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Communicating CSR practices – Role of internationalization of emerging market firms

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Abstract

Emerging markets suffer from institutional voids, and in such resource deficient economies, corporate social responsibility is given scant attention. However, when firms from emerging markets globalize, international stakeholders become suspicious about firms' products, services and business practices. Grounded in the liability of emergingness and legitimacy theory and using a sample of 134 manufacturing firms from one emerging market, India, this study explores how firms' international diversification intent and market seeking motives influence emerging markets' firms communication of socially responsible activities as an attempt to eliminate illegitimacy. Furthermore, the study reveals that business group affiliation enhances the influence of internationalization on firms' communication of socially responsible activities.

Keywords Business group affiliation, CSR communication, Emerging markets, International diversification, Market seeking motive

Abbreviations

BG	Business Group
CSR	Corporate Social Responsibility
EMF	Emerging Market Firm
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
LnAge	Natural Log of Age
LnSales	Natural Log of Total Sales
LOE	Liability of Emergingness
MLR	Multiple Linear Regression

Introduction

Corporate social responsibility (CSR) practices of firms have been gaining significant traction among academics and practitioners. However, studies exploring determinants of CSR communication in emerging markets scarce (Gunawan 2016; Kühn et al. 2015). EMFs suffers from Liability of Emergingness (LOE). LOE refers to the adverse effects a firm faces in international markets because it belongs to an emerging market (Madhok and Kehyani 2012, p. 28; Marano et. al, 2016). Given that EMFs are internationalizing at fast pace (Xia et. al, 2014), despite challenges of LOE, we in this paper specifically enquire if strategic choices such as internationalization intent could drive EMFs to communicate their CSR activities in an attempt to overcome LOE.

Extant literature from developed markets indicates that firms communicate their CSR activities in response to institutional and stakeholder pressure (Gamerschlag e. al. 2011; Fernandez-Feijoo et al. 2014). However, resource scarcity and non-transparent business practices, makes institutional context of EMFs completely different (Khanna and Palepu 2006). Emerging markets like India are often ranked in the bottom half of the World Bank's "Ease of Doing Business" rankings (Doing Business, 2016). Even the low cost advantage of emerging markets is perceived to be driven by low wages, unsafe and unhealthy working conditions, and other unethical and socially exploitative business practices (Ioannau and Serafei 2012). All this leads to LOE (Bartlett and Ghoshal 2000). LOE could have important implications for communication of CSR activities by EMFs. We assert that firms' communication of CSR activities could be driven by a need to overcome LOE, especially when EMFs intend to internationalize. This is because CSR communication can help firms in gaining legitimacy among host country constituents (Pérez 2015) and subsequently overcome barriers associated with LOE (Amaladoss and Manohar 2013).

Hence, integrating LOE with corporate legitimacy theory, we specifically investigate three questions associated with drivers of CSR communication in emerging markets. *First*, how is EMFs' communication of CSR activities influenced by their intent to internationalize? We propose that EMFs are more likely to communicate their CSR practices in an attempt to overcome LOE, when they intend to internationalize. Once firms attain legitimacy amongst international stakeholders it might be easier for them to internationalize. Hence, we emphasize that EMFs proactively disclose CSR activities, once they decide to internationalize. Thus, internationalization intent drives communication of CSR activities amongst EMFs. This leads to our *second* research question. EMFs may choose to internationalize due to market-seeking or resource-seeking motives (Luo and Tung 2007). Do these motives have differential impacts on firms' intensity of communication of CSR activities? Here, we propose that the challenges of internationalization for EMFs are comparatively greater when they internationalize with market-seeking motives. International buyers lack trust in EMFs, hence they are less likely to buy products and services from these firms (Chiu and Wang 2015). Thus, in an attempt to gain legitimacy with potential industrial buyers or consumers in international markets, EMFs are more likely to communicate CSR activities, and hence overcome the adverse impact of LOE.

Our *third* research question is embedded in the institutional context of emerging markets. Business groups (BGs) are resource rich corporate parents with multiple lines of businesses, which evolved in emerging markets as a consequence of institutional voids and inefficient markets (Khanna and Palepu 2006). Hence, our third line of research, dealing with the institutional context, is: Can BG affiliation influence the impact of internationalization intent on firms' CSR communication practices in their home country? Since business groups are resource rich, they are better equipped to invest in socially responsible activities and enhance their social reputation. Furthermore, compared to standalone firms, BG-affiliated firms are more often charged with poor governance practices, such as tunneling off money through related party transactions or principal-principal conflicts (Khanna and Palepu 2006). Thus, they more greatly need to communicate socially responsible activities so as to maintain a legitimate image in international markets.

Based on a sample of 134 Indian manufacturing firms over a period of ten years (i.e., from 2005–2014), our study indicates that communication of CSR activities by EMFs is driven by their intent to internationalize. Furthermore, CSR communication increases when EMFs internationalize with market-seeking motives and represent an attempt to overcome LOE through enhanced legitimacy. Furthermore, BG affiliation enhances the impact of internationalization intent on communication of CSR activities.

Through this study, we primarily contribute to the CSR communication literature of emerging markets by explaining how communication of CSR activities is driven by EMFs' attempt to overcome LOE when they intend to internationalize, especially if they belong to business group. This is in contrast to extant literature which asserts that institutional voids leads to poor CSR practices. Our findings indicate that even poor institutional image could trigger CSR reporting. We thus suggest that CSR communication is an attempt to overcome LOE posed by weak characteristics of institutional voids, which specifically becomes important for EMFs when they intend to internationalize. Thus, otherwise EMFs may remain dormant for CSR initiative however, when they plan to internationalize then in an attempt to overcome LOE in international markets they disclose CSR activities. Our work also reflects extension of research dealing with institutional complexity (Greenwood et. al, 2011; Marano and Kostova, 2015) and springboard perspective (Luo and Tung, 2007) as our findings indicate how embeddedness of EMFs in a complex home country environment motivates them to communicate CSR practices, so as to gain legitimacy in international markets, when they intend to internationalize. Our study also adds to prior literature focused on constraining effects of LOE (Bartlet and Ghosal, 2000; Bangara et. al, 2012). We highlight how EMFs use CSR as a proactive legitimization tool when they plan to internationalize. Before internationalization strategy could be realized, EMFs signal positive and legitimate image globally so as to diminish negative effect of LOE. Thus, internationalization intent becomes a driving force for CSR communication.

Extant literature has emphasized stakeholder and institutional theories in driving communication of CSR activities of firms (Gamerschlag et al. 2011; Kühn et al. 2015; Thijssens 2015). In this regard, our study indicates that EMFs respond to international stakeholders' expectations when they intend to internationalize so as to overcome barriers imposed by LOE. Unless EMFs decide to internationalize, their image in international markets does not hamper business performance in their home country. Thus, role of institutional environment or stakeholders' expectations becomes vital for EMFs only when they intend to internationalize. Broadly, our study indicates the significant role that communication of CSR activities plays in diminishing stigma associated with belonging to an emerging market.

Furthermore, we highlight the significance of the motives for internationalization and the ownership structure of a firm in influencing the strength of the relationship between CSR communication and internationalization. Significance of market-seeking and resource-seeking motives is well known (Child and Rodrigues 2005). Through this study, we highlight how firms' internationalization intent drives them to communicate more CSR activities when they internationalize with market seeking motive. As LOE can discourage customers from purchasing products from EMFs, these firms communicate CSR activities in an attempt to attain legitimacy among consumers and overcome the LOE effect. Similarly, BGs in emerging markets are more influential in driving CSR reporting behavior of firms than standalone firms. Extant literature on CSR communication in emerging markets has overlooked the impact of BG affiliation (Li et al. 2010; Chaudhri and Wang, 2007). Our study covers this gap and asserts that due to resource munificence and an illegitimate image resulting from poor governance practices, BG-affiliated firms' communication of CSR activities are comparatively more driven by internationalization intent. Our findings thus reveal potential sources of successful international diversification of BG affiliated firms which is their ability to gain legitimacy in international markets.

BG affiliated firms capitalize on their existing resources or develop new resources in host country (Hoskisson et. al, 2004) as they are able to overcome LOE by virtue of utilizing their munificent resources in CSR activities and communicating the same to stakeholders. CSR communication is thus a proactive approach for EMFs especially BG affiliated firms, driven by the intended strategy of international diversification.

In the following sections, we first present a literature review and our theoretical framework, then a hypothesis section. Next, we explain our methodology and proceed to test our model empirically. Lastly, we explain our results, followed by our discussion, and a conclusion and managerial implications section.

Theory and Hypotheses

CSR can be defined as:

> "the process by which managers within an organization think about and discuss relationships with stakeholders as well as their roles in relation to the common good, along with their behavioral disposition with respect to the fulfillment and achievement of these roles and relationships" (Basu and Palazzo 2008, p. 124).

Several theoretical frameworks explain firms' motivations for communicating their CSR activities. The most commonly referenced theoretical frameworks are stakeholder theory, institutional theory, and legitimacy theory. According to the stakeholder theory and institutional theory frameworks, firms invest in and communicate CSR activities to respond to stakeholders and institutional pressures. In the emerging markets context, this pressure is virtually non-existent due to institutional voids (Khanna and Palepu 2006).

Emerging markets can be defined as countries "whose national economies have grown rapidly, where industries have undergone and are continuing to undergo dramatic structural changes, and whose markets hold promise despite volatile and weak legal systems" (Luo and Tung, 2007, p. 228). These weak legal systems and other non-transparent practices, arising out of resource scarcity in emerging markets, are collectively referred to as institutional voids (Khanna and Palepu 2006). Consequently, firms sometimes display irresponsible and illegitimate behavior, such as Satyam's financial scandal in India (Ghosh 2009) or Foxconn's exploitative labor practices in China (Lee 2014), leading to a poor business confidence index in these markets. Although institutional pressure does not exist for socially responsible activities, all EMFs in international markets bear the burden of the perceived backwardness and illegitimacy of their home countries (Hawn 2013). This disadvantage that EMFs suffer in international markets, compared to developed countries' firms, is known as Liability of Emergingness (LOE) (Madhok and Kayhani 2012).

EMFs thus face the prejudices of the host countries, due to the stigma of belonging to emerging markets (Held and Berg 2014). As a consequence of perceived poor credibility and legitimacy, international stakeholders may not find it conducive to initiate any business transactions with EMFs (Meyer et al. 2009; Fiaschi et al. 2015; Madhok and Kayhani 2012). This could be understood from the fact that non-materialization of cross border mergers and acquisition deals in India occurs twice as often as in the USA (Goyal 2013). For example, in 2006, the merger of Arcelor and Mittal steel was opposed by the French and Luxembourg governments due to a legacy of perceived poor business practices of firms having Indian roots, even though Mittal Steel was registered in Netherlands (The Economist, 2006).

Communication of CSR Activities and Internationalization intent

As long as EMFs operate within their home country, their poor image in international markets is not of prime concern for managers. However, when firms intend to internationalize, they need to overcome LOE through enhancing their perceived legitimacy (Bangara et al. 2012). Legitimacy theory asserts that there exists a social contract between organizations and society at large. Specifically, legitimacy is a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchmann 1995, p. 574). This implies that society has certain expectations from corporations with regard to the conduct of their business. These expectations range from moral obligations to maintenance of reciprocal relationships with stakeholders at large (Deegan and Unerman 2011). We specifically refer to the case of “pragmatic legitimacy” (Suchmann 1995, p. 577), in which legitimacy is aimed at influencing tangible returns in exchange for investment in developing a legitimate image. We assert that firms in emerging markets communicate their CSR activities in an attempt to gain legitimacy and overcome LOE among host country constituents when they intend to internationalize. Communication of CSR activities can help firms to increase their credibility and legitimacy among international stakeholders, which is of the utmost importance when EMFs intend to internationalize. Enhanced legitimacy can also overcome barriers associated with LOE (Fiaschi et al. 2015) and reflect EMFs’ capability to fill institutional voids (Su et al. 2016).

Firms that communicate social responsibility reports to stakeholders likely do so with an expectation that a legitimate image would diminish the adverse effect of LOE (Nair et. al, 2015). Extant literature indicates that firms from developed economies also disclose their CSR activities to gain legitimacy when they have been charged with illegitimate operations (Zheng et. al, 2015). Even controversial industries, such as tobacco and gambling, have achieved legitimate images through reporting CSR activities (Oh et al. 2016; Gupta, 2015). This positive image can overpower the adverse effects that EMFs bear due to LOE (Reimann et al. 2012). Firms’ which intend to internationalize are likely to be concerned about LOE. EMFs’ communication of CSR activities is thus likely to be driven by internationalization intent in an attempt to mitigate LOE effect through enhancing legitimacy. Hence, we hypothesize

H1: EMFs are more likely to disclose CSR activities when they intend to internationalize.

Motives of Internationalization

A firm may intend to internationalize with market-seeking, resource-seeking or strategic asset-seeking motives (Luo and Tung 2007). Market-seeking motive refers to internationalization with the objective of exploiting one's competitive advantage and hence increasing market share in the host country (Child and Rodrigues 2005). In resource-seeking foreign direct investment (FDI), a firm intends to acquire strategic assets or raw material to reduce the volatility of its operations, mostly in its home country (Buckley et. al, 2015).

As compared to the resource-seeking motive, the market-seeking motive has the more direct impact on the revenue earning capability of firms, as it deals with buyers' purchasing decisions and hence revenue potential. Thus, it is vital to focus on international buyers and their perception of EMFs since their purchasing decisions are likely to be influenced by the overall image of an EMF. As a consequence of poor image arising from LOE, customers may be hesitant to buy products from EMFs.

Existing studies in the social responsibility literature indicate a positive association between a firm's CSR and customers' outlook towards the firm (Homburg et al. 2013). The best companies around the world always audit the CSR practices of their potential suppliers before entering into any arrangement (Johnsen et al. 2014). Thus, when firms internationalize from emerging markets with LOE, communication of their individual ethical and social corporate activities becomes even more important. For instance, a Chinese supplier trying to internationalize in search of new buyers may experience LOE, as was the case when a Chinese supplier associated with Sodexo (a French food services and facilities management company) was found guilty of an E. Coli outbreak among 11,000 students in Germany due to non-adherence to hygiene standards. Similarly, a scandal involving toy company Mattel Inc., resulting from the use of lead paint in toys, made a dent in the reputation of all associated Chinese firms. As LOE of EMFs is created due to poor and unsafe manufacturing practices, a resulting image can be negated by socially responsible behavior (Fryzel 2014). Thus, from a legitimacy perspective, firms from emerging markets need to be even more aggressive and precise in communicating their socially responsible activities so as to diminish the adverse impact of LOE and positively influence customers' purchasing decisions from a given firm (Hume, 2010). Furthermore, since a market-seeking motive directly influences firms' profit earning potential in a host country, they are even more driven to disclose CSR in an effort to gain legitimacy and reduce the adverse impact of LOE.

Lastly, firms are likely to be more visible to customers when they internationalize to sell products and services in international markets, compared to when they internationalize to explore new assets or resources. Extant literature also indicates that firms behaved in a more CSR friendly manner when they exported products for international markets (Costa et. al, 2015). Some firms even used CSR as their differentiating strategy when venturing into international markets (Cruz et al. 2015). Similarly, Branco and Rodrigues (2006) also reported that banks that were more visible among customers were more active in the realm of social responsibility. In Taiwan also, customers were able to create pressure on international firms to disclose their socially responsible behavior (Huang and Kung 2010). Based on the above assertions, we hypothesize

H2: CSR communication practices are positively associated with the market-seeking motive of the firm.

Business Groups and CSR

Business groups (BGs) evolved in emerging markets as a consequence of institutional voids and institutional inefficiencies in these markets (Khanna and Palepu 2000). BGs are corporate parents that are comparatively resource rich in resource scant emerging markets (Chang et al. 2006). BG affiliation leads to both positive and negative effects. Positive effects arise due to munificent resources and network advantage in home country. However, BG affiliation can also lead to negative effects. As compared to standalone firms, BG firms are more often charged with poor governance practices, as well as siphoning off financial and other capital resources from high performing to poor performing firms. This illegitimate image of BG firms pushes them to communicate CSR practices when they intend to internationalize.

Hence, BG-affiliated firms avail slack resources to gain legitimacy by investing in and more communicating their CSR activities. For example, in India, BG-affiliated firms are primarily located in less developed regions or states, and so they generate employment and raise standards of living (Fishman and Khanna 2004). Similarly, in China, BG-affiliated and non-state owned firms tend to facilitate institutional transition and report CSR activities (Li et al. 2013). Extant literature indicates that firms with slack resources were more likely to invest in and report CSR activities in an attempt to gain political and social legitimacy (Melo, 2012).

Consequently, as a joint effect of slack resources and poor governance practices, BG firms would be more driven to disclose CSR activities, in an effort to not only eliminate LOE, but also to improve legitimacy. Hence we hypothesize

H3: BG affiliation positively moderates the impact of the intent of internationalization on EMFs' communication of CSR activities.

Data and Methodology

Our sample consisted of firms from two manufacturing sector industries: the automobile ancillary industry and pharmaceuticals industry. We selected some of the fastest growing manufacturing industries so as to reflect firms' earning opportunities within the domestic market. Despite high growth rates in the domestic market, if a firm chooses to internationalize, it is a reflection of strategic choice (Child 1997). Furthermore, we focused on the manufacturing sector, as it is an important driver of the Indian economy, contributing around 20% to the GDP of the country. Furthermore, by virtue of the nature of manufacturing, this sector has more social responsibility implications compared to the service sector. We focused on ten years of data only from 2005-2014; data on CSR activities prior to this period was difficult to obtain from archival sources. India is also an emerging market, where corporate parents like BGs are more prominent than in any other country (Khanna and Palepu 2006). Furthermore, post liberalization (i.e., after 1991) some Indian firms have aggressively diversified internationally and have even received the status of emerging markets multinationals (Khanna and Palepu 2006). Thus, it is interesting to explore if these firms overcame LOE effect challenges by behaving in a socially responsible manner in their home country.

We first considered all the firms categorized as drugs or pharma and automobile its ancillary by Prowess (a financial database on Indian companies). This resulted in a population of 626 firms. Following the approach of Elango and Patnaik (2013), we restricted our sample size to only those firms that exhibited average sales of at least one million US dollars in the given time frame, 2005–2014. Furthermore, we removed firms with missing financial data during the time period, as well as government-owned firms or subsidiaries of foreign multinationals. Thus, after filtering the data based on these parameters, we obtained a sample of 134 firms.

Operationalization of Variables

Dependent variable: To assess communication of CSR activities, we considered the annual reports and social responsibility reports published by firms every year. A checklist of CSR items was generated based on extant studies conducted in India (Kansal et al. 2014). This resulted in an extensive list of 96 items. This list also included some Indian-specific socially responsible activities, like reservation to minority communities, midday meals for children, or mass marriage programs. The complete list of CSR themes and their corresponding items used in the present study are in Appendix A.

Scoring method: Each of the 96 CSR items was scored on a dichotomous scale. Thus, if an item in the checklist was disclosed in a CSR or annual report of the firm, it was coded as 1; otherwise, it was coded as 0 (Ghazali 2007). An issue was considered as reported by a firm, if the report described specific actions taken by that firm to address a particular issue. If only issue was mentioned in some context without any description of firms' efforts to address that issue, it was not considered to be a part of CSR communication index. One of the authors coded all of the sustainability/CSR/ annual reports. Another researcher randomly selected 100 reports and recoded them. Inter-rater reliability assessed in terms of Cohens' kappa was 0.78, indicating a moderately acceptance level. Next, a *CSR communication index* was calculated as a ratio of total number of actual disclosures made by firm and total number of disclosures actually possible, i.e., 96.

Independent variables

Internationalization intent: Firms' communication of CSR activities in year X_t would be driven by is internationalization intent in year X_{t-1}. As through secondary research we cannot directly capture firms' intended strategy, it can be best captured through its realized strategy (Ferrell and Hartline 2012). However, there is always a time difference between intended strategy and realized strategy (Andersen and Nielsen 2009). It was assumed that firms' internationalization intent in year X_t would be realized after three years, i.e., X_{t+3}. A three-year time period has been consistently used to gauge the impact of firms' strategy on performance (Lahiri and Narayanan 2013). Thus, this time period can also reflect the time a firm may require to realize its intended strategy. Hence, to capture firms' communication of CSR activities in 2005, internationalization *intent* was considered for the year 2004, and it was operationalized as the ratio of foreign investments to total assets of the firm (Chari 2013) for the year 2007. The data was obtained from Prowess, CMIE, which is a database of Indian companies. Thus, CSR activities were captured from 2005–2012 and internationalization intent from 2004–2011, operationalized as actual foreign investment from 2007–2014.

Market-seeking/resource-seeking/multiple motives: In this study, a firm's market-seeking motive is referred to when it internationalizes with the main objective of expanding its international market. All other motives, i.e. assets/efficiency-seeking, were classified as resource-seeking motives in this paper. We considered annual reports and other web-based resources, namely newspaper articles and trade journals in which interviews with the top management of the firms or reports by industry analysts were published. We then analyzed these materials to determine the motives of internationalization, i.e., whether the motive is marketing-seeking or resource-seeking. For example, when in 2007 Wockhard Limited acquired Negma Laboratories of France, it was acquired by Wockhardt with an intent to expand its patented portfolio of drugs to European markets (Evaluate.com, 2007). So this was treated as market seeking motive.

Hence, if in a particular year, firms internationalized largely due to a market-seeking motive, it was coded as one. If they were focused on resource seeking, it was coded as zero. Motive was coded as market seeking or resource seeking by one of the authors. To check the reliability of the content analysis, 30% of the randomly selected reports and web-based articles was cross-checked by another researcher. Consistency of coding was reported in 89% of the cases.

BG affiliation: This was captured as a dummy variable, with 1 indicating that the firm was affiliated with a BG and 0 indicating that the firm was standalone. The data was obtained from Prowess.

Interaction effect of internationalization and BG affiliation: To operationalize the moderating effect, we used the mean centering effect so as to nullify the problem of multicollinearity (Shieh, 2011). Thus, we calculated the mean of the FDI to asset ratio and BG affiliation, and subtracted the individual values of the FDI to asset ratio and group affiliation from their respective mean value. Values of the FDI to asset ratio and BG affiliation so obtained were then multiplied with each other.

Control variables: We controlled for firm size and age (Giannarakis 2014) as they have been found to positively influence firms' communication of CSR activities. Firm size was measured as the natural log of total sales (LnSales) of the firm. Similarly, firm age variability was also reduced by taking its natural log (LnAge). Data for both firm age and size were obtained from Prowess. Lastly, to control for industry effects (Grougiou et al. 2016; Young and Marais 2012), the drugs and pharma industry was dummy coded as 1 and the automobile ancillary industry as 0. Apart from this, we also controlled for firms' financial performance, as it has been found to impact firms' CSR activities ((Julian & Ofori-dankwa, 2013; McWilliams and Siegel, 2000). Performance was captured as Return on Assets, i.e. ratio of net income to total assets, information on which was obtained from Prowess.

Methods

We used multiple linear regression (MLR) to conduct our analysis, which is given below:

$$CSR_{i,t} = \beta_0 + \beta_1 \text{Internationalization intent}_{i,t-1} + \beta_2 \text{Internationalization motive}_{i,t-1} + \beta_3 \text{BG*Internationalization intent}_{i,t-1} + \beta_4 \text{firm size}_{i,t-1} + \beta_5 \text{firm age}_{i,t-1} + \beta_6 BG_{i,t-1} + \beta_7 \text{Industry}_{i,t-1} + u$$

Results

Table 1 shows the descriptive statistics with the Pearson correlation coefficients among the dependent variables, independent variables, and the control variables. Since the correlation coefficient among the independent variables is below the value of 0.50, there are no signs of multicollinearity (Hair et al. 2010). Furthermore, positive and statistically significant correlation coefficients between communication of CSR activities and the two independent variables, internationalization intent and its motive, can be observed. Among the control variables, a positive and significant correlation between firm size and communication of CSR activities exists.

Correlation analysis provides some preliminary insights about the significance of the relationship between CSR and internationalization. Through MLR analysis, we present a detailed look at the effect of the independent variables on the communication of CSR activities of Indian firms. Table 2 reports the results of the MLR. Overall, no evidence was observed to reject our hypotheses. The results regarding firm size as a control variable are in agreement with extant literature, in which sales by virtue of size of firm were found to impact firms’ CSR communication behavior (Morhardt 2010). However, no significant differences between the impact of industry on CSR communication were observed, unlike in some earlier studies. This could be because both industries belong to the manufacturing sector and contribute adversely to both environmental and social issues, such as safe workplace practices. Hence their level of disclosure does not vary much due to industry differences. Profitability in corroboration with extant studies was found to significantly impact communication of CSR activities of EMFs.

Insert Table 1 about here

Insert Table 2 about here

Our first hypothesis states that there is a positive association between firms' internationalization intent and communication of CSR activities. According to Model 2 of Table 2, since the beta coefficient of the Foreign investment to asset ratio is positive and significant ($\beta = 0.06$, $p<0.001$), we find evidence in support of the first hypothesis. This implies that as a firm's intent to internationalize increases, its communication of CSR activities also increases. Given that EMFs suffer from LOE, by communicating CSR activities, EMFs intend to enhance their legitimate image and hence overcome LOE barriers. The findings of this study are in corroboration with extant studies, in which a positive association was found between CSR and firms' internationalization (Cheung et al. 2015; Marano et al. 2016).

The second hypothesis stated that firms would communicate more CSR activities if they internationalize due to a market-seeking motive. Since the beta coefficient of the market-seeking motive is positive and significant ($\beta = 0.19$, $p<0.001$), evidence in support of the second hypothesis was observed as well. This implies that when Indian firms are internationalizing as suppliers to seek new buyers, they are even more aggressive in disclosing their CSR activities. Extant literature indicates that international buyers in general are very cautious about their suppliers' CSR practices and regularly audit these practices (Baden et al. 2009). Thus, they are likely to be even more careful when they have to select a supplier from a country that suffers from LOE. Findings of the present study provide support to this argument, as Indian firms while internationalizing due to a market-seeking motive are seeking legitimacy among potential buyers through communication of CSR activities.

The third hypothesis stated that BG affiliation moderates the relationship between the communication of CSR activities and the intent of internationalization. The beta coefficient of the interaction effect of BG affiliation and the FDI to asset ratio is positive and significant, and we thus find evidence in support of the third hypothesis as well ($\beta = 0.03$, $p<0.001$). This implies that when a firm is affiliated with a BG and intends to internationalize, it will communicate more CSR activities compared to standalone firms. In other words, the ownership structure of a firm influences the relationship between CSR and internationalization. Thus, the present study's findings are again in corroboration with extant studies conducted in emerging markets where CSR communication was found to be influenced by the ownership structure of the firm (Oh et al. 2015).

Discussion

This study examines determinants of the communication of CSR activities of Indian firms. CSR communication has received comparatively less attention in emerging markets, despite the increasing economic significance of emerging markets (Khan et al. 2013). Using an integrated theoretical framework of LOE and legitimacy theories, we provide evidence that the internationalization intent of EMFs, especially Indian firms, drives them to communicate their CSR activities. Our findings are thus, counter to mainstream arguments, as per which EMFs CSR practices are driven by home country institutional environment (Halaszovich, T. F., & Lundan, 2016). As our findings indicate that EMFs indulge in and hence communicate CSR practices even if such practices are not enforced by weak institutional environment of emerging markets.

We assert that firms do so with a motive to mitigate the negative effect of LOE through legitimate gains from CSR activities. The adverse effects of LOE arise since emerging markets have underdeveloped economic and institutional infrastructure. This consequently leads to poor ethical and governance business practices (Bell et al. 2008). Hence, host country constituents develop negative stereotype and beliefs about products, services, and business practices of firms associated with emerging markets (Goedhuys, M., & Sleuwaegen, 2016). Firms can combat this LOE by gaining legitimacy through CSR practices. Recent literature indicates that firms in developing countries are more detailed in reporting CSR activities compared to developed market firms (Barakat et. al, 2015). This could be an attempt to overcome LOE. We assert that EMFs would be more concerned with LOE, when they have intent to internationalize. Thus, EMFs with internationalization intent are more likely to disclose CSR in an attempt to overcome LOE.

As per our results, CSR communication behavior is even more driven by the market-seeking motive of internationalization, as compared to the resource-seeking motive. Unlike when a resource-seeking motive influences internationalization, and host country constituents' purchasing is not directly impacted, when firms are influenced by a market-seeking motive, the buying decisions of international customers are directly impacted. Firms perceived as illegitimate are less likely to be preferred by buyers. Thus, firms' internationalization intent with market seeking motive raises its CSR communicative practices.

Our study also indicates that the internationalization intent of BG-affiliated firms drives CSR reporting behavior among EMFs more, as compared to standalone firms. This happens because they are comparatively resource rich, and apart from the effects of LOE, they bear the additional burden of an illegitimate image due to poor governance practices. Thus, they need to invest in and then disclose even more socially responsible behavior so as to convince international stakeholders. This reflects a new perspective on business groups in India, as extant studies on CSR communication behavior have largely ignored the role of business group affiliation (Mishra and Suar 2010).

Our study contributes to a deeper understanding of the communication of CSR practices by EMFs, especially Indian firms. Thus, we first add to the literature on EMFs CSR communication practices. Extant research suggests that institutional voids at home country propels EMFs to diversify internationally in search of resources and markets (Luo & Tung, 2007). However, this search can be successful only if EMFs opt for appropriate legitimation strategies.

Communicating CSR activities is one way of portraying legitimate image. EMFs need to depict legitimate image prior to internationalization as institutional voids results in LOE (Bangara et. al, 2012), which can be an obstacle while internationalizing. To counter this adverse liability perceived by host countries and global stakeholders, EMFs proactively engage in CSR practices, even if weak institutional environment does not forces them to do so.

Hence, we extend the literature on the relationship between international diversification and CSR by providing evidence from emerging markets, about which literature is scant as compared to developed markets (Ma et al. 2016). Second, we provide evidence of non-financial drivers of communication of all types of CSR activities in EMF, especially India. Extant studies in the emerging markets context have either explored only one specific aspect of CSR practices, such as environmental issues (Hossain and Reaz 2007), or have focused on firm-specific financial factors, such as firms' liquidity or assets in driving CSR behavior (Kansal et al. 2014; Cheng et. al, 2014). By virtue of focusing on the communication of the entire gamut of CSR activities and non-financial factors driving firms to CSR reporting, such as the intent and motives of internationalization, the present study overcomes these two limitations and hence contributes to a strategic view of CSR (McWilliams et. al, 2006). Furthermore, extant literature has mainly relied on institutional and stakeholder theories to explain CSR reporting practices among firms (Chiu and Wang 2015; Park et. al, 2015). We assert that LOE and legitimacy are also appropriate theoretical foundations in explaining EMFs' motives for CSR communicative practices.

Third, by examining how Indian firms' CSR communication behavior is driven by the market-seeking motive of internationalization, we extend prior literature on CSR communication practices in which scholars have emphasized the role of international buyers in driving the CSR activities of firms (Azizul Islam and Deegan, 2008). Our study thus aims at providing a better understanding of how communication of CSR activities can help EMFs overcome their LOE and thus gain legitimacy in international markets (Madhok and Kayhani, 2012). Our results with regard to BG affiliation are in alignment with studies in other emerging markets where the ownership structure has been reported to have significant influence on firms' CSR reporting practices (Campopiano and De Massis 2015; Oh et al. 2015)

Managerial Implications and Future Research

It has been found that managers from developing economies have a comparatively less favorable attitude toward CSR practices (Moyeen and West 2014). This may happen because of less institutional pressure that EMFs face as a consequence of institutional voids (Diebecker and Sommer, 2015). Our study indicates that reporting CSR practices could be a strategic need for EMFs. This implies that not only should they invest in CSR activities, but they should also strategically communicate their investment in such activities. Effective CSR communication is an appropriate way to mitigate the negative impact of LOE through legitimacy enhancing socially responsible activities (Li et al. 2010). As beta coefficients though statistically significant, yet are small, we do not assert that CSR communication alleviates all legitimacy challenges for EMFs based on LOE. However yet it could be beneficial for EMFs as such communication practices improves their reputation globally and further pushes them to analyze, investigate and consequently improve actual CSR practices (Marano and Tashman, 2012).

Managers consider consumers to be one of their most important stakeholders (Park and Ghauri 2015). Thus, communicating CSR practices becomes even more important when managers intend to internationalize due to a market-seeking motive. Customers are unlikely to buy products from EMFs, as they conceive them to be of poor quality. Tainted milk and lead toys scandal in China, adulterated food items in India, exploitative child labor practices, etc. have further diminished the image of EMFs among potential international customers. By disclosing socially responsible behavior to international consumers, EMFs can attempt to fulfill their market-seeking motive, as legitimacy gained through socially responsibly activities can potentially overcome LOE (Vidaver-Cohen and Colwell 2015). The significance of the market-seeking motive is in alignment with extant literature as well, which documents firms that have been advertising their CSR efforts to influence consumers' attitudes and purchase intention towards their brands (Perks et. al, 2013). Managers working for BG-affiliated firms need to be even more wary when disclosing their CSR activities. Not only do these managers have more resources, but also they must contend with an even more negative image with regard to business practices. Due to this poor image, even some reputable BGs in India, such as Tata Steel, have faced problems while internationalizing (The Economist 2011). Thus, BG-affiliated firms' managers even more greatly need to communicate their CSR activities in an attempt to not only overcome LOE, but also to improve an illegitimate business image.

Though our study has several contributions to the CSR communication literature, it also suffers from several limitations. In this research, we cover only one fast growing emerging market, India. However, our findings cannot be generalized to other emerging markets. Thus, the impact of internationalization intent on communication of CSR activities should be explored in other emerging markets as well. Also, though we followed extant literature in covering the entire gamut of CSR activities, nevertheless the communication index does involve some degree of subjectivity, which we cannot control for. Lastly, recent literature indicates that firms unduly exaggerate their CSR communication (Kim and Lyon 2014). Thus, there is a possibility of decoupling between disclosed and actually practiced CSR activities. We cannot control for this effect, and we interpreted all disclosures made by firms as genuine.

Future research could investigate how the motives of internationalization impact firms' socially responsible behavior in a host country. Firms that internationalize due to a market-seeking motive might behave in a more socially responsible manner in their host country as well. Similarly, CSR communication practices of BG-affiliated firms could differ from standalone firms in the host country as well. Yet another aspect that could be explored in the future includes comparing institutional differences in CSR activities, e.g. if EMFs localize or globalize their CSR agendas. Even performance implications of legitimacy driven CSR practices would be worthy to investigate in future research. Similarly, legitimacy driven benefits from communication of CSR practices can also be used to explore its impact on stock market performance of firm, its cost of capital, lawsuits against firm etc. Similarly, other approaches to gain legitimacy with global stakeholders could also be explored in future research. Evidence indicates that EMFs are adopting best practices in all management areas including HRM, marketing or product development amongst others (McKinsey and Company, 2005). Differential impact of these approaches to gain legitimacy could be investigated in future research.

Appendix A: List of CSR activities based on Kansal et. al (2014) study

Theme	Item
Community Development	Promotion of education through donations/scholarships
	Summer or part-time employment of students
	Sponsorship of educational conferences, seminars, and art exhibits
	Sponsorship of public health projects/medical camps
	Aiding medical research
	Supporting national pride and government campaigns
	Supporting the development of local industries or community programs and activities
	Generation of jobs
	Establishment/maintenance of educational institutions
	Formulating vigilance committee to check corruption in the company
	Livestock/wasteland development
	Providing relief to victims of natural disasters
	Employee volunteerism for community work
	Rural development program/adoption of villages
	Rainwater harvesting
	Improving road network

	Improving agricultural productivity
	Aids to sports
	Meals for the disabled/midday meals for children
	Special community related activities, e.g. opening the company's facilities to the public
	Adopting old age homes
	Mass marriage programs

Theme	Item
Human Resources	Statements regarding reduction of pollutants, irritants, hazards, injuries
	Promoting employee safety and physical or mental health
	Compliance with health and safety standards and regulations
	Receiving a safety award
	Establishing a safety department/committee/safety policy
	Providing low cost health care for employees
	Disclosing percentage or number of minority employees in the workforce and/or in the various managerial levels
	Employment of differently abled people/ex-servicemen
	Training employees through in-house program
	Giving financial assistance to employees in educational institutes or continuing education courses
	Establishment of trainee centers
	Staff accommodation
	Providing recreational, cultural and activities/facilities
	Providing the number of employees in the company and/or at each branch/subsidiary
	Providing per employee statistics, e.g. assets per employee and sales per employee
	Providing information on the company/management's relationships with the employees in an effort to improve job satisfaction and employee motivation e.g. Strikes/statements regarding cordial relations
	Improvements to the general working conditions—both in the factories and for the office staff
	Information and statistics on employee turnover
	Information and statistics on employee turnover

	Winning an award for being a good employer
	Awards given away for motivation of employees
	Stock option plans for the employees or Employee share purchase schemes
	Retirement benefits
	Subsidized canteen
	Feedback from employees
	Employee loan facilities
	Employee welfare fund
	Information about support for day-care, maternity and paternity leave
	Holiday benefits
	Disclosing percentage or number of women employees in the workforce and/or in the various managerial levels

Theme	**Item**
Products, Services - Safety and Innovation	Information on developments related to the company's products, including its packaging, e.g. making containers reusable
	The amount/percentage figures of research and development expenditure for specific products and/or its benefits
	Information on the quality of the firm's products as reflected in prizes/awards received
	Verifiable information that the quality of the firm's product has increased
	Disclosing improved or more sanitary procedures in the processing and preparation of products
	Information on the safety of the firm's product
Environment	Pollution consciousness in conduct of Business operations (capital, operating, R& D for pollution abatement)
	Statements indicating that the company's operations are non-polluting or that they are in compliance with pollution laws and regulations
	Statements indicating that pollution from operations have been or will be reduced
	Prevention or repair of damage to the environment resulting from processing or natural resources, e.g. land reclamation or reforestation
	Conservation of natural resources, e.g. recycling glass, metals, oil, water and paper; using recycled materials
	Preventing waste/ waste management
	Biodiversity/wildlife conservation
	Signatory status to agreements that commit the organization to consider the environment in its operations

	Water, environment studies/surveys
	Water reuse/reduction of water usage
	Use of environment friendly materials
	Claims that the company is water positive/targets to become water positive
	Discussion of environment management systems
	Donations for restoring historical buildings/structures
	receiving an award for environment programs and policies

Theme	Item
Energy	Conservation of energy in the conduct of business operations/using energy more efficiently during the manufacturing process
	Use of alternate sources of energy
	Discussing the company's efforts to reduce energy consumption
	Receiving an award for an energy conservation program
	Disclosing the company's energy policies
	Voicing concerns about energy shortages
	Energy conservation/day week/month/awareness
Emission of Carbon and Harmful gases	Setting Carbon emission targets
	Disclosing mode used for reducing carbon emission
	Statements showing that emissions within the limits
	Efforts to reduce carbon emissions
	Clean development management project (use of clean technology)
	Carbon emission management system
	Green building movement
	Statements that company is carbon positive
	Signatory to MOU with other corporate with regard to reduction of emissions

	Membership of United Nation Global Compact (UNGC) Program
Other CSR activities	Corporate objectives/policies: general disclosure of corporate objectives/policies relating to the social responsibility of the company to the various segments of society
	Receiving CSR rewards
	Social accounting system audit
	CSR or part of CSR as a theme on title page/part of company mission/vision statement
	Encouragement to implement official language
	Issuance of value added statements

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Table 1 Descriptive Statistics

		1	2	3	4	5	6	7	8
1	CSR disclosure	1							
2	FDI/asset	0.33***	1						
3	Market Seeking Motive	0.21***	0.14***	1					
4	LnSales	0.25***	0.16***	0.12***	1				
5	LnAge	0.003	0.09***	0.06**	0.26***	1			
6	Industry	0.04	0.03	0.01	0.009	0.02	1		
7	Business Group Affiliation	0.14***	0.19***	0.14***	0.34***	0.15***	0.001	1	
8	Profitability	0.13***	0.16***	0.08**	0.10***	0.005	0.002	0.07**	1

*** p<0.010; **p<0.050, *p<0.100

Table 2 Results of multiple linear regression

	Model 1	Model 2	Model 3
	Coefficient	Coefficient	Coefficient
Intercept	1.65*** (0.05)	1.35*** (0.08)	1.37*** (0.08)
FDI/asset		0.06*** (0.01)	0.05*** (0.01)
Market Seeking Motive		0.19*** (0.06)	0.19*** (0.06)
BG Affiliation*FDI/asset			0.03*** (0.01)
LnSales	0.04*** (0.01)	0.04*** (0.01)	0.04*** (0.01)
LnAge	0.03 (0.02)	0.02 (0.02)	0.02 (0.02)
Industry	0.05 (0.03)	0.06 (0.04)	0.06 (0.04)
Profitability	1.27*** (0.34)	1.25*** (0.33)	1.25*** (0.33)
Business Group Affiliation	0.09*** (0.02)	0.10*** (0.03)	0.10*** (0.03)

Overall R square	0.13	0.16	0.17

*** p<0.001; **p<0.050, *p<0.100; s.e in parenthesis