



# Corporate social responsibility in the multinational enterprise: strategic and institutional approaches

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## Abstract

What is the relationship of global and local (country-specific) corporate social responsibility (CSR) to international organizational strategy? Applying the strategic logic of the Bartlett and Ghoshal typology to the realm of CSR, multinational firms should respond to pressures for integration and responsiveness from salient stakeholders. However, an institutional logic would suggest that multinational firms will simply replicate the existing product-market organizational strategy (multidomestic, transnational, global) in their management of CSR. These alternative approaches are tested with a survey instrument sent to MNEs operating in Mexico. The results of this study are consistent with the proposition that institutional pressures, rather than strategic analysis of social issues and stakeholders, are guiding decision-making with respect to CSR. We develop implications for MNE management and research, as well as public policy.

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## Introduction

Relatively little is known about the management of corporate social responsibility (CSR) by multinational enterprises (MNEs) (Gnyawali, 1996; Meyer, 2004). As a result, global MNEs often fail to respond effectively to issues of importance in their host countries (Logsdon and Wood, 2005). Well-known examples include protests and consumer boycotts experienced by Nestlé in selling baby formula in Africa and by Nike as a result of child labor abuse in outsourcing in Asia. It is common practice for global MNEs to use strategies in which local market units have limited functions with small staffs and then find themselves unable to monitor and respond successfully to CSR issues. In the sensitive entertainment industry, product is frequently transferred in formats to other markets: Endemol's launch of the 'Big Brother' reality show in the Muslim world resulted in protests by conservative religious leaders and organizations that led to the withdrawal of the program despite apparent audience interest. In this case as well, the company pursued an organizational strategy in which local adaptation of its product was hampered by limited local staff, funding, and understanding of local culture.

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These cases have given impetus for business leaders to reconsider the relationship between business and society and to call for a more strategic approach to CSR. In a response article to *The Economist's* damning of CSR, McKinsey CEO Ian Davis (2005) reminded readers that CSR represents a strategic opportunity as well as a set of obligations, and that MNEs would be well advised to analyze CSR issues and opportunities with the same tools and skills they apply to market strategy. At the same time, Davis joined the growing group of academic critics concerned that CSR is a set of disparate, well-intentioned ideas rather than a coherent theory and set of practices (Baron, 2001). In this paper, we seek to contribute to bringing greater theoretical and practical coherence to the area by examining CSR in relation to organizational strategy in MNEs.

Building on the organizational strategy typology of the MNE developed by Bartlett and Ghoshal (1989), some scholars have hypothesized that MNEs should respond to pressures for global integration and local responsiveness with respect to CSR issues just as their organizational strategies respond to pressures of integration and responsiveness in their product markets (Gnyawali, 1996; Arthaud-Day, 2005). In some cases, CSR responsibilities and stakeholder demands require MNEs to respond to both global issues and local issues; the underlying argument, similar to that of Davis's, is that diverse stakeholders and conflicting value systems require complex CSR strategy responses (Logsdon and Wood, 2005).

As the examples indicate, firms do not always manage CSR strategically. Rather, CSR management is often subject to strong pressures of institutional isomorphism that attenuate the strategic logic. Instead of applying the Bartlett and Ghoshal logic through a rational CSR decision-making process, firms may replicate the organizational logic relevant to their product markets and apply it mechanically to CSR. Accordingly, the failure to manage CSR strategically can have serious economic consequences for the firm. On the other hand, effective strategic management of CSR can reduce risk (Husted, 2005); and CSR initiatives may also bring significant benefits to the firm (Hillman and Keim, 2001; McWilliams and Siegel, 2001). These benefits go beyond mere reputation-building to the development of valuable organizational capabilities (Sharma and Vredenburg, 1998). Articles in high-profile management practitioner journals have also focused on potential competitive advantages asso-

ciated with social impact activities. In widely cited *Harvard Business Review* articles, Kanter (1999) provides examples of CSR as a source of differentiating innovation, and Porter and Kramer (2002) explain how philanthropy can provide a positioning competitive advantage.

That strategically managed CSR is relevant to MNE performance is fundamental to the propositions set out and tested in this paper. We begin by defining CSR and distinguishing local and global CSR. We then adapt the integration-responsiveness typology developed by Bartlett and Ghoshal (1989) and Prahalad and Doz (1987), and extended by Yip (1992) to CSR. Just as firms select an organizational strategy (e.g., multidomestic, transnational, or global) contingent upon global and local product-market demands, a strategic approach to CSR requires that firms select a CSR strategy contingent upon the demands of salient local and global stakeholders. We contrast this perspective with institutional theory, which suggests that processes of institutional isomorphism within the firm will create consistency between organizational strategy based on the product market and CSR strategy as a result of organizational inertia and imitation. We then test the resulting propositions through a survey instrument applied to multinational enterprises in Mexico.

We find that local CSR is more common among multidomestic and transnational MNEs than among global MNEs. Global CSR is equally common among all types of MNE. We conclude that MNEs are more likely to manage CSR according to institutional pressures rather than a strategic logic. The paper ends with a discussion of the limitations of the study, directions for future research, and implications for public policy and for CSR management.

## Theory

### Local and global CSR

Before distinguishing between local and global CSR, we need to define corporate social responsibility. Unfortunately, there is no consensus definition; in fact, CSR has suffered numerous and contradictory characterizations (Garriga and Mele, 2004). Given our focus on the descriptive and instrumental aspects of CSR, we build on a definition drawn from the perspective of welfare economics in which corporate social responsibility is defined as the firm's obligation to respond to the externalities created by market action (Sethi, 1990).

Externalities are positive or negative impacts of a firm's production on the utility or production of a third party. For example, a negative externality is created when the firm emits noxious gases that affect the health of its neighbors (Sethi, 1990). A positive externality occurs when a company opens operations in the inner city and its presence drives down crime in the area (Keim, 1978).

There is no explicit theory that distinguishes between global and local CSR, though there is a brief discussion of the issue in the literature (Gnyawali, 1996) and more extended consideration in the work of Donaldson and Dunfee (1994). Their work originally examined issues of business ethics from the perspective of social contracts, but has been applied more recently to CSR (Garriga and Mele, 2004). According to Donaldson and Dunfee (1994: 260), there exists a 'set of principles regarding economic morality to which contractors would agree'. These universal principles can be identified by a 'convergence of religious, cultural, and philosophical beliefs around certain core principles' (Donaldson and Dunfee, 1994: 265). Local community norms may differ from each other as long as they do not contradict these hypernorms. Recent research has found empirical evidence for the distinction between universal principles and local norms (Spicer *et al.*, 2004). Other approaches, such as critical theory, have arrived at similar distinctions between the universal and the particular responsibilities of corporations (Reed, 2002). These approaches suggest that distinguishing between global and local CSR is both possible and desirable.

The key difference between global and local CSR is the community that demands it. A local community is 'a self-defined, self-circumscribed group of people who interact in the context of shared tasks, values or goals and who are capable of establishing norms of ethical behavior for themselves' (Donaldson and Dunfee, 1994: 262). In contrast, hypernorms or fundamental principles about moral rights and obligations reflect 'a set of standards to which all societies can be held' (Walzer, 1992: 9). Thus, 'local' CSR deals with the firm's obligations based on the standards of the local community, whereas 'global' CSR deals with the firm's obligations based on those 'standards to which all societies can be held'.

We find, then, that there are issues that transcend national boundaries and about which considerable consensus is emerging, such as protecting human rights (De George, 1993) and environmental pro-

tection (Frederick, 1991; Gnyawali, 1996). We call these issues 'global'. The prominence of new agreements, such as the UN Global Compact, is evidence of the perceived need to provide an institutional structure for treating global CSR issues. These agreements share the view that the MNE is uniquely situated to help solve these problems, often in collaboration with governments and non-governmental organizations.

In contrast to global CSR issues, local issues exist according to the needs and circumstances of each community (Reed, 2002). There is no global consensus as to the obligation of firms to deal with these kinds of CSR issue. For example, in South Africa, companies view their active cooperation in the fight against unemployment and HIV-AIDS as absolutely essential (de Jongh, 2004). Nevertheless, despite the importance of these issues in South Africa, as well as a general understanding that unemployment and HIV-AIDS are sources of human suffering, they are not part of the CSR agenda of many firms around the world; nor do these firms generally find their most salient stakeholders demanding CSR activities related to HIV-AIDS or unemployment.

### Managing CSR

Having identified CSR issues as global or local in nature, firms must then decide how to manage them, first determining which issues are of strategic importance (Ansoff, 1980; Dutton *et al.*, 1983; Mahon and Waddock, 1992). According to Ansoff (1980: 133), an issue is of strategic importance based on its 'impact on the ability of the enterprise to meet its objectives'. New developments that become issues and require managerial attention are then placed on the firm's strategic decision agenda (Mahon and Waddock, 1992).

Given the diversity of academic research regarding the strength and direction of causal links between CSR and firm financial performance, it is not surprising that there are conflicting perceptions as to the strategic importance of CSR. Some firms view CSR as vital to achieving financial objectives through the generation of competitive advantages or the control of risk. Other firms view CSR as strategic by definition, not solely in term of its relationship to financial objectives. Still others do not place any importance on CSR within the firm's mission.

We argue that the strategic importance placed on a CSR issue within the firm's strategic agenda may vary according to two alternative processes. The



importance of a CSR issue may depend upon a strategic analysis of the issue and stakeholder demands. Alternatively, it may depend upon processes of institutional isomorphism linked to the organizational strategies of MNEs. Let us examine how these processes work.

### **Strategic approach**

A strategic approach to the analysis of the importance of CSR issues parallels the Bartlett and Ghoshal approach to organizational strategy. Organizational strategy in the MNE has been conceived as a response to different pressures in its product markets (Prahalad and Doz, 1987). On the one hand there are strong pressures for integration and coordination between the host-country subsidiary and home-country parent company due to multinational customers and competitors, technological developments, access to raw materials and energy, and the need to leverage investment and achieve economies of scale. On the other hand, pressures for local responsiveness are due to different customer needs and tastes, market structure, and governmental requirements (Prahalad and Doz, 1987). Building on these two dimensions (Bartlett and Ghoshal, 1989), many studies have developed typologies of multinational firms.

Harzing (2000) reviews these typologies and finds empirical support for the multidomestic firm, the transnational firm, and the global firm. The prototype multidomestic firm combines high responsiveness and low integration. It is organized as a federation of autonomous subsidiaries defined by national markets that modify products and services to meet local needs and tastes. Bertelsmann, the German media and entertainment company, is a case in point. In each national market, its subsidiaries select from the range of Bertelsmann products and adapt those products to the market, or may even launch new products. In contrast, global firms are characterized by low responsiveness and high integration. The local organizational structures of global firms tend to be lean – frequently limited to well-developed distribution and sales – focusing on a limited number of products and services to achieve economies of scale and low average unit costs. Some industries seem ideal for global competitors – for example, telecommunications equipment and pharmaceutical drugs. Finally, the transnational firm attempts to combine the best of both worlds – local responsiveness and global economies of scale and coordination. For example, professional services firms such

as McKinsey have focused on developing transnational strategies to leverage organizational knowledge that can be transferred throughout their network.

The strategic importance of global or local CSR turns on pressures for global integration and local responsiveness. Pressures for integration in product markets include multinational customers and competitors, universal needs, and investment intensity (Prahalad and Doz, 1987). As regards CSR, integration pressures stem from multinational stakeholders and NGOs, global social problems, and the need to economize in the provision of CSR. Pressures for product-market responsiveness include differences in customers and distribution channels, the availability of substitutes, market structure, and host government demands (Prahalad and Doz, 1987). Similarly, pressures for CSR response to local issues stem from differences in stakeholders as well as market structure and the demands of host governments.

It is essential to observe that the pressures for CSR integration/responsiveness may not correspond to pressures for integration/responsiveness in the product market. Thus, a strategic approach to CSR, although following the logic of Bartlett and Ghoshal, would not necessarily correspond to the product-market solution. In other words, a global telecommunications equipment firm may face strong host-country demands for black economic empowerment in South Africa. Thus, in the product market, the firm would be organized globally, but, in terms of CSR, the global firm should be responsive to local demands. Accordingly, under the assumption of rational behavior, we would expect to find no relationship between the strategic importance given to global or local CSR issues and the organizational strategy of the firm in the product market. A firm that handles CSR strategically will examine global and local CSR issues independently of product-market pressures and respond to those CSR issues according to demands for responsiveness and integration by local and global NGOs, host and home country governments, and local market structure. For example, British Petroleum (BP), a global MNE, makes clear the need to detect and respond effectively to local social issues: ‘Business Unit Leaders are expected to engage in open dialog and consultation with local communities and their representatives, non-governmental organizations and government at all levels to ensure that potential issues arising from our operations are identified and the risks

addressed' (Logsdon and Wood, 2005: 61). Thus we propose:

**Hypothesis 1:** The strategic importance of global and local CSR issues is unrelated to organizational strategy in the product market.

### *Institutional approach*

Unfortunately, the example of BP is not typical. The strategic importance given to CSR issues may depend not upon the rational application of the Bartlett and Ghoshal (1989) framework to CSR but upon the firm's business agenda, which is influenced in large part by the firm's organizational structure (Hammond, 1994). Institutional theory provides an understanding of the forces behind organizational inertia within the firm. Generally speaking, institutional theorists argue that pressures for firm adoption of policies and structures emerge from three main sources: the coercion of the state, the effects of the organizational field on firm policies and structures, and the internal generation of such policies and practices within organizations (Fligstein, 1991). Of special interest is the internal reproduction of policies due to routines developed to treat specific challenges and problems. These routines are often adopted in the resolution of new problems as a way to reduce search costs (Nelson and Winter, 1982). Nevertheless, basic structures that are imprinted on new organizations tend to resist change over time (Stinchcombe, 1965). Although this stability may reduce costs, it can also reduce 'effectiveness if more efficient ways of organizing are ignored' (Zucker, 1987: 446).

A number of forces play a role in the isomorphism that is seen in the area of CSR. Following DiMaggio and Powell (1983), the dependence of the CSR function on other units, the uncertainty of the relationship between means and ends, and the ambiguity of goals may all contribute to CSR functions imitating patterns established by the market-oriented areas of a firm. First, CSR generally is considered a staff function and depends upon other units within the firm, in terms of both financial resources and managerial capabilities. Second, the uncertainty associated with the relationship between CSR and financial performance (Hillman and Keim, 2001) may contribute to CSR managers' looking to profit-driven areas within the firm for practices and policies. Finally, the ambiguity of goals in the CSR area may motivate the CSR department to model itself after other areas within

the firm that are perceived as more successful. In a study of Cemex, a multinational cement company based in Mexico, Salazar (2006) found that managers leading the company's development of a widely acclaimed CSR program 'Patrimonio Hoy' (Hart and Sharma, 2004) had difficulty in identifying the program's specific economic and social objectives. Given the inability to articulate such goals, CSR organizations within firms will look to economically successful counterparts in production, marketing, and other areas to structure their activities.

If organizational strategy influences CSR policy across subsidiaries as a result of pressures for institutional isomorphism, then we should find a similarity between organizational strategy for product and service activities and the strategic importance placed on CSR issues. Nestlé and Nike are clear examples of global firms that failed to respond to local CSR issues.

**Hypothesis 2:** Organizational strategy is related to the strategic importance of local CSR issues in MNE subsidiaries. Specifically, local CSR issues are more likely to appear on the strategic agendas of multidomestic and transnational MNEs than of global MNEs.

### **Methods**

A survey instrument was developed to distinguish the three basic types of multinational firm as well as the importance of CSR issues within the firm's mission. Four international organizational strategy items were taken from work by Harzing (2000). These four items were measured with five-point Likert-type scales. They dealt with the importance to the firm of economies of scale, global competition, domestic competition, and national responsiveness.

In order to test the importance of different CSR issues within the MNE's strategic agenda, we included four items. We deliberately chose not to include a long list of possible issues, to facilitate completion of the survey. The tremendous difficulty of doing survey research in Latin American generally, and in Mexico specifically, required us to be as brief as possible in order to maximize participation in the study. Research in this region is made difficult by very low response rates, the lack of comprehensive databases, the unwillingness of private firms to share information, and the often unreliable postal services (Rivera, 2002; Robins *et al.*, 2002).

In determining what are local and global issues for MNEs, two interdependent factors have been taken into consideration: first, the extent of the social impact of an issue in MNE home and host countries; second, the importance given to an issue by salient stakeholder groups where the MNE has overseas manufacturing operations and/or product markets. Local issues have impact and importance for salient stakeholders in either the home or the host country, but not both. Global issues must have an impact and importance in both home and host countries.

In terms of the local issue, we decided to ask about job creation as an element of the firm's CSR agenda. Job creation has been identified by numerous Mexican governmental and business leaders as one of the principal social responsibilities of business. Carlos Abascal (2003), a former Mexican secretary of labor, ties the issue of job creation directly to CSR. He distinguishes between the profit-maximizing logic of firms that cut costs by eliminating jobs and the CSR logic that seeks to create jobs because of the impact that unemployment has on the welfare of families, crime, and other social problems. The Mexican business sector has echoed the importance of job creation. Lorenzo Servitje (2004) identifies job creation as a key component of CSR in Mexico. Servitje's opinion is especially relevant as he is the founder of the Mexican multinational firm Bimbo, and is recognized throughout Mexico as one of the country's leading exponents of corporate social responsibility (Austin *et al.*, 2004). Additionally, the Consejo Coordinador Empresarial, the peak business organization in Mexico, has just launched the Fundemex Foundation, which has as its mission assisting Mexican firms to develop social responsibility by alleviating such social problems as unemployment (Infosel News, 2004).

Although job creation does, of course, hold a place on the agenda of all governments, it cannot be said to be a CSR issue for firms around the world; job creation is more important in developing countries than in developed countries that are home to many MNEs (Reed, 2002). In addition, job creation does not appear as an issue in such agreements as the Global Compact. Finally, at least within the US, job creation does not appear to form a part of the CSR agenda. For example, the website of Business for Social Responsibility, a US-based nonprofit organization that seeks to advance CSR, includes an extensive list of CSR issues, but job creation does not appear (BSR, 2005). Rather,

employment issues focus on fair termination and process in layoff decisions. Although job creation is important everywhere, in developed countries job creation and protection may be lower on the agenda than promoting international trade or social justice.

In terms of a global issue, we chose to ask about the environment. With respect to the first criterion, environmental degradation has had serious impacts around the world, including Mexico (Logsdon and Husted, 2000). In addition, salient stakeholder groups have demanded decisive action to protect the environment. Environmental protection has been included in many lists of global issues as well as such multilateral accords as the OECD Guidelines for Multinational Enterprises and the United Nations Code of Conduct for Transnational Corporations (Frederick, 1991). There is substantial empirical evidence that MNEs generally are concerned with responding to industry, governmental, and consumer expectations for environmental protection (Christmann, 2004). Moreover, domestic Mexican firms are no exception in including environmental care within their CSR agenda (Acutt *et al.*, 2004). Clearly, environmental protection is a global issue because of its impacts and importance for salient stakeholders both in the MNE home countries and in Mexico. Although the categorization that we have made is not definitive, it does provide a good starting point for distinguishing between the two concepts and testing the hypotheses.

We then decided to include two additional issues framed much more generally. Together, these items contribute to establishing the consistency of the thinking of the respondents with respect to the firm's local or global orientation. The two items ask about: (1) the company's support of social causes in general; and (2) the firm's collaboration in community projects. The first item allows the respondent to determine what constitutes a 'social cause', which may include either global causes or social causes of interest to Mexico. The second, on 'community collaboration', presents a general issue where the specific content of the collaboration is local by definition (Reed, 2002), although clearly there are community issues everywhere (Bennett, 2002). Given the general nature of these two items, respondents may attribute a number of CSR issues – either global or local – to these items. As an average of global and local issues, these items should fall between the extremes of the more clearly global issue and the more local issue. Providing respon-

dents with the opportunity to define the CSR agenda is a useful complement to the researchers' selection of specific local and global CSR issues in the other items.

For the social responsibility items, respondents were asked the extent to which job creation, the environment, community projects, and social causes were considered important to the firm's business mission. The importance of each of these items was measured on a five-point Likert scale, with 1 representing complete disagreement and 5 representing complete agreement. The face validity of the instrument was determined by a detailed examination of the instrument by 10 academics and businesspeople who reviewed the instrument for items that might have been unclear. A small pilot study was then carried out, and the preliminary results found the measures to be robust.

The survey instrument was applied to MNEs operating in Mexico. Mexico is an ideal location for testing these ideas because it is a developing country with unique social problems related to poverty and income distribution, which are much more severe than those of the US, the home country for most MNEs operating in Mexico. We surveyed firms from the membership directory of the American Chamber of Commerce in Mexico (Amcham). Amcham's membership consists of both Mexican and non-Mexican firms, including many non-US firms, which engage in international business transactions of some sort. We sent surveys to the chief executive officers of all of the 459 non-Mexican firms in the Amcham directory. We also included 14 Mexican firms as a control group. Clearly, Amcham members are not representative of MNEs worldwide because of the preponderance of members based in the US.

We received 111 responses to the survey, either after the initial mailing or as a result of the follow-up. This represents a response rate of 21.1%, typical for survey research in Mexico (Robins *et al.*, 2002). Using *t*-tests, we compared the responses of early responders with late responders and found no

significant difference in MNE strategy or in the focus of social responsibility projects. In addition, there were no significant differences in industry, company size or nationality of the home countries of the MNEs. Some analysts argue that late responders are similar to non-responders (Armstrong and Overton, 1977). The fact that no significant differences in responses were found between early and late responders suggests that non-response bias is not a problem. The average number of employees in the firms was 1961. The firms represented a wide variety of different industries and home countries.

**Results**

In order to test the hypotheses, the first task was to classify the firms according to type of multinational firm: multidomestic, transnational or global. We used nonhierarchical cluster analysis rather than hierarchical cluster analysis because it has the advantage of being less susceptible to outliers in the data and is indifferent to the specific distance measure used (Hair *et al.*, 1992). Clusters were developed based on the responses to the four items dealing with international organizational strategy developed by Harzing (2000).

The clustering procedure was carried out by specifying that the solution should include only three clusters. Specifying three clusters was appropriate given the theoretical framework and prior work of Harzing (2000). A four-cluster solution would make sense only if there was a good theoretical reason to suspect the existence of an MNE characterized by both low responsiveness and low integration. Although such a possibility exists, it is difficult to conceive that such a firm would survive in the competitive marketplace for long. We experimented with two- and four-cluster solutions, but these alternatives did not produce satisfactory results.

As Table 1 indicates, the cluster analysis organized the firms into three groups (columns) based on these items (rows). Interestingly, the question on

**Table 1** Scores of the MNC clusters on four strategy variables

Item	Cluster means			F	Sig.
	Transnational (n=44)	Multidomestic (n=29)	Global (n=16)		
Economies of scale	4.18	2.10	3.41	94.28	0.00
Global competition	4.32	4.13	4.06	0.91	0.41
Domestic competition	3.36	3.16	2.41	4.68	0.01
National responsiveness	4.27	4.42	2.29	86.63	0.00

global competitiveness was not useful in forming the groups, as all firms claimed to be concerned with global competitiveness. In other words, the mean response for each cluster was not significantly different. Nevertheless, the economies of scale, domestic competitiveness, and national responsiveness items did help to group the firms into the recognizable categories of multidomestic, transnational, and global firms. The domestic competition item was useful in distinguishing the three clusters, but less so than the economies of scale and national responsiveness items. Interestingly, the mean for the economies of scale item was higher for the transnational cluster than for the global cluster.

In order to test the hypotheses, we conducted a discriminant analysis to distinguish the MNE groups identified in the first step. Discriminant analysis is appropriate when the group is a categorical variable, but the discriminating variables are metric. In addition, discriminant analysis makes no assumption about the relationship of causality between the discriminating variables and the classification variable or group (Klecka, 1980). Discriminant analysis assumes that the covariance matrices are homogeneous and that the discriminating variables are normal (Klecka, 1980). Under such conditions, discriminant analysis is preferred to multinomial logit (Press and Wilson, 1978). Box's *M*-test evaluates the assumption of homogeneity of covariance matrices. This test is also very sensitive to meeting the assumption of multivariate normality. As seen in Table 2, Box's *M*-test is not significant, so we conclude the assumptions of multivariate normality and homogeneous covariance matrices are not violated.

As discriminating variables we used items that dealt with different emphases on CSR: job creation, community projects, environment, and social causes. This analysis was run only on the foreign MNEs. No Mexican firms were included. Table 2 indicates that job creation was the most significant

factor that distinguished the three types of multinational firm. Collaboration on community projects and participation in social causes were marginally significant in their ability to discriminate among the different MNE types. As expected, there were no significant differences among firms in the importance they placed on environmental issues.

The classification accuracy of the discriminant analysis was 43.8% for three groups. The classification exceeds the proportional chance criterion of 35.6%, which represents the rate at which the model would correctly classify the groups by chance. Press's *Q* statistic was 5.32, which was significant at the 0.025 level. Press's *Q* is a measure of the classificatory power of the discriminant function.

These results are consistent with Hypothesis 2 rather than Hypothesis 1. Interestingly, the level of significance by which the four issues discriminate among MNE types follows the order in which they reflect domestic vs global concerns. The job creation issue is clearly significant at the 0.01 level. Support for social causes and collaboration in community projects are marginally significant at the 0.10 level, but care for the environment is not at all significant. In addition, Tukey's HSD results confirm that both multidomestic and transnational firms place a significantly greater emphasis on job creation than do global firms.

We then investigated the possible impact of control variables customarily included in CSR research (firm size and industry classification) as well as the country of origin of the MNE. Given that many of the control variables were categorical in nature, it was no longer possible to use discriminant analysis (Press and Wilson, 1978); we used multinomial logit analysis as an alternative. We first ran a model with only the four CSR items used to discriminate the categorical variable of MNE type. This model was significant (likelihood ratio=11.35,  $P=0.02$ ). The only variable that distinguished among the MNE types at the 0.01 level was

**Table 2** Discriminant analysis of CSR activities by type of multinational firm

Variable	Transnational	Multidomestic	Global	Wilks' $\lambda$	F	Prob.	Tukey's HSD
Job creation	3.80	3.45	2.81	0.88	5.69	0.01	Transnational > Global <sup>a</sup> Multidomestic > Global
Community projects	3.50	3.48	2.81	0.94	2.82	0.07	No differences
Environment	4.25	4.03	4.06	0.99	0.41	0.67	No differences
Social causes	3.61	3.48	2.81	0.94	2.94	0.06	Transnational > Global

Box's  $M=31.11$  ( $P=0.10$ ),  $N=96$ . Percent classified correctly=43.8%. Press's  $Q=5.32$  ( $P<0.025$ ).

<sup>a</sup>Transnational > Global means that the mean of the variable for the transnational group was significantly greater than the mean of the same variable for the global group.



job creation. We then added as control variables firm size (number of employees), industry classification, and country of origin. For industry classification we used a dummy variable based on the Mexican system of industrial classification. For the country of origin, we had a small group of firms that were Mexican, so that we could use this group as a control. Also, we used a dummy variable for each country of origin. This second model was also significant (likelihood ratio=37.20,  $P=0.055$ ). Again, job creation was significant at the 0.01 level. None of the control variables was significant. Thus the results of the original discriminant analysis are not affected by firm size, industry sector, or country of origin. The small group of 14 Mexican MNEs included in the sample behaved similarly to non-Mexican MNEs. These results are displayed in Table 3.

In addition to these control variables, we also did several analyses including R&D intensity (McWilliams and Siegel, 2000) and lagged profitability as covariates. For profitability, we used measures of return on assets, return on sales, and return on investment. We obtained data for these variables at the corporate level from Thomson One Banker's WorldScope database. Subsidiary-level data are very difficult to find. We looked at many different models in which R&D and profitability are included together with the measures of CSR type. Some of the models excluded country of origin entirely; others just tested for US firms. Others also excluded industry type and other of the control variables. The main impact of the inclusion of R&D intensity and profitability is to cause job creation to become insignificant.

Unfortunately, a very serious problem with this last set of tests is that we were not able to obtain data on R&D intensity and profitability for most of our cases. The number of observations used for the analyses drops to only 39 firms. Many, although not all, of these are US firms. Many of the non-US firms do not quote on stock exchanges or do not publish their financial data. As the number of observations decreases, the standard error increases, thus decreasing its statistical significance. Given the severe limitations on data, these last analyses are unreliable.

### Discussion and conclusions

This research has sought to extend the MNE organizational strategy typology by testing empirically for its relationship to CSR positioning by MNEs. One of the key findings of the research is that all MNE types place similar importance on global CSR issues (e.g., environmental conservation), but the multidomestic and transnational

**Table 3** Multinomial logit analysis<sup>a</sup>

Variable	Model 1		Model 2	
	Estimate	Standard error	Estimate	Standard error
Job creation	0.62**	0.23	0.88**	0.31
Community projects	-0.12	0.30	-0.30	0.39
Environment	-0.16	0.23	-0.14	0.29
Social causes	0.30	0.26	0.41	0.31
Firm size			0.00	0.00
Australia			-11.43	162.7
Canada			1.13	216.0
Denmark			-9.43	162.7
France			-11.72	162.7
Germany			-9.84	162.7
Ireland			-14.61	162.7
Italy			-12.28	162.7
Japan			0.65	294.7
Mexico			9.81	245.6
Sweden			0.35	294.6
Switzerland			0.04	216.0
United Kingdom			-2.27	236.9
United States			-10.92	162.7
Food, clothing			-0.34	0.52
Petrochemical, chemical, plastics, glass, cement			-0.20	0.41
Construction			0.04	1.05
Commerce			-0.19	0.54
Transportation, communication			-0.43	0.64
Financial services			-0.08	0.57
Other services			-0.95	0.60
Percent concordant	65.3	79.9		
Chi-square likelihood ratio	11.35*	37.20 <sup>†</sup>		

<sup>a</sup> $N=88$ .

<sup>†</sup> $P<0.10$ ; \* $P<0.05$ ; \*\* $P<0.01$ .

MNEs place greater importance on country-specific CSR than do global MNEs. As a result, we can say that CSR seems to conform to the MNE organization strategy established for product-market activities. This result is consistent with our expectations based on institutional theory. We must clarify that the results of this article must be strictly applied only to MNEs located in developing countries and to the specific CSR issues examined. Only further research will determine whether the theoretical relationships hypothesized can be applied to other locations and CSR issues.

The paper makes a number of significant theoretical contributions to the literature. First, we make a useful distinction between local and global CSR. The determination of the emphasis to be placed on



global vs local CSR issues is a significant managerial challenge. Second, this study demonstrates the usefulness of institutional theory in explaining the adoption of CSR policies by firms. Although institutional theory has been used widely to understand the adoption of environmental policies and practices (Sharma, 2000; Christmann, 2004), it has not been applied as extensively to CSR research. Given the uncertainties regarding the CSR-financial performance nexus, open-system and natural-system processes are likely to be especially useful in understanding CSR phenomena. Third, the results of this study enrich the MNE literature by suggesting that MNE organizational strategy influences other strategies through institutional processes.

In addition, we make a number of empirical contributions. First, we test the Bartlett and Ghoshal framework in a new setting. Second, we found that the Harzing (2000) items were useful in the identification of the MNE types. Only the item regarding the importance of global competition was not significant. However, this result is probably not surprising given that Mexico has now signed at least 10 free trade agreements and has become a leader in opening its economy to free trade. It is consistent, as well, that all respondent firms reported that their competitive environment was characterized by global competition.

As regards methodology and data analysis, a number of concerns may arise. The first is the limited nature of CSR items included within the survey instrument. There is, nonetheless, a trade-off in any survey instrument between depth and response. As we indicated earlier, the challenges of doing survey research in Latin America motivated us to err on the side of brevity. This decision points, moreover, to what we would argue is one of the principal contributions of the research: the extension of the MNE model in a developing country environment. An additional concern is that the number of respondents limits the extent to which generalizations can be made from the data. Smaller sample sizes produce more unstable results.

Given these limitations, further work needs to be done in order to extend this research to MNEs in other host countries: in so doing, other issues will need to be included and addressed. A global CSR dimension might be tested across countries, but items testing for the importance of country-specific CSR issues need to be developed on an *ad hoc* basis, and additional questions that allow for a deeper profiling of companies and regional differences would be useful.

The findings in Mexico suggest avenues for research and open up the field of international organizational strategy to new issues. Finding support for the typology in a developing country context confirms the importance of developing theory and empirical research on international organizational strategy. The Bartlett and Ghoshal typology remains the benchmark for the field. We would encourage researchers to test our findings in other contexts and with the more complex approaches to organizational strategy emerging in the literature.

Other non-market strategies, particularly political strategies related to lobbying and regulation, we believe, are even more likely to demonstrate multi-domestic, global, and regional effects. Strike *et al.*'s (2006) finding that MNEs reach an inflection point where increased diversification leads to increased corporate irresponsibility suggests that inadequate international organizational strategy may be a factor in CSR failures. It is possible that growth brings with it globalization of functions and a loss of contact with host country issues.

Although the results of this study are consistent with an institutional approach, more research needs to be undertaken in order to pinpoint the specific processes of normative, coercive, and mimetic isomorphism that explain the adoption of CSR policy and practices. Clearly organizational inertia characterizes firms' attempts to institutionalize CSR. Researchers need to examine more carefully the structures of power implicated in the resistance to the adoption of CSR policy and practice. As argued in this paper, firms should manage CSR more strategically and not simply be carried along by mimetic isomorphism and inertial forces. When managers analyze CSR within a strategic local-global framework, just as they do when considering traditional organization strategy issues, they are in a better position to decide which CSR activities ought to be integrated globally and which ought to be managed at the local level.

One objection to our conclusion is the argument that the logic of institutional isomorphism may be internally efficient, regardless of whether the firm neglects some CSR issues. The strategic management literature, beginning with the Harvard School (Andrews, 1987), has treated CSR within the strategy process as following market strategy and organizational strategy. Non-market strategists would prefer to treat market and non-market strategies as simultaneous inputs, but recognize that few firms do so (Baron, 2005). CSR remains an

activity that is made to 'fit in' with firm market strategy. While firms will argue that this is efficient, and hence coherent with firm strategy, this is only the case if, in fact, stakeholder demands do not affect strategic outcomes or firm performance. In short, such efficiency, when achieved without taking into account all firm activities including CSR, is fortuitous. The strategic deployment of resources is an intentional act based on assessing strategic needs and outcomes. Thus a firm can be global in its market strategy and multidomestic in its CSR strategy if the benefits involved in having differing strategies outweigh the costs. Such an approach is implied in McWilliams and Siegel (2001). In effect, a more 'efficient' organizational strategy that is consistent with firm product strategy must be evaluated in terms of all firm activities that may affect firm performance.

As regards public policy, government officials in developing countries may wish to consider the differing commitments among MNEs to local CSR. In many instances, global MNEs have been granted special tax benefits to set up manufacturing operations in developing countries based on what for the local government is a local concern – job creation. However, when these global firms have found other locations that are more cost-efficient, they have frequently moved – an action consistent with their

global strategies. How this may translate into public policy decisions is beyond the scope of this paper, but given the growing demands on local authorities to involve foreign MNEs in community-building projects, this may be an issue that national governments will address in the future.

In conclusion, global MNEs face a clear choice. They can follow the example of BP and manage local and global CSR issues on a case-by-case analysis of the pressures for integration and responsiveness surrounding each issue: in short, they can become 'transnational' in their CSR strategy. Alternatively, they can ignore local subtleties and nuances in their CSR agenda, with the attendant risks. Fortunately, we expect that, as the link between CSR and strategic management becomes more clearly understood, global MNEs will follow more rational approaches that evaluate the importance of local and global CSR issues on their own merit in order to manage more effectively the unique nature of CSR.

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