Unpacking the Institutional Complexity in Adoption of CSR Practices in Multinational Enterprises

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ABSTRACT Multinational enterprises (MNEs) operate in complex transnational organizational fields with multiple, diverse, and possibly conflicting institutional forces. This paper examines how such complex environments affect a firm’s adoption of Corporate Social Responsibility (CSR) practices. To capture the effect of transnational fields, we consider the institutional influences of all country environments to which the firm is linked through its portfolio of operations and propose that these effects will be weighted depending on their relative salience. We identify a set of factors that make certain pressures more salient than others, including firm’s economic dependence on a particular country, heterogeneity of institutional forces within the firm’s transnational field, exposure to leading countries with more stringent CSR templates, and intensity and commitment to particular economic linkages (i.e., foreign direct investment versus international trade). Our hypotheses are tested and supported in a study of 710 US MNEs from 2007 to 2011 with global ties to over 100 countries.

Keywords: corporate social responsibility, institutional theory, multinational enterprise, practice adoption, transnational organizational field

INTRODUCTION

The international business literature provides compelling evidence for the global diffusion of corporate social responsibility (CSR) practices (e.g., Bansal and Roth, 2000; Christmann and Taylor, 2001, 2006; Muller and Kolk, 2010) and the important role that multinational enterprises (MNEs) play in this process (e.g., Brammer et al., 2009; Strike et al., 2006). In particular, MNEs’ foreign direct investment (FDI) and international trade activities have been discussed as conduits for the cross-border spread of CSR (e.g., Husted and Allen, 2006; Lund-Thomsen and Nadvi, 2010). For example, Guler et al. (2002) found that firms are more likely to adopt international...
environmental standards in countries with higher levels of FDI, and Locke and Romis (2007) show that MNEs can help their foreign suppliers from developing countries become more socially responsible.

The phenomenon of cross-border transfer and diffusion of organizational practices has been of key interest to international management research as it captures one of the main competitive advantages of MNEs (Bartlett and Ghoshal, 2009). A starting point in this research is that organizational practices are embedded in, and therefore reflect, the institutional environments in which firms operate. Laws and regulations, social knowledge, and social norms exert isomorphic and legitimacy pressures on companies to adopt institutionalized structures, processes, and practices (Meyer and Rowan, 1977). Since institutions are for the most part country-specific, organizational practices including CSR tend to vary from country to country (Williams and Aguilera, 2008). This presents particular challenges to MNEs, which operate simultaneously in multiple institutional environments and may face different and even conflicting prescriptions on legitimate practices (Busenitz et al., 2000; Kostova, 1999; Kostova and Roth, 2002; Meyer et al., 2011). The question of how MNEs deal with such institutional multiplicity and complexity has generated a lot of research interest (Greenwood et al., 2006). For example, scholars have explored ‘dual embeddedness’ of MNE subunits and the way they balance host country requirements and parent company expectations (Kostova and Roth, 2002). Depending on the particular external and internal conditions, unit outcomes range from complete adoption and internalization, to ceremonial adoption of only the formal aspects of the practice, to minimal or no adoption at all (Kostova and Roth, 2002). MNE subunits may adopt practices that are less common in their host countries but are expected by the headquarters, or conversely, practices that are institutionalized in their host countries although not required by the parent organization (Surroca et al., 2013).

In this paper, we seek to contribute to the MNE research on practice adoption looking further into the ‘relationship between institutional complexity and organizational responses’ (Greenwood et al., 2006, p. 319), using the example of CSR. Institutional complexity refers to the multiplicity and heterogeneity of CSR institutional forces to which MNEs are exposed (Greenwood et al., 2006, p. 318). Specifically, we address the following questions: How do the multiple institutional environments in MNEs’ portfolio of operations affect the adoption of CSR? How do companies decide on their level of engagement with this practice given the varying templates they see across countries? Which country templates do they follow and why?

We build on several key ideas to develop our model. First, instead of limiting the discussion to duality of home and host country institutional pressures, we examine the aggregate impact of the multitude of transnational institutional forces to which MNEs are exposed through their international business activities. We suggest that these demands present themselves simultaneously and need to be evaluated in combination rather than in isolation. That is, MNEs need to consider at the same time the expectations of all relevant national institutional environments where their stakeholders including business partners, governments and communities, employees and shareholders, are situated. This approach allows a comprehensive examination of the set of institutional forces on MNEs and thus better captures the complexity of their cross-border activities. Second, the inherent multiplicity and heterogeneity of the
institutional environments in which MNEs are positioned (home and host country, industry, community, etc.) make across-the-board isomorphic conformity unfeasible and thus bring to the forefront the issue of active agency in evaluating and choosing whose expectations to prioritize (D'Aunno et al., 2000; Friedland and Alford, 1991; Greenwood et al., 2006; Kostova et al., 1999; Kraatz and Block, 2008). Key to handling such complexity is assessing the degree to which the different institutional environments of an MNE require, expect, and/or support CSR activities, and very importantly, their relative salience for the focal organization. Third, in explaining the mechanisms through which institutions affect CSR adoption, we recognize that a firm’s international exposure should be viewed not only as a source of pressures, but also as a source of opportunities for learning best practices and developing necessary capabilities. Thus, we discuss both the constraining and enabling effects of institutions across the multiple contexts of MNEs (Greenwood et al., 2006; Saka-Helmhout and Geppert, 2011). Building on these points, we propose that the institutional message to a firm to adopt CSR will be stronger when it comes from a source on which the company is heavily dependent, when it is consistent across multiple sources, when it comes from countries with higher CSR standards and reputation, and when the company is more intensely linked to the particular host country through FDI rather than merely trade.

The model is tested with a specifically constructed database on 710 publicly listed US MNEs between 2007 and 2011 that includes firm level data on all international trade and FDI relationships, financial performance, and level of CSR adoption, as well as CSR institutional indicators of the countries where these firms operate. To capture the totality of institutional influences on a given firm, we develop a composite index measuring the overall favourability and salience of the CSR institutional pressures on the MNE generated through trade and FDI across all relevant countries. The empirical results support our hypotheses and show robustness across a number of additional tests. We conclude by discussing the theoretical implications of our findings and possible directions for future research in this area.

THEORETICAL BACKGROUND

Global Diffusion of CSR

CSR practices are organizational routines aimed at creating social value by reducing the negative externalities or creating positive ones (Sethi, 1990). For example, toxic releases that damage the health of a community create negative externalities while economic development that reduces crime in an inner city neighbourhood is a positive externality. Common CSR practices include pollution prevention, recycling, charitable giving, community engagement, promotion of women and minorities in organizations, and fair treatment of unionized workforce (KLD Research and Analytics, 2008).

There is a growing body of research that examines the institutional determinants of CSR global diffusion (e.g., Campbell, 2007; Doh and Guay, 2006; Maignan and Ralston, 2002; Matten and Moon, 2008; Williams and Aguilera, 2008; for a recent review, see Aguinis and Glavas, 2012). This work shows that countries’ institutional environments including related regulations, societal knowledge, and social norms can
influence firms’ adoption of CSR practices (Campbell, 2007; Maignan and Ralston, 2002; Matten and Moon, 2008; Williams and Aguilera, 2008); that over time CSR can become ‘taken-for-granted’, that is, institutionalized (Matten and Moon, 2008); and that MNEs play a role in its global diffusion by exerting adoption pressuring on local organizations in less supportive countries (Guler et al., 2002). Research also shows that there are different motives for CSR adoption by MNEs, for example to achieve legitimacy with their global stakeholders or to be consistent with their own corporate values (Bansal and Roth, 2000; Maignan and McAlister, 2003). Firms can also be driven by a profit motive if CSR adoption helps to avoid negative publicity and potential consumer boycotts or to increase differentiation and reputation by appealing to socially-conscious consumers (Bansal and Roth, 2000). McKinsey (2013) noted that stakeholders are increasingly holding MNEs responsible for the CSR activities of their global business partners.

Much of this work recognizes the importance of institutional environments and MNE actions for the global diffusion of CSR. However, our understanding of these effects is still somewhat limited, as research has typically tried to simplify the picture by isolating only certain institutional forces, for example CSR-related regulations in a single country. We aim at expanding this research by examining the impact on CSR adoption of MNEs’ organizational fields that span wider transnational contexts.

Organizational fields are ‘those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services and products’ (DiMaggio and Powell, 1983, p. 148). Fields are dynamic as they undergo structuration in an attempt to assimilate diverse organizational forms (Giddens, 1979) and they vary in terms of their practice-specific favourability (D’Aunno et al., 2000; Hoffman, 1999; Kostova, 1997; Scott, 2008). Favourable fields have regulations, norms, and cognitions that support certain practices (DiMaggio and Powell, 1983; Kostova and Roth, 2002). Violations of these rules, norms, or beliefs are sanctioned by the legitimating actors and can damage an organization’s legitimacy and survival (Scott, 2008). More recently, institutional research has begun to explore the nature, sources, and consequences of institutional complexity of organizational fields (for a review, see Greenwood et al., 2006; Kraatz and Block, 2008). Complexity exists when organizations are confronted with heterogeneous institutional prescriptions (Greenwood et al., 2006) whereby ‘their external environments consist of influential but diverse regulations, norms and cognitive models’ (D’Aunno et al., 2000, p. 682). Scholars have studied the sources of institutional complexity and the mechanisms by which it is preserved (e.g., Purdy and Gray, 2009) as well as its impact on a firm’s behaviour (e.g., Kraatz and Block, 2008; Oliver, 1991). An important insight from this research is that overlapping and/or competing institutional demands create agency opportunities for organizational actors (Greenwood and Hinings, 1996; Pache and Santos, 2010).

Transnational Organizational Fields and CSR Adoption

We build on this work to examine the impact of institutional complexity on CSR adoption in MNEs. We are specifically interested in the effects of CSR-related
institutional forces in MNEs' transnational organizational fields. Organizations that operate across fields are less institutionally embedded in any single context (Kostova et al., 2008) and more exposed to ‘inter-institutional compatibilities’ which increases their ‘awareness of alternatives’ (Greenwood and Suddaby, 2006, p. 38). These conditions are common for MNEs whose organizational fields consist of business partners and various other stakeholders located in multiple countries. As a result, MNEs' organizational fields present multiple, fragmented, diverse, and conflicting institutional demands (Kostova et al., 2008). Combined with geographic, cultural, and language barriers, such conditions may prevent the formation of cohesive and shared patterns among the organizations in the MNE field and result in an inability of the organization to conform to all institutional expectations in its transnational business environment (Kostova et al., 2008).

Not all institutional forces in MNEs’ organizational fields have the same impact. Some are more salient than others depending on their relative importance for the company. Based on prior research (Oliver, 1991; Palmer et al., 1993; Schneiberg and Clemens, 2006; Wry et al., 2013), we propose considering the relative economic dependence of the focal organization on the various national institutional environments it faces. Greater economic dependence on certain countries will motivate MNEs to prioritize those countries and adopt behaviours perceived as legitimate there (Oliver, 1991). As Greenwood et al. (2011, p. 342) suggest, ‘the receptivity of organizational members to a given logic is affected by the thickness of ties ... linking them to the field-level institutional infrastructure.’ For example, if the bulk of an MNE’s global operations are with Germany, achieving legitimacy with the German constituents will be of primary concern, and will likely lead to adoption of German institutional templates. Indeed, while MNEs’ foreign subunits depend on the parent company for ‘major resources, including technology, capital, and expertise’ (Kostova and Roth, 2002, p. 218), headquarters also depend on their subsidiaries (and indirectly on the host countries), which often control critical resources that cannot be simply appropriated away (Ghoshal and Nohria, 1989, p. 325). More intensive trade- and FDI-based economic activities in a specific host country deepen the firm’s ties to the local institutional context (Oliver, 1991).

Our theorizing on the impact of transnational organizational fields on CSR adoption also draws from the notion of ‘strategic action field’ (Fligstein and McAdam, 2011). While the two concepts are slightly different, they share a focus on institutional multiplicity and complexity emphasizing dynamic interaction between the multiple actors in the field, as well as the associated processes of sensemaking, prioritization, and strategic response to complex institutional forces. We use Fligstein and McAdam’s (2011) ideas on strategic action as discovering, articulating, and propagating cultural frames (Giddens, 1979), and exercising control in a given context (Padgett and Ansell, 1993) by creating ‘identities, political coalitions, and interests’ (Fligstein and McAdam, 2011, p. 7).

HYPOTHESES DEVELOPMENT

Our model explains the combined effects on CSR adoption of the diverse institutional contexts that make up the MNE’s transnational organizational field. We consider
several aspects of these environments broadly capturing their support for CSR and their relative salience for the focal firm: CSR favourability of the firm’s host countries, the firm’s economic dependence on different host countries, heterogeneity of the field’s institutional forces, exposure to countries with more stringent CSR requirements; and type of economic relationships in which the MNE is involved. Figure 1 summarizes our hypotheses.

Strength of CSR Transnational Institutional Forces

MNEs’ relationships with their subsidiaries and trade partners worldwide are conduits for CSR institutional influences from multiple countries. They are the channels for passing relevant knowledge to the headquarters (Andersson et al., 2001, 2002) and from the headquarters to the trading partners and subsidiaries (Tallman and Chacar, 2011). Cross-border practice diffusion is easier within the boundaries of the firm – that is, between headquarters and foreign subsidiaries – than in the open market, due to shared organizational culture and language, virtual and/or physical proximity between subsidiaries and headquarters, interactions among employees, and opportunities for shared enterprise (Tallman and Chacar, 2011).

Transnational organizational fields expose MNEs to multiple and diverse national templates of CSR (D’Aunno et al., 2000; Maignan and Ralston, 2002; Matten and Moon, 2008). The institutional environments in some host countries are more favourable with regard to CSR in that they ‘contribute in a positive way to the adoption of a practice through regulations, laws, and rules supporting and/or requiring the practice; cognitive structures that help people understand and interpret the practice correctly; and social norms enforcing the practice’ (Kostova and Roth, 2002, p. 218). Favourable countries are likely to have, for example, laws and regulations that ensure strong employment and environmental protections, many firms adopting environmental certification such as ISO 14001, and strong norms promoting ethical business
conduct, equal employment opportunities for women and minorities, and transparency of business transactions.

Within the MNE’s transnational field, however, not all countries’ institutional influences will be equally weighted. Relationships of greater economic importance for the organization will be more salient. This is consistent with institutional studies that have found that relational ties are effective conduits for diffusion of practices and ideas (Owen-Smith and Powell, 2008) and organizations’ relational networks have ‘explosive organizational potential’ to greatly increase both the spread and number of rationalized myths (Meyer and Rowan, 1977). As Wry et al. (2013) state, ‘legitimacy is only important to the extent that the assessing party has influence over the organization being assessed’ (p. 472). This is also consistent with Fligstein and McAdam’s (2011) discussion on the importance of political influences in strategic action fields.

Therefore, we define the overall strength of CSR institutional influences as the weighted average of the CSR-related institutional favourabilities of all the countries where the MNE operates, weighted by the degree of the firm’s economic dependence on the countries from which these forces originate. Strong CSR transnational fields are characterized by business partners and subsidiaries that are based in more CSR-favourable countries and are thus pressed into higher compliance by national laws, norms, and shared beliefs. Such partners are in turn more likely to channel these pressures onto the focal MNE, especially as their economic exchanges become more intense and critical for the MNE. Stronger institutional arrangements in their transnational fields provide MNEs with a better understanding of the possible benefits and challenges associated with CSR adoption. They also help focus organizational leaders’ attention on CSR issues and stimulate the emergence of an organizational climate favouring implementation and appreciation of CSR initiatives (Andersson and Batemen, 1998). Therefore:

Hypothesis 1: An MNE’s CSR adoption is positively related to the overall strength of the CSR institutional forces in its transnational organizational field.

Heterogeneity of CSR Transnational Institutional Forces

The overall strength of CSR institutional forces reflects the general field-level favourability of CSR within the MNE’s transnational context, but does not account for the internal heterogeneity of these pressures. The same level of overall institutional strength can result from two very different scenarios – a homogeneous one where all countries to which the firm is exposed have similar levels of CSR favourability, or a heterogeneous case where some countries are very high and others are very low in this regard. We predict different effects on the firm’s adoption based on these different scenarios. Greater heterogeneity implies less convergence about the importance of CSR across the various constituents that make up the MNE’s field (D’Aunno et al., 2000). This may increase the ambiguity in interpreting the importance of CSR practices for the firm (Jarzabkowski et al., 2013). In addition, it implies that legitimate CSR behaviours in one context might not be necessary or effective in others. Thus, we argue that institutional heterogeneity within the transnational organizational field
of an MNE will weaken the institutional pressures on a firm’s CSR adoption. Conversely, when a firm’s field is consistently supportive (or non-supportive) of CSR and there is little variation in the CSR institutional messages coming from different constituents, the firm is more likely to follow the pattern and to adopt (or not adopt) these practices because of the clear legitimacy enhancing incentives. In other words, homogeneity will further strengthen the institutional pressures to adopt because of the consistent cues that the firm receives from multiple institutional contexts that make up its field. To summarize:

**Hypothesis 2a**: Heterogeneity of CSR institutional forces in a firm’s transnational organizational field negatively moderates the relationship between strength of CSR institutional forces and MNE’s CSR adoption.

While heterogeneity complicates the institutional message to the firm, it might provide better opportunities for learning about CSR. Exposure to diverse institutional templates implies that the firm will not be able to conform to all of them (Kostova et al., 2008) and thus will be less likely to take any particular institutional arrangement for granted (e.g., Battilana et al., 2009; Greenwood and Suddaby, 2011). When facing institutional multiplicity and diversity, MNE managers will engage in more sensemaking activities and will search for creative solutions that are better suited to satisfy diverse and potentially conflicting expectations (Seo and Creed, 2002). As Greenwood et al. (2011) argued, complexity-induced reflexivity ‘may remove an organization from the imperative force of logics – “seeing” the contradictions between institutional prescriptions, paradoxically, may liberate an organization’ (p. 352). As a result, institutional heterogeneity may lead managers to develop a better understanding of CSR than they would otherwise (Cohen and Levinthal, 1989; Levitt and March, 1988). This is even more likely when the overall strength of CSR institutional forces is low, because weaker isomorphic pressures imply that the firm’s decision making is likely to be more ‘agentic’ in nature – involving an active evaluation of potential benefits of various courses of action. Thus, we argue:

**Hypothesis 2b**: When the overall strength of CSR institutional forces in a firm’s transnational organizational field is low, the heterogeneity of CSR institutional forces positively affects MNE’s CSR adoption.

**Exposure to Countries with More Stringent CSR Requirements**

In addition to the overall institutional influences of an MNE’s transnational organizational field, salient messages to adopt CSR can emerge from singular countries to which the firm is exposed. An organization’s responses to institutional complexity are affected by its social references’ degree of influence (Greenwood et al., 2006; Zald and Lounsbury, 2010). In particular, MNEs are likely to be disproportionately influenced by business partners in countries with more stringent and reputable CSR traditions than in their home countries. Such relationships can expose MNEs to ‘best
practices’ and progressive CSR related institutional logics (Greenwood and Hinings, 1996) and make managers more susceptible to mimic such partners (Sanders and Tuschke, 2007). We expect that countries with weaker requirements for CSR than the focal firm’s home country would not exert a similar (albeit opposite) influence. MNEs cannot easily ‘race to the bottom’ when operating in weaker CSR countries, because this may lead to loss of global legitimacy due to negative spillover effects (Kostova and Zaheer, 1999). Furthermore, this would imply relinquishing the advantages of standardizing CSR practices across geographic locations (Madsen, 2009). For example, MNEs in polluting industries tend to ‘standardize their environmental policies and standards globally at a level that meets or exceeds the strictest environmental standards they face rather than attempting to match the environmental performance of each subsidiary to the demands of environmental institutions in the country in which it operates’ (Madsen, 2009, p. 1300; see also Christmann, 2004; Dowell et al., 2000; Garcia-Johnson, 2000). In sum, firms’ exposure to countries with more stringent CSR requirements than those of the home country provides additional motivation to adopt CSR (beyond the strength of the overall transnational field), as they aspire to emulate successful firms that embody more advanced understandings in this area. Based on these arguments, we propose:

Hypothesis 3: MNEs’ exposure to countries with more stringent CSR requirements than those of their home countries positively affects their CSR adoption.

Types of Economic Relationships: FDI Versus Trade

The nature of an organization’s economic dependence on specific host countries may also influence its perception of the salience of CSR institutional forces. In particular, we argue that trade-based and FDI-based economic ties involve different intensities of economic dependence, and consequently, have different capacities to channel pressures from MNEs’ transnational institutional environments (Dau, 2013). While both forms of cross-border business activity expose the firm to foreign institutional environments, FDI-based ties are more salient than trade-based ties, and thus are likely to be more effective conduits for institutional pressures. FDI-based relationships to foreign subsidiaries are stronger because they involve formal authority and dependence, transfer of capital, managerial expertise, shared organizational values, and a long-term interest in the company assets in the host country. Such commitments also involve a lasting interest in the host country itself (Bandelj, 2002). Furthermore, the presence of subsidiaries implies a greater embeddedness of firms in the host country environment, which subjects them to stronger local institutional pressures. All of this increases the salience of the host country institutional influences including those on the firm’s CSR adoption. Trade-based ties are more impersonal, involve shifting relationships (Uzzi, 1996), and are less effective knowledge transfer channels than FDI-based relationships (Kogut and Zander, 1992). Thus we expect that the relationship between the overall strength (Hypothesis 1) and heterogeneity (Hypotheses 2a–b) of CSR institutional forces and MNE’s ties to more stringent institutional environments (Hypothesis 3), on
the one hand, and CSR adoption, on the other hand, will be further enhanced for FDI-based (versus trade-based) activities. Therefore we propose:

**Hypothesis 4a**: The effect of CSR institutional strength on MNE’s CSR adoption is greater for FDI-based than for trade-based economic ties.

**Hypothesis 4b**: The moderating effect of heterogeneity of CSR institutional forces on the relationship between strength of CSR institutional forces and CSR adoption is greater for FDI-based than for trade-based economic ties.

**Hypothesis 4c**: When the strength of CSR institutional forces is low, the positive relationship between heterogeneity of CSR institutional forces and CSR adoption is greater for FDI-based than for trade-based economic ties.

**Hypothesis 4d**: The positive effect of exposure to countries with more stringent CSR requirements on CSR adoption is greater for FDI-based than for trade-based economic ties.

**METHODOLOGY**

We conducted the study on publicly traded US MNEs listed on the Russell 3000 index with matching data from the Kinder, Lydenberg and Domani (KLD), Port Import Export Report Service (PIERS), Corporate Affiliations, and Compustat databases. These firms are appropriate to study because they have extensive global trade and FDI ties and their adoption of social and environmental practices has been tracked for a number of years. Our sampling history is from 2007 to 2011 because of data availability from the PIERS and KLD databases. After matching these databases, our sample included 710 firms operating in up to 110 countries, with an average of 15 host countries.

**Measures**

**Dependent Variable.** We measured a firm’s **CSR Adoption** as the number of practices with positive or negative social and environmental impacts that are adopted by the firm in a given year. To this end, we relied on ratings from the KLD database. Launched in 1991, KLD provides the most comprehensive multidimensional data of firm-level CSR ratings and is widely used by academics and investors (e.g., Berman et al., 1999; Waddock and Graves, 1997). KLD rates firms’ **CSR Adoption** across seven areas: community relations, diversity, corporate governance, employee relations, environment, human rights, and product quality and safety. Each category is subcategorized into ‘strengths’, measuring whether a firm has adopted practices that create positive externalities, and ‘concerns’, assessing whether the firm has adopted practices with negative externalities (Tashman and Rivera, 2010). KLD strengths ratings receive a score of 1 or 0. A score of 1 indicates the presence of a strength, while 0 indicates its absence. KLD concerns ratings also receive a score of 1 or 0. Here a score of 1 indicates the presence of a concern, while a score of 0 indicates its absence. KLD’s ratings are
developed from data from company reports, research partners’ reports, articles ranking companies on particular issues (e.g., Working Mother Magazine’s ‘100 Best Companies to Work For’), and public documents such as Securities and Exchange Commission filings.

We follow the convention established by Waddock and Graves (1997) and measure CSR Adoption as a summative index of each KLD strength and weakness category. Specifically, we summed together strengths and concerns for each of the seven KLD categories into two summary measures. We then reverse-coded the summed concerns measure since the presence of concerns implies lower CSR Adoption. Finally, we added the strengths and concerns scores to form a single index. We measured CSR Adoption as a summative index because it is a formative construct, which implied that it must be measured as a composite of its indicator variables, as opposed to a latent construct that predicts its respective indicators (Strike et al., 2006). Finally, we standardized the index within each year to z-scores as the number of KLD indicators in each category changed from time to time over the sampling period (Mattingly and Berman, 2006).

Independent variables. To capture a focal firm’s economic dependence on the countries comprising its transnational organizational field, we relied on firm-level exports and imports data from PIERS database, and firm-level FDI data from Corporate Affiliations database. PIERS is one of the most accurate and comprehensive databases available of US firms’ exports and imports (Peng et al., 2006). It collects and verifies data from US Customs. The Corporate Affiliations database contains historical sales and employment data of firms’ parent companies and domestic and foreign subsidiaries. Similar to Peng and Beamish (2008), we measured the favourability and heterogeneity of CSR institutional forces using the Responsible Competitiveness Index (RCI).

More specifically, we measured Strength of CSR Institutional Forces as a composite index of both the institutional favourability of all countries in a firm’s transnational field and the relative economic dependence of the firm on each country. The index was constructed as a weighted average of RCI for the countries in a focal firm’s transnational organizational field by the firm’s degree of economic dependence on these countries. RCI measures a country’s institutional quality based on 21 indicators grouped in seven categories: ethical business practices, corporate governance structures, progressive policy formulation, building human capital, engagement with civil society, contribution to public finance, and environmental management. These indicators are developed by the Institute of Social and Ethical Accountability based on data from Amnesty International, International Organization for Standardization, International Labour Organization, Transparency International, World Economic Forum, and World Bank (for details, see Zadek and McGillivray, 2007). RCI has been used as a measure of CSR Institutional Quality in prior studies (e.g., Herciu and Ogren, 2008; Luetkenhorst, 2004; Peng and Beamish, 2008) and has been viewed as a ‘comprehensive proxy for the overall institutional environment in a host country because of its broad coverage of a country’s institutions’ (Peng and Beamish, 2008, p. 682). Ideally, we would have measured CSR institutional quality in each year. However,
since RCI data are only available for 2007, we used the 2007 scores for the entire time period covered by our independent variables (2007–10). As argued before (Peng and Beamish, 2008), this approach should be appropriate because institutions are relatively stable and change slowly (North, 1993). This measure was also standardized.[3]

MNE’s economic Dependence on a particular country was measured as the value of its trade and FDI activities in that country (Thomas and Eden, 2004). We based our operationalization on Sullivan’s (1994) measure of internationalization as the sum of four ratios: (1) country-specific yearly exports to total yearly exports; (2) country-specific yearly imports to total yearly imports; (3) number of employees per country per year to the total number of employees per year; and (4) number of subsidiaries per country per year to the total number of subsidiaries per year. The resulting index has values between 0 and 4. Given the formative nature of this index, we followed the same approach to ensuring construct validity and reliability as for CSR Adoption.[4]

Heterogeneity of CSR Institutional Forces was measured as the variance of Strength of CSR Institutional Forces within a firm’s transnational field in a given year using the same components as in Strength of CSR Institutional Forces (i.e., country RCI and MNE’s economic Dependence). Exposure to Countries with More Stringent CSR Requirements is operationalized as a dummy variable, taking the value of 1 if the focal firm operates in at least one country with a better RCI score than that of its home country, and 0 otherwise.

We measured FDI-based Strength of CSR Institutional Forces as the weighted average of CSR institutional favourability of the countries where the firm engages in FDI and the intensity of the focal firm’s FDI activities in those countries. We measured the intensity of the firm’s local FDI activities as the sum of two of the four ratios listed above: (1) number of employees per country per year to the total number of employees per year; and (2) number of subsidiaries per country per year to the total number of subsidiaries per year. FDI-based Heterogeneity of CSR Institutional Forces was measured as the variance of Strength of CSR Institutional Forces across the countries where the firm engages in FDI in a given year. We measured FDI-based Exposure to Countries with More Stringent CSR Requirements as a dummy variable, taking the value of 1 if the focal firm has FDI in at least one country with a better RCI score than that of its home country, and 0 otherwise.

Trade-based Strength of CSR Institutional Forces is measured as the weighted average of CSR Institutional Quality of countries where the firm has trade ties and the MNE’s degree of Dependence on import/export-based economic ties in those countries. Trade-based economic Dependence is measured as the sum of two ratios: (1) country-specific yearly exports to total yearly exports; and (2) country-specific yearly imports to total yearly imports. Trade-based Heterogeneity of CSR Institutional Forces is measured as the variance of Trade-based Strength of CSR Institutional Forces in a given year. Trade-based Exposure to Countries with More Stringent CSR Requirements is also measured as a dummy variable, taking the value of 1 if the focal firm has trade partners in at least one country with a better RCI score than that of its home country, and 0 otherwise.

Control variables. We controlled for firm Size, which may positively impact corporate social performance, as larger companies are more likely to invest in CSR initiatives because of the greater public scrutiny over their behaviour (Christmann and Taylor,
2001). Size is operationalized as the log of firm sales. We controlled for Profitability since firms with superior financial performance may have greater resources for CSR practices (McWilliams and Siegel, 2000). Profitability is measured as the return on assets (ROA). Following McWilliams and Siegel (2000), we also controlled for Research and Development (R&D) Intensity, which can influence CSR adoption. R&D intensity was measured as the ratio of R&D expenditures to sales. Given the high number of missing values for this variable, we followed previous studies (e.g., Strike et al., 2006) using industry averages as a proxy for missing observations. We also controlled for Capital Intensity (Russo and Fouts, 1997), measured as the ratio of assets to sales, and Leverage as the ratio of debt to sales (Tashman and Rivera, 2010). Finally, we controlled for Industry effects by classifying each firm by its two-digit NAICS (e.g., Waddock and Graves, 1997). We coded each firm into six industry sectors using five dummy variables – Consumer Goods, Energy and Extractive, Food and Agriculture, Professional and Information Services, Manufacturing, and Pharmaceutical and Biotechnology. Pharmaceutical and Biotechnology is the reference sector. All controls were standardized to ensure comparability of statistical results.

Analysis and Results

To test our hypotheses, we used the analytical technique developed by Hull and Rothenberg (2008) in their study of CSR adoption and corporate performance. Specifically, we first calculated the averages for all independent and control variables over the four-year period 2007–10 and analysed their impact on the dependent variable in 2011 using ordinary least squares (OLS) regression. This approach reduces noise in the data and is consistent with the likely longer-term nature of institutional effects. Other empirical studies of institutional effects have relied on a similar approach (e.g., Holburn and Zellner, 2010). Significant Breusch–Pagen \( \chi^2 \) tests in each model indicated the presence of heteroscedasticity. We therefore specified Huber–White standard errors for each model.

Tables I and II present the descriptive statistics and correlations for all nondichotomous variables. Correlations are generally low, with the exception of the correlation between Trade-based Heterogeneity of CSR Institutional Forces and Trade-based Strength of CSR Institutional Forces \( (\rho = 0.76; p < 0.01) \). Multicollinearity is not a concern as variance inflation factors (VIFs) are considerably lower than the recommended cut-off value of 10 (Kutner et al., 2004, p. 409). The mean VIFs for Models 7 and 8 in Table IV are 1.85 and 2.28, respectively.

Table III presents the results for Hypotheses 1–3. Models 1 and 2 in Table III present the results for Hypothesis 1, which predicts that Strength of CSR Institutional Forces is positively related to CSR Adoption. The coefficient on Strength of CSR Institutional Forces is positive and significant in models 1 \( (\beta = 0.08; p < 0.05) \) and 2 \( (\beta = 0.15; p < 0.01) \), supporting the hypothesis. Models 2–4 in Table III show the tests for Hypotheses 2a, which predicts that Heterogeneity of CSR Institutional Forces negatively moderates the relationship between Strength of CSR Institutional Forces and CSR Adoption. In model 2, the coefficient on the interaction of Strength of CSR Institutional Forces and Heterogeneity of CSR Institutional Forces is negative and significant \( (\beta = -0.30; p < 0.01) \),
showing support for the hypothesis. Models 3 and 4 also support the hypothesis. Model 3 tests whether Strength of CSR Institutional Forces becomes greater at low levels (one standard deviation below the mean) of Heterogeneity of CSR Institutional Forces, which was confirmed ($\beta = 0.26; p < 0.01$). Model 4 tests whether Strength of CSR Institutional Forces becomes weaker at high levels (one standard deviation above the mean) of Heterogeneity of CSR Institutional Forces, which was also confirmed ($\beta = 0.05; \text{n.s.}$). Figure 2 illustrates the relationship between Strength of CSR Institutional Forces and CSR Adoption at low and high levels of Heterogeneity of CSR Institutional Forces (Aiken and West, 1991).

Hypothesis 2b predicts that the relationship between Heterogeneity of CSR Institutional Forces and MNE’s CSR Adoption becomes stronger at lower levels of Strength of CSR Institutional Forces. To test the hypothesis, we compared the relationship between Heterogeneity of CSR Institutional Forces and CSR Adoption at low (one standard deviation below the mean) and high (one standard deviation above the mean) levels of Strength of CSR Institutional Forces. Model 5 holds Strength of CSR Institutional Forces at low levels, while model 6 holds Strength of CSR Institutional Forces at high levels. Results support the hypothesis because the coefficient on Heterogeneity of CSR Institutional Forces in model 5 ($\beta = 0.65; p < 0.01$) is greater than the corresponding coefficient in model 6 ($\beta = 0.07; \text{n.s.}$). Figure 3 illustrates these results.

Models 1 and 2 in Table III also test Hypothesis 3, which predicts that Exposure to Countries with More Stringent CSR Institutional Requirements is positively related to CSR Adoption. The coefficients on Exposure to Countries with More Stringent CSR Institutional Requirements in Models 1 ($\beta = 0.18; p < 0.05$) and 2 ($\beta = 0.19; p < 0.01$) is positive and significant, providing support for the hypothesis.

Table IV presents the results for Hypotheses 4a–d. Models 7 and 8 test Hypothesis 4a, which predicts that the effect of Strength of CSR Institutional Forces on MNE’s CSR Adoption is greater for FDI-based economic ties than for trade-based economic ties. These results support the hypothesis as the positive effect on CSR Adoption of FDI-based

Table I. Descriptive statistics

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*a Log transformed variable; *p < 0.10; **p < 0.05; ***p < 0.01.
Table II. Correlations

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\(^a\) Log transformed variable.

\(*p < 0.10; **p < 0.05; ***p < 0.01.\)
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*aLog transformed variable.
*p < 0.10; **p < 0.05; ***p < 0.01.
### Table IV. OLS regression with Huber–White estimators on the CSR adoption (Hypotheses 4a–d)

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<td>0.58 ***</td>
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<td>FDI-based Exposure to Countries with More Stringent CSR Requirements</td>
<td>0.25 ***</td>
<td>0.09</td>
<td>0.21 **</td>
<td>0.09</td>
<td>0.21 **</td>
<td>0.09</td>
<td>0.21 **</td>
<td>0.09</td>
<td>0.21 **</td>
<td>0.09</td>
<td>0.21 **</td>
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<tr>
<td>Trade-based Strength of CSR Inst. Forces</td>
<td>0.01</td>
<td>0.04</td>
<td>0.02</td>
<td>0.06</td>
<td>0.02</td>
<td>0.06</td>
<td>0.02</td>
<td>0.06</td>
<td>0.02</td>
<td>0.06</td>
<td>0.02</td>
<td>0.06</td>
</tr>
<tr>
<td>Trade-based Heterogeneity of CSR Inst. Forces</td>
<td>0.25 **</td>
<td>0.11</td>
<td>0.26 **</td>
<td>0.12</td>
<td>0.26 **</td>
<td>0.12</td>
<td>0.26 **</td>
<td>0.12</td>
<td>0.26 **</td>
<td>0.12</td>
<td>0.26 **</td>
<td>0.12</td>
</tr>
<tr>
<td>Trade-based Strength of CSR Inst. Forces *</td>
<td>−0.04</td>
<td>0.12</td>
<td>−0.04</td>
<td>0.12</td>
<td>−0.04</td>
<td>0.12</td>
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<td>−0.04</td>
<td>0.12</td>
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<td>0.12</td>
</tr>
<tr>
<td>Trade-based Heterogeneity of CSR Inst. Forces</td>
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<td>0.08</td>
<td>0.09</td>
<td>0.08</td>
<td>0.09</td>
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<tr>
<td>Observations</td>
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</tr>
<tr>
<td>R²</td>
<td>37.30%</td>
<td></td>
<td>37.89%</td>
<td></td>
<td>37.89%</td>
<td></td>
<td>37.89%</td>
<td></td>
<td>37.89%</td>
<td></td>
<td>37.89%</td>
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</tr>
<tr>
<td>Root MSE</td>
<td>0.82</td>
<td></td>
<td>0.82</td>
<td></td>
<td>0.82</td>
<td></td>
<td>0.82</td>
<td></td>
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<td></td>
<td>0.82</td>
<td></td>
</tr>
</tbody>
</table>

*a Log transformed variable.

*p < 0.10; **p < 0.05; ***p < 0.01.
Strength of CSR Institutional Forces (model 7: $\beta = 0.17$; $p < 0.05$; model 8: $\beta = 0.24$; $p < 0.01$) is greater than the effect of Trade-based Strength of CSR Institutional Forces (model 7: $\beta = 0.01$; n.s.; model 8: $\beta = 0.02$; n.s.).

Models 8, 9, and 10 test Hypothesis 4b, which predicts that the moderating effect of Heterogeneity of CSR Institutional Forces on the relationship between Strength of CSR Institutional Forces and CSR Adoption is more negative for FDI-based than trade-based economic ties. Results in model 8 provide initial support for the hypothesis as the coefficient of the interaction of FDI-based Strength of CSR Institutional Forces and FDI-based Heterogeneity of CSR Institutional Forces is more negative and significant ($\beta = -1.01$; $p < 0.01$) than the coefficient of the interaction of Trade-based Strength and Trade-based Heterogeneity ($\beta = -0.04$; n.s.). Models 9 and 10 provide additional support for the hypothesis by confirming that the relationship between FDI-based Strength of CSR Institutional Forces and CSR Adoption becomes stronger as Heterogeneity of CSR Institutional Forces decreases. In model 9, which holds Heterogeneity of CSR Institutional Forces at low levels (one standard deviation below the mean), the coefficient of FDI-based Strength of CSR Institutional Forces becomes more positive ($\beta = 1.25$; $p < 0.01$ versus $\beta = 0.24$; $p < 0.01$ in model 8). In model 10, which holds Heterogeneity of CSR Institutional Forces at high levels (one standard deviation above the mean), the coefficient on FDI-based Strength of CSR Institutional Forces becomes more negative ($\beta = -0.76$; $p < 0.01$ versus $\beta = 0.24$; $p < 0.01$ in model 8).

Models 8, 11 and 12 test Hypothesis 4c, which predicts that, as the Strength of CSR Institutional Forces decreases, the positive relationship between Heterogeneity of CSR Institutional Forces and CSR Adoption is stronger for FDI-based economic ties than for trade-based economic ties. Model 8 provides initial support for the hypothesis as the coefficient of the interaction of FDI-based Strength and FDI-based Heterogeneity is negative and significant ($\beta = -1.01$; $p < 0.01$) while the coefficient of the interaction of Trade-based Strength and Trade-based Heterogeneity is insignificant. Models 11 and 12 provide additional evidence that the relationship between FDI-based Heterogeneity and CSR Adoption...
becomes stronger as FDI-based Strength weakens. In model 11, which holds Strength of CSR Institutional Forces at low levels (one standard deviation below the mean), the coefficient on FDI-based Heterogeneity of CSR Institutional Forces becomes more positive ($\beta = 2.07; p < 0.01$ versus $\beta = 1.06; p < 0.01$ in model 8). In model 12, which holds Strength of CSR Institutional Forces at high levels (one standard deviation above the mean), the coefficient on FDI-based Heterogeneity of CSR Institutional Forces becomes less positive ($\beta = 0.06; \text{n.s.} \text{ versus} \beta = 1.06; p < 0.01$ in model 8). Plots of the interactions for Hypotheses 4b and 4c are available from the authors upon request.

Models 7 and 8 in Table IV also test Hypothesis 4d, which predicts that the positive effect of Exposure to Countries with More Stringent CSR Requirements on CSR Adoption is greater for FDI-based than for trade-based economic ties. Results support the hypothesis as the coefficient of FDI-based Exposure to Countries with More Stringent CSR Requirements (model 7: $\beta = 0.25; p < 0.01$; model 8: $\beta = 0.21; p < 0.05$) is positive and significant while the coefficient of Trade-based Exposure to Countries with More Stringent CSR Requirements (model 7: $\beta = 0.08; \text{n.s.}$; model 8: $\beta = 0.09; \text{n.s.}$) is insignificant.

Finally, we perform two sets of robustness checks. First, we rely on the same analytical approach discussed above, but use an alternative specification of the dependent variable – measured, following Strike et al. (2006), as the sum of all strength components of each KLD category. Second, we rely on an alternative model specification – panel-corrected standard error regression (PCSE) with panel-specific corrections for autocorrelation and heteroscedasticity. All independent variables and controls in PCSE analyses are standardized so that the coefficients of all continuous variables in the model are comparable. In addition, to mitigate the potential for reverse-causality, we lag all independent and control variables by one year. The results of all robustness tests confirmed previous findings and are available from the authors upon request.

**DISCUSSION**

This paper presents a novel examination of how institutional complexity influences CSR adoption in MNEs. It adds to previous work by considering the overall institutional pressures on MNEs coming from their transnational organizational fields. The field point of view highlights the importance of taking a more comprehensive and sophisticated approach to studying institutional influences on MNEs, where the overall effect on the company is determined not only by the favourability of all national institutional environments to which the MNE is exposed, but also by the relative salience of these host countries’ institutional influences.

Our study seeks to contribute to the international business, organizational institutionalism, and CSR literatures. It provides a more comprehensive examination of the nature and consequences of MNEs’ embeddedness in multiple and diverse institutional environments (Djelic and Quack, 2008; Meyer et al., 1977), bringing additional nuances and depth to studying the mechanisms through which transnational fields influence MNEs’ decisions and actions (Greenwood et al., 2006). Specifically, we explain why not all institutional pressures are the same but some are more salient for the firm than others. Pressures are more consequential when they come from countries that lead in the CSR area or from more homogeneous fields where most
member countries have similar attitudes towards CSR, and thus the institutional message regarding CSR adoption is more consistent. In addition, pressures are more influential when they originate in countries on which the company is economically dependent or where the company is more embedded due to FDI rather than simply trade linkages. These results are consistent with and add to prior institutional and international business work on practice adoption. For example, the findings that institutional forces are ‘weighed’ by their economic salience for the firm, and that FDI is more effective compared to trade for practice transfer, add to prior discussions on ‘sources of power’ in firms’ organizational fields (Wry et al., 2013, p. 472) and on prioritization of institutional influences based on dependence relationships (Oliver, 1991). Attending more disproportionately to the stringent CSR forces in a heterogeneous transnational environment and imitating practices from the ‘best’ organizations in the field helps MNEs achieve transnational legitimacy (Kostova and Zaheer, 2008). Conversely, homogenous exposure to multiple weak environments leads to isomorphic avoidance of the practice (DiMaggio and Powell, 1983).

Collectively, these findings contribute to the understanding of MNE agency whereby organizations seem to consciously analyse the institutional environment and make more thought-out adoption decisions based on the multitude of institutional forces in their fields, as well as their unique position with regard to the various institutional actors. This provides further support for the idea that under institutional heterogeneity MNEs can exert more ‘institutional freedom’ to ‘choose the patterns of behaviour that they think fit them best’ (Kostova et al., 1999, p. 999). Another aspect of agency for which we provide support is related to the opportunities for learning available to MNEs due to being part of transnational fields, and our finding is that this is more likely to occur when their institutional field is relatively weak. Under such circumstances, we argued, MNEs are exposed to diverse institutional templates and may decide to adopt CSR not because of institutional pressures, but because they are able to learn best practices from their global partners (Seo and Creed, 2002). This

Figure 3. Interaction plot for moderating effect of strength of CSR institutional forces on the relation between heterogeneity of CSR institutional forces and CSR adoption

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last point adds to the conversation in organizational institutionalism on ‘constraining’ and ‘enabling’ institutional effects in complex organizational fields (Saka-Helmhout and Geppert, 2011). Much of institutional research in MNEs focuses on the constraining effects of institutions (Saka-Helmhout and Geppert, 2011), viewing institutions as ‘rules of the game’ that impose transaction costs that constrain actors’ behaviour (North, 1990). While we show that strength of CSR-related institutions affects CSR adoption decisions, we also show that institutional heterogeneity requires that MNEs re-evaluate and prioritize the different pressures to which they are exposed, thus exerting institutional agency (Oliver, 1991). In addition, utilizing the diversity of institutional logics in their heterogeneous fields companies explore learning opportunities and find creative ways to achieve legitimacy even though the institutional expectations might be unclear and ambiguous (Kostova et al., 1999).

Finally, we contribute to the CSR literature by explaining the impact of transnational organizational fields on adoption. This extends existing explanations of firm social and environmental behaviours through firm-level drivers, such as top leadership’s values (Branzei et al., 2006), stakeholder pressures (Frooman, 1999), and R&D spending and industry economics (McWilliams and Siegel, 2000). With the globalization of business, social and environmental behaviours are becoming increasingly dependent on global economic networks (Aguiñera and Jackson, 2007). For example, Nike is well known for mandating fair labour standards for its outsourcing partners because of stakeholder expectations in developed countries, even though the supplier factories are independently owned and located in developing countries (Locke and Romis, 2007). These dynamics reflect normative, cognitive, and coercive pressures stemming from inter-organizational linkages within the firm’s global network of business partners and subsidiaries. Compared to firm-level and/or single country studies, studying CSR in a transnational context allows a more complete examination of the complex set of forces that actually influence the adoption of CSR and thus better reflects the realities of international business.

More generally, our work contributes to the understanding of the spread of CSR practices around the world. We show that companies are not constrained within their national institutional environments with regard to CSR but are instead exposed to a variety of templates across the multiple countries where they operate. On the one hand, the transnational field may create additional pressures on MNEs beyond what is required by their home country constituents; on the other hand, it offers opportunities for firms to develop into more progressive, global, modern organizations by leveraging practices from other institutional environments. Indeed, our study shows that the American MNEs in our sample were affected by the more advanced institutional environments in their transnational fields. If such influences are true for US firms, which tend to be on the higher end of the CSR spectrum, we expect them to be even stronger for firms based in less favourable environments, for example emerging markets and developing economies.

Building on the insights developed in this manuscript, we would note several possible future research avenues. First, since the study was conducted with a population of US firms, it would be important to replicate it with non-US firms for the purposes of generalizability. We believe however, that our design has its advantages. For one, it
presents a conservative test of the model given that fewer countries have CSR institutional environments that are more stringent than those in the United States. To assess the effects of home country institutional environments, future research in this area might include MNEs from different countries and regions (e.g., Europe, Latin America) as well as from different types of national environments (e.g., emerging markets, developing economies). This would increase the variance in the variables that capture the strength and heterogeneity of practice-related institutional quality in firms’ transnational fields allowing for a more in-depth study of the phenomenon, and might also reveal interesting home country effects. For example, one could expect that firms headquartered in countries with less stringent CSR institutions would be even more influenced by the institutional forces emanating in their host countries. While some scholars have begun unpacking the varying effects of firms’ operations in more and less stringent institutional contexts relative to the firm’s home country, more research is needed to understand these differences (Dau, 2013).

Our work could be advanced by employing primary data-based methodologies using interviews and surveys of MNEs’ managers at headquarters and subsidiaries, as well as key trading partners. Such approaches would allow an in-depth examination of managers’ cognitive processes that ultimately shape MNEs’ interpretation of the social and economic forces in their transnational organizational fields. This work could develop further Fligstein and McAdam’s (2011) idea that all social actors possess ‘social skills’, that is, a ‘highly developed cognitive capacity for reading people and environments, framing lines of action, and mobilizing people in the service of these action “frames”’ (p. 7). Investigating such social skills in the context of complex multinational organizations should provide useful understanding of the reality of decision-making in this type of companies.

Future research would also benefit from evaluation of the role of time in these processes. This is increasingly important as firms deepen their ties to specific institutional contexts through economic exchanges with local business partners and subsidiaries. Longitudinal studies could help examine, for example, the existence of systematic differences between early and late adopters of CSR practices with regard to the considered set of predictive variables (Tolbert and Zucker, 1983). Such research efforts would be consistent with Dacin et al.’s (2002, p. 53) observation that studying the ‘temporal embeddedness of institutions’ holds promise for research in institutional theory as it ‘may provide insights into the power, pacing, sequencing, and momentum of institutional change’. By relying on a longer time frame than the one in this study and employing methods like random coefficient growth modelling (RCM), future research could examine systematic patterns of change in a firm’s approach to the CSR adoption over time (Bliese and Ployhart, 2002) – whether such change is linear or non-linear, and whether such dynamics differ among MNEs.

Additional studies could also examine the role of foreign FDI vis-à-vis the co-evolution of host country institutional environments and local firms’ CSR adoption as a result of CSR-related institutional spillovers (Spencer, 2008). Other possibilities for future research include narrowing the scope by examining specific aspects of CSR as captured by the KLD database (e.g., community relations, diversity, corporate governance, employee relations, environment, human rights, and product quality and
safety). This could uncover important differences in the salience of various factors for different CSR facets. Alternatively, the study could be broadened to examine organizational practices other than CSR. We have no reason to believe that our model will not be valid for other management practices, but examining the nuances across activities and practices could generate further contributions.

In sum, we present a novel analysis of how institutional complexity within the MNE’s transnational organizational field influences CSR adoption by constraining and enabling its behaviour through isomorphic and learning effects, respectively. Our findings underscore the importance of taking more nuanced approaches to studying institutional effects, by simultaneously considering the strength, heterogeneity, and salience of institutional influences throughout MNEs’ transnational organizational fields.

ACKNOWLEDGMENTS

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NOTES

[1] To assess the validity of the index, we followed the recommendations of Diamantopoulos and Winklhofer (2001) and Strike et al. (2006), who identify four conditions of a valid formative index: content specification, indicator specification, indicator collinearity, and external validity. We address the first two by explicitly defining CSR Adoption and using commonly employed component indicators (e.g., Agle et al., 1999; Berman et al., 1999). The indicator condition is met because there is weak correlation among the indicators that make up the measure and small variation inflation factors (VIFs) when regressing CSR Adoption on its component parts (results of these tests are available upon request from the authors). With regard to external validity, we note that numerous other studies developed indices that measure a firm’s CSR adoption using the KLD ratings in the manner that we used in this study (Strike et al., 2006).

[2] The RCI did not rate 15 countries included in our sample (i.e., Afghanistan, Algeria, Bahrain, Ghana, Guinea, Haiti, Iran, Iraq, Ivory Coast, Liberia, Macau, Niger, Sierra Leone, Sudan, and Yugoslavia). For these countries, we used the average RCI score for the available neighbouring countries. For example, Sudan’s RCI score was calculated as the average score of Egypt, Ethiopia, and Chad (as the index does not include data for Sudan’s other neighbouring countries).

[3] The time period of this study includes two years after the 2008 financial crisis, which saw a number of national and international initiatives aimed at reforming the global financial system. While our 2007 measure of CSR-related institutional quality does not capture the effects of these initiatives, we believe it is still appropriate for two reasons. First, the RCI does not account for strength of the financial sector regulations. Second, many of these reforms, including the Dodd–Frank Wall Street and Consumer Protection Act of 2010, were introduced after the time of our study, and have been less far reaching than policy experts had hoped (Claessens and Kodres, 2014; Véron, 2012).

[4] To assess the validity of the index, we followed the steps recommended by Diamantopoulos and Winklhofer (2001) and Strike et al. (2006) discussed in footnote 1.

REFERENCES


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