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# Proposal for a Strategic Corporate Social Responsibility Model as a Competitive Factor for the Tequila Manufacturing Industry.

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## EXECUTIVE SUMMARY

*This study analyzes the role of Corporate Social Responsibility (CSR) as a factor that may improve business competitiveness. The results obtained from both qualitative and quantitative studies carried out with key firms involved in the tequila manufacturing industry in Jalisco, Mexico suggest that business competitiveness is improved by the application of a strategic CSR model and the implementation of strategic CSR alliances, both of which enhance the reputation of firms using CSR, while corporate governance strategies and stakeholder awareness of CSR do not have this effect. This article aims to foster the competitiveness of SMEs in emerging markets through implementation of CSR in their business models.*

Keywords: Corporate Social Responsibility, Strategic Model, Competitiveness, Stakeholders, Company Reputation, Tequila Industry.

## INTRODUCTION

The tequila manufacturing industry in the State of Jalisco, Mexico, is currently comprised of 133 companies, of which only 107 are certified as producers of 100% agave tequila. Tequila is classified by category according to the percentage of sugar it contains derived from the 'blue' version of the plant known as Agave Tequilana Weber. Traditionally, tequila is manufactured with a mixture of sugars, 51% being from the 'blue' version of the Agave Tequilana Weber and 49% being derived from other natural sources (Cámara Nacional de la Industria Tequilera, 2017).

Different stakeholders are involved in the various stages of tequila manufacturing, with each being committed to introducing action plans incorporating Corporate Social Responsibility (CSR) with a view to creating conditions that foster harmony between the tequila manufacturing industry, environmental care and social responsibility.

Tequila is Mexico's most iconic product and as such is considered in Mexican culture to be "a gift from Mexico to the world." Tequila is regarded as a blessing, and its production is based on the basic principles of sustainability (Centro Mario Molina, 2016). The strategic business model used in the tequila industry employs CSR as a competitive factor, which optimizes the economic, environmental, and social responsibility aspects of the tequila manufacturing industry. Firms involved in the field are able to implement the model and correlate the factors involved in it, thereby enhancing the profile of and attitudes towards the business among stakeholders.

## LITERATURE REVIEW

### Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a concept that has been in continuous evolution over the course of the last few decades. Several authors (Jankalova, 2016; Zhao, Song, & Chen, 2016; Barrena, López, & Romero, 2016) suggest that in actuality CSR initially emerged at the beginning of the 20<sup>th</sup> Century, evolving gradually and being adopted internationally by major businesses, particularly those focused on assigning resources to activities both present and future-oriented that were perceived as being socially beneficial (Monzur & Habib, 2017). This meant that CSR was regarded as having significant influence in lessening social as well as environmental and economic inequalities.

Corporate Social Responsibility however goes beyond simple voluntary actions and compliance with regulations: it involves the implementation of practices by a particular company in order to derive benefits and advantages within the context of the socioeconomic environment in which the company operates (Bisogno, 2016). As a result of the potential benefits of CSR implementation, it began to grow in importance. The belief was that a business should return to society the benefits it had derived from that society, via what became known as sustainable development (Fatma, 2014).

Corporate Social Responsibility (CSR) has also been considered a potential success factor for a company in addition to its human capital, business skill, technological resources, government support, marketing strategy, planning processes and access to information (Pletnev & Barkhatov, 2016).

Considering the factors mentioned above, the literature suggests that there are three main elements involved in CSR: social, economic and environmental (Herrera, Larrán, Lechuga, & Martínez, 2016; Gilinsky, Newton, & Fuentes, 2016; Skilton & Purdy, 2016).

Some authors suggest however that other factors such as cooperation with the local community and voluntary work also have a part to play (Jankalova, 2016), along with profitability and sustainable development (Zhao, Song, & Chen, 2016). It could therefore be argued that CSR is linked to different elements of these three dimensions, as well as being important to the actors (stakeholders) who participate in them (Freeman, 1984).

### Competitiveness

Over the course of the last few years, competitiveness has evolved in heretofore unforeseen ways, encompassing indicators and forces which are closely related to the distribution of gross domestic product (GDP) and which also evidence company efforts to foster sustainable human development and the intention to guarantee equal conditions and opportunities for all.

The 'forces' previously referred to comprise employees, business people, company owners, the local community, and the state/government, all of whom play a decisive role in competitiveness-based quality-of-life improvements (Done, 2015).

The sustainable competitiveness index (SCI) of the World Economic Forum (WEF), has superseded the standard competitiveness index previously used, and today such characteristics as demographics, social cohesion and environmental administration are included. The specific objective of the WEF in Geneva is to eliminate the traditionally established criteria for judging competitiveness, and focus instead on analyzing the social and environmental impact of these three characteristics (Thore & Tarverdyan, 2016).

Large firms not only have the financial, technological and human resources to embrace sustainability but also understand the importance of redesigning their products and processes in order to establish a competitive advantage via the skillful employment of CSR (Kudlak, 2014). For small and medium enterprises this task could be more effectively structured in order fully exploit available capacities and resources, thus enabling the business to compete more effectively by using key elements already available to them to demonstrate their corporate values and commitment to society.

For large companies, in addition to having the financial, technological and human resources necessary to become more sustainable, it is important to redesign both their processes and products and establish a competitive advantage through skillful employment of CSR.

In conclusion, a firm develops a sustainable competitive advantage when it implements a value-creating strategy not currently employed by current and potential competitors, and which, in addition, implies the generation of barriers to imitation and cooperation between the firms themselves (Areias & Vasco, 2013).

## METHODOLOGY

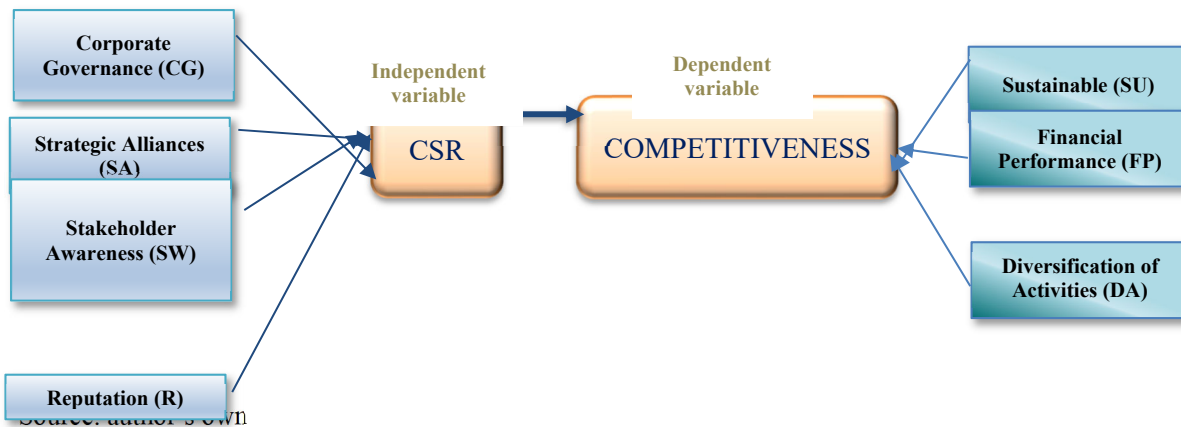
This research paper combines both qualitative and quantitative research methods, using a statistical analysis with the structural equation model and at the same time using a subjective (qualitative) analysis through personal interviews with key actors who have a wide knowledge of the tequila manufacturing industry.

The survey was applied from January to April 2018, to 37 firms located in Jalisco state which belong to the National Chamber of the Tequila Manufacturing Industry (in Spanish: CNIT) and which belong to the Jalisco tequila manufacturing industry. It should be noted that while some tequila manufacturing firms are registered in the CNIT they are headquartered in different states.

The questionnaire contains 112 items: 7 of them correspond to general data about the firm and the person being interviewed, with the rest of the 105 items being measured with a Likert scale and analyzed using SmartPLS® software. Some non-structured interviews were also carried out in order to use as a reference and gain a deeper understanding of the topic.

Figure 1 shows the proposed model/theoretical construct that contains the hypotheses and their relations, and which is based on the literature review of the corporate social responsibility (CSR) and competitiveness variables.

**FIGURE 1. THEORETICAL MODEL OF THE RESEARCH VARIABLES**



## HYPOTHESES

H<sub>0</sub> The corporate governance strategies of firms using a strategic CSR model are positively associated with the competitiveness of firms in the tequila manufacturing industry.

H<sub>1</sub> The implementation of CSR strategic alliances is positively associated with the competitiveness of firms in the tequila manufacturing industry.

H<sub>2</sub> The CSR awareness of the *Stakeholders* is positively associated with the creation of a competitive advantage for firms in the tequila manufacturing industry.

H<sub>3</sub> The reputation of firms that use a CSR strategic model is positively associated with the competitiveness of firms in the tequila manufacturing industry.

## RESULTS

After discarding the attributes that do not meet certain consistency properties and confirming the reliability and reliability of the model, we proceeded to perform an analysis of the structural model through parameters R<sup>2</sup>, F<sup>2</sup>, Path Coefficients (β) and values "t".

**TABLE 1. R<sup>2</sup> VALUES**

INDEX	VALUES		
R <sup>2</sup>	Weak	Moderate	Strong
		0.25	0.50

Taking into account the values obtained in Table 1, in which the value granted for R<sup>2</sup> corresponds to 0.6381, it is established that the competitiveness index is explained by 63% for companies belonging to the tequila industry in Jalisco state in relation to the effects that the CSR variables contemplated in the model will have.

Regarding the parameter F<sup>2</sup>, this is used particularly for multiple linear regressions and is estimated from the coefficient of determination or regression (R<sup>2</sup>). This estimation refers to a transformation from the index that quantifies the proportion of variance of the dependent variable and is explained by the set of predictor variables. This parameter can be agreed with the reference values in Table 2.

**TABLE 2. REFERENTIAL VALUES OF F<sup>2</sup>**

Index	Values		
F <sup>2</sup>	Small	Moderate	Wide
		0.02 ≤ 0.15	0.15 ≤ 0.35

For the purposes of this study, the values obtained for F<sup>2</sup>, in which the internal indicators are evaluated from external values, are those shown in Table 3.

**TABLE 3. VALUES OBTAINED FROM F<sup>2</sup>**

Variable	Value for F <sup>2</sup> – Competitiveness Index	Effect
<b>SA</b>	0.179	Moderate
<b>SW</b>	0.035	Small
<b>CG</b>	0.004	Do not influence
<b>R</b>	0.595	Wide

Although the effect of the Corporate Governance (CG) variable is not considered to be influential in competitiveness it is not ruled out, as in the literature it is one of the parameters that most supports CSR. Corporate Governance also positively influences the actions generated by companies, since it controls internal organizational decision-making and helps form employee competences. It is understood that without the influence of this variable, the others could not exist, and there would be no way of evaluating competitiveness indices.

To estimate whether the relationships proposed in the model are significant, a kind of re-sampling is carried out, where the total data used to generate the model is considered as a total population. Through the bootstrapping process in Smart PLS® (v.3.2.7), an analysis with 5000 iterations is executed; the literature also considers these iterations to be sub-samples (Ringle, Sarstedt, Mitchell, & Gudergan, 2018).

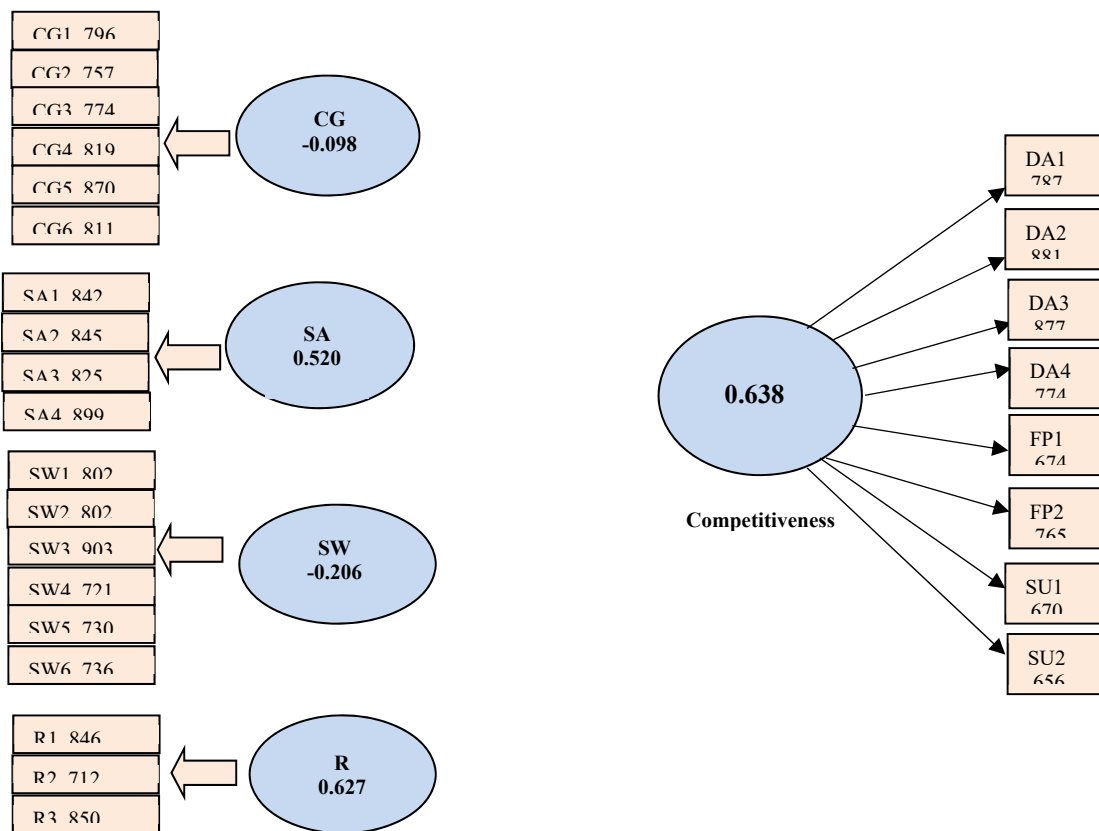
**TABLE 4. "T" VALUES**

Ítem	Value "T"
<b>CG</b>	-3.979
<b>SA</b>	3.419
<b>SW</b>	0.265
<b>R</b>	1.347

As shown in Table 4, the significant relationships correspond positively with Strategic Alliances and Reputation, although there is a significant negative relationship for Corporate Governance, indicating an adverse influence on the tequila industry. It should be acknowledged however that for many of the companies involved in the study the lack of appropriation, knowledge, and commitment regarding CSR must be taken into account.

The evaluation of the established hypotheses was carried out by calculating the Path Algorithm PLS Coefficients at 300 maximum iterations and an end-criterion of 107. Figure 2 expresses this as follows:

**FIGURE 2. STRUCTURAL EQUATIONS MODEL WITH DISPLAY OF THE PATH COEFFICIENTS (B).**



After bootstrapping was performed, significant values were obtained allowing the results of the model to be evaluated and conclusions regarding the hypotheses to be generated. This information was subsequently employed to calculate Path coefficients ( $\beta$ ), with the PLS algorithm used to calculate standardized regression weights. The fundamental values show the loads and weights of the structural model in standardized numbers between +1 and -1, indicating the strength of the relationship existing between the different constructs, i.e. the causal relationships between them (Chin, 1998). In order for a weight to be considered as significant within the model, it must meet a minimum value of 0.2 (Rojas, 2015).

In the following step, the evaluation of the hypotheses is carried out. The results are shown in the following diagram, in which the values obtained in a Cartesian plane are plotted and related.

The results show that **H<sub>0</sub>**: the corporate governance strategies of companies when using a strategic CSR model, yield a result of -0,098, thus showing a negative influence on the competitiveness of the tequila. Therefore the hypothesis **is not significant and is thus rejected**.

The **H<sub>2</sub>**: stakeholder awareness of CSR negatively influences the creation of a competitive advantage for the tequila industry. The figure obtained is -0,206, which is **significantly negative and therefore rejected**.

The **H<sub>3</sub>**: The reputation of the company when using a strategic CSR model positively influences the competitiveness of the tequila industry gives a result of 0,627, a **significant figure which validates the hypothesis**.

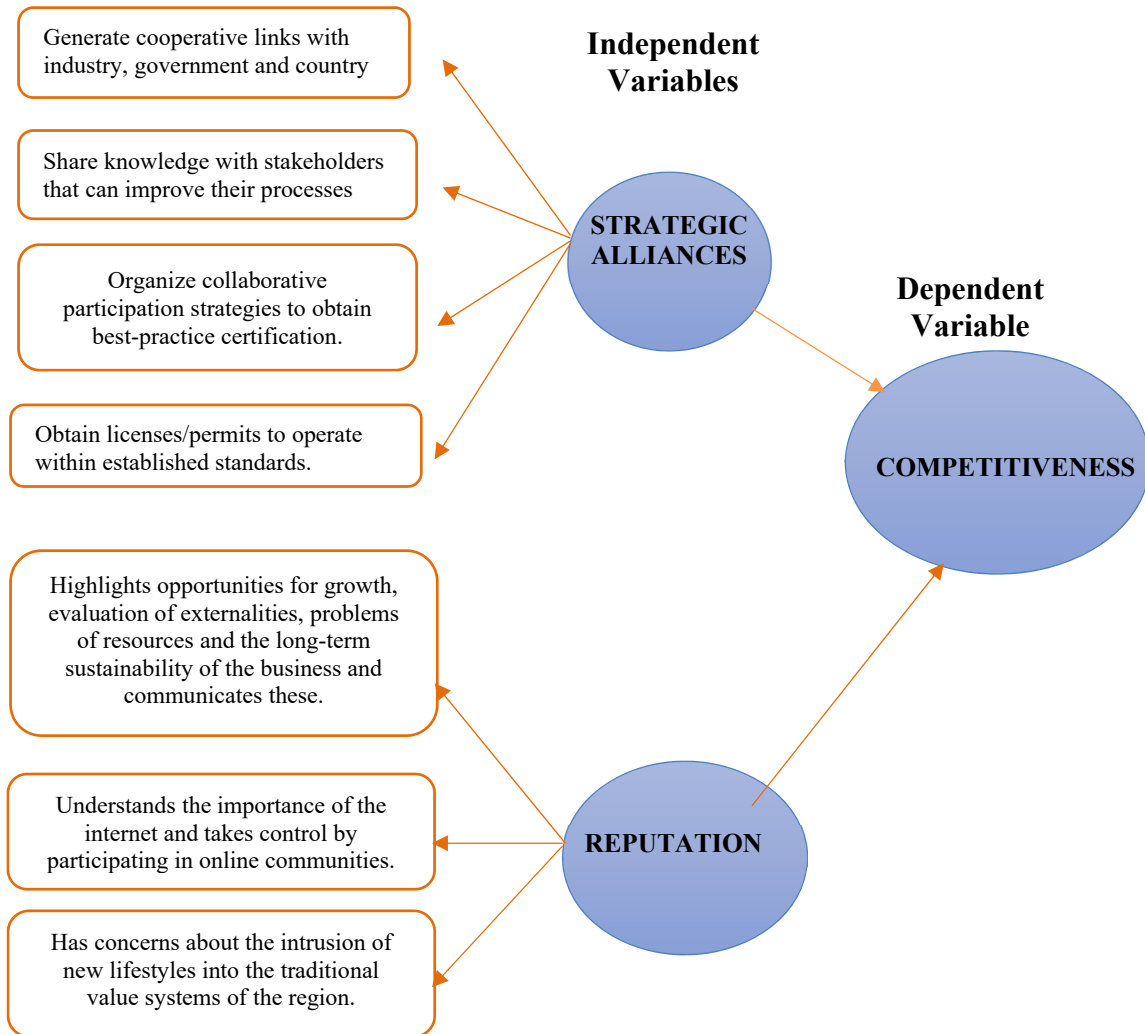
Finally, **H<sub>1</sub>**: The implementation of strategic CSR alliances positively influences the competitiveness of companies in the tequila industry. The statistic yielded is 0,520, which shows the hypothesis to be **significant and validated**.

## CONCLUSIONS AND LIMITATIONS

This research has underlined the importance of CSR in corporate business models and has highlighted the need to improve availability of information on the subject. The authors believe that it is not only financial or economic information which is of importance to companies involved in the alcoholic beverage sector, but also that the publication of CSR reports provides transparency about the performance of companies involved in tequila production. This not only creates value and increases competitive advantage through improved management but also distinguishes those companies who are able to improve reputation and create solid strategic alliances.

Although the fact that in the proposed model both Stakeholder Awareness and Corporate Governance are not shown to be significant generators of competitiveness in the tequila manufacturing industry, both theory and practice support the fact that without them it would not be possible to carry out the other activities shown to be significant to both consumers and the general public and which generate competitive advantage at the economic level.

**Figure 3. MODEL PROPOSAL**



It should be recognized that the strategic relationships contemplated in CSR must have both long-term sustainability and social awareness. This requires that the decisions made and activities undertaken by companies involved in the tequila industry have a positive social impact. In addition, companies should be conscious of the fact that the diversification of their activities is part of their reputation as a brand and as a company. Each of the activities in which companies take part, whether focused on tourism, culture, gastronomy or those which highlight the importance of tequila to the region, should serve as an example to companies which as yet lack any explicit CSR strategy.

Companies need to inspire trust in those with whom they interact, whether these are NGOs, communities, customers, consumers, government or private organizations or others. This trust is achieved through transparency, best-practice and recognized certification guaranteeing the quality of products and services.

Corporate Social Responsibility should become the central focus of a company: those businesses that do not currently appreciate how it can enhance competitiveness could be encouraged to participate if the marketing-driven profit-enhancement opportunities offered by CSR are more widely known. Corporate Social Responsibility should not be viewed as a collection of disparate philanthropic, ecological or social events but rather be regarded as a long-term commitment to both community and

environment. Such a commitment has the capacity to considerably enhance corporate reputation and address the needs of society through business models, which transform ways of thinking about the world.

It is important to point out that the majority of the companies that participated in the research (67.9%) were small businesses, followed by large enterprises (17.9%) and finally medium-sized ones (14.3%). Future research should therefore focus on ensuring greater participation by entrepreneurs who are just beginning to grow their businesses, who have a more up-to-date view of the problems facing the world and who give greater importance to CSR issues as factors which have the capacity to enhance competitiveness in the industry.

## LIMITATIONS

It should be noted that during the course of this study the authors experienced some difficulties accessing information, which was restricted not only by businesses themselves but also by the regulatory bodies in charge of the industry. A certain lack of oversight of those companies which make up the Jalisco tequila industry also became apparent when it was discovered that many businesses currently registered with the Tequila Regulatory Council ceased operations some years previously. Contact information for the above-mentioned firms is still available on their websites although the companies themselves have been defunct for some time, and, in addition, this contact information differs from that registered with the CRT. Some of these companies which are still operating are in fact tequila brands rather than manufacturers. Furthermore, some businesses do not define who has responsibility for CSR while others express no interest in CSR at all or completely fail to acknowledge it. These companies do not implement CSR in their business model and are thus able to provide only limited subject-related information. The accuracy of some answers therefore may be questionable due to a lack of basic understanding of CSR.

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