



# Determinants influencing CSR practices in small and medium sized MNE subsidiaries: A stakeholder perspective<sup>☆</sup>



Byung Il Park<sup>a,\*</sup>, Pervez N. Ghauri<sup>b,1</sup>

<sup>a</sup> Hankuk University of Foreign Studies, College of Business Administration, 270, Imun-dong, Dongdaemun-gu, Seoul 130-791, South Korea

<sup>b</sup> King's College London, Strand, London WC2R 2LS, UK

## ARTICLE INFO

### Article history:

Available online 21 May 2014

### Keywords:

Multinational enterprises  
Corporate social responsibility  
Stakeholder  
Korea

## ABSTRACT

This research attempts to investigate key drivers motivating corporate social responsibility (CSR) practices by small and medium sized foreign subsidiaries. By using stakeholder theory and regression analysis, we integrate international business and CSR literature to suggest a research model and identify the factors functioning as catalysts in influencing CSR in local markets. We find that consumers, 'internal managers and employees', competitors and non-governmental organizations are primary determinants considerably influencing corporate citizenship behavior particularly in emerging markets. We also believe that our model contributes to current knowledge by filling several research gaps, and our findings offer useful and practical implications not only for local governments but also for multinational enterprises.

© 2014 Elsevier Inc. All rights reserved.

## 1. Introduction

As globalization continues to increase in intensity, noticeable changes are taking place around the globe and a new understanding that international operations and investments are efficient means for firms to be competitive (Buckley & Ghauri, 2004). Due to this fact, the outward stock value of FDI transactions grew from US\$523.9 billion a year in 1980 to US\$1.7 trillion in 1990 and US\$6.0 trillion in 2000. The record figure for 2010 revealed an amount that more than tripled the year 2000 figure as worldwide FDI activities totalled US\$20.4 trillion (UNCTAD, 2001, 2011). Meanwhile, a wave of FDI has not only been sweeping through traditional advanced economies, but developing and emerging economies have been part of the surge, resulting in the enlargement of multinational enterprises (MNEs).

Another important international issue, coupled with the growth in the number and size of MNEs, has recently come to the forefront. As a recent phenomenon, MNEs have become aware that their mission should go beyond mere profit

generation and their continued success in foreign markets is in part affected by organizational ethical standards (Tixier, 2003). In other words, although they basically seek to maximize their earnings abroad, firms are increasingly acknowledging the value of corporate social responsibility (CSR) and treating CSR as a strategic tool where the potential corporate benefits hinge on the communication of corporate responsibility (Polonsky & Jevons, 2009).

Furthermore, some proponents of CSR argue that CSR leads to enhanced brand image and reputation, increased sales and customer loyalty, and increased productivity and quality (Mishra & Suar, 2010). Consequently, CSR has often brought about an improvement in corporate financial performance (Mittal, Sinha, & Singh, 2008). According to Luo (2006), CSR in the MNE context means the firm's configuration of social responsibility and social responsiveness, policies, and programs which can promote its relationship with local society. He also suggests that the concept of CSR assumes business and society are interwoven rather than being distinct entities. Thus, society has certain expectations as to what are adequate business attitudes and behaviors. Apart from MNEs instincts for profit-making, we argue that satisfaction of the local society's expectations is particularly crucial for MNEs as it is hard to deny the existence of skeptical opinions which portray MNEs as exploiters of host countries' resources, especially in developing and emerging countries. In this vein, CSR is not only important

<sup>☆</sup> This work was supported by Hankuk University of Foreign Studies Research Fund.

\* Corresponding author. Tel.: +82 02 2173 3193; fax: +82 02 964 3532.

E-mail addresses: [leedspark@hufs.ac.kr](mailto:leedspark@hufs.ac.kr) (B.I. Park), [pervez.ghauri@kcl.ac.uk](mailto:pervez.ghauri@kcl.ac.uk) (P.N. Ghauri).

<sup>1</sup> Tel.: +44 020 7848 4122.

as a strategy, but also signifies an organizational task that MNEs should meet ethical, social, environmental, and economic demands from local *stakeholders* in host economies.<sup>2</sup>

With respect to the strategic implications of CSR for MNEs, there are numerous unanswered theoretical and empirical issues. One of the fundamental but prominent topics that needs to be immediately resolved is the identification of the motivations for CSR in MNE subsidiaries (Rodriguez, Siegel, Hillman, & Eden, 2006). The links between CSR and MNE literature are very embryonic, as Husted and Allen (2006) indicate that the lack of scholarly attention is one of the reasons that MNEs often fail to respond effectively to issues of CSR in many host countries. To put it concretely, CSR has attracted a huge amount of attention by those who study Strategic Management (e.g., CSR by local firms in domestic markets), Marketing (e.g., the influence of CSR on customer loyalty), and Financial Economics (e.g., the relationship between CSR and stock market returns), but scholars in International Business (IB) have significantly overlooked the strategic importance of CSR. According to Campbell, Eden, and Müller (2012), host-country stakeholders often lack information about a foreign affiliate, and may use stereotypes or impose idiosyncratic criteria compared with a host-country firm, with negative consequences, which forces MNEs to deal with significant liabilities of foreignness in host markets.

In this situation, CSR investments may be a practical non-market coping mechanism for reducing the liabilities encountered by MNEs in overseas countries, and thus MNEs should be strategically motivated to engage in host-country CSR. However, Waldman, de Luque, Washburn, and House (2006) point out that the diffusion of awareness of the value of CSR practices in the global market has been occurring, but little is known about the factors influencing such practices. Hence, we will attempt to fill this research gap. Although there are in fact welcome exceptions (e.g., Lynes & Andrachuk, 2008; Maignan & Ralston, 2002), most of them have focused on the strategies of MNEs in the developed world (Yang & Rivers, 2009). It is crucial that we understand how MNE subsidiaries approach CSR in emerging markets, so that we recognize the challenges the subsidiaries face in aligning their CSR approaches with local practices.

Korea is often referred to as one of the most dynamic emerging markets that have successfully achieved rapid economic development (i.e., Goldman Sachs has used the term “MIST”, abbreviating Mexico, Indonesia, South Korea and Turkey, to categorize the country as one of the leading emerging markets and has stated it as an important market guaranteeing abnormal returns to MNEs in the long-run). In this vein, it is frequently considered as a good benchmarking target both for other emerging countries and MNEs which are eager to enhance economic and financial performance. This clearly suggests that an empirical examination of CSR practices in the Korean market will potentially provide valuable

implications for MNEs to predict how local CSR activities would be enacted in a growing marketplace.

Another gap that needs to be addressed is associated with organizational size in that it is identified as both vital but relatively unexamined. Small and medium-sized enterprises (SMEs) constitute over 90% of the worldwide population of businesses and make significant contributions to employment, wealth creation, investment, innovation and international trade (Udayasankar, 2008). Within the limited, but growing, literature on SME ethics, however, scant attention has been paid to the issue of CSR (Worthington, Ram & Jones, 2006). This pre-occupation with larger organizations is all the more amazing when one considers the social and economic importance of smaller firms (i.e., small and medium sized MNE subsidiaries (SMMSs)) to modern international business.

The reason why extant literature focuses on large subsidiaries is because subsidiary size may mean strategic importance for MNE headquarters, but due to the intrinsic differences between large subsidiaries and SMMSs, CSR is a different issue when applied to SMMSs. In addition to size as one criterion, the intrinsic differences include legal form, sector, orientation toward profit, historical development and institutional structures (Perrini, 2006). Russo and Perrini (2010) clearly indicate that a knowledge gap exists in the CSR-SMMS relationship and researchers are still far from constructing a consolidated and generally accepted model to investigate such relationships as well as providing a responsible perspective on the management of SMMSs. This reasoning suggests that we need to gain a better understanding of the antecedents affecting MNE CSR in emerging countries with research also putting emphasis in further exploring the behavior of SMMSs toward CSR.

## 2. Literature review and theory development

### 2.1. Theoretical background

Although there appears to be broad agreement that MNEs should behave responsibly, there is only limited discussion linking the MNEs and their CSR activities in emerging markets (Polonsky & Jevons, 2009). Clear evidence verifying this situation can be found from Kolk and van Tulder's (2010) commentary arguing that while often mentioned as relevant topics for the study of MNEs, the number of articles trying to connect MNEs and CSR has been very limited, and the literature is in its infant stage. Various elements might contribute to the current phenomenon but the main cause of this situation is closely associated with the lack of available data. There are hardly any extensive databases providing information particularly on CSR or on the impact of MNEs on the various dimensions of sustainable development which can be used for IB research purposes. In addition, the problem of the lack of large-scale research material is more serious when the issue is applied to SMMSs in emerging markets. As primary data collection is very difficult and time consuming, this seems to be another reason behind the focus on large organizations and the main research foray into developed countries. Given the variation of CSR in the respective national business systems and potential IB opportunities in emerging economies, the latter concern (i.e., previous focus on developed countries) uncovered during the process of the literature review should not be ignored.

Developing a clearly defined corporate CSR identity for global organizations is complex, but it is generally defined as the voluntary integration of social concerns in business operations abroad and in their interaction with local stakeholders (Vilanova, Norazo, & Arenas, 2008). Within the CSR perspective, Waldman et al. (2006), subsequently supported by Mishra and Suar (2010), suggest that stakeholder theory helps to understand the

<sup>2</sup> Some scholars (e.g., Chang, 2004; Ziegler, 2005) have shed light on the negative aspects of MNE operations, and even argue that MNEs are one of the primary obstacles inhibiting economic growth in developing and emerging countries. The explanations given by these scholars, proposing negative impacts are the following: often MNE activities are too vitalized and excessive, foreign firms attempt to dominate the market they enter and present a challenge to national sovereignty. Moreover, the aggravation of local competition against MNEs inevitably culls locally grown enterprises, which results in the deterioration of employment. In particular, MNEs re-invest only a fraction of their revenues in local economies and drain positive effects from both capital injections and the balance of payments. These negative effects cause hardships for local governments and negatively influence their investments in infrastructure, education and technology development. In this vein, we suggest that CSR is not only important for domestic firms but also should be considered as a crucial international issue in that CSR is an efficient means to overcome skeptical attitudes toward FDI in host markets. This discussion also explains the supporting rationale why MNE CSR needs to be particularly geared toward host economies.

Download English Version:

<https://daneshyari.com/en/article/1003327>

Download Persian Version:

<https://daneshyari.com/article/1003327>

[Daneshyari.com](https://daneshyari.com)