STRATEGIC ORIENTATION AND CORPORATE CITIZENSHIP: ARE THERE DIFFERENCES IN STRATEGY TYPES?

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ABSTRACT
Corporate citizenship is a strategic imperative, one that can significantly affect firm competitiveness. However, there is little research to demonstrate what actually shapes or drives firms towards a more proactive posture with respect to corporate citizenship. This paper makes a case that strategic orientation is one such driver, in that a firm’s strategic behavior in adapting to the environment is linked to corporate citizenship. However, levels of corporate citizenship are argued to differ depending on the type of strategy pursued. By examining a sample of 280 firms in Australia, the findings suggest that differences do exist across Defenders, Prospectors, Analyzers and Reactors with respect to corporate citizenship. Further analysis reveals differences across the strategy types on two dimensions of corporate citizenship; namely economic and legal citizenship. The results provide empirical insights that have not been previously reported.

Keywords: Corporate citizenship, strategic orientation, strategy types, stakeholders, firm competitiveness.
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1. Introduction

Given the increasingly complex expectations of shareholders and other stakeholders, engaging in corporate citizenship is argued to be a strategic imperative of the firm (Fombrun, Gardberg and Barnett, 2000; Rondinelli and Berry, 2000; Maignan, Ferrell and Hult, 1999; Maignan and Ferrell, 2000, 2001; Gardberg and Fombrun, 2006). Supporting this view, Porter and Kramer (2006) suggest that in the current business climate, a focus on corporate citizenship is becoming necessary to succeed and even gain competitive advantage. In light of these pronouncements, does a firm's strategic orientation impact on its level of corporate citizenship?

Strategic orientation is concerned with the decisions that firms make to adapt to their environment. Developed largely as a basis to address strategic behavior in product-market and structure-process domains, the Miles and Snow (1978) typology has been the most emphasized strategic orientation typology given the focus on an organization as a complete system (Hambrick, 2003). The typology consists of four basic strategy archetypes: 1) Defenders; 2) Prospectors; 3) Analyzers; and 4) Reactors (Miles and Snow, 1978; Miles, Snow, Meyer and Coleman, 1979). Each strategy type has a specific approach to competing although Reactors do not follow strategy in any consistent manner.

Research interest in the Miles and Snow typology has been broad, with studies exploring how the strategy types differ on dimensions such as administrative practices (Simons, 1987), functional profiles and policies (Hambrick, 1983; Conant, Mokwa and Wood, 1987; McDaniel and Kolari, 1987; Ruckert and Walker, 1987; Slater and Olson, 2000, 2001), performance under different environmental conditions (Hambrick, 1981), strategy formation (Slater, Olson and Hult, 2006) and strategic resources (Hughes and Morgan, 2007). An additional area that promises to


contribute to an understanding of strategic behavior is the match between strategy type and corporate citizenship.

The focal subject is important in that while most studies have explored benefits of corporate citizenship, namely the financial payoff, little research has actually uncovered the antecedent conditions which influence corporate citizenship (Gardberg and Fombrun, 2006; Aguilera, Rupp, Williams and Ganapathi, 2007). Other scholars argue an overemphasis has been placed on examining the content of corporate citizenship activities to the detriment of studying the institutional factors that might shape or drive such activities in the first place (e.g. Margolis and Walsh, 2003; Gond and Herrbach, 2006; Campbell, 2007). By considering the link between strategic orientation and corporate citizenship, complementary value is added to the field by exploring drivers rather than consequences.

2. Strategic orientation

Achieving a successful link between the firm and its environment represents a major challenge of strategy. According to Miles and Snow (1978), firms develop somewhat enduring patterns of strategic behavior that facilitate their alignment with the environment. To do so, a stream of decisions guides both strategic choices and shapes internal policies and procedures. Miles and Snow (1978) developed four archetypes of how firms respond to the issue of alignment with the environment. The four archetypes include Defenders, Prospectors, Analyzers and Reactors.

Defenders include firms who focus on narrow product-market domains and are expert in a limited area of operation. Defenders tend to remain focused on current operations and therefore limit searches for new opportunities while protecting secured niches. Thus, major adjustments to strategy are infrequent and efficiency of existing operations is the key focus. Prospectors continually search for new market opportunities and frequently experiment with potential responses to emerging trends in the environment. As a result, Prospectors tend to
create change and uncertainly in the markets they operate in although efficiency can suffer. Analyzers are considered between Defenders and Prospectors, protecting secure product-market domains while rapidly moving into new opportunities once Prospectors uncover those that are most promising. Lastly, Reactors do not have consistent strategic responses to the environment and therefore, are considered a dysfunctional type. Although previous studies have ignored Reactors (e.g., Slater and Olson, 2000, 2001; Slater et al., 2006), they are kept for analysis in this study for exploratory purposes as no previous research to date has used the Miles and Snow typology with respect to investigating relationships with corporate citizenship.

3. Nature of corporate citizenship

Corporate citizenship has long been debated by ethics, business and society and management scholars. Two primary debates have surfaced. First, one debate has centered on who firm’s are responsible to. Friedman (1970) argues that firms are only responsible to shareholders. Freeman (1984) and Clarkson (1995) argue that firms are responsible to those who have a stake in the firm, such as customers, employees, investors, governments who provide infrastructures and communities in which a firm operates. Second, the other debate has centered on what firms are responsible for. Although many viewpoints exist, Carroll’s (1979) categorization of the responsibilities of firms has remained a consistently accepted approach, particularly with respect to empirical study of corporate citizenship. Carroll (1979) argues that firms have four responsibilities, including: 1) economic; 2) legal; 3) ethical; and 4) discretionary. However, recent interest, particularly among strategy scholars, has focused not so much on debates about whom corporations are responsible to and the types of responsibilities they have, but rather what the strategic implications are for pursuing – or not pursuing – corporate citizenship. A few key observations have been put forth.

First, firms can pursue corporate citizenship as a means to differentiate themselves against competitors (McWilliams, Siegel and Wright, 2006; Porter and Kramer, 2006). For
example, a firm might differentiate its products to appeal to a particular target market of educated, environmentally aware people and in the process extract a premium price. By attempting to uniquely position themselves with respect to their competitors, firms can gain competitive advantage via corporate citizenship (Porter and Kramer, 2006). Second, reducing costs through corporate citizenship activities can improve strategic benefits to the firm. For example, consistently demonstrating an ethical culture can create a strategic benefit in the form of a good reputation, which can lower transactions costs resulting in higher profits (Fombrun and Shanley, 1990). Here, firms leverage distinctive resources and competences (Prahalad and Hamel, 1990; Barney, 1991) to create competitive advantage through corporate citizenship. Lastly, firms engage in corporate citizenship to avoid a strategic disadvantage. For example, by advancing the goals of communities within which they operate, firms build goodwill among stakeholders and this goodwill could be crucial in the event of a future corporate crisis (Jones, 1995). Similarly, by not only meeting, but exceeding, laws and regulations, firms can further build goodwill among stakeholders, for example, in an era of very demanding environmental concerns (Hoffman, 2005; Kolk and Pinske, 2005; Lash and Wellington, 2007).

4. Hypotheses

According to Miles and Snow (1978), each strategy type pursues the product-market space differently. Evidence suggests that strategy types differ on other dimensions as well, such as their marketing strategies (Slater and Olson, 2001). With respect to corporate citizenship, Carroll (1979) argues that all firms have responsibilities to be good citizens in society; however, not all firms engage in corporate citizenship equally. According to several scholars (e.g., Sethi, 1975; Carroll, 1979; Clarkson, 1995), a firm’s response to corporate citizenship ranges from reactive to proactive. Although never tested before, the expectation is that differences between strategy types and corporate citizenship exist.
Corporate citizenship requires effective engagement with stakeholders internal and external to the firm (Fombrun et al., 2000; Rondinelli and Berry, 2000; Maignan et al., 1999; Maignan and Ferrell, 2000, 2001; Gardberg and Fombrun, 2006). Prospectors, for example, closely monitor a range of environmental issues and assess needs and requirements of external stakeholders, such as customers (Miles and Snow, 1978; Slater et al., 2006). To keep the firm at the edge of innovation, Prospectors also need to demonstrate functional collaboration with internal stakeholders and require complex communication mechanisms to ascertain solutions to meet market demands (Ghosh, Liang Tan, Meg Tan and Chan, 2001; Slater and Olson, 2001; Olson, Slater and Hult, 2005). Defenders are less likely to exert considerable effort in learning activities thereby potentially limiting insights into changes in their external stakeholder base. Rather, Defenders are more likely to focus a majority of attention on internal stakeholders given their emphasis on operations and ensuring that employees are as efficient as possible (Slater and Olson, 2001). On the other hand, Analyzers work closely with key stakeholders such as customers in order to understand deficiencies in Prospectors’ offerings, and facilitate necessary changes in their internal stakeholder base to better address market needs (Slater and Olson, 2000). Lastly, Reactors are likely to struggle to know how to effectively respond to stakeholders given that they lack developed means to assess or address their needs on any consistent basis (Snow and Hrebiniak, 1980). Therefore:

**Hypothesis 1**: There will be differences in the relationship between strategy type and corporate citizenship.

The above scenarios provide a general assessment of differences in strategic orientation and corporate citizenship. However, corporate citizenship is further delineated by economic, legal, ethical and discretionary dimensions (Maignan et al., 1999; Maignan and Ferrell, 2000, 2001). Since orientation to corporate citizenship is predicated on engagement with and response
to stakeholders, there is no indication that relationships between strategy types and each
dimension of corporate citizenship will be the same. Hence:

**Hypothesis 2**: There will be differences in the relationship between strategy type and
economic citizenship.

**Hypothesis 3**: There will be differences in the relationship between strategy type and
legal citizenship.

**Hypothesis 4**: There will be differences in the relationship between strategy type and
ethical citizenship.

**Hypothesis 5**: There will be differences in the relationship between strategy type and
discretionary citizenship.

5. Research design and methodology

Dunn and Bradstreet Australia was contacted to draw a sample of firms operating in a
wide variety of industries in Australia. To obtain a heterogeneous mix, three thousand firms from
2-digit manufacturing and services ANZSIC codes were randomly selected. Given the focal
interest of the study, CEOs were selected as the targeted informant. CEOs were mailed a survey
kit containing objectives of the study, assurance of confidentiality, a reply-paid envelop and offer
of summary of the results. After two reminder letters, 280 usable responses were received
which, after accounting for undeliverables, constituted a 10 percent response rate. Although the
response rate is relatively low, this is not surprising given that gaining support from business
firms to participate in university-based research is difficult in Australia and that the country also
suffers from high levels of survey fatigue, particularly amongst executive level respondents
(Devenish and Fisher, 2000; Birch, 2002; Galbreath, 2006). Further, the response rate is similar
to other studies on corporate citizenship (Maignan and Ferrell, 2001).
One key issue is commonly raised with respect to a survey methodology: nonresponse bias (Armstrong and Overton, 1977). Nonresponse bias is a test to determine if respondents are any different than those in the sample who do not respond. To test for nonresponse bias, early versus late respondents are compared on key measures. The rationale behind such an analysis is that late respondents (i.e., sample firms who respond late) are more similar to the general population than the early respondents (Armstrong and Overton, 1977). A comparison between early and late respondents revealed no significant differences on three key measures; namely, firm size, firm age and sales growth.

5.1. Measures used

Values for the multi-item scales are computed as simple averages of the scores for those items given the number of items in each scale varies. *Strategy Type* is measured by using the self-typing paragraph approach that has been demonstrated to be a valid measurement, beginning with Snow and Hrebeniak (1980) through more recent studies (e.g., Shortell and Zajac, 1990; James and Hatten, 1995; Slater and Olson, 2000, 2001; Slater et al., 2006). Thirty percent of respondents are Defenders. Thirty one percent of respondents characterize their businesses as Prospectors. Thirty five percent of businesses are Analyzers. Lastly, as expected, Reactors represent a small portion of the overall sample at four percent. *Corporate citizenship* has been measured in multiple and inconsistent ways. Some studies measure corporate citizenship on a single dimension such as the environment (e.g., Drumwright, 1994; Judge and Douglas, 1998), others measure corporate citizenship through aggregating multiple dimensions into an overall single measure (e.g., Waddock and Graves, 1997), while others measure corporate citizenship using independent, multidimensional variables (Maignan and Ferrell, 2001). Theoretical guidance suggests that corporate citizenship is a multidimensional construct and should be measured as such (Griffith and Mahon, 1997; Rowley and Berman, 2000). However, little guidance is offered in the literature as to whether multidimensional measurements of corporate
citizenship should be aggregated for analysis, or left as independent dimensions. Following Maignan and Ferrell’s (2001) approach, both aggregated and separated measures of corporate citizenship are examined to more closely explore differences in strategy types. Measurement of corporate citizenship uses the rigorously developed and tested scales of Maignan and her colleagues (Maignan et al., 1999; Maignan and Ferrell, 2000, 2001). Respondents were asked to rate their corporate citizenship on a 5-point Likert scale, where “1 = strongly disagree” and “5 = strongly agree” (Appendix).

6. Analysis and results

To explore tests of significance, a series of one-way ANOVAs was used. The Least Significant Differences test is used to identify significant differences between strategy types and the variables of interest. The Least Significant Differences test is not as conservative as the Bonferroni or Scheffe tests; however, Least Significant Differences is a common method of testing statistical differences in means because of the ability to balance risks of committing Type I and Type II errors, while making the identification of significant differences relatively straightforward by using the widest interval statements. Table 1 displays the means and standard deviations for each strategy type.

<table>
<thead>
<tr>
<th>Strategic Types (and percentages of sample)</th>
<th>Defenders (30%)</th>
<th>Prospectors (31%)</th>
<th>Analyzers (35%)</th>
<th>Reactors (4%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Citizenship</td>
<td>4.08 0.38</td>
<td>4.10 0.50</td>
<td>3.99 0.43</td>
<td>3.63 0.70</td>
</tr>
<tr>
<td>Economic</td>
<td>3.98 0.50</td>
<td>4.04 0.57</td>
<td>3.91 0.49</td>
<td>3.38 0.87</td>
</tr>
<tr>
<td>Legal</td>
<td>4.58 0.37</td>
<td>4.52 0.46</td>
<td>4.46 0.38</td>
<td>4.14 0.57</td>
</tr>
<tr>
<td>Ethical</td>
<td>4.30 0.55</td>
<td>4.28 0.64</td>
<td>4.23 0.54</td>
<td>3.90 0.80</td>
</tr>
<tr>
<td>Discretionary</td>
<td>3.54 0.59</td>
<td>3.61 0.72</td>
<td>3.43 0.75</td>
<td>3.18 0.94</td>
</tr>
</tbody>
</table>

Table 1.

Table 1 provides the ANOVA results for each strategy type across corporate citizenship, and the four individual dimensions of corporate citizenship. The F values are given and p displays statistical significance. The findings suggest that for corporate citizenship, there are
differences among strategy types ($F=3.987, p=.008$). This confirms proposition 1. By conducting post hoc tests, specific differences occur between Defenders and Reactors ($p=.002$), Prospectors and Reactors ($p=.002$) and Analyzers and Reactors ($p=.015$). As predicted, the results suggest that Reactors do not have clear strategies and thus lack specific focus on corporate citizenship, in this sample. On the other hand, Defenders, Prospectors and Analyzers seem to be demonstrating a similar commitment to corporate citizenship.

Further analyses examined individual components of corporate citizenship to identify deeper levels of difference between the strategy types. Economic citizenship reveals significant differences between groups ($F=5.261, p=.002$) confirming proposition 2. Post hoc tests show differences between Defenders and Reactors ($p=.001$), Prospectors and Analyzers ($p=.093$) and Prospectors and Reactors ($p=.000$) and Analyzers and Reactors ($p=.002$). Regarding legal citizenship, group differences exist as well ($F=3.996, p=.008$), confirming proposition 3. Post hoc tests demonstrate differences between Defenders and Analyzers ($p=.070$) and Defenders and Reactors ($p=.001$), between Prospectors and Reactors ($p=.005$) and between Analyzers and Reactors ($p=.015$). Lastly, differences between groups were not found on ethical ($F=1.630$, $p=.183$) and discretionary ($F=1.849, p=.139$) citizenship, thus rejecting proposition’s 4 and 5.

7. Discussion

Strategic orientation is concerned with the decisions that firms make to adapt to their environments. In the current climate, many scholars argue that demonstrating corporate citizenship is necessary given increasingly complex requirements of stakeholders, both external and internal to the firm. Of interest is the extent to which strategy types in the Miles and Snow (1978) strategic orientation typology respond to corporate citizenship. Given that each strategy archetype pursues different strategies and demonstrates different strategic behaviors to adapt to the environment, differences were expected between Defenders, Prospectors, Analyzers, Reactors and corporate citizenship.
The findings suggest that there are differences between strategy types and corporate citizenship. However, the main difference was between Defenders, Prospectors and Analyzers and Reactors. Some have suggested that corporate citizenship is a “calling card” to compete successfully today (Carroll, 2004). For Defenders, Prospectors and Analyzers, addressing stakeholders that result in good citizenship seem to be part of their overall orientation to the market and the types of strategic behaviors they engage in. On the other hand, as first developed by Miles and Snow (1978), Reactors are argued to be a dysfunctional strategy type and do not pursue any consistent response to the environment. This study shows that Reactors likely have weak strategies when responding to the need to be good corporate citizens.

Further analysis reveals more specific differences in strategy types and corporate citizenship. For example, differences were found between strategy types and economic citizenship. Given that the strategy types pursue product-market domains differently, this finding was expected. One explanation might be that strategy types view economic roles in terms of legitimacy, or fulfilling their basic economic role in society, and economic citizenship as a means of creating differentiation or even an advantage, such as addressing environmental features in products or in production techniques. The finding might also suggest that some strategy types, for example Prospectors, are aligning the organization towards innovation and demonstrate strategic behavior that would give them an edge in economic citizenship. With respect to legal citizenship, differences in strategy types were also found. Here, the likelihood that strategy types are shirking their legal responsibilities in a country with clearly defined laws and strong corporate-legal enforcement seems remote. However, laws and regulations, as in most countries, do differ from industry to industry in Australia. The finding might be a reflection of industry type, suggesting that in some industries, strict adherence to legal statutes is more important or more carefully enforced. Lastly, no differences were found between ethical and discretionary citizenship. On a positive note, firms across all strategy types appear to be behaving ethically. On the other hand, some argue that philanthropic activity is often
synonymous with corporate citizenship in Australia (Birch, 2002; Galbreath, 2006), so the finding might suggest that discretionary activities are part of the citizenship calling card in the country. What is not clear is the extent to which strategy types might be using discretionary citizenship to differentiate themselves in the eyes of stakeholders and/or their competitors.

8. Limitations and suggestions for future research

There are a few important limitations of the study. First, although the percentage of Reactors was quite low in the sample as expected, this strategy was included in analysis given the exploratory nature of the study. Results need to be treated accordingly. Second, a single informant was used to respond to the survey. Common method bias can be an issue in such an approach and the results need to be considered in light of the method. Lastly, the study only includes firms from Australia. Therefore, generalizability of the results must be treated with caution.

With respect to future studies, of interest is expanding the research across multiple countries to better understand how firms’ strategic orientation reflects corporate citizenship. Other options include exploring independent variables such as the types of capabilities each strategy type leverages as they interact with stakeholders and strive to deliver corporate citizenship. Lastly, the scales used to measure corporate citizenship, while confirmed as robust, do limit the type of citizenship activity that can be measured in any given firm. Future research might first determine firms by strategy type and then pursue more qualitative research to better understand idiosyncratic differences in levels of corporate citizenship and why such activities are reflected in strategic behavior.
References


