

**The Effects of Corporate Social Responsibility Programmes
on International FMCG Companies' Competitiveness**

A Research Proposal Presented to

The Foreign Languages Department

by

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Moscow 2021

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Abstract

Over the past few decades, the business community has become increasingly concerned about the issues of sustainable development and social justice. The concept of corporate social responsibility (CSR) has recently been integrated in the activities of a growing number of multinational companies (MNC) operating in the fast-moving consumer goods (FMCG) sector. Still, despite the large body of existing research on CSR, its effects on FMCG companies' competitiveness remain largely understudied. The proposed investigation attempts to address this gap by establishing a link between CSR performance and competitiveness of multinational FMCG companies. To this end, we will conduct multivariate Ordinary Least Squares regression analysis of 145 multinational FMCG companies based on the data obtained from Thomson Reuters database. Our study will contribute to the empirical literature on CSR and the factors of multinational enterprises' competitiveness. Likewise, our results may be of use to multinational FMCG companies' executives looking to shape development strategies of FMCG enterprises around the world.

Key words: CSR, FMCG, MNC, competitiveness

Introduction

The ongoing development trends have caused fundamental transformations in the ways of doing business all around the world demanding a change in dominant business strategies and policies by which companies achieve their goals. Nowadays, multinational corporations pay more attention to the integration of corporate social responsibility in their activities (Petrović-Randelović, Stevanović, & Ivanović-Đukić, 2015), which arouses considerable attention among researchers.

There have been a great number of investigations into different aspects of CSR, which include, in particular, studies into the history of CSR (Latapí-Agudelo, Jóhannsdóttir, & Davídsdóttir, 2019), its national models (Pustokhin & Pustockina, 2020), and factors affecting its implementation (Golda, 2020). Much of the research on CSR focuses on its influence on firm competitiveness (Bettinazzi, Massa, & Neumann, 2020; Newman, Rand, Tarp, & Trifkovic, 2020; McWilliams & Siegel, 2000; Teoh, Welch, & Wazzan, 1999; Wright & Ferris, 1997).

However, scholars have only begun to explore the effects of CSR on the competitiveness of separate branches of industry, particularly, FMCG production. Yet, this manufacturing sector differs significantly from other fields of economy, thus deserving particular attention. First, its products, i.e., food, beverages, cosmetics, and household chemicals, are directly related to human health and well-being, which emphasizes the perceived importance of CSR incorporation in comparison with other industries. Second, being labor-intensive and largely dependent on natural resources, the FMCG sector has been usually considered to leave significant social and ecological footprint, reinforcing stakeholders' demand for more responsible business practices within the industry (Partalidou, Zafeiriou, Giannarakis, & Sariannidis, 2020).

This study attempts to redress this gap in the literature by examining the influence of CSR programmes on FMCG companies' financial performance. To this end, this study will address the following research questions: 1) What is the direction of CSR impact on FMCG companies' competitiveness? 2) How strongly does CSR affect it? The data to address the stated questions will be analyzed by means of multivariate Ordinary Least Squares regression analysis while controlling for many of the usual explanatory factors of competitiveness, such as firm size, advertising and R&D expenses. The research sample will be obtained from the Thomson Reuters database.

The perceived implications of this research are twofold. First, the results of this study may extend academic knowledge with regards to the impact of CSR policies on FMCG enterprises' competitiveness. Second, our findings may help corporate managers of multinational FMCG companies to align CSR policies and profitability in a better way.

Literature Review

The issue of sustainability in relation to multinational companies has aroused considerable interest among scholars over the past decades resulting in 2845, 5670 and 1816 publications concerning CSR in Science Direct, Pro Quest and Web of Science, respectively, in 2017 (Latapí-Agudelo et al., 2019). While the concept of CSR has been widely discussed, there is neither general agreement about its definition nor a common way of quantifying CSR at the individual firm level. The definition of CSR underlying this work is based on the approach of the European Commission which defined CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders” (Commission of the European Communities, 2001).

A vast strand of literature has delved into the question of whether CSR improves firm performance. Early studies of CSR influence on company competitiveness found conflicting evidence. Several investigations showed that there is no connection between such practices and firms' performance (McWilliams & Siegel, 2000; Teoh et al., 1999), while some scholars documented a negative relationship (Wright & Ferris, 1997). More recent studies, however, have mainly reported a positive impact of CSR programmes on competitiveness (Bettinazzi et al., 2020; Lu, Ren, Zhang, Wang, Shabid, & Streimikis, 2020; Newman et al., 2020). These results suggest that there has been a big change in the role of CSR in modern business. Previously viewed as a philanthropic act performed without affecting the company's performance, CSR has now become a strategic necessity, which may have a positive impact not only on the society and the environment, but also on the profitability of an enterprise and the income of its shareholders.

A number of studies have been found that focus on CSR policies' effects on various aspects of a firm's competitiveness, namely reputation, efficiency, and employee motivation (Crifo & Forget, 2015; Flammer & Luo, 2017; Ghoul, Guedhami, & Kim, 2017; Hategan, Sirghi, Curea-Pitorac, & Hategan, 2018; Newman et al., 2020; Park & Lee, 2018; Yoo & Lee, 2018). To begin with, a positive effect of CSR may come through a reduction in reputational risks and improvements in the company's image, which in turn has been shown to influence firm competitiveness and performance, at least in the long run (Ghoulet et al., 2017; Park & Lee, 2018).

What is more, CSR is found to increase profits through CSR-driven product or market development (Hategan et al., 2018; Yoo & Lee, 2018). CSR strategies may also lead to efficiency gains as firms become more open to alternative production strategies and to investors with a higher sensitivity to sustainability issues (Newman et al., 2020).

Finally, with respect to the positive impact of CSR programmes, it has been shown that employees working for socially and environmentally responsible firms may show higher levels of dedication and success, as well as being more likely to accept lower than market wages (Crifo & Forget, 2015). In addition to this, as Flammer and Luo (2017) conclude, CSR can act as a remedy for moral hazard in the workplace allowing companies to motivate their employees against engaging in adverse behaviour such as shirking and absenteeism.

CSR, however, does not necessarily result in improved firm competitiveness. Du, Bhattacharya, and Sen (2010) highlight that CSR implementation may be perceived by consumers as being exploitative of sustainability or social justice issues. On the other hand, there are studies dedicated to the missteps committed by firms themselves, such as greenwashing, which leads to a lack of credibility of those firms' CSR activities among consumers (De Jong & Van der Meer, 2017).

Still, the above-mentioned studies generally examine the effects of sustainable development on companies regardless of their sector, which raises the question: Are all industries (particularly, FMCG) affected by CSR policies in the same way?

Some investigations attempt to address this question by exploring the competitiveness of FMCG companies based on the approval of their sustainable development strategy by customers (Anupama & Jayanthi, 2019; Vethirajan & Ramu, 2019). A study by Vethirajan and Ramu (2019) shows that CSR practices have a positive impact on consumer buying behaviour and help in creating brand awareness and goodwill. Still, not much can be concluded about the influence of sustainable development on cost saving, achieving better profit and increasing production.

A study by Liczmańska-Kopcewicz, Mizera, and Pypłacz (2019) does, however, explore Corporate Social Responsibility influence on some aspects of financial performance of FMCG companies. It examines a sample of 165 companies and finds that CSR companies more successfully introduce the adopted development strategies and compete more easily in the market. Yet, this study relies on correlation analysis, which only makes it possible to evaluate coevolution rather than the influence of one variable on another, and, consequently, cannot be an indicator of CSR effects on the competitiveness of FMCG companies. Moreover, this research investigates only Polish firms, which makes it difficult to draw definitive conclusions regarding the validity of the authors' claims for companies operating in other countries.

The present study attempts to reveal the direction and the extent of CSR impact on multinational FMCG companies' competitiveness by analyzing enterprises from around the world and applying multivariate Ordinary Least Squares regression, which is a more nuanced statistical method to determine this influence.

Methods

To research the influence of corporate social responsibility on the competitiveness of global FMCG companies, a quantitative research method based on multivariate linear regression will be used. The survey data will be collected for 2019 (the most recently available year) from the Thomson Reuters terminal containing comprehensive information on a vast number of multinational enterprises and characteristics of their activities, which should strengthen the generalizability of our findings. The sample for our study will include 145 global companies operating in FMCG manufacturing. Hence, companies operating in other sectors as well as local enterprises are beyond the scope of this study.

To measure competitiveness, we will employ Return on Assets (ROA), which is an accounting-based indicator extensively used to examine firm operating performance and profitability.

Our main independent variable is ESG (Environment, Social, Governance) index, which is one of the most widely utilized CSR measures given its extensive coverage. The index ranges from 0 to 100 indicating the highest level of corporate citizenship. For our sample, the mean level of corporate social responsibility is approximately 43.51, with a standard deviation of 25.15. To ensure that a fair test is carried out, we will also include control variables in our model, namely the size of the company, its R&D and advertising intensity, as well as its risk, assessed as debt to asset ratio.

Since we assume the relationship between CSR performance and competitiveness to be linear, we will carry out our empirical research based on multivariate Ordinary Least Squares (OLS) regression realized with the help of SPSS. OLS regression is one of the most widespread methods to find a correlation between variables, which has been employed in many studies on CSR (e.g., Simionescu & Dumitrescu, 2018). Based on the OLS approach, we will develop a model of selected variables' joint influence on a company's performance and reveal what contribution CSR makes to it. Taking into account the specificity of the analysis procedure, we do not attempt to establish a nonlinear relationship between CSR and competitiveness.

Expected Outcomes

The perceived outcomes of this project are two-fold. First, this is one of the few studies to demonstrate the impact of CSR policies on the competitiveness of FMCG companies. Our preliminary findings suggest that our dependent variable (ROA) is strongly correlated with both independent covariate (ESG index) and control ones (the size of the company, its R&D and

advertising intensity, as well as its risk level), which highlights the importance of studying the combined influence of all selected predictors in order to avoid biased estimates of the CSR contribution to the overall performance of a company. Thus, our contribution to the academic community will consist in providing a comprehensive evaluation of CSR influence on the financial results of multinational FMCG enterprises. We believe that our findings concerning CSR will advance existing literature on the competitiveness factors of FMCG companies.

Second, our findings may also have important practical implications. The data gathered in this investigation will reveal whether CSR policies have a positive or negative influence on the financial results of a business, and how strong their impact is, which may enable the management of FMCG enterprises to build their CSR policy in such a way as to maximise the company's competitiveness.

The results of the study will be presented during thesis defense in the department of World Economy and International Affairs at the Higher School of Economics in June 2021. The data obtained in the course of this project could stand for publication in an academic journal which publishes research on corporate social responsibility and business competitiveness issues.

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