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By Singapore Management University |Editorials
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SMU Associate Professor Wang Heli's research shows that companies should pay more attention to corporate social responsibility as it benefits them both financially and politically.

AsianScientist (Apr. 2, 2014) – By Rebecca Tan – The success of any firm depends on whether it can maintain an advantage over its competitors. One popular theory companies use to develop their competitive advantage is the resource-based theory of the firm, which lists four criteria that help firms identify which resources contribute to their competitiveness. Firms that protect and maintain these resources then go on to earn more profits, or so the theory goes.

Associate Professor Wang Heli of the SMU Lee Kong Chian School of Business believes that there is more to the equation for firms to succeed. Her work on stakeholder incentives and corporate social responsibility (CSR) shows that it is not only resources, but also incentives of the stakeholders who work on the resources that can influence a firm's profitability.

Stakeholder incentives as important as resources

Companies using the resource-based theory of the firm employ strategies to develop resources that will confer a competitive advantage. For example, pharmaceutical firms engage in extensive research and development to discover drugs that their competitors do not have, and then protect their discovery with patents. While useful in helping firms identify valuable resources, this view fails to take into account the important interaction between the resource and the resource user, Professor Wang explains.

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"Stakeholder incentives are often overlooked, and yet they are the people that have to make the resources work to reach whatever outcome it is that you want to achieve. Without incorporating the impact of stakeholders into your business strategy, you may not make it work well," she says.

One reason pursuing a resource-intensive strategy might affect stakeholders is that it increases risk. To return to the pharmaceutical industry example, the aggressive mergers and acquisitions environment leaves stakeholders such as employees in great uncertainty, which might in turn lead to a drop in productivity.

By incorporating stakeholder incentives into the resource-based theory of the firm, Professor Wang says that it could help firms develop more effective strategies.

"The more unique resources a company develops, the more they need to motivate employees and other stakeholders to cooperate in deploying these resources. This is because there is risk for these stakeholders in making specialised investments that cannot be transferred if they leave the firm," she says.

"For companies, this implies that the more you want to build your strategy on resources, the more you need to provide a stable, committed environment so that employees feel a sense of security and cooperate more willingly."

Doing good benefits firms financially

Another aspect of Professor Wang's research asks the question of whether engaging in CSR actually helps or harms the company bottom line.

Her work on CSR began at the Hong Kong University of Science and Technology, where she collected data from published philanthropy records, hand culling the information from large volumes of books. Using the data, she was able to establish a robust empirical link between CSR and the financial performance of firms.

"Doing good can lead to better financial performance," Professor Wang says.

Her research not only demonstrated the consequences of CSR on profitability, but also outlined various conditions on which the positive correlation depended.

"In the long run, but not necessarily in the short run, companies benefit from engaging in CSR. However, it's not a matter of simply doing CSR and reaping benefits from it. We found that the more companies are perceived to be sincere, the more they benefit financially. Therefore, how you go about doing it and the message that you send out is very important," she says.

When it comes to donations, the amount of money donated matters, and bigger is not always better.

"We found that a medium amount of donation helps companies' long-term performance. Too small a donation does not have an impact, but too big a donation can also hurt the company's performance. This medium amount is firm-specific, depending on the size of the firm and type of industry, among other factors," Professor Wang says.

Another notable finding was that firms operating in more volatile environments tend to benefit more from CSR engagements. This suggests that rather than scaling back on CSR engagements during tough financial times, firms could stand to gain by maintaining or even increasing their CSR funding.

CSR in the China context

There has been greater focus on CSR around the world in recent years, partly due to an increased awareness, and partly in response to pressure from the public, says Professor Wang. One interesting development has been strategic CSR, where firms do not simply donate money, but also incorporate specific products or technology that they have developed as part of the package, she notes.

However, most of the studies to date have focused on CSR engagements in the United States. Professor Wang intends to further her research on CSR in Asia by looking at more context-specific data and has already begun some work in China.

“We have looked at some China-related firms, and we found that companies which lacked political connections, which is very important in the China-context, benefit more from doing philanthropy. In other words, philanthropy is a substitute for political connections,” she says.

Professor Wang is currently furthering her work on CSR with Assistant Professor Ilya Cuypers, her colleague at the Lee Kong Chian School of Business. She foresees that there are areas of potential collaboration with colleagues at the School of Accounting, noting that she already has existing partnerships with accounting colleagues in Hong Kong and will consider exploring similar collaborations here.

An area where she sees herself contributing to the field is by developing a cohesive theory behind CSR and its impact on firms. She notes that most studies on CSR at the moment tend to be more descriptive and empirical.

“There are many researchers working on the topic of CSR, but there has not been much breakthrough in terms of developing a fundamental understanding of the theory. I hope there will soon be an adequate theoretical framework that can help guide the studies,” she says.

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