Corporations' Internationalization and the Adoption of CSR Practices

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INTRODUCTION

The contraction in communication and shipping times due to increased availability of information technology and transportation links has improved the viability of a global industrial process and has shifted labor and production bases away from the home country of a corporation's headquarters towards locales that offer reduced labor costs and government regulation. However, as firms expand globally, they vary in the approaches they take to branch out into new markets during the internationalization process based on their size, industry, and corporate stakeholders. Different modes of foreign market entry can have important implications for a firm's decision to adopt Corporate Social Responsibility (CSR) practices as several studies in this area indicate (Strike *et al*., 853). For example, a firm that owns and operates subsidiaries in a foreign country is more likely to be intensely exposed to local CSR practices than a firm that only engages in arm's length transactions with foreign business partners. This is because foreign direct investment (FDI) through wholly owned subsidiaries requires that the MNC engages in more intense exchange relationships with local businesses and societal stakeholders, which tend to facilitate knowledge exchange and the absorption of local norms, including those concerning CSR. However, local norms and practices can also negatively influence foreign operations and may lead to delays in global CSR strategy implementation.

During the internationalization process, firms are faced with the choice of adapting to local customs and to "do as the Romans do", even if the customs are not considered legitimate in the firms' home countries, or to apply the same corporate standards worldwide, and risk appearing foreign and incompatible to local culture. In the foreign investment-intensive emerging economies, particularly the so-called BRIC nations (i.e., Brazil, Russia, India and China), foreign companies following internal policies or home-country laws forbidding tactics such as bribing officials or hiring relatives (nepotism) or friends can place themselves at a competitive disadvantage. It is sometimes the case that those companies that use local practices, even if at times unethical ones, such as gift-giving to local politicians in a given country, will be more likely to receive development grants, construction projects, and other competitive business permits.

Nevertheless, some large foreign MNCs are actively exporting their home country's CSR practices throughout their global operations. Consequently, these firms frequently see a positive halo effect in the sale of products and services when the consumer markets perceive them as socially responsible. The current concern, however, is that other firms lag behind the larger corporations in CSR implementation due to small size and a lack of resources (Greening and Gray 1994; Russo and Fouts 1997). In other cases, firms might choose to avoid CSR activities in their international operations because global expansion occurred for the sole purpose of utilizing countries as pollution havens (Rugman and Verbeke 1998). For example, firms such as Nike (Connor, 2001) or Apple (New York Times, 2012) can only remain price-competitive, market-leading corporations by continuing to

take advantage of the lower labor costs of their international product manufacturers and suppliers, which have been found to be often associated with questionable labor practices in developing countries. Thus, it is evident that a variety of factors including size, industry, and varying stakeholder pressures influence MNCs' internationalization and their adoption of CSR practices; it is necessary to review these factors to understand the processes that shape such important global trends today.

In this article, the relationship between a firm's internationalization and its decision to adopt CSR practices are reviewed. In the remainder of the paper, a brief review of the key construct of interest (i.e., CSR and internationalization) is presented. Then some of the key articles that examine the relationship between internationalization and adoption of CSR practices are reviewed. Next, a few examples of how this relationship is important to improve our understanding of the benefits and challenges associated with a firm's exposure to global markets is presented.

DEFINING THE KEY CONSTRUCTS: CSR AND INTERNATIONALIZATION

This section defines and discusses the key concepts of CSR, its reverse CSiR, internationalization, environmental responsibility, and corporate competitiveness.

CSR is defined as "the set of corporate actions that positively affect an identifiable social stakeholder's interests and does not violate the legitimate claims of another identifiable social stakeholder (in the long run)"(Strike *et al.*2006, 852).In his seminal work on the stakeholder approach to the firm, R. Edward Freeman defines a firm's stakeholder "any group or individual who can affect or is affected by the achievement of the organization objectives" (2010,46).Firms' stakeholder groups include, among the others, consumers, shareholders, local communities, governmental bodies, political groups, trade unions, employees, financiers, and suppliers.

The three domains that represent the most commonly measured dimensions of CSR are environmental performance, community relations and labor relations (Muller and Kolk 2010, 10).

Environmental responsibility is a key component of CSR and Dan Etsy, a well-known Yale scholar in green business circles, has even labeled it a business 'megatrend' (Reid 2010). "Consumers, shareholders, and supply chains [are placing increasing pressure] on organizations to operate responsibly" concurrently as escalated competition for natural resources in the 21st century has positioned environmental conservancy as a critical priority for governments and citizens internationally (Reid 2010, 1). According to Ralph Reid, VP of Corporate Responsibility at Sprint Nextel Communications, "a company's commitment to environmental responsibility – bolstered by transparent goals and routine monitoring – is vital to the long- and short-term profitability of an organization". For example, when a company, such as General Motors today, voluntarily purchases carbon

offset credits in an effort to go "green", it positively affects global communities and the environment by paying for clean energy initiatives and pollution cleanup efforts through environmentally responsible actions without inflicting harm towards any other entity (Kennedy 2012). Sprint Nextel Communications allows its customers to participate in mobile device 'take-back' and recycling programs that "dispose of electronics safely and responsibly" by eliminating potential e-waste while the company is able to generate cost-savings by re-selling and refurbishing certain devices and parts (Reid 2010, 1). Nevertheless, it is necessary to note that environmental stewardship is not the only area in which firms can prove themselves as leaders in CSR implementation.

Another example of CSR practices is a novel, innovative project of New Belgium Brewing Company, the brewer of famous Fat Tire craft beers. Recently, the company announced that its Employee Stock Ownership Program (ESOP) "has purchased the balance of company shares, making it 100% employee-owned", meaning that a key stakeholder group, employees, now has direct involvement in corporate affairs and strategy as well as the opportunity to directly benefit from sustainable corporate success and growth (New Belgium 2013, 1).

An additional example of responsible corporate behavior is Quicken Loans' recent initiative to buy delinquent mortgages and real estate in the urban decay areas of Cleveland, Ohio and Detroit, Michigan (Carey 2013). Quicken Loans' initiative focuses on projects where real estate in inner-city neighborhoods can be transformed to accommodate educational centers, incubators for technology start-ups, and chic retail space in order to spark a gentrification movement to the urban cores where Quicken Loans has its roots (Carey 2013). Thus, local communities in the chosen urban areas are positively affected by the profit-generating corporate strategy of the company, while the company itself benefits from a positive corporate image and goodwill from city authorities during its business transactions.

One can even argue to an extent that there is no net negative impact to shareholders and investors of a corporation if the firm's CSR initiatives are properly positioned and marketed to consumers, resulting in higher sales and income even if profit margins are slightly reduced by the initiative.

There is also a great deal of companies that negatively affect their stakeholders. Researchers have labeled this behavior as "Corporate Social irresponsibility", or CSiR. Strike et al. (2006) define CSiR as "the set of corporate actions that negatively affects an identifiable social stakeholder's legitimate claims (in the long run)" (852).

Stakeholders and society at large often pay a high price for corporations' irresponsible behavior. Even where laws exist to prevent certain forms of CSiR, it is sometimes impossible to prevent accidents which may occur due to improper conduct of a corporations' employees and/or overall weak corporate supervision, as was the case in

the 2010 BP-Deepwater Horizon oil spill in the Gulf of Mexico (National Commission on the BP Deepwater Horizon oil spill and offshore drilling 2011). As a result of the accident, BP and its project partner Halliburton were forced to pay extensive legal settlement costs. BP was also required to allocate $20 billion for a collective cleanup fine after it was found that the drilling and oil firms did not properly inspect the drilling equipment used on the Deepwater Horizon oil rig (National Commission on the BP Deepwater Horizon oil spill and offshore drilling 2011). Reflecting on such incidents, it is evident that a lack of corporate responsibility, particularly in the area of environmental affairs, can lead to a loss in corporate profitability and competitiveness. However, there are situations where irresponsible firms have operations in countries with lenient safety and labor laws. Consequently, MNCs can dodge responsibility to stakeholders by simply replacing a single cheap supplier from a global supply chain- international retailer Wal-Mart chose to do this after a fire in a Bangladeshi factory with relaxed safety measures used by its supplier killed 112 workers (New York Times 2012). Thus, it is evident that as firms expand to become MNCs, incongruent international laws and regulations allow for irresponsible corporate actions to be taken where there is little risk involved.

Fortunately, the 21st century and the coinciding global economic integration have sparked a rise in support by many stakeholders to establish international CSR guidelines. "In 2005, the United Nations Secretary General invited a group of the world's largest institutional investors to join a process in developing the Principles for Responsible Investment." As of April 2012, over 1000 investment institutions have become signatories, with assets under management considered to be approximately $30 trillion. (United Nations)

Unfortunately, there has also been a rise in special interest groups that seek to avoid or navigate around established guidelines. A recent push for local products by consumers in the United States, Europe, and the developed world aligns with the societal concept that regional businesses are far more intertwined with local communities than diversified international conglomerates and thus will work to benefit their home market more than a MNC expanding in search of more profit (Palpacuer and Tozanli 2008). Lobbyist groups exist that work on behalf of regional coal-burning utilities and mine corporations that manipulate these rising consumer sentiments; they use evidence of their corporate clients' benefit to the communities of the impoverished Appalachia region of the United States as a tool to strike down regulations and initiatives concerning the reduction of atmospheric emissions (American Coalition for Clean Coal).

The definition of internationalization has evolved from being considered a "process by which firms increase their involvement in international operations in an incremental fashion rather than in large spectacular strides" (Johanson and Vahlne 1977; Cavusgill 1980; Cavusgill and Nevin 1984) to a broader and more inclusive "expansion across the borders of global regions and countries into different geographic locations or markets" (Hitt et al., 1997).The former definition, labeled the 'product cycle model' (Vernon 1966) involves introduction, growth, maturity, and decline stages. During the introduction

stage, a firm is domestic-focused, only exporting to other industrial countries in order to achieve economies of scale. The growth stage involves increased export activity and foreign direct investment (FDI) into international manufacturing sites by a firm experiencing significant demand for its product. In the time of maturity, a firm searches for low labor cost locations as the firm's product is standardized and consumer markets are saturated. Finally, during the decline stage, a firm completely exits its manufacturing operations from its home country as it definitively establishes its low cost operations in a foreign market (Vernon 1966; Melin 1992). This internationalization model is far too specific to a single internationalization process and widely ignores the new realities of growing service industry MNCs. The latter definition, labeled the 'internationalization process model' (Johanson and Vahlne 1977), states that firms make a series of logical international moves based on the gradual attainment, integration, and implementation of knowledge and expertise of foreign markets and operations. Some firms form joint ventures in order to gain knowledge of local markets and share the burden of investment with a local business. Other companies partner with foreign suppliers to take advantage of reduced costs without direct liability or capital investment in foreign production. The remaining large corporations invest in and operate wholly owned foreign subsidiaries which they manage using significant capital holdings and in-house corporate expertise in an aim to maximize profit to the global operations of the Multinational Corporation (MNC). As discussed later in this paper, firms often commit to markets with similar customs, languages, and cultures to their home country before comfortably making the decision to expand elsewhere. This model of internationalization is more appropriate in describing current globalization developments and applies to the modern shift in global economic activity from the culturally homogenous 'western world' to the culturally distinct developing countries.

Internationalization is now more feasible than ever thanks to corporations' ability to tap in to easily accessible financial and capital markets, existing global supply chains for product manufacturing and distribution, and product brand-generated premiums (China Labor Watch 2011). However, as one can see by the fall of once mighty corporate technology giants such as Palm, Inc. and Commodore International Ltd., a growing global market place also means that companies must remain flexible to ever-changing consumer tastes and act quickly to position products and services effectively in new markets.

LITERATURE REVIEW

This section seeks to apply the previously defined constructs to a balanced review of academic literature studying the effects of various internationalization approaches on CSR strategies, comparing and contrasting companies of diverse size, origin, and industry, and identifying long-term trends during corporate internationalization.

Some CSR studies have found that the whole economics of globalization is likely to lead to many opportunities for a firm to act irresponsibly, because firms often seek out

countries with lax social and environmental standards and weak governance (Strike et al., 2006; Low and Yeats, 1992; Lucas et al., 1992). For example, Connor (2001) reports that the watchdog NGO Global Exchange had collected evidence about some of Nike's suppliers in developing countries forcing their employees to work excessive hours with very low pay and often intimidating them in order to suppress protests on labor abuses (Connor, 2001).Such anecdotal evidence ties directly into the phenomena previously outlined where MNCs are incentivized to pursue a CSiR strategy when incongruent international laws provide an opportunity to cut costs. However, other studies have found that the "globalization/ internationalization of companies did in fact improve CSR relative to domestic fiowe" (Chapple and Moon 2007, 184). For example, Chapple et al. (2006) used CSR penetration data statistics to show that international firms in seven newly developing countries (India, South Korea, Philippines, Malaysia, Thailand, Singapore, and Indonesia) have greater rates of CSR adoption when compared to domestic firms in the same industrial sectors.

Other studies emphasize the notion that cross-national studies bring different stakeholder expectations of business and different historical business roles in society (Chapple and Moon 2007) and can thus lead to discrepancies in the way we perceive the role that internationalization plays in responsible corporate behavior. Businesses are not evaluated relative to the foreign local stakeholders that are involved but rather to limiting Western criteria of proper CSR implementation; this limited evaluation method then designates companies as either successful or unsuccessful in taking responsible corporate actions. However, the focus should be not on polarizing the issue at hand, but on examining the factors influencing the decisions of MNCs' different results in CSR strategy adoption and defining similarities amongst the stakeholder characteristics of MNCs with similar end results. As a result, it is necessary to examine the differences between Western and non-Western approaches to international diversification of corporate activity.

A study conducted by Erramilli et al. shows that our perception of the process of internationalization itself has been too focused on US-based MNCs and those in Nordic countries, while simultaneously ignoring the pattern of growth and expansion in Asian countries and developing economies. When empirical evidence is used from South Korean MNCs from 1973-1990 and compared using a longitudinal approach rather than a cross-sectional one, it is found that the theory of internationalization is supported when it comes to South Korean MNCs investing in psychically close countries and gradually increasing in the aggressiveness of the investments made- at first minor investments are made into foreign firms and then escalated into the creation of wholly-owned subsidiaries over time. (Erramilli et al. 1999) However, it is important to note that it was discovered that South Korean MNCs were more willing to enter markets with low populations before expanding into high population countries. Likewise, high-income markets were found to be more appealing for initial investments than low-income counterparts due to the potential for faster returns on investment and lower risk of market penetration; the

economically attractive areas of the world were targeted with foreign direct investment first until reaching market saturation before moving to less attractive alternatives. (Erramilli et al. 1999) It is interesting that South Korean MNCs chose to operate wholly-owned subsidiaries in physically distant countries while investing in minority ventures in closer markets; this is unsurprising when examined from the South Korean perspective and compared to the classical approach to internationalization because the areas of lowest psychical distance to South Korea happened to be the most culturally similar and cheapest to invest into in the beginning of the internationalization process, but were not the high-income, low-population markets that MNCs sought out for high-margin sales and aggressive investment.

Although the path of internationalization by Asian firms follows a similar pattern to that of Western firms, the integration of CSR practices and the perception of socially responsible behavior by corporate managers differ amongst Asian and Western corporate leaders. For example, Chapple and Moon (2007) found that in industries where there still exists pressure to operate in irresponsible ways, Western MNCs are far more likely to pay attention to environmental and human rights issues than their Asian counterparts. In their study of seven Asian countries (i.e., India, South Korea, Philippines, Malaysia, Thailand, Singapore, and Indonesia) they found that Asian corporate managers, with the exception of Japanese managers, are more likely to pay attention to local cultural issues and national historical events when engaging in CSR activities but limit their stakeholder view to consumers' and shareholders' interests (Chapple and Moon 2007).They also find that religion plays a heavy role in guiding MNC corporate behavior, particularly in corporations influenced by the traditional Islamic focus on personal responsibility.

In addition to large MNCs, research has also investigated the relationship between internationalization and CSR among small and medium enterprises (SMEs). For example, Aguilera-Caracuel et al. (2010) find that SMEs engaged in international expansion are often more proactive towards in the environmental management arena. This is often related to their ability to accumulate skills and experience with different institutional requirements across the various countries where they operate. Their study also highlights the benefits associated with implementing innovative CSR initiatives in a homogenous and standardized manner across the various countries where the firm operates (Aguilera-Caracuel et al. 2010)

Some studies also highlight the benefits associated with proactive CSR behaviors, especially in the environmental management area. This view is supported by the study conducted byDam and Sholtens' 2007 study, which shows that MNCs during internationalization "engage in 'profit-maximizing' CSR… are socially responsible… because they anticipate a benefit from these actions" (Dam and Sholtens 2007, 55). Large MNCs and firms with strict internal corporate environmental standards do not receive a comparative advantage from expanding to markets with lax environmental standards (Dam and Sholtens 2007). Only small and medium enterprises see a benefit from Pollution

Haven Hypothesis (PHH) behavior where pollution-intensive industry is relocated to countries with low environmental standards. In this case, however, it is seen that there is actually a "race-to-the-top" phenomenon as briefly discussed before- the more an enterprise expands internationally, the more it targets high-income, low-population markets with high CSR standards, the more stakeholders weigh into its corporate governance, and thus environmental standards are raised with more knowledge and experience. It appears that the PHH behavior of small and medium enterprises of socially irresponsible corporations is limited to a certain segment of international growth before the corporations are once again pressured by new stakeholders to meet international standards and seek out environmentally friendly CSR policies due to profit-maximizing motives.

PRACTICAL RELEVANCE OF MNC INTERNATIONALIZATION ANALYSIS

The literature reviewed above shows that local culture, size, industry, and consumer and shareholder pressures influence whether or not a corporation acts in a responsible manner. This information helps human rights, environmental, and labor agencies to develop appropriate tactics to pressure corporations towards a more homogenous and improved CSR approach throughout their global operations. Contrary to the opinion of many anti-globalization unions and protestors such as those at World Trade Organization meetings in Seattle, Quebec City, and Hong Kong, it appears that increased exposure to international markets benefits corporations with high CSR standards and forces others to follow suit in the long run due to increased stakeholder exposure through expansion.

The case of Zhejiang Geely Holding Group, more commonly known as Geely offers an example of the positive relationship between a firm's internationalization and CSR practice adoptions. In a very short period of time Geely moved from being a small domestic appliance maker to being a global automotive powerhouse, and expanded the range of its CSR initiatives. When Geely first began manufacturing automobiles, its products were reviewed as exceptionally unsafe and the company suffered from allegations of copyright and trademark rights violations from competing international automakers (Economist 2008). However, since its remarkable global expansion, which also included the purchase of venerable safety-distinguished automaker Volvo, Geely has managed to earn distinction as the "first among China's self-owned brands in terms of CSR initiatives" from Ruder Finn, a leading independent communications agency, and Tsinghua University, one of China's most renowned universities, and is awarded for its dedication to the development of its positive CSR strategy growth in China (Global Times 2013). The company donates funds to educational development initiatives at Zhejiang Geely Technician College, Beijing Geely University, and many other educational institutions to increase skilled employment in poverty-stricken regions of China (Global Times 2013). It has donated millions to disaster-relief funds in Taiwan and southern China in addition to improving the environmental and safety record of its vehicles (Global Times 2013). The founder and chairman of Geely, Li Shufu, proclaimed, "An enterprise without

a sense of social responsibility will be kicked out of the market sooner or later, and it can never achieve sustainability" (Global Times 2013, 1).

Similar conclusions have been reached by observers in a fellow BRIC nation, Brazil. In the Brazilian corporate world, "generally speaking, the large and more globalized the [Brazilian] company, the more likely they are to have adopted CSR policies" (Bevins 2011, 1). "Brazilian companies have gone international, and that's a new big pressure," says Claudio Boechat, sustainability expert at the Fundação Dom Cabral, a prestigious business school. "When you go abroad, if you prove that you are more inclusive, you get more attention" (Bevins 2011, 1). Since 2003, as it gained more international exposure and yielded to the interests of the Brazilian government, Banco de Brasil has developed a regional development assistance portfolio in the sum of $6.2 million and doesn't "take on clients involved in degrading work practices" or "assume the risk of credit with clients responsible for [serious environmental damage]" (Bevins 2011, 1).

Sberbank, the largest bank in Russia and Eastern Europe and the third largest bank in Europe, offers yet another example of the positive relationship between firm's internationalization and adoption of CSR practices (Financial Times 2012). Today the company is known for its commitment to increase corporate transparency, environmental efficiency, and its larger investment into Russian science and education initiatives. Prior to its privatization and subsequent international exposure, Sberbank was the government-owned monopoly national bank of the USSR and provided all the necessary central bank services to the Communist-controlled state. Since its growth as an independent international banking institution, Sberbank has worked to improve the communication and transparency of its business dealings with stakeholders by developing its 'Information Environment corporate project' that provides extensive online and social media briefings by senior management to stakeholders on issues ranging from the signing of a new collective bargaining agreement to Sberbank's involvement in preparations for Sochi 2014 (Sberbank 2010). The company has also aided in the development of an 'Energy Efficient Neighborhood' project in Tyumen, Russia, where plans are to achieve an average 25-30% reduction in energy use by eliminating inefficient sources of energy consumption and using state-of-the-art resource efficiency techniques (Sberbank 2010). Finally, Sberbank sponsors professional programs in the banking industry at leading Russian universities as well as hundreds of employee-led charity events that help children in orphanages overcome life challenges. Thanks in part to such initiatives, Sberbank has received the British magazine *The Banker*'s "2011 best banker in Central and Eastern Europe award" and a Russian National Banking Award as the bank with Russia's "highest information openness".

The evidence and literature reviewed in this paper suggest that firms with heightened global exposure, and especially large MNCs, need to adhere to the guidelines of a global corporate citizen or face banishment in the markets in the long run. Thus, action groups and stakeholder organizations that care about an increase in the diffusion of CSR practices

worldwide should also encourage firms' internationalization because it increases the likelihood of CSR practice adoption. While large MNCs are often reviled by the rhetoric of anti-global forces, active stakeholders have the opportunity to pressure growing and expanding MNCs to adopt homogenous CSR strategies in areas where CSR implementation is lacking. Stakeholders can expose work place, environmental, human rights, and ethical abuses and accidents to concerned consumers, government authorities, trade union leaders, and competitors. Thus, they may ensure that certain negative tendencies of globalization are reversed by further stimulating the development of a corporate culture whereby corporations compete not only on product and service quality and price, but also on their ability to deliver CSR and capture the limited goodwill of global stakeholders.

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