOs, regarding their social responsibility, they feel less inclined to invest in CSR activities. The fact that there is a significant relationship between a differentiation strategy and community engagement in the sample could simply mean that community activities are the only type of CSR activity that small firms consider relevant (Panwar et al., 2015), and thus see enough reason to leave their passive stance. Therefore, becoming a prominent citizen in the local community functions as a way to create a positive image of the firm, matching the need for differentiation. By contrast, the internal motivation to pursue CSR as a way to cut costs (Lozano, 2013) is apparently not as convincing to small firms' managers.

The lack of any clear relationship between competitive strategy and social responsibility could also be found in the more active stance not to integrate the two. While there have been repeated calls to integrate CSR in core business activities ([Yuan et al., 2011](#)), small firms might not be convinced that this reasoning also applies to their specific context. In line with a recent argument of how to combine morally motivated and socially motivated social responsibility activities (Hahn et al., 2015), firms might opt for a deliberate decoupling of moral initiatives from core business activities to allow them to flourish. This corroborates earlier arguments that small firms tend to predominantly have non-instrumental motivations to engage in CSR (Lepoutre & Heene, 2006). Other studies have also arrived at similar conclusions that the *business case for CSR* does not appear to be a prevalent phenomenon among small firms (Jenkins, 2009) because they consider social engagement as a way to relate with their local environment (Panwar et al., 2015).

While the results show that small firms do not, for the most part, use CSR for strategic purposes, the question remains whether it would make sense for them to start. Would their

engagement in social and environmental issues improve if they adopted a strategic stance to CSR? This issue is particularly important because CSR is now increasingly conceptualized in terms of corporate sustainability (Montiel & Delgado-Ceballos, 2014) wherein business firms are considered indispensable entities for achieving sustainability (Lozano, 2012). While the calls for small firms to embrace strategic CSR are repeatedly made in both academic and policy realms, this change in small firms' posture towards community and environmental engagement may not be as seamless because of the idiosyncrasies of their institutional context and internal resource constraints. As mentioned, while small firms might not face the same stakeholder pressure from NGOs, they are subject to scrutiny from their local communities. If their rationale to pursue CSR is too obviously just for the sake of increasing profits, small firms might risk a backlash from their local community if they are seen as not being sincere in their efforts. In pursuing CSR, a small firm might therefore be walking a tightrope even more than a large firm in terms of either being seen as good citizen or as one that is active in window-dressing.

6. Conclusion

This paper set out to examine whether small firms' CSR engagement was associated with their strategic choice. Drawing on a sample of 478 small manufacturing firms, limited evidence was found for this relation. The results of this study therefore suggest that small firms behave idiosyncratically in terms of their CSR activities when compared to large firms. The only exception to the overall weak tie between strategic pursuits and CSR was the significant relationship between a differentiation focus and community initiatives. Although these results generally align with previous research that a small firm approach to CSR is largely characterized by ad-hoc decisions with no ties to their competitive strategy, the results of this study do suggest

a finer view of the relationship. That is, small firms' community initiatives might have the strategic role of differentiating themselves from their competitors in their local context. Our findings are distinct from previous literature which generally assumes that small firms engage with local communities due to relational motivations. To contrast the previous literature, we find that there is a business case underlying community engagement which may also explain why a large number of small firms emphasize community engagement. Similarly, the extant literature stresses that environmental engagement helps firms in cost reduction but this study finds that it may not be true for small firms as cost-leadership focused small firms do not emphasize environmental engagement. Future studies may build upon this work and ameliorate its shortcomings by including in the same sample both small and large firms, which would allow a more definitive verdict about ways in which the strategy-CSR link is different between small and large firms. This study only considered community and environmental domains, but future studies could, for example, consider employee and customer domains.

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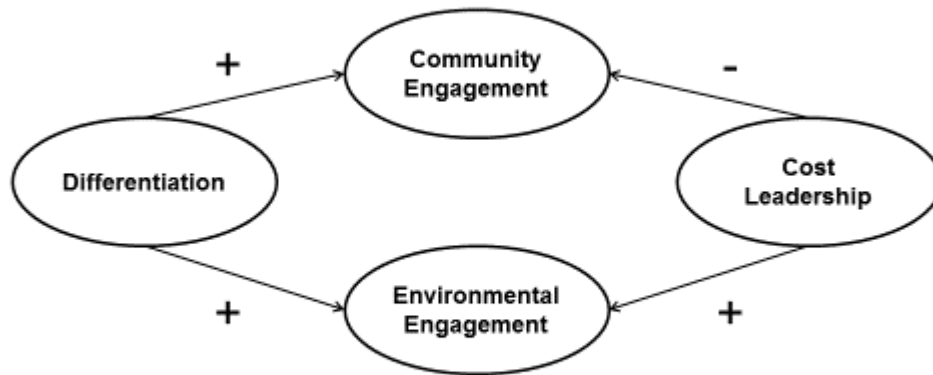


Figure 1: Hypothesized relationships to examine the effect of competitive strategies (differentiation and cost leadership) on small firms' community and environmental engagement (+ and - sign denote a positive and a negative hypothesized relationship, respectively)

Table 1: Variables used in the study, scale items used to measure these variables, and diagnostic values associated with each variable

Variables	Scale items	Skewness	Kurtosis	Chronbach's alpha	CR
Community engagement	<ul style="list-style-type: none"> • In-kind contribution to community programs/events • Cash contribution to community programs/events • Support to non-profits 	-0.32	0.31	0.94	0.98
Environmental engagement	<ul style="list-style-type: none"> • Energy efficiency • Proportion of eco-labeled products in total production¹ • Waste management system 	-0.22	0.69	0.74	0.85
Differentiation focus	<ul style="list-style-type: none"> • Achieving higher product quality than competition • Building brand identification • Developing new products • Refining existing products • Developing new and innovative marketing techniques 	-0.37	-1.10	0.74	0.96
Cost leadership focus	<ul style="list-style-type: none"> • Major improvements in operating efficiency • Maintaining competitive prices • Reducing distribution costs • Major cost reduction efforts 	-0.52	0.32	0.63	0.87

¹) Item deleted

CR= Composite reliability

Table 2: Descriptive statistics and correlation matrix of regression variables

Variables	Mean	S.D.	1	2	3	4
1. Change in community engagement	3.74	1.29	1.00			
2. Change in environmental engagement	4.59	1.06	0.10*	1.00		
3. Cost leadership	5.24	1.36	-0.05	0.02	1.00	
4. Differentiation	4.71	1.15	0.09*	-0.05	0.36**	1.00