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Corporate social responsibility in international joint ventures: Empirical examinations in South Korea☆

Byung Il Park[a,*], Adam H. Cave[b]

[a] Hankuk University of Foreign Studies, College of Business Administration, 270, Imun-dong, Dongdaemun-gu, Seoul, 130-791, South Korea
[b] JR Shaw School of Business, NAIT, 109 St NW, Edmonton, AB T5G 2R1, Canada

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ABSTRACT

This study aims to investigate organizational characteristics and develop a framework relating to corporate social responsibility (CSR) practices of international joint ventures (IJVs) established in the South Korean market. Based on institutional and stakeholder theories, regression analyses produced a framework facilitating a better understanding and identification of factors that drive CSR in local markets. Consumers, competitors, and non-governmental organizations (NGOs) were discovered to be primary determinants of responsible behaviors. Additionally, some significant differences were found with respect to CSR related to IJV's formative characteristics. This study contributes to furthering knowledge of IJVs and CSR, as well by providing some practical implications for organizations pursuing international markets.

1. Introduction

International joint ventures (IJVs) have been pursued as an essential strategic option for multinational enterprises (MNEs) in terms of effectively entering foreign markets through a more collaborative strategy and to partially confront the liabilities of foreignness encountered in an unknown environment (Chang, Bai, & Li, 2015; Huang, Hsiung, & Lu, 2015). IJVs, generally, are regarded as crucial in the internationalization aspect of organizations and are a dominant option in pursuit of market expansion strategies (Park, Giroud, Mirza, & Whitelock, 2008). Oftentimes, by virtue of establishing a new entity with a local firm, IJVs are cited as the most viable option in terms of acquiring local knowledge and mitigating potential market uncertainties (Mohr, Wang, & Fastoso, 2016; Triki & Mayrhofer, 2016; Yeniyurt & Carnovale, 2017). The integration of both host and home stakeholders, in an attempt to reduce uncertainties and liabilities of foreignness, also entails a focus on an MNEs local operations due to reports of corruption, unethical practices and other negative aspects, thus leading to a more involved and vocal response to organizational practices at home and abroad.

As a result, corporate social responsibility (CSR) has become a rallying point for stakeholders and researchers alike in determining the ethical actions and responsibilities of organizations that operate abroad (Ambec, Cohen, Elgie, & Lanoie, 2013; Egri & Ralston, 2008). Academic interest and literature related to CSR has also developed and grown over time, from a simple examination of how to act ethically within a foreign environment, to an analysis of how to provide positive impacts locally. This ultimately contributes to local economic development by simultaneously improving the quality of life of the workforce, the local community, society at large, considerations that have become an integral part of the strategic vision characterizing many firms worldwide (Lockett, Moon, & Visser, 2006; Russo & Perrini, 2010).

CSR and IJVs have both been proposed as means by which organizations can become embedded in local communities or alleviate negative attitudes towards foreign organizations as a response to stakeholder concerns (Galbreath, 2009). With the rise of CSR awareness and the demand for companies both foreign and domestic to pursue CSR initiatives, the focus for foreign members of IJVs should be upon what triggers the implementation of local CSR practices. However, specifically for IJVs, it is unclear which of its stakeholders play prominent roles in determining the enactment and incentives leading to the managerial choices to pursue CSR activities in local markets. To reiterate, as IJVs represent an interaction between the foreign and local firms, it remains uncertain if it is the foreign parent that brings CSR initiatives into the IJV or if local pressure forces the adoption of CSR measures. Research on this question, outside of a few studies that have mentioned the need for further analysis in the understanding of the manipulation and development of CSR strategies in host countries, is currently very sparse (Galbreath, 2009; Qu, 2007; Tokoro, 2007).

That is, a research gap and an unsolved problem in the extant

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* Corresponding author.
E-mail addresses: leedspark@hufs.ac.kr (B.I. Park), profahcave@gmail.com (A.H. Cave).

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empirics is that while CSR research has largely been focused on MNEs and their subsidiaries, examining their investments, programs, and marketing applications (e.g., Rathert, 2016; Yang & Rivers, 2009), the CSR activities of IJVs have been neglected as a research focus with the apparent assumption that MNE research applies to IJVs as well. IJVs, in comparison to wholly-owned subsidiaries (WOSs), pose a greater challenge for an MNE as it entails a sharing of knowledge, control and multiple different impacts of stakeholders acquired from the parent organizations as well as those directly involved with the IJV itself (Dutta & Beamish, 2013). In addition, a more problematic research gap resides in the fact that in the context of CSR, IJVs have a unique organizational structure in that both firms may have different approaches to CSR, with the foreign parent expected to have higher standards of ethical behaviors than the local partner. Consequently, idiosyncratic organizations may interact within an entity and generate peculiar moral patterns. Therefore simply applying MNE-based CSR research to IJVs would overlook situational differences due to structures and operational variations, thus necessitating a closer view of this group to identify unique challenges. In addition, this study is different from other empirics in that we look at South Korea (hereafter Korea) as a country experiencing active economic interchange. This allows for a clear look at the gradual transformation from an emerging to an emerged economy through foreign direct investment from developed countries and observing the vivid interactions between local and foreign firms in the market.

This study seeks to fill this gap by raising the research question of what stakeholders positively influence CSR activities in IJVs. By exploring the impacts of different stakeholder groups and their interaction within the IJV, an understanding of the forces arrayed in determining CSR initiatives for IJVs can be identified and accounted for, when entering a foreign market. Knowledge of the relative pressures of stakeholders upon CSR management practices for IJVs can be a significant factor in determining structural development and programs both locally and by the foreign parent. These discussions suggest that we need to strive to better understand the antecedents affecting MNE CSR in IJVs, while also putting emphasis in further examining the influence of IJV ownership structure towards CSR. This paper contributes to furthering knowledge of CSR in the marketplace by providing a clear analysis of IJV stakeholder impacts by groups. It then provides an analysis of the differences between the ownership structures of an IJV and further looks at the distinguishing impacts on IJVs from those on MNEs, thus enabling the provision of greater implications to stakeholder theory in that we delve into the stakeholder effect on IJVs through multiple facets. By employing regressions and ANOVA techniques, we found that CSR involvement is fuelled by various stakeholder demands. In particular, consumers, competitors and non-governmental organizations play pivotal roles in promoting CSR in IJVs, and through foreign and local interplays, local parent's majority ownership would function as a conduit leading to good citizenship. However, in general, we documented that when subsidiaries turned into wholly owned foreign firms they tend to pay more attention to behave in a socially responsible manner to build local legitimacy and develop strong local relationships. In pursuit of analyzing stakeholder impacts on IJV CSR, the rest of this paper is organized as follows. Following a review of the current literature and knowledge available in the field of CSR and stakeholder theory will be a discussion of the hypotheses to be tested. After that the methodology for testing will be outlined and testing results will be presented. The paper will finish with a discussion of the results, conclusion, and managerial implications determined through this study.

2. Theoretical background

Institutional theory focuses on the impact of systems that surround organizations and shape social and organizational behavior (Scott, 2001). In sociological neo-institutionalism, organizations are under societal and cultural pressure forcing them to comply with their institutional environments in order to obtain legitimacy and social suitability (Husted, Montiel, & Christmann, 2016). According to DiMaggio and Powell (1983), there are institutional forces that cause three types of institutional isomorphic change: (1) coercive isomorphism, originating in pressures from powerful entities; (2) mimetic isomorphism, where firms, due to environmental uncertainty, imitate other successful organizations in their industry sectors; and (3) normative isomorphism, resulting from professionalization. Scott (2001) developed a framework of three pillars of institutions, regulative, normative, and cognitive elements that correspond to the types of institutional isomorphism identified by DiMaggio and Powell (1983).

Applying these perspectives to the international business (IB) domain, foreign entrants into local markets may be able to reduce uncertainty and ambiguity in foreign markets by conforming to local institutional factors. From this point of view, corporate decision-makers should take a profound interest in the institutional differences between home and host countries in regulative, cognitive and normative elements. The greater the distance between home and host countries, the greater the liability of foreignness (e.g., unfamiliarity and discrimination risk in foreign markets), which increases the firm's need for gaining local legitimacy (Campbell, Eden, & Miller, 2012). Foreign entrants suffer many hardships ensuing from the tacitness (e.g., situational uncertainty and ambiguity) of cognitive and normative institutions (Kostova & Zaheer, 1999). In order to overcome such troubles, firms may accept social obligations and conduct CSR practices that provide a way to surmount institutional distance (Gifford, Kestler, & Anand, 2010; Yang & Rivers, 2009).

In this vein, CSR policies and structures of foreign entrants are commonly influenced by the institutional processes that arise from compulsion of powerful local organizations, relationships with other local companies in foreign markets (e.g., competitors), internal members' expertise and attitude towards CSR, and values and propensity of members in local society (Husted & Allen, 2006), all of which comprise the demands of local stakeholders. Thus, CSR management and orientation need to be differentiated by each foreign market and the different demands of local stakeholders. Foreign entrants may gain local legitimacy and stakeholder recognition by modifying CSR structures and practices depending on their respective environment. Reimann, Ehrgott, Kaufmann, and Carter (2012) suggest that local legitimacy is essential to business survival and is obtained by following the rule and belief systems in local stakeholder groups. In this sense, institutional pressures are closely associated to stakeholder demands (Reimann et al., 2012; Tate, Ellram, & Kirchoff, 2010), and thus foreign entrants should attempt to proactively communicate with stakeholders so as to effectively implement CSR and be embedded in host countries.

To reiterate, firms are enclosed by and constantly interact with various players. In this interaction process, the players often influence corporate behavior and strategic design. Researchers usually consider these players as *stakeholders* (emphasis added) (Kakabadse, Rozuel, & Lee-Davis, 2005). Stakeholders may be defined as "groups and individuals who can affect, or are affected by, the achievement of an organization's mission" (Freeman, 1984, 54) or otherwise as "those groups who have a stake in or a claim on the firm" (Evan & Freeman, 1988, 97).

Stakeholder theory emphasizes that an organization's sustainability and survival rely extensively on the ability to generate wealth, value, or satisfaction for their stakeholder groups forming the connections between the aims and ambitions of the MNEs and the expectations of local society consisting of primary and secondary stakeholders (Kakabadse et al., 2005; Maon, Lindgreen, & Swaen, 2009). Stakeholder theory in particular sheds light on the role of the primary stakeholders by pointing out that the extent to which the firm realizes its mission in production and operation for its organizational survival is critically influenced by primary stakeholders including perhaps (a) consumers, (b) IJV managers and employees, (c) local government, (d) suppliers, and (e) investors, though not exclusively for shareholders (Maon et al.,