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# Strategic CSR and firm performance

Aligning subsidiary CSR practices in emerging markets



Mirella P.N.C. Soyer

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Strategic CSR and firm performance:  
Aligning subsidiary CSR practices in emerging markets

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Mirella P. N. C. Soyer

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Strategic CSR and firm performance:  
Aligning subsidiary CSR practices in emerging markets

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to be defended in public on Tuesday, December 15, 2015  
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“Travelers, there is no path, paths are made by walking.” – Antonio Machada, 1912

When commencing this PhD journey, I knew little of what was ahead of me. This is likely true for most PhD candidates, especially those who pursue this quest at a later stage in life. The inspiration for my PhD topic came from professional experience. I lived in Malaysia for thirteen years, and ten of these were spent advising foreign subsidiaries on their corporate social responsibility (CSR) activities. I observed that firms often hold fundamentally different beliefs regarding the meaning and relevance of CSR for their operations in Malaysia. I also noticed that firms varied considerably in the outcomes reported resulting from their CSR initiatives. This puzzled me as a consultant, and ignited my curiosity as an academic. What started as an innocent inquiry turned into a five-year quest to explain the relationship between CSR and firm performance. None of this would have been possible without the support of the companies who volunteered their time to my research. It is with gratitude to these companies that I present with this text the harvest of my endeavours.

On this journey, several guides have lent their support. I would like to thank Jan Jonker, my supervisor, who helped me to land in the Netherlands academically and who always knew what I needed most in order to lift me out of an impasse and open my mind. I also would like to thank Eric Jacobs, who was able to ‘field’ the quantitative issues on my journey.

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In the end, none of this would have been possible without the endless support of my husband, Erik. Throughout all those years that I spent in my office, mulling over some issue I seemed unable to resolve, he allowed me to ramble on as long as was necessary until I understood my own thoughts, and he continually stood by my side. As such, earning a PhD is definitely something done with the help of others. I am also grateful to my parents for pointing out the value of commitment and perseverance, and I would like to thank my wonderful ‘given’ daughters Marloes and Lisanne for their encouragement. Lastly, a special thought goes to my furry departed friends Coco and Djazzie who never failed to ground me in what really matters in life, namely tender loving care.

*Mirella Soyer*

*Prinsenbeek, September 15, 2015*



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## ABBREVIATIONS

AC	Agricultural Company, code to designate a participating subsidiary in phase
B2B	Business to Business
B2C	Business to Consumers
CBO	Community-Based Organisation
CDP	Carbon Disclosure Project
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
DJSI	Dow Jones Sustainability Index
EMDE	Emerging Market and Developing Economies
F&B	Food and Beverage, code to designate a participating subsidiary in phase one
FC	Financial Company, code to designate a participating subsidiary in phase one
FDI	Foreign Direct Investment
FP	Firm Performance
FTSE4Good	Financial Times Stock Exchange, this specific series is designed to measure the performance of companies with strong environmental, social and governance (ESG) practices
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GLC	Government-Linked Company
GNI	Gross National Income
GRI	Global Reporting Initiative
HACCP	Hazard Analysis Critical Control Point
HC	Hospitality Company, code to designate a participating subsidiary in phase
HRM	Human Resource Management
IB	International Business

IC	Industrial Company, code to designate a participating subsidiary in phase one
ILO	International Labour Organisation
ISO 14001	International Standard Organisation 14001
KLSE	Kuala Lumpur Stock Exchange
KMO	Kaiser–Meyer–Olkin Measure of Sampling Adequacy
KPI	Key Performance Indicator
LC	Logistic Company, code to designate a participating subsidiary in phase one
LEED	Leadership in Energy and Environmental Design
MNC	Multinational Company
NGO	Non-Governmental Organisation
OCB	Organisational Citizenship Behaviour
OEM	Original Equipment Manufacturer
OGC	Oil and Gas Company, code to designate a participating subsidiary in phase
OHSAS 18001	Occupational Health and Safety Assessment Series 18001
PAF	Principal Axis Factoring
SA 8000	Social Accountability Standard 8000
RBV	Resource-Based View
RDT	Resource Dependence Theory
RSPO	Roundtable on Sustainable Palm Oil
VCS	Voluntary Carbon Standard

# 1 INTRODUCTION

Globalisation has allowed multinational corporations (MNCs) to disperse parts of the value chain across the globe in order to develop new markets, produce at lower costs and gain access to key resources. These motives for internationalisation bring MNCs to countries where they are confronted with differing interpretations of corporate social responsibility (CSR)<sup>1</sup>. Despite this development, academic research on CSR and MNCs is embryonic (Rodriguez & Siegel, 2006), particularly when it concerns the approach to CSR taken by MNCs in emerging economies (Jamali, 2010; Yang & Rivers, 2009). Progress is complicated because there is lack of agreement on the universality of the CSR concept across different cultures and economic systems (Baden & Harwood, 2013; Matten & Moon, 2008; Scherer, Palazzo, & Matten, 2009). Moreover, despite that 95% of the largest MNCs report their CSR practices (KPMG, 2012), another study reported that 46% of the MNCs experience difficulties in quantifying the intangible effects of sustainability investments, while 37% of these organisations find that CSR investments are often in conflict with other business priorities (Kiron, Kruschwitz, & Haanaes, 2013). These findings suggest that it is unclear how CSR investments benefit firms (McWilliams & Siegel, 2011) and that the business case for CSR is still an elusive target. The research problem being addressed in this dissertation explores the business case for CSR of MNC subsidiaries within the context of emerging markets.

The overall aim of this chapter is to provide a point of departure for the dissertation and to help position this research in theoretical, empirical and practical contexts. The next section discusses the research problem in greater detail by focussing on five factors that have influenced the current state of research on the CSR–FP relationship. The first two gaps in the literature are then translated into the main research question, followed by an introduction to the research methods. Finally, the outline of the structure of the dissertation is presented.

## 1.1 THE RESEARCH PROBLEM

An impressive array of studies investigated the organisational outcomes of CSR investments. This body of research stretches over 40 years and encompasses more than 250 mostly quantitative studies, predominantly of Anglo-Saxon origin. Inconclusive outcomes led several researchers to meta-analyse the effect sizes of the individual studies. Overall, these results show a modest positive significant effect, with CSR investments accounting for 13% to 18% of the firm performance variations (Allouche & Laroche, 2005; Margolis, Elfenbein, & Walsh, 2007; Orlitzky, Schmidt, & Rynes, 2003). This somewhat disappointing outcome may be attributed to five factors;

---

<sup>1</sup> For the purpose of this research and to augment the readability of the dissertation, all conceptualisations regarding the relationship between business and society in its widest meaning will be referred to by the umbrella term “CSR”, unless the author of the publication referred to intended otherwise.

four of them are methodological in nature, and one of them is theoretical.

The first factor concerns the method of meta-analysis, which requires observations to be independent (Ellis, 2010). However, a large number of studies in the meta-analytic datasets are sampled from the same underlying pool of firms drawn from archival sources, such as the Fortune Reputation Rating and various databases (KLD index, CEP index and mutual fund screens). As an illustration, of the 167 studies included in the meta-analysis by Margolis et al. (2007), only 10 studies collected primary data. Secondly, although archival data help to improve the objectivity of the measurement, they also introduce the rigidity of the database as a study limitation (Staw & Sz wajkowski, 1975). Consequently, the same databases have been used to measure theoretical constructs such as stakeholder engagement, corporate social performance and CSR in general, but these different theoretical positions are not empirically reflected. The ensuing theoretical conflation led to a situation in which very different theoretical constructs were repeatedly operationalized using the same databases. The third factor involves the unit of observation. Archival databases typically aggregate measures on CSR and firm performance (FP) for the entire organisation. Several researchers (Aguilera, Rupp, Williams, & Ganapathi, 2007; Garcia-Castro, Ariño, & Canela, 2010; Halme & Laurila, 2009; Muller & Kolk, 2009) pointed out that CSR practices differ in their impact on firm performance. Observing that few studies differentiated CSR practices in their research design, various scholars (Aguilera et al., 2007; Garcia-Castro et al., 2010; Halme & Laurila, 2009) called for research using segregated measures to examine the CSR–FP relationship in greater detail. The fourth factor encompasses the unit of analysis, which usually involves an MNC, leading MNCs to be treated as singularities while inexplicitly assuming that CSR initiatives are evenly diffused throughout the firm regardless of where firm activities are located. However, globalisation of markets and production factors has brought MNCs to countries with emerging and developing economies. The United Nations (UNCTAD, 2013) observed a trend whereby developing economies are surpassing developed economies as a recipient of foreign direct investment (FDI). In spite of this development, the specific debate on domestic versus overseas CSR has not received much attention (Bondy & Starkey, 2014; Campbell, Eden, & Miller, 2012; Kolk & van Tulder, 2010; Peng & Pleggenkuhle-Miles, 2009), which is reflected in a paucity of studies on the CSR approach of MNCs' subsidiaries in emerging markets (Aguilera-Caracuel, Aragón-Correa, Hurtado-Torres, & Rugman, 2012; Reimann, Ehr Gott, Kaufmann, & Carter, 2012; Yang & Rivers, 2009).

*These observations highlight the first gap in the literature, namely a lack of understanding of the actual CSR initiatives implemented by MNCs in emerging markets. Given this lack of understanding, it is also unclear to what extent CSR measures established for MNCs are applicable at the subsidiary level.*

The fifth and final factor is related to the CSR–FP relationship itself. The rather low effect sizes suggest that the relationship is influenced by other poorly understood factors and mechanisms (Aguinis & Glavas, 2012). There is a need to search for other explanatory variables that influence the CSR–FP relationship (Garcia-Castro et al., 2010; Mishra, 2010), as the individual theories proposed thus far have failed to satisfactorily explain the relationship between CSR and FP. New insights may also result from integrating different theoretical perspectives (Aguinis & Glavas, 2012; Volberda, van der Weerd, Verwaal, Stienstra, & Verdu, 2012). The lack of consideration of the strategic aspects of CSR (McWilliams & Siegel, 2011) led several scholars to call for a more strategic examination of CSR (Galbreath, 2010a; Halme & Laurila, 2009; Husted & De Jesus Salazar, 2006; Tang, Hull, & Rothenberg, 2012). With the scarcity of theoretical research on the determinants of strategic CSR and their interlinks (McWilliams & Siegel, 2011), and the mechanisms by which CSR increases revenues or decreases costs (Galbreath & Shum, 2012), the strategic side of CSR seems a promising and relevant field for further research. In other words, a more constructive question for the present state of CSR–FP research “is not whether CSR ‘pays’, but instead when or under what circumstances” (Orlitzky, Siegel, & Waldman, 2011, p. 10). This question is particularly relevant for research involving MNCs operating within the context of emerging markets. MNCs may internationalise into a particular foreign markets in order to easily access available resources, to pursue efficiency, to protect or exploit new market or to gain access to specific strategic assets (Dunning & Lundan, 2008). The institutionally very different context of emerging markets, however, may present a dilemma to the subsidiary: should it align its CSR practices with host country expectations or with the demands of the home country? The relevance of institutional factors for the achievement of internationalisation objectives puts strategic CSR at the intersection of institutional theories and contingency theories. Within the context of this research, strategic CSR is defined as the undertaking of CSR initiatives in the domains<sup>2</sup> of the market place, the workplace, the environment and the community from which the organisation benefits.

*This highlights a second gap in the literature, namely a lack of understanding of the strategic factors that influence the CSR–FP relationship of MNC subsidiaries operating in emerging markets. Insights into these factors might result from integrating different theoretical perspectives, including institutional and contingency theories.*

---

<sup>2</sup> These domains correspond with classifications used by institutions such as the UK profit organisation Business in the Community (2012), and the Kuala Lumpur Stock Exchange in Malaysia (2009), and largely overlap with categories used by the European Commission (2011) and the Dow Jones Sustainability Index (2014).

## 1.2 RESEARCH QUESTION AND OBJECTIVES

Based on the foregoing, the main research question informing this research is stated as follows:

*“How does the strategic alignment of CSR practices influence firm performance of MNC subsidiaries operating in emerging markets?”*

Answering this question requires an in-depth understanding of the CSR activities undertaken by foreign MNC subsidiaries in emerging markets. In other words, to what extent do the CSR practices communicated by corporate headquarters reverberate at the subsidiary level? In addition, the research question requires an exploration of the institutional context of emerging markets to help uncover the variables that inform the strategic alignment of CSR practices of foreign MNC subsidiaries operating in these markets. Finally, the strategic deployment of CSR practices implies that strategic CSR may support the achievement of the MNC motives to internationalise into emerging markets.

The main objective of this dissertation is to uncover the factors and the mechanisms that explain variations in firm performance attributed to CSR practices undertaken by MNC subsidiaries operating in emerging markets. Specifically, this research aims to:

1. Investigate the CSR activities of subsidiaries in emerging markets in order to understand to what extent the CSR practices of MNCs resonate at the subsidiary level.
2. Uncover the strategic factors that influence the CSR–FP relationship of MNC subsidiaries in emerging markets.
3. Understand how strategic CSR approaches should be aligned with these factors in order to maintain or, more preferably, improve firm performance.

## 1.3 METHODOLOGY

As Margolis et al. (2007) observed, nearly all past reviews on the CSR–FP relationship called for more and better research. However, it is unlikely that another quantitative study corroborating previous findings will produce new insights. Instead, at this stage, a different approach is required to uncover the factors that inform CSR initiatives and contribute to firm performance (McWilliams & Siegel, 2011). In particular, there is a need for more qualitative studies in order to improve our understanding of the underlying mechanisms of CSR (Aguinis & Glavas, 2012). The present research heeds this call by selecting a mixed methods research approach consisting of two phases. The qualitative first phase aimed to explore the institutional and contingency factors that influence the CSR–FP relationship. This was accomplished by setting the research in the emerging market of Malaysia and selecting a sample of seven MNCs that varied as much as possible on

factors known in the literature to influence the CSR–FP relationship. This approach helped identify which variables varied across cases and which remained constant. The data collection set, consisting of 39 interviews with senior managers and supplemented with other company information, was analysed using techniques borrowed from grounded theory. The results of this phase helped define and operationalize CSR practices at the subsidiary level, assess the extent to which CSR practices communicated by the parent organisations are implemented by their subsidiaries, and led to the development of a CSR strategic alignment framework comprising of four strategic CSR approaches. Combined, these results informed the second phase, in which the data from a sample of 87 foreign subsidiaries operating in Malaysia were analysed using quantitative methods. The definitions of the CSR practices at the subsidiary level were used to operationalize CSR measures for the marketplace, the workplace, the community, the environment and integrated practices. In addition, the other measures of the strategic CSR model were operationalized. Principal axis factoring and reliability analysis were used to establish internal consistency and unidimensionality of the measures employed. The size of the sample limited the types of analyses that could be performed. The finds of the regression analysis indicate that the CSR–FP relationship is moderated by resource dependence and market dependence. Market-seeking subsidiaries and those that predominantly rely on host country resources may significantly benefit from CSR practices that are institutionally aligned with emerging markets' expectations.

## **1.4 RESEARCH CONTRIBUTIONS**

### **■ Theoretical contributions**

First, this research makes a theoretical contribution by extending contingency theory into the realm of institutional theory and the resource-based perspectives theories. The result is a strategic framework that explains the instrumental value of CSR strategies in the context of an emerging market, such as Malaysia. More specifically, the study identifies the strategic dimensions of market dependence and resource dependence as factors that explain why organisations pursuing similar CSR practices may obtain different results from their CSR investments. Second, this research contributes to resource dependence theory (RDT), which deals with resources, power and the environment, by engaging with the theory at an empirical rather than theoretical level (Wry, Cobb, & Aldrich, 2013). In fact, resource dependence is one of the explanatory dimensions regarding CSR investments in an international emerging setting. In this study munificence is associated with legitimacy, which allows differentiating between key interest groups that control access to critical resources for the subsidiary. Third, this research departs from earlier research

traditions that investigated the CSR–FP relationship with the aid of individual theories. Heeding to the call for an integration of theoretical streams, this research brings together insights from resource-based perspectives, institutional theory and internationalisation strategy. This integration helps identify where these strands overlap and how they influence the CSR-FP relationship. Finally, the research extends the literature on CSR classifications and adds a special class, which in this dissertation is labelled integrated practices. These practices combine different types of CSR activities into a unique practice, which involves intangible tacit skills or knowledge based resources, functional capabilities associated with various activities of the value chain, mechanisms that integrate the tacit knowledge into organisational routines, and dynamic capabilities that help integrate and coordinate functional capabilities. This discovery offers a new perspective on the debate regarding the deployment of resources in the resource-based view (RBV) theory by showing how integrated practices increase CSR outcomes by focusing on effective rather than efficient resource deployment.

#### ■ **Empirical contributions**

This research makes two empirical contributions. First, this study observed the call to investigate CSR practices through the use of segregated measures. Moreover, the collective case study findings helped to define CSR practices at the subsidiary level, which have been validated with a sample of 87 subsidiaries. The result is internally consistent and unidimensional subsidiary-level CSR measures for the marketplace, the workplace, the environment, the community and integrated practices. Second, the findings shed light on the extent to which CSR practices of MNCs resonate at the subsidiary level. This study uncovers a difference between parent organisations and subsidiaries in the types of practices implemented, especially with regards to community and environmental practices. An implication of this finding is that CSR practices measured at the MNC level are not suitable proxies for CSR practices at the subsidiary level. Furthermore, studies investigating the CSR–FP relationship at the MNC level cannot be generalised to subsidiaries operating in emerging markets.

#### ■ **Contributions for managerial practice**

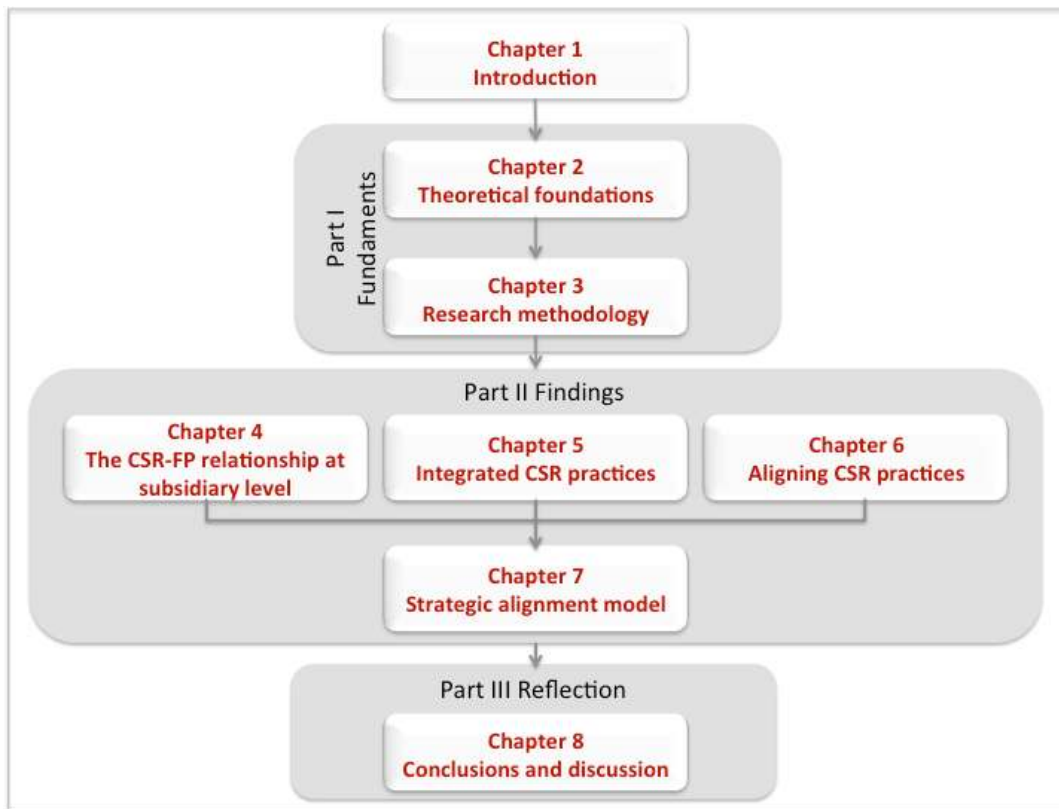
By connecting firm dependencies associated with internationalisation motives to CSR investments, this strategic alignment model can support managers in determining what types of CSR practices are relevant in light of the MNCs strategy for the emerging market. The uncovering and analysis of integrated practices offers guidance in the development of these value creating practices and the embedding of associated knowledge and capabilities in the organisation.



## 1.5 DISSERTATION OUTLINE

The dissertation is organised into three parts (see the outline in Figure 1-1).

Figure 1-1 Dissertation structure



Part one provides the fundamentals for the dissertation and consists of two chapters. Chapter two reviews the CSR–FP literature from a normative, classic economic and strategic perspective. More specifically, it describes and analyses the current academic debate on CSR and positions this research within the strategic perspective. In doing so, it uncovers additional research issues associated with the main research question. Chapter three concerns the research methodology and introduces mixed methods as the research approach, consisting of a qualitative phase (phase one) that informs a quantitative phase (phase two). After explaining the overall research design, the chapter continues with a detailed description of the data collection and analysis techniques employed in the qualitative phase of the research. The techniques used for the quantitative phase are discussed in chapter seven.

Part two presents the research findings in four chapters, with the findings garnered from the qualitative phase presented in chapters four, five and six. Chapter four presents the CSR practices employed by the seven MNCs in detail, and analyses the extent to which parental practices communicated in public reports concur with the actual CSR practices implemented at the

subsidiary level. In doing so, construct definitions are established for the four CSR domains and for the strategic value of these investments. Chapter five is dedicated to the presentation and discussion of practices that integrate activities belonging to different CSR domains; hence, they are denoted as “integrated practices”. After describing the five different types of integrated practices discovered in the dataset and analysing the strategic value derived from these practices, they are investigated through the lens of the RBV in order to determine the sources from which and the mechanism by which these types of practices derive their value. The outcomes of this analysis suggest that integrative practices derive their value from effective resource deployment by engaging in a wide range of CSR practices rather than opting for a more efficient approach focused on a limited range of CSR activities. Chapter six focuses on the factors that influence the CSR–FP relationship in order to develop a strategic alignment model. The model integrates concepts derived from institutional theory, RDT and motives for internationalisation, allowing for the development of four distinct strategic approaches to CSR. The findings presented in chapters four, five and six inform chapter seven. This chapter explains in detail the techniques used to operationalize the main constructs and variables and the procedures employed to analyse the dataset. It then assesses the extent to which the findings can be generalised to the sample of 87 foreign MNCs with operations in Malaysia.

Part three reflects on the conclusions and the findings. It starts with an overview of the key findings and then continues with a synopsis of the contributions of the results to theory, research and management practice. This is followed by a reflection on the research process and the limitations of the research. It concludes with an agenda for future research.

## **SUMMARY AND CONCLUSIONS**

This chapter frames the research problem of the CSR–FP relationship in the context of MNCs operating in emerging markets. Based on an analysis of the results of three meta-analytical studies, five factors are identified to help explain why research on the CSR–FP relationship produces such a modest effect size. The first four factors are methodological in nature and involve a) issues associated with the samples in the meta-analytical datasets; b) limitations of databases to operationalize the constructs used to explore the relationship; c) the unit of observation commonly employed to aggregate CSR activities which leads to loss of performance variations associated with individual CSR practices; d) the unit of analysis involving MNCs while assuming that CSR initiatives reported by MNCs are evenly spread throughout the organisation, regardless of the country of operation. The fifth factor concerns the lack of understanding on the factors and mechanisms that influence the CSR–FP relationship.

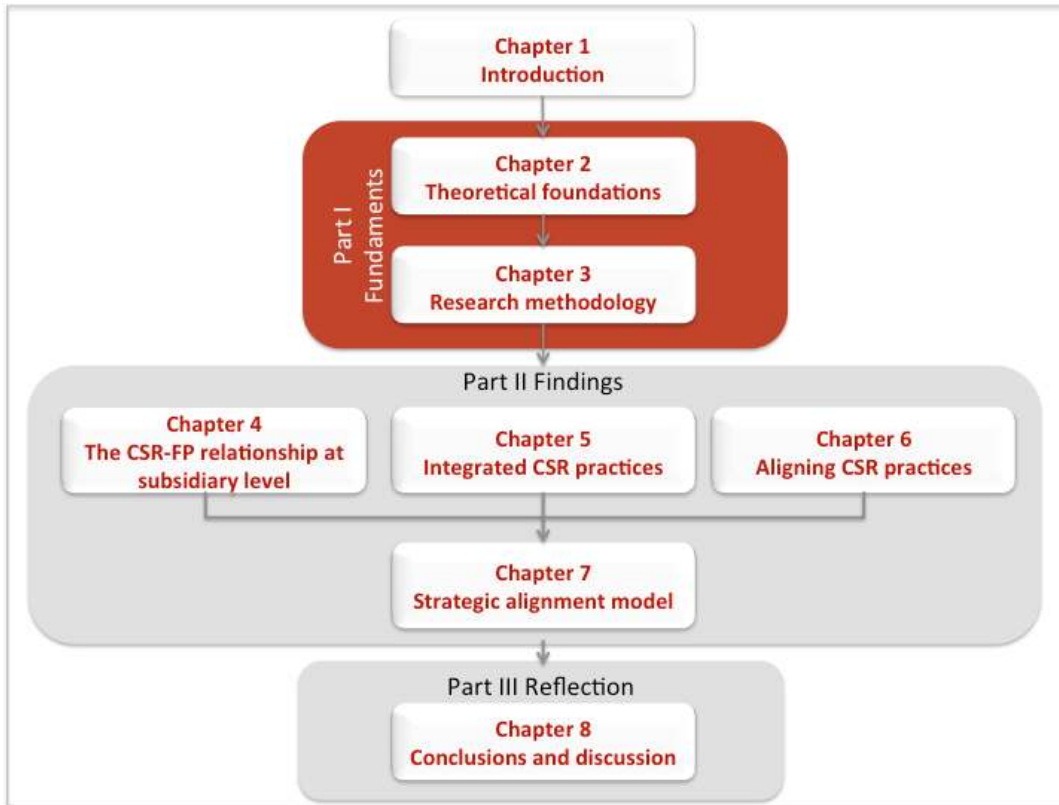
The evaluation of the research problem uncovered two gaps in the literature, namely a lack of understanding of:

1. The actual CSR activities undertaken by subsidiaries operating in emerging markets and an assessment of the extent to which current CSR measures are applicable at subsidiary level.
2. The strategic factors informing the CSR–FP relationship, which might be uncovered through integrating various theories and frameworks, including institutional theory, internationalisation motives, resource-based perspectives and contingency theory.

The first gap is empirical in nature, whereas the second gap is linked with theory. These theoretical links are in the next chapter explored through the lens of the normative, the classic economic and the strategic perspective.

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# PART I FUNDAMENTS



**Chapter two** reviews the literature on the CSR–FP relationship from three theoretical perspectives, namely a normative, an economic and a strategic perspective. Each perspective is investigated with regards to its philosophical foundations, its contributions to CSR–FP research and the issues associated with the gaps identified in chapter one.

**Chapter three** describes the research methodology of mixed methods. The chapter provides a justification for the research design as well as a detailed description of the qualitative methods used to collect and analyse data from seven MNCs operating in the emerging market of Malaysia. The quantitative techniques used to test the results of the qualitative phase, namely a strategic CSR framework, are discussed later in this dissertation, in chapter seven.

## 2 THEORETICAL FOUNDATIONS

Ever since discussions on the relationship between business and society started, scholars have attempted to properly qualify and theorise this association and its constructs. The different positions that arose reflect the dominant views of the period and particular institutional backgrounds. Consequently diverging notions permeate the discourse on CSR, and continue to have a great influence on the research investigating CSR and its outcomes.

This chapter has three aims. First, it discusses the converging and diverging paths of CSR and sustainable development. Second, it investigates the foundations of three theoretical perspectives that have dominated the CSR debate notably, the normative, the classic economic and the strategic perspectives. Third, based on the contributions of these perspectives to the discourse on CSR and FP, factors influencing the CSR–FP relationship are identified.

This chapter continues with an actualisation of the debate on CSR and corporate sustainability. This is followed by an in-depth literature review of the theoretical perspectives. It concludes by associating the literature gaps identified in chapter one with strategic factors identified in the literature review.

### 2.1 CORPORATE SOCIAL RESPONSIBILITY VERSUS CORPORATE SUSTAINABILITY

Myriad terms are used to describe the relationship between business and society, including business ethics, corporate citizenship, corporate sustainability, CSR, corporate social performance, corporate philanthropy, corporate social responsiveness, environmental management, stakeholder management, sustainable development and triple bottom line. Some of these terms, such as CSR and corporate social performance, completely correspond, whereas others, such as corporate citizenship and sustainability, hardly overlap (De Bakker, Groenewegen, & Den Hond, 2005). The meaning of these concepts can vary based on place and time (Mohan, 2003), reflecting the influence of different institutional backgrounds (Freeman & Hasnaoui, 2011; Matten & Moon, 2008; McWilliams, Siegel, & Wright, 2006). The term CSR, along with related idioms, is mainly used by US-based researchers. For example, the most cited definition of CSR is attributed to Carroll (Freeman & Hasnaoui, 2011; Montiel, 2008), who conceptualised CSR as “the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979, p. 500). The term “sustainable development”, on the other hand, is more associated with Europe, and became popular through the publication of the Brundtland Report titled “Our Common Future” (World Commission on Environment and Development, 1987).

In this report, the World Commission on Environment and Development, chaired by the

Norwegian Prime Minister Gro Harlem Brundtland, defined sustainability as “the economic development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs”(World Commission on Environment and Development, 1987, p. 41). The relationship between the socially rooted CSR and the environmentally inspired sustainability is viewed by some scholars as a hierarchy, with corporate sustainability as the ultimate goal despite its bias toward environmental policies (Marrewijk, 2003). Others regard sustainability as one of several approaches to CSR (Garriga & Melé, 2004). Moreover, there is growing support for treating sustainability and CSR as synonyms (Keijzers, 2003) or as umbrella constructs (Strand, Freeman, & Hockerts, 2015). Indeed, when sustainability is perceived less as a purely ecological concept and more as a tridimensional construct that includes social, economic, environmental dimensions (Bansal, 2005), the differences seem merely semantic. Furthermore, there is considerable overlap in the research measures used to operationalize CSR and sustainability (Montiel, 2008). At first glance, it would appear that the term “sustainability” is gaining ground (Strand et al., 2015). Overall, however, the developments in the dynamic field of corporate relationships with society show converging paths for CSR and sustainability (Marrewijk, 2003; Montiel, 2008). The foregoing suggests that the road to a universally accepted definition is riddled with difficulties, which may make one question whether we need an uncontested definition at all (Okoye, 2009). If these concepts and their definitions reflect different contexts and different times, all signifying the dynamic relationship between corporations and society, then both corporations and society may benefit from this debate (see, for example, the theoretical exposé by King (2007) on the mutually beneficial partnerships between corporations and environmental groups). The contribution of social scientists to this debate consists of describing, theorising and investigating the antecedents and consequences of the relationships involved from as unbiased a perspective as possible. The next section evaluates the contributions of three perspectives that have informed this debate.

## **2.2 THREE THEORETICAL PERSPECTIVES ON CSR**

Since Ullmann’s publication “Data in Search of Theory” appeared in 1985, several scholars (Margolis et al., 2007) posited that 45 years of research did not produce a theory that sufficiently explains the CSR–FP relationship. However, it may be more accurate to state that a single integrating theory explaining the relationship is missing. As a consequence, advocates of different positions disagree on the definition of CSR and how it should be measured, particularly with regards to outcomes (Salazar, Husted, & Biehl, 2012). This section disentangles the debate using the questions that are germane to the CSR debate (e.g. To whom is the firm responsible and why?) and the philosophical underpinnings that inform the perspective.

Table 2-1 presents an overview of the different perspectives on these questions. The next three sections review the theoretical foundations, research contributions and unresolved issues related to each perspective, respectively.

**Table 2-1 Different theoretical perspectives on CSR**

Main questions	Normative perspective	Classic economic perspective	Strategic perspective
<b>To whom is the firm responsible?</b>	Society at large	Shareholders	Critical stakeholders
<b>Why is the firm responsible?</b>	Because of the power corporations have and because of the effect corporations have on society	Because the agent appointed by the shareholders needs to run the firm within the law and make sure that it returns a profit	Because the firm needs to survive in the long term and requires critical stakeholders to support the firm
<b>For what is the firm responsible?</b>	For its impacts on society and for society at large	For maximizing shareholder wealth and preventing reputation damage	For conducting its business such that negative impacts are minimized and positive impacts are maximized
<b>What is its central assumption?</b>	Good CSR is performed for altruistic motives. Consequently, the focus is on CSR and not on the CSR–FP relationship.	CSR creates costs that are difficult to recover; therefore, the relationship between CSR and firm performance is negative.	Strategic CSR enhances firm performance.
<b>What is the main research question?</b>	How socially responsible is the firm?	How can shareholder profit be maximized?	How do investments in CSR improve FP?
<b>What are its philosophical roots?</b>	Kantian deontology and versions thereof	Moral egoism Libertarianism	Utilitarianism Moral common sense
<b>What are the perspective's theoretical frameworks?</b>	Moral theories Institutional theory	Market capitalism Standard economic theory Agency theory	Instrumental stakeholder theory Resource-based view Resource dependence theory

### 2.2.1 THE NORMATIVE PERSPECTIVE ON CSR

From the normative perspective, definitions of CSR urge firms to perform activities “beyond the narrow economic, technical, and legal requirements of the firm” (Davis, 1973, p. 312). Moreover, firms should “integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a *voluntary* [emphasis added] basis” (Commission of the European Communities, 2001, p. 366). Overall, normative definitions share the inexplicit imperative for organisations to undertake moral duties voluntarily, while exceeding basic expectations without any self-interested motive. In other words, the normative perspective is, in essence, not interested in the relationship between CSR and FP (Wood, 2010). Hence, the main research question informing this perspective is framed as, “*How socially responsible is the firm?*”



### 2.2.1.1 Philosophical foundations informing the normative perspective

Commonly held prescriptions about the moral obligations and expectations of corporations are derived from Kantian deontology and versions thereof. Research informed by these philosophical traditions depart from moral evaluation, judgment and prescription of human action (Trevino & Weaver, 1994). The result is a set of virtues that are believed to be morally just, irrespective of the actions or the outcomes (Maitland, 1997). Departing from virtue ethics, the social responsibility of the firm is determined by evaluating the firm's performance with regards to three moral duties: the duty to respond and act when the firm causes or contributes to conditions that create cost for external stakeholders; the duty to respond to a harmful or unjust condition from which it benefits (e.g. operating in countries with lower social and environmental standards); and the duty to promote the well-being of society at large (Margolis & Walsh, 2003).

#### ■ The duty to manage the firm's externalities

Most religions and philosophies espouse the idea that one is responsible for the ethical consequences of one's actions where they affect the interests of others (Davis, 1967). From this perspective, CSR is perceived as a common-sense liability model whereby actors are blamed for the harm they inflict and for failing to remediate the consequences of their actions (Wettstein, 2012). The idea of evaluating CSR from a duty perspective requires that this maxim apply equally to individuals and institutions such as businesses. In other words, firms are obliged to address their negative impacts, and when failing to do so, should be punished for their negligence. The fundamental sensibility of this duty resonates with governmental bodies, non-governmental organisations and practitioners alike. For example, the European Commission currently defines CSR as "the responsibility of enterprises for the impacts on society" (2011, p. 6). Although the intuitive logic of this duty seems obvious, there are instances where it is less clear who should be held responsible. Shell, for example, has been active in Nigeria for several decades through the joint venture The Shell Petroleum Development Company Nigeria Ltd (SPDC). From their onset, Shell's operations in the Niger Delta have been intertwined with local politics. In the absence of local government officials, grievances of the local population were directed to oil companies, including Shell. These complaints reflect concerns over the vast environmental pollution in the Niger Delta. Shell admitted to some of the spills that occurred in 2008 and 2011, but disputed the amount of oil spilled and the extent of the environmental damage. In retort, Shell blamed the majority of the oil spills on criminal tampering. More specifically, of the 26,000 barrels of oil spilled in 2012, 90% could be attributed to criminal activity (Jolly & Reed, 2013). With the help of Friends of the Earth, several farmers brought the case before a Dutch court, which acquitted Shell of most of the charges, save for one oil spill near the village of Ikot Ada Udo. However, the environmental

pollution of the Niger Delta is undeniable, and some wonder why Shell left 7,000 kilometres of pipeline unguarded in a poor country such as Nigeria (Jolly & Reed, 2013). In September 2013, Shell started compensation talks with Nigerian villagers for the oil spills that occurred in 2008 and affected the livelihood of thousands of farmers and fishermen (Lee, 2013). Shell is also expected to clean up the damage caused by the spill. From a moral point of view, Shell is responsible for all of the spills, regardless of who is to blame. Accordingly, a normative understanding of CSR requires the firm to redistribute profits and address real and assumed externalities voluntarily.

■ **The duty to respond to unjust conditions, while benefiting from these**

One of the reasons that firms internationalise is to benefit from cost advantages arising from lower labour and environmental standards in emerging markets. However, firms operating in these emerging markets are expected to be socially committed even when the linkages with their business are indirect (Matten & Crane, 2005) and when the proper course of action is unclear. The garment industry, for example, was confronted with two major incidents that occurred around the same time in Bangladesh. In December 2012, a fire broke out in the Tazreen Fashions factory, which produced for brands such as H&M and C&A. The fire resulted in the death of 112 workers, mainly because poorly implemented safety measures prevented workers from fleeing the building on time (Yardley, 2012). The second incident happened in April 2013, when a large building containing several garment factories collapsed in an industrial suburb of Dhaka in Bangladesh, with a death toll of 1,129 (Yardley, 2013). The property had never received proper building consent for extending the structure from five to eight stories. Government authorities failed to inspect and monitor the illegal establishment, even after cracks in the building were broadcasted via the local media. Immediately after the incident happened, most retailers disclosed details on their relationships with the manufacturers involved and promised to establish a fund to help the families of victims. However, deciding on the best approach to address the underlying causes of the problem is more difficult. For example, should retailers withdraw the production of garments from Bangladesh and produce them alternatively in the United States or in Europe? Or is it preferable to continue producing garments in Bangladesh, while striving to improve oversight of factories and investing in worker safety improvements in Bangladesh and other low-cost countries? Several retailers opted for the latter alternative. In May 2013, the International Labour Organisation (ILO) and the tripartite partners of government, employers and workers issued a statement declaring to work on a six-point action plan to prevent future tragedies (International Labour Organisation, 2013). However, due to widespread corruption and the business–government nexus, another safety incident might be just around the corner (Yardley, 2013). It is not uncommon for workers and factory managers to collaborate and trick inspectors into believing

that work and safety standards have ticked all the required boxes. Question-and-answer sheets are distributed among workers to ensure that workers give the right answers to the inspector's questions, and elaborate safety charters are transferred between factories like stage props (Clifford & Greenhouse, 2013). These examples illustrate the difficulty of addressing the structural injustice that occurs when many different actors pursue their goals and interests within the rules and norms of (international) society (Young, 2006). The solution chosen – to reframe CSR as an imperative for collaborative responsibility and draft an action plan stating what firms will be doing to improve the labour conditions in Bangladesh – could be realised by further institutionalisation. However, this is only effective when these very institutions are enforced, and enforcements are often an issue in emerging markets. For undisclosed reasons, not all retailers have signed the statement. This could suggest that these retailers do not believe that the ILO effort will make a difference. It could also be an indication of economic interests trumping the interests of other stakeholders in the pursuit of wealth maximisation. In the end, MNCs are able to choose where to operate, and whenever social, humane or environmental issues come up, continue their economic wealth-enhancing course by moving activities elsewhere (Scherer & Palazzo, 2007).

#### ■ **The duty to promote the well-being of society at large**

This duty arises from the “iron law of responsibility” (Davis, 1973, p. 314), which holds that a business is compelled to live up to society's expectation because society gave the business its charter to exist. In other words, a business wishing to retain its present social role and power has to respond to the needs of society. Frederick (1994) claimed that the “obligation to work for social betterment is the essence of the notion of CSR” (1994, p. 151). An ethical approach to CSR entails making voluntary contributions to society for altruistic motives (Windsor, 2006). Such an expectation may apply specifically to corporations, as some have grown so large that they are able to exert power to a degree that was commonly associated with governments only (Scherer & Palazzo, 2007; Wettstein, 2012). Annual revenues of some corporations easily exceed the GDP of a number of countries. For example, in 2012 Shell ranked first in the Global Fortune 500 (CNN Money, 2013), with revenues of US \$481,7 billion, surpassing the GDP of the countries ranked 26th (Argentina) to 214th (World Bank, 2013). The impact caused by the failure of firms of this size was felt across the globe in 2008 when the subprime mortgage crisis led the world into a global recession. The question remains: how are large corporations expected to contribute to society? In a poll of 18,150 respondents from 24 countries, 61% of the respondents expected companies to pay more attention to the environment, and 52% of the respondents indicated that companies should contribute more to society (Ipsos, 2013). Furthermore, in a 2011 survey conducted by the European Commission involving 32,000 respondents, just over half of the respondents believed

that firms positively contribute to society (European Commission, 2012a), indicating that good intentions, regardless of whether they are present, are not perceived by society at large. Moreover, 57% of the respondents considered investments in job creation to be the most positive influence companies can have on society. However, as shown by Osterman (1999), in 1972 protecting jobs was considered a major corporate responsibility, with companies resorting to layoffs only as a last measure to cope with poor performance, whereas in 1994 layoffs were viewed as a proactive measure to safeguard future revenues.

### 2.2.1.2 CSR–FP research informed by the normative perspective

An investigation of the CSR–FP relationship largely falls outside the moral boundaries of the normative perspective. Nonetheless, the theories informing this perspective have helped shed light on the nature of CSR and its meaning. When it comes to normatively oriented studies, two major lines of research can be distinguished. One stream endeavours to increase our understanding of the nature and meaning of CSR in order to make an assessment of the social performance of a firm. The second departs from institutional theory and investigates the influence of institutions on the enactment of CSR.

#### ■ Understanding the nature of CSR

In the early years, research efforts focused on increasing understanding of the concept of CSR. A few conceptual papers stand out due to the impact that they had on research. The first is a seminal paper by Carroll (1979), who developed a three-dimensional CSR model consisting of the nature of responsibilities, the social issues that need to be addressed and the philosophy informing the firm's response. The nature of CSR concerns societal expectations with regards to economic, legal, ethical and discretionary types of responsibilities, whereby economic responsibilities are considered most important and discretionary or philanthropic responsibilities are least important. The social issues dimension might include issues such as consumerism, environment, discrimination, product safety, occupational safety and shareholders. Finally, Carroll ranked the philosophies informing the response mode of organisations from no response at all to proactively responding to any social issue that comes to attention. Wartick and Cochran (1985) modified the model by adding social issues management as a dimension of CSR. Their version outlined the principles of social responsibility (Carroll's first dimension), the process of social responsiveness, which departs from an institutional orientation and categorises response modes as reactive, defensive, accommodative or responsive (this incorporates the response philosophies) and policies on issues management oriented towards the organisation with the aim to identify and mitigate social issues. Wood (1991) criticised these earlier conceptualisations because they

conflated the institutional, organisational and managerial levels and added an institutional level concerning the principle of legitimacy, which society grants to business as long as society perceives business using its power responsibly. The organisational level requires the firm to take public responsibility, making it “responsible for fixing what it has broken, for avoiding future breakage and for helping solve those social problems that affect it” (Wood, 1991, p. 699). The principle of managerial discretion emphasises the role of managers as moral actors. Establishing the level of a firm’s social responsibility was possible with archival sources, such as the Fortune Reputation Ranking<sup>3</sup>, and indices such as the KLD<sup>4</sup>, and the Dow Jones Sustainability Index (DJSI). This development made it possible to statistically examine the relationship between CSR and financial performance, whereby a positive outcome could be used to justify CSR investments. As a consequence, attention was directed away from measuring how socially responsible the firm is towards determining the effect of responsible investments. The debate on what should be measured continues today. After all, “ordinary responsible behaviour is typically not rewarded or even noticed” (Wood, 2010, p. 62), which is well aligned with a normative perspective. However, measuring the social impact of CSR initiatives is equally problematic because firms seldom evaluate the outcomes of projects on the groups intended, leading social outcomes to be “disturbingly understudied” (Salazar et al., 2012, p.175).

#### ■ The influence of institutions on the enactment of CSR

Institutions not only inform the meaning and our understanding of CSR but also help explain why countries differ in their preferences for certain CSR practices (DiMaggio & Powell, 1983). Formal institutions, such as regulations and laws, and informal institutions, in the form of codes of conduct, norms and culture (North, 1990), structure the economic, political and social relationships in a country (Scott, 2008). Taken together, these national institutional frameworks influence how CSR is understood and shape a firm’s preference for more explicit or implicit forms of CSR (Matten & Moon, 2008). To illustrate, due to the relatively small role of the US government, firms feel more incentivised to donate to the public library or engage in other more publicly visible practices. In Europe, however, the government is expected to improve the welfare of disadvantaged groups, and firms are held responsible for work conditions. Likewise, in the developing country of Lebanon, Jamali et al. (2009) found that CSR is more informed by religious

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<sup>3</sup> This index is no longer used to measure CSR because it generates a financial ‘halo’ that inflates the outcomes of CSR (Brown and Perry, 1994).

<sup>4</sup> The KLD index (also known as the Domini Social Index) was developed in 1990 by the independent research firm Kinder, Lydenberg, Domini & Co. The dimensions are adapted over time to include environmental ratings (climate change, products and services, operations and management); social ratings for community, diversity, employee relations, human rights, product environment, product; and governance ratings for reporting and structure. There is a separate section for controversial business involvements regarding issues pertaining to abortion, adult entertainment, alcohol, contraceptives, firearms, gambling, the military and tobacco). After the acquisition of Risk Metrics in 2010 by Morgan Stanley, this index is continued as the MSCI KLD 400 Social Index.

and personal motivations, resulting in a more altruistic understanding of CSR.

Because MNCs operate in multiple institutional contexts, they may encounter conflicting expectations from the host and the home country with regards to their CSR practices. Several researchers (Gardberg & Fombrun, 2006; Salomon & Wu, 2012; Yang & Rivers, 2009) proposed that MNCs operating in institutionally distant countries are likely to adapt their CSR practices to mimic local CSR practices as a mitigating strategy to reduce the liability of foreignness (Kostova & Zaheer, 1999). However, the evidence supporting this proposition is inconclusive. Campbell et al. (2012), for example, found evidence that foreign MNCs from institutionally distant countries that operate in the United States are actually less likely to engage in CSR. In contrast, Solomon and Wu (2012) found that larger cultural, economic and regulatory distances indeed promote local isomorphism of foreign affiliates, suggesting that CSR investments are made in an effort to overcome institutional distances.

Chapter one highlighted the need to deepen our understanding of the factors that influence the CSR–FP relationship. Drawing from institutional theory, it would appear that concepts such as institutional distance and institutional alignment influence the types of CSR practices undertaken, even though the direction is unclear. Based on the inconclusive empirical findings cited above, it seems that in addition to these institutional factors, other hitherto excluded factors influence the conditions under which subsidiaries align their CSR practices with the host or with the home country.

### 2.2.1.3 Issues associated with the normative perspective

The normative perspective on CSR raises several issues. The first issue concerns the assumption that genuine CSR requires CSR practices to be voluntarily implemented beyond what is legally required. However, it is difficult to defend a voluntary approach to implementing the CSR activities outlined in various (international) codes and principles<sup>5</sup>, including the codes of conduct incorporated in supplier agreements. Indeed, many CSR initiatives are mandatory, making it questionable from a normative perspective if the act should be labelled CSR at all. The second issue concerns the motive for CSR. Adherents to the normative perspective are suspicious of motives informed by self-interest, including those associated with risk management, as these may render the CSR initiative less ethical. However, if CSR motives are to be ethical and selfless in order to be acceptable, then a practice can only be labelled CSR after its underlying motive is

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<sup>5</sup> Internationally accepted standards include the OECD Guidelines for Multinational Enterprises, the ten principles of the United Nations Global Compact, the ISO 26000 Guidance Standard on Social Responsibility, the ILO Tri-partite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the United Nations Guiding Principles on Business and Human Rights.

established. This is a challenge because social desirability obfuscates the true intent of CSR initiatives. The third issue pertains to the elusiveness of the institutionally infused moral underpinnings of CSR. If institutions influence what a society considers to be desirable CSR, then what are the implications of these differences for firms that operate internationally? Although there is sufficient evidence for the existence of “hypernorms”, or values generally accepted by all cultures, in order to clarify what is considered an unethical practice (Donaldson & Dunfee, 1999, p. 52), the relative importance of these values differ across cultures (Trompenaars & Hampden-Turner, 1998). Another issue relates to the fact that some firms behave very responsibly on certain dimensions but not on others. Moreover, research shows that good and bad corporate social performance appears to be located on different continuums (Strike, Gao, & Bansal, 2006). In other words, when a single company has a contradictory track record of responsible and irresponsible acts (Frederick, 1994; Wood, 2010), what are then the implications for the level of social responsibility of the firm? Finally, despite the popularity of the normative perspective, the daily social, economic and organisational reality faced by managers is so complex that its influence in the community of managerial practice has received little traction (Gioia, 1999, p. 228). Firms claiming to subscribe to a normative perspective of CSR while failing to incorporate its principles risk being accused of window-dressing or green-washing practices when activities do not meet stakeholders’ expectations.

Because these issues are difficult to resolve without changing the moral foundations of the normative perspective, it would seem that the popularity of this perspective remains reserved to social and environmental NGOs and academics interested in the ethical discourse on CSR<sup>6</sup>.

## **2.2.2 THE CLASSIC ECONOMIC PERSPECTIVE ON CSR**

CSR definitions influenced by the economic perspective emphasise that corporations advance social welfare by providing jobs and selling products and services that individuals want within legal boundaries, whilst initiatives outside this ambit harm firm performance and are, therefore, considered irresponsible. The emphasis on maximising shareholder wealth implies that the firm is responsible solely to its shareholders. The leading research question within the classic economic perspective is phrased as, “*How can shareholder profit be maximised?*”

### **2.2.2.1 Philosophical foundations informing the classic economic perspective**

The philosophical foundations of the economic perspective are rooted in moral egoism and libertarianism. Moral egoism departs from the position that morally correct actions are led by self-

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<sup>6</sup> However, Baden and Harwood (2013) pointed out that the academic business discourse is characterized by a lack of normative terminology, indicating that social scientists make an effort to use neutral and value-free terms instead.

interest and should maximise good outcomes for the moral agent (Reidenbach & Robin, 1990). Stakeholder concerns of employees, the local community or others are only relevant when they are in the company's (in other words the shareholder's) interest and are instrumental to the goal of firm survival (Van de Ven & Jeurissen, 2005). Libertarians, on the other hand, do not believe in positive duties such as helping others or donating to good causes, but in negative rights, such as the freedom of speech and religion as well as freedom from coercion, and refraining from doing harm to others (Frederiksen, 2010). Following libertarian philosophy, the firm is responsible for mitigating negative impacts but not for donating to charities. Overall, the conclusion seems justified that the conceptualisation of CSR within the economic view is limited to exercising its purpose of existence and ensuring that it can do so in a self-sustaining manner.

### 2.2.2.2 CSR–FP research informed by the classic economic perspective

Because the classic economic perspective does not support the idea of CSR beyond economic and legal responsibilities, theories associated with this view, such as market capitalism, standard economic theory and agency theory, are used to explain why it is unnecessary for firms to engage in other CSR practices and why doing so would reduce firm performance.

Research inspired by market capitalism has suggested that firms already contribute to social welfare simply by enhancing the wealth of the organisation. Adam Smith (1776), for instance, observed that corporations have a greater influence on societal welfare when they are pursuing their own interests rather than attempting to promote societal welfare. According to this theory, firms take inputs out of the economy in the form of labour hours, capital and materials, and transform these into goods and services to be sold to consumers. This process aggregates welfare if the prices at which the company sells the goods and services cover more than the costs it incurs when purchasing and transforming inputs, assuming the absence of monopolies and externalities (Jensen, 2002). In other words, shareholder maximisation leads to economic efficiency, and efficient markets lead to greater levels of aggregate wealth because they make the most productive use of societal resources. This is why greater economic wealth promotes social welfare when conditions of perfect competition and absence of externalities are met (Jones & Felps, 2013, p. 216). Studies informed by standard economic theory view CSR beyond what is legally mandated as avoidable costs. Under conditions of perfect competition, firms lack the financial resources needed to bear costs associated with CSR unilaterally; costs cannot be recovered by premium price setting because this would lead to loss of sales. Adherents of the classic economic perspective reject CSR because it endangers long-term firm survival (Van de Ven & Jeurissen, 2005).



Agency theory explains the negative relationship between CSR and FP as the result of contract failure between principal and agent caused by a disagreement over goals and the means to attain these. Free market advocate Milton Friedman (1970) asserted that engaging in CSR is symptomatic of the agency problem, and fiercely opposed the idea of managers redistributing profits for social causes. He interpreted these social investments as theft and as politically subversive behaviour. Agency problems may also result from neglected oversight that fails to expose risky or irresponsible agent behaviour. Indeed, studies investigating the effects of irresponsible behaviour provide a strong case for the notion that there are high costs associated with weak corporate governance practices. In a meta-analysis on the effects of illegal and irresponsible behaviour, such as violations of antitrust laws, government-mandated product recalls of products, criminal misconduct such as price fixing, tax evasion, procurement frauds, misrepresentation of financials, pollution of the natural environment and violations of government regulatory agency standards, Frooman (1997) found evidence that shareholder wealth decreases substantially (nearly a full standard deviation) when firms engage in socially irresponsible or illegal practices. Findings such as these make a strong case for the establishment of sound corporate governance practices, even when these practices may not necessarily improve social and environmental performance.

### 2.2.2.3 Issues associated with the classic economic perspective

The classic economic perspective purports that investing in CSR is detrimental to firm performance. However, several observations suggest that the arguments against CSR may not be valid.

#### ■ Assumptions underpinning “profit maximisation promotes social welfare” do not hold

This thesis is based on three assumptions: the existence of perfect competition, that all goods are priced and the absence of externalities (Jensen, 2002). Perfect competitive markets require that: a) there is an infinite number of buyers and sellers; b) there is complete information symmetry regarding prices; c) all firms have equal access to technology and resources; d) there are no entry or exit barriers; and e) the behaviour of buyers and sellers does not influence the price of goods and services in that particular market (McNulty, 1968). In reality, these conditions of perfect competition are only approximated in markets such as horse betting and open source software and most certainly do not apply to markets in general. The assumption that all goods are priced is actually inherent to perfect competition because competition in the model is based on price. Finally, the assumption regarding the absence of externalities implies that the production of a good does not create cost for others. Such an externality is reflected in the usage of fossil energy sources increasing CO<sub>2</sub> levels substantially, with negative effects for global warming. Because there is no market for environmental goods and services, the true costs of environmental

externalities are not generally priced in market transactions (King, 2007). Furthermore, offshoring jobs to low-wage countries resulted in higher unemployment or underemployment for many lower and middle class workers in developed home countries, and this setback may be permanent (Krugman, 2007). When key assumptions underpinning the thesis “profit maximisation promotes social welfare” are not met, then social welfare will be negatively affected (Lipsey & Lancaster, 1956). Based on this, it seems that the free market may not produce the inexorable march toward prosperity and well-being that is so often anticipated (Stiglitz, 2002). As noted by Madrick, the free market “has created tremendous prosperity — but mostly for those at the top” (2014, para. 2). Therefore, in the absence of perfect markets, it may be wiser to seek other, more credible corporate objectives (Jones & Felps, 2013).

■ **The position is not in step with current shareholder preferences**

The traditional role of the shareholder in the US corporate world has changed over the years, from traditional owner to investor and beneficiary. As firms grew larger, there was a need to hire professional managers, which led to a separation between ownership and control over the firm. Although US law currently recognises the corporation as a distinct, separate legal entity, it can only act through its management group, which needs to have the power to implement decisions (Nesteruk, 1990). Furthermore, as corporations went public, institutional shareholders shied away from risk and preferred to invest in organisations with greater social performance (Graves & Waddock, 1994). And indeed, the popularity of indices such as the F4Good and the DJSI are increasing. Case in point is reflected in the trends report published by the Forum for Sustainable and Responsible Investment (US SIF). The US SIF reported a 30% increase in investments based on environmental, social and governance criteria for the period from 2009 to 2011 (US SIF Foundation, 2012), with governance issues pertaining to executive pay, board quality and contributions to political parties being regarded as most important (Gladman, 2012).

■ **There is ample evidence that implementing CSR practices increases firm performance**

It was Friedman (1970) who suggested that the idea of CSR practices, such as corporate giving, could be reconciled with the classic economic view, under the condition that these philanthropic acts have a strategic purpose and will benefit the firm in a direct or indirect manner. Strategic motives would include pre-empting expected government intervention, seizing opportunities for product differentiation and realising cost savings (Reinhardt, 1999). This stance of enlightened self-interest is utilitarian in nature, with investments in “social responsibility” being based on financial calculation (Karnani, 2010). The idea that “doing good pays off” reignited managerial and scholarly interest in strategic forms of CSR.

### 2.2.3 THE STRATEGIC PERSPECTIVE ON CSR<sup>7</sup>

The strategic perspective, also referred to as the business case for CSR, or instrumental CSR, exhorts firms to “do well by doing good”. In general, strategically oriented approaches to CSR share the idea that CSR needs to create value for the firm (Baron, 2001) by contributing to the firm’s effectiveness (Burke & Logsdon, 1996) and improving the firm’s competitive advantage (McWilliams & Siegel, 2011; Porter & Kramer, 2006), while also providing some socio-environmental benefit (Contri, 2011), regardless of the motive involved (McWilliams & Siegel, 2011). The concept of strategic CSR emerged in response to the normative and the classic economic perspectives. The general research question informing this perspective is tentatively formulated as, “*How do investments in CSR improve firm performance?*”

#### 2.2.3.1 Philosophical foundations informing the strategic perspective

From a philosophic viewpoint, strategic CSR is informed by utilitarianism and common-sense morality. Adherents of common-sense, or ordinary morality believe that we should not harm others. Moreover, firms have moral duties toward those constituencies that are close to the organisation, such as employees, the local community and shareholders (Kagan, 1989). Proponents of utilitarianism, on the other hand, aim to achieve “the greatest good for the greatest number” (Shaw & Post, 1993, p. 746), which is to be established based on the outcome or consequences of actions and plans. Following this view, the value of CSR practices should be measured in terms of the value of outcomes for the firm’s constituencies in general. Decisions that favour personal gain at the expense of society are deemed unethical, as are decisions that lead to a wasteful accomplishment of desired ends (Fritzsche & Becker, 1984). Utilitarianism harbours the idea of impartiality, which implies that it does not matter which individuals will benefit from the outcome, as long as it is the largest number. Hence, a donation to a charity that does not create a benefit for the organisation or for society at large is regarded as unethical. According to Frederiksen (2010), CSR decisions are predominantly informed by common-sense morality. Consequently, firms should invest in CSR practices that exhibit a relationship with the nature of the business, that are in close proximity to the firm’s business activities, and for which it has the competences to implement the practice successfully.

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<sup>7</sup> Concepts and theories associated with the term “strategy” have ignited a fierce debate among leading strategy scholars (see, for example, the academic exchange in the *Strategic Management Journal* involving Igor Ansoff and Henry Mintzberg (1991)). This research has no intention to contribute to the strategy debate, but merely wishes to contextualize the term “strategy” within the domain of CSR research.

### 2.2.3.2 CSR–FP research informed by the strategic perspective

Within the field of strategic CSR, several research streams have emerged, each informed by different management theories, notably instrumental stakeholder theory, theories associated with the resource-based perspective and theories on strategic fit<sup>8</sup>. Because this research mainly draws on the latter two strands, only these two will be further reviewed in this text. Theories associated with the resource-based perspective can be differentiated based on the role of resources. The resource-based view (RBV) explains competitive advantage in terms of the firm's ability to develop and maintain resources that are valuable, rare, and difficult to imitate or substitute, as these types of resources help to sustain competitive advantage for a longer period of time (Barney, 1991; Wernerfelt, 1984). In other words, according to this view resources are the outcome of an organisational process or activity. Resource dependence theory (RDT) explains competitive advantage in terms of the firm's ability to get access to critical resources vis-à-vis its competitors. Here, resources are the input of an organisational process or activity, whether these resources are monetary, physical, informational or in the form of social legitimacy (Pfeffer & Salancik, 2003, p. 26). The second strand involves theories associated with strategic fit and contingency or alignment, which posit that effective organisations are aligned with their environments.

#### ■ CSR research departing from RBV theory

The research drawing on RBV theory primarily explains the positive CSR–FP relationship in terms of competitive advantage obtained from unique intangible organisational and reputational resources that are developed by engaging in CSR (Branco & Rodrigues, 2006; Galbreath, 2005).

Organisational resources include stakeholder integration (Aragón-Correa & Sharma, 2003; Sharma & Vredenburg, 1998) and continuous innovation (Hart, 1995; Husted & Allen, 2007). Firms, for instance, are found to become more innovative when stakeholders are used as a source of ideas for new products and services (Choi & Wang, 2009; Contri, 2011). Contri (2011) explained that the development of this innovative capability is conditional on the presence of a CSR culture that permeates all levels and parts of the organisation and on inviting non-economic stakeholders to help identify opportunities for the development of new products and services and ways to improve current firm offerings. Engaging stakeholders in this manner helps to establish trust-based collaborative stakeholder relationships (Hillenbrand, Money, & Ghobadian, 2013), which in turn help to create reputational assets (Husted & Allen, 2007; Sharma & Vredenburg, 1998).

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<sup>8</sup> Several scholars have developed strategic CSR frameworks and theories that depart from economic theories. For example, McWilliams and Siegel (2001) proposed a theory of the firm perspective that involves a cost–benefit analysis to help decide on the most optimal level of CSR investments. Similarly, stakeholder theory and transaction cost economics have been integrated in a study by King (2007) in examining the effects of transaction costs on strategic decision making regarding involvements with environmental groups.

Reputational assets help firms to attract good employees, improve employee morale (Branco & Rodrigues, 2006) and recover from reputation attacks (Choi & Wang, 2009). These are indeed firm-specific assets that are nearly impossible to imitate (Teece, Pisano, & Shuen, 1997). Because these assets are outcomes of CSR engagement, the question remains: how can the intangible resources of knowledge, skills and capabilities be organized such that they help improve firm performance? In other words, what underlying mechanism informs firm performance?

Drawing from a broad range of literature, two seemingly contradictory positions can be distinguished. One position emphasizes that competitive advantage comes from using resources associated with CSR investments in an efficient manner. The opposite view holds that for resources derived from CSR investments to be valuable, effective deployment is necessary.

Following the efficiency argument, CSR investments will create value when the firm invests in related CSR practices rather than in the full range of CSR activities. The full range may involve CSR dimensions that draw on different knowledge bases, competences and complementary assets (Tang et al., 2012). For example, the implementation of an environmental CSR practice such as pollution prevention, requires process innovation as a complementary asset base (Christmann, 2000). This asset base is very different from that required for the implementation of a workplace CSR practice like managing diversity. Tang et al. (2012) reasoned that the potential contributions of CSR are lower when the CSR dimensions draw on unrelated competences because this leads to a geometric increase in the number or incompatible resources needed. On the other hand, investing in related CSR dimensions increases synergy in the yield of the firm's resources (Ng, 2007), which is commonly regarded as an indication of efficiency.

Advocates of the effectiveness position argue that the successful implementation of a CSR practice requires drawing upon a wide range of resources. According to a study of 2,600 for-profit companies, firms that innovate across the value chain reap greater profits from their sustainability efforts than those that do not (Kiron et al., 2013). This mechanism may operate as follows: Involving employees from different functional backgrounds contributes toward the development of an organisational culture that supports CSR (Bondy, 2008). Such a CSR culture encourages organisational members to engage with the firm's CSR initiatives, and communicates values associated with these initiatives to relevant stakeholders (Maon, Lindgreen, & Swaen, 2010). Moreover, this engagement enhances the organisational learning process (Jonker & Foster, 2002). Involving different organisational functions not only helps to identify and address issues that could hinder a successful implementation of the CSR practice, but also builds support for it (Judge & Douglas, 1998). Apparently, including the whole value chain in the innovation process promotes thinking outside the proverbial 'box' and helps in identifying new opportunities to innovate

products, services, systems and processes for CSR. Indeed, innovative firms often employ cross-functional teams to ensure that different knowledge and competency bases are included in the innovation development process (Song, Montoya-Weiss, & Schmidt, 1997). This approach to innovation is more successful due to the inclusion of a broader knowledgebase while drawing from a wider range of competences, systems and human resources (Contri, 2011). In other words, the effectiveness approach to CSR advises investing in a broad range of CSR activities, drawing from different knowledge bases, skills and capabilities.

The efficiency–effectiveness debate redirects the focus from the CSR–FP relationship to the resources that are associated with the CSR practices themselves. Apparently, the outcomes of CSR investments are partly determined by the mode through which resources are deployed. The efficiency position suggests focusing on a limited range of CSR practices in order to avoid efficiency loss, whereas the effectiveness position recommends investing in different CSR domains to increase firm benefits. Resource deployment is a critical issue confronting managers of MNCs that affects not only the corporation’s strategy (Geringer, Beamish, & Dacosta, 1989) but also the success of the CSR strategy. Therefore, based on the foregoing, the question is, “*How does resource deployment influence the CSR–FP relationship?*”

#### ■ CSR research departing from RDT

RDT explains how firm survival is contingent on the firm’s ability to gain control over external vital resources (Pfeffer & Salancik, 2003). Within CSR–FP research, the primary focus has been on examining the effect of environmental uncertainty on the propensity to invest in CSR. Environmental uncertainty<sup>9</sup> arises from environmental complexity, environmental dynamism and munificence. In general, managers consider the environment to be complex when it contains many dissimilar variables requiring some sort of firm response (Dess & Beard, 1984; Harris, 2004; Sutcliffe & Huber, 1998). Because multinational subsidiaries operate in different institutional contexts, they might experience greater environmental complexity when these institutional environments are very dissimilar. Indeed, it is difficult to maintain legitimacy given the complexity of operating in institutionally distant countries (Kostova & Zaheer, 1999). Moreover, although CSR practices may be used to maintain legitimacy (Barkemeyer, 2007; Bowen, Newenham-Kahindi, & Herremans, 2010; Chen, Patten, & Roberts, 2008), managers in general seem reluctant to make fundamental changes when the environment is perceived as complex (Rueda-Manzanares, Aragon-Correa, & Sharma, 2008; Smart & Vertinsky, 1984). In contrast, industry dynamism, arising from changes in customer preferences, intense competition and rapidly evolving technologies,

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<sup>9</sup> Dess and Beard (1991) collapsed the six environmental dimensions originally proposed by Aldrich (1984) into the three dimensions of complexity, dynamism and munificence.

appears to stimulate CSR investments. These changing circumstances make it more difficult to predict changes in the environment, encouraging firms to use CSR in a more strategic manner (Fernandez-Kranz & Santalo, 2010; Fisman, Heal, & Nair, 2006; Husted & Allen, 2007). The third dimension contributing to environmental uncertainty is munificence, which is also referred to as scarcity (Aldrich, 1979), hostility (Tan & Litschert, 1994) or industry attractiveness (Porter, 1985). Munificence is related to the amount of available resources in the environment, changes in environmental capacity and the potential to exploit these resources (Castrogiovanni, 1991). Although CSR could be used strategically as a means to influence opportunities to exploit resources, research findings are equivocal. Husted and Allen (2007), for example, found that low-munificent environments promote the proclivity of firms to engage in CSR, probably in an attempt to gain better access to these resources. In contrast, Goll and Rasheed (2004) showed that in high-munificent environments, firms are more inclined to invest in CSR practices. Rueda-Manzanares et al. (2008) found no relationship between munificence and CSR investments. These findings imply that in addition to institutional distance and institutional alignment, the availability and accessibility of external resources also influence the CSR–FP relationship, even though it is not clear in what fashion. Thus, the question is, *“How does resource munificence influence the CSR decisions of foreign subsidiaries operating in emerging markets?”*

#### ■ CSR research departing from theories on strategic fit

Theories on strategic fit, alignment or contingency have been widely used as means to predict firm performance (Volberda et al., 2012). They share the following three assumptions: First, the most effective way of organising depends on the environment in which the firm operates (Donaldson, 2001). Second, there is no single best way of organising (Meyer, Tsui, & Hinings, 1993). Third, the external environment is largely outside managerial control, but within these constraints the firm can choose how it wants to respond (Veliyath & Srinivasan, 1995; Venkatraman, 1989). In other words, effective organisations align themselves with the environment (Beer, Voelpel, Leibold, & Tekie, 2005; Donaldson, 2001). Although traditional theories on strategic fit encompass elements such as contingency, response and effectiveness, plus a notion of congruence or fit (Tosi & Slocum, 1984), more recent understandings assume a wider definition and suggest that any proposition containing a moderating variable should be regarded as an application of contingency theory (Van de Ven, Ganco, & Hinings, 2013).

Contingency theory has been widely applied in management research. For example, Roth and Morrison (1992), using internationalisation as the contingent variable, found that organisations adapt their strategy based on contextual conditions. Roth, Schweiger, and Morrison (1991) examined the impact of international strategy on organisational design and business unit

performance, and found that effectiveness is a function of the alignment of strategy with organisation design. Within CSR–FP research, contingencies include endogenous factors such as firm size (Amato & Amato, 2007; Brammer & Millington, 2006; Udayasankar, 2008), organisational culture (Maignan, Ferrell, & Hult, 1999), board composition (Johnson & Greening, 1994), innovation (Hull & Rothenberg, 2008), R&D investments (McWilliams & Siegel, 2000; Strike et al., 2006) and exogenous factors such as industry type (Banerjee, Iyer, & Kashyap, 2003; Brammer & Millington, 2003), public perception of the firm (Lev, Petrovits, & Radhaskrishnan, 2010), stakeholder salience (Agle, Mitchell, & Sonnenfeld, 1999) and institutional conditions (Campbell, 2007). *Prima facie*, strategy has not been used as a contingency. Indeed, little is known regarding the relationship between international strategy and CSR (Bondy & Starkey, 2014; Husted & Allen, 2006; Strike et al., 2006). However, scholars did investigate the effect of business strategy on CSR. For example, Galbreath (2010b) operationalized business strategy with the Miles and Snow (1978) typology, and found that strategic orientation explains different levels of CSR engagement. Recently, several studies explored CSR within the context of international management. Husted and Allen (2006) used the Bartlett and Ghosal (1998) framework to operationalize international strategy, and found that large multinational firms replicated the existing corporate strategy (multi-domestic, transnational, global) in their CSR approach<sup>10</sup>. Apparently, large MNCs tend to ignore local institutions when developing CSR policies, giving preference to “universal issues” (Bondy & Starkey, 2014, p. 17). Based on a review of the extant literature on the CSR–FP relationship from a contingency perspective, it appears that the role of international strategy is largely underexplored.

As noted in §2.2.1.2, countries differ in their understanding of CSR and their expectations with regards to foreign subsidiaries implementing CSR practices. The extent to which firms meet these expectations may very well influence the extent to which MNCs attain their internationalisation goals. In other words, *“How do CSR investments support the subsidiary in attaining its internationalisation strategy in an emerging market?”*

### 2.2.3.3 Issues associated with the strategic perspective

From a normative point of view, the critique focuses on the opportunistic nature of strategic CSR, resulting in corporations “cherry-picking the social issues agenda” (Nijhof & Jeurissen, 2010, p. 623) whereby ethical concerns merely serve as a means to increase profits that may be jettisoned when they stop making business sense (Kreps & Monin, 2011). From a strategic point of view,

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<sup>10</sup> This typology distinguishes between four different types of MNCs, depending on the environment and industry in which the MNC operates, the corporate strategy followed, the organisational design, the role of the subsidiary, the structure of the subsidiary, the type of mechanisms the MNC uses to control the subsidiary and the human resource practices adopted. The authors suggest that the need to match capabilities with strategic demands leads MNCs to emphasise either local responsiveness or global efficiency, or to attempt to balance these demands. Although the original model suggested four different MNC types, only three of these have been empirically validated (Harzing, 2000).



however, such idiosyncratic CSR interpretations make sense, as CSR is perceived as a means to enhance the firm's ability to differentiate itself from competitors (Moratis, 2014). From a classic economic point of view, the doing well by doing good mantra is irrelevant when the markets perform well because then profits and social welfare are aligned, making it perfectly feasible to do well by doing good. In contrast, CSR is deemed ineffective when markets fail, leading to a conflict between private profits and social welfare (Karnani, 2011). Karnani contended that under these conditions, self-regulation will not work, leaving government intervention as the only feasible option to change firm behaviour. However, in a globalising economy, externalities often cause cuts across national boundaries. To summarise the critique, proponents of the normative perspective label strategic CSR initiatives as hypocritical because of their self-interested motive, whereas advocates of the classic economic perspective judge the association between CSR practices and FP as too weak to be strategic.

From a strategic viewpoint, CSR faces various concerns. One concern is rooted in the strategic debate and involves the role of strategic intentions, posing the question of whether CSR can be considered strategic without the explicit intention to exploit CSR investments for the benefit of the firm. Furthermore, strategic CSR has been interpreted as any responsible activity that allows the firm to maintain competitive advantage (Barney, Ketchen, & Wright, 2011), but also as instrumental stakeholder management (Jones, 1995), and as levels of CSR (Galbreath, 2010b). These definitions have different implications for the types of initiatives undertaken. For example, the objective of creating and maintaining a competitive advantage aligns CSR activities with cost reduction or differentiation motives, but would exclude CSR-related and risk reduction activities. Furthermore, it has been observed that strategic CSR research is grounded in different theories. Resource-based perspective studies investigate the role of resources in strategic CSR. Those departing from stakeholder-based theories explain how stakeholders pressure firms to adopt CSR practices. Institutional theories explain why firms become more similar over time as a result of cultural, normative and regulative pressures. Because neither perspective on its own can explain the behaviour of a firm with regards to its environment and its performance, new insights might result from integrating different theoretical perspectives (Aguinis & Glavas, 2012; Volberda et al., 2012). The present study heeds this call for integration and assumes a contingency perspective that integrates institutional and resource-based theories to investigate the relationship between CSR and FP.

## SUMMARY AND CONCLUSIONS

The literature review in this chapter served three purposes. First, it discussed the diverging and converging paths of CSR and corporate sustainability. The discussion showed that the search for a universally accepted definition may be futile and that attention should instead be directed toward researching the relationship between business and society from as unbiased a perspective as possible. Second, it reviewed the development of the field of CSR from a normative, classic economic and strategic perspective. The review showed that the doctrines of “total responsibility”, as assumed by the normative perspective, and “no responsibility”, as assumed by the classical economic perspective, are equally false (Gioia, 1999, p. 49). Attempts to integrate the moralistic normative perspective with the instrumental strategic perspective have been unsuccessful because the paradigms underlying these perspectives are based on opposing ontological and epistemological assumptions (Jensen, 2002). Firms attempting to conflate normative and classical perspectives risk being accused of investing in CSR symbolically. It would seem, therefore, that the road to sustainable CSR is strategic in nature. Third, the empirical literature on the CSR–FP relationship was evaluated. This review revealed that from a normative perspective, the relationship is irrelevant because its moral foundation dictates that CSR investments should not be used for self-serving purposes, but should focus on the environmental and social impacts of firm behaviour. The classic economic perspective regards CSR as detrimental to firm performance. A growing body of research, however, supports the notion that this might be incorrect, and that CSR, at a minimum, does not harm the firm (Margolis et al., 2007). Moreover, the strategic perspective implies that strategic CSR might actually enhance firm performance.

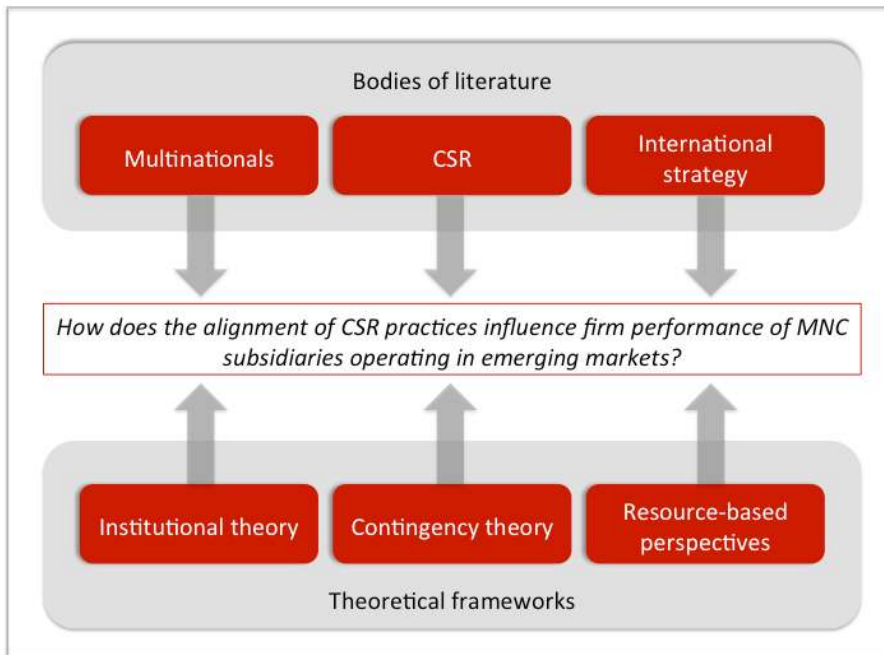
To summarise, the literature review in chapters one and two uncovered the following distinct, yet interrelated, issues that this study aims to address:

1. Various meta-analytic studies concurred that the CSR–FP relationship is slightly positive. However, these studies chiefly involved MNCs, with little known about subsidiary-level effects. Against the background of internationalisation objectives, this study investigates the CSR–FP connection at the subsidiary level.
2. There is a lack of knowledge on subsidiary-level practices, as most CSR–FP research assumed that the practices publicised by headquarters are a true reflection of their global CSR endeavours. However, few studies actually investigated the CSR approach of MNC subsidiaries in other markets, particularly emerging markets. This study investigates the CSR practices of subsidiaries and evaluates the extent to which practices reported by MNCs resonate at the subsidiary level.

3. Contingency theory has been used to explore the effect of a range of variables moderating the CSR–FP relationship. These variables can be summarised into two apparently competing themes: institutional logic and strategic logic.
  - a. Institutional theories explain the adoption of CSR practices using concepts such as the institutional pressure that pushes firms toward conformity. Despite these pressures, however, firms do differ in their CSR approach, practices and obtained benefits. Therefore, it would seem that institutions only partly explain firm behaviour (Ashworth, Boyne, & Delbridge, 2009).
  - b. Theories on strategic fit or alignment suggest that strategy plays a role in the CSR–FP relationship, thereby implying a strategic logic. However, the role of international strategy is seemingly underexplored, as are the dimensions that would inform such CSR strategy at the subsidiary level. This study heeds the call to integrally investigate the role of institutions and strategy with regards to the CSR–FP relationship.
  
4. Resource-based perspectives have fruitfully advanced CSR–FP research.
  - a. The internal permutation, the RBV, convincingly explained how CSR engagement leads to the development of intangible resources that produce a competitive advantage. In other words, the RBV is able to explain positive *outcomes* from CSR investments. The *input* side (i.e. the deployment of resources in order to produce these outcomes) is less clear. The literature revealed two seemingly opposing views regarding the manner in which resources should be employed, with the emphasis on either efficiency or effective deployment. This research attempts to contribute to this debate.
  - b. The external approach, RDT, has been principally used to investigate the resource effects of environmental complexity, dynamics and munificence with regards to firms’ propensity to engage in CSR. Empirical findings involving the role of munificence in this respect are inconclusive: it stimulates some firms to invest in CSR but deters others. Because resource availability and accessibility are also major drivers for internationalisation, the effect of resource accessibility and availability on CSR is investigated from a strategic perspective.

In conclusion, while drawing from different bodies of literature and theoretical frameworks, the main research question is framed as shown in figure 2.1. The research adopts a mixed methods research design, employing qualitative and quantitative research methods in a sequential order. The next chapter describes the research methodology and the qualitative techniques employed in order to tentatively answer the main research question as well as address the associated issues. The discussion of the quantitative method is reserved for chapter seven.

Figure 2-1 Positioning the research question in the literature



### 3 RESEARCH METHODOLOGY

Based on the review in chapters one and two, this study aims to address the following objectives in order to answer the main research question:

1. To research the CSR practices of subsidiaries in emerging markets, and evaluate the extent to which MNC CSR practices published in corporate reports resonate at the subsidiary level.
2. To integrally investigate the role of institutions and international strategy with regards to the CSR–FP relationship.
3. To examine the role of resource availability and accessibility within the context of CSR from a strategic perspective.
4. To increase understanding of how resource deployment is linked to firm performance.

Following the suggestions of several scholars (Aguinis & Glavas, 2012; Margolis et al., 2007; Yin, 2003) and based on the present state of research on the CSR–FP relationship, the first phase of this study employed a qualitative approach. The outcomes of this exploration were then validated using a larger sample and quantitative methods. Such an approach represents a mixed methods research design.

The main aims of this chapter are to provide insight into the overall research methodology and to discuss in detail the techniques employed in the qualitative phase. The presentation and discussion of the quantitative methods are reserved for chapter seven.

This chapter continues with an explanation of the rationale for the research design, its philosophical underpinnings and the implications for research. The remainder of the chapter describes and discusses the techniques used to collect and analyse qualitative data. Finally, a discussion of the measures used to ensure the trustworthiness of the research is presented.

#### 3.1 A MIXED METHODS RESEARCH DESIGN

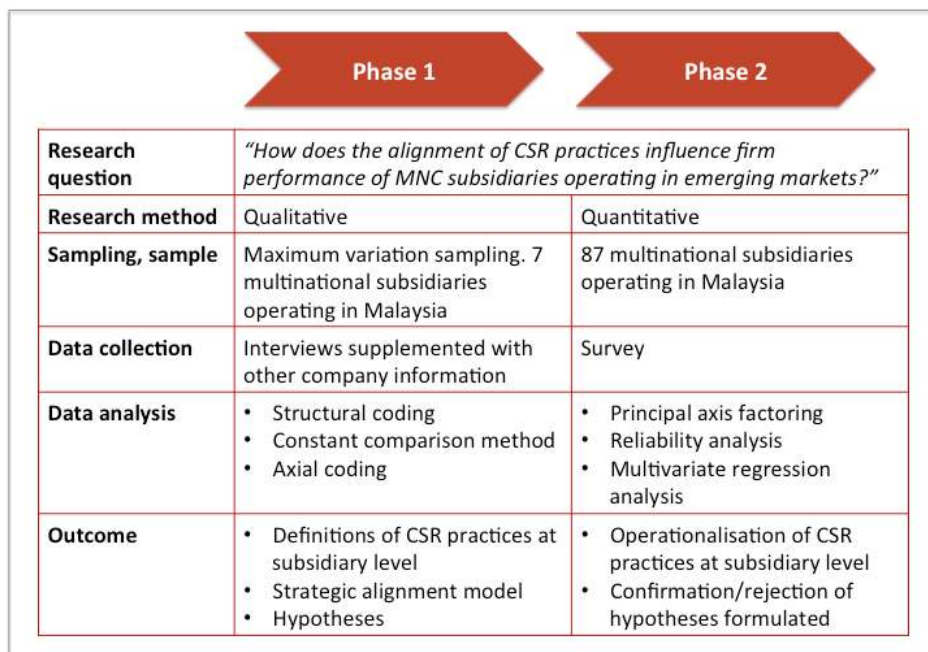
This research combines qualitative and quantitative methods to identify which factors influence the CSR–FP relationship and investigate how CSR is used to increase alignment. At one time, utilizing a mixed methods approach was considered incommensurable (Kuhn, 1996) because the paradigms underlying these methods differ with respect to their assumptions and knowledge about reality as well as the methods deployed to help develop new knowledge about reality (Guba & Lincoln, 2005). However, these differences can be reconciled from a pragmatist paradigm. Pragmatism focuses on “what works as the truth regarding the research questions under investigation” (Tashakkori & Teddlie, 2003, p. 713) and allows objective and subjective points of

view, depending on the research question and the phase in the research cycle. In other words, the pragmatic paradigm, or as proffered by Suddaby the “pragmatist approach” (Suddaby, 2006, p. 65), replaces the “researcher as being” with the “researcher in action”. Thus, the question is not whether it is possible to *be* a positivist and *be* an interpretivist or constructivist simultaneously, but rather what methods are deemed more appropriate in light of the state of research and the research question.

There are different understandings of what mixed methods constitutes. According to some researchers, a mixed methods study should combine elements of quantitative and qualitative research (Johnson, Onwuegbuzie, & Turner, 2007; Teddlie & Tashakkori, 2009). Others (Yin, 2006) emphasise the usage of different methods beyond the required qualitative–quantitative combinations. There is agreement, however, that the methods need to be mixed in a single study, programme or inquiry (Johnson & Onwuegbuzie, 2004; Tashakkori & Cresswell, 2007; Yin, 2006). This may be accomplished by ensuring that the unit of analysis is held constant across methods, for example through making use of nested samples (Yin, 2006). Also the element of “integration” is considered a key concept (Tashakkori & Cresswell, 2007, p. 4).

Figure 3-1 depicts the exploratory sequential mixed methods research design as implemented in this study.

**Figure 3-1 Mixed methods research design**



The qualitative phase of this study informs the quantitative phase, and is used to develop a more in-depth perspective on what informs CSR strategies and how CSR choices are organised and

aligned. This abductive process, whereby inductive results obtained from the qualitative phase serve as the inputs for the deductive goals of the quantitative phase, is quite common to sequential mixed methods research designs (Ivankova, Creswell, & Stick, 2006; Suddaby, 2006). The inputs of this model consist of the subjective interpretations of the realities experienced by senior managers of multinational subsidiaries in the emerging market of Malaysia. The results consist of a set of definitions for the various CSR domains at the subsidiary level, a strategic CSR alignment model, and a set of hypotheses. These outputs are the inputs for the quantitative phase, which is used to develop and validate the CSR measures for the different domains in order to test the hypotheses associated with the CSR strategic alignment model.

The next sections describe the data collection and analytical methods employed in the qualitative phase of the study. The methods used in the quantitative phase are conferred in chapter seven.

### **3.2 MIXED METHODS: QUALITATIVE PHASE**

At this stage of the inquiry, the research is underpinned by the belief that further understanding of the CSR–FP relationship requires a reconstruction of individual and collective interpretations of why a firm invests in CSR, how the firm decides what practices to invest in, how these practices are organised and what the outcomes of these practices are for the organisation itself. Put differently, this stage of the study subscribes to a constructivist paradigm, whereby manifold social realities are construed through interactions (Lincoln & Guba, 1985). This phase is more inductive and combines a collective case study approach with several techniques that have been borrowed from grounded theory.

The collective case study approach (Stake, 2000) helps to establish boundaries on what is to be investigated, facilitate the discovery of relevant features, develop an understanding of the inter-linkages between these features, and conceptualise these for further study (Punch, 2005). The method allows for an “in-depth data collection involving various sources of information rich in context” (Cresswell, 1998 p. 61). Because the phenomenon of interest, the “quintain” (Stake, 2006, p. 6), in this study concerns being a foreign entity operating in an emerging market context, it is necessary to select multiple cases with operations in an emerging market. The boundaries of each case coincide with the boundaries of the MNC subsidiary. Given the interest in examining the influence of external and internal factors, cases are selected based on attributes shown by research to influence the intensity and direction of the CSR practices firms undertake.

In this study, grounded theory is used to guide decisions regarding the data collection and analysis. Originally, grounded theory was defined as “a specific methodology developed by Glaser and Strauss in 1967 for the purpose of building theory from data” (Corbin & Strauss, 2008, p. 1).

However, presently, grounded theory is known not only as a specific method but also as a general and generalised method (Charmaz, 2011). Its theoretical underpinnings are derived on the one hand from the legacy of Anselm Strauss, reflecting pragmatism and symbolic interactionism, and on the other hand from objectivism, where the researcher is a neutral observer who discovers data in the external world (Charmaz, 2006, 2011; Morgan, 2007). Although from a pragmatic point of view, it is not necessary to subscribe to these philosophical orientations in order to use the method (Corbin & Strauss, 1990), the different epistemological origins do affect the processes and products of inquiry (Charmaz, 2011). In order for a study to base itself on grounded theory, it needs to use theoretical sampling, saturate categories theoretically and feature constant comparison of data to data and to theoretical categories (Hood, 2007). The next few paragraphs explain how these three features of grounded theory are incorporated in this study.

### **3.3 SAMPLING METHOD AND SAMPLE SELECTION**

#### **3.3.1 SAMPLING METHOD**

A central tenet of grounded theory is theoretical sampling, which Glaser (1978) defined as follows in one of his seminal works:

The process of data collection for generating theory whereby the analyst jointly collects, codes and analyses his data and decides which data to collect next and where to find them, in order to develop theory as it emerges. This process of data collection is controlled by the emerging theory, whether substantive or formal. (p. 36)

Because it is impossible at the start of a research project to determine which concepts require further investigation, grounded theory prescribes that theoretical sampling should be informed by the data itself. After all, “studying new or uncharted areas” (Corbin & Strauss, 2008, p. 145), by definition, implies that knowledge on concepts develops as the research progresses. On the outside, theoretical sampling seems to contest the role of the literature review in grounded theory research (Charmaz, 2011). However, as commented by Suddaby (2006), Glaser and Strauss actually encouraged beginning the process of formal theory development from substantive theory, as the literature provides initial direction in developing relevant categories and properties<sup>11</sup>. Nonetheless, it is imperative to refrain from forcing the data into preconceived categories or theories (Glaser, 1978). As the method developed, other versions of theoretical sampling became acceptable, depending on the extent to which research in that field had advanced (Corbin & Strauss, 1990).

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<sup>11</sup> The original text was presented in the seminal publication of Glaser and Strauss in 1967 entitled “The discovery of grounded theory: Strategies for qualitative research” New York: Aldine.



Sampling decisions in this study were informed by the rich research on the CSR–FP relation and the need to integrate substantive theories derived from various fields (e.g. multinationals, CSR, alignment theory, institutional theory, contingency theory and the resource-based view). Given that the purpose is to uncover the mechanisms informing differences, variational or discriminative sampling (Corbin & Strauss, 1990) was employed, with cases being selected based on the extent that they varied on theoretical factors known to influence the CSR–FP relationship. These included concepts such as country of origin, type of industry, business orientation, firm size and CSR maturity. This sampling approach helped to reveal which of the factors are particular to the quintain and which vary across cases. For the case to be included in the sample, the MNC subsidiary also had to:

- Use English as the main language of communication. This criterion allowed the researcher to collect the data directly instead of via translators.
- Employ a minimum of 100 staff members in order to ensure that the subsidiary had some supporting processes and services in place and sufficient resources to allow the implementation of particular processes related to activities in the various CSR domains.

Finally, because strategic CSR has business, environmental and social dimensions, senior management was judged to be best positioned to provide the required information.

### **3.3.2 SAMPLE SELECTION**

Although there is no general consensus on what constitutes an emerging market, financial institutions such as the Financial Times Stock Exchange (FTSE)<sup>12</sup>, Bloomberg’s Morgan Stanley Capital International (MSCI)<sup>13</sup> and the World Bank more or less concur<sup>13</sup> on the countries that should be considered as such. These countries tend to have in common a well-established financial structure and less well-developed institutional systems (Kearney, 2012). Malaysia was selected as the emerging country context for several reasons. First, Malaysia meets criteria such as having a relatively low standard of living<sup>14</sup>, high inequality between the poor and rich, weakly developed institutions and steady economic growth averaging of 5% or higher over the past 10 years<sup>15</sup>. Second, compared with other developing countries in Asia, Malaysia enjoys a relatively stable geographic and political environment, which enhances the country’s attractiveness for FDI. Third, it helped that the researcher lived in Malaysia for 13 years and is familiar with Malaysian institutions. As this research project started under the guidance of the University of South

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<sup>12</sup> <http://www.ftse.com/products/indices/emerging-indices>

<sup>13</sup> [http://www.msci.com/products/indexes/country\\_and\\_regional/em/](http://www.msci.com/products/indexes/country_and_regional/em/)

<sup>14</sup> In 2010, Malaysia experienced an output per capita of Ringgit Malaysia 26,969 or US \$8,280 (1987).

<sup>15</sup> Except for 2009, when Malaysia suffered from the global downturn and saw its economy contract by 1,2% (Department of Statistics Malaysia, 2013).

Australia (UNISA), the legal and ethical framework of Australia was applied. Compared with Malaysian culture, this framework appears rather formal and strict, which may have scared some prospective organisations away. For instance, one rule required the highest local manager to issue an official, signed letter stating that the researcher is allowed to collect data. This led to situations in which a senior manager would initially verbally agree to the research, only to decline later when confronted with the formalities. However, two other organisations found the ethical guidelines insufficient and required the researcher to sign additional confidentiality agreements issued by their own legal departments. Two organisations withdrew because they were unable to commit the required time. The final sample consisted of seven subsidiaries that were all considered *Western* companies but that varied as much as possible with regard to the factors identified (see Table 3-1 on page 41).

Because CSR practices are influenced by cross-national institutional differences (Lo, Egri, & Ralston, 2008), organisations are selected from different countries. Institutions are shaped by the political, financial, educational and cultural systems that evolved in a country over the course of its history. These systems influence the role of the government, the firm's access to capital sources, the human resources developed and the assumptions the people in a country have regarding the society they live in and the role of business in society (Whitley, 1999). Accordingly, firms have been selected from Europe, Canada and the United States. Research shows that Europe can't be treated as a homogeneous group (Harzing & Sorge, 2003). For instance, multinationals originating from Northern European countries tend to emphasise environmental practices, whereas Southern European multinationals prefer investing in social practices (Furrer et al., 2010; Habisch, Jonker, Wegner, & Schmidpeter, 2005). For this reason, Europe is represented by the Netherlands, Germany and Spain.

As each industry experiences its own unique CSR-related issues, CSR practices are strongly affected by industry. For example, a CSR practice such as charitable giving, industry may explain as much as 22% of the variation (Amato & Amato, 2007). Furthermore, some industries pose a greater threat to the environment or to the health and safety of the workers, or have a reputation for low ethical standards and a propensity to flaunt regulations (Kolk & Pinkse, 2006). To investigate industry-related influences, industry sector membership was included as a selection criterion. The primary sector, consisting of raw material extraction industries such as mining, exploration and agriculture, is represented by AC (agriculture) and OGC (oil and gas).

**Table 3-1 Overview of the research sample for the qualitative phase**

Subsidiaries							
Element	AC	FC	F&B	HC	IC	LC	OGC
<b>Code</b>							
<b>Industry</b>	Agriculture	Finance	Food & Beverage	Hospitality	Industrial	Logistics	Oil and Gas
<b>Geographic origin</b>	Northern Europe	Northern Europe	Northern Europe	Southern Europe	United States	Northern Europe/ Australia	Canada
<b>Business orientation</b>	B2B	B2C	B2C	B2C	B2B	B2B	B2B
<b>Firm size:</b>							
• <b>HQ</b>	2,100	105,000	20,000	34,000	300,000	83,000	3,000
• <b>Subsidiary</b>	200	1,000	600	180	1,000	500	800
<b>Founded:</b>							
• <b>Parent</b>	1938	1845/1991	1872/2008	1990	1876/1892	1946/1996	1925/1992
• <b>Subsidiary</b>	1997	1975	1963	1956	1975	1976	2001
• <b>Tenure subsidiary in 2010</b>	13 years	35 years	47 years	54 years	35 years	34 years	9 years
<b>CSR status</b>	Infancy	Advanced	Infancy	Medium	Advanced	Advanced	Advanced
<b>CSR reporting</b>	No report	Global, GRI	Global, GRI	Global, GRI	Global, GRI	Global, GRI	Global, GRI
<b>CSR listings</b>	-	DJSI	-	FTSE4Good	DJSI	DJSI	DJSI
<b>Interviews</b>	7	4	9	5	1	5	8

The secondary sector, encompassing refining, construction and manufacturing, is represented by three subsidiaries: a diversified industrial (IC), a food and beverage subsidiary (F&B) and a logistics/transportation subsidiary (LC). The tertiary services sector comprises the subsidiaries in hospitality (HC) and finance (FC). The fourth sector involves knowledge-driven types of companies, such as those in research, IT and biochemistry. Because the literature does not associate the fourth sector with unique CSR issues, this sector is not represented in the sample.

Furthermore, a firm's business orientation influences its preference for certain types of CSR practices. Corporate giving practices are more predominant in consumer-oriented industries (Brammer, Pavelin, & Porter, 2009). Differences are even found among firms selling different types of consumer goods (Siegel & Vitaliano, 2007). Although comparative research is scarce, it is possible that different CSR strategies are employed for different customer groups. To account for this variation, the subsidiaries in the sample vary in the type of customers they serve. Four out of the seven subsidiaries serve other businesses (B2B), whereas three subsidiaries focus on consumers (B2C).

Firm size matters when it comes to the amount of CSR investments made (Amato & Amato, 2007). This relationship is likely U-shaped, with small and large firms being equally motivated to engage in CSR (Udayasankar, 2008). Larger organisations have greater resources to invest in CSR practices and are more willing to donate when they do well (Margolis et al., 2007). They are also more visible and may, therefore, experience greater pressure to engage in CSR (Brammer & Millington, 2006). Smaller firms, on the other hand, may be motivated by resource access (Udayasankar, 2008). To account for this factor, the MNCs and subsidiaries in the sample vary in size (for the subsidiaries, from 180 to approximately 1,000 employees; and for the parent MNCs, from just over 2,000 to over 300,000 staff members).

Finally, based on observations by Matten and Moon (2008), it is assumed that all firms, explicitly or implicitly, to some extent incorporate CSR practices in their approach to the marketplace, the workplace, the environment and the community. However, firms vary in CSR maturity and the extent to which they have advanced their CSR practices. MNCs and/or subsidiaries that are undertaking few CSR practices, lack formal CSR policies and whose senior management regard the organisation itself to be in the early stages of CSR development are assigned the CSR status of *infancy*. In this sample, the CSR practices of the AC and F&B subsidiaries were considered to be in this stage. Subsidiaries were assigned the CSR status *medium* if they formally undertook CSR initiatives in various areas, but still lacked formal policies and a budget. Finally, the status *advanced* was assigned when the MNC was listed on a CSR-linked index such as the DJSI, which may be viewed as an indicator of the value the MNC attaches to CSR.

To summarise, the sample consists of seven subsidiaries that vary on five factors that, according to the literature, influence firms' CSR practices.

### 3.4 DATA COLLECTION STRATEGY

The data sources used in grounded theory are similar to those used in other qualitative approaches (Corbin & Strauss, 1990). The dataset consists of interviews with senior managers supplemented with company documents, such as annual reports, CSR reports if available, company websites and other documentation regarding specific topics that were brought up in the interview (for an overview, see Table 3-2 below).

**Table 3-2 Dataset collected in the qualitative phase**

Data type	Data scope	Comments
<b>Semi-structured interviews</b>	39 interviews	Resulting in over 30 hours of interviews
<b>Archival data</b>	Company websites	Local websites (4) Global websites (7)
	Annual reports from 2009, 2010	Local annual reports (4) Global annual reports (12)
	CSR reports from 2009, 2010	Global CSR reports (10)
	Other documents	Audit reports (2) Codes of conduct (2) Competitor CSR reports (4) Newsletters (7) Publications in newspapers and journals (4) Video presentation (1)

The interviews were semi-structured in order to assess individuals' perception, meaning and construction of reality while also allowing respondents to bring up other information they considered relevant to the constructs investigated (Punch, 2005). The interview itself focused on three broad categories, each consisting of concepts identified in the literature (see Appendix A for the interview agenda). Data was collected regarding:

1. The external and internal factors influencing CSR decisions.
2. The types of CSR practices that the firm had initiated, with a focus on the main considerations for these practices and the organisation of them.
3. The benefits obtained from the CSR practices implemented across the four CSR domains.

The order and the particular questions selected from the interview guide were determined in the interview itself, depending on the flow of the interview and the role of the participant in the

organisation. For example, an interview with a human resources director focused on workplace-related CSR, whereas an interview with a procurement manager focused more on supplier relations (marketplace CSR). To gain more of an insider's perspective on how CSR is organised in the organisation, senior managers whose job overlapped with one or more of the CSR domains were invited to participate (see Table 3-3).

**Table 3-3 Overlap between functional areas and CSR domains**

Functional areas	Interviews	Market-place	Workplace	Environ-ment	Community
General management	6	✓	✓	✓	✓
Corporate affairs *	3				✓
Corporate communications	2				✓
Corporate responsibility	2	✓		✓	✓
Human resource management**	8		✓		
Operations	4			✓	
Sales & marketing	8	✓			
Supply chain (procurement/logistics)	4	✓			
Other (finance, engineering)	2	✓		✓	
<b>Total interviews</b>	<b>39</b>				

\* In two instances, corporate affairs covered community and marketplace CSR. \*\* In one organisation, the human resources manager was also responsible for CSR.

In addition to general management, senior management from operations, human resources, procurement, sales and marketing, communications, corporate affairs and CSR were interviewed.

All participants were first invited via email by the most senior-ranked local manager. This was followed by an email from the researcher that explained the purpose and relevance of the study, why the individual was selected to participate, and the procedures for data collection, data analysis and data reporting, with special emphasis on how the confidentiality of the participant and the subsidiary would be guarded. Furthermore, it was made explicit that participation was voluntary and that the individual could withdraw at any time. Of the 41 invitations sent out, one was declined because of workload and customer issues. In addition, one interview was cancelled for medical reasons.

Overall, general management were best able to describe the CSR practices across the four main domains, albeit in less detail. Because of other obligations, in one organisation the highest local

manager delegated the interview to another well-informed senior manager. Due to subsidiary size, complexity of the organisation, CSR maturity and scheduling issues within the firm, the number of interviews per organisation ranged from one to nine. All interviews were conducted face-to-face between October and December of 2010, and varied in length from 15 to 68 minutes. All but three interviews were both recorded and transcribed. One interview could not be recorded because the environment contained too much background noise. In addition, two respondents from the petrochemical subsidiary preferred not to be taped but did allow the researcher to take extensive notes.

To help determine when to stop collecting data, Glaser and Straus (1967) recommend using the saturation effect beyond which further investigation does not yield new concepts. This criterion seems somewhat intuitive and inexact (Castro, Kellison, Boyd, & Kopak, 2010). However, a comprehensive study by Alexandersson (1994) involving 50 doctoral theses and between 500 and 1,000 research reports pointed out that saturation may be expected after collecting data from 20 research participants. This number concurred with findings obtained in a CSR-related study by Sharma and Vredenburg (1998), who reached saturation after interviewing 20 environmental managers. With 39 interviews, this sample size is clearly outside the bandwidth. This deviation is most likely the result of the heterogeneous sample composition, both in terms of the types of organisations involved and the responsibilities of the respondents interviewed.

Because the interviews were conducted toward the end of 2010, it seemed appropriate to include 2009 and 2010 company reports. None of the subsidiaries produced a separate local CSR report. The subsidiary in the fast-moving consumer goods industry (F&B), however, did include a CSR segment in its local annual report.

### **3.5 DATA ANALYSIS**

Within grounded theory, data collection and data analysis are viewed as “a process of generating, developing and verifying concepts – a process that builds over time and with the acquisition of data” (Corbin & Strauss, 2008, p. 57). Grounded theorists strongly recommend commencing data analysis immediately in order to direct the next interview and to avoid violating the foundations of the method (Corbin & Strauss, 1990, p. 6). This study, however, deviated from this procedure for two reasons. The first reason is informed by the objective of the study. As explained in chapter two, research on the CSR–FP relationship is extensive and, therefore, the initial focus was less on discovering new concepts and more on increasing understanding of concept qualities and the linkages between them. For this reason, the interview agenda was informed by existing concepts. The second reason is pragmatic. The interviews had to be scheduled as efficiently as possible. As a

result, oftentimes, several interviews were scheduled on a single day, making a thorough analysis of data in between interviews impossible. Instead, I used field notes to direct the focus of the next interview. The data analysis consisted of two steps: data preparation and data coding.

### **3.5.1 STEP 1 - DATA PREPARATION**

All recorded interviews were transcribed and, together with all supplementary company information, imported into NVIVO 9.2<sup>16</sup>. Next, each case study was carefully reconstructed by summarising the answers to the interview questions in order to integrate different viewpoints of senior management and to help crosscheck the data. In some instances, participants from the same organisation would provide contradictory facts regarding a CSR practice. In F&B, for example, one senior manager explained that the dairy development programme was undertaken because of a shortage of fresh milk, whilst the managing director explained that the programme started because the parent company urged subsidiaries to undertake these types of programmes in countries lacking a dairy industry<sup>17</sup>. Data contradictions such as these were resolved by verifying the inconsistency with the highest-ranked local manager.

### **3.5.2 STEP 2 - DATA CODING**

In qualitative inquiry, a code refers to “a word or short phrase that symbolically assigns a summative, salient, essence capturing and/or evocative attribute for a portion of the language-based or visual data” (Saldana, 2009, p. 3). Data coding occurred in four successive coding cycles.

In the first coding cycle, the data were grouped based on the broad categories that had been used to construct the interview agenda (e.g. contextual determinants of CSR, CSR practices, and the outcome of CSR investments). This form of “structural coding” helps to quickly access data that is relevant for a particular research analysis (Namey, Guest, Thairu, & Johnson, 2008).

The second coding cycle made use of a list of codes that were derived from the literature (Miles & Huberman, 1994). The data were compared with the literature codes in order to determine whether the data confirm or disconfirm the theory and to identify where the literature is incorrect or incomplete (Corbin & Strauss, 2008). From the perspective of grounded theory, this approach risks labelling concepts out of the data such that they fit the theory and, thus, are “stifled” by it (Corbin & Strauss, 2008, p. 36). However, following a pragmatist approach, this could also be considered as a form of abductive reasoning, whereby the researcher moves back and forth between induction and deduction (Morgan, 2007).

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<sup>16</sup> This software package aids in the systematic organisation and analysis of large quantities of qualitative data.

<sup>17</sup> At the time of the investigation, the Malaysian dairy programme only produced 3% of raw milk supplies.



The third coding cycle focused on new concepts that emerged directly from the data. Concepts are “words that stand for groups or classes of objects, events and actions that share some major common propert(y)(ies), although these propert(y)(ies) can vary dimensionally” (Corbin & Strauss, 2008, p. 45). As data coding progressed, new concepts emerged, requiring a re-examination of the total dataset to determine whether that code had been missed earlier. This iterative process of moving forward and backward through the transcripts and documents while comparing incidents and classifying data helped in capturing and exploring all data until indeed no new concepts emerged. This method is also known as the constant comparison method and is similar to what Glaser (1978) named “open coding”, which involves breaking the data apart in order to expose theoretical possibilities. In sum, the second and third coding cycle compared data against data; concepts across case studies, participants and concepts; and data against the CSR literature. The final coding cycle, termed axial coding, involves “crosscutting or relating concepts to each other” (Corbin & Strauss, 2008, p. 195). Using abstraction, some concepts were grouped based on similarity of ideas in order to obtain more theoretically useful concepts, which were then populated with subcategories (Charmaz, 2006). This process helped reduce the number of higher-order categories, link subcategories together into relevant themes and develop a set of propositions.

### **3.6 TRUSTWORTHINESS OF THE RESEARCH ACTIVITIES IN PHASE ONE**

Given that this chapter is primarily concerned with qualitative research methods and not with the findings, it seems appropriate that this section focuses on the data gathering and analytical techniques employed in order to assess the credibility of the foundations of this study. This research subscribes to what Maxwell called a “realist conception of validity” (1992, p. 281). Accordingly, the objective of this research and the circumstances under which it was conducted needs to be assessed with regards to their credibility. The circumstances provide a backdrop or a context that influences the research stages of sample selection, data gathering and data analysis. Consequently, the researcher’s task is to identify sources of bias that may have affected the research, explain the activities undertaken in each of these stages in order to address the issues and make an assessment of the consequences. These combined activities serve as a verification strategy which incrementally addresses issues that may affect the trustworthiness of the research (Morse, Barrett, Mayan, Olson, & Spiers, 2002). Although it is relatively easy to produce a whole range of potential sources of bias, it is nearly impossible to implement all procedures that systematically eliminate bias and error from the research (Norris, 1997). With this in mind, the aim of this section is to discuss sources of bias in the three main stages of this research and the

measures that were implemented to address these as well as was possible. This leaves the trustworthiness of the inferences made for the reflection in Part III.

### **3.6.1 BIAS AFFECTING SAMPLE SELECTION**

Because the research in this phase was focused on what remained constant amidst variation, the research sample contained subsidiaries that varied as much as possible, in terms of both the types of subsidiaries and types of respondents. Two forms of bias may have affected sample selection. The first bias is associated with the firm and could result in firms agreeing to participate for self-serving purposes. Furthermore, researcher bias may arise from being familiar with the field from a professional point of view and selecting firms the researcher is familiar with, and from the timetable to secure participation and collect data. Bias arising from these sources was reduced by applying the selection criteria discussed in §3.3. An initial list was compiled consisting of 16 firms meeting the criteria. Subsequently, the researcher used her professional network to gain access to these firms. When an organisation declined participation, the next organisation on the list was approached. Securing participation was difficult for various reasons. Having no time to participate was among the foremost reasons to decline participation. Some organisations, including a subsidiary listed on the DJSI, declined because it did not undertake CSR initiatives at the subsidiary level. Moreover, the rather strict procedures of the Ethical Commission<sup>18</sup> of Unisa might have deterred firms from participating. Selection bias regarding respondents was addressed in the research design by limiting interviews to senior managers whose designation overlapped with one or more CSR domains; based on this, host country management was allowed to decide who would be invited. In the end, permission was obtained from seven foreign subsidiaries originating in the United States, Canada and Europe that met the sample criteria.

### **3.6.2 BIAS AFFECTING DATA GATHERING**

According to the Oxford Dictionary, data are “facts and statistics collected together for reference or analysis”. Because the phenomena under investigation consist of perceptions and interpretations of a particular occurrence, the term data seems inappropriate. Maxwell preferred the term “account” (1992, p. 283), which denotes the notion of an interpretation and that there may be different, equally valid interpretations with regards to the same singularity. In this research, both terms are used, with the term data being reserved to refer to the dataset, and the term account employed for perceptions, opinions and interpretations obtained from respondents. The dataset of the present study consisted of interviews supplemented with company documents

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<sup>18</sup> As mentioned earlier, this research started at the University of South Australia and, therefore, followed the legal framework of that country.

in various forms. The concern here is to ensure that the accounts in the dataset are as accurate as possible. To increase accuracy, 36 of the 39 interviews were recorded and then transcribed literally, including pauses, inclinations and hesitations. For the three interviews that were not recorded, extensive notes were taken, which were sent to the interviewees for comments. The fact that no additions or comments were made should not be interpreted as a sign that the account of the interview is correct, as busy schedules may have led the email to be regarded as insignificant. Furthermore, in Malaysian culture, individuals often deem it important to “save face”; thus, respondents may have felt that correcting the interview account would embarrass the researcher and, therefore, refrained from making comments.

In addition to factual accuracy, qualitative research also has concerns with the “truthfulness” of the account itself. Because an interview is an action and a reaction, the truthfulness of the accounts may be questionable due to bias associated with either the participant or the researcher.

#### ■ Participant bias

The truthfulness of the accounts could be affected by the desire of participants to demonstrate that they hold strong personal and professional ethics, and to present themselves as well-informed organisational members. In addition, participants might want to ensure the organisation is portrayed as a good corporate citizen and, consequently, emphasise the organisation’s accomplishments. Alternatively, participants may downplay any CSR initiative undertaken because it seems minimal in comparison with the efforts of organisations that win annual CSR awards. This bias was addressed as well as was possible by having the senior manager explain the organisation’s motive for participation, the purpose of the study and the procedures followed (see extracts 3.1 and 3.2 below). These messages were reinforced with a follow-up email from the researcher.

##### **Extract 3-1 Sample invitation letter sent by manager to explain purpose**

[Company name] has agreed to participate in a study about the strategic use of corporate social responsibility. Corporate social responsibility (henceforth CSR) refers to the way the organisation manages the impact its business activities have on stakeholder groups such as employees, customers, competitors, investors, regulators, the general public and the environment. This research is not so much about what constitutes good CSR or bad CSR but more on examining factors that influence decisions with regards to CSR in various key areas in the organisation. Bursa Malaysia refers to these areas as the workplace, the market place, the environment and the community.

##### **Extract 3-2 Sample invitation letter sent by manager to staff regarding procedure**

The research is part of a PhD study that is endorsed by the University of South Australia and is one of the very few studies in the world that focuses on CSR in a developing country. The data is collected from reports and interviews that will take approximately 45 minutes of your time. The interview questions focus on the factors that influence CSR decisions within [company name], the sorts of initiatives that we employ across the four main CSR areas, and how implementation and progress is being monitored. There are no good or bad answers here.

Besides this, prospective participants were told that participation was voluntary and that they could withdraw without consequences (see also the Consent letter in Appendix B). Triangulation was used to lower the remaining effects of social desirability (Denzin & Lincoln, 2000). In the present research, this procedure entailed comparing accounts across sources (informants and supplementary documents) for correctness and completeness.

#### ■ **Researcher bias**

During the data collection process, researcher bias could have originated from cultural differences that affect the researcher's perceptions and responses of the participants and vice versa. In this study, the researcher is a female of foreign origin, whereas the 39 respondents are from various backgrounds (both Malaysian and foreign). However, they all held a degree from a foreign university, which suggests that they are more exposed to foreign females. It may also have helped that the researcher had already lived in Malaysia for 13 years at the time of the qualitative phase of the study, and thus was familiar with Malaysian culture. Based on the above, it could be concluded that with regards to the circumstances and the objective of the study, bias that may have affected data gathering activities was sufficiently addressed.

### **3.6.3 BIAS AFFECTING DATA ANALYSIS**

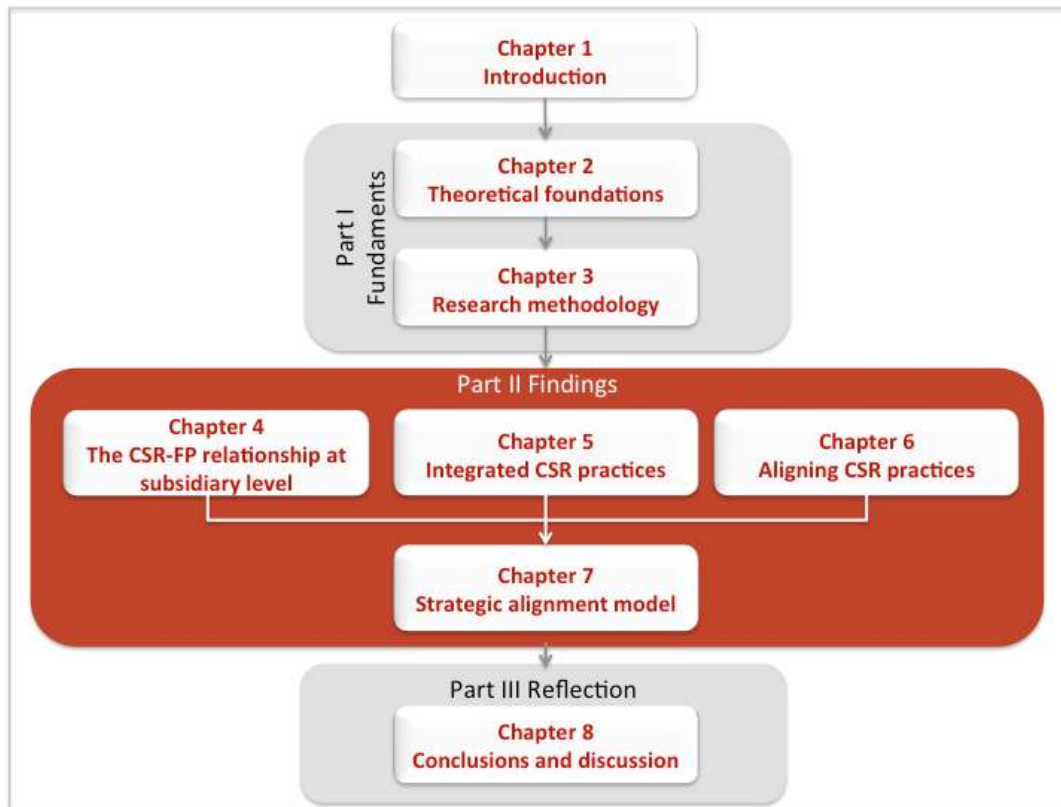
The most significant source of bias in the stage of data analysis is, of course, the researcher him or herself. First, the researcher could superimpose concepts from the literature onto the data. This was addressed by exposing the data to successive coding cycles, which required a re-examination and evaluation of the data at least four times. Furthermore, in the presentation of the findings, a distinction is made between concepts that originated from the literature and those that emerged from the data. The second measure that was implemented in an effort to mitigate researcher bias is known as comprehensive data treatment, which requires the inclusion of all data in the analysis until the model can account for all bits of data. In essence, this measure demonstrates the iterative character of the data analysis stage; the researcher goes through a process of revisiting accounts, exploring how the accounts are linked to literature, investigating the meaning of the accounts within the research, abstracting the data into categories, and formulating tentative propositions regarding the linkages between accounts and concepts until a sort of "solution" emerges that appears to have the ability to account for all data in the set. In all presentations of the findings, this study aims to make this process of conceptualisation as transparent as possible.

## **SUMMARY AND CONCLUSIONS**

This chapter described the overall mixed methods research design that is used to answer the research question and achieve its four objectives. The current state of research on the CSR–FP relationship and the nature of the research question require a sequential explorative design, whereby the qualitative outputs of the first phase inform the quantitative second phase. In addition, this chapter discussed the methods employed to collect and analyse data in the qualitative phase. This phase consists of a collective case study method, with data collection and data analysis procedures borrowed from grounded theory, including theoretical sampling (maximum variation sampling), theoretical saturation and constant comparison. In carrying out the data analysis, successive coding cycles were used to help define CSR practices at the subsidiary level as well as to develop a strategic CSR model, and hypotheses that are grounded in qualitative data. The next three chapters present the findings of this qualitative phase. Chapter seven discusses the quantitative methods employed to validate the findings obtained in the first phase, and presents the findings of the quantitative analysis.

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## PART II RESULTS



Chapter one identified two gaps in the literature that informed the main research question. In order to answer this research question, the following four objectives were formulated based on the literature review in chapter two:

1. To investigate the CSR practices of subsidiaries in emerging markets and evaluate the extent to which MNC CSR practices published in corporate reports resonate at the subsidiary level.
2. To increase understanding on how resource deployment is linked to firm performance.
3. To integrally investigate the role of institutions and international strategy with regards to the CSR–FP relationship.
4. To examine the role of resource availability and accessibility with regards to CSR investments, from a strategic perspective.

The next four chapters present the research findings. Chapters four through six focus on the results obtained from the qualitative phase, and chapter seven is dedicated to the quantitative phase.

**Chapter 4** addresses the first gap and the first objective. It investigates the CSR practices undertaken by foreign subsidiaries in emerging markets in order to assess the extent to which CSR practices of the parent organisations resonate at the subsidiary level. The findings are used to define the CSR practices of subsidiaries, and operationalize these into useable measures.

**Chapter 5** is dedicated to integrated practices, which appear as an additional CSR domain. The chapter commences with a description of five types of integrated practices that were identified in this study. These practices are then analysed against the background of the RBV debate regarding resource deployment. The findings shed light on the linkages between resource deployment and firm performance (objective two).

**Chapter 6** addresses the third and fourth objectives. It introduces the strategic alignment model and explains the effect of CSR decisions in light of MNC internationalisation motives. The model establishes links between theories on strategic fit, institutions, and resource dependence. Four strategic CSR approaches are described based on the subsidiary's dependence on resources and markets. Furthermore, the findings help explain how the accessibility and availability of external resources influence the propensity of firms to invest in CSR initiatives. Finally, the strategic value of CSR choices of subsidiaries operating in emerging markets is clarified.

**Chapter 7** focuses on the second phase of the mixed methods research design and discusses the procedures followed in operationalizing the strategic framework. Next, the relationships are explored using regression analysis. Support is found for the moderating role of resource dependence and market dependence.

## 4 THE CSR–FP RELATIONSHIP AT THE SUBSIDIARY LEVEL

The aims of this chapter are threefold. First, it provides insight into the CSR practices undertaken by MNC subsidiaries in emerging markets. Second, it compares the practices enacted by subsidiaries with those communicated by the parent organisations in public statements and reports. Third, it investigates the extent to which the CSR practices adopted by the subsidiaries can be considered strategic, or instrumental to the subsidiary's business case.

The chapter contextualises the strategic value of CSR practices vis-à-vis corporate strategy. Next, the outcomes of CSR activities with regard to firm performance are described. The chapter continues with a review and evaluation of subsidiaries' CSR practices in the marketplace, the workplace, the community and the environment. The last section compares corporate and subsidiary CSR practices to assess the extent to which corporate CSR practices resonate at the subsidiary level.

### 4.1 THE STRATEGIC RELEVANCE OF CSR PRACTICES

CSR practices can be considered strategic if they help realise internationalisation objectives and/or help create competitive advantage. MNCs internationalise for reasons such as to get access to resources (e.g. natural, labour, and skills, capabilities and expertise) at a lower cost or of a higher quality than could be obtained in the home market, to protect or exploit new markets or to gain access to specific strategic foreign assets in order to advance or sustain global competitiveness (Dunning & Lundan, 2008). The majority of the subsidiaries in this collective case study established operations in Malaysia for market-seeking purposes; FC, F&B, HC and IC are all serving the Malaysian market, and AC and LC are serving regional markets in addition to Malaysia. OGC, on the other hand, has chosen Malaysia to obtain access to Malaysia's vast oil reserves.

The CSR practices undertaken by subsidiaries in emerging markets create value when they either lead to reduced costs, and/or help to differentiate the subsidiary from local or foreign competition, and/or when the practices yield both social and economic benefits (Porter, 1985; Porter & Kramer, 2002). MNCs setting out to become *the* low-cost provider in the industry will try to seek sources of cost advantage across the value chain in both its primary and its supporting activities. Pursuit of cost leadership could motivate the MNC to establish the subsidiary in low-cost countries. Because CSR practices are associated with the value chain, cost advantages could be obtained from actual cost reductions, from substitution, or by pre-empting future liability claims and fines. For instance, research showed that firms that invested in environmental risk-reducing practices are able to lower their overall cost of capital (Sharfman & Fernando, 2008). Additional costs incurred are defensible up to the level where the marginal cost of additional resources



deployed is equal to the marginal revenue that would be generated (McWilliams & Siegel, 2011). A differentiation strategy is apparent when the firm attempts to differentiate itself from competitors by implementing CSR practices considered important by stakeholders. The extent to which a subsidiary adopts a differentiation strategy might be inferred from the types of CSR practices undertaken and the publicity these practices receive. Clearly, a practice that is not communicated externally has no signalling function and does not create differentiation value. Finally, a firm can improve the competitive context by adopting a convergence strategy by selecting CSR activities that create social and economic benefits (Porter & Kramer, 2002). Converging social and economic benefits requires the firm to focus on social issues that are closely related to the nature of the firm's business and its competitive context in terms of the availability of specialised inputs, beneficial local policies, incentives for investments, demand conditions and the presence of related and supporting industries. Porter and Kramer viewed the convergence strategy as a specific CSR differentiation strategy, which, depending on its relevance for a stakeholder group, targets different elements of the competitive context. Hence, convergence strategies can be aligned with the internationalisation strategies of MNCs.

## **4.2 FIRM PERFORMANCE**

In the quantitative CSR–FP literature, economic FP is commonly measured using accounting and market-based indicators. Both have advantages and disadvantages. For example, accounting measures are subject to managerial manipulation and vary across countries. However, they do reflect organisational behaviour. Market-based measures, on the other hand, are subject to factors that are unrelated to firm behaviour (Griffin & Mahon, 1997; Lopez, Garcia, & Rodriguez, 2007; Shane & Spicer, 1983). Even when market-based returns are risk adjusted and incorporate changes in price per share and dividends, changes in market returns may not be caused by changes in CSR. Although it would appear that accounting and market-based performance measures are strongly correlated, the actual relationship is complex, and research findings are inconclusive (Keats & Hitt, 1988).

FP is also measured in terms of internal and external benefits. Internal benefits include increased productivity (Becchetti, Di Giacomo, & Pinnacchio, 2008; Harrison, Newman, & Roth, 2006), organisational commitment (Brammer, Millington, & Rayton, 2007; Lo et al., 2008; Rettab, Brik, & Mellahi, 2009), more efficient processes (Klassen & Whybark, 1999) and lower compliance costs (Porter & Linde, 1995). External benefits derived from CSR investments include increased sales (Luo & Bhattacharya, 2006), improved reputation (Brammer & Pavelin, 2006), insurance against character threats (Godfrey, Merrill, & Hansen, 2009), opening of new markets (Windsor, 2006) and

new product or service development (Sharma & Vredenburg, 1998). Some scholars (Branco & Rodrigues, 2006; Nurn & Tan, 2010) contended that the relationship between CSR and FP is mediated by these types of benefits. Table 4-1 summarises FP benefits and compares these with the findings obtained from the collective case study (the data coding schedule is included in Appendix C1). The last column presents the outcome of axial coding, which clusters firm performance into three clusters of returns.

**Table 4-1 Summary of the findings for firm performance**

Codes emerging from the literature	Codes emerging from the data	Higher-order categories
Accounting returns <ul style="list-style-type: none"> <li>Return on assets</li> <li>Return on equity</li> <li>Total sales</li> </ul> Market returns – Tobin’s Q	Saving costs Improving efficiency of operations	Financial returns
Increased sales <ul style="list-style-type: none"> <li>Opening of new markets</li> <li>New products</li> </ul> Insurance against attacks and threats License to operate Lower compliance costs	Increased sales New products and markets	
Organisational commitment Increased productivity	Risk management Insurance against attacks and threats License to operate	
Improved reputation	Recruiting new staff Reducing staff turnover Improving employee satisfaction Improved staff productivity	Social returns
	Winning government support Winning awards Branding of products and company Getting media exposure	Reputational returns

Financial returns are easily recognised in the form of cost savings and sales increases. Respondents also provided several examples of the insurance-like properties of CSR investments. For example:

**Extract 4-1 Financial returns**

One of the main reasons why we do CSR or CR depending on how you want to look at it – I’ll call it CR for our benefactor as I told you upfront – it would have to be our licences to operate. And we can even go further and say our social licence to operate. (OGC2)

When we had the issue with Geert Wilders some years back, we really had a lot of concerns. One of our biggest enemies was the Muslim Consumer Association, and they have got this huge underground network. I managed to convince them that we are a Malaysian company who really cares and that a lot of their Muslim brothers are employed here. A boycott would also affect them. So they did not boycott our products. (F&B1)

We do business with some very big companies, and some of these companies want to know the way we do things, whether we are operating to some very strict ethics and legal standards. By adopting some of these certifications – and they are international standards – we actually can give assurance to our customers that we are a well-run company. (LC2)

Social returns, though more difficult to ascertain, include improved morale and employee satisfaction. Reputational returns were mentioned frequently, with several codes populating the category.

The strategic value that is perceived to accrue from implementing CSR practices is explored in the sections discussing the respective practices.

### 4.3 CSR PRACTICES AT THE SUBSIDIARY LEVEL

The analysis of the data in this study confirmed the existence of a pragmatic CSR typology that distinguishes between practices in the marketplace, workplace, community and environment (see Table 4-2; the data coding schedule is found in Appendix C2).

**Table 4-2 CSR practices at the subsidiary level**

Codes emerging from the literature	Codes emerging from the data	Higher-order categories
Supply chain management Responsible marketing practices (promotion and products) Corporate governance Customer relationships Investor relationships	Managing the supply chain Responsible sales and promotion practices Producing responsible products	CSR marketplace practices
Work conditions Occupational health and safety Managing employee diversity Employee development Equal opportunity practices Human rights Labour rights	Promoting diversity Ensuring proper working conditions (SA 8000) Ensuring occupational health and safety (OSHAS 18001) Developing employees (e.g. IIP, training programmes, talent management)	CSR workplace practices
Corporate volunteering / employee volunteering Corporate giving / corporate philanthropy Community capacity development Social issue management Minimising negative social impacts	Giving to charities (e.g. products, funds) Promoting employee volunteering Partnering with communities Developing the community	CSR community practices
Reduce energy utilisation Waste management practices Reducing GHG emissions Environmental conservation practices	Reduce resource usage (energy and water) Reducing GHG emissions Waste management practices Management standards (ISO 14001)	CSR environmental practices
	Integrating practice domains: <ul style="list-style-type: none"> <li>Marketplace and community practices</li> <li>Marketplace and environmental practices</li> <li>Workplace and environmental practices</li> <li>Workplace and community practices</li> <li>Environmental and community practices</li> </ul>	Integrated practices

However, the analysis of the accounts revealed another type of practice that seems to integrate activities belonging to different domains. This practice is termed “integrated practices” in this study, and is discussed in depth in chapter five.

### 4.3.1 CSR MARKETPLACE PRACTICES

Given industry differences in supply chain characteristics, subsidiaries encounter unique CSR supply chain issues with regards to the environment, the community, health and safety, diversity, human rights, biotechnology, animal welfare, fair trade philanthropy and safety (Carter & Jennings, 2004; Maloni & Brown, 2006). Although corporate governance and investor relations are generally considered part of stakeholder management, only one subsidiary that was listed on the Malaysian Stock Exchange reported evidence of such practices. In other words, these types of practices are not commonly implemented at the subsidiary level.

*Hence, subsidiary CSR marketplace practices are defined as those practices that enhance control over the social and environmental aspects of the supply chain.*

#### 4.3.1.1 Managing the supply chain – inbound logistics

Subsidiaries varied considerably in the extent to which they exercise control over the social and environmental practices of their suppliers. All subsidiaries had implemented initiatives to help ensure that local suppliers meet cost and quality standards, although these are generally not considered part of CSR. Actually, cost and quality standards could pit suppliers against each other on criteria such as best price, highest quality and fastest delivery, which may ultimately drive suppliers toward lower social and environmental standards (Lim & Phillips, 2008).

Several subsidiaries utilized social and environmental criteria in evaluating supplier performance. HC, for instance, gradually increased suppliers' awareness of CSR issues associated with the industry to which the supplier belongs. Specifically, it drew attention to the social and environmental issues associated with the supplier organisation itself. LC took this one step further by making progress toward implementing a code of conduct that would require all suppliers working on its premises (e.g. drivers, guards and cleaning personnel) to adhere to the standards formulated in the Social Accountability Standard 8000 (Social Accountability International, 2008)<sup>19</sup>. Environmental standards were not established at the time of the data collection, resulting in suppliers' trucks being subjected only to a basic bi-annual inspection by a government organisation. IC implemented a comprehensive responsible supplier management system after its parent company observed that suppliers in developing countries experienced great difficulties implementing and maintaining MNC supplier standards. Subscribing to this system was mandatory and requires the supplier to adhere to stringent regulations regarding the environment, health, safety, work conditions, non-discrimination and bribery. IC offers suppliers assistance to help integrate these standards into the suppliers' organisational processes. On top of the three yearly

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<sup>19</sup> This standard and the implications of adherence are further explained in §4.2.2.

audits, regular spot checks are performed to monitor compliance by IC employees who are trained to spot deviation and are sensitive to overall supplier behaviour.

Both F&B and OGC have limited control over supplier behaviour, but for different reasons. F&B's parent organisation implemented a regionally organised supplier scheme to increase purchase power; however, responsible supplier behaviour was not included as a selection criterion, except for a corporate directive "to purchase from the Roundtable on Sustainable Palm Oil (RSPO) certified producers" (F&B6). No sustainable directives exist for packaging materials. OGC, on the other hand, has a production-sharing contract with a government-linked company (GLC) that decides which firm is allowed to explore for or produce oil and gas in Malaysian territories. The regulations of this contract state that OGC may only use suppliers that are approved by the GLC. For a supplier to be included on the GLC's vendor list, it has to meet criteria in terms of paid-up capital, ownership and directorships. Overall, the emphasis is on price, as one respondent commented: "The lowest bidder has to be awarded when all other criteria are met, even though there might be other suppliers who might be able to deliver with higher quality" (OGC7). However, after observing that most accidents involved contractors, OGC implemented a strict supplier safety protocol, and deviations are only allowed upon specific formal approval from the subsidiary. The subsidiary has been trying to "look at the supply chain accountability of the oil and gas companies and get a workshop going with the GLC [name of the GLC]" (OGC2); however, the interest and response appeared low.

#### 4.3.1.2 Managing the supply chain – outbound logistics

Because of industry-related ethical issues, the government-mandated organisations, such as FC and F&B, implement specific outbound CSR marketplace practices. For example, FC sells its financial and insurance products to Malaysian consumers via a network of external sales agents. In order to meet the regulations stipulated by Malaysia's National Bank, FC established a sales academy to ensure that all internal and external sales agents are familiar with the regulations for the sale of all financial products. Other checks and balances require "every agent when they go out to sell a policy to a prospect to fill up a form" (FC2), which is used alongside Bank Negara's Customer Fact Finding Form. FC then randomly calls customers to check understanding of the product purchased and the service provided by the agent. In the unlikely event that a customer is unhappy with the product or the agent after the cooling-off period, FC will for "five or six or seven out of ten cases give a full refund to the customers" (FC2). When this leads to a loss for FC, then "the agent will be subject to termination" (FC2). F&B is also subjected to government regulations issued by Malaysia's Ministry of Health, in order to ensure that F&B's promotion of dairy products meets stringent marketing guidelines. According to one of F&B's directors, one marketing initiative

that integrates a social aspect into F&B's programme involved a nutrition study which (see Extract 4-2):

**Extract 4-2 CSR practices associated with outbound logistics**

Basically researches roughly about a few thousand children across the country, and actually understand their nutritional habits, their nutritional needs, benchmark against recommended standards and use that information to design, let's say our innovations and products and portfolio in the coming years...in terms of corporate social responsibility of our brands. (F&B7)

These examples illustrate the variety of CSR activities associated with the outbound logistics undertaken by the subsidiaries. Some of these are driven by compliance to formal institutions, whereas others are more proactive and opportunity seeking.

#### 4.3.1.3 The strategic value of marketplace practices

Obviously, selecting and investing in quality suppliers positively influences vertical linkages in the supply chain and helps control costs, as good suppliers deliver reliably and according to specification. For this reason, all of the subsidiaries examined for this study include cost and quality as selection criteria. Because stakeholders increasingly take overall supplier behaviour into account when assessing a firm's CSR engagement, it is becoming increasingly relevant for subsidiaries either to include the supplier's social and environmental performance as selection criteria or to support suppliers in upgrading their performance on these standards. These types of investments are justified as a means of developing and maintaining the subsidiary's reputation and of pre-empting liability claims. Irresponsible supplier behaviour can be costly to the firm. To illustrate, the Deepwater Horizon accident in the Gulf of Mexico in 2010, which implicated one of BP's suppliers (The Bureau of Ocean Energy Management Regulation and Enforcement, 2011), revealed the financial implications of failing to do so: BP's stock price dropped from \$60.48 to as low as \$26.75 (Bauer & Hann, 2010). The accident caused a ripple effect throughout the oil industry. At a global level, also OGC stepped up its responsible supplier initiatives. The subsidiary in Malaysia, however, is bound by the conditions stipulated in the production-sharing contract, which limits the selection of suppliers to those included in the vendor list. As a whole, investments in responsible supplier schemes do not directly lower costs at the subsidiary level. Instead, they should be regarded as a form of risk management that pre-empts liability claims.

Differentiation value from marketplace practices occurs if the practice is communicated to customers who appreciate such practices. None of the subsidiaries in this study, however, indicated using CSR marketplace practices for this particular purpose.

Finally, there is some debate on the converging value of supplier management. Even though subsidiary CSR investments in the supply chain make economic sense, the implementation of and

adherence to guidelines and standards creates a dilemma for suppliers: invest and comply with the social and environmental standards that are increasingly demanded by global buyers, or lose your competitive edge (which is often based on cost and quality). For this reason, subsidiaries would need to invest and support suppliers in upgrading environmental and social practices, whilst ensuring that supplier profitability is maintained (Luken & Stares, 2005). Of the subsidiaries examined for this study, only IC seems to pursue this strategy; however, it remains difficult to gauge the actual impact of its social responsibility system at the supplier level.

### **4.3.2 CSR WORKPLACE PRACTICES**

According to the literature, workplace practices encompass general work conditions, occupational health and safety practices, activities to promote employee diversity, practices to safeguard equal opportunity, employee development, human rights and labour rights. Based on the analysis of the dataset, however, workplace practices at the subsidiary level can be subsumed under the following three different types of practices: promoting diversity, general work conditions (including occupational health and safety) and employee development.

*Hence, based on the data, subsidiary-level CSR workplace practices are defined as all of those activities that promote diversity and ensure that employees work in a safe, healthy environment and are given the opportunity to develop to their potential.*

#### **4.3.2.1 Promoting diversity**

Generally, the phrase 'promoting diversity' is associated with increasing representation of staff from underrepresented groups (e.g. race, nationality, gender, age). Thomas and Ely (1996) distinguished between a) "the discrimination and fairness paradigm" (p. 2), which contends that firms should focus on aligning diversity practices with societal expectations in order to avoid being accused of discriminatory practices and b) "the access and legitimacy paradigm" (p. 5), which celebrates diversity because of the business sense it makes in an increasingly multicultural society.

The subsidiaries in this research seem to subscribe to the discrimination and fairness paradigm, although their understanding and enactment of this paradigm differs from that of Malaysian institutions. In Malaysia, managing diversity means recognising people from different racial backgrounds<sup>20</sup> and taking their cultural requirements into consideration. Malaysia's historical development has created a society in which ethnic Malay individuals fill government jobs, and ethnic Chinese dominate the business community. This division intensified economic differences between the Malay and the Chinese, making the promotion of racial diversity imperative to

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<sup>20</sup> In 2009, the Malaysian population comprised individuals who were Malay (54.9%), indigenous (11.9%), Chinese (24.5%), Indian (7.4%) and other (1.3%) (Department of Statistics Malaysia, 2013).

maintain harmony among Malaysians. As a result, the government issued regulations to help ensure that a firm's workforce mirrors Malaysia's ethnic composition. Although the subsidiaries in this study had implemented policies that reflect local traditions, prayer times, religious holidays and food requirements, managing racial diversity remained a challenge. FC's diversity issues, for instance, are associated with its industry, as Islam considers its financial services to be *haram*, or forbidden to Muslims. AC's issues are also industry related; its customer base consists primarily of Chinese, but the Chinese language is not commonly spoken by Malay individuals. One respondent noted that although advertisements do not spell out specific diversity criteria, there are different means to target specific groups: "If we want a Chinese-speaking person, we will advertise in a Chinese newspaper. So that is how you'll know that this person probably can speak and read Chinese" (LC2).

In the home bases of the subsidiaries, both paradigms are present, although subtle differences may exist. In the United States and Canada, for instance, diversity encompasses characteristics such as gender, racial ethnicity, age, physical abilities, qualities, religion and sexual orientation. In Europe, on the other hand, diversity is strongly associated with gender equality. Although most multinationals seemed to make an effort to increase the number of women in higher executive jobs, a recent study reported that on average, women fill slightly less than 14% of the board member positions, which is a long way from the goal of increasing women's presence on boards to 40% by the year 2020 (European Commission, 2012b). In Malaysia however, gender diversity is not considered an issue at all:

**Extract 4-3 Managing diversity in Malaysia**

When I said that I would not mind working for a woman, about 80% of the people, even good friends, consider it ridiculous to work for women. This mentality is a huge problem in America and the whole of Western Europe. In Asia this is really different. [Pause] In [home country] diversity is defined in terms of gender, and race. Here in Malaysia diversity is not an issue. We employ more female than male staffs, and at senior management level all major roles are filled by women. For me, this was a real eye opener. (FC1)

This observation was in stark contrast with the home country of this respondent, where increasing the number of women in senior management roles is emphasised with specific key performance indicators (KPIs) in the corporate sustainability report.

#### 4.3.2.2 Overall working conditions

According to common understanding, working conditions reflect the environment in which a job is performed and include health and safety practices (Morgeson & Humphrey, 2006). The subsidiaries examined for this study emphasise the importance of a safe and healthy workplace and have programmes and specific policies implemented to maintain or enhance workplace safety that reflect the subsidiary's CSR maturity and industry issues.



For example, AC encountered resistance when it stepped up its CSR workplace practices and formalised its health and safety policy. Its warehouse staff members ignored the new policy; moreover, they considered the reminder to wear a safety helmet to be offensive (AC3). Several subsidiaries implemented international standards to reduce information asymmetry. For instance, F&B, OGC, IC and LC implemented standardised health and safety practices following the standard OHSAS 18001<sup>21</sup> for which they are certified, whereas IC, LC, OGC and MC subscribed to the UN Global Compact<sup>22</sup>. In addition to these, LC also ascribed to the international labour standard SA 8000, which sets standards regarding child labour, forced labour, health and safety, discrimination, disciplinary practices, working hours, remuneration and management systems, freedom of association and the right to collective bargaining. The standards differ in terms of third party involvement: the SA 8000 is a third-party-certified system, whereas the UN Global Compact is self-assessed. Some requirements in the SA 8000 are misaligned with the developing market context. With regard to the limits on working overtime, one respondent noted the following:

**Extract 4-4 Misalignment of Western standards with developing country institutions**

So in developed, more wealthy [*sic*] countries it may be easily adopted. But when it comes to developing nations or third world countries, some of these standards are actually in conflict with the local labour market. I give you an example in the social SA 8000. It says in the standard “no more than 12 hours of overtime per week”. So that is no more than 48 hours a month. But our national law limits overtime to 104 hours per month. (LC2)

As a consequence of this misalignment, LC’s drivers, in particular, leave the subsidiary to work for others that do not have these standards in place. Because the SA 8000 is part of the parent firm’s CSR strategy, adherence is mandatory. However, the subsidiary is not allowed to increase wages or hire additional drivers to mitigate the negative impact. Standards such as these appear to reflect the more affluent Western world institutions, while being misaligned with institutions in the emerging market. As a consequence, the subsidiary is disadvantaged compared with its competitors.

Some subsidiaries promote healthy living beyond working hours. HC, for instance, organises “healthy living talks” to raise general awareness on a number of health issues among its staff. Healthy staff behaviour, as reflected in staff not taking medical leave, is acknowledged (F&B, FC). In fact, F&B financially rewards employees who have not called in sick for an extended consecutive period. OGC made safety imperative to its corporate strategy with the mandate of “safe profitable growth” (OGC5). The subsidiary implemented elaborate safety practises in order to build a safer culture (see Extract 4-5):

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<sup>21</sup> OHSAS 18000 is an international occupational health and safety management system specification. The abbreviation stands for Occupational Health and Safety Assessment Series.

<sup>22</sup> UN Global Compact stipulates principles regarding human rights, labour, environment and anti-corruption. For more details, see [www.unglobalcompact.org](http://www.unglobalcompact.org).

#### **Extract 4-5 The importance of safe practices**

Reducing the number of incidents is a real target. Last month, 9 injuries were reported that all had to do with hand and fingers. To help instil safe behaviour practices, they have a 'Just Culture' – which is actually about discipline. (OGC4)

Employees engaging in unsafe practices receive training to make up for knowledge deficiencies. Staff members failing to adhere to safety regulations after training are disciplined. For example, smoking is allowed only in the smoking area, and anyone caught smoking or carrying a lighter outside the designated smoking area “will get the next chopper home” (OGC4). In addition, a new procedure called root cause analysis was implemented, which was described as (see Extract 4-6):

#### **Extract 4-6 Systematic analysis of safety incidents**

A systematic process that takes the sequence of events, so that anybody can do it. You sit down, figure out the sequence of events and they can formulate the flow of what happened. And this book has generic questions that will lead you down a path that will work on what the root causes of the incident were. Often, main roots are basically not having clear enough procedures in place. (OGC5)

### **4.3.2.3 Employee development**

Employee development practices are generally regarded as very important. The Malaysian government requires larger organisations to allocate up to 3% of personnel costs for the purpose of retraining and upgrading employees' skills (Human Resources Development Fund, 2015). With an overall unemployment rate of 3% (Department of Statistics Malaysia, 2012), Malaysia's labour market is considered tight. Highly educated English-speaking staff members are especially scarce, which results in subsidiaries competing for the same talent. This scarcity is felt by all subsidiaries for various reasons, as evidenced by the examples in Extract 4-7:

#### **Extract 4-7 Scarcity of human resources**

The staff turnover is still slightly below the market, about 17%. For the market, it is about 17–20%, that's the average. Ours last year, I think, was about 14+%. However, for critical positions, it is different. For example, for underwriting, IT, finance and actuarial is where we have a limited pool of talents. Everybody in the industry is fighting for these talents (FC4)

Because the competition is high, the turnover is also very high. It is difficult to retain people in the industry, and I see there is a lot of hotel schools coming up in Malaysia, but when we did the statistics last year, only 25% of these graduates are coming back to the hotel industry. The rest is going to DIGI, telecommunications to work as a customer service executive. (HC2)

In oil and gas, the middle class professional talent is vacant in the market. Then you get the drillers, but they are hard to hire because they always want to be on contract basis. Then you have the engineers group who are very mobile and currently very expensive in the market. Plus we are competing also because of the war in the Western, in the Middle East market. The Middle East companies are studying to hire folks from this Southeast Asia region, and their main target would be Malaysia, Indonesia, pretty much. (OGC6)

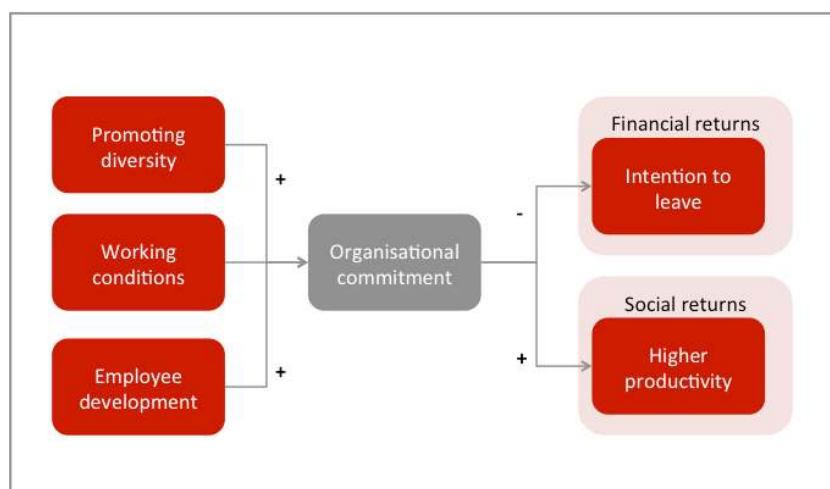
For this reason, FC and F&B integrated employee development into their talent management programmes, with the goal to retain high-potential staff and to “create the company's future leaders” (FC4). The programme involves leaders from all departments and subsidiaries, and

progress of the talent is a KPI used to assess leaders' performance. LC, on the other hand, uses the UK-developed standard called "Investors in People" (IIP), which is based on the idea that employee development should be integrated into organisational development. However, LC's respondents reported that the link between the standard and actual employee development is not obvious.

#### 4.3.2.4 The strategic value of CSR workplace practices

Although the subsidiaries examined in this study generally value CSR workplace practices as a means to reduce costs and differentiate themselves from the competition, they found it difficult to systematically evaluate benefits accrued from workplace practices. A respondent of OGC explained that safety and production are equally important: "They are intertwined, and when you are not performing safely, then you are likely inefficient as well. Yes, because a lot of safety is discipline" (OGC5). However, the literature shows that financial and social returns from CSR workplace investments may be mediated through organisational commitment via two routes (see Figure 4-1).

**Figure 4-1 Cost-lowering ability of CSR workplace practices**



The first route concerns cost reductions obtained from lower turnover rates (Harrison et al., 2006; Meyer, Stanley, Herscovitch, & Topolnytsky, 2002). Obviously, when fewer people leave the company, there is less need to recruit new staff and less productivity loss from developing new people on the job, which increases returns from investments in employee development. The second route augments social returns by increasing employee productivity (Harrison et al., 2006; Meyer et al., 2002) as a result of extra-role performance, or "behaviour that is beneficial to the organisation and goes beyond formal job requirements (e.g. extra hours, altruistic behaviour, and donating)" (Riketta, 2002, pp. 258-259). Because workplace practices are generally of a lower standard in emerging markets, foreign subsidiaries have opportunities to differentiate themselves from local companies in the labour market (Rettab et al., 2009). Investing in CSR workplace

practices is an effective strategy when it comes to competing for scarce, high-quality human resources, especially in a rapidly evolving economic environment where there is a shortage of highly skilled staff (Hartmann, Feisel, & Schober, 2010; Turban & Greening, 1997). These high-choice job seekers are especially attracted to practices that promote diversity and employee participation as well as to ample benefit packages (Albinger & Freeman, 2000). Survey results showed that 37% of the job seekers prefer working for employees who champion CSR, and that 43% consider CSR engagement very important (Ipsos, 2013). The subsidiaries FC, OGC and F&B acknowledge benefits associated with workplace practice investments and vie to become the “employer of choice” within their respective industries. In general, this is a clear indication of the differentiation potential of CSR workplace practices. Despite these benefits, none of these subsidiaries have systematically evaluated workplace investments. For CSR workplace practices to possess convergence value, they need to yield both economic and social benefits. The results of this study do not indicate that the individual or combined CSR workplace practices possess this ability. However, convergence value does arise from integrating workplace practices with other practices. These integrated practices and the strategic value they create are discussed in chapter five.

### **4.3.3 CSR COMMUNITY PRACTICES**

CSR community practices vary in the activities undertaken, the extent to which they are planned, the relationship between the practice and the nature of the business, the strategic goals served, the duration of the practice and the type of causes supported. In this research, the following three types of practices were identified: corporate giving, community development and employee volunteering (see Table 4-3). Deliberately planned community practices are initiated by the organisation in order to achieve predetermined goals, whereas unplanned, or responsive, community initiatives are triggered by a request from the community itself or by a staff member. Even though most larger and long-term community practices are planned with certain strategic goals in mind, these are likely better not discussed. Instead, respondents preferred to emphasise societal goals while considering firm benefits to be a ‘nice’ side effect (see Extract 4-8):

**Extract 4-8 Emphasising societal value of community practice over firm benefits**

You are part of society, and it is only natural that you try to do something for this society. It is nice when that improves our firm reputation; however, that should not be the intention. (FC1)

We choose children because we are into talent development, and we say that children are the next generation and our future. Therefore, we want to instil talents and give opportunities to the kids. (FC2)

We do not want to be seen as a company that is benefiting. The primary goal that is always being shared, even by the senior management team and the CEO, is that we do actually impact and benefit the group that we are helping. (FC3)

We invested in dairy development because that is in our nature; it is who we are. Not because we need the milk. [Later in the same interview] There is some branding benefit there, but that is quite small. It is more that we give because we believe it is the right thing to do. (F&B5)

**Table 4-3 Community practices at the subsidiary level**

Subsidiary	Corporate giving	Employee volunteering	Community development/ community partnership
<b>F&amp;B</b>	<ul style="list-style-type: none"> <li>• Touching the community – orphanages</li> <li>• School milk programme</li> <li>• Weekly donations of subsidiary products</li> </ul>	<ul style="list-style-type: none"> <li>• Factory workers organised themselves to volunteer to spruce up and bring cheer to homes for the disabled, orphans and elderly.</li> </ul>	<ul style="list-style-type: none"> <li>• Dairy development programme (800 farmers)</li> </ul>
<b>FC</b>	<ul style="list-style-type: none"> <li>• Scholarship programme (five students annually)</li> <li>• Chances for children</li> <li>• Breast cancer programme</li> <li>• Sponsoring the zoo</li> </ul>	<ul style="list-style-type: none"> <li>• Painting the zoo, 350 staffs</li> <li>• Staff charity bazaar, with proceeds being donated to orphanages and paediatric wards</li> </ul>	<ul style="list-style-type: none"> <li>• Cleft lip programme</li> </ul>
<b>HC</b>	<ul style="list-style-type: none"> <li>• Integrated in employee volunteering activities</li> </ul>	<ul style="list-style-type: none"> <li>• About 20 different programmes, varying from repairing to sprucing up surroundings of homes</li> </ul>	<ul style="list-style-type: none"> <li>• Disaster support during the floods in Johor and the aftermath, helping to rebuild houses</li> </ul>
<b>IC</b>	<ul style="list-style-type: none"> <li>• Fundraising activities to support local homes</li> </ul>	<ul style="list-style-type: none"> <li>• Volunteer network to address calamities and to identify and carry out projects in the community</li> <li>• Mentoring 16-year-old students wishing to become entrepreneurs</li> </ul>	
<b>LC</b>	<ul style="list-style-type: none"> <li>• Recycling old computers for donation</li> <li>• Fundraising activities in support of initiatives decided by HQ</li> <li>• Fundraising activities to support local CBOs</li> </ul>	<ul style="list-style-type: none"> <li>• “Investing in the Community” programme, whereby staff can apply for funds for an organisation at which they volunteer</li> </ul>	
<b>OGC</b>	<ul style="list-style-type: none"> <li>• Fundraising activity Terry Fox Run, of which the proceeds are donated to cancer research</li> <li>• Fundraising for disaster relief (e.g. floods in Kedah, outburst of Mount Merapi in Indonesia)</li> </ul>	<ul style="list-style-type: none"> <li>• Supporting staff volunteering initiatives by providing monetary support (up to RM 1,500) for CBOs at which staff members volunteer their free time; approximately 40 applications per year</li> </ul>	<ul style="list-style-type: none"> <li>• Scholarship programme together with Malaysian universities (16 students)</li> <li>• Working with indigenous communities through PACOS</li> <li>• Coastal mammal monitoring programme (Malaysia’s Nature Society)</li> </ul>

Generally, organisations take care to select causes that meet predetermined criteria and are not linked to religious or political causes.

*Hence, based on the dataset in this study, subsidiary-level CSR community practices are defined as those practices that help develop the community, either by partnering, stimulating employee volunteering, or providing monetary and non-monetary resources.*

#### 4.3.3.1 Corporate giving

Strategic philanthropy is defined as the “practice of giving corporate resources to address non-business community issues that also benefit the firm's strategic position and ultimately its bottom line” (Saiia, Carroll, & Buchholtz, 2003, p. 170). This definition assumes that strategic philanthropy is planned, independent of managerial discretion, widely externally communicated and sensitive to corporate giving activities by rival organisations (Brammer, Millington, & Pavelin, 2006). Because the corporate giving programmes in this study do not meet these assumptions, they cannot be labelled strategic. On the contrary, respondents evaluated these donations as “piece-meal stuff with no structure to it” (LC5) and “lack[ing] a vision” (F&B9). Despite these observations, the majority of the subsidiaries do donate to community-based organisations (CBOs). Some subsidiaries attempt to align the cause with the nature of their organisation, such as with F&B’s donations in kind or FC’s involvements with the breast cancer awareness and cleft lip programme. However, the subsidiaries in this study neither designed corporate giving practices with a strategic purpose in mind nor institutionalised corporate giving practices in their organisation; thus, their corporate giving merely represents one of the tools in a large bag of CSR practices (Frynas, 2005).

#### 4.3.3.2 Employee volunteering practices

In general, employee volunteering is understood as an employer-endorsed activity that an individual voluntarily undertakes for the benefit of society in general or a CBO in particular. To resource-constrained CBOs, these types of volunteering initiatives are generally welcomed. The extant literature suggested that employees volunteer for self-advancing reasons, such as skills development, recognition by their employer, and networking opportunities with colleagues, as well as for altruistic reasons, such as a genuine desire to do good in the community, be a good corporate citizen, or buttress the organisation in supporting a cause (Pajo & Lee, 2011; Peloza & Hassay, 2006; Peloza, Hudson, & Hassay, 2009). In addition, institutional effects are recognised. Research showed that employee volunteering is common in the United States and Canada, where 55–80% of firms have implemented this practice (Basil, Runte, Easwaramoorthy, & Barr, 2009; Brudney & Gazney, 2006). Although European data on the prevalence of company-endorsed employee volunteering practices are lacking, a study commissioned by the European Union indicated that 20% of the general population volunteers in fields such as education, training, sports, heritage and protecting the environment, with prevalence being higher in Northern European countries (McCloughan, Batt, Costine, & Scully, 2011).

In this study, however, nearly all of the subsidiaries engage in employee volunteering. FC, IC and LC passively support intra-organisational volunteering, whereas F&B, HC and OGC actively support

intra-organisational volunteering. In addition, LC and OGC support extra-organisational activities. Passive support entails giving time off without pay, adjusting work schedules and permitting usage of company facilities, whereas active support involves making volunteering opportunities available to employees, recording volunteering skills and experiences in the personnel file, publicly recognising volunteering activities or using volunteering as a means to develop job and team skills. Employee volunteering practices also differ in duration and frequency. In this sample, most firms engage in one-off activities, such as painting the National Zoo (FC) and sprucing up homes (F&B, HC). Some of these are recurring, such as LC’s annual walk for food and OGC’s Terry Fox Run. An exception is OGC’s coastal mammal monitoring programme, which is scheduled to run over several years.

### 4.3.3.3 Community partnerships

In a community partnership, the subsidiary joins forces with one or more non-profit partners (a local CBO, international NGO, or government body) to help address a local issue. It is defined as “a collaboration to pursue common goals, while leveraging joint resources and capitalising on the respective competences and strengths of both partners” (Jamali, 2004; Jamali & Keshishian, 2009). The community partnerships of the subsidiaries are evaluated utilising an adaptation of Austin’s (2000) collaboration continuum that distinguishes between seven dimensions to characterise evolving partnerships between businesses and non-profits (see Table 4-4).

**Table 4-4 Community partnerships of the subsidiaries**

←	Philanthropic	Transactional	Integrative	→
<ul style="list-style-type: none"> <li>• Low engagement levels</li> <li>• Peripheral importance to mission</li> <li>• Small allocation of resources</li> <li>• Narrow scope of activities</li> <li>• Infrequent interactions</li> <li>• Modest strategic value</li> </ul>	HC flood disaster assistance	FC cleft lip programme	F&B dairy development programme	<ul style="list-style-type: none"> <li>• High engagement levels</li> <li>• Strategic importance to mission</li> <li>• Big allocation of resources</li> <li>• Broad scope of activities</li> <li>• Intensive interactions</li> <li>• Major strategic value</li> </ul>
		LC world food programme	OGC’s coastal monitoring programme	

*Note.* Adapted from Austin (2000).

#### ■ Philanthropic partnerships

In philanthropic partnerships, there is no clear link between the mission of the firm and that of the CBO, and the firm’s actual involvement in the CBO is kept to a minimum. From the company’s perspective, the allocation of resources is relatively small, even though the actual size of resources

involved may be significant to the CBO. Typically, the firm's activities are narrow in scope, such as buying tickets for a fundraising dinner, donating products from the firm, or making monetary contributions. As a whole, the strategic value of these types of philanthropic interactions is modest. The flood disaster assistance that HC offered to the community in the south of Malaysia reflects the characteristics of this type of engagement. The subsidiary joined forces with the Department of Social Welfare when the floods forced thousands of Malaysians to evacuate their houses. The Department of Social Welfare identified the people who needed help repairing their houses. HC interviewed the victims and, based on the results, put together a team of volunteers, including some of their suppliers, to rebuild the damaged homes. In itself, disaster support was unrelated to the mission of HC; however, it did help raise the morale of HC's employees, who indicated feeling proud to work for an organisation that acted to address the acute needs of Malaysians.

#### ■ **Transactional partnerships**

As the relationship evolves, the engagement levels with the CBO increase, and the relevance of the interaction to the mission gets more definition. Usually, the amount of firm resources involved also increases, for example, by including an employee' volunteering component.

A case in point is FC who since 2009 has been engaged in a transactional partnership with a CBO that focuses on issues resulting from cleft lip malformations. What started as a modest programme with an initial investment of RM 100,000 has developed into a successful long-term commitment. The overall purpose of the programme is to increase general awareness of cleft lip issues and to support children whose face is deformed. From the time of inception, the programme has reached out to 500 children and young adults with cleft lip/palate issues, providing them with assistance through sponsorship of corrective surgeries, special feeding bottles and teats as well as emotional and psychological support for the families and the individuals affected by this condition. The programme offered FC the opportunity to affiliate itself with a cause that aligns well with the nature of its business. Also the parent organisation of LC was engaged in a transactional partnership in which it provided logistical support to an international NGO supplying food to places that are struck by disaster while also raising public awareness for the NGO's cause. In 2010, the parent company committed approximately four million Euros, whereas the subsidiary supports the programme by organising fundraising efforts channelled to the cause.

#### ■ **Integrative partnerships**

When reaching the integrative phase, the partnership resembles a strategic alliance characterised by high levels of mutual engagement. The allocation of resources is substantial and deemed of critical economic importance. The data revealed two integrative partnerships. F&B, for example,



joined forces with the Department of Veterinary Services and the farming community to develop the dairy industry in Malaysia. The subsidiary organises workshops and shares best practices to increase milk production, when necessary or possible, in conjunction with the parent organisation. At the time of data collection, the programme involved nearly 800 farmers. The other example is from OGC, which engaged with a local nature organisation to evaluate the coastal impacts of industry activities on marine mammals as well as to investigate marine mammals living in Malaysia's coastal waters. In this partnership, OGC committed equipment and provided volunteers to collect data (staff members employed on the drilling platforms), while the CBO trained the volunteers and evaluated the data collected. In addition, the communities living nearby will be involved in the project. The subsidiary estimates that its involvement will be for a minimum of four years.

#### 4.3.3.4 The strategic value of community practices

Although comparative research on the overall value of CSR community practices is scarce, several studies investigated the value of the individual practices.

##### ■ Cost savings

There is evidence that CSR community practices directly reduce the costs associated with marketing, human resource management (HRM) and firm reputation, in particular when traditional activities are substituted with more cost-efficient CSR practices. For instance, FC's collaboration efforts with the cleft lip association helped the company save on its marketing and public relations costs, as described in the following:

##### **Extract 4-9 Substitution effects earned from CSR community practices**

When we run CSR projects, I have to say that we receive a lot of media mileage. For our cleft lip programme we got more than 15 articles in all the local leading media and it is like half to full-page kind of thing. In terms of PR value, it is close to about RM 500,000 to RM 600,000 worth, during that seven-week stint of campaign. (FC3)

The cost of this community programme was around RM 100,000<sup>23</sup>, which is RM 400,000 to RM 500,000 less than the traditional PR expenditures required to achieve similar visibility. Research into the effects of employee volunteering practices on firm performance is sparse (Gilder, Schuyt, & Breedijk, 2005; Pajo & Lee, 2011; Peloza & Hassay, 2006). However, some research has been conducted to examine the cost-lowering effect associated with substituting traditional individual and team skills training with employee volunteering (Booth, Park, & Glomb, 2009; Caudron, 1994). Employee volunteering has been used to develop job-related skills, such as teamwork, communication, project management and leadership/people skills (Bell, 2007; Peterson, 2004), provided that the volunteering activity incorporates employee development

<sup>23</sup> At the time of the study, RM1.00 was worth around €0.25.

objectives into the design of the programme (Booth et al., 2009; Grant, Dutton, & Rosso, 2008). Community practices may indirectly lower production costs while also creating social returns as a result of increased employee morale, company loyalty (Veleva, Parker, Lee, & Pinney, 2012), organisational commitment (Brammer et al., 2007) and job satisfaction (Peterson, 2004) (see also §4.3.2.4). These costs effects are all recognised by the subsidiaries in this research, as exemplified in Extract 4-10:

**Extract 4-10 Cost effects as a result of community CSR**

When I first came in, staff turnover was 7%. Now it is only 3%, and that is where CSR comes about [pause]. If we really do CSR for the staff, it will actually help us to keep turnover down. (HC2)

But what I can tell you, the biggest thing that we have gained from doing all this is employee engagement. In our [title survey] survey, areas where they ask for questions on corporate responsibilities, the scores are really, really high. The employees believe, like, for example, a lot of people, employees responded to say that they believe the company looks after their health and safety. They are proud to work for the company as the company takes care of the community. These scores are very, very high. (LC2)

However, because the responsibilities and budgets for these activities reside in different departments, it is difficult to realise these benefits. This reality is often overlooked in CSR–FP studies. Finally, CSR community practices offer reputational returns, whereas practices that involve indirect stakeholders or society at large have insurance-like properties (Godfrey et al., 2009). F&B experienced these benefits when it escaped from a consumer boycott after a politician from its home country publicly defamed Islam. The community practices helped to *Malaysianise* the subsidiary and shield it from further boycotts. Moreover, a senior manager from F&B explained that the dairy programme improved the stakeholder relationship with the government (see Extract 4-11):

**Extract 4-11 Reputational returns from CSR**

It helps us in our relationship with the government, because they see a multinational doing something, contributing. And why I say that is because despite our name, we are seen as a local company. (F&B5)

■ **Differentiating value**

Corporate giving practices have differentiation value when the donation is large or unique enough, and when it is specifically targeted and communicated to relevant external constituents while making a clear association with the CBO (Brammer & Millington, 2008). Research showed that these effects are most pronounced when the target audience involves consumers (Lev et al., 2010). The relatively small donations by F&B and HC have not been published, and were not made for strategic reasons. However, strategic intents could be observed for some other initiatives undertaken by FC, F&B and LC. For example, FC's Facebook page on the cleft lip programme became the most-liked page during the year the programme was introduced, and even its volunteering activities were designed to augment company branding. Furthermore, F&B's

employee volunteering program, though modest in size, is unique, highly visible, and often published in the local newspapers. These types of programmes offer differentiation value when competing for high-potential staff (Greening & Turban, 2000). Indeed, in Deloitte's survey (2007), 62% of the respondents indicated that they preferred working for a company that provides opportunities to apply skills to non-profit organisations. Finally, LC's transactional programme is, according to its parent company, beneficial especially because it reinforces MNC's brand and value proposition.

#### ■ Improving the competitive context

CSR community practices offer excellent opportunities for converging social and economic value (Porter & Kramer, 2002). The social value of community practices is obvious, as it provides CBOs with high-quality human resources. Contrary to expectations, intra-organisational volunteering does not cannibalise on extra-organisational volunteering, as they have different motivations: intra-organisational volunteering is motivated by self-serving and organisation-serving reasons, whereas extra-organisational volunteering is altruistically motivated (Peloza et al., 2009). Actually, employee volunteering programmes stimulate staff to volunteer more often outside the programme (Gilder et al., 2005). These effects apply only to voluntary practices, as mandatory employee volunteerism impedes intentions to volunteer (Stukas, 1999). However, for convergence value to be created for the firm, the CSR initiative needs to provide discernible competitive benefits to the firm. The scholarship programmes undertaken by FC and OGC create direct convergence value because they increase the quality of human resources that may be recruited by the subsidiary. Moreover, the collaboration of OGC with CBOs in order to improve the relationship with indigenous communities of Sabah has positive effects on the environment in which the subsidiary operates.

#### **4.3.4 CSR ENVIRONMENTAL PRACTICES**

Contrary to the suggestion that MNCs choose to locate their operations in developing countries because of the lower environmental standards, research has indicated that the impact of environmental regulations on location decisions is rather insignificant (Rugman & Verbeke, 1998). The findings of this study corroborate that conclusion. Furthermore, MNCs are faced with the challenge of managing environmental regulations within as many as five different institutional contexts, including the institutions of the home and host country, regional trade associations, industrial associations and, at times, specific product-related institutions (Rugman & Soloway, 1998). For this reason, MNCs adopt international certified standards. Such standards effectively identify the environmental practices relevant to foreign buyers (King, Lenox, & Terlaak, 2005). Accordingly, the majority of the subsidiaries in this study had adopted international environmental

standards, such as ISO 14001 (F&B, IC and LC) or Earth Check (HC). The environmental practices of the subsidiaries typically involve pollution abatement, end-of-pipe approaches using existing technology (Russo & Fouts, 1997), and some resource reduction practices.

*Hence, based on this dataset, environmental practices at the subsidiary level are defined as those policies and practices that reduce resource usage, greenhouse gas (GHG) emissions and waste.*

#### 4.3.4.1 Resource reduction practices

The resource reduction practices of the subsidiaries in this study included raising staff awareness about switching off lights and air conditioners when not in use (all except FC); driving in an energy-conserving manner (LC); fine-tuning manufacturing equipment (F&B) and upgrading to more resource-efficient equipment (HC). HC, for instance, invested in a filter that reduces daily water usage by 5%, replaced its highly energy-consuming air-conditioning chillers with more efficient ones and also replaced all of its halogen lights with LED lights. On the whole, however, the focus is on behavioural and material changes aimed at harvesting “low-hanging fruit”. More substantial reductions require investments that are sometimes seen as too costly. For example, see Extract 4-12:

##### **Extract 4-12 Balancing energy reduction plans with allowable investments**

We have a new depot being built while we are sitting here. We have a great opportunity here. Therefore, I prepared a budget with a lot of green technology [pause], and they [at HQ] say: “Are you kidding?! This is about three times as expensive!” I think it is not embedded enough. So we are trying in our own naïve way to make it as light as we can [pause], put in enough windows to use less energy [pause]. We do whatever we can. But the real investments we cannot make because we are not given that kind of money to make that happen. (LCP)

We are in transition, and at this stage, we have decided to reduce energy usage by 1.5%. If we would go beyond this goal, say 5%, we would really need additional means. (F&B4)

#### 4.3.4.2 GHG emissions

Although nearly all subsidiaries recognise the need to reduce GHG emissions, measures implemented at the subsidiary level are limited to the introduction of video-conferencing (OGC) and specific driver training to lower emissions and petrol usage (LC). In general, the emissions of the subsidiaries significantly exceed limits established by the parent companies, albeit for distinct reasons. OGC is constrained by the production-sharing contract with the GLC, which stipulates that investments in emission reduction strategies need to be approved by the GLC. Its plan to reduce emissions was met with resistance because neither the GLC nor the parent organisation were willing to cover the costs. On the other hand, LC’s efforts to reduce emissions suffered institutional constraints. Due to the nature of its business, LC is a major emitter of greenhouse gases. Its road fleet uses Malaysian low-grade petrol; switching to gas is not an option because it is only sold by

stations owned by a GLC, resulting in long (and, thus, time-wise inefficient) queues at the petrol stations. The subsidiary's plan to import electric trucks from China was rejected because the Malaysian government preferred that the national car industry produce these vehicles; however, competences to do so were lacking. Ultimately, the subsidiary tries to cope with these limitations stemming from institutional constraints.

Extract 4-13 attests to the difficulties the subsidiary encounters in managing these constraints.

**Extract 4-13 Managing environmental constraints**

We actually have a very high – or we generate a lot of CO<sub>2</sub>. Yes, we have that measure in our fuel consumption, in terms of formula's they use, although they don't really have gadgets to measure. What we have done here is that we have actually trained the driver to make sure that they know how to manage their driving. At least that is not going to generate a lot more CO<sub>2</sub> as such. We have a regular maintenance programme for all our vehicles, and about two years ago, we actually changed all the vehicles – the old vehicles. Now actually on the road, vehicles all are brand new, all less than two years right now because we believe in energy saving. (LC1)

FC also finds that its parent company's global CO<sub>2</sub> reduction programme is hampered, and observed that "Malaysia is not green, and there is still a long way to go" (FC1). In other words, subsidiary emission practices are still at the infancy level, owing to physical and institutional limitations that are outside the organisation's control.

#### 4.3.4.3 Waste management practices

Waste is considered a pollutant that requires resources to manage, either via disposal or the use of environmental technologies (Shrivastava, 1995). Pollution prevention involves replacing inputs that generate pollution with those that generate less pollution, redesigning products, or redesigning the manufacturing process in such a manner that it eliminates the formation of pollutants (Hart & Ahuja, 1996; Nehrt, 1998).

The majority of the subsidiaries in this study had implemented waste disposal programmes. F&B, for example, sold its waste to a waste management company, which was cheaper than taking waste to a landfill. FC, whose waste consisted primarily of paper, terminated its recycling efforts after discovering that Malaysia lacked a proper paper-recycling system. OGC and HC had both invested in waste prevention technologies. OGC's efforts were aimed at preventing oil spills and limiting the discharge of produced water (i.e. water that comes up through a pipe at the bottom of the sea and contains a lot of sediment). The subsidiary claimed to perform well within limits set by Malaysian law, which "limits discharge to 100 particles per unit. The industry norm is set at 40 particles per unit, whereas OGC achieves 25 particles per unit" (OGC4). HC implemented a small-scale cradle-to-cradle process by fermenting its organic waste and food leftovers into a fertiliser for its herbal roof gardens and a detergent for cleaning drains and air conditioners.

#### 4.3.4.4 The strategic value of environmental practices

Scholars have focused especially on the diverging role of environmental regulations when discussing the strategic value of environmental policies. The debate oscillates between the conventional wisdom that stricter environmental regulations would create economic disadvantages for firms that compete with firms based in countries with less stringent regulations, and the notion that there are first-mover advantages to be had because globalisation will ultimately result in convergence of environmental regulations. Thus far, the empirical results are inconclusive. Findings show that firms will only invest in pollution reduction technologies when these investments lead to savings (Nehrt, 1998) or when regulations require them to do so. However, one respondent working for LC made the following comment (see Extract 4-14):

**Extract 4-14 The necessity of investing in green technology**

It is just a matter of time. Every service that we sell eventually will have a tag of how green your product – you know, in terms of the carbon emission or the carbon footprint – is. It is just a matter of time, but at this moment, we are not geared to that legal framework yet.  
(LC3)

Other research shows higher market values for firms that have implemented environmental practices globally (Dowell, Hart, & Yeung, 2000), which indicates that investing in environmental CSR inspires trust from investors.

#### ■ Cost savings

Typically, environmental practices focusing on the production process tend to reduce cost by reducing inputs and waste (Hart, 1995; Shrivastava, 1995). More sophisticated approaches, such as life-cycle analysis, cradle-to-cradle design (McDonough & Braungart, 2002) and design for the environment (Hart, 1997), share the ability to lower potential liability costs, compliance costs (Klassen & McLaughlin, 1996), legal fees and product-take-back costs (Christmann, 2000). In addition, there is some evidence that good environmental performance reduces the firm's cost of capital (Barth & McNichols, 1994). Because the pollution intensity of industries varies widely, firms will differ with regard to their pollution control and prevention investments and the returns derived from those investments. The returns are greatest for high-polluting firms, especially because of the initial cost savings stemming from easily implemented, low-cost improvements (Hart & Ahuja, 1996). Actual cost savings from reducing resources are modest because expenditures on energy, water, and waste management generally represent a small percentage of overall costs. More substantial economic effects may be expected from the implementation of pollution prevention technologies (Klassen & Whybark, 1999). The subsidiaries in this sample derive some savings primarily from lower resource usage. HC observed the following benefits from resource reductions (see Extract 4-15):

#### **Extract 4-15 Savings from resource reduction practices**

Our electricity consumption by our air conditioning chillers is about 60%. So we invested in more energy efficient chillers. At night we increase the temperature. As for the lights, we are installing LED lighting. It is all about upgrading. (HC2)

We reduced water usage by fixing up a kind of filter, where it reduces the daily water use by 5%. (HC2)

It is not clear to what extent the oil prevention measures implemented by OGC reduce costs, as these results are aggregated in the global CSR report. In general, pollution prevention technologies reduce insurance, liability and compliance costs.

#### **■ Differentiating value**

Differentiation value may arise from first-mover advantages when the firm is indeed among the first in its market to invest in pollution reduction technologies, and when sufficient time is taken to absorb the new technologies (Nehrt, 1996). Differentiation value may also result from adding a “green” element to a product or service, when customers are willing to pay for environmental quality (Reinhardt, 1998). For customers in industrial markets, this willingness is associated with mitigating costs of future environmental regulations, whereas in consumer-oriented industries, brand and image are the relevant concerns. As illustration, a survey of 1,000 US consumers showed that 70% of the respondents were willing to pay more for CSR branded products (Penn Schoen Berland, 2010). Finally, any environmental product claim made must be credible and defensible, with barriers to imitation high enough for the firm to capture a return on investments made. None of the subsidiaries in this study engaged in differentiation value–creating practices. As a whole, the CSR environmental practices at the subsidiary level are mostly the “end-of-pipe” types of solutions.

### **4.4 THE ENACTMENT OF CORPORATE CSR PRACTICES AT THE SUBSIDIARY LEVEL**

Because most research on the CSR–FP relationship aggregated CSR practices at MNCs, little is known about the CSR practices that are actually implemented at the subsidiary level (Campbell et al., 2012). This section addresses this issue by comparing practices enacted by subsidiaries with those published by the parent organisations in their CSR reports. The results of this evaluation are presented in Table 4-5, and detailed overviews are included in Appendix D.

#### **■ Observations**

The description of the CSR practices in the previous sections pointed out that the relevance of individual CSR domains varies at the subsidiary level. These variations are attributed partly to differences in markets served (practices such as responsible marketing and responsible products typically apply to consumer-oriented industries) as well as to local institutions that the subsidiary needs to take into account (e.g. being listed on the local stock exchange, local industry-specific

regulations).

**Table 4-5 Comparison of CSR practices at the subsidiary and corporate levels**

CSR domain practices	AC	F&B	FC	HC	IC	LC	OGC
<b>Marketplace</b>							
• Supply chain management	CON	Ni	Ni	Ni	CON	CON	CON
• Responsible marketing	–	CON	CON	–	NA	NA	NA
• Responsible products	CON	Ni	Ni	–	NA	NA	NA
• Else	–	CON	Ni	NA	–	CON	Ni
<b>Workplace</b>							
• Managing diversity	–	–	CON	CON	CON	Ni	–
• Work conditions/occupational health and safety	–	CON	CON	CON	CON	CON	CON
• Employee development	–	CON	CON	CON	–	CON	CON
• Else	–	SP	CON	–	–	–	–
<b>Community</b>							
• Corporate giving	NA	SP	CON	–	CON	CON	CON
• Community development	NA	CON	SP	CON	–	NA	CON
• Employee volunteering	NA	SP	CON	CON	CON	CON	–
• Else	NA	SP	–	CON	–	–	–
<b>Environment</b>							
• Reducing resource usage	–	CON	CON	CON	–	CON	Ni
• Reducing GHG emissions	–	Ni	Ni	CON	–	Ni	Ni
• Waste management practices	–	Ni	Ni	CON	–	Ni	CON
• Else	–	–	–	–	–	CON	–
<i>Note.</i>							
CON Practices concur (may be adapted to local situation).							
Ni Practice is published by the parent firm, but the subsidiary did not implement the practice.							
SP Subsidiary implemented a practice that is not part of the parent firm's CSR framework.							
NA Not applicable (practice is not implemented by either organisation).							
– The available information is insufficient.							

On the whole, corporate workplace practices implemented by the subsidiaries concur with those published by the parent organisations. An exception concerns practices to promote diversity, which are influenced by the different institutional environments. Parent companies primarily tend to focus on gender, whereas subsidiaries located in Malaysia are required to focus on ethnicity. Community practices are defined in general terms and localised within the framework established by the parent organisation. The parent company of HC, for instance, emphasises the need to reduce poverty and maintain cultural heritage, but leaves it to the subsidiary to determine how these principles are enacted. The parent organisation of F&B attaches great value to the development of the dairy industry, which is well aligned with Malaysia's national agenda.

To ensure that the firm is perceived as caring for society, involvement with the local community is pivotal. The framework established by LC's parent organisation, however, seems less aligned with the Malaysian context. LC's strategy of investing chiefly in feeding the poor in other countries



leaves staff members wondering why the organisation ignores the needs of those who are destitute and living within the vicinity of LC's plants. This observation highlights the importance of taking heed of local needs when operating in an emerging market.

The greatest discrepancy is observed with regards to environmental practices, as the findings indicate that parental environmental ambitions do not resonate at the subsidiary level. There seems to be a misalignment between the GHG emissions goals published by the parent organisations in the annual CSR reports, and the modest achievements of subsidiaries in the emerging market of Malaysia. The subsidiaries FC, LC, OGC and F&B observe that necessary investments are not made, even though two of the parent organisations are recognised as top performers in the DJSI. As one of the respondents phrased it: "Even though the organisation communicates the importance of CSR [environmental CSR], this is not translated into visible projects in operations" (F&B4). This implies that MNCs perceive few incentives to improve the environmental performance of their subsidiaries operating in the distant emerging market of Malaysia. Moreover, the majority of CSR reports in the dataset obfuscate this information, for example by emphasising achievements in other markets, including the home turf.

In conclusion, based on a comparison of practices enacted by subsidiaries and those published by the parent organisations, most notable differences are observed in the domains of community and environmental CSR, though in different directions. With regards to community practices, subsidiaries attempt, within the constraints of the CSR framework established by the parent organisation, to localise community practices as much as possible. The environmental CSR ambitions of the parent organisation, on the other hand, face physical and institutional constraints of the host country and financial constraints of the subsidiary. The results indicate that both public CSR reports and social responsibility indices are primarily concerned with reporting at the MNC level. For this reason, these types of sources are not appropriate to measure subsidiary CSR practices and should not be used in order to approximate these.

H4.1 The community CSR practices published in corporate CSR reports by MNCs tend to underreport community CSR practices implemented by subsidiaries in emerging markets.

H4.2 The environmental CSR practices published in corporate CSR reports by MNCs tend to overestimate the environmental CSR practices implemented by subsidiaries in emerging markets.

## **4.5 THE STRATEGIC VALUE OF CSR PRACTICES**

§4.3 evaluated the strategic value of the CSR practices undertaken in the domains of the marketplace, the workplace, the community and the environment. In order to assess the extent to which the CSR practices may be considered strategic for the subsidiary's business case, this section

summarises per domain and specific practice the potential value according to the literature and the perceptions of the subsidiaries (see Table 4-6).

**Table 4-6 The strategic value of CSR investments**

CSR domain	Saving cost value	Differentiation value	Convergence value
<b>Marketplace</b> - Supply chain management	<i>Potential cost savings in particular from controlling quality, social and environmental issues.</i>  AC, FC, HC and LC report direct savings from controlling cost and quality of suppliers.  IC and LC expect that their marketplace CSR initiatives prevent future claims.	<i>Potential is present.</i>  Not reported by any of the subsidiaries.	<i>Potential is present.</i>  The responsible supplier scheme of IC has the potential to improve the competitive context by yielding organisational and process improvements for suppliers involved.
<b>Workplace</b> - Promoting diversity - Work conditions - Employee development	<i>Potential savings from lower recruitment cost and higher productivity.</i>  Reported by all.	<i>Differentiating potential to help attract high-choice job seekers.</i>  FC, F&B and OGC strive to become employer of choice.	<i>Individual practices do not specifically improve the competitive context.</i>
<b>Community</b> - Corporate giving - Employee volunteering - Community development	<i>Potential cost savings when substituting traditional expenditures for marketing, PR and HRM with CSR community initiatives.</i>  Substitution effects reported by FC.	<i>Potential differentiation value when the practice is unique, relevant to the target group and communicated.</i>  FC, F&B and LC report differentiation value for some of their CSR initiatives.	<i>Potential to improve the competitive context.</i>  Reported by F&B and OGC
<b>Environment</b> - Resource reduction - Emission reduction - Waste management	<i>Magnitude of potential cost savings depends on the industry and practice.</i>  F&B, HC, IC, LC and OGC report modest savings from resource reduction initiatives, whereas F&B and HC report modest savings from waste management initiatives. OGC reported indirect savings from preventing future claims.	<i>Potential value derived from being first and from adding 'green' features to products and services.</i>  None of the subsidiaries engage in these potential differentiating practices.	<i>Individual practices do not specifically improve the competitive context.</i>

It should be noted that subsidiaries, in general, do not evaluate CSR practices systematically, even though some indicators are tracked as part of operational processes. For example, the cost and quality performance of suppliers is followed through the aid of vendor systems, and HR systems track medical leave days taken, employee productivity, and talent development. The fact that subsidiaries have not assessed the strategic value derived from CSR investments implies that the

value reported by respondents is based on individual (and thus subjective) perceptions. Overall, the research findings concur with reports in the literature, and indicate that CSR investments, indeed, create strategic value, though the size and quality of this value varies across domains and individual practices. Opportunities to reduce cost increase when HR, PR and marketing activities are integrated in the CSR activities undertaken by the subsidiary. Although potential differentiation value is present for all CSR domains, subsidiaries perceive this return to be the highest for workplace, followed by community practices, whereas the differentiation value from investments in the marketplace and environment is generally perceived to be lower.

Whilst marketplace and community practices all have the potential to improve the competitive context, these effects are only reported for community practices<sup>24</sup>. Given the observation that the majority of the subsidiaries in this study have chosen Malaysia because of its strategic location in Asia, its geopolitical stability, and its domestic market potential, it would seem that CSR investments that offer differentiation or convergence value are particularly relevant to the subsidiaries' internationalisation motive, as these help to reduce the liability associated with being of foreign origin. In Malaysia, similar to some other developing countries, the term CSR is often associated with philanthropic initiatives (Jamali, 2007), which creates a dilemma. Obviously, mimicking local practices does not help the subsidiary to differentiate itself from competitors, but forsaking such investments may reduce its acceptance in the emerging market. Differentiation value, however, may stem from investments in workplace practices. In the host country, workplace practices are generally regarded as being of a lower standard, and thus any improvements made may enable the foreign subsidiary to stand out positively. The subsidiaries do acknowledge this potential differentiation value, and aim to become the employer of choice within their industries. Therefore, based on the findings in this collective case study, it is concluded that the strategic relevance of investments in the workplace and the community are of greater relevance as compared with investments in the marketplace and the environment. Workplace-related investments allow subsidiaries to differentiate themselves positively from local competitors, whereas investments in the community lower liability costs associated with the disadvantages of being of foreign origin.

H4.3 The strategic value obtained from investments in the workplace and the community tends to be greater than that obtained from investments in the marketplace and the environment.

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<sup>24</sup> Chapter five discusses integrated practices, for which convergence value is reported in particular for integrated community-related practices.

## SUMMARY AND CONCLUSIONS

This chapter served three objectives. It aimed to provide insight into the actual CSR activities undertaken by subsidiaries in emerging markets. Furthermore, it assessed the extent to which the subsidiary's CSR practices concur with those communicated by the parent organisation. Finally, it systematically analysed the strategic value of these practices in terms of cost, differentiation, and the extent to which they improved the competitive context.

Based on the observations in this study, it can be concluded that subsidiaries foremost invest in CSR workplace and CSR community practices. Marketplace practices at the subsidiary level are primarily centred on quality issues in the supply chain in order to prevent claims and reputation damage. The environmental practices undertaken by subsidiaries tend to be reactive and constrained by lack of investment from the parent organisation, or limited by the infrastructure and unwillingness of external stakeholders in the host country. The findings indicate that the CSR practices communicated by the parent organisation in corporate CSR reports are not necessarily similar to those enacted by the subsidiaries. Although this finding is in line with ideas on the global nature of CSR (Scherer et al., 2009) and the localisation of policies to the host country context (Bondy & Starkey, 2014), this finding is at odds with global reporting standards such as provided by the Global Reporting Initiative (GRI), which were developed with the aim of reducing information asymmetries and increasing transparency, regardless of size, industry sector and location (Global Reporting Initiative, 2011, p. 3). Although the GRI provides guidelines to define the boundaries of the entities that are reported on, the aggregation of business behaviour for the entire MNC allows the firm to mask subsidiary behaviour with regards to its social and environmental CSR activities. For this reason, CSR reports should not be considered reliable proof of ethical behaviour (Fassin, 2008), as there is no guarantee that the activities are implemented throughout the MNC (Perrini, 2006). This finding implies that CSR activities at the level of the MNC are not suitable to proxy the CSR practices of foreign affiliates, but should be obtained from the subsidiary directly.

The assessment of the strategic value of the practices across the four CSR domains showed that all types of CSR practices have the potential to generate some strategic value. However, at the subsidiary level, the value of workplace and community practices is most likely greater than that of marketplace and environment practices. Workplace and community practices not only allow subsidiaries to lower cost or differentiate themselves from competitors but may also improve the competitive context by offering convergence value.

This chapter makes two contributions to CSR-FP research. First, the findings provide evidence for the existence of a pragmatic CSR typology that distinguishes between CSR practices in the

marketplace, the workplace, the community and the environment that can be applied to organisations of any size, sector or country of origin. The systematic examination of the activities resulted in definitions of CSR for each domain that can be operationalized to measure these CSR practices at the subsidiary level. Second, the findings make clear that when comparing corporate practices and the practices of subsidiaries operating in an emerging market such as Malaysia, the extent and the content of environmental and community practices undertaken will differ from those published in corporate CSR reports. This distinction needs to be incorporated in studies investigating the CSR–FP relationship of MNCs, and care should be taken to select measures that reflect this distinction. The findings also contribute to the literature on sustainability reporting. Hahn and Lülfs (2014) investigated the strategies that large corporations use to disclose negative information in the GRI sustainability report. They uncovered strategies such as marginalisation, abstraction, indicating facts, rationalisation, authorisation and corrective action. However, all of these strategies could be positioned on a continuum from non-disclosure to full disclosure. The findings of this study uncovered an additional strategy, whereby large MNCs appear to obfuscate social and environmental performance by means of aggregation. Future research could investigate the extent to which this strategy can be generalised to other MNCs.

## 5 INTEGRATED CSR PRACTICES

A close examination of the CSR practices implemented by the subsidiaries studied in this research revealed the existence of practices that combined CSR domains. These are referred to throughout this study as “integrated practices”. The discovery of this type of practice may shed light on the relationship between the deployment of CSR-related resources and firm performance, as discussed in chapter two.

Proponents of the “efficiency position” depart from notions such as coherence among CSR practices (Basu & Palazzo, 2008), internal fit (Yuan, Bao, & Verbeke, 2011) and the relatedness of practices (Tang et al., 2012). The argumentation undergirding the efficiency position is as follows. Given that a firm has limited resources and capacities, it makes sense to invest in CSR practices that draw on similar resources and competences. These focused CSR efforts support firms in the absorption of knowledge from CSR, which would strengthen the practice. Once this practice becomes established, it is possible to predict the outcomes of the activities undertaken, which contributes to the firm’s success in achieving that particular outcome (Sydow, Schreyögg, & Koch, 2009). In other words, investing in related CSR practices will enhance efficient resource deployment and, therefore, improve firm performance (Tang et al., 2012). In contrast, adopting new or unrelated CSR practices is viewed as risky, as it may create internal conflicts due to inadequate cross-functional coordination and existing organisational barriers (Yuan et al., 2011). In conclusion, concentration of CSR efforts promotes efficient resource deployment, which in turn enhances firm performance.

The alternative, in this text referred to as the “effectiveness position”, argues for the engagement in a variety of CSR practices that are linked to the primary and supporting processes of the value chain (Porter & Kramer, 2006). Engaging in a variety of CSR practices that require integration of resources across the value chain will help the organisation to identify and select relevant CSR issues, collaborate cross-functionally, and share knowledge and competences (Song et al., 1997). This has the benefit of helping the organisation understand and learn what works best for a particular practice, fine-tune associated policies, and test out ideas before investments are made. In addition, involving resources from different functional departments will not only help to coordinate efforts during the implementation (Beer et al., 2005) but also prevent the organisation from becoming locked into dominant decision patterns by taking changed circumstances into consideration (Sydow et al., 2009). Furthermore, engaging resources from different parts of the value chain helps to develop practices that are internally congruent. Ultimately, the effectiveness thesis predicts that engaging in a wide variety of CSR practices leads to the development of a culture that buttresses CSR and where staff collectively supports the

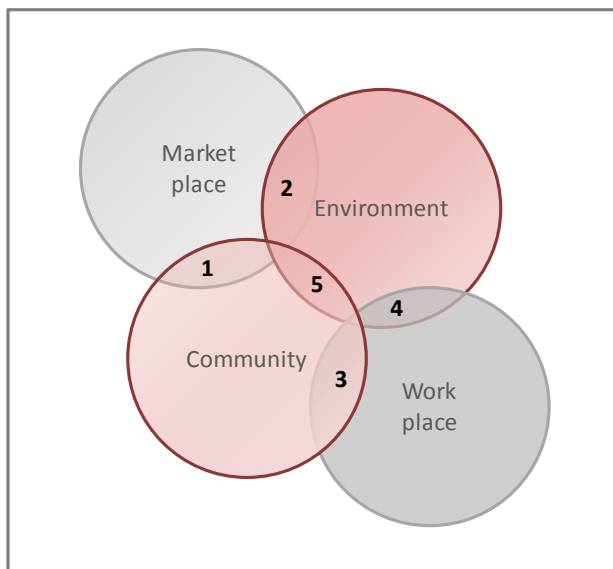
implementation of CSR practices. Therefore, this approach is expected to improve firm performance.

The main aim of this chapter is to examine the relevance of both positions within the context of integrated practices, using the framework of the resource-based perspective. The next section first describes these types of practices and then analyses them from a resource-based perspective. The last section evaluates the strategic value of integrated practices and uses the findings to develop two hypotheses.

## 5.1 UNCOVERING INTEGRATED PRACTICES

The data in this study presents examples of the existence of integrated practices for the following five domain combinations: the marketplace with the community, the marketplace with the environment, the community with the workplace, the environment with the workplace, and the environment with the community (see Figure 5-1).

Figure 5-1 Different CSR domain combinations



### ■ Combination one: Integrating the marketplace and the community

Integrating the domains of the marketplace and the community occurs when the practice develops capabilities of CBOs or other communities that are intimately linked to the firm's supply chain.

For example, consider F&B's dairy development program. This programme aims to develop the dairy industry of Malaysia and, at the time of the data collection, involved over 800 farmers. The subsidiary collaborates with the Department of Veterinary services to jointly recruit farmers interested in participating. The department provides logistical support in the form of buying and

collecting the milk from the smaller farms, whereas the larger farms sell their milk to F&B directly. F&B provides specific knowledge on the dairy industry and trains farmers on animal welfare, hygiene, waste management, and other practices that help improve the yield and quality of the milk. This is supported with an incentives scheme, which helps raise the quality of the milk and the income farmers earn. When possible, the subsidiary helps farmers to set up a cooperative. In fact, one of these is now able to pay out dividends. At first sight, the programme seems highly inefficient. At the time of the study, this programme accounted for only 3% of the Malaysian dairy production, while requiring significant inputs from F&B. For example, every week staff members from corporate affairs visit farmers in the field, while experts from the parent organisation and universities situated in the home country are flown in to train participating farmers. As a result, the subsidiary estimates that the cost of locally produced milk is twice as high as the cost of imported milk. Yet these inputs need to be offset by the outputs.

First, as a result of the programme, the subsidiary was asked to advise the Malaysian government on the development of the national dairy industry. Second, the dairy development programme helped revitalise the school milk programme. Milk produced by local farmers is sold by F&B to the Ministry of Education, which then distributes the milk among public schools. Last, the school milk programme helped the subsidiary gain access to primary schools and educate children about the nutritious value of milk, thereby increasing brand awareness. In conclusion, the programme has helped to 'Malaysianise' the subsidiary (F&B1, F&B2, F&B5) and reduce the subsidiary's liability with regard to being of foreign origin. Overall, the dairy development programme has been quite successful in improving the subsidiary's reputation with the government and with the general public.

#### ■ **Combination two: Integrating the marketplace and the environment**

Integration of the domains of the marketplace and the environment occurs when the firm offers a product that helps its customers to lower their own environmental impact. The data revealed two initiatives that meet this definition.

The first initiative is from AC. From 2002 to 2004, Asia was hit by avian influenza, which affected several countries in Southeast Asia. This virus was extremely virulent in poultry, including chickens and ducks, killing birds throughout the region. Because the virus transmitted to humans, a decision was made to cull hundreds of millions of chickens and ducks. In addition, a general directive was ordered that required all poultry to remain indoors. This measure was particularly problematic for farmers in tropical countries. Keeping poultry in humid, hot conditions was detrimental to the health of the animals, but chilling the poultry coops required huge



investments. AC recognised a market opportunity and developed a system that simultaneously solved various issues for poultry farmers. AC's innovative system consisted of a process to dry chicken manure onsite in humid tropical conditions, palletise it, and convert these pallets into gas, which could then be used to cool the poultry coops. This eco-innovation resulted in reduced energy costs and GHG emissions, improved animal welfare, and a solution to a major waste problem experienced by AC's customers. The second initiative is from HC, which integrated marketplace and environmental practices when it improved the insulation of its hotel rooftop by installing an herb garden on top of it. The herbs grown are used in the restaurant kitchen. This integrated practice decreases resource usage (less energy needed to cool the building) while also providing fresh ingredients to the kitchen. Guests appreciate the ingenuity of the solution, which boosts the hotel's reputation as a sustainable establishment.

### ■ **Combination three: Integrating the workplace and the community**

Integrating the domains of the workplace and the community becomes evident when a practice benefits specific disadvantaged groups in the community while also helping to recruit new employees, develop current employees, or increase staff morale. This study identified several examples of these types of integrated practices.

In collaboration with a Malaysian university, AC implemented an internship programme that offers Australia-based internships to approximately 20 to 30 Malaysian mechanical engineering students every year, with the firm bearing full costs including the provision of a reasonable allowance for interns over the duration of the internship. The programme offers students the opportunity to learn how to install products on the job, organise rather complex projects, and develop leadership skills. AC benefits because students learn the ropes of installing AC's equipment on the job, and it saves on installation costs at the same time. Moreover, students who perform well are invited to join the subsidiary, and this cuts down on recruitment costs. Of every batch of students, approximately 25% join AC upon completing the degree. The university also benefits from this programme, as it enhances the university's reputation of being well connected with the international business community, which help students land in a secure job. A second example comes from HC, which cherishes having local roots, and prefers hiring Malaysians to foreign migrants, such as Nepalese, to work for the hotel. The subsidiary identified a nearby community with a high prevalence of '*lepak*'<sup>25</sup> youth, who prefer hanging out above going to school, which may foster criminal behaviour. To offer them a different perspective, HC invites these youngsters to the hotel to introduce them to the hospitality industry. If a youngster

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<sup>25</sup> This literally means 'sitting in a lazy way' and is used to refer to youth who spend their time hanging around.

is interested, HC supports them through school and, when finished, offers them an apprentice job in the hotel. This community outreach programme removes the youngsters from the streets while giving them an opportunity to develop themselves. The practice also improves HC's image as a community supporter while grooming these youngsters into valuable hospitality employees.

OGC and FC have both established a scholarship programme to help select and recruit new staff members while they are still at secondary school (see §4.3.3 for more details). Every year, FC provides five full scholarships for undergraduate degrees from different Malaysian universities for a wide range of study subjects, all related to the nature of FC's business. The students are selected from a pool of 150 applicants, based on criteria pertaining to economic background, gender, and race. Upon graduation, graduates are required to join the firm for a period of five years. The scholarship programme is fully managed by the human resources department. OGC noticed that fewer young graduates were interested in joining the oil and gas industry, as they regarded it as a sunset industry with an expiration date. In addition, the generation born after the Second World War is starting to retire, resulting in a loss of expertise. This development fuelled the decision to invest in a scholarship programme to help raise interest and offset the outflow of staffs. At the time of the study, OGC's scholarship programme was in its third year and sponsored 48 Malaysian students up to the master's level. The scholarship covers the costs of tuition, computers, books, and living expenses. OGC also secured the support of local universities to help it select up to 16 students every year that meet OGC's criteria. In contrast with other scholarship programmes, students are invited to apply for a job with the subsidiary upon graduation, but they are not bound to OGC and are free to join a different organisation. The scholarship only needs to be repaid if the student either drops out or fails to obtain the degree within the stipulated timeframe. At the time of the data collection, the first group of students had recently graduated, and 50% of the students successfully applied for a job with OGC. Although the programme will only be fully evaluated in year five, based on current results it is quite likely that it will turn into a full-fledged programme and involve universities located in Sabah<sup>26</sup> as well.

#### ■ **Combination four: Integrating the workplace and the environment**

Integration of workplace and environmental domains is evident in CSR practices that aim to change the behaviour of employees in order to allow the firm to lower its environmental impact. The most prominent example of this practice comes from LC, whose parent organisation initiated a training programme for drivers to teach them how to cruise in a more environmentally friendly and safe manner. Accordingly, LC trains all drivers (including drivers of subcontractors) in an

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<sup>26</sup> Sabah is one of Malaysia's states on the island of Borneo.

effort to lower the subsidiary's CO2 emissions and fuel consumption. Performance is monitored using tracking devices. To promote the programme, the parent organisation holds annual driving contests to which each subsidiary sends its most accomplished driver. LC's practice shows how training in conservative driving practices helps to lower the firm's environmental impact. Moreover, these environmentally friendly driving practices reduce the number of accidents involving drivers and, thus, improve the subsidiary's performance on occupational health and safety indices. In addition to these practices, all of the subsidiaries in the sample have implemented programmes to raise the environmental awareness of staff to help conserve electricity, paper, ink, and so forth. Some subsidiaries go as far as raising staff awareness on the benefits of carpooling and becoming more environmentally concerned at home as well.

#### ■ **Combination five: Integrating the community and the environment**

Integration of community and environmental domains occurs when the practice is focused on charting and mitigating the firm's environmental externalities while providing social external benefits. The data provided one example of this type of practice.

OGC's coastal monitoring programme aims to explore the impact of OGC's activities on coastal mammal marine life (see §4.3.3.3 for more details). From the subsidiary side, the programme draws on resources of the CSR department, the HR department, and human and material resources from the drilling platforms. The CBO involved provides training for staff working on the drilling platforms in how to monitor changes in mammal marine life. The results of this programme are used to stimulate local tourism and raise the socioeconomic living standard in the areas concerned.

## **5.2 A RESOURCE-BASED PERSPECTIVE ON INTEGRATED PRACTICES**

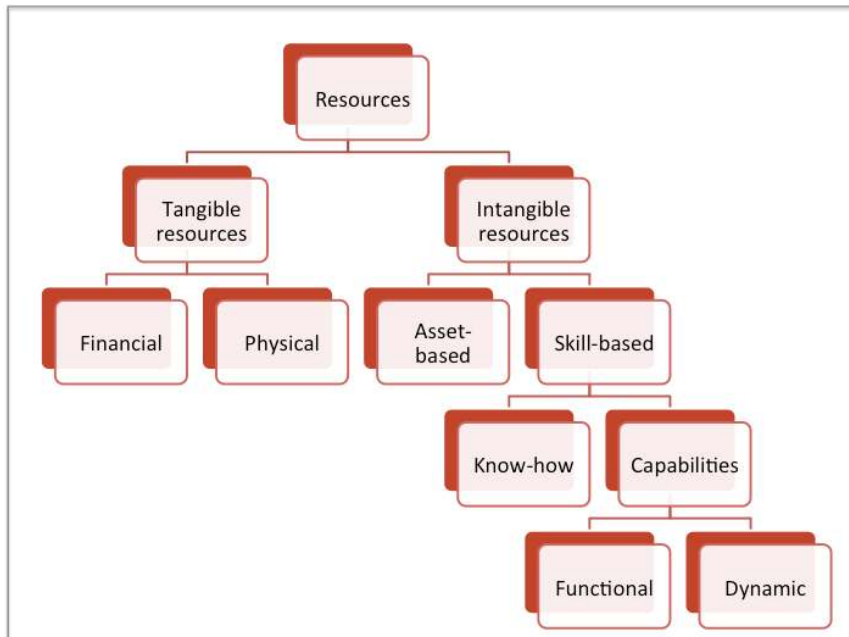
The previous section described five different configurations of integrated CSR practices. This section analyses the integrated practices through the lens of the resource-based perspective in order to assess the claims of both the efficiency and effectiveness position and, thus, contribute to the debate on the value of CSR resource deployment.

### **5.2.1 TERMINOLOGY**

Over time, resource-based perspective scholars have interchangeably utilised concepts such as resources, assets, routines, competences, and capabilities as if they were fungible to connote capacities, skills, aptitudes, and endowments (Bogner, Thomas, & McGee, 1999). However, a closer inspection of these concepts reveals that subtle differences do exist with regard to their meaning and how they are related to one another. For the purpose of analysing the deployment

of resources when engaging in integrated practices, they are regarded in this text as hierarchically organised concepts (see Figure 5-2).

**Figure 5-2 Hierarchical resource structure**



The following definitions are used. *Resources* are at the centre and encompass all assets, capabilities, processes, attributes, knowledge, and information that a firm has control over and which allows it to implement strategies and improve its performance (Daft, 1983). They are classified into tangible and intangible resources. *Tangible* resources can be observed and quantified, and include the firm's financial resources (e.g. cash, securities, and borrowing capacity) and physical resources *inter alia* plants, equipment, sales outlets, land and natural resources (Peng & Meyer, 2011). Intangible resources are divided into *asset-based resources* consisting of firm-owned assets, such as intellectual property rights, (e.g. patents, trademarks, copyright and registered designs), contracts, trade secrets, reputation, and networks; and *skill-based resources*, which include the know-how of employees, suppliers, and distributors, and the culture of the organisation (Hall, 1992). Know-how in this context means having not only the specific knowledge but also the ability to use it. The deployment of intangible resources requires possessing capabilities to bundle and coordinate skills and accumulate knowledge through organisational processes and coordination (Day, 1994). These routine, patterned actions reflect tacit knowledge of actors, deeply ingrained habits, and procedures based on unarticulated knowledge and beliefs (Scott, 2008, p. 30). Functional capabilities are associated with different aspects of the value chain, such as R&D, operation, marketing, sales, and distribution (Peng & Meyer, 2011), and correspond with particular jobs within an organisation. Dynamic capabilities

involve the firm's ability to integrate, build and reconfigure internal resources in order to match or even create market change (Teece et al., 1997). In the literature, these types of capabilities are also referred to as competences (Henderson & Cockburn, 1994) that form the "connective tissue" (Marcus & Anderson, 2006, p. 23) between different dynamic capabilities.

### 5.2.2 FINDINGS

Table 5-1 and Table 5-2 on pages 92 and 93 contain the results of a resource-based analysis of the integrated practices uncovered in this study. The overview shows that asset-based resources primarily involve networks with external organisations. For instance, the dairy development programme of F&B involves collaborating with various government departments, whereas the internships and scholarships require working together with local universities. A second observation is that the knowledge-based resources are evidently tied to different aspects of the value chain. For example, AC integrated the observations of field staff on the different needs of customers in its regional markets with technological know-how residing within the R&D department at headquarters in order to develop a solution that presented the firm with new market opportunities. Synergistic combinations of this kind require the simultaneous deployment of international market orientation capability, process innovation capability, and technology, which jointly enable AC to sustain similar types of CSR practices over a longer period of time (Chakrabarty & Wang, 2012). Similarly, the examples of integrated workplace/community practices necessitate the sharing of resources from the HR department, corporate affairs (FC, OGC), CSR (HC), and operations (AC). A major advantage of resource pooling is that it allows the organisation to save on costs, as a single initiative possesses the ability to attain different organisational goals. Hence, contrary to expectations, integrated practices actually help the organisation to use resources efficiently. However, simply involving different functions may not produce the desired benefits. First, function-specific tacit and explicit knowledge resides with the incumbents of these functions. Tacit knowledge, which is only revealed when applied, is difficult to transfer between people (Kogut & Zander, 1992), especially when the information is idiosyncratic in nature, as is often the case with knowledge about relationships (e.g. between the farming community and F&B). In order to turn this type of information into a firm asset, the organisation has to find a way to appropriate this knowledge and make it available to the wider organisation (Grant, 1996). After all, individuals learn and organisations can benefit from this experience only, when tacit knowledge is codified and retained in carriers such as forms, rules, procedures, conventions, strategies, and technologies through which organisations operate (Levitt & March, 1988). Without this capability, losing a staff member would imply that the organisation also loses the knowledge and expertise this individual has.

**Table 5-1 A resource-based analysis of integrated practices**

Practice	Intangible resources			Capabilities	
	Asset-based	Skill-based	Functional	Dynamic	
<b>Marketplace &amp; Community</b> Dairy development	<ul style="list-style-type: none"> <li>Network with department of veterinary services</li> <li>Network with Malaysian farmers</li> <li>Access to primary schools</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge on how to improve the quality and yield of milk</li> <li>Knowledge on how to set up dairy cooperatives</li> </ul>	<ul style="list-style-type: none"> <li>Involvement of experts from the home country, corporate affairs, public relations and communication, sales and marketing</li> </ul>	<ul style="list-style-type: none"> <li>Process of identifying needs of farmers and linking these to organisational expertise</li> <li>Coordinating the deployment of functional capabilities</li> <li>Learning how to motivate farmers to improve the quality of the milk and the yield</li> </ul>	
<b>Marketplace &amp; Environment</b> Poultry coops  Rooftop garden	<ul style="list-style-type: none"> <li>Patented design</li> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge on the needs of customers in changed external conditions</li> <li>Knowledge on how to grow herbs in blazing hot conditions, while also insulating the hotel roof effectively</li> </ul>	<ul style="list-style-type: none"> <li>Innovation of existing technologies to solve issues faced by customers in their markets</li> <li>Involvement of the engineering department, the hotel kitchen, and communication</li> </ul>	<p>Process of capturing customer issues and experiences and translating these into engineering design choices in order to come up with innovative designs</p>	
<b>Workplace &amp; Community</b> Internships  'Lepak'  Scholarship	<ul style="list-style-type: none"> <li>Network within local university to help identify and select interns who meet the profile</li> <li>Network with neighbourhood communities in order to recruit youngsters for the programme</li> <li>Network with local universities to help identify and select students meeting the firm's selection criteria</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge on how to train young students on the job</li> <li>Knowledge on how to motivate youngsters from disadvantaged communities to take on an opportunity</li> <li>Knowledge on how to establish relationships with the students in the programme</li> </ul>	<ul style="list-style-type: none"> <li>Involvement of operations and the HR department</li> <li>Involvement of corporate affairs, HR, and general management</li> <li>Involvement of corporate affairs, HR, and operations</li> </ul>	<ul style="list-style-type: none"> <li>Process of integrating students successfully into the operations of the organisation</li> <li>Process of involving different types of youngsters and giving them a positive on-the-job exposure to the hotel</li> <li>Process to track student progress and get them enthusiastic about joining the organisation.</li> </ul>	

**Table 5-2 A resource-based analysis of integrated practices (continued)**

Practice	Intangible resources			Capabilities	
	Asset-based	Skill-based	Functional	Dynamic	
<b>Workplace &amp; Environment</b> Driver programme	<ul style="list-style-type: none"> <li>Technology that allows tracking of driving behaviour</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge on driving practices that lower CO2 emissions and fuel consumption</li> </ul>	<ul style="list-style-type: none"> <li>Involvement of suppliers (external drivers), operations, HR and CSR</li> </ul>	<ul style="list-style-type: none"> <li>Process of cultivating conservative driving practices with internal and external drivers</li> <li>Learning how to integrate conservative driving practices into operations and HR.</li> </ul>	
<b>Community &amp; Environment</b> Coastal monitoring programme	<ul style="list-style-type: none"> <li>Boats and other equipment that can be used for monitoring</li> <li>Collaborative relationship with a national environmental NGO</li> </ul>		<ul style="list-style-type: none"> <li>Involvement of CSR, HR and operations</li> </ul>	<ul style="list-style-type: none"> <li>Process of recruiting and training operatives who are willing to volunteer</li> <li>Learning how to translate observations to measure coastal impact of the organisation</li> <li>Learning how to mitigate negative impacts on coastal mammal marine life</li> </ul>	

Put differently, possessing a functional capability means little without having dynamic capabilities to help integrate, organise, and transform tacit knowledge and anchor it in the organisation in order to turn it into a firm-specific asset. Therefore, the question is, by what means is this achieved? According to Grant (1996), this is accomplished by means of language, symbolic communication, shared meaning, recognition of individual knowledge domains, and a certain commonality of shared knowledge. In other words, effective deployment of the resources associated with integrated practices requires the organisation to possess the dynamic capability to make tacit knowledge available to a wider group of individuals through developing a shared language and a common understanding of the intricacies of the practice concerned. The most essential dynamic capability contributing to the success of integrated practices may be coordinating the deployment of functional capabilities across the value chain. Without managerial support, departmental barriers will block effective cross-functional collaborations. The dairy development programme could be considered as what Yuan et al. (2011, p. 80) referred to as a “born CSR” practice, which refers to a practice that has always been part of the company (see, for example, Extract 4-8) and is widely supported within the organisation. Based on the analysis, it appears that integrated practices typically involve:

1. Two or more domain combinations.
2. Intangible tacit skill or knowledge-based resources.
3. Functional capabilities residing in various aspects of the value chain.
4. Mechanisms to integrate the tacit knowledge associated with these practices into organisational routines that help to develop common, firm-specific knowledge.
5. Dynamic capabilities that help integrate and coordinate functional capabilities.

### **5.3 THE STRATEGIC VALUE OF INTEGRATED PRACTICES**

Integrated practices possess several characteristics that may contribute toward firm performance.

First, these practices derive value because the integration of domains requires jobholders from different backgrounds to collaborate when implementing programmes of this type. An important benefit of this collaboration is that functional integration helps to integrate the practice into the strategic planning process, which in its turn enhances financial performance (Judge & Douglas, 1998). Second, greater functional coverage raises the internal visibility of the practice and, assuming that the practice is valued, may also increase the likelihood of employees identifying positively with the practice. In turn, this positive identification could motivate employees to contribute to firm performance by doing well in their jobs (Carmeli, Gilat, & Waldman, 2007) and to the cultivation of a culture where staff help each other to perform well (Jones, 2010). Third,



according to RBV theory, a practice is more difficult to imitate when the conditions of path dependence, causal ambiguity, and social complexity are met (Barney, 1991; Bowman & Ambrosini, 2003). Path dependence requires the practice to have a unique history in the firm. For example, F&B's dairy development programme has been running for several years and involves staff from the subsidiary and the parent company. The programme has incorporated lessons learned, the outcome of which is a set of highly specialised skills and a well-established network that includes government bodies and the farming community. Causal ambiguity complicates imitation because the logical order of necessary actions to achieve the desired result is not obvious. Practices such as OGC's coastal monitoring programme and F&B's dairy development programme would have no issues meeting this criterion, whereas a scholarship programme consisting of a set of easily discernible actions is much easier to imitate. Finally, the outcomes of an integrated practice needs to be socially complex, making it difficult to change outcomes on a short notice. This condition requires the subsidiary to engage in a long-term commitment whereby scale and duration contribute toward firm reputation.

Put differently, historically developed integrated practices that involve long-term commitments with a network of external and internal stakeholders offer opportunities to gain competitive advantage. Thus, HC's rooftop insulation, although an integrated practice, does not meet the majority of these criteria, whereas AC's product innovation, F&B's dairy development, and OGC's coastal monitoring programme do. Based on the above, the expectation is that:

- H5.1 CSR practices that integrate two or more CSR domains have a greater contribution to firm performance than do practices that involve a single domain.
- H5.2 The value of integrated practices, which involve external and internal stakeholders, is greater than that of integrated practices, which involve either external or internal stakeholders.

## **SUMMARY AND CONCLUSIONS**

The examination of the practices undertaken by the subsidiaries uncovered the existence of CSR initiatives that cannot be captured in a single dimension. Such practices combine CSR initiatives associated with different CSR domains into a so-called integrated practice. Based on the accounts, examples of five different domain combinations were identified: the marketplace with the community; the marketplace with the environment; the workplace with the community; the workplace with the environment; and the community with the environment. Interestingly, none of the subsidiaries used employee volunteering to develop skills, which would be a good example of an integrated practice with the potential of reaping financial, social, and reputational returns. However, in a volunteer impact survey by Deloitte (2007), 70% of the respondents aged 18 to 26 years old indicated that companies should use volunteering as a professional development tool.

These findings demonstrate that the upcoming workforce is indeed receptive to these kinds of practices.

Integrated practices are difficult to reconcile with the efficiency position, which urges firms to invest in related CSR practices because of the shared complementary resources. On the contrary, the resource-based analysis showed that integrated practices primarily derive their value from intangible resources such as tacit knowledge and skills that are typically associated with jobholders belonging to different parts of the value chain. In order to make these intangible resources available to the wider organisation, it is essential to develop routines and processes that embed the knowledge into the organisation. The transcending quality of integrated practices stimulates the firm to develop integrated dynamic capabilities. Once these capabilities are embedded into the organisation's routines, they become firm specific and difficult to imitate by other organisations. This may also explain why the emulation of an integrated best practice produces little benefit when the organisational routines and processes to support it are not replicated. Moreover, engaging in unrelated practices that are not linked to core routines, while consuming resources that could be better deployed for other purposes, would most likely erode firm performance. Further investing in a limited range of CSR initiatives without an external logic or coherent framework could result in the CSR strategy being perceived as inconsistent (Basu & Palazzo, 2008) as well as in accusations of green-washing or window-dressing practices (Hess & Warren, 2008). Such a negative evaluation of the CSR strategy and of the firm involved would ultimately affect firm performance negatively.

Thus, the question is, what would explain the research findings supporting the efficiency position? One possible explanation might be linked to the operationalisation of "CSR relatedness", which is central to efficiency. Tang et al. (2012) developed this variable by calculating the Pearson correlation among practices incorporated in archival databases, such as corporate governance, diversity, employee relations, community, environment, human rights, and product. In other words, the underlying skills, competences and knowledge are gauged based on the correlation between practices and not measured directly. The authors acknowledged this limitation, and recommended searching for measures that more directly operationalize skills and knowledge associated with the individual practices.

The findings of this study indicate that the firm's potential for attaining competitive advantage is enhanced by the cross-functional character of integrated practices, paired with dynamic capabilities (e.g. coordinating across departmental boundaries) and organisational capabilities that help anchor supporting processes in the organisation to retain knowledge associated with integrated practices. Contrary to earlier conceptualisations of the relationships among CSR

practices, these findings seem to suggest that competitive advantage is not derived from focused investment efforts but rather from organisational capabilities pertaining to integrating knowledge (Grant, 1996) and capabilities to help coordinate the deployment of resources and outcomes associated with different aspects of the value chain.

## 6 ALIGNING CSR PRACTICES IN EMERGING MARKETS

The review in chapter two highlighted two competing themes with regards to the external alignment of CSR, notably institutional logic versus strategic logic. According to the institutional argument, firms are pressured to align their CSR practices with prevailing institutions (DiMaggio & Powell, 1983) in order to achieve regulative, normative and cognitive legitimacy (Scott, 2008). Research shows that subsidiaries operating in institutionally distant emerging markets tend to pursue universal CSR issues (Husted & Allen, 2006). This strategy is focused on standardising practices where possible in an effort to reduce international complexities to manageable levels (Bondy & Starkey, 2014). This implies that the subsidiary adapts its CSR activities to the institutions of the home country. Following institutional logic, the CSR–FP relationship would only be positive when standardisation leads to lower costs as a result of efficiency gains, and because adherence to international standards could prevent future claims. In contrast, the arguments of strategic logic depart from institutional distance, and focus on the legitimacy challenges faced by foreign subsidiaries operating in distant markets (Kostova & Zaheer, 1999). The severity of the challenges encountered in such situations are a function of the institutional distance experienced, with larger distances posing greater challenges (Miller & Eden, 2006). Subsidiaries could mitigate this disadvantage and gain local legitimacy by adapting to local institutions (Rosenzweig & Singh, 1991), for example by mimicking host country CSR practices (Salomon & Wu, 2012). In other words, strategic logic predicts a positive CSR–FP relationship when the subsidiary mimics local CSR practices convincingly, as this may help to gain local internal and external legitimacy. Because both themes incorporate institutional distance in their argument, while neither can explain CSR–FP variations on its own, this chapter aims to integrally investigate the role of institutions and internationalisation strategy for subsidiaries operating in institutionally distant countries such as Malaysia.

This chapter proceeds with a synopsis of the host country context of Malaysia, which, as explained in §3.3.2, is an appropriate research setting; not only does it meet the characteristics associated with emerging economies, but also because the researcher resided in the country during the period of qualitative data collection. The chapter then continues with a brief overview of the institutional backgrounds of the subsidiaries' home countries in order to determine the extent to which the subsidiaries' CSR practices are aligned with either their home or the host country, and the parent firm's internationalisation objective for Malaysia. The examination of the internal alignment of CSR focuses on the mechanisms that MNCs use to either allow the subsidiary to respond to local demands or, alternatively, integrate CSR initiatives into a global CSR approach.

Finally, both the findings and the literature are used to craft a strategic alignment framework consisting of four strategic CSR approaches. The chapter finishes with a summary and conclusions.

## 6.1 EXTERNAL ALIGNMENT OF CSR PRACTICES

Because this study assumes the viewpoint of the subsidiary, both the host country and the parent organisation are considered part of the subsidiary's external environment. This position is supported by the interview data and is in agreement with literature investigating the subsidiary role (Paterson & Brock, 2002). Table 6-1 summarises the outcomes of the second, third and fourth coding cycles. The categories in the fourth cycle are used to organise the section on the external alignment of CSR practices (for the coding schedules, see appendix C4).

**Table 6-1 External factors influencing subsidiaries' CSR practices**

Codes emerging from the literature	Codes emerging from the data	Higher-order categories
<b>External factors</b> National development agenda  Institutional context: <ul style="list-style-type: none"> <li>• Regulative element</li> <li>• Cultural/normative element</li> </ul> Institutional distance Institutional duality Legitimacy Liability of being foreign/new Internationalisation motives Corporate strategy MNC types Subsidiary roles	<b>Host country context</b> <ul style="list-style-type: none"> <li>• Economic, social, and environmental issues (national development)</li> <li>• Malaysia's regulations, norms, and values</li> <li>• Malaysia's understanding of CSR</li> <li>• Constraints of existing infrastructure</li> <li>• Acceptance of CSR practices by employees and local customers</li> <li>• Constraints pertaining to local contracts</li> <li>• Pressure from local activist groups</li> <li>• HRM shortage of highly educated staff</li> </ul>	<b>Host country alignment</b> <ul style="list-style-type: none"> <li>• National development</li> <li>• Institutional context               <ul style="list-style-type: none"> <li>○ Local internal legitimacy</li> <li>○ Local external legitimacy</li> </ul> </li> </ul>
	<b>Home country context</b> <ul style="list-style-type: none"> <li>• Internationalisation motive parent company</li> <li>• CSR policies and practices of the parent organisation</li> <li>• Regulations, norms, and values (institutional context home country)</li> <li>• Pressure from international activist groups</li> </ul>	<b>Home country alignment</b> <ul style="list-style-type: none"> <li>• Institutional context               <ul style="list-style-type: none"> <li>○ Parental legitimacy</li> <li>○ Third party legitimacy</li> </ul> </li> <li>• Strategic objective</li> </ul>

### 6.1.1 THE HOST COUNTRY CONTEXT OF MALAYSIA

#### ▪ Malaysia's national development agenda

The government envisions Malaysia becoming a fully developed country by the year 2020 and works with five-year development plans to focus efforts and track progress. The 9th Development Plan (Badawi, 2006) outlined the following five overarching goals:

1. Moving up the economic value chain by developing new knowledge-intensive industries and encouraging the private sector to take a leading role in the country's capacity for knowledge.

2. Raising the capacity for knowledge, creativity, and innovation by emphasising the country's educational system.
3. Addressing poverty by generating a more-balanced growth among the different races and among urban and rural populations.
4. Upgrading and maintaining sustainable resource usage.
5. Strengthening the institutional and implementation capacity of the country.

The private sector is expected to support these goals or even take a lead in addressing national issues and infrastructural constraints, and this expectation particularly extends to foreign subsidiaries. Malaysia's educational system, for example, is overstretched in urban areas and suffers from under-resourcing and access problems in rural areas. New schools need to be built, and schools without piped water or electricity require upgrading. The government attained support from the private sector via a School Adoption Programme. In addition to this, the government formulated policies aimed at reducing ethnic disparities, which compel foreign firms to ensure that their workforce mirrors Malaysia's ethnic composition (see also §4.3.2.1), invite Bumiputra<sup>27</sup> to participate in subsidiary boards, and share in subsidiary equity. Spearheading specific growth centres and developing infrastructure and facilities that provide rural communities with income-generating opportunities are expected to stimulate economic growth in Malaysia's rural areas. The 9th Malaysia Plan<sup>28</sup> emphasises social and economic issues; efforts to address environmental issues such as flood mitigation, cleaning up rivers, coastal waters, and beaches, environmental conservation, and enhancing energy supplies are allocated fewer resources. Malaysia's environmental regulations are rather primitive, with infrastructure to manage waste and resources being underdeveloped. Although the government acknowledges that corruption and practices of bribery hamper a successful implementation of the development plans, these areas are the least worked out.

#### ■ Malaysia's institutional context

Malaysia's regulative institutions are weak, and the enforcement is often found ineffective (Schwab, 2011). In 2010, Malaysia was ranked 60th in the annual Corruption Perception Index (Transparency International, 2011), whilst business people put corruption in the top four most problematic factors that affect doing business in Malaysia (Schwab, 2011). Although Malaysia

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<sup>27</sup> Bumiputra literally means 'sons of the soil' and refers to Malaysia's Malay and indigenous people.

<sup>28</sup> Currently, Malaysia has put its 10th plan into effect for the period of 2011–2015 (Economic Planning Unit Prime Minister's Department, 2010). This plan focuses on increasing the value of Malaysia's economy, improving abilities with regards to knowledge and innovation, addressing socioeconomic inequalities, strengthening Malaysia's institutions and valuing Malaysia's natural endowments. Because the data was collected during the end of 2010, the 9<sup>th</sup> plan is used to contextualize the CSR practices of the subsidiaries. However, both plans have similar implications for the CSR practices organisations may pursue.

moved up to the 50th position in the 2014 index (Transparency International, 2014), this improvement is not reflected in the perception of business people. A KPMG survey on fraud, bribery and corruption involving opinions from executives of 100 listed companies found that 64% of the respondents believe that bribery is inherent to conducting business in Malaysia (KPMG, 2014). The respondents in this research voiced similar observations, though they avoided making direct accusations. Corruption appears to permeate business and may even extend to engagements with other local parties. For instance, see Extract 6-1:

**Extract 6-1 Corruption as a part of culture**

We have been trying to do, actually, more local initiatives that are tied to our core business, such as the road safety programme. And the plan was to donate helmets to promote road safety, because we are a big road user and it is part of our "xxx" [name of the programme] as well. So we thought, you know, we wanted to do that and partner with the government, the Road Safety Department of Malaysia. We – let's just say, it wasn't easy, and because, I think, all they wanted was us to donate the money and we give it to them to run it. (LC2)

Malaysia's informal institutions are infused by Islam<sup>29</sup>. To illustrate, poverty relief for Muslims is institutionalised via '*zakat*'<sup>30</sup>, which is a voluntary tax levied for the purpose of Islamic charity. Because donations by Muslims generally befall other Muslims, individuals professing other religions employ their own charitable schemes, frequently with the involvement of the business community. Malaysians commonly value CSR community practices. Likewise, in this study local senior management emphasised the "*human*" element in CSR practices and the need to identify opportunities to help others who seek them. One respondent put it this way: "I am involved a lot in church, and I would support any company that would do a lot for the needy" (LC4). Undoubtedly, aligning with informal institutions via socially oriented CSR practices communicates that the subsidiary takes local values into consideration (Gifford & Kestler, 2008). In Malaysia, aligning with the national agenda and institutional context requires firms to emphasise CSR community practices and invest in social programmes that address poverty, support education, and promote a more balanced growth among different races in urban and rural areas. The analysis of the subsidiaries' CSR initiatives in chapter four (see page 67) showed that nearly all subsidiaries in this study contribute toward the community, with some of these initiatives also supporting Malaysia's national development agenda (see Table 6-2).

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<sup>29</sup> Malaysia's state religion is Islam, with Shariah Law permeating all institutions in Malaysia. At the last census, 61.3% of the population was Muslim, 19.8% Buddhist, 9.2% Christian, 6.3% Hindu, with the remainder 4.4% adhering to Confucianism, Taoism, or other Chinese religions.

<sup>30</sup> "*Zakat*" means purification and indicates that Muslims can purify themselves by donating money to poor and needy people.

**Table 6-2 Alignment with Malaysia's development agenda**

Subsidiary	Poverty	Education	Balanced growth
AC	–	–	–
F&B	Product donations Sprucing up homes	–	Dairy development programme
FC	Chances for children	Scholarships Chances for children	–
HC	Sprucing up homes Disaster support	–	–
IC	Fundraising for local homes Disaster support	Mentoring students wishing to become an entrepreneur	Company activities align with economic development and infrastructural projects
LC	Donations to homes (refurbished computers) Fundraising for local CBOs	–	–
OGC	Disaster support Supporting CBOs via staff initiatives	Scholarships	–

While subsidiaries do engage with local CBOs (mostly homes for children, the disabled, and the elderly) in an effort to address poverty, few focus on education or carry programmes that help Malaysia in achieving more balanced growth. Of the subsidiaries in the sample, F&B is probably best aligned with Malaysia's institutions and the country's national development agenda. Its community activities help legitimise the firm with local internal and external constituencies, while its dairy development programme is embraced by relevant government departments for its support of Malaysia's agricultural sector. On the whole, however, subsidiaries in this study seem more aligned with Malaysia's cultural institutions, and less with its development agenda. This alignment helps subsidiaries to garner local internal and local external legitimacy. Local internal legitimacy stems from positive evaluations of employees on the CSR initiatives undertaken by the subsidiaries, whereas local external legitimacy results from positive perceptions of the subsidiary's CSR activities by external constituents such as local customers, political contacts and local activist organisations. Local external legitimacy, respondents indicate, contribute toward the subsidiary's license to operate (see Extract 6-2), whereas local internal legitimacy contributes towards employee commitment (see Extract 6-3):

**Extract 6-2 Legitimacy and the license to operate**

So that's how CR can actually help. You know I mean it is a CR initiative. It looks like it is just a community thing. But we can actually impact. But when it comes to all the community investment and those [pause] we are spending money [sic]. But the returns, I think, are very important because if the community likes you, they will want you around. That is the social license to operate. That's valuable, and that is worth the dollars that you invest in those communities for sure. (OGC2)



### **Extract 6-3 Legitimacy and employee commitment**

In Europe, and maybe also among the Malay staff, when people experience an emotional connection with the company, it also improves the working atmosphere, and ultimately that improves firm performance. When someone is a member of the volunteer programme [name of the actual programme is removed to maintain anonymity], and involves head and heart, it improves employee satisfaction and thus [staff] retention. (F&B9)

These perceptions support the conclusion that social initiatives help legitimise the organisation in the host country.

## **6.1.2 THE HOME COUNTRY CONTEXT AND THE PARENT FIRM'S STRATEGIC OBJECTIVE**

### **6.1.2.1 The institutional context of the home country**

In this study, the home country refers to the country in which the corporate strategy is determined, products and processes are developed, and essential skills and know-how of the organisation are located (Chao & Kumar, 2010). According to this definition, the home countries of the subsidiaries are Canada, Germany, Netherlands, Spain, and the United States.

#### **■ Canada**

Canada's wealth originates from its abundant natural resources, such as forests, minerals, and petroleum. However, this wealth is not effectively protected. A study comparing the environmental laws and policies of 25 OECD countries showed that based on Canada's environmental legislation, the country belongs in the top three; however, taking its actual environmental performance into account through 28 indicators, Canada ranks only in the 24th position (Gunton & Calbick, 2010)<sup>31</sup>. The country's social institutions emphasise diversity and equal access to education and healthcare. Consequently, CSR issues confronting Canadian companies tend to concentrate on environmental management, diversity, and equal opportunities (Hikisch, 2010). Canada's institutions are reflected in the CSR choices made by the parent organisation of OGC. The MNC emphasises diversity but has also established KPIs for waste management practices and acknowledges the importance of reducing GHG emissions. All in all, the subsidiary is aligned with the CSR practices of the parent organisation, save for its GHG emissions, which it made the following comments about (see Extract 6-4):

### **Extract 6-4 Misalignment of OGC with home country CSR practices**

We have sets of standards, for example for CO2 emissions, right? And then here GLC [actual name of the GLC] sets guidelines of how much CO2 you can emit to the air. But that is, not to say poor, but low compared to standards in our corporate office or our North Sea or America operations. However, we try to meet the lowest, and then it is still not aligned. (OGC3)

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<sup>31</sup> Based on an in-depth analysis the authors of the report conclude that raising energy prices up to OECD level would actually lift the country's environmental performance into the top three of OECD countries (Gunton & Calbick, 2010).

In the production-sharing contract, the costs of emission-reducing measures are not recoverable (OGC2).

In other words, if OGC wishes to meet the parent's emission goals, it would need to do that at its own costs. At the time of the data collection, both the subsidiary and the parent organisation seemed to abdicate the misalignment, though one of the respondents was hoping "to get a workshop, a dialogue going with GLC [actual name of the GLC] and all the other oil and gas companies" because the company wants to make sure that it is working with "responsible organisations" (OGC2).

#### ■ The European countries

Germany, the Netherlands, and Spain are all members of the European Union, and despite increasing forces toward European integration, individual countries exhibit very different institutional profiles. For instance, both Germany and the Netherlands have highly regulated frameworks with regard to labour relations and human rights. In Germany, companies traditionally provide social benefits for their employees and surrounding communities, and its participatory decision-making style is institutionalised through the implementation of work councils. CSR work-related practices emphasise maintaining a healthy work-life balance. Practices to promote equal opportunities are also relevant, as Germany has one of the highest gender pay gaps in Europe (Tolhurst & Embaye, 2010). Dutch socioeconomic development is based on the tripartite negotiations between company owners, employees, and government, also known as the "Polder Model", and the tradition of extra-organisational volunteering is anchored in its institutions. The Netherlands consider equal opportunities and equal access to be the cornerstones of a healthy civil society, and use public funds to support education, healthcare, and care for groups such as the elderly and handicapped. The strong legislative framework for a variety of CSR aspects places the country at the forefront of social and environmental auditing (Lansen-Rogers, 2010). Due to the fact that nearly half of the country lies below sea level, environmental practices that address climate change are considered relevant. Accordingly, the CSR initiatives of the parent organisations predominantly focus on environmental CSR and meeting international standards. This observation corroborates the findings of an attitudinal study on CSR (Furrer et al., 2010) that found that Western companies tend to emphasise environmental CSR and consider community CSR to be less relevant. A comparison of parent-subsidary practices in Table 4-5 (page 78) shows that in particular the environmental CSR practices of subsidiaries originating from the North European countries are misaligned with the ambitions of parent organisations. The causes for misalignment are attributed not only to host country infrastructural and institutional limitations, but also to parental decisions and resource allocations (see Extract 6-5):

#### **Extract 6-5 Causes for (mis)alignment with home country practices**

[Environmental] CSR is now considered very important. However, when you take a close look at the programmes that we are carrying, nothing much is really happening. I do not notice a lot of drive from HQ, at least not from my position [which is that of the director of operations]. (F&B5)

All instructions are from HQ. So far, there is no instruction to switch to recyclable packaging products. (F&B6)

We do not separate waste [at the subsidiary in Malaysia]; there is simply no infrastructure. You collect all this paper, and then a guy comes to collect it only to dump it somewhere on a landfill. (FC1)

Globally [referring to the environmental agenda of the parent organisation], there is a CO2 reduction programme. However, Malaysia is not green. There is still a long way to go. (FC1)

We try to get a couple of electric trucks here, but that is not allowed because “my father, brother, uncle does not make them here”. The government wants to develop green technology. Well, we have it, but we can’t bring it in because they say it is not ours [meaning not made in Malaysia]. (LCP)

We have been fighting to increase the CSR budget [for community practices] every year, because we so much benefit from it. But, as usual, management will say, “No. You know, better put the money in marketing”. (LC5)

The situation is different in Southern Europe. The institutions of Spain, for instance, are imbued with Roman Catholic traditions that emphasise charity and helping one another. In other words, community-oriented CSR is naturally aligned with Spain’s cultural institutions. This characteristic is generally recognised by HC, and one respondent said, “Community involvement is a global programme of this hotel. Being a Spanish company it is maybe similar like [*sic*] Malaysia” (HC3). However, there is also a keen interest in environmental CSR, such as renewable energy and environmental conservation. In 2008, Spain established the “State Council of CSR” as a vehicle to direct funding of social initiatives and projects regarding the environment and economic innovation (Burgos, Revilla, & Fernandez, 2010). In addition, as an extension of economic development, providing jobs is viewed as an important element of the CSR agenda. On all of these fronts, HC has taken initiative. Therefore, as a whole, the CSR practices initiated by HC are all well aligned with home country institutions and the directives of the parent organisation.

#### **■ The United States**

Many of the CSR practices presently enacted by US firms are influenced by historic developments of American institutions. To illustrate, the practice of corporate philanthropy was once considered illegal (*ultra vires*) because it diverted stockholders’ money from business purposes. Tax-related measures, such as the excess profit tax imposed in 1942, which took as much as 90% of corporate profits over certain levels, provided impetus to engage in corporate philanthropy. However, it was only by 1953 that corporate philanthropy was recognised as a legitimate business activity (Sharfman, 1994). At present times, it is common practice for larger US firms to funnel funds to

charities via foundations established for this purpose. Research shows that corporation foundations are used as an instrument to smooth corporate giving, and to increase long-term profits (Webb, 1994). IC followed suit and established a foundation that decides on the MNC's CSR strategy and funnels funds. The Malaysian foundation also furthers the subsidiary's charitable activities, often with the support of the subsidiary's sports club, which in addition to organising sports activities doubles as an entity that organises activities involving employee volunteering. With regards to environmental CSR, neither the interview nor the subsidiary's public reports clarify what environmental practices the subsidiary has implemented for each of its business divisions in Malaysia. Therefore, it is assumed that the subsidiary's environmental practices are aligned with the global CSR agenda of the parent organisation, which emphasises environmental accountability including for its supply chain and ecological innovations.

#### ■ **Aligning with home country institutions contributes toward parental legitimacy**

It is presumed that aligning with home country institutions may contribute toward third-party legitimacy. In this text, third-party legitimacy is defined as the goodwill that stems from positive perceptions of the MNC's overall CSR approach by (inter)national customers, regulators, activist groups, industry associations and media. To prevent claims and for reasons of efficiency, it may be in the interest of the parent organisation to pressure the subsidiary to align its practices with the global CSR approach of the MNC. The subsidiary may also benefit from this alignment because a positive reputation enhances the subsidiary's image, and because complying with the parental CSR agenda will help the subsidiary to gain parental legitimacy.

#### 6.1.2.2 Motives for internationalisation

As remarked in §4.1, the leading internationalisation motives for the subsidiaries that participated in this study include the availability of and access to natural resources (this applies to OGC) and the development and exploitation of foreign markets. The subsidiaries FC, F&B, IC mainly focus on the host country, whereas Malaysia's strategic location in Asia enables the subsidiaries AC, LC and HC to exploit adjacent markets in other ASEAN countries. This section explores both motives in greater detail.

#### ■ **Resources as a primary motive**

Resources are considered a primary internationalisation motive when efficiency-seeking MNCs require cheap labour to produce at lower costs, or require the resources, such as minerals, oil, and agricultural products, located in the emerging market. Resources are regarded as critical when the organisation's ability to function is limited in the absence of the resource (Pfeffer & Salancik, 2003). OGC's prime location motive involved Malaysia's oil reserves, which it exploits under the

conditions of a production-sharing contract with the GLC. It competes with nine other oil-producing companies, which at the time of the data collection accounted for 5% of Malaysia's oil production and a little less than 1% of the gas production. This, according to one respondent, "makes it hard to get GLC's [actual name of the GLC] attention" (OGC5). Termination of this contract has definite implications for OGC's presence in Malaysia, as "the price for not having a good relationship is costly...as we will not be considered partner of choice" (OGC1).

Within the context of emerging markets, human resources are also considered a limiting factor, as rapid economic development has created shortages of highly skilled staff (Hartmann et al., 2010; Reimann et al., 2012). Organisations often vie for human resources from the same talent pool, turning highly skilled staff into a critical resource indeed (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006). Subsidiaries such as OGC suffer from a reputation issue amongst youngsters, as "the oil industry comes across as an old, dirty industry" (OGC5). Moreover, the migration of skilled labour, the so-called "brain-drain", has serious consequences not only for Malaysia, which envisions becoming a fully developed country by the year 2020, but also for the business growth of foreign affiliates. A study reported that 2 out of 10 Malaysians with a tertiary degree left the country in the year 2000, with the pace of the drain increasing in ensuing years (Schellekens, 2011). Because the best and the brightest are the first to leave, firms are seriously concerned about the quality of the skills base in Malaysia. As explained in §4.3.2.3 (see page 64), the pool of highly skilled staff in Malaysia is rather thin, and indeed all subsidiaries consider human resources to be their key critical resource. Accordingly, attracting and retaining skilled staff is an imperative for all subsidiaries. F&B strives "to become employer of choice in dairies [there are 7 dairy firms in Malaysia]" (F&B8). In addition to specific talent management programmes such as those established by FC and F&B, community CSR is also regarded as a means to attract prospective employees. One respondent explained it as follows (see Extract 6-6):

**Extract 6-6 Associating CSR with resources**

How do we become a model company that everyone wants to work for? And from what I have seen in the past, especially going into a new country, it is very hard to get people work [sic] for your company. They've never heard of you, so you have to be well known in the community. You've got to be there and visible and helping out and show that you are a caring company so that good people want to work for the company...[the subsidiary] has been investing in our communities, but then...[name of other respondent] came up with the idea of the shorelines together with the Malaysia Nature Society, and I thought that is a good idea. Nobody is there. (OGC5)

However, other subsidiaries appear less dependent on Malaysian-linked resources. AC is growing rapidly and only faces constraints with regards to recruiting and retaining its sales coordinators. Because the business is quite unique, new staff members are taught the ropes of the business from the moment they join. It takes about half a year of training before a sales coordinator can

work independently. According to the managing director, job incumbents are mainly motivated by salary, which is why market-competitive packages are regarded as more important than the CSR practices implemented by the company. The German owner of AC regarded CSR as “common sense” (AC1). As a result, the subsidiary has implemented few community-related CSR practices and instead focuses mostly on CSR workplace practices. However, the subsidiary does compete with other foreign affiliates for support from the parent organisation, although this appears to be a function of its foreign success.

According to RDT, effective organisations survive because they are able to manage the demands of interest groups<sup>32</sup> that control access to these scarce, critical resources (Pfeffer & Salancik, 2003). In the case of the foreign affiliate, the range of interest groups is wide. The interests of the parent organisation, for instance, need to be satisfied in order to compete successfully with other parts of the MNC for parental support and resources. In addition, the host country government is considered an interest group because its support is needed in order to approve licenses and grant building and working permits to the firm. Similarly, potential employees need to be convinced that the foreign entity is a good employer to work for. Because resource availability and accessibility influence organisational effectiveness, firms need to devise ways to defuse, absorb, or co-opt these external constraints. The passive and active acceptance of the organisation by special interest groups is a condition for support and continuous access to resources (Pfeffer & Salancik, 2003), and will increase the firm’s chance of success and survival (DiMaggio & Powell, 1983). The observations shared by the subsidiaries make clear that resource dependence is associated with CSR investments. However, the importance of CSR varies across subsidiaries and depends on the key interest groups controlling the critical resource. In this text, resource dependence is defined as the extent to which a subsidiary depends on the host country or home resources for its continued success and survival. CSR investments may be used as a means to cope with the demands of the interest groups that manage or control critical resources associated with the host or the home country. Therefore, based on the observations in this study, the following hypothesis is formulated:

H6.1 Resource dependence influences the relationship between CSR investments and firm performance.

#### ■ Markets as a primary motive

With the exception of OGC, all of the subsidiaries in this study chose Malaysia for its market potential. The subsidiaries F&B and FC serve Malaysian consumers, and have established challenging growth targets for the Malaysian market. F&B produces dairy products and sells these

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<sup>32</sup> Although the terms “interest groups” and “stakeholders” bear some resemblances, it would seem more appropriate to view an interest group as a special stakeholder group that controls direct or indirectly, for the firm critical resources.

to Malaysian consumers. For the year 2011, its strategic goals were summarised as follows: “to make one billion [Malaysian ringgit in] sales and 150 million ringgit profit” (F&B8). FC has formulated steep growth goals and is expanding its services in order to be able to reach other markets. At the time of the study, FC sold its financial services to Malaysian Chinese and Indian consumers. Because these services are considered “*haram*”, or forbidden to Muslim consumers, it was necessary to extend its service package to include “*Takaful*<sup>33</sup>” services, which are deemed appropriate by Muslims. According to one of FC’s senior managers, its strategic direction focuses on three areas, which he explained as follows (see Extract 6-7):

**Extract 6-7 FC’s strategic objectives**

Multi distribution channel, customer centricity and the third one, is to give back to society. We said we wanted to be responsible citizens. We wanted to be sustainable long term [*sic*] in Malaysia in terms of the business, and one way to do that is to contribute back to the society where we operate the business. (FC3)

Indeed, FC firmly associates CSR goals and activities with its ambitions for growth. Community CSR is well aligned with its market ambitions. Activities such as the community partnership with the cleft lip association possess good communication value (see, for example, Extract 4-9, which details the substitution effects obtained from community investments). IC serves the Malaysian market by helping to develop energy and water infrastructure in collaboration with Malaysian GLCs. It also provides diagnostic and information services to private and public hospitals, and lighting services to stadiums and ports. With regards to the Malaysian market, it “is the wish to give the *subsidiary* [name of organisation is replaced] a human face, being a 150 billion dollar company” (IC1). The subsidiary is of such size that it often exceeds the GDP of the countries in which it operates, and uses CSR investments as a means to soften its image. Its CSR strategy is developed within two foundations; the actual activities respond to the local country requirements and are being implemented via employee volunteering programmes anchored in its sports club. In addition to the Malaysian market, the subsidiaries AC, LC and HC also service regional markets. AC has established its regional headquarters in Malaysia and sells feeding systems to poultry and pig farms in Asia. The MNC is market driven and is chiefly focused on increasing market share in various Asian countries. LC largely concentrates on B2B and provides Malaysian and global customers with inbound and outbound logistic services. LC’s strategic objectives are growth driven, aiming at growing revenues in general and in the large-parcel market segment specifically. Finally, HC, a hotel, caters to the needs of national and international consumers and businesses, and is centrally located in the city centre of Kuala Lumpur. Several subsidiaries consider CSR

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<sup>33</sup> Most insurance schemes are forbidden to Muslims because they involve an element of risk and gambling with the consequences unequally being spread between the insurance provider and the consumer. An insurance scheme based on *takaful* (the term is derived from the Arabic word “*kafala*”, which means taking care of one’s need). Different *takaful* models exist, which all share the concept of joint guarantees.

investments important to success in the Malaysian market, as they help to enhance the image of the subsidiary. See, for example, Extract 6-8:

**Extract 6-8 Associating CSR with markets**

Is there anything that can make the subsidiary [name of the foreign affiliate] in Malaysia more active in terms of corporate responsibility? I think we have done quite sufficient for our own people. But we should reach out more to the society. We need to put the subsidiary [name of the foreign affiliate] as a company that cares for society. I think people will appreciate that more. (LC4)

So when we do carry out CSR activities as the dairy development or what I call the one-off touch point community activities, it paints a positive picture of the company. It paints the company as a caring company, and not as a company who is just there to make money. Especially being a foreign MNC, the local consumer sentiment is that this big foreign giant is here to sap all of the profits out of Malaysia and send back home. (F&B1)

Based on the collective case study findings, it appears that market dependence influences CSR investments as a function of the markets served. In this text, market dependence refers to the extent to which the subsidiary depends on a particular market for its survival or success. As noted earlier, foreign entities have a disadvantage in comparison with local organisations because they are unfamiliar with the institutional context; they incur additional business costs associated with coordination, transportation, and travelling; and foreign firms are generally regarded as less legitimate (Zaheer, 1995). These limitations are foremost experienced by MNCs internationalising for market motives, requiring the subsidiary to overcome economic nationalism. For example, the Malaysian government went to great lengths to stimulate consumers to purchase Malaysian products, not so much for their superior quality, but because it would help develop the country (Mahpar, 2009). CSR investments demonstrate social commitment to the foreign market, and could help develop local external legitimacy (Yang & Rivers, 2009). Community-related investments, for example, make the subsidiary appear more local, or “Malaysian” as some respondents phrased it. They also put a human face on the organisation, and were even found to protect the subsidiary against attacks (see, for example, Extract 4-1). However, subsidiaries that are less dependent on the host country market consider community-related CSR to be less important than workplace-related activities. Therefore, based on the aforementioned observations, the following hypothesis is formulated:

H6.2 Market dependence influences the relationship between CSR investments and firm performance.

## **6.2 ORGANISING INTERNAL ALIGNMENT**

Table 6-3 summarises the outcomes of the second, third and fourth coding cycles on the internal factors influencing the CSR practices of subsidiaries. The coding schedule that provides evidence of the codes emanating from the data is included in appendix C4.



**Table 6-3 Internal factors influencing subsidiaries' CSR practices**

Codes emerging from the literature	Codes emerging from the data	Higher-order categories
<p><b>Internal alignment</b></p> <ul style="list-style-type: none"> <li>• Coordination</li> <li>• Centralisation</li> <li>• Autonomy</li> <li>• Formalisation</li> <li>• Specialisation</li> </ul>	<ul style="list-style-type: none"> <li>• Coordination/organisation</li> <li>• Integration of the CSR function</li> <li>• Decision-making authority</li> <li>• Written policies, third-party certified standards</li> <li>• Job scope</li> </ul>	<p><b>Autonomy</b></p>

Scholars investigating the roles of subsidiaries generally agree that MNCs pursue integration and responsiveness simultaneously (Paterson & Brock, 2002), by manipulating the structural dimensions of formalisation, autonomy and specialisation. The firm's position on CSR is formalised through codes of conduct, value statements, and policies (Bondy, 2008; Porter & Kramer, 2006), the appointment of an individual or committee responsible for organising CSR activities across domains and departments (Maon, Lindgreen, & Swaen, 2009) and the adoption of (international) certified standards (Russo & Tencati, 2009). Together these instruments help embed CSR in the organisation's structure and supply chain, while also communicating to external constituencies how the organisation has organised its accountability. Localising decision-making authority at the subsidiary level provides the foreign affiliate with autonomy to decide on strategic and operational decisions (O'Donnell, 2000) and respond to host countries' developments without requesting prior permission from the parent organisation. In other words, autonomy is the outcome of decentralising decision-making power to the subsidiary.

The research findings (see Table 6-4) indicate that subsidiaries primarily formalise CSR practices through the implementation of internal policies and the adoption of external standards. Some subsidiaries did appoint a CSR manager; however, a closer inspection showed that the role usually focuses on CSR community practices, while the integration of CSR practices across CSR domains is the responsibility of general management. At the level of the individual domains, responsibility for workplace-related CSR is generally assigned to HR. The functional arrangements for other CSR domains, however, are as varied as the number of case studies investigated. All in all, the level of specialisation of the CSR function appears to be relatively low. Decisions on the formalisation, specialisation and positioning of CSR depend on the amount of autonomy inferred to the subsidiary. An inbuilt tension exists, with subsidiaries seeking to grow more autonomous and MNCs pushing for more centralisation (Paterson & Brock, 2002).

**Table 6-4 CSR practices and organisational functions at the subsidiary level**

	AC	FC	F&B	HC	IC	LC	OGC
<b>Marketplace CSR</b>							
- Supply chain management	Managing director Sales	Subsidiary Sales academy	Regional office (no involvement subsidiary)	No specific practices	HQ	Operations	Production-sharing contract
<b>Workplace CSR</b>							
- Promote diversity	HR	All by HR	HR	All by HR	All by HR	All by HR	HR
- Occupational health and safety	Logistics HR		EHS/OSHAS 18001			HQ-driven standards: OSHAS 18001 SA 8000	EHS
- Work conditions	HR		HR				HR
- Employee development	Managing director		HR				HR
<b>Community CSR</b>							
- Partnerships	No specific practices	Corporate communications and branding	Corporate affairs HR	General manager HR	Sports club foundation	Headquarters No specific practices Headquarters	Corporate responsibility Corporate communications Corporate affairs
- Employee volunteering			Corporate affairs	HR			
- Corporate giving			Corporate affairs	HR			
<b>Environmental CSR</b>							
- Reducing resource usage	Office manager	Corporate communications and branding	Operations	Engineering Green Globe	No specific information available	Operations	No specific practices Corporate affairs/operations
- Reducing GHG	No specific practices		No specific practices Operations ISO 14001			Operations/HR	Operations
- Reducing waste	No specific practices					Operations	

In general, subsidiaries tend to have less autonomy when they are part of a large, geographically widely dispersed MNC; when the products are standardised; when business activities are largely integrated; when they are serving other markets beyond the host country; and when reporting is highly standardised (Garnier, 1982). Autonomy is typically reserved for areas where subsidiaries might have superior information, such as decisions on wages and host country marketing (Edwards, Adlina, & Moss, 2002; Young & Tavares, 2004).

The influence of formalisation and autonomy on firm performance is mixed. With regards to formalisation, Terlaak and King (2006) found that certified facilities grow faster after receiving their ISO 9001 certification. They also found that comprehensive, internationally recognized environmental management systems have a positive impact on firm performance (Darnall, Henriques, & Sadorsky, 2008). However, other research suggested that this effect is contingent upon firm size: larger organisations find their competitive position improved (Miles & Munilla, 2004), whereas small and medium enterprises that lack the resources to implement and support these type of systems experience a deterioration of their competitive position (Fassin, 2008; Perrini, 2006). Research on the influence of autonomy on firm performance is nearly absent, save for a few studies. Reimann (1975) found that increasing autonomy of decision makers on stakeholder-orientation matters has a positive impact on organisational and social performance (e.g. turnover and morale). Other researchers (Yan, Chong, & Mak, 2010) found that autonomy mediates the discretion–firm performance relationship. In the case of foreign affiliates, autonomy allows a timely response to host country developments and demands. In situations where the subsidiary is granted less autonomy and faces conflicting demands from key constituents in the home and the host country while needing to maintain legitimacy in both countries, it may experience institutional duality (Kostova & Roth, 2002). In this study, institutional duality was highest for F&B, LC, and OGC, whilst only F&B and LC reported fear of legitimacy being eroded because of its parent firm's CSR approach.

#### ■ The case of F&B

F&B competes in the local market with locally produced food and beverages. Its main CSR practices are geared toward the community. The subsidiary supports the local agricultural sector, actively volunteers in the community, and donates products when requested to CBOs, such as orphanages and homes for the disabled or the elderly. Combined, these activities support the perception that the subsidiary is firmly rooted in Malaysian society. Its employees are proud of the community activities the organisation deploys. The factory workers even formed a special taskforce that ventures into the community to help wherever it can. The parent organisation, however, in response to an accusation by an international activist organisation regarding the

sustainability of its supply chain, developed a CSR strategy with a strong focus on marketplace and environmental practices. CSR community practices were not mentioned at all, which led to the impression among Malaysian staff that headquarters considered community-related CSR irrelevant (see Extract 6-9):

**Extract 6-9 Misalignment with cultural host country institutions**

We tried to understand what HQ meant with sustainability. For example: “All your CSR should be sustainable.” While in Malaysia consumers do not appreciate this view. They look at sustainability as a selfish element in CSR. We need to allay that negativity by doing the touch point one-off activities like raising donations for communities, because these things really make the company caring. (F&B1)

He [the CEO] was talking about the carbon footprint and a bit of the green stuff, but he was not talking about communities. And you have to understand that for us in Asia, communities are a much bigger part. (F&B5)

In Europe, there is not much focus on society, and it is also not a corporate theme. Also, I am not sure whether it should be a corporate theme. (F&B9)

These accounts suggest that this new CSR strategy is aligned with neither Malaysia’s national development agenda nor its cultural institutions. In fact, it may restrain the subsidiary from attaining its strategic objective.

■ **The case of LC**

LC originates from Northern Europe and competes locally and globally. For its resources, the subsidiary depends on both HQ and Malaysia. It has fully aligned its CSR strategy with the parent company, which consists of five international standards and a partnership with an international NGO. The misalignment centres on the labour standard SA 8000 and on the firm’s community focus. The SA 8000 contains an article that limits overtime work to 48 hours per month, which is well within the Malaysian law that limits overtime to 104 hours per month. Malaysian staff members view working overtime as a means to earn additional income. The parent company, however, does not allow the subsidiary to increase either its wages or headcount. Consequently, the subsidiary is losing workers to competitors and finds it difficult to compete effectively in the domestic labour market. In other words, the subsidiary experiences high institutional duality due to different regulative institutions. One respondent had the following to share (see Extract 6-10):

**Extract 6-10 Conflicting regulative institutions**

[The auditors of SA 8000] strip you of your award because you don’t comply with the standards. So I go back to my management and tell them I need 40 more heads. Then they say, “Don’t be ridiculous!” But I can’t comply with the SA 8000 and retain that without the 40 extra heads to keep the amount of overtime down to acceptable levels. They give us this thing [standard] to follow, and this is the result. Are they not getting that in Europe? This is all very frustrating. (LCP)

Undeniably, these standards restrict the autonomy and freedom of workers located in sociocultural environments that are very different from the places where the ethical policies are

formulated (De Neve, 2012). Unless the standards improve the salary, workers may not always agree with the improvements suggested. As a result, the organisation following the path of international certification may appear less attractive than an organisation that offers flexible contracts and the promise of earning a substantially higher income. As a consequence, LC experiences an average staff turnover of 15% (LC2) and finds it difficult to fill these vacancies. Also, the international NGO partnership forged by the parent company fails to resonate with subsidiary staff. Although employees do value the cause of feeding the world, they wonder why the needs of Malaysians are not receiving equal attention. After all, Malaysia still has pockets of deep poverty, while social safety nets are non-existent. Because the parent organisation does not allocate resources for local, community-based initiatives, the subsidiary pursues funds in a different fashion (see Extract 6-11):

**Extract 6-11 The challenge of aligning with the emerging context**

I think that the impression we came up with in our vision statement is that we want to bring it closer to home [this refers to the host country]. And everybody felt very strongly about that, even though we felt quite proud of the work we've done before. I now find it increasingly harder [*sic*] to motivate people around that course. (LCP)

The point I am trying to make is that when it comes to alignment, we do this completely on our own. When I go to HQ and ask for RM 200,000 or RM 300,000 to give to charities, I get a big no. So what I try to do is build a bit of fat here and a bit of fat there so I can use something when people want something. (LC2)

In conclusion, the CSR strategy chosen by the parent organisation puts pressure on the ability of LC to gain and maintain local internal and external legitimacy.

■ **The case of OGC**

OGC has substantially higher GHG emissions than its parent company's other affiliates do. Moreover, OGC's parent company has established steep global objectives for the reduction of GHG emissions. In order to realise these objectives, the subsidiary must invest in technology that either largely reduces emissions or helps to store these gases underground (OGC2). As explained earlier, OGC's access to Malaysian oil and gas fields is organised through a production-sharing contract with a GLC, which allows for recuperation of GLC-approved costs only. Unfortunately, the GLC is unwilling to share in the costs of these environmental technologies, confronting OGC with the choice to either fund it on its own or accept the higher emissions. In the end, the subsidiary saw no other alternative than to accept the situation; nonetheless, it is searching for other means to reduce GHG emissions. As a result, OGC's environmental CSR is misaligned with the objectives set by the parent organisation, although it is well aligned with the emerging market context of Malaysia.

### ■ Consequences of misalignment

Respondents from F&B and LC observed that their parent firm's CSR strategy was misaligned from a cultural/cognitive perspective, and warned that eroding local legitimacy might have negative consequences. Implementation of this CSR strategy, therefore, would lead to the subsidiary being misaligned not only with the developing nature of the country and its informal institutions, but also with the strategic objectives formulated by the parent organisation. The respondents of OGC acknowledged the misalignment with the CSR strategy formulated by the parent organisation; however, they did not regard this as an issue for the Malaysian operations because Malaysians assign lower priority to environmental CSR. For this reason, the comparatively low environmental performance was not expected to lead to the loss of local internal and external legitimacy. Because the parent organisations of F&B and OGC seem reluctant to invest in infrastructure that would allow substantial reductions in resources, waste, and emissions, it is unlikely that this misalignment would result in a loss of parental legitimacy.

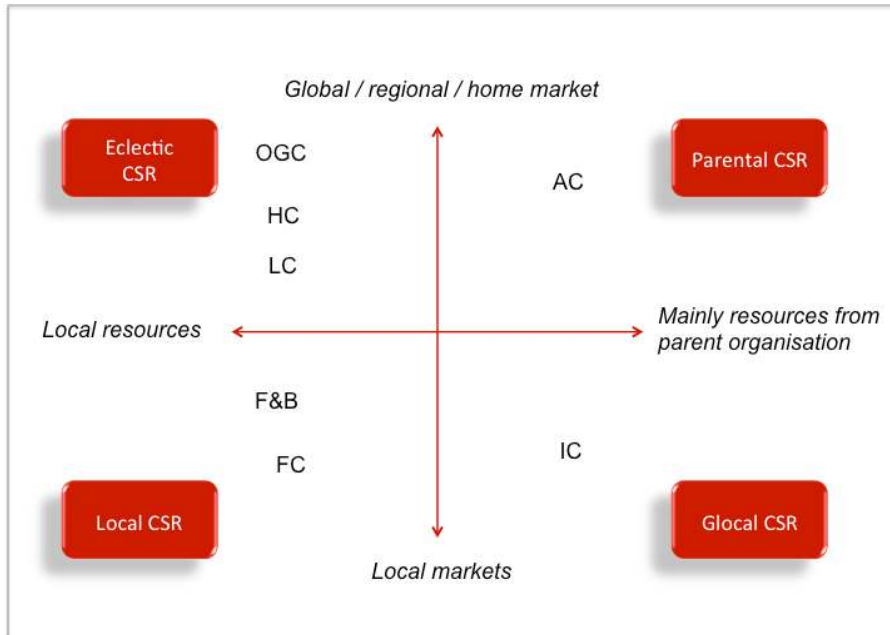
The role of internal alignment within the nexus of strategy, structure, and environment has been an important field of research for contingency theorists (Birkinshaw & Morrison, 1995). An MNC that formalises its CSR practices via codes of conduct and third-party-certified standards grants its subsidiary little autonomy. Given that CSR investments are expected to contribute toward legitimacy in the local market, subsidiaries need a certain degree of autonomy in order to overcome their liability of foreignness and attain internationalisation goals. Based on these observations, the following hypothesis is formulated:

H6.3 Autonomy influences the relationship between CSR investments and firm performance.

## 6.3 STRATEGIC ALIGNMENT MODEL

The present findings suggest that CSR–FP variations may be attributed to a misalignment of the subsidiary's CSR approach in light of the (internationalisation) goals of the MNC and the type(s) of legitimacy needed. This misalignment has negative effects on the subsidiary's access to critical resources and its success in the emerging market. Mapping the dimensions of resource and market dependence on a matrix contrives a framework of strategic CSR approaches at the subsidiary level that shows how subsidiaries can attune their CSR practices in support of their internationalisation strategy and in light of the type of legitimacy required, including the level of autonomy needed to respond and react to local interest groups. Based on these variables, the model distinguishes between parental, local, eclectic, and glocal CSR. Figure 6-1 depicts these four strategic approaches using the dimensions of market and resource dependence in order to position the seven subsidiaries examined.

**Figure 6-1 Strategic CSR approaches at the subsidiary level**



### 6.3.1 PARENTAL STRATEGIC CSR APPROACH

MNCs that internationalise with the goal of creating economies of scale (e.g. to exploit regional markets or to gain access to specific strategic assets) will most likely require the subsidiary to follow the CSR strategy explicitly formulated or implicitly understood by the parent organisation. Subsidiaries assigned to this role are primarily dependent on the parent organisation for access to vital resources such as management systems, product parts and knowledge. With respect to CSR, the subsidiary mainly requires decision-making authority with regards to the domain of the workplace.

A case in point is AC, which is headquartered in Northern Europe and seeks to develop and exploit markets in the Asian region. AC considers skilled human resources, product parts, and knowledge as critical for its operations. For its product parts and knowhow, AC primarily depends on its parent organisation, even though it is increasingly sourcing product parts in the region. The majority of its (predominantly Chinese) staff values workplace practices such as a healthy and safe work environment and a competitive compensation and benefits package. The subsidiary is authorised to make decisions with regard to all workplace practices. Even though the institutional profiles of the host and the home country are very different, demands from key constituencies are not in conflict. In alignment with the parent organisation, AC's CSR approach focuses on the workplace and the marketplace, while also investing in integrated environmental–marketplace practices such as the eco-innovation involving the chicken coops (see chapter five).

Based on this case, it seems that subsidiaries that primarily depend on parental resources while operating in markets outside the host country mainly require parental legitimacy to survive. For this reason, the CSR approach is best aligned with the CSR strategy explicitly formulated or implicitly communicated by the parent organisation. According to the literature, Northern European and Canadian institutions tend to emphasise marketplace and environmental practices, including occupational health and safety, whereas US institutions value community practices. As presented in chapter four, subsidiary-level marketplace practices concentrate on managing the supply chain with regard to quality, cost and the suppliers' social and environmental performance. Because quality and cost are directly linked with products and services, these types of initiatives may help save costs and allow the subsidiary to differentiate from the competition on these aspects. None of the subsidiaries was able to gauge the impact of responsible supplier management on firm performance, and thus the research did not produce conclusive results. For this reason, it is assumed that the effect of this practice is neutral. Furthermore, environmental practices at the subsidiary level are found to be limited to reduction of GHG emissions, resources and waste. These investments produce greater returns for high-polluting firms and for firms whose related expenditures represent a significant percentage of overall cost. In other instances, the effect of environmental CSR on firm performance is assumed to be neutral or slightly positive at best. Finally, investments in workplace practices at the subsidiary level concern occupational health and safety, employee development and diversity. As explained in §4.3.2.4, workplace CSR has positive effects on firm performance. Based on the aforementioned observations, the following hypotheses are formulated:

- H6.4a Subsidiaries that primarily depend on parental resources and the global or regional market will experience neutral to positive firm performance effects when investing in marketplace practices.
- H6.4b Subsidiaries that primarily depend on parental resources and the global or regional market will experience neutral to positive firm performance effects when investing in workplace practices.
- H6.4c Subsidiaries that primarily depend on parental resources and the global or regional market will experience neutral to positive firm performance effects when investing in environmental practices.

### **6.3.2 LOCAL STRATEGIC CSR APPROACH**

MNCs wishing to expand markets internationally entrust the subsidiary with the exploitation and development of new markets. When the subsidiary is mainly dependent on constituencies in the host country for its resources while also competing in the local market, it needs to align its CSR approach with the institutions or the development needs of the emerging market context. For Malaysia, this entails emphasising CSR practices that develop employees, contribute toward the



local community, preferably in combination with employee volunteering initiatives. Such alignment with the Malaysian institutions will help the subsidiary to be perceived as a “good and caring” organisation that contributes to the community. Such an approach would help to legitimise the subsidiary with local internal and external constituencies. The subsidiaries FC and F&B both are dependent on the host country of Malaysia for their markets and key resources.

The parent organisation of FC established the subsidiary in 1975 with the purpose of developing and exploiting Malaysia’s market potential. Since its arrival, the subsidiary has grown to comprise approximately 1,000 staff members. It sells financial services directly as well as via its extensive network of external financial agents. The parent organisation is listed on the DJSI, and its CSR practices focus on marketplace practices such as corporate governance, supply chain management and responsible marketing. It aspires to become the employer of choice in the markets in which it operates. The comparison of parent and subsidiary practices shows that the subsidiary has fully aligned its CSR approach with that of the parent organisation. The CSR framework developed by the parent organisation supports the subsidiary in its alignment with Malaysia’s informal institutions, fuelling an array of community initiatives (e.g. cleft lip programme, breast cancer awareness programme, scholarship, corporate donations and employee volunteering). FC has the autonomy to decide on the types of CSR initiatives to implement, including the required resources, with the parent organisation supporting the subsidiary wherever possible. Because the financial industry is not associated with pollution, there is not much emphasis on environmental management other than raising environmental awareness among staff. Its community practices have generated substantial cost savings on its communication and marketing budget. Furthermore, these practices have helped the subsidiary to raise awareness with the larger public and possibly with prospective high-potential jobseekers. In combination with its talent management programme, its CSR activities may help position the organisation favourably in the labour market. All in all, FC’s CSR approach is fully aligned with the MNC’s internationalisation goals, and enables the subsidiary to gain and maintain local internal and external legitimacy. It is expected that the CSR approach has a positive effect on the subsidiary’s firm performance.

The parent organisation of F&B originates from Northern Europe and arrived in Malaysia in 1963 with the goal of bringing Malaysia the nutritious benefits of dairy products. Over the year, the subsidiary has grown into a well-known brand and is even listed on the local stock exchange. Until recently, the parent organisation did not consider CSR to be an essential part of its business strategy. That changed when an international activist organisation accused the MNC of unsustainable supply chain practices resulting in negative externalities. In response, the parent organisation addressed the issues and made sustainable supply chain management a focal point of

its CSR approach. To that effect, the MNC's CSR approach is well aligned with Northern European institutions. The subsidiary depends on the Malaysian market, where it also competes for what it considers its most critical resource: people. Its raw inputs are imported from New Zealand and Australia, as the dairy development programme only supplies 3% of the raw milk sold by the subsidiary. For technological support, the subsidiary depends on the parent organisation. Its present CSR approach is well aligned with Malaysia's formal and informal institutions. The subsidiary hosts a variety of community initiatives, including its relatively small employee volunteering initiatives and donations of products to deserving CBOs as well as its more large-scale integrated marketplace–community practice of the dairy development programme. In addition, its workplace practices offer abundant development opportunities for staff members, enhancing the subsidiary's attractiveness as a prospective employer. This focus of the CSR approach allows the subsidiary to compete for critical human resources, is well appreciated by relevant government departments, and protects the subsidiary against character threats. In contrast, the majority of its marketplace and environmental CSR activities are organised at the regional level or by the parent organisation.

The strategic redirection of the MNC's CSR approach, however, emphasised the institutional differences between both countries. Thus, the CSR approach of the subsidiary is not aligned with that of the parent organisation. Attempts to increase alignment have been met with resistance and suspicion from host country interest groups because the new approach ignores the community element while emphasising sustainability (i.e. environmental element). Because the subsidiary's strategic success is primarily influenced by the extent to which the organisation is accepted by local internal and external constituencies, firm performance would benefit from allowing the subsidiary the autonomy to maintain its present CSR approach. Moreover, to maintain parental and third-party legitimacy, it is recommended that the subsidiary advance the parent firm's environmental agenda without placing too great an emphasis on it. In conclusion, a subsidiary that competes in the local market for sales and resources needs to align its CSR approach with the emerging context of the host country. In emerging markets, this requires the subsidiary to invest in community- and workplace-related activities that meet host country expectations, which therefore, may positively affect firm performance. In other words:

H6.5a A subsidiary that depends on host country resources and competes in the host market will experience positive firm performance effects from investments in community practices.

H6.5b A subsidiary that depends on host country resources and competes in the host market will experience positive firm performance effects from investments in workplace practices.

H6.5c The development and implementation of these practices requires the subsidiary to have high autonomy in order to benefit from these investments.

### **6.3.3 ECLECTIC STRATEGIC CSR APPROACH**

This strategy is suitable for subsidiaries that are established to produce at lower costs while serving markets outside the host country, to gain access to natural resources present in the host country, or to fulfil the role of a regional hub. The eclectic CSR strategy requires the subsidiary to align its CSR strategy according to its greatest dependency: resources or markets. When the subsidiary predominantly depends on the host country for its critical resources, it needs to seek legitimacy with key constituencies in the host country and align its CSR practices accordingly. Conversely, when the subsidiary primarily relies on markets outside the host country market, it should elect CSR practices in alignment with interests of legitimising constituencies associated with markets outside the host country. International customers might emphasise marketplace CSR involving the supply chain, while international standards may help lower information asymmetries and help establish trust. Investments in social and environmental supply chain issues neutralise threats and will, therefore, not directly influence firm performance. For customers outside the host country, community-related activities are expected to be less relevant. Implementation of an eclectic strategy dominated by resource dependence requires a high level of autonomy at the subsidiary level; this is less of a requirement for subsidiaries dependent on markets outside the host country. In this study, the subsidiaries OGC, HC, and LC share characteristics associated with an eclectic strategy.

For OGC, the presence of oil in Malaysia was the main reason for entering the Malaysian market. It requires local external legitimacy in the form of a GLC to access Malaysia's oil fields and, therefore, accepts that its CO<sub>2</sub> emissions exceed the limits set by the parent company. Although the subsidiary continues to lobby for cooperation on this issue, it will not do anything that endangers its preferred supplier status. The parent organisation appears to support such an approach and allows the subsidiary to deviate from the GHG emissions target. Thus, the subsidiary is aligned with the strategic objective of the parent organisation, despite being partially misaligned with home country institutions. With its variety of community and workplace CSR initiatives, the subsidiary is well aligned with host country institutions, although their effect on firm performance is expected to be neutral because they are not expected to lead to cost savings or help differentiate the subsidiary in the market. However, they do contribute towards the organisation's "licence to operate" (OGC1). A decision to reduce GHG emissions would align the subsidiary with home country institutions; however, the absorption of associated costs would have negative effects on the financial performance of the subsidiary.

International hotels can only enter the Malaysian market through a partnership with a Malaysian entity. HC has followed suit and established a joint venture with a local partner. Equivalent to other international hotels in Malaysia, HC competes to host local and international tourists and business guests and to organise business functions. In other words, it is only partially dependent on the Malaysian market. In contrast with competing hotels, HC has chosen to employ mainly Malaysian staff, which it also considers to be its most critical resource. Thus, HC competes in the regional and global market, and is dependent on the host country for its critical resources. Presently, its CSR strategy focuses on workplace, community and environmental practices, and is well aligned with home (Spain) and host country institutions. This approach helps to gain and maintain legitimacy with local internal and external constituencies as well as with the parent organisation. The necessary budget to finance its community practices is obtained through fundraising, and the investments in the environment are funded by the savings it generates from resource-reduction practices. Its community activities are not actively published in the media, though guests are informed about its CSR endeavours. Its integrated workplace–community practice, which enables interested youngsters to be supported through school and work at the hotel, provides some convergence value. For these reasons, HC’s CSR initiatives are expected to have a neutral to slightly positive effect on firm performance.

Finally, LC established a subsidiary in Malaysia as part of its logistic chain in Asia. The MNC is headquartered in one of the countries in Northern Europe, and its regional HQ resides in Singapore. LC’s main dependence is on Malaysian human resources for on-ground logistics, and it competes in the local and regional markets. Its present CSR strategy is fully aligned with Northern European home country institutions, and is organised around the five international standards determined by the parent organisation in combination with an international community programme. The environmental CSR initiatives are impeded by infrastructural constraints, leaving conservative driving practices and the environmental awareness of staff as the main pillars of the MNC’s environmental ambitions. These activities allow the subsidiary to save costs. The workplace standard SA 8000 and the international focus of its community initiatives seem misaligned with the host-country interests of key constituencies, jeopardising continuous support of human resources. The misalignment of the CSR community practices with the Malaysian context could be resolved if the subsidiary focuses equally on community activities in order to garner local internal legitimacy. The workplace misalignment concerns the overtime work standard, which is more stringent than Malaysia’s labour laws. Complying with the standard increases staff turnover, which lowers social returns due to reduced employee morale and lowers financial returns because of the costs associated with recruiting and training of new staff. Hiring an additional 40 workers to

compensate for the time lost would leave social returns intact; however, it would increase personnel costs (the parent organisation rejected this alternative). Ceremonially implementing the standard while allowing staff to work overtime in accordance with local institutions jeopardises the SA 8000 certificate and, thus, affects reputational returns negatively. Lastly, LC could request that its parent company make an exception and allow the subsidiary to implement a different standard. This is the only solution that would resolve the institutional duality experienced by the subsidiary, help build local legitimacy and positively affect firm performance. The other options pose serious strains on the relationship with the parent company and lower parental legitimacy. When the subsidiary's main dependence is on resources, this CSR strategy is expected to have negative effects on the subsidiary's internationalisation goals and, accordingly, also on firm performance. When the subsidiary's main dependence is on the regional and global market, then the effect on firm performance will be neutral to positive, depending on the extent to which the subsidiary's marketplace practices allow it to control costs, differentiate itself from the competition and neutralise reputational threats. The eclectic approach proposes that the subsidiary align its CSR strategy according to its greatest dependency: resources or markets. Therefore, the following hypotheses are formulated:

- H6.6a Subsidiaries that predominantly depend on local resources will benefit from CSR investments in the workplace, when the subsidiary is authorised to align these with prevailing host country institutions.
- H6.6b Subsidiaries that predominantly depend on local resources will benefit from CSR investments in the community, when the subsidiary is authorised to align these with prevailing host country institutions.
- H6.6c Subsidiaries that predominantly depend on regional or global markets will maintain firm performance from investments related to the supply chain.
- H6.6d Subsidiaries that predominantly depend on regional or global markets will experience positive firm performance effects from investments in environmental practices.
- H6.6e Subsidiaries that predominantly depend on regional or global markets will not benefit from investments in the community.

### **6.3.4 'GLOCAL' STRATEGIC CSR APPROACH**

The glocal CSR strategy is suitable for organisations that depend on the host country market while depending on the parent organisation for their critical resources. The manifestation of this strategy depends on the extent to which the subsidiary's products and services contribute toward the national development agenda of the host country. Subsidiaries that contribute towards host country development may further the parent's CSR strategy, even when misaligned with host country institutions. The 'glocal' CSR approach mostly likely includes environmental, marketplace, and workplace practices, and is supported by international standards. This CSR strategy will positively affect firm performance when the content of the CSR practices is poised toward

producing financial, social, and reputational returns.

The second variant applies to subsidiaries whose products and services do not contribute toward the development of the host country. Similar to the eclectic strategy, the subsidiary may experience institutional duality when demands from key constituencies in the home and host countries are in conflict. In this situation, the proper alignment configuration requires the subsidiary to be authorised to align its CSR practices with host country institutions and, thus, focus on developing people and communities. These investments are expected to have positive contributions on firm performance.

A case in point is IC, which builds roads, power plants, and bridges and, therefore, clearly contributes toward Malaysia's national agenda. Its extensive responsible supplier-management system is accepted, even though this aspect of the CSR strategy is not aligned with Malaysia's institutional context. Its global CSR strategy is supported by international standards such as OSHAS 18001 and ISO 14000, and a foundation was established to channel its charitable practices. Based on the observations, it is expected that:

H6.7a For subsidiaries whose primary activities do not contribute toward the national development of the host country, investments in workplace-related CSR activities will positively affect firm performance.

H6.7b For subsidiaries whose primary activities do not contribute toward the national development of the host country, investments in community-related CSR activities will positively affect firm performance.

H6.7c Subsidiaries whose products and services do contribute toward the national development of the host country may forward their corporate CSR agenda without risking loss of local external legitimacy. The effect on firm performance depends then on the value-enhancing qualities of the CSR activities in the four domains.

## **SUMMARY AND CONCLUSIONS**

This chapter investigated the institutional and strategic dimensions informing CSR. The analysis of the data identified resource and market dependence as important variables that moderate the CSR–FP relationship. A grid mapping these two dimensions helped to configure four strategic approaches at subsidiary-level CSR that consider the subsidiaries' internationalisation strategy and the type of legitimacy required. Subsidiary autonomy permits the subsidiary to align its CSR approach with host country institutions.

The *parental strategic CSR approach* fits a subsidiary that competes globally and is primarily dependent on resources located outside the host country. With this approach, the subsidiary aligns its CSR practices with the institutional forces affecting the parent organisation. Doing so will help to maintain parental and third-party legitimacy, and in return allow the subsidiary to compete

effectively for parental resources. The effect on firm performance is expected to be neutral to positive, depending on the extent to which marketplace and environmental practices contribute toward a competitive advantage. The *local strategic CSR approach* is most appropriate for market-seeking subsidiaries that are dependent on host country resources and acceptance of the subsidiary by host-country customers. This internationalisation strategy requires that the subsidiary invest in community and workplace practices, as these mitigate the liability of foreignness, and that it competes locally for critical resources. This strategy will positively affect firm performance. The *eclectic strategic CSR approach* requires the subsidiary to determine its greatest dependence: international markets or host country-bound resources. When access to or the availability of critical resources is more prominent, then the subsidiary should align its CSR strategy with the prevailing informal institutions of the host country. When the outcome points to international markets, then a CSR strategy built on international standards may be most helpful in reducing information asymmetries and developing trust with international customers. Finally, the content of a *glocal strategic CSR approach* is dependent on the value of the products and services the foreign organisation offers to the host country. When these help develop the country, the subsidiary can follow the CSR strategy set by the parent organisation. When the subsidiary offers products or services with which it competes locally, investing in CSR practices that are locally endorsed will help build local external legitimacy and reduce the subsidiary's liability of foreignness.

Based on the research findings, it would appear that internationalisation strategy is indeed an overlooked factor influencing the CSR–FP relationship. Variables such as resource dependence and market dependence explain what types of CSR investments would address legitimacy challenges that are associated with foreignness. The alignment model predicts the circumstances under which firms should concentrate primarily on universal issues and follow the CSR strategy pursued by the parent organisation, and those under which the firm would benefit more from mimicking local CSR approaches.

This study makes one empirical and three theoretical contributions. First, the findings help explain why similar CSR practices undertaken by MNCs produce different outcomes. MNCs have established foreign operations for various reasons, including resources and markets. MNC subsidiaries that are seeking to develop the host country market or that are dependent on host country resources require acceptance from key constituents in the host country, which could be accomplished by aligning CSR practices with host country institutions and the national development agenda. Local internal legitimacy serves as the mechanism that links CSR with employee commitment. Therefore, local internal legitimacy improves firm performance by

contributing toward social and financial returns, whereas local external legitimacy enables the subsidiary to overcome the liability of foreignness and compete effectively for host country resources. Subsidiaries who are dependent on parental resources and who compete globally will need to align their CSR approach with the parent organisation when competing with other affiliates for parental resources.

Second, the findings contribute toward the CSR–FP literature. In particular, the conceptualisation of the strategic CSR approaches derived from the case study findings advance an alternative explanation of the institutional versus strategic logic debate discussed in chapter two. In contrast to the suggestion that institutional logic supplants strategic logic, the findings of this study suggest that institutional logic appears to prevail when it makes strategic sense for subsidiaries to follow home country CSR practices. Such a situation might occur when the subsidiary predominantly depends on resources provided by the home country, or when the subsidiary is located in the emerging market for reasons of scales of economy while serving the international market. Subsidiaries that are part of a global firm require integration through standardisation of CSR practices. Under these circumstances, implementing the CSR framework of the parent organisation presents a situation in which strategic and institutional logic coincide. The MNC might resort to such an approach as a means to manage key constituents with direct links to the parent organisation. Institutional logic would dominate for the wrong reasons only if institutional duality paired with a lack of subsidiary autonomy forces the subsidiary to give in to the wrong key interest group, which would impede the attainment of its internationalisation objective.

The study also contributes to the literature on legitimacy in the international business context. As early as 1975, Sethi suggested that legitimacy is critical to the conceptualisation of CSR. However, only recently have scholars begun to examine the relevance of legitimacy for the countries of operation (Gifford & Kestler, 2008; Reimann et al., 2012; Yang & Rivers, 2009). The paucity of research at the junction of international business and legitimacy (Turcan, Marinova, & Rana, 2012) restricted the investigation of legitimacy to key constituents residing in or outside the organisation. The findings in this study advance a more differentiated perspective on legitimacy by identifying local internal, local external, parental and third-party legitimacy as important mechanisms in accounting for firm performance variations related to CSR investments. As proposed by Barkemeyer (2007), companies may indeed benefit from a more differentiated view of legitimacies in the home and host countries they operate in.

Finally, this study contributes to the literature on RDT by engaging with the theory on an empirical level and bringing RDT into the foreground (Wry et al., 2013). Instead of focusing on characteristics of the subsidiaries' environment, the strategic alignment framework focuses on the dependence



itself, regardless of complexity, abundance of resources and dynamism. By doing so, key concepts of institutional theory and RDT naturally merge and help explain how alignment with legitimacy contributes to the success of the foreign subsidiary.

To conclude, firm performance as a result of CSR investments is found to be contingent on resource dependence, market dependence and autonomy. In order to access critical resources and compete successfully in the host country market, the firm must be accepted by its key constituents. The location of resources (in the host or the home country) and the markets served (local or regional/global) determine the type of legitimacy that is required and, thus, the types of CSR practices that are most likely to produce the intended results. In the next chapter, these findings are put to the test using quantitative methods.

## 7 A QUANTITATIVE EXPLORATION OF THE ALIGNMENT FRAMEWORK

Chapters four, five and six produced three outcomes, which provide the basis for this chapter. First, fundamental differences in the CSR practices communicated by the parent organisation and those implemented by subsidiaries have been brought to light. This chapter operationalises the definitions of CSR practices and firm performance at the subsidiary level into measures that facilitate the investigation of subsidiary-level CSR. Second, the study uncovered the existence of CSR initiatives that combine practices belonging to different CSR domains. The cross-functional nature of these types of integrated practices helps to anchor knowledge and capabilities in the organisation, yielding a positive impact on firms' competitive position. This chapter examines the relevance of integrated practices for firm performance. Third, this research conceptualised a strategic alignment model wherein the CSR–FP relationship is contingent on resource dependence, market dependence and autonomy. These variables were used to develop subsidiary-level strategic CSR approaches and hypotheses. The main aims of this chapter are to establish the measures associated with the CSR–FP relationship, to explore the relations stated in the hypotheses, and to assess the extent to which the findings can be generalised to a larger group of foreign subsidiaries operating in the emerging market of Malaysia.

The next section briefly discusses the philosophical underpinnings of quantitative research within the context of the mixed methods research design. This is followed with a detailed description of the techniques and instruments used to collect and analyse data from the population of interest. The findings are presented in §7.5, and these are followed by conclusions and a discussion of the findings.

### 7.1 MIXED METHODS: QUANTITATIVE PHASE

As described in §3.1, this research is informed by a pragmatist paradigm and employed a mixed methods approach in a sequential order. Qualitative methods were used to identify which variables are most critical in the formulation of a CSR strategy and how these variables should be aligned in order to contribute toward firm performance. Following a pragmatist paradigm, the next logical step requires that the corollary propositions contained in the conceptual model be put to the test.

When aligned with a positivist paradigm, it is expected that the researcher “is not personally involved in the phenomena being examined and will strive to be as objective and independent as possible” (Jonker & Pennink, 2010, p. 70). The first part of this presumption is challenging to live up to, as the PhD journey is long and it helps when the researcher is intrinsically interested in the topic. However, the techniques germane to quantitative research should proceed as objectively as

possible. What follows is a detailed description of the research activities undertaken at this stage, so that others can evaluate the extent to which valid inferences may be drawn from the findings.

## **7.2 DATA COLLECTION STRATEGY**

### **7.2.1 RESEARCH SAMPLE**

Data were gathered from subsidiaries of foreign MNCs that operate in the emerging market of Malaysia, with headquarters in one of the European countries (including Switzerland), the United States, Canada, Australia or New Zealand, and use English as their main language in the foreign affiliate. The results of the first phase identified general management and senior managers responsible for the CSR practices of the subsidiary to be appropriate key informants to collect data from. The membership directories of “Western” Chambers of Commerce (see Appendix E) were used to compose an initial sampling frame consisting of 2107 members<sup>34</sup> that were registered with one of these chambers in 2013. The Chambers of Commerce from the United Kingdom, Austria and New Zealand declined participation because of privacy reasons and because they feared abuse of the membership directory for commercial purposes. Because it is common practice for firms to subscribe to several Chambers of Commerce simultaneously, some of the firms originating from these countries are included in the final sample after all due to their membership with one of the other Chambers.

To purify the sampling frame, unaffiliated members, non-profit organisations, Malaysian companies, foreign companies from other countries, and all members without a business address in Malaysia were removed. After this step, the sampling frame consisted only of companies meeting the country of origin criterion. Next, the sampling frame was checked for double registrations. If a member subscribed to various Chambers, all were removed save for that aligned with the country of origin. These steps resulted in a working sample consisting of 759 companies. From this sample, 98 responses were obtained, yielding a response rate of 12.9%. Of these, 11 questionnaires were removed because the data remained incomplete after follow-up requests. With these discarded, 87 usable responses remained, reflecting a response rate of 11.5%. The fact that respondents were asked to disclose the name of the subsidiary and the name of the respondent may have lowered the response rate. Disclosure was included as a design feature in order to facilitate follow-up on missing items and, thus, increase the number of usable responses.

The response rate is commensurate with other CSR research involving perceptual measures and targeting senior management. To illustrate, Edwards et al. (2002) surveyed chief executive officers

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<sup>34</sup> Membership to these Chambers of Commerce is open to individuals, NGOs and firms, and it is not necessary to be affiliated with a particular country of origin.

of foreign MNCs operating in Malaysia to investigate the relationship between the level of autonomy and the impact of FDI on economic development. They obtained a response rate of 13%. The authors omitted information regarding the sampling frame and the data collection process. More recently, Yeh et al. (2014) investigated the factors obstructing CSR implementation of companies listed in Japan, and obtained a response rate of 11%. Finally, a study investigating the impact of the perceptions of managers on the CSR–FP relationship in Dubai produced a response rate of 13% (Rettab et al., 2009). In conclusion, even though the sampling size is rather modest, it is in line with other research querying senior management in emerging markets. The sample characteristics are presented in Table 7-1.

Firms are clustered into five groups based on country of origin. Firms originating from the countries Norway, Sweden, Denmark, the United Kingdom, Germany, the Netherlands, Belgium, Austria and Switzerland are subsumed under Northern Europe; firms originating from France, Italy, Spain and Portugal are categorized under the Southern Europe group; firms from Australia and New Zealand are collected into the Pacific group; and subsidiaries from the United States and Canada are included in their respective categories.

Because the Chambers of Commerce use different methods to register the firm characteristics of their members, it is only possible to determine representativeness of the sample based on type of industry and country of origin. To lower the probability of making a type II error,  $\alpha$  is increased to the value of .10. The results indicate that the sample is representative with respect to industry sector,  $\chi^2(2, N = 87) = .174, p > .10$ . However, significant differences exist between the sample and the sampling frame regarding the country of origin,  $\chi^2(4, N = 87) = 13.41, p < .10$ . Firms originating from Northern Europe or the United States are overrepresented, whereas firms headquartered in Southern Europe, Canada or the Pacific are underrepresented. This difference may be credited to the support provided by the Dutch and the American Chambers of Commerce, which due to member activities may have been more successful in convincing senior management members to participate.

**Table 7-1 Sample characteristics**

Variables		Frequency	Percentage
<b>Geographic origin</b>	Northern Europe	50	57.5
	Southern Europe	7	8.0
	United States	18	20.7
	Canada	3	3.4
	Pacific	9	10.4
	Total	87	100.0
<b>Industry sector</b>	Primary sector	4	4.6
	Secondary sector	47	54.0
	Tertiary sector	36	41.4
	Total	87	100.0
<b>Ownership</b>	Wholly owned	65	74.7
	Majority joint venture	12	13.8
	Minority joint venture	10	11.5
	Total	87	100.0
<b>Year of operation</b>	Before 1975	19	21.8
	1975 < 1995	25	28.7
	1995 < 2005	25	28.7
	2005–present	18	20.8
	Total	87	100.0
<b>Firm size</b>	Up to 10 employees	8	9.2
	11–50 employees	28	32.2
	51–250 employees	15	17.2
	> 250 employees	36	41.4
	Total	87	100.0
<b>Listing</b>	Listed on Malaysian Stock Exchange	5	5.8
	Listed elsewhere	29	33.3
	Private company	53	60.9
	Total	87	100.0
<b>Business orientation</b>	B2B	57	65.5
	B2C	21	24.1
	Mixed	8	9.3
	Other business unit	1	1.1
	Total	87	100.0
<b>Function respondent</b>	General management	49	56.3
	Sales and marketing	13	14.9
	Corporate responsibility	7	8.0
	Corporate affairs	2	2.3
	Corporate communications	3	3.5
	Operations	5	5.7
	HRM	3	3.5
	Other	5	5.8
	Total	87	100.0

### 7.2.2 DATA COLLECTION PROCESS

According to the literature, senior management is a notoriously difficult group to reach and to persuade to complete a survey. Recent findings indicated that this target group is increasingly saturated due to the growing number of invitations to participate in research from students, academic scholars, vendors and market researchers (Baruch & Holtom, 2008). Indeed, when meta-analysing the response rates obtained from 231 studies surveying executives in the period 1992–2003, Cycyota and Harrison (2006) found a significant downward trend for mail surveys. With the rise of the Internet, it is likely that the effect of target saturation will have grown stronger, leading to a further decline in response rates.

In an effort to mitigate these developments and lower bias resulting from non-response, I implemented seven interventions identified in the literature as being effective. Dillman (2011), for instance, recommended sending invitations to the personal email addresses of senior management. Accordingly, all companies listed in the sampling frame were contacted to determine suitability, and to verify company details, names of senior management, and email addresses. This is particularly relevant when surveying general management of foreign affiliates, which often employ expatriates to run the organisation who, on average, change their post every three years (Bosson, 2009). Second, the invitation was followed up with a call to the target population (Halbesleben & Whitman, 2013). Third, topic salience promotes response rates (Baruch, 1999), with current, relevant business topics yielding higher responses (Cycyota & Harrison, 2006). The follow up with the target group brought to light that the topic of CSR evoked different types of responses. Some respondents declined participation because they associated CSR with philanthropic activities, which they gathered their organisation did not engage in. This is not unique to Malaysia, as scholars investigating CSR in other developing countries came across similar interpretations (Frynas, 2005; Jamali et al., 2009; Visser, 2008). Some respondents cited privacy as a major issue. More specific questions pertaining to the actual CSR practices undertaken and firm performance were deemed sensitive and private. On a few occasions, additional explanation and reassurance in the form of a letter stating the ethical guidelines of the university helped to convince the respondent to participate after all. Fourth, in line with a major survey trend of the 21st century (Dillman et al., 2009), surveys were administered using different modes in an effort to increase the response rate (De Leeuw, 2005). The questionnaire was administered online using Qualtrics software and distributed on gatherings, which are regularly organised by the business councils. The telephone mode was used to remind prospect participants of the survey, and to follow up on missing items in submitted questionnaires. Fifth, to entice management, an incentive was offered (Cycyota & Harrison, 2006), consisting of a report describing the strategic

alignment model, a copy of the results of this research and, if desired, a digital copy of the dissertation once successfully defended. Sixth, sponsorship of social networks with whom the target group is affiliated is found to promote the response rate (Cycyota & Harrison, 2006). Accordingly, various Chambers were approached with the request to support the research. Both the American Chamber of Commerce (AMCHAM) and the Malaysian Dutch Business Council (MDBC) lent their support and announced the research in their member communications. Finally, two Malaysians who reside in Malaysia and who are familiar with the target group assisted with all quantitative data collection steps. Having them present during gatherings that were frequented by the target group, to distribute questionnaires, to respond to questions directly, and to follow up with calls helped to overcome some of the practical disadvantages of collecting data in a distant location.

In order to ensure workable follow-up numbers, the online survey invitations were sent out in groups based on Chamber membership. A drawback of this approach is that it is not possible to conduct a wave analysis (Halbesleben & Whitman, 2013) and compare early responders with late responders. However, as some scholars have argued, both groups are quite similar in response patterns (Armstrong & Overton, 1977); therefore, the disadvantage does not appear to be a problem.

### **7.3 QUESTIONNAIRE DESIGN**

Following Churchill (1979), the questionnaire was developed in four consecutive steps. In the first step, the construct domains of the conceptual framework were specified. Existing literature was consulted for domain definitions and measures that could be used to operationalise the variables. These were compared with the findings of the collective case study in phase one, and modified or redeveloped when necessary.

In the second step, a draft questionnaire was developed consisting of a sample of items that tapped into the main constructs. In order to address response bias originating from cross-cultural effects associated with scale anchors (Baumgartner & Steenkamp, 2001), the questionnaire employed 7-point scales instead of the more commonly used 5-point scales for the constructs measuring CSR, integrated practices, firm performance, CSR maturity, resource dependence and market dependence. Harzing (2006) found cross-cultural differences in response styles, even when comparing Malaysian Malay respondents with Malaysian Chinese respondents. According to Harzing, response style differences arise from different interpretations of scale anchors and she recommended allaying these effects by lengthening the scale. The draft questionnaire resulting from this step was subsequently sent to five experts in the fields of CSR and corporate strategy.

Their feedback was used to assess the relevance of the items for the emerging market context, and to improve consistency in phrasing (see Appendix F for the feedback).

In the third step, the questionnaire was piloted with five executives from different cultural backgrounds to assess the overall clarity of the questions as well as the comprehensiveness and other administrative aspects of the questionnaire. The version stemming from this step was used to explore the relationships specified in the conceptual framework and is included in Appendix G. These three steps combined serve to validate the content of the questionnaire (Neuman, 1994), and ensure that the full conceptual definition is covered in the measures used (Punch, 2005).

In the fourth step, the internal consistency of the scales was established. Ideally, a good measure is one dimensional, with all scale items reflecting a single underlying dimension (Hattie, 1985). Unidimensionality for the scales measuring CSR, integrated practices, CSR maturity and firm performance proceeded in an iterative process. Factor analysis was conducted to establish the best solution in terms of unique factor loadings and internal consistency. Internally consistent scales exhibit highly correlated variables and feature a Cronbach Alpha value that ideally exceeds .80 (Carmines & Zeller, 1994). Multiple criteria have been used to establish the number of factors to be extracted. First, the extracted factors must have an Eigenvalue greater than one (Kaiser, 1960). In addition, variables retained must demonstrate fair to good factor loadings for the individual items ( $> .40$ ) (Field, 2009). Finally, the scree-plot was inspected to determine whether the factors with the smaller Eigenvalues should be retained in the solution.

Although scholars generally have agreed that an adequate sample size is pivotal for factor analysis, the recommendations on what constitutes an adequate sample size vary widely (MacCallum, Widaman, Zhang, & Hee, 1999). Research by Hogarty et al. (2005) showed that the importance of sample size depends on the level of the communality of the variables involved and the extent to which the factor is over-determined (i.e. clearly represented by a number of variables). As this exploratory study obtained a modest sample size of  $N = 87$ , this limitation was managed by limiting the maximum number of variables in the factor analysis based on  $N > 6p$ , with  $p$  representing the number of variables (Cattell, 1978), and including variables with communalities  $> .40$  (Hogarty et al., 2005). Following Dziuban and Shirkey (1974), three procedures were performed to assess sample adequacy. First, the Bartlett's test of sphericity was performed to determine whether correlations between variables are significantly different from an identity matrix (Field, 2009). The second procedure focused on the anti-image covariance matrix, which should feature many zero off-diagonal elements (Dziuban & Shirkey, 1974). The third procedure assessed sampling adequacy with the Kaiser–Meyer–Olkin measure (Kaiser, 1970), which is a function of the number of variables in the analysis, the number of factors, the number of subjects



and the overall level of correlation. According to Kaiser (1974), values below .50 are unacceptable, values between .50 and .70 are mediocre, values between .70 and .80 are good, values in the 80s are meritorious, and values above .90 are excellent. The next five sections establish the internal consistency of the scales developed and present the metric properties of the variables included in the strategic alignment model.

### **7.3.1 CSR AT THE SUBSIDIARY LEVEL**

The research findings in chapter four and five were used to operationalize the measures for CSR at the level of the subsidiary. To summarise the definitions, marketplace CSR consists of practices that enhance control over quality and the social and environmental aspects of the supply chain. Workplace CSR includes practices that promote diversity, emphasise equal opportunities, ensure that employees work in a safe and healthy environment and help employees develop to their potential. CSR community initiatives help develop the community either by partnering, stimulating employee volunteering or providing monetary and non-monetary resources. Environmental CSR practices refer to policies and practices aimed at reducing resource usage, GHG emissions, waste and the organisation's external negative impact. All items measuring CSR used a 7-point Likert-type scale, ranging from 1 (*to a very great extent*) to 7 (*hardly at all*).

A general CSR measure was created based on the 16 items measuring CSR across the four domains ( $N = 87$ ). This scale measuring general CSR had a high reliability as indicated by Cronbach  $\alpha = .89$ .

Initially, several indicators were examined in order to determine the factorability of the 16 items measuring CSR. The correlation matrix presented in Table 7-2 exhibits a considerable number of significant correlations, suggesting reasonable factorability. The examination of the Bartlett's test of sphericity  $\chi^2 (78) = 502.38, p < .001$  confirmed that the inter-item correlations are large enough to employ factor analysis. The KMO measure verified sampling adequacy for the analysis, which, with a value of .82, is considered good. The inspection of the anti-image correlation matrix showed that the diagonals are all well over .5. Given these indicators, all 16 items were subjected to an exploratory factor analysis using the extraction method of principal axis factoring (PAF) using listwise deletion.

Several factor analyses were run using varimax and oblimin rotations to determine the most optimal solution. Initial Eigenvalues indicated that the first four factors combined explained 70% of the variance. The other factors exhibited Eigenvalues below one, suggesting preference for a four-factor solution. Both the varimax and oblimin rotations yielded solutions based on all 16 items (factor loading  $> .40$ ).

**Table 7-2 Pearson correlation matrix for CSR items at the subsidiary level (N = 77)**

Variables	Mean	SD	MP1	MP2	MP3	WP1	WP2	WP3	WP4	WP5	CP1	CP2	CP3	CP4	EP1	EP2	EP3	EP4
MP1 Control over quality	5.35	1.48	1.00															
MP2 Control over environ. & social standards	4.71	1.73	.48***	1.00														
MP 3 Bribery and corruptions	5.81	1.40	.10	.28*	1.00													
WP1 Workforce diversity	5.47	1.17	.13	.15	.45***	1.00												
WP 2 Occupational health and safety	6.01	.98	.40***	.31***	.44***	.33**	1.00											
WP 3 Work conditions	5.97	.95	.12	.04	.38***	.44***	.57***	1.00										
WP4 Employee development	5.82	.90	.17	.14	.46***	.37***	.57***	.61***	1.00									
WP5 Equal opportunities	5.21	1.51	-.04	.08	.43***	.57***	.27*	.41***	.44***	1.00								
CP1 NGO partnerships	3.91	1.91	.05	.38***	.33**	.31**	.18	.30**	.22*	.26*	1.00							
CP2 Employee volunteering	4.10	1.98	.30**	.59***	.42***	.27*	.27*	.21*	.45***	.29*	.65***	1.00						
CP3 Donations	4.18	1.85	.05	.29*	.18	.13	.18	.27*	.27*	.15	.60***	.64***	1.00					
CP4 Capacity building	3.79	1.79	.30**	.58***	.25*	.03	.26*	.32**	.25*	.09	.59***	.65***	.64***	1.00				
EP1 Resource usage reduction	5.18	1.35	.35***	.26*	.29*	.31**	.55***	.41***	.33**	.17	.31**	.40***	.30**	.36***	1.00			
EP2 Reducing GHG emissions	4.56	1.96	.39***	.38***	.18	.09	.48***	.37***	.38***	.12	.35***	.55***	.56***	.55***	.54***	1.00		
EP3 Reducing Waste	5.19	1.55	.21*	.08	.17	.21*	.55***	.42***	.42***	.24*	.23*	.27*	.25*	.22*	.55***	.65***	1.00	
EP4 Reducing external impact	4.08	1.80	.38***	.41***	.18	.08	.45***	.29*	.45***	.15	.35***	.45***	.47***	.47***	.42***	.68***	.42***	1.00

Note. \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

Based on a close inspection of the results, the four-factor solution using the oblimin rotation was preferred. Three items were eliminated because they did not contribute to a simple factor structure, exhibited cross-loadings, or lowered the overall reliability of the scale representing the factor. Table 7-3 shows the factor solution while other properties for the CSR scales are presented in Table 7-4.

**Table 7-3 Summary of exploratory factor analysis results for subsidiary-level CSR**

Variables		Loadings			
		Community CSR	Environmental CSR	Workplace CSR	Marketplace CSR
<b>MP1</b>	Control over quality				.673
<b>MP2</b>	Control over social and				.727
<b>WP1</b>	Workforce diversity			.848	
<b>WP2</b>	Occupational health and safety		.604		
<b>WP5</b>	Equal opportunities			.632	
<b>C1</b>	NGO partnerships	.738			
<b>C2</b>	Employee volunteering	.692			
<b>C3</b>	Donations	.831			
<b>C4</b>	Capacity building	.676			
<b>EP1</b>	Resource usage reduction		.570		
<b>EP2</b>	Reducing GHG emissions		.728		
<b>EP3</b>	Reducing Waste		.861		
<b>EP4</b>	Reducing external impact		.466		
<b>Eigenvalue</b>		5.26	1.75	1.53	1.16
<b>Explained variance</b>		40%	13%	12%	9%

**Note.** Principal axis factoring. Rotation method oblimin with Kaiser nominalization. Rotation converged in 11 iterations. Factor loadings < .40 are suppressed.

The first factor clusters four items on **community CSR**, and explains 40% of the variance. Moreover, the internal consistency of this scale is good ( $\alpha = .84$ ). This result confirms the definition for CSR community practices as stimulating employee volunteering and helping to develop the community either by partnering with NGOs or CBOs, or by providing monetary and material support. The second factor converges the four original items measuring **environmental CSR**. It explains 13% of the variance and clusters all items measuring environmental CSR plus the workplace practice “organisational health and safety”. This addition most likely can be explained by taking industry sector into account. Subsidiaries operating in more polluting industries on average undertook more activities to ensure a safe and healthy work environment ( $M = 6.27, SE = .13$ ) than did those in the tertiary sector ( $M = 5.64, SE = .174$ ). This difference is significant  $t(85) = -3.00, p < .05$ , although the size of the effect is medium ( $r = .31$ ). The internal

consistency of this scale is good ( $\alpha = .84$ ). Based on these results, the scale measuring subsidiary-level environmental CSR consists of five questions pertaining to practices that reduce the usage of resources, emissions of GHG and waste; address subsidiary externalities; and ensure a safe and healthy work environment. Only two out of the five items measuring **workplace CSR** converge on the third factor, notably workforce diversity (WP1) and equal opportunities (WP5). Together, these items explain nearly 12% of the variance. As noted earlier, the item on occupational health and safety (WP2) is incorporated in the scale measuring environmental CSR. The practices concerning work conditions (WP3) and employee development (WP4) were dropped from the analysis because of cross-loadings on the factor clustering the items on environmental CSR. The internal consistency is considered adequate ( $\alpha = .70$ ). The fact that subsidiary-level workplace practices are limited to workforce diversity and equal opportunities may be indicative of the Malaysian context. After the ethnic riots in 1967, the government implemented several measures to reduce economic disparities between ethnic groups. Presently, firms operating in Malaysia are still obliged to implement policies that promote the development of an ethnically diverse workforce. Based on the findings, the definition of workplace CSR is redefined as those practices that contribute to a diverse workforce and ensure equal access to opportunities for those employed at the subsidiary. The fourth factor comprises two items on **marketplace CSR** initiatives, which together explain 9% of the variance. The variable on bribery and corruption loaded on the factor associating the items related to workplace practices and with marketplace CSR. Because the inclusion of this item failed to improve the reliability of the workplace or the marketplace scale, the item on bribery and corruption practices was dropped. The result is a marketplace scale with a relatively low reliability ( $\alpha = .57$ ). Marketplace CSR at the subsidiary level is, thus, defined as those practices that enhance control over the supply chain with respect to quality and environmental and social issues.

**Table 7-4 Descriptive statistics for the CSR factors**

Factor	<i>N</i>	No. of items	<i>M</i> ( <i>SD</i> )	Skewness	Kurtosis	Cronbach's $\alpha$
CSR general	77	16	4.96 (.95)	-.28	-.60	.89
Marketplace CSR	83	2	5.00 (1.39)	-.96	.11	.84
Workplace CSR	87	3	5.32 (1.22)	-.87	.27	.84
Community CSR	87	4	3.97 (1.55)	-.08	-.90	.70
Environment CSR	81	4	5.03 (1.22)	-.37	-.49	.57

### 7.3.2 INTEGRATED PRACTICES

Integrated practices are operationalised using seven questions. Marketplace–community practices involve initiatives that develop the capabilities of CBOs or other communities that are intimately

linked to the firm's supply chain. Integrated marketplace–environment practices refer to the development of eco-innovative products that help customers to lower their environmental impact. Integrated workplace–community practices are those that benefit specific disadvantaged groups in the community and help the firm to recruit new employees, develop current employees, or increase staff morale. Integrated workplace–environment practices aim to increase environmental awareness in an effort to reduce the environmental impact of the company. Finally, integrated community–environment practices are focused on charting and mitigating the firm's externalities while providing social external benefits to specific CBOs or other communities (see Table 7-5). All items measuring integrated practices used a 7-point Likert-type scale, ranging from 1 (*to a very great extent*) to 7 (*hardly at all*).

**Table 7-5 Items measuring integrated practices**

Domain integration	Variable	Questions
Workplace–community practices	IP1 (Q8)	Undertake activities (e.g. internships, scholarships) that target minority groups who may join subsidiary in the future
	IP2 (Q9e)	Employee volunteering programs that also aim to develop specific employee skills
	IP3 (Q9f)	Community programmes that help enhance employee morale
Marketplace–community practices	IP7 (Q 9d)	Increase the capabilities of communities that are closely linked to the supply chain
Marketplace–environmental practices	IP4 (Q 11)	Offer product and services that help lower negative environmental impact of customer activities
Workplace–environmental practices	IP5 (Q12)	Activities aimed at changing employee behaviour to support lower the organisation's environmental impact
Community–environmental practices	IP6 (Q13)	Charting and addressing subsidiary's negative social and environmental impact

**Note.** The code between brackets refers to the question in the questionnaire in appendix G.

A general integrated practices measure was created involving all seven items ( $N = 85$ ). This general integrated practices scale has a high reliability, as indicated by Cronbach  $\alpha = .85$ . The correlation matrix (see Table 7-6) exhibits a considerable number of significant inter-item correlations. Because of its integrative nature, this practice did not emerge as a unique factor in the analysis. For this reason, integrated practices were subjected to a separate factor analysis. A Bartlett's test of sphericity  $\chi^2 (21) = 254.60, p < .001$  confirmed that the inter-item correlations are large enough to employ PAF.

**Table 7-6 Pearson correlation matrix for integrated practices (N = 85)**

Variables	Mean	SD	1	2	3	4	5	6	7
Workplace targeting minority groups	4.59	1.73	1.00						
Volunteering to develop skills	3.71	1.79	.53***	1.00					
Increase morale via communities	3.56	1.80	.49***	.58***	1.00				
Lower environmental impact of customers	4.26	1.99	.13	.30**	.23*	1.00			
Environmental awareness employees	4.46	1.68	.37**	.56***	.46***	.56***	1.00		
Addressing externalities	4.02	1.79	.29**	.53***	.37***	.57***	.71***	1.00	
Community capacity development	4.78	1.70	.34***	.65***	.58***	.24*	.45***	.42***	1.00

**Note.** \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

The measure assessing sample adequacy is considered meritorious (KMO = .83), and the diagonals in the anti-image correlation matrix are above .50. The exploratory factor analysis exhibits two factors with an Eigenvalue that exceeds the threshold (see Table 7-7).

**Table 7-7 Summary of exploratory factor analysis results for integrated practices**

Variables	Loadings	
	Integrated community practices	Integrated environmental practices
IP1 Workplace targeting minority groups	.627	
IP2 Volunteering to develop skills	.785	
IP3 Work conditions	.770	
IP4 Lower customer environmental impact		-.763
IP5 Environmental awareness employees		-.697
IP6 Addressing externalities		-.761
IP7 Community capacity development	.680	
<b>Eigenvalue</b>	3.73	1.20
<b>Explained variance</b>	53.22%	17.09%

**Note.** Principal axis factoring. Rotation method oblimin with Kaiser nominalization. Rotation converged in five iterations.

The first factor, which clusters four items labelled “integrated community practices”, is defined as those practices that connect the community to internal stakeholders for the benefit of both. The second factor, which is defined as practices that integrate the environment with the marketplace, the workplace and the community, is named “integrated environmental practices”. Both scales are internally consistent ( $\alpha > .80$ ).

**Table 7-8 Descriptive statistics for the integrated practices factors**

Factor	N	No. of items	M (SD)	Skewness	Kurtosis	Cronbach's $\alpha$
<b>Integrated Practices general</b>	85	7	4.04 (1.29)	-.49	-.51	.85
<b>Integrated community practices</b>	86	4	3.91 (1.42)	-.31	-.90	.82
<b>Integrated environmental practices</b>	85	5	4.24 (1.58)	-.38	-.39	.82

### 7.3.3 FIRM PERFORMANCE

Based on the findings of phase one, firm performance was operationalized with three scales, labelled financial returns, social returns, and reputational returns.

Despite the element of social desirability, perceptual measures were chosen for four reasons. First, existing objective measures are not always able to capture performance at the subsidiary level (Blanchot & Mayrhofer, 1997). Second, financial data submitted to the local authorities are collected for different purposes, and often do not include data of representative offices or joint ventures. Furthermore, given the highly heterogeneous sample in this study, there is a clear possibility that accounting methods will differ as well (Powell, 1995). Finally, according to some research, perceptual financial measures are highly correlated with objective, accounting-based measures (Geringer & Hebert, 1991). Thus, based on the aforementioned reasons, perceptual measures are preferred. The measurement of financial returns includes a scale developed by Miller and Friesen (1984), which requires the firm to compare its performance with that of its competitors in terms of return on investment, growth of earnings, growth of sales and change in market share. Three items were added regarding the efficiency of operations (which will produce cost savings that may accrue from a reduction of resources, lower staff turnover rates and substitution effects), development of new products, and development of new markets (the latter two both may contribute toward higher sales). Because pre-emption of future claims does not directly translate into a financial return, questions associated with risk management were not included. The scale used to measure these seven items ranged from 1 (*much worse*) to 7 (*much better*). Social returns involve improved staff recruitment, reduction of staff turnover and increased employee commitment. Prior research (see also §4.3.2.4) suggested that employee commitment mediates these social returns and, thus, is a good proxy to measure this construct. The scale borrowed three items from the commitment scale developed by Jaworski and Kohli (1993). The items are measured with a Likert scale ranging from 1 (*strongly disagree*) to 7 (*strongly agree*).

Based on the findings of phase one, reputational returns are phrased in terms of clear outcomes, whereas the literature associates reputation with stakeholder perceptions on organisation performance, which includes financial, social and environmental dimensions (Fombrun, Gardberg, & Sever, 2000). As the dimensions informing the instruments overlap with constructs included in this research, most notably CSR and financial performance, these measures were considered less appropriate. The three-item instrument by Rettab et al. (2009) appeared more suitable, and was complemented with a variable that resonated with most subsidiaries in the case study concerning the publicity of CSR activities. The four items comprising this scale are measured with a scale ranging from 1 (*strongly disagree*) to 7 (*strongly agree*).

To assess the properties of firm performance, a general measure on firm performance is constructed including all 14 items ( $N = 86$ ). This scale appears to be internally consistent, with a value of Cronbach  $\alpha = .84$ .

Several steps were taken to assess the factorability of the 14 items measuring firm performance. The inspection of the correlation matrix (see Table 7-9) showed that the majority of the items featured significant correlations. The outcome of the Bartlett's test of sphericity  $\chi^2(55) = 519.24, p < .001$  indicates that the inter-item correlation is sufficiently high, and the height of the KMO statistic (.79) suggests that the sample is adequate for PAF to be used. Based on these indicators, an exploratory factor analysis involving all 14 items was run, using the extraction method PAF. Several solutions were attempted using both varimax and oblimin rotations of the factor loading matrix. The final solution, based on oblimin rotation and listwise deletion, extracted four factors that together explain 77% of the variance (see Table 7-10). The items FR5 "efficiency of operations", FR6 "product development" and RR4 "good publicity" were eliminated because they failed to meet the threshold of communality (.40), and produced cross loadings.

The first factor, which clusters the items on sales, market share and market development, explains nearly 40% of the variance and is best summarised with the label **market returns**. Two items of the original financial returns scale converge on the fourth factor and explain 8% of the variance. This factor, labelled **financial returns**, contains the accounting-based indicators measuring ROI and growth of earnings. The analysis confirms the relevance of all three items measuring **social returns**. Finally, the scale **reputational returns** consist of the items measuring reputation, trustworthiness and quality. The descriptive statistics of the scales are presented in Table 7-11.



**Table 7-9 Pearson correlation matrix for firm performance (N = 86)**

Variables	Mean	SD	FR1	FR2	FR3	FR4	FR5	FR6	FR7	SR1	SR2	SR3	RR1	RR2	RR3	RR4
<b>FR1</b> ROI	5.23	1.30	1.00													
<b>FR2</b> Growth of earnings	5.03	1.30	.76***	1.00												
<b>FR3</b> Growth of sales	5.21	1.17	.47***	.63***	1.00											
<b>FR4</b> Change in market share	5.16	1.22	.41***	.53***	.68***	1.00										
<b>FR5</b> Efficiency of operations	5.09	1.28	.38***	.32**	.22*	.24*	1.00									
<b>FR6</b> Development of new products	4.95	1.41	.23*	.27**	.23*	.23*	.43***	1.00								
<b>FR7</b> Development of new markets	4.92	1.20	.17	.36***	.52***	.53***	.32**	.56***	1.00							
<b>SR1</b> Employees go above and beyond	5.17	1.40	.22*	.23*	.07	.09	.22*	.13	.15	1.00						
<b>SR2</b> Strong bonds	5.34	1.31	.35***	.36***	.24*	.25**	.17	.18*	.29**	.71***	1.00					
<b>SR3</b> High commitment	5.37	1.23	.17	.22*	.17	.26**	.02	.17	.27**	.74***	.81***	1.00				
<b>RR1</b> Good reputation	5.84	.89	.19*	.27**	.27**	.19*	.19*	.25**	.27**	.32**	.49***	.46***	1.00			
<b>RR2</b> Trustworthy	5.99	.98	.32**	.39***	.29**	.21*	.20*	.22*	.25**	.13	.33***	.25**	.69***	1.00		
<b>RR3</b> High quality	6.06	.82	.21*	.27**	.25**	.36***	.24*	.31**	.35***	.20*	.28**	.32**	.48***	.58***	1.00	
<b>RR4</b> Good publicity	4.35	1.71	.15	.28**	.11	.09	.18*	.15	.07	.15	.13	.07	.20*	.13	.03	1.00

Note. \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

**Table 7-10 Summary results of exploratory factor analysis for firm performance**

Variables		Factor loadings			
		Market returns	Social returns	Reput. returns	Financial returns
<b>FR1</b>	ROI				-.943
<b>FR2</b>	Growth of earnings				-.665
<b>FR3</b>	Growth of sales	.723			
<b>FR4</b>	Change in market share	.802			
<b>FR7</b>	Development of new markets	.700			
<b>SR1</b>	Employees go above and beyond		-.841		
<b>SR2</b>	Strong bonds		-.810		
<b>SR3</b>	High commitment		-.912		
<b>RR1</b>	Good reputation			.713	
<b>RR2</b>	Trustworthy			.970	
<b>RR3</b>	High quality			.574	
<b>Eigenvalue</b>		<b>4.90</b>	<b>1.93</b>	<b>1.38</b>	<b>1.01</b>
<b>Explained variance</b>		<b>40%</b>	<b>16%</b>	<b>11%</b>	<b>8%</b>

*Note.* Rotation method: Oblimin with Kaiser normalization. Rotation converged in ten iterations.

**Table 7-11 Descriptive statistics for the firm performance scales**

Factor	<i>N</i>	No. of items	<i>M (SD)</i>	Skewness	Kurtosis	Cronbach's $\alpha$
<b>General firm performance</b>	86	14	5.37 (.74)	-.38	-.39	.84
<b>Market returns</b>	86	3	5.06 (1.07)	-.17	-.34	.80
<b>Social returns</b>	87	3	5.30 (1.24)	-1.10	1.24	.90
<b>Reputational returns</b>	87	3	5.97 (.766)	-1.08	1.38	.81
<b>Financial returns</b>	86	2	5.11 (1.25)	-.67	.08	.87

Based on the analysis, market returns are defined as market-related benefits that firms obtain from CSR investments; social returns are defined as greater commitment from the staff to the organisation; reputational returns are defined as approval from external stakeholders; and financial returns are defined as the improvement of profit-related, accounting-based indicators.

### 7.3.4 MODERATING VARIABLES

The findings of the first phase identified three factors that influence the CSR-FP relationship for subsidiaries operating in emerging markets. The variables resource dependence and market dependence refer to the external alignment of the subsidiary, whereas autonomy refers to the internal alignment of the subsidiary.

Resource dependence, defined as the extent to which the organisation depends for its critical

resources on the host country or on the parent organisation in the home country, was measured using two sets of questions. The first set presents a list of resources that were identified in the literature and in the collective case study as being critical for firm success and survival. Respondents were required to select the three resources most critical to the subsidiary and rank these in order of importance. For the second set of questions, respondents were required to evaluate the extent to which the subsidiary relies for this particular resource on the parent organisation in the home country or on the host country. The scales for these questions range from 1 (*mostly the parent organisation*) to 7 (*mostly the host country*).

Market dependence is defined as the extent to which firms are oriented for firm survival on the market located in the host country. The measure consists of four questions. Respondents were asked to indicate the extent to which the subsidiary relies on the market in the host country, the region, the home country, and other markets. The scale ranges from 1 (*to a great extent*) to 7 (*hardly at all*).

Autonomy focuses on the location of authority to make CSR-related decisions (Dalton, Todor, Spendolini, Gordon, & Porter, 1980, p. 58). It was measured by asking respondents to indicate the level at which approval is required for each of the thirteen CSR practices identified. Following Pugh (1968), distinction is made between approval above divisional level at corporate headquarters, at subsidiary level, or somewhere else.

### **7.3.5 CONTROL VARIABLES**

As explained in chapter three, various variables influence CSR engagement, such as the industry sector, geographic origin, business orientation, subsidiary size, subsidiary age and CSR maturity. Based on the earlier-mentioned expert feedback, two other questions were added, namely the level of ownership characteristic for the subsidiary and the stock-listing status of the entity. The variable CSR maturity measures the extent to which CSR practices at the subsidiary level have been developed. It consists of four items derived from the collective case study and from expert feedback (see Table 7-12). The scales for the questions CS1 to CS3 range from 1 (*to a great extent*) to 7 (*hardly at all*). The reliability analysis of this variable revealed a negative correlation for CS1 with CS2 and CS3. At first sight, this seems surprising. One might assume that a subsidiary that undertakes CSR activities also has implemented one or more international standards; this would lead to the conclusion that the subsidiary's CSR practices are fairly developed. However, because the question required the respondents to compare the CSR practices of their subsidiary with the CSR practices of their competitors, it is possible that the respondent presumed that the competitors are undertaking more practices, leading to an undervaluation of the subsidiary's CSR

activity level. Removal of CS1 improves the internal consistency substantially and raises Cronbach  $\alpha$  from .18 to .76. An exploratory factor analysis confirms that the two variables share a single component that explains 80% of the variance. Based on these results, CSR maturity is calculated as follows:  $\sum \frac{(CS2+CS3)}{2} + CS4$ .

**Table 7-12 Items measuring CSR maturity**

Item	Questions
CS1	Compared with competitors in Malaysia, to what extent does your organisation undertake CSR practices?
CS2	To what extent has your organisation adopted international practices to guide its CSR decisions?
CS3	To what extent do you consider the CSR practices of your organisation to be developed?
CS4	Is your parent organisation or your subsidiary in Malaysia included in one of the sustainability/CSR indices? Yes, we are included in _____. No, we are not.

## 7.4 DATA ANALYSIS

Because the strategic alignment model assumes that subsidiaries are more dependent on either the host or the home country for their resources and markets, dummies were created for these moderating variables. For the variable resource dependence, first a general variable was constructed by averaging the extent to which the respondent depends on the host or the home country for its critical resources. This outcome was then converted into a dummy (1 = host country, 0 = home country). For market dependence, a single question was used to determine the extent to which the subsidiary is dependent on the host country market, which was then converted into a dummy (1 = Malaysian market, 0 = markets in the region, global or home country). Finally, for autonomy for each CSR domain, it was determined whether autonomy resided at the subsidiary level or at the division or headquarters level (1 = subsidiary authorised to decide, 0 = decision on CSR initiative is taken elsewhere). Dummies were also created for stock-listing status (1 = listed, 0 = not listed) and industry (1 = polluting, 0 = non-polluting).

The dataset was subjected to several tests to assess whether the assumptions of the regression analysis were confirmed. First, collinearity for the interaction terms was managed by employing the mean-centred procedure proposed by Aikin and West (1991). After this correction, the data was examined for multicollinearity, as high correlations among the independent variables could affect the beta values, and limit the size of the explained variance between other variables. The variance inflation factor (VIF) should not exceed the value of ten (Myers, 1990). The present sample shows a maximum VIF value of 3.86, whereas the average VIF value equals 1.17. Based on these activities and outcomes, it appears that the problem of multicollinearity is not substantial. Second, the residual terms should not be correlated. This was assessed with the Durbin–Watson

statistic, which should not be lower than 1.5 or 2.5 (Durbin & Watson, 1971). For the analyses concerned, the statistic ranged from 1.7 for marketplace practices with market returns as the dependent variable, to 2.3 for integrated practices with financial returns as the dependent variable. Third, the assumption of homogeneity of variance needs to be met in order to draw conclusions from the regression analysis beyond this sample. A Levene's test for equality of variance was run using ANOVA, with the CSR and IP scales as the independent variable and the various returns of firm performance as the dependent variable. The results indicate that this assumption is met for the CSR and IP scales with social returns and financial returns. For the dependent variables, general firm performance and market returns, the assumption was violated for workplace practices, indicating that the variances for workplace, market returns and firm performance are significantly different. Another violation was observed for reputational returns and environmental CSR. As a result, the conclusions drawn with regards to these variables are limited to this sample.

In regression analysis, the sample size affects the magnitude of the effect. Based on the sample size, the number of predictors was limited to a maximum of eight per analysis (Miles & Shevlin, 2001). With the long list of possible variables that are found to influence the relationship, it was necessary to limit the number of control variables to the most significant ones. For this purpose, several regression analyses were run, involving all 11 control variables that were regressed on all forms of CSR and firm performance. These results show larger effects for the variables CSR maturity, stock-listing status and firm size, whereas the variable industry is significantly related with environmental CSR, but not with the other types of CSR. These findings were incorporated in the regression analyses conducted to assess the models. Because respondents provided information on both the independent as well as the dependent variables, it is possible that variance originated from a common method, rather than from an actual relationship between independent and dependent variables. Common method bias was examined through Harman's single-factor test (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003), which involves conducting a factor analysis involving all variables to determine if a single factor accounts for the majority of the variance. The results indicate that the variables in the strategic alignment model did not load on a single factor. Therefore, it is concluded that common-method bias is not a substantial problem in this data set. The table containing the Pearson correlation matrix is included in Appendix I.

## 7.5 FINDINGS

### 7.5.1 COMPARING THE STRATEGIC VALUE OF CSR PRACTICES

In chapters four and five, several hypotheses were developed regarding the strategic value derived from these practices. Because the study did not collect data on stakeholder involvement or collect data that allowed a comparison of the CSR practices published by parent organisations and those undertaken by subsidiaries, this section is limited to an examination of the following hypotheses:

- H1 The strategic value perceived from investments in the workplace and the community tends to be greater than that perceived from investments in the marketplace and the environment.
- H2 CSR practices that integrate two or more CSR domains have a greater contribution to firm performance than do practices that involve a single domain.

Five regression analyses were run involving general firm performance and other firm returns as the dependent variables, and with the four single-domain CSR practices and general integrated practices as the independent variables. Due to the sample size, only the general integrated practice variable was included. The results are reported in Table 7-13.

**Table 7-13 Results of regression analysis comparing the strategic value of CSR practices**

Variables	Firm performance		Market returns		Social returns		Reputational returns		Financial returns	
	B	B	B	B	B	B	B	B	B	B
CSR maturity	.04	.03	.32	.16	.22	.11	.12	.06	.08	.04
Listing status	.06	.05	-.11	-.05	-.20	-.10	-.35	-.19	-.63*	-.31*
Firm size	-.11	-.08	.18	.09	-.20	-.10	-.15	-.08	.59*	.29*
Integrated practices	.26**	.50**	.45**	.57**	-.25	-.31	.13	.18	.16	.20
Marketplace	-.08	-.13	-.21	-.21	.00	.00	.01	.02	.04	.04
Workplace	.21**	.33**	.03	.030	-.11	-.10	.26**	.29**	-.14	-.14
Community	-.30**	-.44**	-.44*	-.43*	.33	.32	-.11	-.12	.01	.01
Environment	-.03	-.04	-.27	-.27	-.02	-.02	.01	.01	-.01	-.01
<i>F</i>	2.72**		1.09		.96		1.26		2.74**	
<i>R</i> <sup>2</sup>	.25		.12		.11		.13		.25	
<i>R</i> <sup>2</sup> <sub>Adjusted</sub>	.16		.01		.00		.03		.16	
<i>n</i>	73		74		74		74		74	

**Note.** \*  $p < .10$ , \*\*  $p < .05$

The findings show that investments in integrated practices, workplace practices, and community practices are significantly related to firm performance, whereas no significant observations are detected for marketplace and environmental CSR. Based on the positive sign of the coefficient, the model indicates significantly higher firm performance outcomes from investing in the workplace CSR practices of diversity and equal opportunities,  $b = .21$ ,  $t(68) = 2.95$ ,  $p = .004$ . In particular, workplace practices appear to be significantly related to reputational returns,

$b = .26$ ,  $t(68) = 2.43$ ,  $p = .018$ , suggesting that these types of investments help the organisation to differentiate itself from competitors in the labour market. This finding confirms the qualitative findings with regards to the relevance of workplace practices and is, thus, in line with H1. The negative sign of the unstandardized coefficient for community CSR indicates that these types of investments are negatively related to firm performance,  $b = -.30$ ,  $t(68) = -2.06$ ,  $p = .043$ , and specifically depress market returns,  $b = -.44$ ,  $t(68) = -1.88$ ,  $p = .065$ . This result could be explained by taking Malaysia's institutional context into account, which commonly associates community CSR with altruistic intentions. In this context, making a donation to a charity in order to create sales could be perceived as hypocritical, and thus would not contribute toward building local external legitimacy. Based on these observations, H1 is only supported for workplace CSR.

H2 predicts that the strategic value of integrated practices will be greater than that of single-domain CSR practices. The results show a significant relationship between integrated practices and firm performance,  $b = .26$ ,  $t(68) = 2.15$ ,  $p = .036$ . When decomposing firm performance, integrated practices improve market returns such as higher sales, a larger market share and the development of new markets in particular,  $b = .45$ ,  $t(69) = 2.27$ ,  $p = .026$ . This finding suggests that integrated practices advance the subsidiary's competitive position. No significant relationships are detected for integrated practices with the dependent variables social returns, reputational returns and financial returns. The integration of community-related activities with other activities appears to counter the negative firm performance effects resulting from single-domain community CSR, perhaps because it is perceived as a strategy to create a win-win situation for both the CBO and the subsidiary. The numerical value of the standardised beta for integrated practices ( $b = .50$ ) is larger than that found for workplace and community CSR ( $b = .33$ ), which is an indication of the importance of integrated practices for firm performance. To test whether these standardised beta values are also significantly different from each other, their corresponding 95% confidence intervals were estimated via a bias corrected bootstrap procedure (1,000 re-samples). According to Cumming (2009) the beta weights could be considered significantly different when the confidence intervals overlap less than 50% ( $p = .05$ ). For integrated practices and workplace practices the corresponding 95% confidence intervals respectively are [.075, .745] and [.080, .470]. Based on this observation, it is concluded that the difference between the standardised beta values for integrated practices and workplace practices ( $\Delta b = .17$ ) is not considered significantly different. Therefore H2 is rejected.

## 7.5.2 THE STRATEGIC ALIGNMENT MODEL

The strategic alignment model encompasses four strategic CSR approaches, based on the

dimensions of resource and market dependence. The freedom to make decisions in alignment with demands from customers and constituents holding control over resources is derived from autonomy. The model is based on the following three assumptions:

- H3 Resource dependence influences the relationship between CSR investments and firm performance.
- H4 Market dependence influences the relationship between CSR investments and firm performance.
- H5 Autonomy influences the relationship between CSR investments and firm performance.

With regards to resource dependence, the results show that 72% of the respondents consider human resources to be their most critical resource. The remainder are listed as follows in descending order of importance: technical know-how (49%), geographic location (41%), planning and coordinating systems (36%), knowledge and information systems (35%), plant and machinery (24%), product and spare parts (25%), and raw materials (21%). Overall, subsidiaries primarily depend on the host country for their critical resources. With regards to markets, the sample is overrepresented by subsidiaries relying on international markets (24% of the subsidiaries focus on the global market, 10% focus on the regional market, and 29% indicated a focus on both the regional and host country markets). Of the remaining subsidiaries, 24% purely concentrate on the host country market, whilst only 6% of the subsidiaries indicated focusing solely on the home country market. The majority of the subsidiaries are allowed to make decisions on their CSR practices without first discussing them with the parent or regional office. Subsidiaries appear most autonomous with regards to marketplace CSR and least autonomous with regards to community CSR (see Table 7-14).

**Table 7-14 Subsidiary autonomy across the CSR domains**

	Subsidiary level		Elsewhere		<i>N</i>
	Frequency	Percent	Frequency	Percent	
<b>Marketplace CSR</b>	49	70.0	21	30.0	70
<b>Workplace CSR</b>	49	62.0	30	38.0	79
<b>Community CSR</b>	39	52.7	35	47.3	74
<b>Environment CSR</b>	30	56.2	35	43.8	65

Hierarchical regression analysis was used to assess the magnitude of the interaction effect and the additional variation that is explained as a result of the moderating variables. The regression results with firm performance as the dependent variable are presented in Table 7-15 and Table 7-16.



**Table 7-15 Results of hierarchical regression analysis – strategic alignment model (MP, WP)**

Independent variables	Marketplace CSR						Workplace CSR					
	Model 1			Model 2			Model 1			Model 2		
	B	SE	N	B	SE	N	B	SE	N	B	SE	N
Constant	5.37**	.25	74	5.37**	.25	74	5.29**	.23	74	5.30**	.23	74
CSR maturity	-.01	.19	.06	-.01	.19	.06	-.03	.18	.06	-.05	.18	.06
Listing status	.08	.24	.15	.07	.24	.15	.30	.21	.20	.28	.22	.19
Firm size	.21	.24	.05	.20	.24	.05	.14	.22	.09	.13	.23	.08
Marketplace	.05	.07	.08	.09	.07	.08	.21	.07	.34**	.30	.07	.50**
Resource dependence (RD)	.13	.18	.01	.13	.18	.01	.09	.16	.06	.09	.09	.06
Marketplace x RD				.02	.13		.04	.14	.14	.11	.11	.19
R <sup>2</sup>							.03			.14		.14
R <sup>2</sup> Adjusted							.01			.08		.07
F							.38			2.26*		1.20*
Δ R <sup>2</sup>							.00					.01
N							74					77
Constant	5.20**	.23	78	5.20**	.23	78	5.18**	.21	78	5.24**	.21	78
Customer orientation	.09	.19	.06	.09	.19	.06	.02	.18	.01	-.11	.18	.01
Listing status	.22	.23	.15	.23	.23	.15	.32	.21	.21	.27	.21	.18
Firm size	.07	.22	.05	.07	.22	.05	.15	.20	.10	.16	.20	.11
Marketplace	.04	.07	.08	.04	.07	.08	.23	.07	.37**	.19	.07	.31**
Market dependence (MD)	.02	.20	.01	.02	.20	.01	-.20	.19	-.12	-.25	.19	-.15
Marketplace x MD				.02	.15		.01	.15	.15	-.19	.14	-.17
R <sup>2</sup>							.03			.08		.09
R <sup>2</sup> Adjusted							.01			.08		.09
F							.35			2.69**		2.61**
Δ R <sup>2</sup>							.00					.02
N							78					80
Constant	5.25**	.22	76	5.27**	.22	76	5.20**	.20	76	5.19**	.20	76
CSR maturity	.03	.20	.02	.04	.21	.02	-.02	.18	-.01	-.03	.18	.02
Listing status	.07	.25	.05	.05	.25	.05	.30	.22	.20	.32	.23	.22
Firm size	.21	.25	.14	.18	.25	.14	.15	.22	.10	.16	.23	.11
Marketplace	.05	.07	.09	.05	.07	.09	.21	.07	.35**	.23	.07	.37**
Autonomy	.38	.25	.19	.33	.33	.19	.20	.27	.08	.25	.29	.10
Marketplace x Autonomy				.14	.14		.09	.14	.14	-.16	.28	-.07
R <sup>2</sup>							.07			.08		.14
R <sup>2</sup> Adjusted							.01			.08		.07
F							.71			2.22*		1.88*
Δ R <sup>2</sup>							.01					.00
N							66					74

**Note.** \* p < .10, \*\* p < .05

**Table 7-16 Results of hierarchical regression analysis – strategic alignment model (CP, EP)**

Independent variables	Community CSR						Environmental CSR					
	Model 1			Model 2			Model 1			Model 2		
	B	SE	B	SE	B	SE	B	SE	B	SE	B	SE
Constant	5.37**	.24	5.42**	.23	5.45**	.23	5.57**	.22	5.57**	.22	5.64**	.24
CSR maturity	-.02	.19	-.06	.18	-.11	.19	-.08	.18	-.08	.18	-.15	.17
Firm size	.11	.24	.04	.23	.09	.20	.06	.19	.06	.19	-.02	.20
Listing status	.19	.23	.12	.22	.13	.18	.09	.17	.09	.17	.06	.17
Community	.06	.07	.13	.10	.21	.09	.34**	.13	.34**	.13	.88**	.13
Resource dependence (RD)	.14	.18	.09	.17	.18	.17	.12	.16	.12	.16	.10	.16
Community x RD			.32	.11	.58**	.11	.46	.15	.46	.15	.64**	.15
$R^2$			.04		.13		.12		.12		.24	
$R^2_{Adjusted}$			.03		.06		.06		.06		.17	
F			.55		1.81		1.89		1.89		3.40**	
$\Delta R^2$			.10**		.10**		.10**		.10**		.12**	
N			76		76		76		76		76	
Constant	5.18**	.22	5.21**	.22	5.27**	.22	5.27**	.18	5.27**	.18	5.27**	.18
Customer orientation	.11	.19	.06	.19	-.06	.18	-.04	.19	-.04	.19	-.06	.19
Firm size	.10	.22	.15	.22	.12	.18	.08	.19	.08	.19	.11	.19
Listing status	.21	.23	.20	.22	.16	.18	.11	.18	.11	.18	.11	.18
Community	.06	.06	.07	.06	.19	.08	.30**	.08	.30**	.08	.31**	.08
Market dependence (MD)	.00	.19	-.07	.19	.07	.19	.04	.19	.04	.19	.06	.19
Community x MD			-.23	.12	-.21*	.07	-.15	.16	-.15	.16	-.11	.16
$R^2$			.03		.07		.11		.11		.12	
$R^2_{Adjusted}$			.03		.03		.05		.05		.05	
F			.54		1.03		1.76		1.76		1.62	
$\Delta R^2$			.04*		.04*		.04*		.04*		.01	
N			80		80		80		80		80	
Constant	5.27**	.22	5.27**	.22	5.31**	.21	5.29**	.21	5.29**	.21	5.29**	.21
CSR maturity	-.03	.20	-.03	.20	-.11	.22	-.07	.22	-.12	.22	-.08	.22
Firm size	.10	.25	.10	.25	.07	.22	.04	.22	.06	.22	.04	.22
Listing status	.18	.25	.17	.25	.14	.20	.09	.21	.18	.21	.12	.21
Community	.06	.07	.12	.07	.19	.09	.32**	.10	.32**	.10	.31*	.10
Autonomy	.08	.26	.07	.26	-.11	.21	-.07	.21	-.09	.21	-.10	.21
Marketplace x Autonomy			.06	.21	-.11	.21	-.14	.19	-.14	.19	-.06	.19
$R^2$			.03		.04		.11		.11		.12	
$R^2_{Adjusted}$			.01		.03		.03		.03		.02	
F			.41		.35		1.34		1.34		1.20	
$\Delta R^2$			.00		.00		.00		.00		.01	
N			70		70		70		70		70	

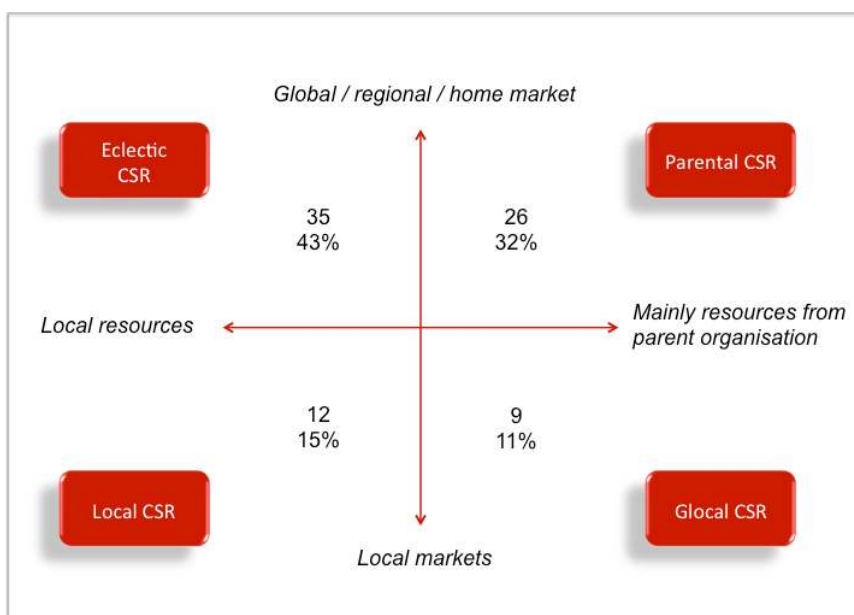
**Note.** \*  $p < .10$ , \*\* $p < .05$

The findings, in accordance with the theoretical specifications, show that the standardised beta coefficients for resource dependence, market dependence and autonomy are not significantly related to firm performance. However, significant interaction effects are observed for resource dependence and market dependence. Resource dependence influences the CSR–FP relationship when it involves community CSR and environmental CSR, but no significant interaction effects are observed for marketplace and workplace CSR. Therefore, these findings partially support H3. For market dependence, significant interaction effects are found for community CSR; however, no significant interaction effects were shown for the other CSR domains. Thus, these findings partially support H4. Finally, H5 postulated that autonomy strengthens the relationship between CSR and firm performance. The results show non-significant main and interaction effects for all CSR practices; therefore, H5 is rejected.

■ **Implications for the strategic alignment model**

The sample size and sample characteristics limit the extent to which the strategic CSR approaches can be examined. The sample is overrepresented by subsidiaries that predominantly rely on markets residing outside the host country. Specifically, 43% of the subsidiaries indicated dependence on host country resources (43%), signifying an eclectic approach. Only 15% of the subsidiaries conform to the configuration of a local approach to CSR. The distribution of the subsidiaries over the strategic CSR configurations is presented in Figure 7-1.

**Figure 7-1 Strategic CSR approaches in research sample (N = 82)**



Given the sample constraints, it is not possible to examine all four CSR approaches of the strategic alignment model. Instead, the analysis focuses on the hypotheses associated with the eclectic CSR approach. Taking into account the sample limitations and the outcomes regarding the non-influential role of autonomy, the hypotheses depicting eclectic CSR were reformulated as follows:

- H6 Subsidiaries that predominantly depend on local resources will benefit from CSR investments in the workplace.
- H7 Subsidiaries that predominantly depend on local resources will benefit from CSR investments in the community.
- H8 Subsidiaries that predominantly depend on regional or global markets will maintain firm performance from investments related to the supply chain.
- H9 Subsidiaries that predominantly depend on regional or global markets will experience positive firm performance from investments in environmental practices.
- H10 Subsidiaries that predominantly depend on regional or global markets will not benefit from investments in the community.

Hypothesis six predicts that resource dependence will positively influence the relationship between workplace CSR and firm performance. The results presented in Table 7-15 show a significant relationship between workplace CSR and firm performance both in model 1 ( $b = .21, t(71) = 3.04, p = .003$ ) and in model 2 ( $b = .30, t(70) = 2.26, p = .027$ ). The addition of the interaction terms for resource dependence, market dependence or autonomy does not produce a significant relationship with firm performance. This observation suggests that workplace practices are considered important regardless of the MNC's internationalisation motive. Based on these observations, H6 is rejected.

Subsidiaries that are primarily resource dependent are expected to benefit from their community investments. The findings shown in model 1 in Table 7-16 do not indicate a significant relationship between community CSR and firm performance. However, model 2 shows a significant relationship for the main effect ( $b = .29, t(69) = 2.81, p = .007$ ) and a significant interaction effect for community CSR and firm performance, ( $b = .32, t(69) = 2.81, p = .007$ ). Including the interaction term explains a further 10% of the firm performance variations. In other words, subsidiaries that depend predominantly on the host country for their critical resources will benefit from community-related investments. Based on this observation, H7 is accepted.

According to H8, subsidiaries that are primarily dependent on markets residing outside the host country will experience neutral to slightly positive effects from marketplace investments. The findings presented in Table 7-15 show a non-significant relationship between marketplace CSR and firm performance in model 1 ( $b = .04, t(71) = .64, p = .522$ ), regardless of the inclusion of the variable for market dependence in model 2 ( $b = .04, t(71) = .62, p = .538$ ) or the interaction with

market dependence ( $b = .01$ ,  $t(71) = .08$ ,  $p = .936$ ). These observations support H8.

H9 predicts that subsidiaries that primarily depend on international markets will benefit from investments in environmental CSR, as these investments communicate to the market that the subsidiary attempts to lower its impact on the environment. Indicators related to the reduction of resource usage, GHG emissions and waste are commonly reported in international CSR reports, giving customers insight on the extent to which the subsidiary manages its environmental impacts. The findings from the regression analysis shown in Table 7-16 exhibit a significant relationship between environmental CSR and firm performance, both in model 1 ( $b = .19$ ,  $t(70) = 2.40$ ,  $p = .019$ ) and in model 2 ( $b = .20$ ,  $t(69) = 2.43$ ,  $p < .018$ ). However, no significant interaction with market dependence is observed, implying that market dependence does not influence the relationship between environmental CSR and firm performance. Therefore, H9 is rejected.

Finally, H10 predicts that subsidiaries with an international market orientation will not benefit from making community-related investments. Table 7-16 displays a non-significant relationship between community investments and firm performance for model 1 ( $b = .06$ ,  $t(74) = .89$ ,  $p = .376$ ) and for model 2 ( $b = .07$ ,  $t(73) = 1.02$ ,  $p = .312$ ). However, the interaction term of community CSR and market dependence is significant ( $b = -.23$ ,  $t(73) = -1.85$ ,  $p = .069$ ) and explains 4% more of the variation in firm performance than does model 1. The negative sign for the unstandardized regression coefficient indicates that for subsidiaries depending on international markets, investments in the community will not be beneficial. These observations lend support to H10.

## 7.6 DISCUSSION

The main purpose of this chapter was to quantitatively explore the extent to which the results obtained in chapters four, five and six can be generalised to a larger group of foreign subsidiaries operating in the emerging market of Malaysia. This section discusses the contribution of the findings obtained and the limitations of the study.

### ■ A questionnaire to measure CSR activities at subsidiary level

In this study a questionnaire was created with which CSR practices at the subsidiary level can be investigated. The factor analysis confirmed the existence of a classification of CSR into activities belonging to the marketplace, the workplace, the community and the environment, which combined explain 74% of the variations in firm performance. Of these, community-related CSR explains most of the variance, followed by nearly equally sized proportions of variance for practices with regards to the environment and the workplace. Marketplace practices account for only 9% of the variance. Until now, CSR research of MNCs operationalised CSR at the MNC level, frequently using objective measures such as the KLD (the current MSCI's ESG framework).

Available subjective measures, such as questionnaires rooted in Carroll's CSR framework that concentrate on types of responsibilities<sup>35</sup> or those based on stakeholder orientation<sup>36</sup>, are not designed to assess subsidiary-level CSR behaviour. Consequently, little was known about the CSR practices of subsidiaries. This questionnaire fills this void in the literature, as it is specifically developed to examine the CSR activities of subsidiaries in emerging markets, regardless of the types of responsibilities assumed or the stakeholder group involved. Future research could validate the questionnaire for other emerging markets.

#### ■ **The strategic value of CSR investments**

The results confirm the hypothesis that for the CSR–FP relationship, the strategic value of workplace CSR investments is greater than that of marketplace and environmental CSR investments whereas the relationship between community CSR and FP is negative (Table 7-13). The results for workplace practices corroborate those of other studies (e.g. Goa & Zhang, 2014; Weber & Gladstone, 2014). Also the lower effect size for environmental CSR is similar to the effect sizes for environmental CSR presented in the three meta-analytical studies (Allouche & Laroche, 2005; Margolis et al., 2007; Orlitzky et al., 2003). However, the same meta-analyses also show a positive relationship between community CSR and FP, a result which is not supported in this study. In the present research, the main effect between community CSR and firm performance shows a significant negative effect. In interaction with resource dependence however, the effect of community CSR is significant and positive. The results of this study show that the specific firm performance returns vary across CSR activities: workplace practices improve firm performance through reputational returns, whereas community CSR and integrated practices influence market returns. No significant relationships are observed for marketplace and environmental CSR. These findings corroborate and extend research using subjective measures for firm performance. Rettab et al. (2009) for example, decomposed firm performance into financial, employee commitment and corporate reputation, and found a positive impact on CSR. This study builds on these results by showing how firm performance returns vary as a result of specific CSR investments.

#### ■ **Resource deployment and integrated practices**

Based on the results of this study, integrated practices positively impact market returns, in the form of more sales, a larger market share and the development of new markets. The instrumental value derived from integrated practices is significantly greater for market returns than that obtained from single-domain investments. This suggests that there is empirical merit to Porter's shared value concept. Porter and Kramer (2006, 2011) advanced the idea that strategic value

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<sup>35</sup> See, for example, the questionnaires developed by Wartick and Chochran (1985), and Maignan and Ferrell (2000).

<sup>36</sup> For instance, see those developed by Dooley and Lerner (1994) and modified by Maignan and Ferrell (2004).

comes from focusing CSR activities on those areas where society and business intersect. More specifically, shared value requires the firm to focus on areas where the firm can explicate the benefits-to-cost ratio for its CSR initiatives. This requirement however, is not a specific characteristic for integrated practices. Although it is possible to make such definite calculations for some activities, others only produce benefits that may become obvious over time and thus are much more difficult to quantify.

This finding has implications for the debate on efficient versus effective resource deployment. The positive significant relationship between integrated practices and firm performance indicates that the efficiency position is not tenable, as this idea is based on the premise that related practices derive value from complementary resources (Tang et al., 2012). The results of this study show that integrated practices obtain their value from drawing on a variety of resources. However, the question remains as to whether the present findings may be perceived as evidence of effective resource deployment. The significant relationship with market returns implies that undertaking integrated practices improves the competitive position of the subsidiary. Yet, it is unclear if this effect is the result of a capability in cross-departmental coordination, the embedding of associated knowledge and skills in the organisation's system and processes, the existence of a CSR culture, or a combination of these capabilities. Other support for the effectiveness position may be gleaned from studies on stakeholder engagement. For example, Barnett and Salomon (2012) proposed that the capacity of a firm to influence stakeholders<sup>37</sup>, which is gained from consistently engaging with stakeholders, may affect its ability to profit from CSR investments. Indeed, undertaking integrated practices does require the organisation to engage with a wider group of stakeholders, while the embedding of associated skills and capabilities in the organisation could enable it to be more consistent in its interaction. Future research could investigate if these capabilities do indeed mediate the creation of market returns.

#### ■ **The strategic relevance of resource dependence, market dependence and autonomy**

The findings confirm the relevance of resource dependence and market dependence for the CSR–FP relationship, whereas the effect of subsidiary autonomy appears to be insignificant.

As a result of the sample size and sample composition, only the eclectic strategic CSR approach was examined. This approach predicts that subsidiaries that are predominantly dependent on local resources will benefit from CSR investments in the workplace and the community, as these help develop local internal and external legitimacy. Subsidiaries that are predominantly market dependent will benefit from investments in the marketplace and the environment, as these

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<sup>37</sup> Barnett (2007, p. 803) defined this as “the ability to identify, act on, and profit from opportunities to improve stakeholder relationships through CSR.”

contribute toward developing external and parental legitimacy.

In agreement with this hypothesis, support was found for the role of community investments in organisations that predominantly rely on local (in this sample, human) resources. The findings of this study advance the idea that strategic investments in community-related initiatives that foster local internal and external legitimacy enhance the organisation's competitive position in the labour market, which in turn has positive effects on subsidiary performance. The hypothesis regarding the influence of resource dependence on workplace CSR was not confirmed, as these investments were found to be important to all subsidiaries regardless of their dependencies. With respect to the moderating role of market dependence, the results confirm the hypothesis that the influence of market dependence for marketplace CSR is neutral and that the effect of community CSR is negative. However, contrary to expectations, a significant resource dependence effect was found for environment-related investments. This might be due to the fact that the environmental CSR measure includes activities that help the subsidiary to save costs associated with resources and waste. It is also possible that the effect is caused by the inclusion of the item on occupational health and safety practices in the environmental practice measure. Indeed, there is evidence that foreign subsidiaries, in general, compare favourably with local companies with regards to work conditions (Rettab et al., 2009). In this study, autonomy did not influence the types of CSR initiatives undertaken. The results show that two-thirds (63%) of the subsidiaries are allowed to contract suppliers without interference of headquarters, and that the majority of workplace-related decisions are made independently. Even capital-intensive investments to reduce resource usage, lower GHG emissions or reduce waste are made by the subsidiaries without requiring prior approval. This finding is in line with other research on subsidiary autonomy suggesting that subsidiary orientation toward the host country or region tends to go hand in hand with greater subsidiary autonomy (Harzing, 1999). Based on the qualitative findings, it was expected that subsidiaries might experience institutional duality with regards to community and environmental CSR. It might be either that the subsidiaries encountering this type of situation have "managed" it or, alternatively, that this subset of the sample is too small for effects of autonomy to be detected (Miles & Shevlin, 2001).

#### ■ **Limitations and future research**

By design, the study is limited in various fashions. First of all, the data was collected only from senior managers and, therefore, only reflects their perceptions of the constructs investigated. This data has not been compared with the actual performance of the subsidiaries and the CSR practices implemented. Future research could cross-validate the data by using multiple sources. Because objective data of subsidiary performance is difficult to obtain, multiple informants could be used.



Second, the cross-sectional design does not allow causal inferences to be drawn with regard to the CSR–FP relationship. A number of studies investigated the role of CSR as a lead and as a lag variable, and found evidence that high firm performance may also lead to greater CSR investments (Barnett & Salomon, 2012; Brammer & Millington, 2008). Furthermore, the meta-analysis of Orlitzky et al. (2003) indicated stronger effect sizes for cross-sectional studies, whereas using CSR as a lag or a lead variable produced relatively modest effects. A longitudinal study in which data is collected from the same subsidiaries over a longer timeframe might provide more definitive answers with regards to the direction of the relationship.

Third, the findings are also limited by the choice of Malaysia as the research setting. One of the study's purposes was to develop a questionnaire with which subsidiary practices in emerging markets could be investigated. The unique institutional context of Malaysia may have influenced the meaning and relevance of certain types of CSR practices, for example regarding the management of diversity. Future research could investigate the relevance of these practices for subsidiaries in other emerging markets, not only in Asia, but also in Eastern Europe and South America.

The extent to which inferences may be drawn from the findings is limited by other factors as well. The difficulty of convincing senior managers to complete the questionnaire, and the measures taken to increase the response rate, skewed the sample with regards to the geographic origin and affected the representativeness of the sample. In addition, it is possible that other endogenous factors influenced the CSR–FP relationship. According to some researchers, the problem of misspecification can alter the direction and the magnitude of regression coefficients when included in the relationship (Garcia-Castro et al., 2010; McWilliams & Siegel, 2000). Finally, heteroscedasticity was observed for a number of the regression analyses, which limits the findings of this quantitative exploration to this sample. In other words, caution should be taken in drawing inferences beyond this sample.

Future research involving a larger sample could address these caveats. However, as shown in this study and several others<sup>38</sup>, the increasing digitalisation of our communication poses a serious challenge for primary data gathering methods. Convenience sampling lowers the representativeness of the sample, and although it does help in obtaining data, it limits the extent to which concrete conclusions may be drawn from the data. The question of how to collect primary data from representative samples of senior managers, for which secondary data is not readily available, needs further research.

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<sup>38</sup> Case in point: Mishra went to great length in collecting data to investigate the CSR practices of Indian firms (Mishra, 2010).

## SUMMARY AND CONCLUSIONS

This chapter described the quantitative methods used to develop a questionnaire to measure CSR at the subsidiary level, and investigate the relationships between the constructs of the strategic alignment framework developed in chapters five and six.

Data was collected from a sample of 87 foreign subsidiaries originating from the United States, Europe, and the Pacific (Australia and New Zealand) that have operations in the emerging market of Malaysia. The main constructs of the strategic alignment framework were operationalized using existing measures when possible, and new measures were developed when necessary. Overall, the measures satisfied the criteria for content validity of internal consistency and unidimensionality. The relationships were statistically examined using regression analyses, for which the findings are summarised in Table 7-17.

**Table 7-17 Summary of the findings of the regression analyses**

Hypotheses	Conclusion
<b>H1</b> The strategic value perceived from investments in the workplace and the community tends to be greater than that perceived from investments in the marketplace and the environment.	Confirmed for WP, but not for CP
<b>H2</b> CSR practices that integrate two or more CSR domains have a greater contribution to firm performance than do practices that involve a single domain.	Rejected for FP; confirmed for MR
<b>H3</b> Resource dependence strengthens the relationship between CSR investments and firm performance.	Confirmed for CP and EP
<b>H4</b> Market dependence strengthens the relationship between CSR investments and firm performance.	Confirmed for CP
<b>H5</b> Autonomy strengthens the relationship between CSR investments and firm performance	Rejected
<b>H6</b> Subsidiaries that predominantly depend on local resources will benefit from CSR investments in the workplace.	Rejected
<b>H7</b> Subsidiaries that predominantly depend on local resources will benefit from CSR investments in the community.	Confirmed
<b>H8</b> Subsidiaries that predominantly depend on regional or global markets should focus their CSR approach on global issues involving the supply chain, which are expected to neutralise threats, but which will not have direct positive implications for firm performance.	Confirmed
<b>H9</b> Subsidiaries that predominantly depend on regional or global markets should focus their CSR activities on the environment, which will positively influence firm performance.	Rejected
<b>H10</b> Subsidiaries that predominantly depend on regional or global markets will not benefit from investments in the community.	Confirmed

The results show that investments in integrated practices and workplace practices have a significant positive effect on firm performance, whereas community related investments have a

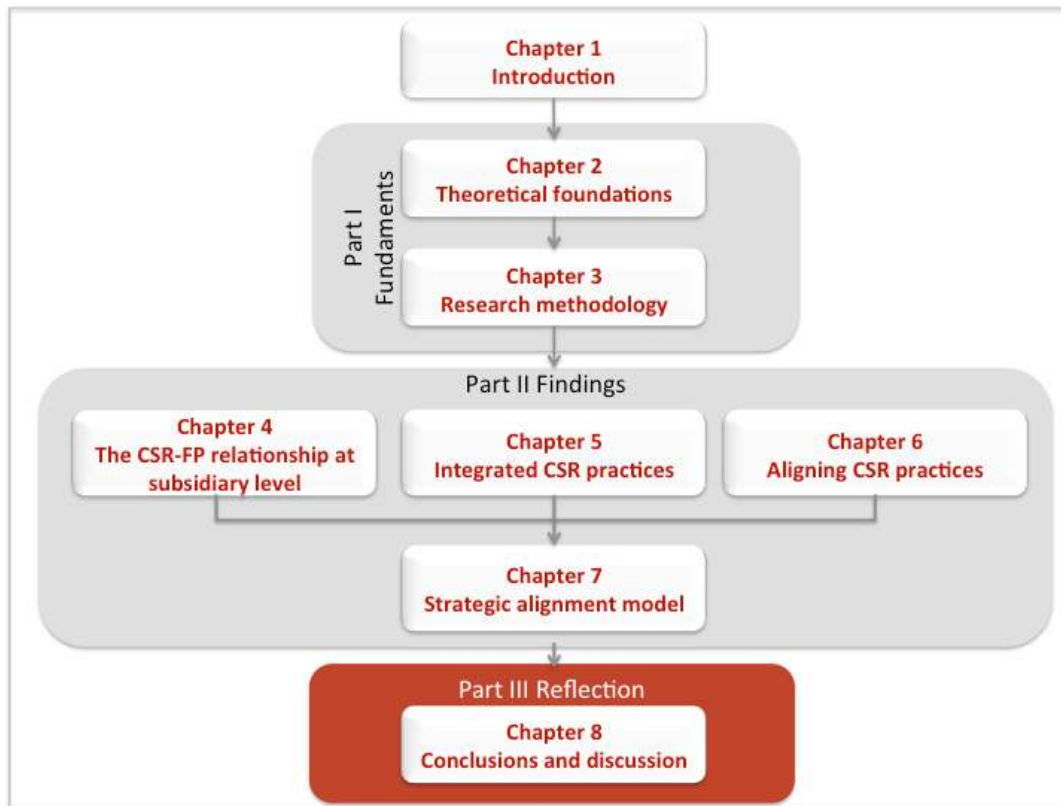
significant negative effect. When decomposing firm performance, workplace and integrated investments seem to affect firm performance in different fashions. Integrated practices have a positive significant effect on market returns, while workplace practices show a positive and significant effect on reputational returns. Because of sample constraints, only the eclectic CSR approach was tested. The findings partially confirm the validity of this approach. In agreement with the theoretical specifications, investments in communities are strategically effective in gaining and maintaining local internal and local external legitimacy and in competing for critical (human) resources. Community-related investments negatively affect firm performance when the subsidiary's dependence on international markets outweighs its dependence on host country resources. As expected, investments in marketplace CSR in emerging contexts involving the supply chain do not improve firm performance, most likely because these types of investment are geared more towards preventing liability claims or reputational threats. Contrary to expectations, a resource dependence effect was found for environmental practices, implying that subsidiaries that depend on local resources will benefit from environmental investments. Finally, investments in the workplace are beneficial to all subsidiaries, regardless of their dependencies.

The findings of this study are limited to the emerging market of Malaysia, which due to its multi-ethnic composition has distinctive features. The sample size and sample composition narrowed the assessment of the strategic alignment model to the eclectic strategic CSR approach.

The study findings contribute empirically through the development and validation of subsidiary-level CSR measures that facilitate examination of the actual CSR initiatives undertaken by subsidiaries in emerging markets. The findings in this chapter also contribute to the literature on the resource-based perspective. The strategic value of integrated practices was found to be greater than of single-domain practices. This finding is contrary to the premises underpinning the efficiency position within the resource deployment debate. The very nature of integrated practices appears to advance the effectiveness position. Further research should assess the extent to which value creation for integrated practices is mediated through the proposed linkages. The research also contributes to the strategic CSR literature by uncovering the influence of resource dependence and market dependence on the CSR–FP relationship. More specifically, the research extended resource dependence theory into the realm of institutional theory by adopting a contingency approach. The research shows that international strategy influences the CSR–FP relationship. Future research could investigate the validity of the model and the relationships involved in other emerging markets, using a larger representative sample.

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## PART III REFLECTION



**Chapter 8** looks back at the research question and summarises the key findings of this study. It describes the contributions to literature, to research and for the management practice. Finally, it draws conclusions and offers a research agenda to guide future studies on strategic CSR.

## 8 CONCLUSIONS AND DISCUSSION

There is a paucity of research on the CSR approach of MNCs in emerging markets, and a lack of understanding on the strategic factors that influence the CSR–FP relationship. Thus, this study sought to understand how the alignment of CSR practices influences firm performance of MNC subsidiaries operating in emerging markets. In order to contribute to the literature, this research aimed to:

1. Investigate the CSR practices that MNC subsidiaries undertake in the emerging market of Malaysia and evaluate the extent to which MNC practices communicated by parent organisations are reflected in the CSR endeavours undertaken by their subsidiaries.
2. Integrally investigate the role of institutions, resources and international strategy with regards to the CSR–FP relationship.
3. Understand how CSR strategies can be aligned with these factors in order to maintain or, preferably, improve firm performance.

In order to achieve these aims, a sequential exploratory mixed methods research design was employed. In the qualitative first phase of this research, the CSR practices of seven different MNC subsidiaries operating in the emerging market of Malaysia were examined. Using maximum variation sampling, subsidiaries were selected based on aspects known to influence the CSR–FP relationship, including country of origin, industry, firm size, CSR maturity and business orientation. The analysis of the qualitative data gave insight into the actual CSR practices undertaken by the subsidiaries. Moreover, it shed light on the influence of external and internal factors informing CSR activities, and helped to develop strategic CSR approaches that are aligned with the subsidiaries' internationalisation motive. Based on the data gathered in the collective case study, the dimensions of resource dependence, market dependence and autonomy were identified as factors that inform subsidiary-level CSR strategies. Using these dimensions, four subsidiary-level CSR strategies were advanced. In the quantitative second phase, the strategic relevance of these dimensions for the strategic CSR approaches was quantitatively explored with a sample of 87 foreign MNC subsidiaries with operations in Malaysia.

The present chapter assesses both the fruitfulness of my attempt to ground the research issues in the main theories that have informed strategic CSR research and the extent to which the findings contribute to the body of literature. It starts with a brief synopsis of the research findings (see the relevant chapters for a detailed discussion). Next, the theoretical, empirical and practical contributions are presented. This is followed by a reflection on the methodological and contextual limitations, suggestions for future research and a final general conclusion.

## 8.1 KEY FINDINGS

### 8.1.1 THE CSR–FP RELATIONSHIP AT THE SUBSIDIARY LEVEL

Chapter one pointed out that the majority of empirical studies on the CSR–FP relationship aggregated the CSR initiatives of MNCs into a single CSR measure, which was approximated by means of archival databases on the social and environmental activities of MNCs. However, this approach assumed that the CSR activities reported by MNCs were carried out equivalently by foreign affiliates. In light of these observations, this research sought to investigate the practices of subsidiaries in emerging markets, assess the extent to which CSR practices implemented by subsidiaries concur with those reported by the parent organisations and evaluate the strategic value of the CSR practices.

#### ■ CSR practices at the subsidiary level

The research examined the CSR practices undertaken, using a framework that resonates with practitioner organisations, including the local stock exchange, which distinguishes between CSR practices in the marketplace, the workplace, the community and the environment. The qualitative phase helped populate the CSR domains, whereas the factor analysis in the second phase confirmed the internal consistency of each category. Based on these findings, it is concluded that marketplace practices involve activities that enhance control over the social and environmental issues of the supply chain and overall quality; CSR workplace practices primarily focus on promoting workplace diversity and equal opportunities; community CSR practices aim to support the community by either partnering, stimulating employee volunteering or providing monetary and other material support; finally, environmental practices are aimed at reducing resource usage, GHG emissions and waste, while also ensuring a healthy and safe work environment.

#### ■ MNC CSR practices published and practices enacted by subsidiaries differ considerably

An analysis of the data gathered in the qualitative study revealed differences between CSR activities published in CSR reports by the parent organisation, and the actual CSR initiatives implemented by the subsidiaries in Malaysia. Discrepancies exist in particular for community and environmental CSR initiatives. For example, the corporate CSR reports seem to overstate Malaysian subsidiaries' achievements in reducing GHG emissions. Respondents attribute these differences to the physical and institutional limitations that are characteristic of Malaysia's context as a developing economy. Subsidiaries indicate that although some of these obstacles could be overcome with additional resources, requests for additional investments are generally declined by the parent organisation. Community-related initiatives are often localised within the framework established by the parent organisation; however, these seem to be less prominently featured in

CSR reports. This implies that CSR reports published by MNCs may not give a good indication of social and environmental activities of its foreign affiliates.

#### ■ **Strategic value of CSR practices**

CSR practices derive their strategic relevance from the extent to which they further the subsidiary's internationalisation motive and/or help create competitive advantage by lowering costs, differentiating the organisation from competitors or improving the competitive context. Whilst subsidiaries did not systematically evaluate CSR initiatives undertaken, they did report various benefits stemming from their CSR initiatives. Subsidiaries perceived direct and indirect cost savings as a result of CSR activities across all domains. Furthermore, they were of the opinion that workplace and community-related activities help the subsidiary to differentiate from competitors, while also enhancing its reputation as a preferred employer. Convergence value, which would improve the subsidiary's competitive context, was derived in particular from integrated CSR practices, which combine initiatives belonging to different CSR domains. The survey findings confirmed firm performance value at the subsidiary level in terms of financial returns, market returns, social returns and reputational returns. Of these, market returns in the form of more sales, greater market share and the development of new markets explained 40% of firm performance variations, while financial returns in the form of return on investment and growth of earnings explained less than 10%. This result indicates that subsidiaries assign greater relevance to market returns and less to financial returns. As for the CSR–FP relationship, the findings show non-significant results for marketplace and environmental practices for all forms of firm performance returns. Workplace CSR generates significantly greater reputational returns for the subsidiary. Integrated practices significantly increase perceived market returns, while the relationship between community CSR and firm performance shows a negative effect.

#### **8.1.2 FACTORS INFORMING STRATEGIC CSR AT THE SUBSIDIARY LEVEL**

The case study findings identified resource dependence, market dependence and autonomy as strategic variables that influence the CSR–FP relationship at the subsidiary level. Resource dependence and market dependence are associated with the internationalisation motives of MNCs, whereas autonomy allows the subsidiary to respond to local demands of key constituents.

*Resource dependence* is defined as the extent to which a subsidiary depends on the host country or home resources for its continued success and survival. The findings confirm that CSR investments can be used as a means to manage the demands of the interest groups that control critical resources associated with the host or the home country. The top three most critical resources are human resources, for which subsidiaries chiefly depend on the host country;



technical know-how, for which the subsidiaries depend on the parent organisation; and raw materials (host country) and planning and coordination systems (parent organisation) are tied for third place. Resource dependence significantly influences firm performance variations resulting from CSR investments in the community and the environment. *Market dependence* is defined as the extent to which firms are dependent on the host or home country market for firm survival. Three-quarters of the subsidiaries in the sample are oriented toward the Malaysian market. Given the strategic location of Malaysia in Asia, two-thirds of the subsidiaries also concentrate on the regional market. These findings indicate that lesser value is attached to the home market than the host market; consequently, market-seeking motives predominantly inform the internationalisation strategies of the MNCs concerned. The survey findings confirmed the relevance of market dependence for community-related initiatives, but no significant interaction effects were observed for CSR initiatives in the other domains. Subsidiary *autonomy* is determined by the role of the subsidiary within the MNC, which controls the freedom the subsidiary possesses in managing institutional distance. Overall, subsidiaries report being authorised to make CSR investment decisions without prior approval from the parent organisation. Subsidiaries reported the lowest level of autonomy for decisions regarding policies on bribery and corruption, and for initiatives that require substantial capital expenditures. However, even for these practices, about half of the subsidiaries could decide without the involvement of HQs. No significant interaction effects are reported for autonomy, indicating that for this sample, autonomy is not an important factor.

### **8.1.3 STRATEGIC ALIGNMENT OF CSR PRACTICES**

The collective case study findings helped to develop four subsidiary-level strategic CSR approaches that enable the subsidiary to either maintain or improve firm performance. The type of legitimacy associated with constituencies controlling resources or markets determines the position of the subsidiary on these dimensions.

1. A *parental strategic CSR approach* is informed by market seeking and efficiency motives. This strategy is suitable for subsidiaries that focus on the global or regional market, while being dependent for their critical resources on the parent company. For this reason, they will benefit most when following the CSR strategy implemented by the parent organisation, as this will help them to secure parental and third-party legitimacy and compete effectively for parental resources.
2. A *local strategic CSR approach* is primarily motivated by market-seeking internationalisation motives. This strategy is appropriate for subsidiaries that compete in the local market and that are chiefly dependent on the host country for their resources. For this reason, such subsidiaries should emphasise CSR practices that are valued by the host country, which in

emerging markets often involve CSR workplace and community practices.

3. The *eclectic strategic CSR approach* is based on the subsidiary's greatest dependency: international markets or host country-bound resources. Subsidiaries that primarily depend on the international market will benefit from following a strategy that is built on international standards in order to reduce information asymmetries and develop trust with international customers. When dependence on host country resources is most prominent, then implementing a local CSR strategy is preferred.
4. Finally, the *glocal strategic CSR approach* is suitable for subsidiaries that compete in the local market, and are dependent on home country resources. The content of this approach depends on the relevance of the subsidiaries' primary products for the host country. Subsidiaries whose products contribute toward the development of the host country may forward the corporate CSR strategy without risking loss of local external or internal legitimacy. Those without this advantage should attune their CSR strategy to host country expectations in order to avoid losing local internal and external legitimacy.

Due to sample characteristics, only the eclectic strategic CSR approach could be examined. The findings show that workplace-related investments are considered important by all subsidiaries, regardless of their internationalisation motive. Subsidiaries that depend primarily on host country resources significantly benefit from CSR investments in the community, whereas subsidiaries dependent on parental sources do not. Subsidiaries that are chiefly oriented on regional or international markets, according to this strategy, do not experience firm performance effects from investments in marketplace or environmental practices. Contrary to expectations, however, a resource dependence effect was observed for environmental CSR, whereby subsidiaries that depend on the host country market for their critical resources do benefit from environmental CSR investments.

#### **8.1.4 RESOURCE DEPLOYMENT: THE EFFICIENCY VERSUS EFFECTIVENESS DEBATE**

The literature review uncovered contrasting interpretations on how value is derived from the deployment of resources with concerns to CSR. The efficiency thesis emphasises coherence among practices, which is accomplished by focusing solely on a few closely related CSR practices. This is theorised to promote an efficient deployment of associated resources, which in turn will enhance firm performance. In contrast, the effectiveness thesis advocates engaging in a wide range of CSR practices, as the involvement of a broad group of staff contributes toward a culture for CSR, helps to fine-tune and test ideas before investments are made, and develops internally congruent practices.

The data uncovered a special class of practices that supports the effectiveness position. This class, labelled “integrated practices”, has the following characteristics: 1) they combine two or more CSR domains; 2) they involve intangible tacit skill or knowledge-based resources; 3) the functional capabilities associated with them reside in various aspects of the value chain; 4) they are institutionally embedded in the organisation; and 5) they involve dynamic management capabilities that help integrate and coordinate functional resources associated with the practice. Based on the accounts, the following five types of integrated practices were identified: marketplace–community practices; marketplace–environment practices; workplace–community practices; workplace–environment practices; and community–environmental.

From the point of view of efficiency, these practices are wasteful, as some practice combinations seem unrelated and draw from different resource pools. However, from an effectiveness perspective, these types of practices seem to be a path toward developing sustainable competitive advantages. Including different parts of the supply chain and thus engaging with a broad group of stakeholders, whilst ensuring that tacit knowledge is embedded in the organisation, leads to the development of resources that are difficult to emulate by competitors. Compared with other CSR domains, integrated practices generate significantly higher firm performance returns, especially in the form of sales, market share and the development of new markets. These results imply that these practices indeed help differentiate the subsidiary in the market vis-à-vis competitors. Some scholars suggested that differentiation value from CSR investments is eroded when competitors engage in similar activities (Baden & Harwood, 2013). However, the intrinsic characteristics of integrated practices might shield the organisation from this effect. All in all, the findings suggest that engaging in integrated practices enables the organisation to develop strategic resources that meet the RBV criteria. The findings are in line with the outcomes of a meta-analytical study showing that strategic resource possession alone accounts for 22% of the firm performance variations, while significantly greater effects are obtained when strategic resources meet the RBV criteria (Crook, Ketchen Jr, Combs, & Todd, 2008). By engaging in integrated practices, organisations are able to develop these strategic resources with RBV characteristics.

## **8.2 CONTRIBUTIONS**

### **8.2.1 THEORETICAL CONTRIBUTIONS**

Various scholars have called for an examination of CSR–FP relationship that draws on different theoretical inputs. Heeding this call, the formulation of the four subsidiary-level CSR strategies integrates the literature on international strategy, institutional theory and resource dependence theory, whilst employing a contingency approach.

Institutional theory and resource dependence theory are both ecological theories that strive to advance understanding of firms' operational context, with institutional theory assuming a top-down approach, and RDT based more on outcomes that materialise from the bottom up (Wry et al., 2013). Integrating these theories using the shared construct of social legitimacy offers an alternative explanation on how CSR investments contribute towards firm performance. RDT regards social legitimacy as one of the organisation's key resources, but also as the gateway to resources the organisation perceives as critical. In contrast, institutional theory approaches legitimacy as a generalised normative idea of what constitutes appropriate organisational behaviour; accordingly, legitimacy is seen as something that the organisation can obtain by conforming to host country institutions (Scott, 2008). In other words, legitimacy has a strategic meaning within the RDT perspective, whereas institutional theory regards it as embedded in a set of constitutive belief systems (Suchman, 1995).

The study contributes to the strategic CSR literature by identifying the internationalisation motives of resources and markets as contingency factors that influence the CSR–FP relationship. In particular, the findings of this study show that resource and market dependence influence the performance outcomes stemming from the CSR investments of organisations in different ways, which may explain why prior CSR–FP studies generated rather modest outcomes.

This study also contributes to contingency theory by employing internationalisation strategy as a contingency, which has been largely underexplored. Furthermore, it shows how institutional factors associated with legitimacy pressure the organisation to invest in certain CSR practices. This addition of legitimacy as an external factor is regarded as another enriching dimension of a contingency approach (Van de Ven et al., 2013). More traditional applications of contingency theory focus on organisational design, with the prescription of structuring the organisation such that a fit with the external environment is accomplished (Donaldson, 2001; Ketchen, Thomas, & Snow, 1993). This research follows a configurational perspective, regarding the strategic CSR approaches as configurations made up of strategic factors (internationalisation motive), CSR activities (marketplace, workplace, community and environment) and contextual factors (type of legitimacy required). The result is a set of four strategic CSR approaches that predict firm performance outcomes as a result of congruence.

Setting the research in an institutionally distant context offered a different perspective on the debate of institutional versus strategic logic. The institutional logic argument surmises that subsidiaries implement the CSR policies developed by the parent organisation in an effort to manage complexities and achieve efficiency, whereas strategic logic presumes that CSR decisions are informed by opportunism and depend on the organisation's perception of what CSR

investments would serve the subsidiary's strategic objective best. The findings of this study suggest that subsidiaries operating in institutionally distant countries make strategic choices with regards to the types of CSR activities to pursue. The findings of this study are in contrast to those of Husted and Allen (2006), who investigated the CSR practices of MNCs in the market of Mexico. They concluded that institutional pressures, and not strategy, tend to inform the CSR decisions of MNCs. The findings of the present study suggest that institutional or strategic logic is a function of the subsidiary's need for resources and markets, which determines whether to mimic local CSR practices or to forward the global CSR agenda.

The study makes two contributions to theories on the resource-based view. The majority of the studies using the RBV contend that engaging in CSR efforts leads to the creation of intangible resources. This study concentrates on the mechanism of resource deployment in this process and, by doing so, offers an alternative perspective on the efficiency–effectiveness debate. The articulation of resources and capabilities associated with the engagement of integrated practices, and the mechanisms through which performance benefits are derived, show that effectiveness rather than efficiency drives value creation. The research findings confirm the effectiveness thesis and show that integrated practices advance the subsidiary's competitive advantage. The study extends RDT by adding CSR engagement as a more specific strategy to manage resource dependencies. Furthermore, by explicating critical resources and resource dependencies of subsidiaries operating in distant emerging markets, this study engages with RDT at an empirical level, while the focus on social legitimacy bridges the gap with institutional theory. The critique that the environmental dimension of munificence is often approached at an inappropriate level of abstraction (Castrogiovanni, 1991) is also addressed. The resource dependence concept links the aggregated environment, consisting of individuals and organisations, to resources, while allowing differentiation between key interest groups that control access to those critical resources. This understanding of resource munificence allows for a more differentiated analysis of resource dependencies, locates the interest groups that control these resources, and enables the development of strategies that can be employed to address these. Moreover, resource dependence extends the concept of resource munificence by specifying the context that controls the availability and accessibility of critical resources. This refinement removes some of the conceptual ambiguity that can complicate the comparison of findings across studies.

The examination of subsidiary-level CSR practices contributes toward the literature on sustainability reporting. Hahn and Lülfes (2014) identified various tactics organisations employ in order to legitimise incidents in CSR reports. This research builds on that list by identifying the tactic of *aggregation*, whereby consolidation of materialities obfuscates the accomplishments of

subsidiaries in foreign markets. Although it would appear that the enveloping of actual CSR activities is another form of concealing nonconformity behind a façade of consent, the tactic of aggregation and the focus on materiality at the MNC level lead to a loss of critical detail about CSR practices and issues of subsidiaries operating in foreign countries. Materiality, according to the GRI, is “the threshold at which topics or indicators become sufficiently important that they should be reported” (Global Reporting Initiative, 2011, p. 17). In other words, topics (including issues and practices) that fail to reach this threshold will not be reported. For this reason, CSR reports cannot be used to infer conclusions regarding the CSR activities of foreign affiliates.

### **8.2.2 EMPIRICAL CONTRIBUTIONS**

This study makes the following empirical contributions. First, it fills a gap in the literature regarding the CSR approaches of MNCs in emerging markets by showing that the CSR activities communicated by the parent organisation are different from those enacted at the subsidiary level. This observation has implications for CSR research of MNCs in emerging markets, and highlights the need to commensurate the level of analysis with the research objective. Second, the research provides evidence for the existence of a pragmatic CSR typology that distinguishes between CSR activities in the marketplace, the workplace, the community and the environment. This typology can be used to classify the CSR initiatives undertaken by a wide variety of organisations. Because the domain-based CSR measures depart from broad categories, they are applicable to all sorts of organisations irrespective of the strength of the relationship with individual stakeholder groups. Third, using this classification, subsidiary-level CSR measures were developed, and then validated for the emerging market of Malaysia. To the best of my knowledge, this is the first set of CSR measures at the subsidiary level. Future research should investigate the extent to which these measures apply to other emerging economies, not only in Asia, but also those on other continents. Fourth, the discovery of integrated practices explains which critical features of CSR engagement contribute toward the development of competitive advantages. Integrated practices exhibit similarities with the shared values concept of Porter and Kramer (2011), in that both concepts have links to the value chain, are opportunistically driven and may create a win–win situation for the company and the community in which it operates. Some overlap also exists in the methods deemed to create value. For instance, Porter and Kramer’s strategy of reconceiving products is related to the integrated marketplace–environment practices in that both aim to create more specific value for the customer. However, for Porter and Kramer, shared value starts with an external assessment of opportunities, whether in terms of product offerings, distribution or markets to serve, or improving the context in which the business operates, whereas integrated practices depart from a resource-based perspective and emphasise the value created from

functional, organisational and dynamic capabilities. Porter and Kramer portrayed shared values as an alternative to CSR that, they claimed, even supersedes CSR (Crane, Palazzo, Spence, & Matten, 2014). In the present study, integrated practices are considered a form of engaging in CSR that derives its value not only at the intersection of business and society but also from the organisational processes involved.

### **8.2.3 PRACTICAL IMPLICATIONS**

#### **■ The myth of best practices**

Firms, in their quest for legitimacy, emulate renowned CSR practices from other firms operating in similar industries. Yielding to these mimetic pressures toward institutional isomorphism is especially prevalent when linkages between organisational means and ends are unclear; and the practice is regarded as desirable because of its legitimacy-enhancing qualities (DiMaggio & Powell, 1983). There are two reasons why these investments fail to meet expectations. First, the imitation of a best practice focuses on the outward, or visible, aspects of the practice, leading firms to overlook the resource endowments associated with a successful implementation of the practice. As the analysis of integrated practices pointed out, the interplay between intangible resources and functional and dynamic capabilities requires time and commitment and cannot be copied from phenomenological features of the practice. A second reason is related to internationalisation strategy. The findings of this study elucidate the relationship between internationalisation strategy along with resource and market dependencies, and the value of certain CSR practices for subsidiaries operating in emerging markets. What may serve one company may not be in the best strategic interest of the firm copying the practice. Indeed, the culture and strategic stance of an organisation may be more impervious to isomorphic pressures than are its structures, activities and processes (Ashworth et al., 2009).

#### **■ Aligning internationalisation motives with CSR strategies**

The research findings underscore the importance of aligning internationalisation motives with foreign CSR strategies, and offer insight into the types of CSR initiatives that best support subsidiaries' internationalisation strategy. Determining a suitable strategic CSR approach starts with identifying the organisation's critical resources along with the groups or individuals that control these. Similarly, organisations should analyse characteristics of the markets in which they operate and the expectations customers and other important stakeholders have regarding the CSR activities of the subsidiary. Accordingly, resource and market dependencies inform the strategic CSR approach of the subsidiary. Subsidiaries that are primarily dependent on the host country need to garner local internal legitimacy and local external legitimacy residing with customers,

investors, the host country government departments and local grassroots groups. Managing legitimacy requires the subsidiary to refrain from the opportunistic exploitation of charitable activities because in emerging and developing contexts, such initiatives are associated with altruism (Jamali, 2010). These beliefs resonate in many developing countries, and were also voiced by senior managers in this study. Therefore, MNCs operating in emerging markets should take these beliefs into consideration when designing their CSR strategies. Self-serving motives, which are inherent to internationalisation strategies, are best fulfilled through investments in CSR practices that communicate those intentions, such as integrated practices.

#### ■ **Deploying resources along the value chain**

The research on integrated practices presents managers with some practical guidance with regards to the types of CSR investments that enhance firm performance returns. The investigation of integrated practices uncovered five types of practices that allow an organisation to engage with a broad group of stakeholders as well as to embed knowledge along with organisational and dynamic capabilities in the organisation.

### **8.3 SOME REFLECTIONS**

#### ■ **The mutating concept of firm performance**

The operationalization of firm performance mutated from chapters four to seven, from a strategic conceptualisation whereby CSR enhances firm performance through lower costs, differentiation, and improved competitive context, to a more benefits-oriented approach informed by the intimate examination of the experiences of the subsidiaries involved. Respondents associate CSR with saving costs, increasing sales, managing risks, protecting the subsidiary, improving staff morale, increasing productivity, obtaining government support, winning CSR-related awards, branding, and gaining media exposure. The quantitative assessment classified these subsidiary-level benefits into four unidimensional factors. In descending order of importance, these are labelled as market returns (sales, market share, and market development), social returns (employee commitments), reputational returns (general reputation, trust and quality) and financial returns (return on investment and growth of earnings). Apparently, subsidiaries consider financial indicators such as return on assets and stock market returns, which are often used in CSR–FP studies (see, for example, the meta-analytical studies performed by Orlitzky et al. (2003)), to be of lower relevance. Market returns, on the other hand, are recognised as the factor most directly affected by CSR investments, suggesting that subsidiaries perceive direct linkages between strategic value concepts and the extent to which this translates into benefits. Therefore, it could be concluded that research on the CSR–FP relationship benefits from more direct firm



performance measures, such as those developed in this research, which are less impervious to influences that are unrelated to the relationship.

#### ■ **The debate regarding ethical and strategic notions of CSR**

This study investigated the CSR–FP relationship within the context of emerging markets, which invites a critical reevaluation of the business case for CSR. Much of the critique on the business case for CSR reflects the disappointing benefits of CSR investments for social and ecological progress in general (Visser, 2011), and in particular for eradicating the exploitation and marginalisation of the poor in the developing world (Blowfield & Frynas, 2005). Nijhof and Jeurissen (2010) considered strategic CSR to be removed from its moral foundation, with firms cherry-picking opportunistically on the social issues agenda, while leaving institutional blockages intact. Others consider this behaviour necessary, as firms endeavour to balance characteristics of the firm with societal needs and demands and to develop a strategic argument that is recognisable to both internal and external stakeholders (Moratis, 2014). The aforementioned portrays two different approaches. The business ethics approach remains in the ideological realm, formulating claims against economic and strategic understandings of CSR often supported with business anecdotes. However, aside from a few attempts at developing an ethical responsibility theory, this approach appears stagnant in its development. In contrast, the business case approach continues to attract scholars in an ongoing quest for theoretical explanations. The integration of resource dependence theory, institutional theory and international strategy contributes to this growing body of literature. Meanwhile, businesses are exploring new strategic directions, such as cradle-to-cradle approaches, which espouse a circular economy, social enterprises and new business models. Changes such as these might produce the institutional and ecological changes desired by ethicists. Based on these observations, it can be concluded that the CSR debate is stagnating, and that at this point in time, the way forward is strategic in nature. Developments such as these might help integrate ideas on profitable business with a moral framework that is acceptable to both utilitarian and broader notions of duties and rights.

#### ■ **The contribution of CSR to emerging markets**

As pointed out by several scholars (Manolopoulos, 2008; Rugman, Verbeke, & Yuan, 2011), market entry decisions often start with seeking new market opportunities. With the curbed growth opportunities of established markets, emerging markets are appealing locations. Asia's attractiveness is further augmented by ASEAN liberalisation efforts that have lowered trade barriers among the member countries. The Malaysian government has enhanced its location advantages vis-à-vis other former Asian Tigers by offering taxation holidays of up to 10 years. Indeed, the majority of the MNCs in this research use the subsidiary in Malaysia either as a

location to develop the host country market by setting up a truncated miniature replica (Pearce, 1999), or as a location for a regional marketing satellite exporting to adjacent markets (Poynter & White, 1984). Strategies such as these are frequently utilized by younger subsidiaries, those with manufacturing activities, and those whose parent organisation is located at a significant geographical distance (Hogenbirk & van Kranenburg, 2006). Whatever their strategy, these MNCs do provide jobs to the host countries and, thus, help to develop economies at the bottom of the pyramid by raising income (Peng & Pleggenkuhle-Miles, 2009). Indeed, FDI has long been viewed as a powerful means to develop the socioeconomic status of countries. Furthermore, numerous emerging markets are going through a process of institutional sophistication, as indicated by a maturation of the regulatory system and grass-roots organisations calling on MNCs to be more sensitive to the needs of local constituents (Zhao, Tan, & Park, 2014).

#### ■ The future of survey research

The difficulty of collecting primary data from senior management of MNCs is a common and challenging issue to negotiate. This raises the question of whether random samples are even possible when collecting primary data via surveys. The difficulties of sampling are not unique to this study. To illustrate, investigating the CSR–FP relationship of Indian companies, Mishra (2010) met 400 executives face-to-face to obtain a sample of 117 firms. As a means to counter this development, several researchers advanced the idea of using multiple modes to collect primary data (De Leeuw, 2005; Dillman et al., 2009). However, this development reduces the representativeness of samples and creates bias, which is difficult to control. Consequently, these convenient samples are appropriate for exploratory research, but will not help to generalise findings to other samples, unless data is sampled from each specific group that is investigated. Perhaps the time has come to acknowledge that the traditional fashion of distributing surveys as a means to gather data is no longer appropriate, and that further investigation must be done in order to identify other means of primary data collection.

## 8.4 LIMITATIONS AND FUTURE RESEARCH

Limitations and specific suggestions for future research are provided at the end of the chapters containing the research findings. This chapter summarises these limitations and provides some general directions.

The findings of this study are confined to the emerging market context of Malaysia, which has some distinct features. For example, Malaysia's heterogeneous population and emphasis on maintaining racial harmony put workplace-related issues, such as diversity and equal opportunities at the foreground. Future research needs to validate the CSR subsidiary questionnaire for other

emerging countries. Furthermore, the modest sample size and the sample composition limited the extent to which the strategic alignment model could be tested. As a result, the number of variables that could be included in the regression analysis was reduced, while the sample was overrepresented by subsidiaries oriented on international markets. In addition, the reluctance of three chambers of commerce to volunteer their membership directories led to an underrepresentation of firms from the United Kingdom, Austria and New Zealand, while firms from Northern European countries and the United States were overrepresented. Hence, the findings are limited to the countries with proper representations. As a result of these limitations, the emphasis was on establishing the relevance of resource dependence, market dependence and autonomy, and on investigating the relationships undergirding the eclectic CSR approach of subsidiaries. Given that theoretical concepts such as institutional distance and institutional duality depart from the notion of country of origin, while home-grown institutions influence the development of strategy (Elango & Sethi, 2007) and preferences for certain types of CSR (Matten & Moon, 2008), it might be interesting to investigate the extent to which these preferences are present in the choice for strategic CSR approaches. Future research could investigate the validity of the other three strategic CSR approaches and the influence of country of origin, using a larger, more representative sample.

## **CONCLUSION**

The central research question guiding this research was phrased as follows: “How does the alignment of CSR practices influence the firm performance of MNC subsidiaries operating in emerging markets?” The research findings suggest aligning CSR practices according to a subsidiary’s greatest dependence, markets or resources, will at worst maintain and at best improve firm performance. The type and direction of the dependence involved determines the extent to which the subsidiary’s internationalisation goals (and thus subsidiary performance) are advanced by investing in the marketplace, workplace, community, the environment or integrated practices.

## APPENDICES

## **A. INTERVIEW QUESTIONS**

### **Contextual factors**

1. What motivates your organisation to undertake CSR programs?
2. Are there any industry factors that influence your CSR policies and plans? Can you please explain your answer?
3. Are there any cultural norms that you consider when formulating your CSR policies and plans? Can you please explain your answer?
4. Are there any regulations that you take into account when formulating your CSR policies and plans? Can you please explain your answer?
5. Who do you consider to be your most important stakeholders?
6. How do these stakeholders influence CSR decisions?

### **CSR Strategy**

The framework used by regulators in Malaysia differentiates between four main CSR areas, namely the market place, the workplace, the environment and the community.

1. The 'market place' concerns activities relating to the treatment of shareholders and customers, information, supply chain management, raising standards of corporate governance and business ethics.
  - a) What sort of CSR initiatives does your organisation undertake within the market place?
  - b) Why did your organisation decide to undertake these initiatives (to be asked when the answer is very different from the answers to the questions regarding contextual factors)?
  - c) How are these CSR initiatives related to your organisation's objectives?
  - d) What specific resources and /or capabilities allow your firm to undertake these initiatives?
  - e) What does undertaking these CSR programs do for your organisation?
2. The 'workplace' concerns employee practices relating to equal opportunity practices, managing employee diversity, occupational health and safety and employee development.
  - a) What sort of CSR initiatives does your organisation undertake with respect to the workplace?
  - b) Why did your organisation decide to undertake these initiatives (to be asked when the answer is very different from the answers to the questions regarding contextual factors)?
  - c) How are these CSR initiatives related to your organisation's objectives?
  - d) What specific resources and /or capabilities allow your firm to undertake these initiatives?
  - e) What does undertaking these CSR programs do for your organisation?

3. Environmental CSR activities include activities such as reduction of CO2 emissions, reduction of energy usage, waste management and environmental conservation practices.
  - a) What sort of initiatives does your organisation undertake within the environment?
  - b) Why did your organisation decide to undertake these initiatives (to be asked when the answer is very different from the answers to the questions regarding contextual factors)?
  - c) How are these CSR initiatives related to your organisation's objectives?
  - d) What specific resources and /or capabilities allow your firm to undertake these initiatives?
  - e) What does undertaking these CSR programs do for your organisation?
4. Community CSR initiatives refer to practices such as minimising social negative impacts, social issue management, corporate volunteering, corporate giving and community capacity development programs.
  - a) What sort of initiatives does your organisation undertake with respect to the community?
  - b) Why did your organisation decide to undertake these initiatives (to be asked when the answer is very different from the answers to the questions regarding contextual factors)?
  - c) How are these CSR initiatives related to your organisation's objectives?
  - d) What specific resources and /or capabilities allow your firm to undertake these initiatives?
  - e) What does undertaking these CSR programs do for your organisation?

### **Firm performance**

1. How does your firm evaluate the performance of a CSR plan?
2. To what extent does your organisation benefit from CSR plans in the different areas of the market place, the workplace, the environment and the community?
3. How important is it that your organisation benefits from CSR plans? If this is important, what types of activities does your organisation undertake to ensure that benefits are generated from these plans?

### **Closing**

1. Do you have any other comment, which you would like to make that would help me understand what motivates your organisation's CSR plans?
2. Do you have any questions for me?

## B. CONSENT FORM



University of South Australia

### CONSENT FORM

**Project title: Strategic Corporate Social Responsibility and Firm Performance**

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- I have read the Participant Information Sheet and the nature and purpose of the research project has been explained to me. I understand and agree to take part.
- I understand the purpose of the research project and my involvement in it.
- I understand that I may withdraw from the research project at any stage and that this will not affect my status now or in the future.
- I understand that while information gained during the study may be published, I will not be identified and my personal results will remain confidential.
- I understand that the information of this interview will be stored in a cabinet of which only the researcher has access.

**Name of participant**.....

**Signed**.....**Date**.....

I have provided information about the research to the research participant and believe that he/she understands what is involved.

Researcher's signature and date.....

**This project has been approved by the University of South Australia's Human Research Ethics Committee. If you have any ethical concerns about the project or questions about your rights as a participant please contact the Executive Officer of this Committee, Tel: +61 8 8302 3118; Email: [Vicki.allen@unisa.edu.au](mailto:Vicki.allen@unisa.edu.au)**



## C. CODING SCHEDULES

### C1 FIRM PERFORMANCE

Codes derived from literature	Data coding		
Category	Code	Resp.	Sample quotes
<b>Accounting returns</b> <b>Return on assets</b> <b>Return on equity</b> <b>Total sales</b>	Saving costs	F&B4	Waste management is economically driven [pause]. So we emphasise waste reduction where possible. What is not being used is sold to firms who turn the waste into fertilizer. That is cheaper than sending it to a landfill where we are required to pay for the dumping.
		LCP	I think we are coming strictly from finance it is cost saving. Cost saving in the sense that we are looking at paper usage and all those things and we have been measuring departments that use paper and all those. So as a budget process, we actually kind of bring down over a period, and when we talk about printers and all that we have been trying to use a lot more different type of printers that require less, how to say... less ink, more user friendly type of thing. So we have been changing quite a number of that as a department thing. Of course, other financial thing is pretty much on recycling.
		LC2	So therefore, sometimes some of these standards are difficult to adopt. It changes the way we do business and plan business and more often by following standard it is more expensive. If you don't follow standard, I think you can do anything you want and to the business convenience is actually so much cheaper to do business.
	Efficiency	HC1	We have started an herbal garden on the roof where we grow curry leaves, daun pandan, serai, basil and stuff like that, which is used for daily cooking in our restaurants.
		HC3	It is not important to benefit from our CSR plans. Instead there is a need to look after our energy, there is a need to reduce waste; not just for financial gains, but it is easier to [pause] it is part of running business efficiently.
		LC5	We've tested ourselves occasionally on these, is reputation more important than safety or production? But it is intertwined because there is a correlation if they are not performing safely, then you're likely inefficient as well. That is interesting one. Yes, because a lot of safety is discipline. And discipline comes from trimmed procedures. And being efficient on how you operate. Planning jobs well, al that will make your production go well.
	Staff turnover	HC2	When I first came in, staff turnover was 7%. Now it is only 3% and that is where CSR comes about [pause]. If we really do CSR for the staff it will actually help us to keep turnover down.
		OGC3	But I think it's (CSR) good retention kind of activities for internal, and let's see, a employers of choice, that means people look at your company and see that you're a good corporate citizen. That means if you have good CR that means you are a good social be responsible company.
		LC2	Staff turnover is more than 10%. We are going to be looking at 15% over this year. And, but there are several factors that affect staff turnover. They can love you, love the company for corporate responsibility, but if they are not paid very well, they still leave, you know. So, why we do all these is to build pride as well. So I can safely say that the employees are very proud of the things we do for the community and corporate responsibility. And we are definitely sure of that because of the scores in the employee survey.
	Recruitment	AC3	We have already about five people of the graduates send out who joined us a full-time installer engineer.
		LC2	But what I can tell you, the biggest thing that we have gained from doing all this is employee engagement. In our voice survey, areas where they ask for, questions on corporate responsibilities, the scores are really, really high. The employees believe, like, for example, a lot of people, employees responded to say that they believe the company looks after their health and safety. They are proud to work for the company, the company takes care of the community, and these scores are very, very high.

Codes derived from literature		Data coding	
Category	Code	Resp.	Quotes
<b>Market returns Tobin's Q</b>	Stockholder	LCP	I don't know what being number one in the DJSI will do for us. For me there is no connectivity whatsoever. [Pause] I haven't seen any increase or decrease when it was announced. We have been included for the last two or three years...On most days. [Pause] I check and I see zero movement... Dow Jones no flicker....
		F&B!	When it comes to shareholders value, we were awarded the Bronze Medal for shareholder value for KPMG
<b>New products</b>	New products	AC7	I have interviewed a few customers, and especially the big ones are very excited with the prospect of generating manure into free energy, and that at the same time the problem with what to do with manure is solved [new gasification technology]
<b>New markets</b>	New markets	F&B2	The school milk programme is returning again, but this time it comes from the local fresh dairy. All schools will benefit, all the students [pause] and this is all paid for by the Ministry of Education. So we have a new customer and I am happy because the recipients at the end are the children.
<b>Increased productivity</b>	Productivity	LC1	Take for instance IIP standard; we need to make sure our staffs are actually equally productive. Productive in the sense that we provide the necessary training, we provide that kind of recognition for the staff that we have brought in. We believe very much that each of the staff when they walk out from here it actually costs the company a lot, a lot more than just to actually recruit a new one. Therefore by embracing the IIP philosophies definitely helps a lot especially when staff is concerned and more so when you compare a company that provides the necessary development and all that. The staff will be more happier [sic], motivated and productive as well as actually retained for long.
		LC4	So by having all these OSHAS 18001 ISO 40001 I presumed is key drive behind making sure people have safe place to work. People are happy. When people are happy they can deliver better service when service is good, it will come out you will have a growth in the business and you re invest in your people to give them sufficient training give them the knowledge about health safety and eventually it will drive back and come back to give you a better profit.
<b>Organisational commitment</b>  "A psychological state that binds the individual to the organisation (Allen & Meyer, 1990, p. 14)	Employee engagement	LC2	But what I can tell you, the biggest thing that we have gained from doing all this is employee engagement. In our forest survey, areas where they ask for, questions on corporate responsibilities, the scores are really, really high. The employees believe, like, for example, a lot of people, employees responded to say that they believe the company looks after their health and safety. They are proud to work for the company, the company takes care of the community, and these scores are very, very high.
		F&B9	In Europe, and maybe also among the Malay staff, when people experience an emotional connection with the company, it also improves the working atmosphere and ultimately that improves firm performance. When someone is a member of the Blue Brigade, and involves head and heart, it improves employee satisfaction and thus retention. However, this is different for the Chinese staff. They seem more interested in getting a better salary.
	Employee satisfaction	F&B9	When people feel an emotional connection with the company, then that improves the working climate and ultimately that will improve the organisation as a whole. So differently formulated, if someone is a member of the 'employee volunteering' team, and there is a connection from head to heart, then it improves employee satisfaction, employee retention. However, this might not really apply to the Chinese in the organisation. They are more focused on money.
		LC3	Yeah, it [world food program] can, it really can make our employees feel proud, there is a feel good factor, but it does not create more sales.
		LC4	I would support any company that do a lot of charity for the needy. Truthfully needed people. Not like our dear prime minister's wife organised first lady submit, organised international Islamic fashion in Monte Carlo with all high flyer. And people drink, drink like that. [Pause] Spent hundred millions of ringgit for what? We should do something for the poor for this country that is my personal view.

Codes derived from literature		Data coding	
Category	Code	Resp.	Quotes
Improved reputation	Government support	F&B2	We have been called in by the <i>Pemandu</i> [the head of a ministerial department] to provide input to improve the local dairy development.
		F&B5	Regarding the dairy development program: "It helps us in our relationship with the government. Because they see a multinational doing something, contributing. And why I say that is because despite our name, we are seen as a local company.
	Winning awards	FC3	We won with [name of campaign] the Malaysian PR Award for the best campaign again under the CSR category.
		HC2	On the Green Globe we are now actually Gold certified.
		OGC1	I'm not trying to brag about MNC, but the fact that we, we what do you call that, [pause] are listed in the Dow Jones Sustainability Index and things like that. [Pause] if they were to use us as a model, I think you know, I'm more than happy to share.
	Branding	HC2	It is also part of branding, because I think CSR is a good branding tool actually.
		OGC5	But to sustain itself, we're trying to figure out okay now, what makes employees want to come to this MNC? How do we become model company that everyone wants to work for? And from what I have seen on the past especially going into a new country, it's very hard to get people work for your company, they've never have heard of you so you have to be well known in the community, you've got to be there visible and helping out show that you're caring company and people. [Pause] good people start want to work for the company.
		LC2	So, I think we've gone that way is still very difficult path I can ensure you. Over the years, my life is all about audits. I go through five, six audits a year. You see five certifications, definitely...except for IIP, that is every 3 years, the rest are every year you have to go through. This year, I have the good fortune of IIP as well which is happening next week. I got five audits and SA8000 is twice a year [pause] but what we have done is [pause] you know we combine them to be at the same time rather than different times of the year. So now we do everything in the same time. It is not easy to implement and it is definitely more expensive, time consuming, requires a lot of efforts, but once you have it, is so easy to tell to say to customers and communities that [pause] you know, we are certified.
	Media exposure	FC3	When we run CSR projects, I have to say that we receive a lot of media mileage. [Pause] We do get a lot of coverage. For that [pause] programme, we have more that 15 articles in all the local leading media and it is like half to full page kind of thing. In terms of media, I think we get a lot of knowledge out of that. We are doing like a PR value, it is close to about RM 500,000 to RM 600,000 worth, during that seven week stint of that campaign.
		F&B1	I would say this company is like a sleeping giant. Actually Nestle said that to our MD. He said: look the giant is waking up. The MD was saying, what do you mean? In the past year plus you have received a lot more publicity, you are lot more active in the community, you are doing a lot of restructuring, you are being a giant in diary... you have always kept things on a plateau. No major changes, no major shakes, [pause] but lately you are putting yourself in the papers.
		HC1	When we initially started, whatever cheers and all that we do, we used to put in the papers. But nowadays we don't actually publish it because we feel that this type of thing we don't need to show off.

Codes derived from literature		Data coding	
Category	Code	Resp.	Quotes
Improved reputation	Media exposure	HC2	Publicity wise because whatever we do for CSR and the green movements [pause] eh [pause] we hope [pause] the article will be published in magazines and newspapers to. To let people know. We will send out press releases to all media, press and magazines as well. Plus we also do an e-mail blast to our existing clients by e-mail. Ehm [pause] and on our website as well we have got a ... section for CSR. Eh [pause] so they can actually click online and check what are the projects that we are doing and what we have done. Eh [pause] so that's how we communicate."
		HC5	Publicity wise because whatever we do for CSR and the green movements [pause] eh [pause] we hope [pause] the article will be published in magazines and newspapers to. To let people know. We will send out press releases to all media, press and magazines as well. Plus we also do an e-mail blast to our existing clients by e-mail. Ehm [pause] and on our website as well we have got a [pause] section for CSR. Eh, [pause] so they can actually click online and check what are the projects that we are doing and what we have done. Eh [pause] so that's how we communicate.
Insurance against attacks and threats	Risk management	OGC1	Any incident and things like that, we have to go through GLC [name of the GLC]. We are not alone in that sense [pause]. They will manage the situations with the authorities, with the people at large and things like that [pause] They will have a mitigation plan in terms of, to manage a crisis.
		LC2	We do businesses with some very big companies and some of these companies are, they want to know the way we do things, whether we are operating to some very strict ethics and legal standards [pause] ethical legal standards. By adopting some of this certifications and they are international standards, we actually can give assurance to our customers that we are well-run company [pause] so you know, there is an increase confidence. So especially in SA8000, although is not as important as some of the other certifications as yet.
	Insurance	F&B1	When we had the issue with Geert Wilders some years back, we really had a lot of concerns. One of our biggest enemies was the Muslim Consumer Association and they have got this huge underground network. I managed to convince them that we are a Malaysian company, who really cares and that a lot of their Muslim brothers are employed here. A boycott would also affect them. So then they did not boycott our products.
	License to operate	OGC2	So that's how CR can actually help. You know I mean it is a CR initiative. It look likes it just a community thing. But we can actually impact. But when it comes to all the community investment and those [pause] we are spending money. But the returns I think are very important because if the community likes you, [pause] they will want you around. That is the social license to operate. That's a valuable, and that is worth the dollars that you invest in those communities for sure.
OGC3		If let's say, you give back to the society, first that means, it's not easy, you know, you give something back you allocate millions of dollars back to society, you don't have to, but you do, and then you see a lot of, [pause] you inculcate all these good habits to yourselves, you know. Like, caring for people, donate, volunteering. So I think staff, I think a lot of people, even if you are not staff, you look at these companies, I think you'll be motivated to work for the company. If you can help others, of course you help yourself more, right? But I think its good retention kind of activities for internal, and let's see, an employer of choice, that means people look at your company and see that you're a good corporate citizen. That means if you have good CR that means you are a good social be responsible company. It means that's why you have license to operate. But it's very clear lah [local expression, has no clear meaning but is part of Malaysian English phrasing], you know?	

## C2 CSR PRACTICES AT SUBSIDIARY LEVEL

Codes derived from literature		Data coding	
Higher order category – marketplace practices			
Category	Code	Resp.	Quotes
<b>Supply chain management</b>  <b>A process of planning, implementing, and controlling the operations of the supply chain with the purpose of satisfying consumer requirements (Glavič &amp; Lukman, 2007, p. 1881).</b>	Managing the supply chain	AC1	There are no specific sustainability guidelines for suppliers. Of course we have very stringent Q&C procedures, but we do not perform a due diligence on suppliers.
		HC3	As for stakeholders like our suppliers...there is actually much room for improvement. In the next phase we would like to get the supply chain a bit more transparent [pause]. Where are items coming from, looking at items that are actually more sustainable on their own and looking at the possibilities to help suppliers actually more with products which are maybe healthier, biological and more efficient.
		ICR10	Based on our long experience with the Supplier Responsibility Program, we know our supply chain is very responsive to our requests. However, what we've also learned is that, especially in developing countries, it is not enough to just set an expectation. We achieve much better outcomes if we identify resources to educate the supply chain on how to execute and make available supporting tools. As many other companies have experienced, even with a regular audit program, it is difficult to rely solely upon periodic audits to instil a compliance and safety culture at supplier sites. At the same time, especially in those parts of the developing world where enforcement is limited, building supplier capacity requires the time and involvement of multiple stakeholders. IC uses multiple approaches to provide training to suppliers.
		LC5	We've gone to some suppliers and said we're not necessarily looking for the cheapest goods, we're looking for some companies that share some of our beliefs to work with and we want you to do the sort of things that and that is an example. You know, I'm sorry, but if you're that kind of squeeze constantly, you're on your own. You're just forcing people. Well, they're just going to go away, of course. They can't stay with you. It's a very short term, non-sustainable strategy. So we had to get people, maybe HRCRM told you about it, we had a supplier convention here recently, and we got everybody in. Everybody came. We had a good fifty people in with us, and we had a nice day with them and we thought we'd share with them a little bit about what we're trying to do in [this company] and what we would like them to try to understand them about us. And when we talk about some of the things we are asking for, and we explain why we are asking for it.
		OGC5	So what the HSE group is trying to do around the world is built the standards and I think they've come up with standards for 22 different themes. One of them is contractor. Where we have to improve is that various contractors you hire around the world will be doing it all different ways, right. So what they've done is they've come up with saying new hired contractors especially with riskier activities and we do risk it tier 1 tier 2 down to tier 4. Then they've got to have certain procedures, certain management system in their company before we should be taking them on and if they don't then you have to get approval for any deviation.
<b>Responsible marketing practices</b>  <b>Marketing designed to enhance consumers wellbeing without doing any harm to other stakeholders of the organisation (Sirgy &amp; Lee, 1996, p. 20)</b>	Responsible products	AC1	A chicken becomes unhappy when it cannot do its normal behaviour. And this affects the taste, so ultimately when you do not treat your chickens well, or when you overcrowd cages, it will affect the quality of your product.
		F&B4	On a regular base the newspapers report the sugar levels of products and we certainly do not want to be compared with Coca Cola. We are investigating how to reduce the sugar of our products. Here in Malaysia that is very high. We are testing with reducing sugar levels or using replacements.
		F&B6	We have initiated, along with some other countries in the region a big nutrition study to basically research roughly about a few thousand children across the country and actually understand their nutritional habits, their nutritional needs and benchmark against the recommended standards and use that information to design our innovations and products portfolio in the coming years.
		FC1	About the customer suitability form: "every agent when they sell a policy to a prospect needs to fill up this form [pause]. This includes how many children the client has, what type of assets and which policies. [Pause] We have also certain actions conducted by our company. For example we have a 14 days cooling-off period.

Codes derived from literature		Data coding	
Category	Code	Resp.	Quotes
Responsible marketing practices	Responsible sales and promotion practices	F&B6	The green revolution has begun slowly [pause]. We are looking at our packaging [pause] because you do not want to create a pack that has 50% head space [pause] we also have been moving away from tins.
		LC3	Every service that we sell eventually will have a tag of how green is your product you know in terms of the carbon emission or the carbon footprint and so on.
<b>Higher order category – workplace practices</b>			
Category	Code	Resp.	Quotes
<b>Work conditions</b>  These reflect [characteristics] of the environment in which the work is performed (Morgeson & Humphrey, 2006, p. 1324)	General	AC1	I still come across situations where I observe that for example protective insurance policies for our staff are not taken care of properly. That really drives me mad.
		F&B6	One of the other things that we are actively exploring is called “Project Fourth Trimester”. And basically that is to get the maternity leave in Malaysia extended from the current 60 days to 90 days [pause]. From research we know that 90 days helps in bonding between mother and baby and so on [pause]. But our mission states that we want to help Malaysians move forward in life [pause] and our core target consumer group are mothers [pause] and many of them tending [sic] to be working mothers. So our objective is to make lives of mothers in this country easier.
		FC4	You have work-life choice for example [pause] we don’t dictate that you have to come in by 8 and leave at 6 for example. You make your own personal choice. If you need some personal time, you can always have that [pause] we need to make sure that they have a sense of purpose in their work. [Pause] By selling all these ideas to them, we hope that it will open up their mind and they see a longer career in this company.
		LC4	Let’s say SA8000. It says that each of the staff should not work more than 48 hours of OT. 48 hours is really a challenge for us. We are running a 24/7 operations. People working around the clock. If I got to really stick to this one that means every week, we should not have more than 48 divide by 4 is 12 hours per week of OT, per day maybe should not have more than 2 hours. So I cannot afford that why because my truck leaves at 8 in the morning. I have to reschedule my staff. In the past before I join was 7.30. Now it’s 8 o’clock. 8am they do the sort and everything and go out to the road. By the time they finish pick up delivery and all they come back probably about 7 to 8. So that is about 11 to 12 of work time. So normal working hours 9 hours minus 1 hour for lunch is 8 hours. Daily you will have more than 2 hours. So we don’t have a choice. I cannot be possibly hire person to work the second half of the day. And neither can I hire people to work half a day [pause]. Sometimes for business reasons sometimes we just have to break the rules little bit. When SA8000 auditors come, we try to explain to them it doesn’t make any difference to run business like that.
	Occupational health and safety	AC3	When I joined [AC] 3 years ago, there was no safety policy for the warehouse. So AC has developed one now, although some people find it still very offensive you know, especially they say, why no need to wear a helmet you know.
		F&B8	We are not only looking into health and safety at the workplace, but also to the health of the individual employees [pause]. We have a quite generous medical insurance policy, even a health insurance policy [pause] also dependencies of our employees are covered at full cost.
		OGC4	Reducing the number of incidents is a real target. Last month 9 injuries were reported that all had to do with hand and fingers. To help instil safe behaviour practices, they have a ‘Just Culture’ – which is actually about discipline. When staffs behave not safe because of lack of knowledge, then they receive training. When they behave unsafe, although they are aware of doing so, disciplinary measures will follow.

Codes derived from literature		Data coding	
Category	Code	Resp.	Quotes
<b>Diversity</b>  <b>Increasing the representation of staff from underrepresented groups (e.g. race, nationality, gender, age) (Thomas &amp; Ely, 1996)</b>	Promoting diversity	AC2	Roughly we have about 140 people and I think 70% consists of male and 30% of female. The Chinese are the majority now for this company, then followed by Malay. I think Chinese consists also 70%. We have no diversity policy.
		F&B8	When you look at the definition of diversity in Malaysia, it is in terms of ethnic groups and then for corporations it is on gender basis. We are trying our best to ensure that there is a good spread. We do not have a policy [pause] it is more an understanding in terms of how to move the organisation forward.
		FC2	We have a diversity and inclusion policy, the company has. And it is all, because it is a global policy; all [subsidiary] sites have to follow. How we practice it here, to us it means, it's not difficult, because Malaysia itself is a multi-racial society. So, to us, it's just a way of life, you know? Diversity means we recognise people from different backgrounds, and all our working hours, our, whatever benefits we take into consideration all the different festivals, for example, cultures and everything. So, we will take into consideration, all the cultural requirements when we organise something or in our work practices. In terms of inclusion, in our advertisements we never advertise criteria that spells out, male only, female only, or female below thirty-five only, you know?
<b>Employee development</b>  <b>All activities designed to enhance the personal, and professional skills and capabilities of individual employees (Cooper &amp; Kurland, 2002)</b>	Practices aimed at developing employees	F&B8	We are very serious when it comes to employee development [pause] we divide the programs on the employee career cycles. So for new joiners we have a programme called 'leading yourself [pause] then we have a programme on leading and managing [pause] then when they move into senior levels we call it 'leading people through results'. We also have a sales academy and a marketing academy.
		HC2	We started toastmasters for our staff, because we want all our managers to have good public speaking skills. Slowly we opened this to outsiders as well.
		LC2	So an average of six days per employee, we have a charter that says equal opportunity, and we have a trainee program, a company training calendar, we have department trainings going on. But in terms of, [pause] apart from attending all these formal training, people can be developed in projects, by taking on projects, sometimes they go to another country to take on short term assignments, or they take on regional assignments. That's how we continue to develop our people.
<b>Higher order category – community practices</b>			
<b>Community development</b>	Developing	F&B2	We came up with a purpose pricing structure, which is much more attractive. We pay based on the composition of the milk, so that would boost the farmers to provide better feed to the animal, hygiene, bacteria count and that would help animal welfare, improve awareness of hygiene and also the volume.
	Supporting	HC1	In 2007 we adopted a village in Johor that was really affected by the floods. So we actually went there to interview the people, and we got contact through the Welfare Department here and we did then do some brainstorming to see how we wanted to go about this project. So we involved our maintenance team.
	Investing	OGC2	On the scholarship program: "on average we target about 16. And it is not necessarily first year scholars; they can even apply on the second or third year. And post-graduates as well. The scholarship covers everything: [pause] tuition, a computer allowance [pause] book allowance, living expenses [pause]. So it covers quite a lot.
<b>Corporate giving</b>	Giving in kind	F&B5	As a rule I say we will not give money. Somebody asks for a 2 or 3 thousand ringgit donation, we will not give. Not because we do not have the money, I do. But it is the mind set; I don't want to give the money. No we will give our products. If we have to give for 6 months, then that is fine. We will do it. We will give something back; we are doing something that benefits people, society and environment. Benefit our employees. We do things because we want to make their life better. It is not how much we are going to give or get out of it. The moment you think that way, I think you are on a very slippery slope.
		F&B2	We have the weekly donations. We receive hundreds of requests a week and try to do the best we can. Our priorities would be the orphanages.

Codes derived from literature		Data coding	
Category	Code	Resp.	Quotes
Corporate giving	Funding	FC1	We have a global campaign, called 'CC' which we adopted in 2006 which focuses on creating chances for children. It is really directed towards education. It is also about helping mothers in order for children to have a chance.
	Redirection	LCP	We are good people, doing what we do, as a company and walking and sending an aircraft with food. I think that that is an enormously good thing to do. But [pause] is it what we wish? No, nothing like it. But we don't really have an opportunity to do more than that. We are one hundred percent proud of what we do in this area and I think okay. Yeah. And the cynic in me says nice, but I am not buying it. Why do we not do more in Malaysia? Why do we have to go about and donate to children elsewhere? We know that there are hungry children here. Disadvantaged children, kids with disabilities, brushed under the carpet. Why don't we do this? It does not gel for me.
Employee volunteering	Passive support	LC2	We also have something called 'Investing in our community' which is something where the company allows the staff to apply for specific funds. For an organisation or initiative that they regularly volunteer or work with. Per approved application it donates RM 1500. We leave it unlimited but normally [pause, eh] we target about 40 applications. Which is about right about give or take. The only requirements are that it must be non-profit organisation that receives the funds. And two they must be a volunteer in this organization, they or their immediate family. So it...they can also include their spouse, or their children that volunteer. Minimum 20 hours in a year. Which is easy.
		OGC2	Investing in our community programme, which is for staff and where the company allows the staff to apply for specific funds for an organisation or initiative they regularly volunteer or work with for about RM 1500 per applicant. The main criteria are that it must be a non-profit organisation that receives the funds and they must be a volunteer in this organisation; they or their immediate family.
	Active support	HC1	Compared to my competitors, most of them are giving donations. However, actually giving the cash does not create an impact there. It is about going out and doing it for them.
		F&B1	The Blue Brigade is largely made up of factory workers. Factory workers asked for a team to be set up and carry out CSR activities.
		FC1	We sponsored the Zoo. We sponsor two lions, and last year we painted the zoo with 350 of our staffs in two days time.
<b>Higher order category- environmental practices</b>			
Resource reduction	Energy	F&B4	We are in transition and at this stage we have decided to reduce energy usage with 1.5%. If we would go beyond this goal, say 5% we would really need additional means.
		HC4	Our electricity consumption by our air conditioning chillers is about 60%. So we invested in more energy efficient chillers. At night we increase the temperature. As for the lights, we are installing led lighting. It is all about upgrading.
		LCP	We have a new depot built for us. It is state of the art, and it is being built while we are sitting here. Probably by illegal Bangladeshi. Let's ignore that part of CSR [laughing]. We have got a great opportunity here. Let's really use a lot of green technology here. So I go in with a budget [to HQ], and they say: "[xxx] are you kidding me? This is like this is about three times as expensive. Come back with the proper stuff and you can have the depot." I think it is not embedded yet enough. We are trying to do in our own naïf way...we are trying to make it as light as we can. Put in enough windows [pause] to use less electricity. We do whatever we can, but the real stuff we would like to do; we cannot because it is really expensive, and we are not given that kind of money to make that happen.
	Water	HC1	We reduced water usage by fixing up a kind of filter, where it reduces the daily water use by 5%.



Codes derived from literature		Data coding	
Category	Code	Resp.	Quotes
<b>GHG emissions</b>	Comments that involve GHG	FC1	Globally there is a CO2 reduction programme. However, Malaysia is not green; there is still a long way to go.
		OGC2	One of the things we struggle with is the high level of CO2 or GHG emission. Very high level, and we as a company have actually tried to come up with projects to reduce GHG emission. I can't remember exact the name of the project but a way to actually reduce it. A CO2 re-injection so that it doesn't impact the environment. And that cost a lot of money. [A bit later]. From what I understand we are high in Malaysia for [name company], globally. But as [eh] as an oil and gas company operating in Malaysia we are not. And we are not even the highest offender, nowhere near. So that is a bit scary [laughing].
		LC1	We actually have a very high, or we generate a lot of Co2. Yes, we have that measure in our fuel consumption, in terms of formula's they use although they don't really have gadgets to measure. What we have done here is that we have actually trained the driver to make sure that they know how to manage their driving. At least that is not going to generate a lot more Co2 as such. We have regular maintenance programme for all our vehicles and about two years ago, we actually changed all the vehicles –the old vehicles. Now actually on the road, vehicles all are brand new, all less than two years right now because we believe in energy saving.
<b>Waste management</b>	Comments on how the organisation handles waste	AC3	We go paperless for the payroll because we should go for green and aim for paperless. We are discussing this now with the IT department at HQ.
		FC1	We do not separate waste. [Pause] There is simply no infrastructure. Then you collect all this paper and then a guy comes to collect it only to dump it somewhere on a landfill."
		OGC4	Also discharge of produced water is being measured (produced water is water that comes up through the pipe from the bottom of the sea and it contains a lot of sediments). The Malaysian laws state 100 particles per unit, 40 is the industry norm and 25 is what 'subsidiary T' has achieved for the past couple of years. They do this because they want to be a good citizen and do no harm or cause no injury wherever they operate.

### C3 EXTERNAL ALIGNMENT CSR PRACTICES

Codes derived from literature	Data coding		
Higher order category – Host country alignment			
Category	Code	Resp.	Quotes
<b>National development</b>	Economic issues	LC2	In the environment where... in Malaysia, people still need [sic] overtime to supplement their income. If you apply something like that SA8000 criteria to the business is actually more expensive. Because you have to go out and hire labour, and to the employees is actually not what they want. Because they need the income. They need the money to supplement their income.
	Social issues	HC1	This village was really affected by floods. So we actually went there to interview the people over there. And we got a contact through the Welfare Department here. We went to Johor and did some, interviews house by house, with the affected families. Back in KL we did some brainstorming on how we wanted to go about this project. So we got our skilled maintenance team, all our department heads and, [pause] what we did was we made like a, a timeline for this project from 2007 and 2008 and went over and house by house repaired, painted and addressed all the damages caused by these floods.
	Environmental issues	FC4	Environmental regulation in Malaysia is still rather primitive. For example, chicken manure is normally taken to neighbouring palm estates. However during the rainy season they cannot use this as a fertiliser and consequently the manure is being dumped somewhere and pollutes the water table.
<b>Institutional context</b>  <b>The humanly devised constraints that structure political, economic and social interaction (Scott, 2008, p. 48).</b>	Normative	LC2	And the plan was to donate helmets, to promote road safety, because we are a big road user and it is part of our "Planet Me" as well. So we thought, you know, we wanted to do that and partner with the government, the Road Safety Department of Malaysia. We, let's just say, it wasn't easy, and because, I think, all they wanted was us to donate the money and we give it to them to run it. The government is only the recipient of it. So, it's a different way of doing things here. So now, we've said, OK, maybe we won't want to go big on the road safety, we will still do road safety next year as being a huge initiative, but we will do it differently, more, us being responsible road users and making sure our sub-contractors are, transport companies are also responsible road users.
	Malaysia's understanding of CSR	HC5	CSR is quite sensitive. Some people feel that if you put an envelope in your room you know, you are actually sort of obligated to put in some money. That depends on your culture, but here I am just talking about Malaysia.
		AC1	Environmental regulation in Malaysia is still rather primitive. For example, chicken manure is normally taken to neighbouring palm estates. However, during the rainy season they cannot use this as a fertilizer and consequently the manure is being dumped somewhere and pollutes the water table.
	Regulative	F&B4	The Malaysian law dictates that you need to have so many Malay, so many Chinese and so many Indians. We do not discriminate. Personally I try to strike a balance. We have many Malay in the factory and before I arrived, they were mainly supervised by the [sic] Chinese. I found that difficult to swallow. The balance now is a lot better.
		FC1	So I said: 'guys let's collect old paper and then dispose it in container's'. Then I discover that this country lacks a proper infrastructure. Of course I can find someone to pick up the paper, only to get it dumped on the general dumpster.
	Limiting existing infrastructure	FC1	So I said: 'guys let's collect old paper and then dispose it in container's'. Then I discover that this country lacks a proper infrastructure. Of course I can find someone to pick up the paper, only to get it dumped on the general dumpster.
	Institutional limitations	LC5	The government wants to develop technology. Well we have it, but we can't bring it in, because they say it is not ours. We have asked Proton and met them. And we have these trucks in china. Not enough. 600 trucks, that is a drop in the ocean, but we can bring them here. We build them with you! But that is not in the plans.
Constraints contracts	OGC2	Don't get me wrong. GLC [actual name of the GLC] guidelines are pretty good; they are not bad guidelines. But if we are talking about including, how should I say this? [pause]. There are a lot of environmental laws and regulations for example, that exist in Malaysia, which has not been incorporated into the GLC [actual name of the GLC] guidelines per say.	

Codes derived from literature		Data coding	
Category	Code	Resp.	Quotes
<b>Legitimacy</b> <b>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 (Suchman, 1995, p. 574).</b>	Acceptance of CSR practices by employees and customers	FC3	The reason for investing in CSR is to show to your customers and society what you do.
		F&B1	The one-off touch point community activities paint the company as a caring company and not just as a company who is just here to make money. Especially being a foreign MNC, the local consumer sentiment is that this big foreign giant is here to sap all of the profits out of Malaysia and send it back home.
	OGC2	Yeah, one of the main reasons why we do CSR, or CR depending on how you want to look at it. I'll call it CR for our benefactor as I told you up front. It would have to be our license to operate and we can even go further and say, social license to operate.	
	Pressure activist groups	F&B5	So in Asia it is different to say that green is not such a big thing. That is not entirely true. It is coming. It is forced upon us, by say, the palm oil advocate for sustainability, cutting of forest and stuff like that. So it is forced upon companies in Malaysia.
<b>Munificence</b> <b>The scarcity or abundance of critical resources needed by one or more firms operating within an environment (Castrogiovanni, 1991, p. 542).</b>	Resource scarcity	F&B9	We still have a long road ahead. We do have a good reputation in Malaysia. We have good professional people. Nevertheless, staff turnover is a big issue in Malaysia.
		FC4	I think that the most challenging part is retaining good people, because the industry is very competitive. Staff turnover is now with 17% just below the market. Last year it was 14%. The problem is more with certain positions. We have a limited pool of talents in underwriting, IT, finance and actuarial. Everybody is fighting especially for actuarial talent. In this group staff turnover is 20-30%. So really high!
		HC1	Competition is high. Everybody is looking at generation Y whereby they give a lot of flexibility to the staff. Because competition is very high, staff turnover is also very high. It is difficult to retain people in the industry. Even though there a lot of hotel schools coming up in Malaysia, only 25% of the graduates are coming into the hotel industry, the rest is joining DIGI, telecommunications to work as a customer service executive.
	Resource access	OGC1	We want to make sure that our relationship with GLC [actual name of the GLC] or [other company] for that matter remains in a good state. Because the price for not having a good relationship is costly. I say costly in terms of, we probably, [pause] will not be considered as partner of choice and likewise with the market, I mean labour market as a whole. That is why we profile to make sure that we are the employers of choice. So partners of choice. Employers of choice.
<b>Higher order category – Home country alignment</b>			
<b>Corporate strategy</b> <b>“A deliberate conscious set of guidelines that determines decisions into the future” (Mintzberg, 1978, p. 935)</b>	Strategic framework parent organisation	OGC2	Basically, we want to be aligned with what corporate is doing, so, but of course, we have to make sure that we are, you know, what we are doing here, is suitable for our local market, seen you know, with our key stakeholders, for example, GLC [actual name of the GLC]. So, whatever we are doing, we have to make sure that we align as well to the conditions of the economy, the community, the activities here in Malaysia, the political situation, you know? So, but of course, we also align ourselves to what corporate is trying to do.
		ICR	Our citizenship strategy is integral to our business strategy. Our simple citizenship framework — make money, make it ethically, and make a difference — dictates that we make contributions and create value for society in ways that align with the business strategy of the Company. This framework should be thought of not as a ladder of objectives, but rather a three-legged stool where each goal supports the others.
		LCR	Reducing absolute emissions is a difficult target to manage and has proved difficult to align with LC' growth strategy. Improving CO2 emissions efficiency, does not automatically lead to a reduction in CO2 emissions. Business growth will result in more absolute CO2 emissions.
		LC1	If I may, at LC [sic] we are actually aligned, at least from the certification and accreditation that we have gotten, to our groups direction. That is where the five certification we have... are all cantered around the key stakeholders we actually work with.

Codes derived from literature		Data coding	
Category	Code	Resp.	Quotes
<b>Corporate strategy continued</b>	Strategy subsidiary	F&B8	Our strategic goals are to make one billion sales, 150 million Ringgit profit and we want to become employer of choice in dairies.
		FC2	The liberalization is going to be implemented in July next year. All firms are gearing up. We want to recruit as many people as possible. That is why we need to have a very attractive compensation and benefits package.
<b>Institutional duality</b>  “A situation in which a foreign subsidiary is confronted with two distinct sets of isomorphic pressures and needs to maintain legitimacy within both the host country and the MNC” (Kostova & Roth, 2002, p. 216).	CSR policies and practices of parent organisation	F&B1	We try to understand what HQ mends about sustainability and to apply it here. There are some guidelines that are [sic] not applicable. For example all your CSR should be sustainable. Whereas in Malaysia, our consumers our audience they do not appreciate. They look at sustainability as a selfish element in CSR.
		F&B5	He [CEO from HQ] was talking about the carbon food print and a bit of the green stuff, but he was not talking about communities. And you have to understand that for us in Asia, communities are a much bigger part. Again it is the family unit. In Europe it is much loser.
		LCP	We provide more than the average local space for people. We don't force people to do anything. We are not bad people, but all of this hinges now [pause] that they strip you of your award, because you don't comply with the standards. They say when you want to sign up for this; you have to follow the rules. Okay. Understood. So I go back to my management and tell them I need 40 more heads. Then they say: "Don't be ridiculous". But I can't comply with the SA 8000 and retain that without the 40 extra heads to keep the amount of overtime down to acceptable levels (according to the SA 8000). They give us this, this thing to follow. This is the result of that following. Are they not getting that in Europe? Very frustrating!
		OGC3	We have sets of standards because, for example CO2 emissions, right? And then here in the, this region, GLC [actual name of the GLC] is still the, say, sort of the, not say the enforcement, but the thing is they set us guidelines of how much CO2 that you can emit to the air, right? But that standard is quite, not to say poor, but is low compared to our standards in our corporate office or our North Sea or America. However you know with the standards you see like we try to meet the lowest, what you call it, high standard from the lowest, and then it is still not aligned.
<b>Institutional context</b>  The regulative, normative or cognitive parameters that influence organisations in various ways (Scott, 2008)	Regulations, norms and values home country	F&B9	Our vision is currently still inside out. It does not include our role in society or what we do for society. In Europe there is not much focus on society. It is also not a corporate theme. I am also not sure whether it should be a corporate theme.
		LC5	It is hard to go after a bunch of people to raise money for, don't get me wrong, very deserving people, in wherever they may be, Myanmar or Uganda. But not when my people live in [pause, unfinished sentence]. In one of my offices in JB, when I first came here, it had an open sewer around the area outside the front door. I mean the stench was bad enough, but the message it sent, you know? This is all you are good for. You know. It is disgraceful. And we've changed it, and it has made difference to people, but we have changed it.
	Pressure from activist groups	F&B9	It all started when we were attacked by Greenpeace because we had included in our mission statement an in our branding: “it is in our nature”, which was actually very “inside-out”. Nothing wrong with the promise, but the remaining question is how is that accomplished? [pause]. You use soya in your animal feed that is grown in areas that are deforested in order to grow soya. So how serious are you?

## C4 INTERNAL ALIGNMENT OF CSR PRACTICES

Codes derived from literature		Data coding	
Higher order category – Structural alignment			
Category	Code	Resp.	Quotes
<b>Coordination</b> “The act of managing dependencies between entities and the joint effort of entities working together toward mutually defined goals” (Malone & Crowston, 1994, p. 90).	Coordination and organisation	F&B3	We have a safety champion from each department, who attends the monthly meetings and who also performs the safety checks at his or her department.
		F&B5	We have different departments that handle different aspects of CSR.
		HC2	We do brainstorming with HR director, director of sales and marketing and others.
		OGC3	I have to look at HR strategy, HSE strategy before I can formulate my strategy. What is my work plan for, local work plans. So now since last year, we have been drummed up by corporate that these people are our clients, so we have to make sure that we are aligned. Their strategy, let’s say, HR and HSE and our strategy, that means our work plan, our communication, our messaging must be aligned with what they are doing.
<b>Autonomy</b> “The degree to which the foreign subsidiary of the MNC has strategic and operational decision-making authority” (O’Donnell, 2000, p. 528)	Decision making authority	F&B6	All instructions are from HQ. So far there a no instructions to go by recyclable packaging products.
		FC1	HQ establishes frames, but the subsidiaries are free to do as they like. They can adopt a global theme or do something on their own.
		FC4	I guess the structure of aligning the programme is very much driven by the group and when the thing arrives here, it is already set and done, so this is how you fit in. To me, if I really want to get involved, I should get involved from the beginning, and not when the products is already done.
		LCP	Okay... Understood. So I go back to my management and tell them I need 40 more heads. Then they say: "Don't be ridiculous". But I can't comply with the SA 8000 and retain that without the 40 extra heads to keep the amount of overtime down to acceptable levels (according to the SA 8000). They give us this, this thing to follow. This is the result of that following. Are they not getting that in Europe? Very frustrating!
<b>Formalisation</b> “The standardization of desired recurring organisational behaviours and practices in the form of written procedures and formal systems (Dalton et al., 1980; Pelham & Wilson, 1995)	Policies, written documents, local and international standards	LGCR10	The foundation of MNC strategy comprises five internationally recognized management standards, namely workplace safety (OSHAS 18001), social responsibility (SA 8000), personal growth of employees (Investors in People), environmental management (ISO 14001) and operational excellence (ISO 9001). MNC started these certifications back in 2004 and MNC remains committed to them. MNC demonstrates this commitment by making it compulsory for new acquisitions to implement the certifications and standards. Individual implementation plans have been developed to ensure that newly acquired companies are brought up to the MNCS standard as soon as possible.
<b>Specialisation</b> “The number of different occupational titles or different functional activities pursued within an organisation” (Payne & Mansfield, 1973).	Job scope with regards to CSR related activities	F&B1	Before this it was very much driven by marketing and marketing is just about selling the brand, selling the brand, awareness, awareness. And here is corporate communications trying to put something of a structure from all of this and putting it into perspective.
		LC2	[HR/CR Manager] I am responsible for the company CSR initiative. The role falls under HR, there isn't a dedicated independent department that runs it. So I am responsible for the company's corporate responsibility initiatives. Globally there is a function that looks at corporate responsibilities.
<b>Resources</b>	Resources, budgets related to CSR	F&B1	We have been fighting to increase the budget every year, because we see so much benefit from it. But as usual management will say: “No, you know. You better put the money in marketing.”
		HC1	There is no CSR budget. We have to find the resources elsewhere. For example via recycling or by asking suppliers to donate to the community project.
		LCP	When I go to HQ and ask for RM 200,000 or RM 3,000 to give to charities, I get a big no. So what I try to do is build a bit of fat here and a bit of fat there, so I can use something when people want something. We have tot try and work out and find ways to spend money.

## D. CSR PRACTICES COMPARED: PARENT ORGANISATION VERSUS SUBSIDIARY

### D1 MARKETPLACE PRACTICES

Case	Communicated by parent organisation	Enactment at subsidiary level
AC	No information is published.	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>Suppliers do not need to meet specific sustainability guidelines. There are stringent costs and quality guidelines suppliers need to meet, however they are not subjected to a due diligence.</li> </ul> <p><b>Responsible products</b></p> <ul style="list-style-type: none"> <li>Chicken coops that reduce stress of chickens.</li> </ul>
F&B	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>Supplier standards that include statutory national and local requirements, industry standards, human rights, food safety and quality, and sustainable business operations.</li> <li>Sustainable procurement of raw materials such as cocoa, palm oil and fruit.</li> </ul> <p><b>Responsible marketing / products</b></p> <ul style="list-style-type: none"> <li>Fully FSC certified packaging in the Benelux.</li> <li>Responsible marketing and advertising means complying with local legislation and advertising codes.</li> <li>Quality programme is directed on the parent organisation.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Code of conduct that includes the UN Universal Declaration of human rights, exclusion of corruption, child labour, forced labour, discrimination, and respect of workers organising themselves.</li> <li>Whistle-blower's regulation in order to promote transparency and integrity.</li> <li>Focus on combating undernourishment problems, obesity in partnership with non-profit entities.</li> <li>Member of the RSPO.</li> </ul>	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>Regionally organised procurement. Dairy resources are imported from Australia, Europe and New Zealand. Local dairy accounts only for 3% of the production. The only sustainability criterion included pertains to palm-oil, since the parent organisation is a member of the RSPO.</li> </ul> <p><b>Responsible marketing / products</b></p> <ul style="list-style-type: none"> <li>Try to develop more responsible packaging, however there is no effort to purchase more sustainable packaging materials from suppliers. Discontinued usage of tin cans.</li> <li>Marketing practices adhere to regulations stipulated by the Ministry of Health.</li> <li>HACCP process embedded in ISO 22000 FSMS 2005.</li> <li>Aiming to reduce the sugar levels in the products.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Code of conduct includes the whistleblowing procedure and it outlines company values, principles and guidelines for the way the organisation wants to behave.</li> <li>Research involving several 1000 children across Malaysia together with non-profit partners to investigate food intake, body composition, bodily activity and biochemical blood analysis, benchmark these against recommended standards and use the results to design and innovate on products.</li> <li>ISO 9001 certified.</li> <li>Corporate governance practice communicated via local annual report.</li> </ul>
FC	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>Growth of sustainable assets (KPI is 15% in 2013). Defence policy stipulating regulations regarding doing business with defence related business.</li> <li>Responsible procurement practices to be part of awarding contracts to suppliers.</li> </ul> <p><b>Responsible marketing / products</b></p> <ul style="list-style-type: none"> <li>Improve customer satisfaction.</li> <li>Educating customers on financial products.</li> <li>Develop and market new sustainable products and services: e.g. Socially Responsible Investment (SRI) products.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Corporate governance structure is outlined on the website of the MNC.</li> <li>There is a code of conduct detailing ethical practices and a whistle blowing procedure.</li> </ul>	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>External agents (approximately 10,000) need to follow a training programme that also explains practices regarding compliance.</li> </ul> <p><b>Responsible marketing / products</b></p> <ul style="list-style-type: none"> <li>Adheres to measures established by the National Bank of Malaysia. Agents need to assess customer suitability up front.</li> <li>Responsible selling practices that help to assess what products are suitable for the client and a 14 days cooling-off period that allows the client to cancel the contract.</li> </ul>

Case	Communicated by parent organisation	Enactment subsidiary level
HC	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>The supplier policy stipulates criteria with respect to quality certification, environmental certification, employment conditions, economic health, human-rights violation issues.</li> </ul> <p><b>Responsible marketing / products</b></p> <ul style="list-style-type: none"> <li>Employing “Permission marketing” to allow customers in what way they would like to be informed on promotions.</li> <li>This is the outcome of responsible supply chain management practices and adhering to health and safety practices in the delivery of services to guests.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Corporate governance structure is explained in its global reports, which includes a self-appraisal process whereby the board evaluates its own performance.</li> </ul>	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>The subsidiary endeavours to increase CSR awareness of its suppliers. However, CSR criteria are not used in the selection of suppliers.</li> </ul> <p><b>Responsible marketing / products</b></p> <ul style="list-style-type: none"> <li>No information available.</li> </ul>
IC	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>All suppliers need to meet stringent criteria and subject themselves to the IC’s supplier responsibility programme. This is mandatory in order to receive an order from IC. This involves safe and healthy work environment at supplier operations.</li> </ul> <p><b>Responsible marketing / responsible products.</b></p> <ul style="list-style-type: none"> <li>The MNC focuses on the development of innovative products that involve global challenges such as energy, water, infrastructure and healthcare.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>A global integrity policy is established which is supported with processes, training and communication to help ensure that it is enacted in all operations.</li> <li>Annual risk assessment.</li> </ul>	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>All suppliers need to meet stringent criteria and subject themselves to the IC’s supplier responsibility programme. This is mandatory in order to receive an order from IC.</li> </ul> <p><b>Responsible marketing / responsible products.</b></p> <ul style="list-style-type: none"> <li>Not applicable since the focus in Malaysia is on main infrastructural projects in close collaboration with major Malaysian partners.</li> </ul>
LC	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>Encouraging suppliers to commit to the standards the organisation subscribes to.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>All operations need to have the operational excellence certification ISO 9001.</li> <li>Active participation in a range of sector initiatives.</li> <li>Global stakeholder survey to assess perception of the company (approximate response rate of 20%).</li> </ul>	<p><b>Supply chain management</b></p> <p>Supplier dialogues have started to raise the awareness of suppliers on CSR related issues. Activities have started to include these criteria in the selection of suppliers.</p> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>ISO 9001 is implemented.</li> </ul>
OGC	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>All contractors have to be trained on the business policies of the organisation and sign a certificate of compliance.</li> <li>Global contractor health, safety and environment standard, which provides a common system for selecting and evaluating contractors and working toward safe practices.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Policy on business conduct and ethics to provide guidelines on personal conduct, human rights, community relations, health, safety and the environment.</li> <li>Hotline available in 140 languages to which any stakeholder can submit an inquiry or file a complaint .</li> </ul>	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>The contract with the GLC requires the subsidiary to only use suppliers that have been approved by the GLC. The criteria used by the GLC do not include sustainability. The subsidiary attempts to get a dialogue started with the GLC to include these criteria.</li> <li>Since most accidents involve contractors, they have to follow the procedures established by the subsidiary.</li> </ul>

## D2 WORKPLACE PRACTICES

Case	Communicated by parent organisation	Enactment at subsidiary level
AC	<p>The MC does not publish information on its workplace practices, except for promising that the MC offers a competitive package.</p>	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>This is not really a theme for the firm. However, since customers are mainly Chinese, most salesmen are Chinese as well.</li> <li>Very few women are involved in sales, since they do not enjoy the fieldtrips.</li> </ul> <p><b>Work conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>Ensuring that all staff is properly insured.</li> <li>Implementing a health and safety policy.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>Although there is no policy with a detailed employee development plan, staff overall is stimulated to develop themselves; this is an item in the annual appraisal meetings.</li> </ul>
F&B	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>No information publicly available.</li> </ul> <p><b>Work conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>OSHAS 18001 certified.</li> <li>Safety awareness programmes to reduce the number of accidents. Results are communicated, no new KPI established.</li> <li>Healthy organisation and employees to reduce absenteeism due to illness.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>Performance management system that focuses on improving the business in terms of quality, innovation, costs and revenue. Effort is made to ensure that the workplace is challenging, worthwhile and attractive.</li> <li>Training programmes for all job levels and all plants via its academy.</li> </ul>	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>The HR department focuses on diversity and meeting the criteria that the government has established.</li> </ul> <p><b>Working conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>OSHAS 18001 certified.</li> <li>Generous medical insurance policy that also covers dependencies of employees at full costs up till a certain amount per year.</li> <li>14 medical days per year, but rewards up to half a month salary when zero days are claimed.</li> <li>Quarterly engagement survey has a response of 92% and measures how engaged staff feels toward the programme.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>New jobs are as much as possible fulfilled with internal candidates. As a consequence there is only a staff turnover of 4%.</li> <li>Employee development programme that targets new joiners, people in managerial positions and people in senior managerial positions (5 days a year). Operators have training for example on dairy, organising in a union and how to put forward a grievance (18 hours annually).</li> <li>Talent management programme that assesses individual staff in terms of their potential that involves staff at executive level and above.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Participating in Malaysia's best employer survey.</li> </ul>
FC	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>There is a global diversity council. The focus is on gender diversity with goals established to increase the number of women in leadership positions up to 33% in senior management positions by 2015.</li> <li>Work conditions / occupational health and safety</li> <li>Annual employee engagement that among other variables assesses employee pride and satisfaction.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>E-learning programme to promote integrity amongst staff.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Ambition is to become an employer of choice.</li> </ul>	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>There is a diversity council that defines diversity in ethnic terms.</li> <li>Canteen that caters to the dietary requirements of Malay, Chinese and Indian.</li> <li>Work conditions / occupational health and safety</li> <li>Work-life choices that allow people to adapt working hours to suit their private life.</li> <li>Competitive compensation and benefits programme to improve the firm's position in the labour market.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>Sales academy with 20 staffs, which provide all sorts of programmes.</li> <li>Talent management programme to develop future leaders.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Ambition is to become an employer of choice.</li> </ul>



Case	Communicated by parent organisation	Enactment at subsidiary level
HC	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>The diversity of staff is measured in terms of age, gender, cultural background and type of contract. However no KPIs are mentioned.</li> </ul> <p><b>Work conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>Variable component of compensation package linked to the achievement of goals for CSR.</li> <li>Employee satisfaction survey .</li> <li>Occupational health and safety practices discuss the practices of the MNC in the home country.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>Career development and talent management programmes exist. Training within these plans is geared toward horizontal and vertical development.</li> <li>All sorts of training programmes are developed by HQ to help train staff in the hotels.</li> </ul>	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>Canteen food takes into account the different ethnic backgrounds of staffs.</li> </ul> <p><b>Work conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>There is an occupational health and safety policy, but the subsidiary is not OSHAS 18001 certified.</li> <li>Organising health talks for staff. For example how to maintain your weight, or balance budgets.</li> <li>'Healthy achiever', which is an award for staffs that do not take medical leave. In 2009 the award was extended to 42 staffs.</li> <li>Annual survey to measure work satisfaction.</li> <li>Free meals for staff in the canteen.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>Staff is having on average 6 training days annually.</li> <li>Toastmasters programme for staff to help them speak eloquently.</li> </ul>
IC	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>There is a diversity committee at executive level. In addition the parent organisation promotes a global culture of diversity and inclusiveness via various networks. Diversity encompasses ethnic groups, gender, social class, etc.</li> </ul> <p><b>Work conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>Global employee survey to measure employee engagement and the extent to which employees believe survey results are used to improve the organisation.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>The parent emphasises training &amp; development not only with respect to job related skills and knowledge, but also where it concerns CSR issues.</li> </ul>	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>Specific women's network has been established to accelerate the advancement of women working for the subsidiary.</li> </ul> <p><b>Work conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>OSHAS 18001 is implemented.</li> <li>Subscribe to the UN Global Compact.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>No information available.</li> </ul>
LC	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>There is a global policy on diversity and inclusion that all subsidiaries need to follow, with a specific focus on gender diversity and sponsoring female talents.</li> <li>Support of networks focused on increasing awareness of specific groups such as gay community, and cultural diversity.</li> </ul> <p><b>Work conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>All subsidiaries need to implement OSHAS 18001 and SA 8000.</li> <li>Health and safety framework.</li> <li>Global annual engagement survey measures employee pride and motivation.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>Overall effort is made to ensure that employees receive annually 18 hours of training.</li> </ul>	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>Means that the subsidiary recognises people from different backgrounds, including their cultural traditions. Employees are recruited based on experience and qualifications only, however some jobs tend to attract specific ethnic groups. No specific KPIs are established.</li> </ul> <p><b>Work conditions/ occupational health and safety</b></p> <ul style="list-style-type: none"> <li>OSHAS 18001 is implemented to govern occupational health and safety procedures.</li> <li>The SA 8000 is used also to govern supplier practices who are working on the premises or who are part of the value chain (e.g. drivers).</li> <li>Subscribe to the UN Global Compact.</li> <li>Annual engagement survey.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>For employee development Investors In People is used.</li> <li>The training policy stipulates that all employees on average have six training days per year. In addition employees are developed in projects or short assignments in other countries.</li> </ul>

Case	Communicated by parent organisation	Enactment at subsidiary level
OGC	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>The significance of a diverse workforce is acknowledged, which is translated in recruiting globally people from a wide range of backgrounds. No specific programmes are published.</li> </ul> <p><b>Work conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>Employee satisfaction survey that is distributed among the various operations.</li> <li>Link pay to performance – introduction of the bell curve that should help identifying the 10% of staff with the lowest performance.</li> <li>Global system for health, safety, security (among others) to help manage risks and is integrated in the operational management system.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>The importance of learning and development is acknowledged and translates to a little less than 1% of net income.</li> <li>Individual performance plans to link performance to pay and development.</li> <li>Emphasis on leadership development (360° degree feedback for senior management).</li> </ul>	<p><b>Managing diversity</b></p> <ul style="list-style-type: none"> <li>No particular programmes have been reported.</li> </ul> <p><b>Work conditions / occupational health and safety</b></p> <ul style="list-style-type: none"> <li>Implemented OSHAS 18001</li> <li>Subscribe to the UN Global Compact.</li> <li>Reducing the number of incidents by instilling a 'Just Culture' where staff learn to behave safely and are disciplined when they knowingly overstep boundaries.</li> <li>Total Health Programme that includes annual check-ups to measure BMI (Body Mass Index) and cholesterol levels. And gyms on all platforms to promote exercise. Smoking policy that allows people only to smoke and carry lighters inside the tiny smoking area.</li> <li>The Bell Curve (an approach that requires to identify and dismiss the 10% least performing staff) is unsuccessfully implemented.</li> <li>Employee satisfaction survey.</li> </ul> <p><b>Employee development</b></p> <ul style="list-style-type: none"> <li>Individual performance plans drive employee development.</li> </ul>

## D3 COMMUNITY PRACTICES

Case	Communicated by parent organisation	Enactment at subsidiary level
AC	MNC does not publish community practices.	No community programmes are organised. Only special events for staff and their family.
F&B	<p><b>Corporate giving</b> No programme or activities published.</p> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>Dairy development programme, which promotes the development of the dairy industry in the countries in which the MNC is active.</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>No programme or activities published.</li> </ul>	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>Touching the community: Donating dairy products and other useful consumables to orphanages, spend half a day with the children to educate them on the goodness of milk.</li> <li>Donation of dairy products upon requests (about a 100 appeals every week). No financial donations.</li> <li>School milk programme.</li> </ul> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>The dairy development programme involves 800 farmers. This includes the development of dairy cooperatives.</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>Volunteering group initiated by factory workers who carry out community projects.</li> <li>Employees donating blood for the national blood bank.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Exploring whether to lobby in Malaysia for an extension of maternity leave from 60 days to 90 days.</li> </ul>
FC	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>Community investment programme in the areas of education, which aims to help children get access to education on the basis of one child per staff member. Is set up in collaboration with UNICEF.</li> <li>Disaster relief fund in collaboration with the Red Cross.</li> </ul> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>Improve financial literacy in selected countries (Canada, US, Netherlands, Italy).</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>Increase employee involvement in community investment programmes (aim is 30% in 2013).</li> </ul>	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>Chances for Children directed toward educating children and supporting their mothers.</li> <li>Breast cancer awareness programme that also sponsors 500 women to have a mammogram for RM 90 instead of RM 120.</li> <li>Scholarship programme involving 5 students each year.</li> </ul> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>Cleft lip programme in collaboration with the cleft lip palate association that assists around 1500 children with cleft lip malformations annually.</li> </ul> <p><b>Employee volunteering:</b></p> <ul style="list-style-type: none"> <li>Sponsoring of the Zoo and two lions in it. Sprucing up the Zoo with staff.</li> <li>Charity Bazaar run by staff of which the proceeds go to orphanages and paediatric wards.</li> </ul>
HC	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>Nothing specifically mentioned.</li> </ul> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>Partnership with UNICEF.</li> <li>Development of a tool to help identify and select CBO partners.</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>All hotels need to undertake two community projects per month.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>Development of a system to measure social impact.</li> </ul>	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>Charitable projects with children and the elderly. These activities are self funded, meaning that there no budget has been set aside, but funds are raised per project. Corporate giving is always integrated with community development or employee volunteering.</li> </ul> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>Adopting a village in Johor that was badly affected by the floods in collaboration with the Welfare Department to help repair damaged houses.</li> <li>Getting 16-18 years old in nearby community over to do jobs and earn some pocket money (while getting them interested in the hospitality industry).</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>Most corporate giving projects emphasise on the volunteering aspect.</li> <li>Volunteering in the community is integrated in certain HR practices. There are training hours and community hours. Volunteering 'builds characters' (HC2).</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>On average the subsidiary undertakes two community projects every month.</li> </ul>

Case	Communicated by parent organisation	Enactment at subsidiary level
IC	<p><b>Corporate giving</b> Corporate giving is organised via its foundation.</p> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>Specific focus programmes to address health related community issues in various parts of the world.</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>Specific goals are set for employee volunteering hours.</li> </ul>	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>Also in Malaysia a foundation manages the corporate giving activities of the different operations of the subsidiary.</li> </ul> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>None specifically communicated programmes.</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>A volunteer network helps to address all sorts of calamity and other issues in the community. It is run via the Sports Club of the subsidiary.</li> <li>Mentoring of young people who desire to become an entrepreneur.</li> </ul>
LC	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>Strategic programme in which the MNC donates knowledge, resources and expertise to help fight hunger in partnership with international NGOs.</li> <li>Global disaster support in collaboration with international NGOs.</li> </ul> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>No specific practice is published</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>Engaging staff by asking them to volunteer in fundraising activities.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>The MNC cooperates in a number of international platforms</li> </ul>	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>The world food programme – reaches out to the poor. The subsidiary raises funds to support this project, which is channelled toward HQ.</li> <li>Every four to five years old computers are refurbished and donated to orphanages.</li> </ul> <p><b>Community development</b></p> <ul style="list-style-type: none"> <li>No specific practice was raised.</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>Supporting employees who volunteer in their free time with funds for the cause where they are volunteering (up to RM 1500 per application, around 40 applications a year).</li> <li>Staff volunteers in fund-raising activities to support corporate initiatives.</li> </ul>
OGC	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>Contribution of nearly 1,5% of net income to community initiatives around the globe focusing on youth, education and international relief efforts.</li> </ul> <p><b>Community development / partnerships</b></p> <ul style="list-style-type: none"> <li>Global community relations' policy to help engage in a fair and open discussion on concerns raised by communities. At the heart of the policy is respect for the rights and interests of indigenous and tribal communities.</li> <li>Stakeholder conversations as part of a programme to maintain good relationships with neighbouring communities.</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>No published policies, programmes or practices</li> </ul>	<p><b>Corporate giving</b></p> <ul style="list-style-type: none"> <li>Scholarship programme that targets 16 students, covering all costs.</li> <li>Donations to cancer research whereby the subsidiary matches whatever amount is been raised by its employees.</li> <li>Disaster support (floods in Kedah, mount Merapi in Indonesia).</li> </ul> <p><b>Community development / partnerships</b></p> <ul style="list-style-type: none"> <li>Partnership with a Malaysian nature society in the Coastal mammal monitoring programme.</li> <li>Partnership with 3 universities (Penang, KL, and Johor) to help select students for the scholarship programme.</li> </ul> <p><b>Employee volunteering</b></p> <ul style="list-style-type: none"> <li>Supporting external volunteering activities of staffs by providing financial support to the cause when the initiative meets certain criteria.</li> <li>In the Terry Fox run, staffs volunteer to run for cancer research.</li> <li>Coastal mammal monitoring programme involving staffs on the drilling platforms.</li> </ul>

## D4 ENVIRONMENTAL PRACTICES

Case	Communicated by parent organisation	Enactment at subsidiary level
AC	None formulated.	<b>Reducing resource usage</b> <ul style="list-style-type: none"> <li>Automated electricity system.</li> <li>Reducing paper usage – paperless payroll system.</li> </ul>
F&B	<b>Reducing resource usage</b> <ul style="list-style-type: none"> <li>The goal is to become energy and climate neutral. Targets established for improving energy efficiency with 2% for 2010 have not been met.</li> <li>Water usage is measured.</li> <li>Transition to sustainable energy sources by 2020 (solar, wind, biogas).</li> </ul> <b>Reducing GHG emissions</b> <ul style="list-style-type: none"> <li>The parent organisation measures CO2 and other GHG emissions. Aim is to be energy neutral in the dairy chain by 2020. All future growth needs to be climate neutral.</li> </ul> <b>Waste management practices</b> <ul style="list-style-type: none"> <li>Organisation measures hazardous waste and how much of the waste is recycled.</li> <li>Goals have been established for 2020, however they mainly focus on European countries and HQ to improve waste separation and recycling (KPIs not published).</li> </ul>	<b>Reducing resource usage</b> <ul style="list-style-type: none"> <li>Energy reduction usage with 1,5%. Unable to measure energy usage per plant due to the wiring.</li> <li>Raising staff awareness on electricity usage.</li> <li>Guidelines for usage of the air-conditioning. Energy-scan every 3 years (initiated by subsidiary, executed by parent organisation).</li> </ul> <b>Reducing GHG emissions</b> <ul style="list-style-type: none"> <li>No effort is made to reduce CO2 emissions, other than ensuring that trucks leaving the premises are fully loaded.</li> </ul> <b>Waste management practices</b> <ul style="list-style-type: none"> <li>Sells waste to a waste management company. No activities mentioned to reduce waste.</li> </ul> <b>Else</b> <ul style="list-style-type: none"> <li>ISO 14001 certified</li> <li>Good Manufacturing Practices</li> </ul>
FC	<b>Reducing resource usage</b> <ul style="list-style-type: none"> <li>Replacing fossil energy with energy from sustainable sources (62% in year of study).</li> <li>New buildings to be Leadership in Energy and Environmental Design (LEED).</li> </ul> <b>Reducing GHG emissions</b> <ul style="list-style-type: none"> <li>CO2 reduction programme that has led the MNC to be carbon neutral. The aim is to reduce it with 30% as compared with 2007.</li> <li>Partnership with Carbon Disclosure Project (CDP) Purchasing voluntary carbon units from projects that comply with the Voluntary Carbon Standard.</li> </ul> <b>Waste management practices</b> <ul style="list-style-type: none"> <li>Using online statements to save on paper usage.</li> <li>Paper policy to increase staff awareness and reduce paper usage.</li> <li>Joining Earth Hour.</li> </ul>	<b>Reducing resource usage</b> <ul style="list-style-type: none"> <li>Drivers are being trained in energy conserving driving practices (whether they are owner operators, or employed by LC).</li> <li>Raising staff awareness on electricity usage. Staff works in ambient light conditions during lunch breaks.</li> </ul> <b>Reducing GHG emissions</b> <ul style="list-style-type: none"> <li>The vehicles used do not need to meet 'green' criteria. The trucks or vans run on diesel.</li> <li>Vehicles are inspected every 6 months by PUSPAKOM (government agency).</li> <li>A CO2 calculator is being used to track emissions. This will be used in the future to direct the road safety programme.</li> </ul> <b>Waste management practices</b> <ul style="list-style-type: none"> <li>No practices were reported, other than recycling of paper and refurbishing computers to be donated to orphanages.</li> </ul> <b>Else</b> <ul style="list-style-type: none"> <li>ISO 14001 certified.</li> </ul>
HC	<b>Reducing resource usage</b> <ul style="list-style-type: none"> <li>Aims to increase the number of hotels that participate in its energy savings project (at time of research 202 hotels out of the 400). The global report, only reports data for its home country. The project aims to reduce overall resource.</li> </ul> <b>Reducing GHG emissions</b> <ul style="list-style-type: none"> <li>Emissions are only reported for hotels in the home country.</li> </ul> <b>Waste management practices</b> <ul style="list-style-type: none"> <li>Waste management monitoring and reporting system was developed at time of research.</li> </ul>	<b>Reducing resource usage</b> <ul style="list-style-type: none"> <li>Replaced the chillers of the air-conditioning.</li> <li>Filters to reduce daily water usage with 5%.</li> <li>Policies to reduce paper usage.</li> <li>Raising staff awareness on electricity usage.</li> <li>Compared with other hotels, energy usage is 85% lower.</li> </ul> <b>Reducing GHG emissions</b> <ul style="list-style-type: none"> <li>Energy reducing practices contribute to a reduction of GHG emissions. Emissions are not being measured.</li> </ul> <b>Waste management practices</b> <ul style="list-style-type: none"> <li>Waste of food is fermented and turned into fertiliser, and cleaning detergent to clean drains, and air-conditionings.</li> <li>Other waste is as much as possible recycled. Plastic bottles and tins are sold for example and these funds are channelled toward community projects.</li> </ul>

Case	Communicated by parent organisation	Enactment at subsidiary level
HC	<p><b>Else</b></p> <ul style="list-style-type: none"> <li>The group allows four different environmental standards namely Biosphere (standards for the hotel industry with regards to social, environmental and cultural issues), ISO 14001, EMAS, and Earth Check.</li> <li>A sustainable development manual exists to which all hotels need to adhere.</li> <li>Specific awareness raising activities are organised to highlight the need to maintain a high level of biodiversity by hotels in biologically fragile areas.</li> </ul>	<p><b>Else</b></p> <ul style="list-style-type: none"> <li>Earth Check (previously labelled Green Globe) certified. At time of research golden status.</li> </ul>
IC	<p><b>Reducing resource usage</b></p> <ul style="list-style-type: none"> <li>Specific goals are established to improve energy intensity, water usage.</li> </ul> <p><b>Reducing GHG emissions</b></p> <ul style="list-style-type: none"> <li>Specific goals are set for reducing GHG emissions.</li> </ul> <p><b>Waste management</b></p> <p>Specific goals are established to reduce spills and waste.</p>	<ul style="list-style-type: none"> <li>IC is a diversified industrial organisation and contributes to Malaysian infrastructure. No specific information was shared with regards to specific environmental practices.</li> </ul> <p><b>Else</b></p> <p>All operations are ISO 14001 certified.</p>
LC	<p><b>Reducing resource usage</b></p> <ul style="list-style-type: none"> <li>Global driver programme that in addition to improving road safety, reducing CO2 emissions aims to reduce fuel consumption.</li> </ul> <p><b>Reducing GHG emissions</b></p> <ul style="list-style-type: none"> <li>Reducing CO2 emissions is pivotal to realising the MNC environmental strategy and involves all forms of transport (including transport that is subcontracted) and buildings.</li> </ul> <p><b>Waste management practices</b></p> <ul style="list-style-type: none"> <li>Although public documents report to recycle waste, including hazardous waste, it is not clear what resource is being recycled.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>All operations need to be ISO 14001 certified.</li> </ul>	<p><b>Reducing resource usage</b></p> <ul style="list-style-type: none"> <li>Drivers are being trained in energy conserving driving practices (whether they are owner operators, or employed by LC).</li> <li>Raising staff awareness on electricity usage. Staff works in ambient light conditions during lunch breaks.</li> </ul> <p><b>Reducing GHG emissions</b></p> <ul style="list-style-type: none"> <li>The vehicles used do not need to meet 'green' criteria. The trucks or vans run on diesel.</li> <li>Vehicles are inspected every 6 months by PUSPAKOM (government agency).</li> <li>A CO2 calculator is being used to track emissions. This will be used in the future to direct the road safety programme.</li> </ul> <p><b>Waste management practices</b></p> <ul style="list-style-type: none"> <li>No practices were reported, other than recycling of paper and refurbishing computers to be donated to orphanages.</li> </ul> <p><b>Else</b></p> <ul style="list-style-type: none"> <li>ISO 14001 certified.</li> </ul>
OGC	<p><b>Reducing resource usage</b></p> <ul style="list-style-type: none"> <li>At some locations fuel consumption is reduced using cogeneration methods.</li> </ul> <p><b>Reducing GHG emissions</b></p> <ul style="list-style-type: none"> <li>Acknowledged the importance of reducing the emissions, and although the actual reduction is reported, no KPI was established in 2010.</li> </ul> <p><b>Waste management practices</b></p> <ul style="list-style-type: none"> <li>Track and record spills across all operations (KPI set in corporate report).</li> <li>Recycling water used in production activities.</li> </ul>	<p><b>Reducing resource usage</b></p> <ul style="list-style-type: none"> <li>Reducing paper usage.</li> </ul> <p><b>Reducing GHG emissions</b></p> <ul style="list-style-type: none"> <li>Reducing carbon footprint by reducing travel (use VCC instead).</li> <li>Reduction of GHG emissions is a challenge due to the high costs that cannot be recovered.</li> </ul> <p><b>Waste management practices</b></p> <ul style="list-style-type: none"> <li>Preventing oil spills (defined as any spill greater than half a barrel) and the discharge of produced water (water that comes up through the pipe from the bottom).</li> </ul>

## E. LITERATURE SEARCH

The search involved papers from the domains of international business, general management, and CSR using Google Scholar. The search terms used, focused on the literature encompassing CSR such as (i) 'CSR', 'CR', 'CSP' and 'Sustainability' and (ii) 'legitimacy', 'legitimation', 'legitimization' and 'legitimation strategy'. These key words had to be included in the title of the article, in the abstract or in the key terms.

The journals were selected from the annually produced Journal Quality overview (Kostova & Roth, 2002, p. 216). This quality lists compiles the quality rankings from 21 different academic institutions across the globe, while I focused on the listings of the Erasmus Research Institute of Management Journals Listing (EJL 2012) and the Australian Business Deans Council Journal Rankings List of November 2013 (ABDC 2013). Journals were sampled from four different categories namely, 'General & Strategy', 'IB' and 'Organisation Behaviour/Organisation Studies/HRM/Industrial Relations'. In order to be included it had to have a ranking of 'S, PA, P or STAR' or in the EJL 2012 or 'B, A or A\*' in the ABCD 2013.

Domain	Journal	Ranking EJL 2012	Ranking ABCD 2013	Results
<b>International Business (IB)</b>	International Business Review	S	A	0
	International Journal of Management and Organization	S	B	0
	Journal of International Business Studies	STAR	A*	0
	Journal of International Management	S	A	0
	Journal of World Business (Colombia)	S	A	0
	Management International Review	S	A	0
<b>General Management</b>	Academy of Management Journal	STAR	A*	0
	Academy of Management Review	STAR	A*	1
	Administrative Science Quarterly	STAR	A*	0
	British Journal of Management	S	A	0
	European Management Journal	S	B	0
	Journal of Management	P	A*	0
	Journal of Management Inquiry	S	A	0
	Journal of Management Studies	STAR	A*	0
	Long Range Planning	P	A	0
	Management and Organization Review	S	A	0
	Organization Science	STAR	A*	0
	Organization Studies	STAR	A*	0
	Organization and Environment	S	B	0
	Scandinavian Journal of Management	S	B	0
Strategic Management Journal	STAR	A*	0	
<b>CSR</b>	Business Ethics: A European Review	S	B	2
	Journal of Business Ethics	P	A	3
<b>Total located papers</b>				6

In order to assess the extent of overlap between CSR and legitimation strategy, I used Google Scholar to locate studies at this intersection. The search included 24 major journals in the domains of IB, general management and CSR while searching for papers that included the terms 'CSR or CR or CSP or sustainability and 'legitimation strategy' which had to be included in the title, the abstract or the key terms. Only 5 papers met these criteria, which confirmed the impression that this juncture is a relatively underexplored field.



## F. SAMPLING FRAME QUANTITATIVE PHASE

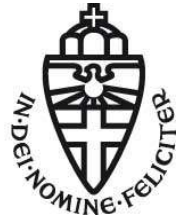
Source	Abbreviation	Total members	Sampling frame
American Malaysian Chamber of Commerce	AMCHAM	378	230
Austrian Trade Commission Malaysia	ATCM	31	-
British Malaysian Chamber of Commerce	BMCC	350	-
Italian Malaysian Business Council	IMBA	48	36
Malaysia Australia Chamber of Commerce	MABC	143	75
Malaysian Belgium Luxembourg Business Council	MBLBC	7	4
Malaysian Canada Business Council	MCBC	29	14
Malaysian Danish Business Council	MDBC	32	26
Malaysian Dutch Business Council	MDBC	225	56
Malaysian French Chamber of Commerce & Industry	MFCCI	230	58
Malaysian German Chamber of Commerce and Industry	MGCC	395	154
Malaysian Irish Business Council	MIBN	33	11
Malaysia Norway Business Council	MNBC	43	22
Malaysian Spanish Chamber of Commerce and Industry	La Camara	37	15
Malaysian Swedish Business Association	MASBA	53	20
Swiss Malaysian Business Association	SMBA	73	38
Malaysia New Zealand Chambers of Commerce	MNZBC	0	-
<b>Total number of subsidiaries</b>		<b>2107</b>	<b>759</b>

## G. EXPERT FEEDBACK

Expert	Comments	Action taken
<b>CSR expert from CSR Asia based in Malaysia</b>	<p>To include definitions of the CSR terminology</p> <p>To state more clearly the purpose of the research</p> <p>Inquire the level of ownership</p> <p>Inquire if the organization is listed</p> <p>Define 'minority' in the questions 1-6e and 1-7</p> <p>Include the current issue of 'corruption and bribery'</p> <p>Include 'women in leadership positions'</p>	<p>None</p> <p>Included in the instruction</p> <p>Included as question 1-7</p> <p>Included as question 1-8</p> <p>Amended</p> <p>Included as question 2-4</p> <p>Is now included in question 2-7</p>
<b>CSR expert from MVO Netherlands based in the Netherlands</b>	<p>Check consistent use of subsidiary and organization</p> <p>Change the scale length from 1-7 to 1-10</p> <p>Suggestion to compare the workplace practices with the ILO core conventions</p> <p>Suggestion to include 'hazardous chemicals and effluents' to question 2-9 c of environmental practices</p>	<p>Consistent usage of the term subsidiary.</p> <p>No action taken, because several of the scales are taken from earlier research.</p> <p>I took note of the conventions as described in ILO (Harzing, 2014). However, the CSR measures in this study are based on the observations of CSR practices at subsidiary level.</p> <p>Included 'chemicals and other effluents' in the said question.</p>
<b>FDI expert from NCDO based in the Netherlands</b>	<p>To include 'government bodies' as a separate customer group.</p> <p>Question 2 -1, to clarify whether the comparison is with competitors in Malaysia or in the home country.</p> <p>To inquire specifically after women-rights.</p> <p>To include the answer category 'I do not know'.</p>	<p>Although the intention of question 1-4 is to assess if the subsidiary is engaging in B2B or B2C activities, there was no objection to including it.</p> <p>Amended the question accordingly.</p> <p>No action, the current workplace practices inquire into the equal opportunity practices of minority groups (including ethnic groups, disabled and women).</p> <p>No amendments because the informants of the questionnaire are general managers who are responsible for the organization. However, the option of 'not applicable' was included.</p>

## H. QUESTIONNAIRE

# Radboud University Nijmegen



## Questionnaire PhD research

### Strategic CSR and firm performance:

### Organising alignment in emerging markets

Dear Sir, Madam,

Thank you very much for your willingness to participate in this PhD research. This research is under the supervision of the Institute for Management Research of the Radboud University Nijmegen in the Netherlands.

**This study tests a strategic alignment model of corporate social responsibility (henceforth CSR) practices of foreign organisations in emerging markets such as Malaysia.**

The questionnaire consists of two sections:

1. General questions about your organisation
2. Questions about the CSR practices your organisation has implemented.

Completing the questionnaire takes approximately **15 minutes** of your time. Please do not skip questions.

The findings will be reported at group level. This means that **your organization and yourself will remain anonymous.**

**In return for your participation** you will receive:

- a. The report explaining the strategic alignment model.
- b. The working paper New Business Models by Dr. Jan Jonker.
- c. A report with the findings of this study.
- d. And if desired, a copy of the completed thesis once examined.


Once again, thank you very much for your participation. Should you have any queries or wish more information, you may contact me via [m.soyer@fm.ru.nl](mailto:m.soyer@fm.ru.nl) or send an SMS to +31 6 13772478.

Mirella Soyer, PhD candidate

Institute for Management Research, Radboud University Nijmegen, The Netherlands


## 1. About your organisation

- 1 What is the name of your organisation in Malaysia? \_\_\_\_\_
- 2 In what industry is your organisation mainly involved (please select one option)?
- Primary industry (agriculture, mining, exploration, extraction)
  - Secondary industry (refining, construction, manufacturing, transportation)
  - Tertiary (general services)
  - Other, namely \_\_\_\_\_
- 3 From which country does your organisation originate? \_\_\_\_\_
- 4 Which group of customers does your organisation mainly serve?
- Other businesses
  - Consumers
  - Government / government bodies
  - Other, namely \_\_\_\_\_
- 5 How many employees are working for your organisation in Malaysia?
- Up to 10 employees
  - 11 – 50 employees
  - 51 – 250 employees
  - More than 250 employees
- 6 In what year did the organisation start its operations in Malaysia? \_\_\_\_\_
- 7 What level of ownership is characteristic for your organisation? It is a:
- wholly owned organisation (100% equity)
  - joint venture with a majority share (> 50% equity)
  - joint venture with a minority share (< 50% equity)
  - franchise
  - representative office
- 8 Is your organisation listed on the Malaysian stock exchange?
- Yes, we are listed
  - We are not listed in Malaysia but somewhere else
  - This is not applicable, because we are a privately owned company
- 9 Could you indicate for which area within your organisation you are mainly responsible?
- General management
  - Corporate affairs
  - Corporate communications / PR
  - Corporate responsibility
  - Human resource management
  - Operations
  - Sales & Marketing
  - Logistics / procurement
  - Other, namely \_\_\_\_\_



10	To what extent is your organisation oriented on the:	To a very great extent						Hardly at all
	Malaysian market?	1	2	3	4	5	6	7
	Regional market?	1	2	3	4	5	6	7
	Home country market?	1	2	3	4	5	6	7
	Other, namely _____	1	2	3	4	5	6	7

**Your organisation's resources**


- 11 Please select the 3 most critical resources for your organisation. Assign your most critical resource number 1, the second most critical resource number 2 and the third most critical resource number 3.
- ... Product parts of finished products from other parts of the organisation
  - ... Technological knowhow / R&D
  - ... Plant and machinery / equipment
  - ... Geographic location
  - ... Access to raw materials
  - ... Human resources (with specific skill/ competency set – language, education)
  - ... Knowledge information systems
  - ... Planning, coordination and controlling systems

12	To what extent is your organisation for access to:	Mostly parent organisation						Mostly host country
	a. Your <u>most</u> critical resource, dependent on the parent organization or on the host country?	1	2	3	4	5	6	7
	b. The <u>second most</u> critical resource, dependent on the parent organization or on the host country?	1	2	3	4	5	6	7
	c. The <u>third most critical</u> resource, dependent on the parent organization or on the host country?	1	2	3	4	5	6	7


**Your organisation's performance**

13	Relative to other competitors in your industry, how do you evaluate your organisation's performance with regards to:	Much worse						Much better
	a. Return on investment?	1	2	3	4	5	6	7
	b. Growth of earnings?	1	2	3	4	5	6	7
	c. Growth of sales?	1	2	3	4	5	6	7
	d. Change of market share?	1	2	3	4	5	6	7
	e. Efficiency of operations?	1	2	3	4	5	6	7
	f. Development of new products/services?	1	2	3	4	5	6	7
	g. Development of new markets	1	2	3	4	5	6	7
14	Relative to other competitors in Malaysia, to what extent do you agree or disagree with the following statements:	Strongly disagree						Strongly agree
	a. Our employees often go above and beyond their regular responsibilities to ensure the organisation's well-being.	1	2	3	4	5	6	7
	b. The bonds between the organisation and the employees are very strong.	1	2	3	4	5	6	7
	c. Our employees are very committed to the organisation.	1	2	3	4	5	6	7
15	To what extent do you agree with the following statements:	Strongly disagree						Strongly agree
	a. Our organisation in general has a good reputation with important stakeholders in Malaysia.	1	2	3	4	5	6	7
	b. Our organisation is widely acknowledged as a trustworthy organization.	1	2	3	4	5	6	7
	c. Our organisation is known to sell high quality products and services.	1	2	3	4	5	6	7
	d. Our organisation receives regularly good publicity on its CSR activities in the media.	1	2	3	4	5	6	7


## 2 About your organisation's CSR practices

- Please read each question and encircle the number that most closely represents your answer.
- |   | To a very great extent  |  |   |   |   |   | Hardly at all |
|---|---|---|---|---|---|---|---------------|
| 1   | 1   | 2   | 3 | 4 | 5 | 6 | 7             |
| Compared with competitors in Malaysia to what extent does your organisation undertake CSR practices?  |   |   |   |   |   |   |               |
| 2   | 1   | 2   | 3 | 4 | 5 | 6 | 7             |
| To what extent has your organisation adopted international standards to guide its CSR practices?  |   |   |   |   |   |   |               |
| 3   | 1   | 2   | 3 | 4 | 5 | 6 | 7             |
| To what extent do you consider the CSR practices of your organisation to be developed?  |   |   |   |   |   |   |               |
| 4   | <input type="radio"/> Yes, we are included in the _____<br><input type="radio"/> No, we are not |   |   |   |   |   |               |
| Is your parent organisation or your Malaysian organisation included in one of the sustainability / CSR indices (e.g. the Dow Jones Sustainability Index and the FTSE KLD 400 Social Index)? |   |   |   |   |   |   |               |

### Your organisation's marketplace practices


- |  | To a very great extent |  |   |   |   |   | Hardly at all |
|--|------------------------|---|---|---|---|---|---------------|
| 5  | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| To what extent does your organisation exercise control over your organisation's suppliers with respect to: |                        |   |   |   |   |   |               |
|  | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| a. Quality of the products and services offered.   |                        |   |   |   |   |   |               |
|  | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| b. Meeting social and environmental standards important to regulators, activist groups and customers.      |                        |   |   |   |   |   |               |
| 6  | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| To what extent has your organisation implemented practices to counter bribery and corruption?              |                        |   |   |   |   |   |               |

### Your organisation's workplace practices


- |   | To a very great extent |  |   |   |   |   | Hardly at all |
|---|------------------------|---|---|---|---|---|---------------|
| 7   | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| To what extent does your organisation undertake activities that:  |                        |   |   |   |   |   |               |
|   | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| a. Ensure a diverse workforce?  |                        |   |   |   |   |   |               |
|   | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| b. Ensure a safe and healthy work environment?  |                        |   |   |   |   |   |               |
|   | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| c. Contribute towards good work conditions (e.g. pay, benefits, work hours, working overtime)?          |                        |   |   |   |   |   |               |
|   | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| d. Develop employees?   |                        |   |   |   |   |   |               |
|   | 1                      | 2   | 3 | 4 | 5 | 6 | 7             |
| e. Emphasise equal opportunities for minority groups (underprivileged, ethnic groups, disabled, women)? |                        |   |   |   |   |   |               |

- 8 To what extent does your organisation undertake activities (e.g. internships, scholarships) that involve minority groups (e.g. underprivileged, specific ethnic groups, disabled, women), which may increase your attractiveness as a prospect employer?
- 1 2 3 4 5 6 7

### Regarding your organisation's community practices

- 9 To what extent does your organisation:
- To a very great extent  Hardly at all
- a. Partner with NGOs or community based organisations?
- 1 2 3 4 5 6 7
- b. Promote employee volunteering?
- 1 2 3 4 5 6 7
- c. Donate material or monetary resources to NGOs or community-based organisations?
- 1 2 3 4 5 6 7
- d. Help to increase capabilities of communities that are close to your supply chain?
- 1 2 3 4 5 6 7
- e. Undertake employee- volunteering programmes that also develop specific employee skills, competencies or knowledge?
- 1 2 3 4 5 6 7
- f. Undertake activities that benefit of NGOs or community-based organisations that also help enhance employee morale?
- 1 2 3 4 5 6 7

### Regarding your organisation's environmental practices

- 10 To what extent does your organisation employ activities aimed at reducing:
- To a very great extent  Hardly at all
- a. Overall usage of resources?
- 1 2 3 4 5 6 7
- b. Greenhouse gas emissions?
- 1 2 3 4 5 6 7
- c. Waste (including chemicals and other effluents)?
- 1 2 3 4 5 6 7
- 11 To what extent does your organisation offer products or services, which will help improve your customer's environmental performance?
- 1 2 3 4 5 6 7
- 12 To what extent does your organisation undertake activities with the aim of changing employee-behaviour in order to lower your organisation's environmental impact?
- 1 2 3 4 5 6 7



## Approval of CSR practices

14	At what level does a CSR decision need to be approved before it can be implemented in your organisation?	Above divisional level, within corporate HQ	Within the Malaysian organisation itself	Other	Not applicable
	a. Negotiating contracts with suppliers	1	2	3	4
	b. Evaluating social and/ or environmental practices of suppliers	1	2	3	4
	c. Practices to counter bribery and corruption?	1	2	3	4
	d. Policies to ensure a diverse workforce?	1	2	3	4
	e. Policies to ensure a safe and healthy work environment	1	2	3	4
	f. Work conditions regarding pay and benefits	1	2	3	4
	g. Work conditions regarding working hours	1	2	3	4
	h. Work conditions regarding working overtime	1	2	3	4
	i. Employee development programmes	1	2	3	4
	j. Practices that contribute towards equal opportunities for (prospective) staff considered underprivileged, from a different ethnic background, disabled and women	1	2	3	4
	k. Developing partnerships with community-based organisations or NGOs	1	2	3	4
	l. Programmes to develop employee volunteering	1	2	3	4
	j. Substantial donations of material or monetary resources to community-based organisations or NGOs	1	2	3	4
	m. Practices requiring capital expenditures to reduce usage of resources	1	2	3	4
	n. Practices requiring capital expenditures to reduce greenhouse gas emissions (including CO2)	1	2	3	4
	o. Practices requiring capital expenditures to reduce waste	1	2	3	4

Kindly indicate if you would like to receive a digital copy of (more than one choice is possible):

- Working paper - Strategic CSR and firm performance: Organising external alignment in emerging markets
- Working paper - New Business Models
- The results of this study, once analysed
- Thesis – Strategic CSR and firm performance: Organising alignment in emerging markets

Please email it to: \_\_\_\_\_

**Other comments**

Once again, many thanks for your time and willingness to participate in this research. For further queries you may contact me via [m.soyer@fm.ru.nl](mailto:m.soyer@fm.ru.nl) or send an SMS to +31 6 13772478.

Heartfully, Mirella Soyer

### I. PEARSON CORRELATION MATRIX STRATEGIC ALIGNMENT MODEL (N = 87)

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
<b>Firm performance</b>	5.38	.74	1.00																	
<b>Market returns</b>	5.06	1.07	.75**	1.00																
<b>Social returns</b>	5.30	1.24	.72**	.32**	1.00															
<b>Reputational returns</b>	5.97	.77	.70**	.35**	.42**	1.00														
<b>Financial returns</b>	5.11	1.25	.73**	.58**	.35**	.33**	1.00													
<b>CSR Aggregated</b>	4.96	.95	.32**	.10	.23*	.31**	.15	1.00												
<b>Integrated practices</b>	4.03	1.29	.29**	.11	.22*	.25*	.07	.87**	1.00											
<b>Marketplace</b>	5.00	1.37	.12	-.01	.11	.04	.08	.61**	.55**	1.00										
<b>Workplace</b>	5.32	1.22	.33**	.18	.28**	.22*	.21	.49**	.29**	.18	1.00									
<b>Community</b>	3.97	1.55	.14	.01	.06	.14	.06	.84**	.79**	.42**	.22*	1.00								
<b>Environment</b>	5.03	1.22	.30**	.10	.21	.31**	.09	.81**	.75**	.43**	.26*	.50**	1.00							
<b>Resource dependency<sup>1</sup></b>	.57	.50	.04	.00	.10	-.26*	.09	.08	.01	.02	.26*	.13	-.08	1.00						
<b>Market dependency<sup>1</sup></b>	-.74	.43	.01	.00	-.02	.05	.03	-.09	-.09	-.11	-.05	-.07	-.08	-.14	1.00					
<b>Autonomy<sup>1</sup></b>	.68	.253	.09	.18	.07	-.05	-.06	-.03	.07	-.07	.04	.11	-.18	-.17	.04	1.00				
<b>CSR maturity<sup>1</sup></b>	.43	.50	.04	.02	-.02	.01	.02	.38**	.35**	.29*	.09	.33**	.38**	.01	.03	-.09	1.00			
<b>Listing status<sup>1</sup></b>	.39	.49	.14	.04	.09	-.00	.29**	.52**	.40**	.39**	.01	.47**	.38**	.12	.10	-.04	.31**	1.00		
<b>Industry<sup>1</sup></b>	.58	.50	.19	.23*	-.02	.16	.20	.19	.23*	.20	.16	-.02	.31**	-.20	-.01	-.12	.09	.15	1.00	
<b>Firm size<sup>1</sup></b>	.41	.50	-.06	-.03	.04	.05	-.24*	-.54**	-.38**	-.36**	-.12	-.47**	-.41**	-.07	-.04	-.01	-.35**	-.63**	-.05	1.00

Note. \*  $p < .05$ , \*\*  $p < .01$ , <sup>1</sup> Dummy variable

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## EXECUTIVE SUMMARY

### **Strategic CSR and firm performance: Aligning subsidiary CSR practices in emerging markets**

**Keywords:** Corporate social responsibility, firm performance, emerging markets, institutional theory, resource-based perspectives, internationalisation strategy, Malaysia

Based on a growing body of empirical studies, researchers are in general agreement that there exists a positive, though modest, relationship between corporate social responsibility (CSR) and firm performance (FP). It is possible to identify two issues that require attention if the research on this topic is to progress. First, as individual theories have not been able to explain the CSR–FP relationship satisfactorily, several researchers suggested integrating different theoretical perspectives in order to discover new insights (e.g. Aguinis & Glavas, 2012; Volberda et al., 2012). With the role of strategy largely underexplored (McWilliams & Siegel, 2011), this angle could provide such a new understanding (Galbreath, 2010a; Tang et al., 2012). Second, although the CSR–FP literature has largely focused on MNCs, which are increasingly entering into emerging markets across the globe, remarkably little is known about the actual CSR activities and accomplishments of their foreign affiliates. The research question guiding this study is thus stated as follows: “How does the alignment of CSR practices influence firm performance of MNC subsidiaries operating in emerging markets?”

This research set out to address these issues and investigated the CSR practices of MNC subsidiaries operating in the emerging market of Malaysia in order to examine the effect of firm internationalisation strategy on the CSR–FP relationship. In particular, this study aimed to identify what types of CSR practices subsidiaries actually undertake in the domains of the marketplace, the workplace, the community and the environment; the factors that influence the choice for these practices; and the ideal alignment of these practices for advancing the internationalisation goals of the MNC, as well as contributing toward firm performance.

The study employed a mixed methods research design in a sequential order, featuring a first, qualitative phase aimed at analysing the CSR practices undertaken by subsidiaries and developing a strategic CSR model, followed by a second, quantitative phase aimed at testing the validity of the measures as well as the model containing the strategic CSR approaches. In both phases, primary data was collected from MNCs headquartered in Western countries with operations in the emerging market of Malaysia. In the first phase of the study, qualitative data was collected from seven MNC subsidiaries that varied in terms of country of origin, industry, business orientation,

firm size, and the extent to which subsidiaries had advanced their CSR practices. The dataset consisted of company documents and 39 interviews with senior managers who had knowledge of the subsidiary's policies and initiatives across the four CSR domains. The data was analysed with techniques borrowed from grounded theory. In the second phase of this study, the findings of phase one were used to develop a questionnaire to examine CSR activities at the subsidiary level, and to test the assumptions and hypotheses informing the strategic CSR model using regression analysis. For this purpose, data was analysed from a sample of 87 foreign MNC subsidiaries.

The study produced several findings. First, it confirmed a classification of CSR practices with regards to the domains of the marketplace, the workplace, the community and the environment. Furthermore, a comparison of, on the one hand, the practices communicated by HQs in public CSR reports and, on the other, the CSR practices enacted by subsidiaries operating in emerging markets showed that environmental claims in public reports tend to overestimate the environmental activities undertaken by the subsidiaries, whereas the relevance and significance of community practices are underreported. These insights have been incorporated into a questionnaire for measuring CSR at the subsidiary level. Factor analysis confirmed the existence of a CSR classification consisting of four domains.

Second, the in-depth analysis of the CSR activities undertaken uncovered an additional type of CSR practice that could not be captured by the single-domain CSR conceptualisations. For this practice, which has been labelled "integrated practices", five different domain combinations were identified: practices that integrate the marketplace and the community (e.g. a community capacity development programme); practices that integrate the marketplace and the environment (e.g. ecological product innovation); practices that integrate the workplace and the community (e.g. community outreach programme); practices that integrate the workplace and the environment (e.g. a programme to increase the environmental awareness of employees); and practices that integrate the community and the environment (e.g. conservation programmes involving the local community which enhance their livelihood). These integrated practices typically involve two or more domain combinations, intangible tacit skills or knowledge-based resources, functional capabilities associated with various activities of the value chain, mechanisms that help integrate the tacit knowledge into organisational routines, and dynamic capabilities to integrate and coordinate functional capabilities. These specific characteristics enable the subsidiary to realise a competitive advantage. The results show that in comparison with single-domain practices, integrated practices yield better market returns in the form of sales, market share and the development of new markets. In other words, integrated practices contribute significantly to firm performance.

Third, the individual CSR practices vary in their effects on firm performance. The strategic value of workplace CSR investments is greater than both that of marketplace CSR investments and of environmental CSR investments. Investments in workplace CSR improve firm performance through reputational returns. Community-related investments appear to lower firm performance and, in particular, market returns – that is, when the internationalisation strategy is not taken into account (see the next finding).

Fourth, the study confirmed the contingent role of internationalisation strategy in the CSR–FP relationship. MNCs enter into a particular foreign market for reasons such as gaining access to available resources or strategic assets, pursuing efficiency, or protecting or exploiting new markets (Dunning & Lundan, 2008). The research identified resource dependency and market dependency as the main factors that influence the strength of the relation, whereas the role of subsidiary autonomy was found to be less relevant.

Finally, using these reasons for internationalisation, a strategic CSR framework consisting of four strategic CSR approaches at the subsidiary level was configured. A “*parental strategic CSR approach*” is suitable for subsidiaries that compete in the global or regional market but are chiefly dependent on resources from the parent organisation. A “*local strategic CSR approach*” is suitable for subsidiaries that are predominantly dependent on local resources while competing in the host country market. The “*eclectic strategic CSR approach*” is informed by the subsidiaries’ greatest dependency: either the host country resources or the global and regional markets. Subsidiaries that are primarily dependent on host country resources should invest in the practices that garner legitimacy from the perspective of key interest groups that control critical resources needed by the firm. If, however, the emphasis is on the market, the implementation of the corporate CSR agenda is more appropriate. Finally, a “*glocal CSR strategic approach*” is suitable for subsidiaries that depend on the parent organisation for their critical resources while competing in the host country market. The specific products and services offered determine the degree of freedom the subsidiary has in setting its CSR agenda. If the products and services of the subsidiary contribute toward the national development agenda of the host country, then the subsidiary can advance the corporate CSR agenda regardless of its institutional alignment with the host country. Without this contribution to the national development agenda, however, the subsidiary needs to base its CSR strategy on its greatest dependency: markets or resources. Regression analysis confirmed the contingent roles of resource dependence and market dependence in the CSR–FP relationship. Due to sample limitations, only the relevance of the eclectic strategic CSR approach could be validated. These findings show that subsidiaries whose dependency is more towards local resources benefit the most from aligning CSR practices with the host country market. In the emerging market

context of Malaysia, this entails implementing community-related activities. Community-related investments, however, are not beneficial for subsidiaries that predominantly depend on international markets.

This study makes theoretical, empirical as well as practical contributions. Heeding the call for an integration of theoretical streams, this research brings together insights from resource-based perspectives, institutional theory and internationalisation strategy. This integration helps identify where these strands overlap and how they influence the CSR–FP relationship. Consequently, this study provides an alternative explanation regarding the performance variations that result from CSR investments, and helps to uncover evidence for the existence of strategically motivated CSR informed by internationalisation motives. It contributes to the strategic CSR literature by identifying the internationalisation motives of resource dependence and market dependence as contingent factors of the CSR–FP relationship. The research also contributes toward the resource-based perspective. With regard to the resource-based view, this study focuses on the mechanisms that are involved in the deployment of resources rather than paying attention to those used in the engagement in CSR. With regard to resource dependence theory, the study associates munificence with legitimacy, which allows differentiating between key interest groups that control access to critical resources for the subsidiary.

Empirical contributions include validated measures that can be used to gather direct information from subsidiaries on their CSR activities. The findings demonstrate that CSR proxies at the MNC level are unsuitable substitutes for CSR activities at the subsidiary level. For managerial practice, the study offers guidance in determining what types of CSR practices are relevant in light of the MNC’s strategy for an emerging market. Furthermore, the findings concerning integrated practices give examples for a specific class of value-creating ones that integrate different CSR domains. Guidance is offered in the development of these types of practices for the subsidiary and the embedding of associated knowledge and capabilities in the organisation.

The findings of this study are limited to the country of Malaysia, which shares characteristics of emerging markets, but also possesses unique, historically grown features that may have influenced the outcomes of this research. Furthermore, due to the sample composition and size, only the eclectic CSR approach could be examined. Future research, using a larger and more representative sample, could investigate the validity of the other strategic CSR approaches for both Malaysia and other emerging markets.

## SAMENVATTING

### **Strategisch maatschappelijk verantwoord ondernemen (MVO) en bedrijfsresultaat (BR): het afstemmen van de MVO-benadering van dochterondernemingen in opkomende markten**

#### ACHTERGROND

De afgelopen vijf decennia hebben onderzoekers onderzocht of maatschappelijk verantwoord ondernemen (MVO) een effect heeft op het resultaat van de onderneming, en zo ja, wat zo een effect zou kunnen verklaren. Na meer dan 250 studies zijn wetenschappers het er min of meer over eens dat er een positieve relatie bestaat, al ontbreekt nog steeds een duidelijke theoretische verklaring. Op basis van literatuuronderzoek, vraagt voortgang in het onderzoek naar de MVO–BR relatie aandacht voor twee vraagstukken. Op de eerste plaats betrof het merendeel van de studies onderzoek naar de MVO activiteiten van multinationale ondernemingen (MNO's). Echter, deze organisaties hebben in toenemende mate activiteiten opgezet in opkomende markten, terwijl over de MVO-activiteiten van deze dochterondernemingen nog maar weinig bekend is (Bondy & Starkey, 2014; Campbell et al., 2012; Kolk & van Tulder, 2010; Peng & Pleggenkuhle-Miles, 2009). Met andere woorden, er bestaat de impliciete aanname dat de door de MNO gerapporteerde activiteiten van toepassing zijn op de gehele onderneming. Ten tweede, zijn individuele theorieën onvoldoende in staat gebleken om de MVO–BR relatie te verklaren. Daarom stelt een groeiende groep onderzoekers voor om verschillende theoretische kaders te integreren, om zodoende tot nieuwe inzichten te komen (b.v. Aguinis & Glavas, 2012; Volberda et al., 2012). Eén van deze kaders betreft de tot op heden onderbelichte rol van strategie, (Galbreath, 2010a; McWilliams & Siegel, 2011; Tang et al., 2012).

De centrale onderzoeksvraag in dit proefschrift luidt dan ook: “Op welke wijze beïnvloedt de strategische afstemming van MVO-activiteiten het bedrijfsresultaat van multinationale dochterondernemingen die opereren in opkomende markten?”

De literaire verkenning van de theoretische grondslagen voor de MVO–BR relatie vanuit een normatieve, economische en strategische invalshoek geeft inzage in de grote verscheidenheid aan theorieën die gebruikt zijn in de zoektocht naar verklaringen. Institutionele theorie is hoofdzakelijk gebruikt om te verklaren waarom bedrijven MVO investeringen doen, terwijl contingentie theorie zichtbaar is in de zoektocht naar factoren die de MVO–BR relatie mogelijk modereren. Voorts is het *resource-based* perspectief gebruikt om de MVO–BR relatie te verklaren. Onderzoek dat gebruik maakt van de interne variant, de *resource-based view* (RBV), laat zien hoe het daadwerkelijk bezig zijn met MVO een bijdrage levert aan de ontwikkeling van immateriële



hulpbronnen, welke een competitief voordeel kunnen opleveren. Over de inzet van de benodigde middelen is hier de vraag of deze gericht zouden moeten zijn op het efficiënt benutten van middelen wat een investering in gelijksoortige MVO-activiteiten impliceert, of op de effectiviteit waarmee middelen worden ingezet? Onderzoek dat vertrekt vanuit de externe variant, bekend als de *resource dependence theory* (RDT), heeft zich met name gericht op de contextuele factoren complexiteit, dynamiek en munificentie van de omgeving, die de beschikbaarheid en de toegankelijkheid van hulpbronnen beïnvloedt, en het effect hiervan op de MVO–BR relatie. Op basis van verschillende onderzoeken kan geconcludeerd worden dat complexiteit van de omgeving het bedrijf weerhoudt om MVO-investeringen te doen, terwijl dynamiek hier een positief effect op heeft. Het effect van munificentie is echter niet eenduidig. Geen van deze theorieën is in staat om individueel de MVO–BR relatie theoretisch te verklaren. Het advies van de eerdere onderzoekers volgend, integreert deze studie theoretische inzichten vanuit institutionele theorie, RDT en strategie.

In het licht van bovenstaande had dit onderzoek vier doelstellingen, namelijk:

1. het onderzoeken welke MVO-activiteiten multinationale dochterondernemingen inzetten in opkomende markten, en het evalueren van de mate waarin deze activiteiten overeenkomen met de MVO-activiteiten die gepubliceerd worden door het hoofdkantoor van de MNO.
2. het integraal onderzoeken welke rol instituties en internationale strategie vervullen in de MVO–BR relatie.
3. het vanuit een strategisch perspectief nader onderzoeken van de relatie tussen munificentie van hulpbronnen en de MVO–BR relatie.
4. het vergroten van het inzicht in de relatie tussen de inzet van hulpbronnen ten behoeve van MVO en het effect daarvan op het bedrijfsresultaat.

#### ONDERZOEKS ACTIVITEITEN

Het onderzoek bestaat uit twee fasen. De eerste kwalitatieve fase maakt gebruik van casestudies gecombineerd met dataverzameling en data analysetechnieken die geleend zijn vanuit “*grounded theory*”, zoals het selecteren van casussen die maximaal variëren op karakteristieken waarvan bekend is dat ze de MVO–BR relatie beïnvloeden, theoretische verzadiging en constante data vergelijking. Voor deze fase zijn zeven dochterondernemingen van MNO’s geselecteerd met activiteiten in Maleisië, welke verschillen in land van herkomst, grootte, bedrijfsoriëntatie, industrie en de mate waarin het MVO-beleid ontwikkeld is. De dataset bestond uit 39 interviews met managers die verantwoordelijk zijn voor verschillende MVO-activiteiten, tezamen met jaarverslagen, MVO-rapportages en andere documenten. Op basis hiervan zijn de MVO-

activiteiten van de dochterondernemingen in kaart gebracht en vergeleken met de MVO-rapportages van het hoofdkantoor. Daarnaast is inzicht verkregen in de organisatie van de MVO-activiteiten, de factoren die de keuzes voor bepaalde vormen van MVO beïnvloeden en het effect van de MVO-activiteit op het resultaat van de dochteronderneming. De uitkomsten van deze fase bestaan uit specifieke definities voor MVO-activiteiten van de buitenlandse dochteronderneming waarmee de initiatieven nauwkeuriger in beeld kunnen worden gebracht. Daarnaast is een model ontwikkeld bestaande uit vier strategische MVO-benaderingen. In de tweede kwantitatieve fase is de validiteit van de aangepaste MVO-definities en het strategisch MVO-model getoetst met behulp van een vragenlijst die is afgenomen middels een steekproef bij 87 multinationale dochterondernemingen met eveneens activiteiten in Maleisië en met het hoofdkantoor in Amerika, Australië, Europa (inclusief Zwitserland) of Nieuw Zeeland. De data van deze fase is geanalyseerd met behulp van factor analyse en regressie analyse.

#### UITKOMSTEN VAN HET ONDERZOEK

##### ■ De MVO activiteiten van dochterondernemingen in opkomende markten.

Op basis van het onderzoek zijn nauwkeurigere definities opgesteld van de MVO-activiteiten van buitenlandse dochterondernemingen met bedrijfsactiviteiten in opkomende markten. *Marktgerichte* MVO-activiteiten richten zich voornamelijk op kwaliteitscontrole en het bevorderen van milieu- en sociaalvriendelijke activiteiten van leveranciers. *Arbeidsgerichte* MVO betreft activiteiten die de diversiteit van werknemers binnen de organisatie vergroten en zorgdragen voor een gelijke behandeling van werknemers. Bij *maatschappijgerichte* MVO gaat het om activiteiten die vrijwilligerswerk van medewerkers faciliteren en die een bijdrage leveren aan de ontwikkeling van de maatschappij, hetzij door middel van partnerships met maatschappelijke organisaties, hetzij door het verschaffen van materiële en financiële ondersteuning. *Milieugerichte* MVO omvat initiatieven die het gebruik van hulpbronnen reduceren, de emissie van broeikasgassen terugdringen, de hoeveelheid afval verminderen, negatieve effecten van de organisatie op de maatschappij beperken én die bijdragen aan een veilige en gezonde werkomgeving. *Geïntegreerde* MVO-activiteiten combineren initiatieven afkomstig uit verschillende domeinen.

Deze MVO-activiteiten kunnen potentieel vier vormen van rendement bewerkstelligen, namelijk: *markt rendement* in de vorm van meer omzet, een groter marktaandeel en de ontwikkeling van nieuwe markten; *sociaal rendement* in de vorm van meer betrokkenheid en commitment van werknemers; *reputatie rendement* doordat de organisatie gezien wordt als een betrouwbaar en kwalitatief goed bedrijf; en *financieel rendement* in de vorm van rendement op investeringen en de groei van de winst per aandeel. Van deze vormen van rendement beoordelen dochterondernemingen marktrendement als het meest relevant. Financieel rendement

daarentegen wordt als het minst relevant gepercipieerd, waarschijnlijk omdat deze informatie veelal door het hoofdkantoor gebruikt en beoordeeld wordt.

De resultaten van de regressie analyse tonen significante relaties aan tussen MVO en BR voor geïntegreerde MVO-activiteiten, arbeidsgerichte MVO-activiteiten en maatschappijgerichte MVO-activiteiten. Geïntegreerde MVO heeft een significant positieve relatie met marktrendement, terwijl arbeidsgerichte MVO een significant positief effect heeft op de reputatie van de onderneming. Maatschappijgerichte MVO heeft daarentegen een significant negatief effect op het bedrijfsresultaat en meer specifiek op het markt rendement van de dochteronderneming.

■ **Er zijn verschillen tussen de door het hoofdkantoor gepubliceerde MVO-activiteiten en de MVO activiteiten die geïmplementeerd zijn door de dochteronderneming**

De resultaten van het kwalitatieve onderzoek tonen aan dat de gepubliceerde MVO-activiteiten niet noodzakelijkerwijs overeenkomen met de activiteiten die de dochterondernemingen hebben geïmplementeerd. Dit verschil is het grootst wanneer het gaat over investeringen in het milieu en maatschappelijke investeringen. De gepubliceerde rapporten lijken de daadwerkelijke milieu activiteiten te overschatten, omdat de infrastructuur in de opkomende markt ontbreekt of omdat het moederbedrijf afziet van de noodzakelijke investeringen die hiervoor nodig zijn. De rapportages over investeringen in de maatschappij daarentegen, wekken de indruk dat multinationale dochterondernemingen hier weinig aandacht aan schenken, terwijl de dochteronderneming wel een veelheid aan activiteiten onderneemt. Op basis van deze bevindingen wordt geconcludeerd dat instrumenten die MVO op het niveau van de MNO meten, geen adequate representatie zijn van de MVO-activiteiten van dochterondernemingen.

■ **De relatie tussen de inzet van hulpbronnen en het effect op het BR**

Het onderzoek naar de MVO-activiteiten van dochterondernemingen leverde een nieuw MVO-domein op, welke in dit onderzoek "*geïntegreerde MVO*" is genoemd. Een nadere analyse van de feitelijke activiteiten binnen dit domein, als ook de wijze waarop de dochteronderneming geïntegreerde MVO implementeert, levert de volgende inzichten op. Een geïntegreerde MVO-activiteit heeft vijf kenmerken. De activiteit: 1) bestrijkt minimaal twee MVO-domeinen; 2) maakt gebruik van impliciet aanwezige kennis en vaardigheden van medewerkers; 3) is verbonden met functionele capaciteiten die gerelateerd zijn aan de waardeketen van de organisatie; 4) maakt gebruik van mechanismes die helpen om de impliciet aanwezige kennis en vaardigheden om te zetten in voor de organisatie bruikbare specifieke kennis; 5) maakt gebruik van dynamische competenties om deze functionele capaciteiten te integreren en te coördineren. Er zijn vijf combinaties ontdekt, namelijk MVO activiteiten die: 1) het domein van de markt en de maatschappij integreren (bijvoorbeeld het ontwikkelen van kennis en vaardigheden van

toeleveranciers zoals boeren); 2) de markt en het milieu combineren (zogenaamde ecologische innovaties); 3) het domein van de arbeid en de maatschappij met elkaar combineren (bijvoorbeeld in de vorm van studiebeurzen voor gemarginaliseerde groepen in de samenleving); 4) het milieu en de werkomgeving combineren (bijvoorbeeld door werknemers milieubewust te maken); 5) en ten slotte een combinatie van het milieu en de maatschappij waarbij de dochteronderneming zich richt op het beperken van de negatieve gevolgen van haar bedrijfsactiviteiten op de maatschappij en er daarbij voor zorgt dat de maatschappij hier baat bij heeft (bijvoorbeeld een zandafgraving die het bedrijf omturnd in een recreatie park voor de omwonende burenen).

De MVO-activiteiten die onder dit geïntegreerde domein vallen zijn lastig te verklaren vanuit het efficiëntie standpunt dat uitgaat van het investeren in gelijksoortige MVO-activiteiten opdat de benodigde middelen doelmatiger kunnen worden ingezet. De strategische waarde van geïntegreerde MVO laat zich beter verklaren vanuit het standpunt van effectiviteit. Juist de inzet van een veelheid aan verschillende middelen, zowel kennis als kunde van betrokken functionarissen en het inbedden hiervan in organisatie processen en systemen, leidt ertoe dat het succes van de activiteit toeneemt, zowel in termen van een geslaagde implementatie als in termen van gerealiseerde strategische meerwaarde.

In vergelijking met de overige MVO-activiteiten heeft geïntegreerde MVO een significant positieve bijdrage op het markttrendement. Met andere woorden, geïntegreerde MVO heeft een positief effect op het competitief vermogen van de dochteronderneming.

#### ■ De invloed van internationale strategie op de MVO–BR relatie

Organisaties internationaliseren onder andere om nieuwe markten te ontwikkelen en te exploiteren, om toegang te krijgen tot natuurlijke grondstoffen of om te kunnen produceren tegen lagere kosten. Opkomende markten hebben een groeiende aantrekkingskracht op buitenlandse investeerders, die de gevestigde markten zelfs voorbijstreeft (UNCTAD, 2013). Succes in deze markten is mede afhankelijk van de mate waarin de dochteronderneming toegang krijgt tot voor de organisatie kritische hulpbronnen en de acceptatie van de markten waar de organisatie zich op richt. In dit onderzoek zijn deze twee dimensies hulpbron-afhankelijkheid en marktafhankelijkheid genoemd. De dochterondernemingen kunnen door het afstemmen van MVO-activiteiten op de formele en informele instituties legitimiteit verwerven wat toegang geeft tot kritische hulpbronnen en helpt acceptatie te verwerven in de markten waar ze zich op richt. Deze legitimiteit is onder andere afkomstig van huidige en toekomstige werknemers, huidige en potentiële klanten, externe partijen die de toegang tot de markt mogelijk maken en het hoofdkantoor (waarlangs ook legitimiteit van bijvoorbeeld activistische organisaties gekanaliseerd wordt).

De meest kritische hulpbron volgens de dochterondernemingen in deze steekproef, zijn huidige en potentiële werknemers in het gastland (72%), gevolgd door technische kennis en ondersteuning van het hoofdkantoor (49%). In deze steekproef richt 24% van de dochterondernemingen zich op de mondiale markt, 29% richt zich zowel op de mondiale markt als de regionale markt en 24% richt zich op de markt in het gastland. Slechts 6% van de bedrijven richt zich uitsluitend op de thuismarkt. De resultaten van de regressie analyse bevestigen de modererende rol van hulpbronafhankelijkheid voor wat betreft maatschappij- en milieugerichte MVO, terwijl marktafhankelijkheid voornamelijk een significante invloed heeft op maatschappijgerichte MVO. De rol van autonomie van de dochteronderneming is daarentegen van minder belang.

De twee dimensies van marktafhankelijkheid en hulpbronafhankelijkheid resulteren in een matrix die vier strategische MVO-benaderingen representeren.

De eerste aanpak, *“volg het hoofdkantoor”*, is geschikt voor dochterondernemingen die zich richten op de internationale markt en die voor hun meest kritische hulpbronnen voornamelijk afhankelijk zijn van het hoofdkantoor. Het afstemmen van de MVO-activiteiten met het hoofdkantoor draagt bij aan het versterken van een eenduidig MVO-imago van de MNO, hetgeen ook de dochteronderneming ten goede komt. Daarnaast versterkt deze aanpak de concurrentiepositie voor kritische hulpbronnen ten opzichte van overige bedrijfsonderdelen.

De tweede aanpak, *“volg de lokale tradities”*, is vooral geschikt voor dochterondernemingen die tot doel hebben om de lokale markt te ontwikkelen en die voor hun kritische hulpbronnen hoofdzakelijk afhankelijk zijn het gastland. Onder deze condities is het belangrijk dat de dochteronderneming investeert in die MVO-activiteiten die het gastland belangrijk vindt. In opkomende markten betreft dit veelal investeringen in de ontwikkeling van het land, maatschappijgerichte en arbeidsgerichte MVO. Dit soort investeringen helpen om de achterstand van de dochteronderneming ten opzichte van lokale organisaties te verkleinen, en het versterkt de concurrentiepositie van de onderneming op de arbeidsmarkt.

De *“eclectische MVO aanpak”* vraagt van de dochteronderneming een keuze te maken op basis van de grootste afhankelijkheid: de internationale markt of de benodigde hulpbronnen gelieerd aan het gastland. Wanneer de organisatie het meest afhankelijk is van de internationale markt, dan is het van belang om internationale standaarden te implementeren daar deze helpen om het vertrouwen van internationale klanten te winnen. Wanneer de dochteronderneming vooral afhankelijk is van hulpbronnen die verbonden zijn aan het gastland, dan is heeft de dochteronderneming vooral baat bij het afstemmen van haar MVO-aanpak met de formele en informele instituties van het gastland.

De “*glocal MVO aanpak*” veronderstelt dat de dochteronderneming voor de kritische middelen voornamelijk afhankelijk is van de moederorganisatie en dat het op de lokale markt opereert. De feitelijke invulling van deze aanpak is afhankelijk van het product en het dienstenpakket van de dochteronderneming. De organisatie is relatief vrij in haar MVO-aanpak, indien het aanbod van de dochteronderneming een bijdrage levert aan de ontwikkeling van het gastland. In overige situaties dient de dochteronderneming, gelijk de eclecticische MVO-aanpak, te beslissen op basis van de meest prominente afhankelijkheid of het de MVO-aanpak afstemt op de instituties van het gastland of op de MVO-aanpak van de moederorganisatie.

Vanwege de beperkte steekproefomvang, gepaard met een oververtegenwoordiging van dochterondernemingen die zich op de internationale markt richten, terwijl ze voor de hulpbronnen afhankelijk zijn van het gastland, is alleen de eclecticische MVO-benadering kwantitatief getoetst. De resultaten van deze analyse bevestigen dat dochterondernemingen die een relatief grotere afhankelijkheid hebben van lokaal aanwezige hulpbronnen profijt hebben wanneer zij hun MVO-activiteiten afstemmen met het gastland, wat in een opkomende markt zoals Maleisië vooral betekent dat zij investeren in maatschappijgerichte MVO-activiteiten. Volgens de specificaties van de eclecticische benadering leveren investeringen in marktgerichte en milieugerichte activiteiten geen bijdrage aan het BR van de dochteronderneming. Arbeidsgerichte MVO is echter voor alle ondernemingen relevant, ongeacht de strategische MVO benadering.

#### THEORETISCHE, EMPIRISCHE EN PRAKTIJKGERICHTE CONTRIBUTIES

Rekening houdend met de oproep voor een integratie van theoretische stromen, zijn in dit onderzoek het “resource-based perspectief”, “institutionele theorie” en “internationaliseringsmotief” samengebracht om zodoende het effect op MVO-investeringen te onderzoeken. De integratie hiervan heeft geholpen bij het vaststellen en aanwijzen waar de theorieën elkaar overlappen, dan wel versterken. Dit heeft geresulteerd in een alternatieve verklaring omtrent de variaties in effecten als gevolg van MVO-investeringen. De factoren *hulpbronafhankelijkheid* en *marktafhankelijkheid* modereren de MVO-BR relatie. Deze afhankelijkheden bepalen welke van de vier strategische MVO benaderingen het best bijdraagt aan de internationalisatie doelstellingen van de organisatie. Voorts draagt het onderzoek bij aan de resource-based perspectieven. Voor wat betreft de RBV heeft de verschuiving van de focus naar de inzet van hulpbronnen, inzicht gegeven in die mechanismen die bijdragen aan de valorisatie van geïntegreerde MVO. De uitkomst van dit onderzoek laat zien dat het effectief inzetten van hulpbronnen belangrijker is dan het efficiënt inzetten hiervan. Voor wat betreft RDT ontstaat door de theoretische verbinding van institutionele theorie en munificentie een associatie met legitimiteit, die het mogelijk maakt om te differentiëren tussen belangengroepen die de toegang tot kritische hulpbronnen controleren.

Deze studie levert ook gevalideerde instrumenten op die kunnen worden gebruikt om direct informatie uit dochterondernemingen te verzamelen. Voorts laat het onderzoek zien waarom meetinstrumenten die ontwikkeld zijn om de MVO-activiteiten van MNO's te meten niet geschikt zijn om uitspraken te doen over de MVO-activiteiten van de dochterondernemingen van deze MNO's. Bovendien biedt deze studie een leidraad voor het bepalen van welke soorten van MVO-praktijken relevant zijn voor de MNO als strategie in opkomende markten. Voor de management praktijk bieden de uitkomsten van het onderzoek een handreiking aan managers voor het ontwikkelen van MVO-activiteiten die een grotere bijdrage leveren aan marktrendement van de onderneming. De strategische MVO-benaderingen geven voorts inzicht in onder welke omstandigheden MVO-investeringen een bijdrage leveren aan het bedrijfsresultaat.

De bevindingen van dit onderzoek beperken zich tot Maleisië, een land dat kenmerken van opkomende markten deelt, maar wellicht in andere opzichten uniek is. Door de beperkte steekproef omvang en representativiteit is slechts één strategische MVO-benadering getoetst. Nieuw onderzoek in Maleisië alsmede in andere opkomende markten dient uit te wijzen in hoeverre deze strategische MVO-benaderingen van toepassing zijn.





## ABOUT THE AUTHOR

Mirella Soyer was born in Nijmegen, the Netherlands. She started her academic journey at the Radboud University pursuing a doctoral degree in Psychology with a specific interest in clinical psychology and neuro- and revalidation psychology. After gaining some practical experience, she decided to focus on organisations and earned an MSc degree in organisational psychology from Leiden University and a Master of Business Administration from Henley Business School.

When working as a management consultant, she got the opportunity to emigrate to Malaysia. There, she continued her career as a consultant and then started her own consultancy agency aimed at connecting business and society. She held this company for ten years, advising firms on their CSR strategies, in particular on where they intersect with the community. Her experiences in the field sparked her interest in the business case of corporate social responsibility. Her PhD journey started in 2009 with the University of South Australia, which organised a transnational PhD programme in Singapore. When she moved back to the Netherlands in 2011, she continued her PhD with Radboud University. Currently, she is lecturing at the International Business and Management Studies programme at the Rotterdam University of Applied Sciences. Her research interests include international business, international strategy and strategic forms of CSR.

The business case of CSR has been the subject of more than 250 studies, many of which focused on multinational organisations. Taken together, these findings show that investing in activities that involve the environment, the community, the workplace and the market has a positive, but modest effect on the performance of the organisation. A theoretical explanation for this relationship has not been found yet, perhaps because the explanatory power of a single theory is not sufficient for clarifying such a complex relationship, in particular where it involves multinational organisations. In this study Mirella Soyer integrated institutional, resource-based and internationalisation perspectives and investigated the CSR strategies of multinationals operating in the emerging market of Malaysia. The subsequent findings helped develop a strategic alignment model that can be used by multinational organisations to determine what type of CSR investments make strategic sense, given the motive of the multinational organisation for internationalising into an emerging market, the institutional context of both the host and the home country, and the subsidiary's resource and market dependencies.

