Cross-National Differences in Corporate Social Responsibility

In the Global Apparel Industry

DISSERTATION

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Abstract

Corporate social responsibility (CSR) has been characterized in the management literature as “the social responsibility of business encompass(ing) the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979: 500). This notion suggests that firms have an obligation to the needs and goals of society that goes beyond the merely economic (Eells & Watson, 1974; Jones, 1980; Waldman et al., 2006), and involves discretionary allocation of corporate resources for accomplishing these goals (Barnett, 2007). It may be for this reason that CSR has been the subject of great academic attention, yet despite sixty years of research, our understanding of its causal effects remains incomplete. This is particularly true regarding CSR across national contexts. Work in international CSR tends to be U.S.-centric, limited to single country or comparison work across only a few countries, and focused on multi-national enterprises (MNEs) with little concern for local firms.

In light of this, we address these concerns with an examination of the role formal and cultural institutions play in the determination of firms’ CSR behaviors, using unique data from the global apparel industry across multiple countries. We use two theoretical perspectives, institutional economics (North, 199) and institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan 1977; Scott 1995; Scott & Meyer, 1983), to better
understand the role of the environment in firms’ decision to engage—or not to engage—in CSR across numerous national contexts. Using comprehensive audit reports on firms’ CSR activities amassed from 2002 to 2009 by the Fair Labor Association (FLA), a not-for-profit organization located in the U.S. which monitors such behavior, we create an original dataset consisting of 669 firms in 38 countries across both developed and developing nations. We employ three empirical studies to test the effect of institutional and firm-level attributes on firms’ CSR behavior.

In the first study, we present a model drawing on an institutional economics perspective (North, 1990), examining the effects of the formal institutional environment on firms’ production costs, and in turn, incentives for their CSR activity. This first study strongly confirms the role of firms’ institutional environments for their CSR decisions. In a second study, we present another model that considers how cultural norms affect the societal expectations and thereby influence firms’ legitimacy through their CSR behavior. Our results indicate strong support for the effects of culture on the propensity to engage in CSR. Finally, a third study examines the relationship between firm-level attributes and their CSR responsiveness. We show how a firm’s CSR behaviors varies according to its need for legitimacy, underscoring the differential economic motivations that firms have for engaging in CSR. Overall, these findings demonstrate the importance of taking into account how systematic variations in firms’ institutional environments influence their strategic decision making, including that related to CSR.
Dedication

This dissertation is dedicated to my mother and father,
Jeanette A. Young and Brian W. Young,
in loving memory.
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I would like offer my appreciation and gratitude to everyone who helped make this dissertation a success. I would like to first thank my family, whose patience, support, and love throughout the entire PhD program has kept me going through the good times and bad. Both my parents passed away during this program, but their pride and happiness in my success meant the world to me during this whole process. I also wish to thank my brother, Eric, his wife, Kim, and my stepmother, Lois, who have provided much moral support and been willing to listen, even when they didn’t quite understand the marathon that is a PhD.

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Thank you all.
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Chapter 1: Introduction and Overview

Corporate social responsibility (CSR) has been characterized in the management literature as “the social responsibility of business encompass(ing) the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979: 500). This notion suggests that firms have an obligation to the needs and goals of society that goes beyond the merely economic (Eells & Watson, 1974; Jones, 1980; Waldman et al., 2006), and involves discretionary allocation of corporate resources for accomplishing these goals (Barnett, 2007). It may be for this reason that CSR has been the subject of great academic attention, yet despite sixty years of research, our understanding of its causal effects remains incomplete. This is particularly true regarding CSR across national contexts. Work in international CSR tends to be U.S.-centric, limited to single country or comparison work across only a few countries, and focused on multi-national enterprises (MNEs) with little concern for local firms.

The purpose of this dissertation is to address these concerns. Our goal is to extend the CSR literature through a more detailed consideration of the effect of institutional and firm-level attributes on firms’ CSR behavior. We use two theoretical perspectives, institutional economics (North, 199) and institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan 1977; Scott 1995; Scott & Meyer, 1983), to better understand the role of the environment in firms’ decision to engage—or not to engage—
in CSR across numerous national contexts. We employ three empirical studies to tests these relationships, using unique data from the global apparel industry across multiple countries.

We begin with the notion that, like any other firm activity, engaging in CSR is not a costless behavior. Firms will choose to incur these costs only when they lead to the creation of value or when they have slack resources (Campbell, 2007; Waddock & Graves, 1997). In the first study, we present our first model drawing on an institutional economics perspective (North, 1990), which examines the effects of the formal institutional environment on firms’ production costs, and in turn, incentives for their CSR activity. In a second study, we present another model that takes into consideration how cultural norms affect the societal expectations and thereby influence firms’ legitimacy through their CSR behavior. Finally, a third study examines the relationship between firm-level attributes and their CSR responsiveness, based on the argument that heterogeneity in firm attributes cause them to differ on their dependence on the goodwill of society at large, and therefore, their requirements for legitimacy.

Below we first outline the empirical setting for this research, and then discuss each chapter in depth.

**Study Setting**

The global apparel industry was chosen as the setting for this dissertation due to its highly competitive structure stemming from thousands of firms dispersed across the globe. A firm that upholds higher standards in this regard unavoidably incurs higher labor and production costs and is therefore often placed at a competitive disadvantage. Yet
penalizing firms for violations can have a devastating effect on the surrounding community through lost business and unemployment. This tension makes the global apparel industry particularly appropriate to study with regards to institutional effects on CSR. In addition, the traditionally labor-intensive nature of this industry makes CSR related to employees particularly salient, allowing us to clearly demarcate the nature of CSR under study. We focus on one type of CSR—employee-related—in order to focus on the biggest societal concern regarding this industry, and eliminate any “noise” that may be tied to other types of CSR. A single industry setting allows us to control for differences in CSR behaviors seen across industries that might stem from variations in technology and skill requirements.

We obtained comprehensive audit reports on firms’ CSR activities amassed from 2002 to 2009 by the Fair Labor Association (FLA), a not-for-profit organization located in the U.S. which monitors such behavior, resulting in an original dataset consisting of 669 firms in 38 countries across both developed and developing nations. The CSR activities relevant to this study are those based on ethical guidelines laid out by the International Labor Organization (ILO) in the United Nations, which include the ensuring of high health and safety standards for the workers in the workplace, rights to representation, collective bargaining and association, freedom from indiscriminate firing, country-appropriate wages as well as overtime compensation, ensured training and education related to work, ensured time off from work, and non-discrimination on the basis of age, race, religion, gender or political views.
A Review of the CSR Literature

We begin by reviewing the CSR literature to date in chapter two. We first discuss the definitions of CSR in the literature, in order to understand how researchers conceptualize the social responsibilities of firms. We then consider the prior theoretical and empirical work in the study of CSR, as well as that relating to international CSR. We find that, despite the adoption of stakeholder (Freeman, 1984) and institutional theories (DiMaggio & Powell, 1983; Meyer & Rowan 1977; Scott 1995; Scott & Meyer, 1983) to account for the exogenous factors that put systematic pressures on the firm to engage in CSR behaviors, there is insufficient explanation for the differences seen in CSR behavior across firms, particularly when these firms are located in different international institutional contexts. Much of the international work done thus far is concentrated on multinational enterprise (MNE) CSR behaviors, and disregards small to medium-sized enterprises (SMEs) which make up much of international business worldwide. Second, we note the question of global scale—much of the empirical work has been conducted in only one or two country settings, which denies the field the richness that comes from examining CSR in multiple institutional environments. Finally, the institutional context in which the firm operates needs further exploration, particularly the differences between institutional contexts which may help explain heterogeneity in CSR behavior between firms.

The Effect of the Institutional Environment on Firms’ CSR Behavior

We examine the effect of formal institutions on firms’ CSR behaviors in chapter three. Drawing on institutional economics (North, 1990), which highlights the effects of
national institutions on the production costs faced by firms, we develop a model that shows how costs associated with firms’ institutional environments influence their likelihood of engaging in CSR activities. In particular, we argue that institutions that enhance the competitive conditions faced by firms—i.e., preservation of property rights, freely functioning capital markets, and market entry by foreign firms—reduce their incentives to engage in CSR, while those institutional environments that reduce competitive forces—i.e. through greater government participation in the economy, lack of governmental transparency and institutional uncertainty—increase incentives to engage in CSR.

This first study strongly confirms the role of firms’ institutional environments for their CSR decisions. In general, we find support for our overall argument that institutions enhancing the free functioning of the market reduce incentives to engage in CSR behavior, while those that reduce pressure on production costs increase these incentives. Nonetheless, the evidence indicates that, despite greater pressure on production costs, scarcity of a key input—labor—tended to increase CSR. In all, these findings suggest that diverse cost issues stemming from firms’ operating environments have important and surprising ramifications for their CSR behavior. In doing so, this research supports the argument that CSR behavior is grounded in firms’ underlying motivation for wealth maximization. We depart from prevailing wisdom, however, by showing that CSR decisions are not automatically firm-specific in nature. Since important production-related costs faced by firms stem from their institutional environments, they affect all firms in that environment in more or less the same way. Thus, there will be systematic variations in CSR behavior across national contexts.
The Effect of Cultural Norms on Firms’ CSR Behavior

In chapter four we draw on institutional theory to examine the influence of cultural norms on firms’ CSR behavior. Drawing on institutional perspectives (e.g., DiMaggio & Powell, 1983; Meyer & Rowan, 1991; Zucker, 1987), researchers have noted that the societal context within which the firm is embedded plays a key role in determining its CSR choices, by imposing systematic institutional pressures that influence the firm’s need for legitimization. CSR activities allow firms to gain legitimacy in their environment through behaviors that are consistent with societal expectations. The emphasis on social values and norms in institutional theory suggests that the cultural context in which organizations are embedded is fundamental in determining how they are viewed and evaluated. Despite this, few CSR studies drawing on institutional theory have actually considered which cultural norms might be relevant for firms’ CSR behavior or how they might influence such behavior. The purpose of this research is to address this critical void in the CSR literature.

We develop a theoretical framework which highlights three categories of cultural dimensions that help to form society’s expectations regarding appropriate behavior of firms—these include orientation towards humanity, relational orientation, and external orientation. We argue that when firms behave in line with these cultural expectations with respect to their CSR activities, they will be perceived by societal actors as legitimate members of that society. Based on this argument, we develop testable hypotheses relating seven different cultural dimensions to the level of firms’ employee-related CSR activity.
Our results indicate strong support for the effects of culture on the propensity to engage in CSR. By considering seven cultural dimensions, we demonstrate that not only does culture affect the decision to engage in CSR, but that different cultural dimensions have varying impact on this decision. In particular, our findings support our argument that societies characterized by more assertiveness and future orientation lead to less CSR activity on the part of firms, while societies connected to greater humane orientation, gender equality and uncertainty avoidance give rise to more CSR. Contrary to expectations, collectivism was seen to reduce CSR activity, while power distance played no role in this regard. These findings demonstrate the importance of taking into account how systematic variations in firms’ institutional environments influence their strategic decision making, including that related to CSR.

The Effect of Firms’ Need for Legitimacy on CSR Behavior

In chapter five we also use an institutional theory framework (DiMaggio & Powell, 1983; Meyer & Rowan 1977; Scott 1995; Scott & Meyer, 1983), but approach the notion of institutional influences on CSR behavior from a different direction and examine the heterogeneity of firms to determine if CSR responsiveness varies according to a firm’s need for legitimacy. The notion of legitimacy is based on the principle that goodwill from societal members reduces the uncertainty of organizations operating in that environment (Oliver, 1991; Turban & Greening, 1996). Researchers have suggested that firms’ corporate social responsibility (CSR) decisions are based on the desire to gain legitimacy in their institutional environment (Buehler & Shetty, 1976; Bansal & Clelland, 2004; Henriques & Sadorsky, 1999), with the implication that all firms facing similar
institutional conditions require the same level of legitimacy, and thus will behave similarly in terms of their CSR decisions (Galaskiewicz, 1997; Hoffman, 1999; Marquis, Glynn & Davis, 2007; Matten & Moon, 2008; Oliver, 1991). Such a perspective overlooks critical differences among firms which may cause them to differ on their dependence on the goodwill of society at large, and in turn, their requirements for legitimacy. Thus, we would expect that, even when exposed to similar institutional norms and standards, firms’ motivation for engaging in CSR will vary. We anticipate firms will do so only if they add value to the firm through legitimacy. We argue that firms’ need for legitimacy will vary according to two factors: (a) the extent of their transparency and visibility to societal members, and (b) their vulnerability to uncertainties stemming from their institutional environment. The role of transparency stems from the expectation that if societal members are unaware of the firm or unable to easily observe its activities, the value of legitimacy to the firm will go down, while those that are more in the public eye will have a comparatively greater need for legitimacy. The role of vulnerability is based on the notion that firms facing greater economic uncertainties will benefit comparatively more from the goodwill of societal members, and thus, will require more legitimacy, while those that face less uncertain conditions will not need to rely as much on such goodwill. Firms with greater transparency and vulnerability are more likely to seek legitimacy in their environment through improvement of their existing CSR portfolio, referred to as CSR responsiveness. Based on these arguments, we develop eight hypotheses relating firms’ transparency and vulnerability to their responsiveness towards CSR.
Controlling for institutional contextual factors that affect firms’ motivation for legitimacy, our findings indicate considerable support for our arguments, with seven of the hypotheses upheld. In doing so, this research contributes in a number of ways to both the institutional theory and CSR literatures. First, by demonstrating that firms’ need for legitimacy is not constant within a given institutional context, instead varying according to their transparency and dependence on the environment, this research provides greater depth to the concept of legitimacy than previously considered in the literature. In particular, it indicates that, while the institutional environment is important to firms, how important it is varies according to firm characteristics. Furthermore, by showing how a firm’s CSR behaviors varies according to its need for legitimacy, this research underscores the differential economic motivations that firms have for engaging in CSR. This stands in contrast to prior literature that has tended to stress only preexisting managerial values for CSR.

Conclusions

These three chapters taken as a whole highlight the importance of accounting for the multifaceted influences of context for firms’ strategies in general, and those related to CSR in particular. Chapters three and four especially demonstrate the importance of taking into account how systematic variations in firms’ institutional environments influence their strategic decision making, including that related to CSR, while chapter five demonstrates that firms’ need for legitimacy is not constant within a given institutional context, contributing additional insights to the concept of legitimacy than previously noted in the literature on institutional theory.
Theoretically, this research extends institutional economics into the domain of CSR and considers in depth the cost effects of institutions under which firms operate. We examine how formal institutions influencing free-market conditions and the economic orientation of society can significantly impact a firm’s inclination to engage in CSR activity across diverse national contexts. In particular, we demonstrate how greater free-market orientation of institutions often reduce incentives to engage in CSR behavior by enhancing firms’ competitive and cost pressures, while institutions that improve the quality of human resources, increase government accountability or otherwise reduce firms’ costs without increasing competitive pressures, actually increase incentives to engage in CSR.

Institutional theory is also furthered through the consideration of cultural norms and firms’ need for legitimacy as drivers of their CSR behavior. By examining the effect of seven different cultural dimensions on firms’ need for legitimacy, we present a more fine-tuned comparison of cultural norms than has been seen in the CSR literature. Furthermore, by showing how a firm’s CSR behaviors varies according to its need for legitimacy, this research underscores the differential economic motivations that firms have for engaging in CSR.

Empirically speaking, this research makes several new contributions to the literature. First, this study measures in detail actual CSR behavior of firms, not managers’ values or CSR preferences typically seen in the literature, thus offering a more direct analysis of the CSR phenomenon. Second, since previous work has characteristically not differentiated among types of CSR, and instead treated them as a monolithic whole, this research contributes to the CSR literature by showing the need for
distinguishing among types of CSR. We focus specifically on CSR related to the firms’ employees, recognizing that other types of CSR, such as those related to the environment or social causes, can be based on dissimilar incentives and associated with very different costs, thus analytically “muddying the waters.” This work also provides insights on small and medium sized firms, not just huge MNEs which are often the focus of international CSR research. Finally, this work provides an extensive multi-country dataset not typically seen in the literature. Since the focus of this research was on the extent to which firms undertook a particular type of CSR—those relating to employees’ wellbeing—this research ranks among the few that actually measure firms’ CSR activities across a large sample.
Chapter 2: Corporate Social Responsibility: A Review of Literature

In this section we consider the theoretical frames that have been applied to CSR in the literature, including stakeholder theory, institutional theory, and ethics-related approaches. We also examine the empirical work up to now on CSR, much of which has attempted to link CSR activities with an increase in shareholder wealth. We find that in spite of sixty years of examination scholarly understanding of CSR remains incomplete regarding the causal effects of this behavior.

We begin by first discussing the definitions of CSR in the literature, in order to understand how researchers conceptualize the social responsibilities of firms. We then consider the prior theoretical and empirical work in the study of CSR, as well as that relating to international CSR. We demonstrate that, despite the adoption of stakeholder and institutional theories to account for the exogenous factors that put systematic pressures on the firm to engage or not engage in CSR behaviors, there is insufficient explanation for the differences seen in CSR behavior across firms, particularly when these firms are located in different international institutional contexts.

Definitional conceptualizations of CSR

Corporate social responsibility has been recognized in the management literature as an important corporate obligation (Quinn, Mintzberg & James, 1987). Since the
1950s, researchers have attempted to both define and develop theoretical explanations of the nature of the CSR phenomenon (Carroll, 1979, 1999; Cochran & Wood, 1984; Lantos, 2001; Sethi, 1975; Wood, 1991). Bowen (1953) is generally credited with first ascribing social responsibility to the behavior of firms, stressing the obligation of “businessmen” to “follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen, 1953: 6). Since Bowen, dozens of additional conceptualizations of CSR have been proffered, key examples of which are shown in Exhibit A. Most incorporate an understanding of the firm as an economic entity, albeit one with additional responsibilities above and beyond financial returns to the owners of the firm: “business is and must remain fundamentally an economic institution, but...it does have responsibilities to help society achieve its basic goals and does, therefore, have social responsibilities” (Steiner, 1971: 164).

While some scholars view CSR is a philosophy of behavior that is not amenable to quantification (Windsor, 2006), several others have nonetheless extended the concept of CSR into such a direction, giving this new concept the label of corporate social performance (Epstein, 1987; Wartick & Cochran, 1985; Wood, 1991). Wood (1991) defines corporate social performance (CSP) as “a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships” (Wood, 1991: 693). While Wood’s (1991) definition has been be gaining ground in recent years as an influential framework for social issues in management (Lou, 2006; Maignan & Ralston, 2002), others suggest that CSP is largely synonymous with
“corporate social responsibility, corporate social responsiveness, or any other interaction between business and the social environment” (Wartick & Cochran, 1985: 758).

In an attempt to unpack the concept of CSR, many scholars have disaggregated it into underlying groupings. Carroll (1979, 1991, 1999) divides CSR into four categories: economic, legal, ethical, and voluntary (philanthropic) and views them as a hierarchy in the shape of a pyramid, with economic serving as the base. He cautions, however, that CSR-minded businesses should not fulfill these categories sequentially but rather fulfill them all at the same time (Carroll, 1991). In contrast, Tuzzolino and Armandi (1981) propose a CSR-related hierarchical needs framework designed after Maslow’s (1954) approach, stressing the sequential importance of needs related to CSR. Still others emphasize that CSR itself is a process, and not just a set of outcomes (Epstein, 1987; Jones, 1980).

Some scholars have characterized CSR as a spectrum comprised of different levels, which, despite the different labels by different scholars, are very similar in nature from one author to the next. For example, Sethi (1975) argues for three categories, Lantos (2001) and Carroll (1998) argue for four, Godfrey and Hatch (2007) argue for five, but the underlying premise places the pure economic argument at one end of the spectrum and moral philosophy at the other end. In general, the stages associate increasing levels of corporate responsibility to greater social welfare. At the economic end of the scale is what Godfrey and Hatch (2007) term “shareholder capitalism,” with the premise that shareholders provide the firm’s capital and therefore have a property claim on the residual earnings of that firm. It follows that it is unjust to dispose of that property (rents) without the consent of the owners of the firm, reflecting a primarily legal argument
(Friedman, 1970; Keim, 1978). At the other end of the spectrum is “business citizenship”, or the premise that “shareholder property rights only meaningfully exist within an overarching framework of community institutions and basic human rights, with a concern for human dignity” (Godfrey & Hatch, 2007). In this view, firms are considered a member of society as a whole and therefore have an obligation to contribute to the social welfare in a meaningful and broad-based way (Waddell, 2000).

An extension of this view considers the firm itself as an economic actor within a societal setting, emphasizing that a corporation is “an entity with status equivalent to a person” (Waddell, 2000; see also Gardberg & Fombrun, 2006). This stream of literature underscores the concept that just as a person has certain rights and responsibilities to abide by the laws of a society and contribute economically to that society’s survival, so to does the firm. This notion is reflected in the following statement by Henry Ford II in a 1969 speech at Harvard Business School: “The terms of the contract between industry and society are changing…Now we are being asked to serve a wider range of human values and to accept an obligation to members of the public with whom we have no commercial transactions” (Chewning et al, 1990). The concept of a “social contract” maintains that business and society are equal partners, each with a set of rights and reciprocal responsibilities (Lantos, 2001). Some even argue that the corporation’s social responsibilities should be proportionate to its political, social and economic power (Bowie, 1983; Lippke, 1996). It should be noted, however, that the social contract is also an ambiguous concept, since it can change as society changes, can vary from region to region or country to country, and does not stipulate what exactly is required of the corporation and how that responsibility varies with the corporation’s size (Lantos, 2001).
Several other theories have been used to explain the concept of CSR, but have not gained much traction. In addition to Tuzzolino and Armandi’s (1981) needs-hierarchy view of CSR similar to Maslow’s (1954) pyramid, Strand (1983) uses a systems paradigm of organizational adaptation to design a typology of firms’ social performance based on the social demands made on organizations, and Zenisek (1979) applies organizational theory to develop a typology of social responsibility, combining Blau and Scott’s (1962) concept of a prime beneficiary and Emery and Trist’s (1965) concept of the causal texture of organizational environments to explain the fit between business ethics and societal expectations of the business sector. While Scherer and Palazzo (2007) also use an organizational theory approach based on Habermas’s (1971) theory of democracy to disaggregate CSR into positivist and post-positivist paradigms, Newton (2002) applies network theory to environmental CSR to explain the “greening” of organizations.

As evident from the above discussion, the conceptualization of CSR has been much debated in the literature, with scholars having yet to agree on one all-encompassing description. Nonetheless, Carroll’s (1979) definition appears to have established the benchmark in this regard, as it is the most cited in the literature. This paper will therefore adopt his definition: “the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979: 500). Maignan (2001) expands on the meanings of the specific categories of CSR identified by Carroll:
“Economic responsibilities designate the obligations for businesses to be productive and profitable. Legal responsibilities correspond to society’s expectations to see businesses meet their economic duties within the framework of legal requirements. Ethical responsibilities require that businesses abide by established norms defining appropriate behavior, and philanthropic responsibilities reflect the common desire to get actively involved in the betterment of society.” (Maignan, 2001: 59)

For the purposes of this paper, economic CSR refers to the firm engaging in activities that keep the firm vital and profitable for its survival in a particular community, so that the citizens of that community may benefit from the activities of the firm within the local geographical area up to and including country. By prospering and engaging in activities such as using the local populous for an employment base and using local suppliers for needed inputs, the firm is engaging in the economic category of CSR according to Carroll’s definition. This is in line with Maignan’s characterization of “the obligations for businesses to be productive and profitable.”

This characterization has several benefits which makes it appropriate for this study. First, it encompasses several levels of corporate-societal interaction. Second, it is applicable within any given institutional environment. And third, it is ethically neutral, which makes it particularly beneficial when comparing institutional contexts with differing value systems.

Prior theoretical approaches to CSR: Stakeholder and institutional theories

Early theoretical work in CSR acknowledges the importance of external factors and how they may affect a firm’s decision to engage in CSR behaviors. While several theories have been applied to the phenomenon of CSR, two theories in particular have
been the basis for most theoretical arguments in the CSR literature: stakeholder theory (Freeman, 1984) and institutional theory (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Scott, 1995). Clarkson (1995) proposes that CSR can be analyzed more effectively by using a theoretical framework based on a firm’s relationships with its stakeholders than by using models and methodologies based on concepts of corporate social responsibilities and responsiveness, while Marquis, Glynn and Davis (2007) suggest that an institutional approach focuses on how institutional pressures lead to mimetic isomorphism in CSR behaviors. We examine each perspective in turn.

**The relevance of stakeholders for CSR behavior.** Stakeholder theory was developed to challenge the notion that stockholders are the only group to which the management of a firm need respond. A stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984: 46). This definition does not specifically entail a socially responsible agenda. However, while originally conceived as a framework for setting and implementing a strategic direction for an organization, stakeholder theory has been embraced both conceptually and empirically by CSR scholars for its ability to indicate specific groups a firm may consider in its social obligations. Stakeholder theory suggests that if scholars employ the relationships between a firm and the groups and/or individuals who can affect or are affected by it as a unit of analysis, scholars will be better able to determine how managers may better create value (Parmar, Freeman, Harrison, Wicks, Purnell & De Colle, 2010).

Narver (1971) notes that “external effects” can pressure a firm to behave in specific ways. He points to the “objective evidence of the present and future….expectations of society, customers in product markets, and investors and lenders
on capital markets” (1971: 102), arguing a firm’s potential earnings are affected by potential legal, reputational and product-market related risks created by these societal expectations. While agreeing with Friedman’s (1970) position that the overall objective of the firm is to maximize shareholder value, Narver asserts that the present market value of a firm depends only minimally on the firm’s current earnings; more important are the expected earnings and risk regarding future earnings. The ideal solution for dealing with “external effects” according to Narver is a regulatory resolution; however such a solution may be a long time coming. Firms are thus left with a dilemma: facing potential risks caused by societal expectation, or engaging in voluntary social action on the behalf of actors whose ties to the firm may not be immediately apparent if existent at all. In his argument Narver calls attention specifically to customers and the community at large, two groups later identified by stakeholder theory as important and relevant to the firm (Freeman, 1984).

An important distinction is that, according to stakeholder theory, these stakeholder groups are not only affected by a firm’s behavior but also “have the ability to influence it” (Savage, Nix, Whitehead & Blair, 1991: 61). Crawford and Gram (1978) use stakeholder logic in their conceptual work on CSR as an interorganizational transaction, claiming that so-called “interest organizations” act as arbiters of social responsibility for a firm. These interest organizations are “specific organized groups in the social environment which represent persons affected by corporate policies” and the firm should “formulate its plans with specific reference to the needs and preferences of those groups” (Crawford & Gram, 1978: 881; see also Shocker & Sethi, 1974). And Jones and Goldberg (1982) propose that firms have to set a balance in their corporate
decision-making, arguing that a decision considered responsible by one constituency of
the firm (i.e. environmentalists) may be deemed irresponsible by another (i.e. employees). Henriques & Sadorsky (1999) use stakeholder theory to classify 400 Canadian firms into four environmental profiles (reactive, defensive, accommodative and proactive) to determine whether firms that are more committed to environmental CSR differ in their perceptions of different stakeholder groups than firms that are less committed to environmental CSR. The results of cluster analysis show that environmentally proactive firms do perceive most stakeholder groups (except for the media in this case) to be important and view managing these stakeholder groups to be an important business function, suggesting that these groups are indeed influential on firm behavior.

Some scholars have differentiated between “primary” and “secondary” stakeholders, where primary stakeholders are groups whose support is needed for the firm to exist and that the firm may have special obligations towards, such as customers, employees, financiers, suppliers and communities (Dunham, Freeman & Liedtka, 2006), and secondary stakeholders are groups who have no formal claim on the firm and that the firm may not have special obligations towards, such as society at large (Carroll & Bucholtz, 1993). Clarkson (1995) derives a stakeholder framework for CSR by extrapolating from the data of more than 70 field studies of CSR behavior from 1983 to 1993, and concludes that corporations manage relationships with stakeholder groups rather than society as a whole and that it is important to distinguish between social issues and stakeholder issues. Hillman and Keim (2001) takes this a step further using S&P 500 firm data, empirically testing the relationships between stakeholder management, social
issue participation and shareholder value. They find that building better relationships with primary stakeholders such as employees, customers and suppliers can lead to increased shareholder wealth, while using corporate resources for social issues unrelated to these primary stakeholders may not create value.

Other studies apply stakeholder theory to CSR in different ways, after defining CSR in a way that takes the stakeholder viewpoint into account (Barnett, 2007; Bateman and Snell, 2002; Campbell, 2007; Detomasi, 2008; Epstein, 1987; Strike et al, 2006; Waldman et al, 2006). McGuire, Sundgren and Schneeweis (1988) use Fortune magazine’s ratings of corporate reputation as a proxy for perceptions of a firm’s CSR to determine a relationship between CSR and firm performance. They show that measures of accounting-based risk variables are more closely associated with CSR than was previously determined. They suggest that rather than seek increased profitability from CSR activity, managers should look instead to reducing the risk stemming from choosing not to engage in CSR behaviors, for negligence may expose the firm to risk. Agle, Mitchell and Sonnenfeld (1999) empirically tested stakeholder attributes and their salience for CEOs of 80 large U.S. firms and found slight support for a link between CEO values and corporate performance.

Stakeholder theory has contributed much to our understanding of the phenomenon of CSR. It has helped identify specific groups who may put pressure on firms to engage in CSR behavior as well as help firms identify specific groups to target with CSR initiatives. However, both Hillman and Keim (2001) and Clarkson (1995) have demonstrated the necessity of distinguishing between stakeholder issues and social issues, since managers can manage relationships with these specific groups and not with
society at large. Stakeholder theory also does not address other exogenous factors that may impact the firm. Factors such as culture or the legal environment have been determined to have some impact of firms’ CSR decisions (Angelidis & Ibrahim, 2004; Buehler & Shetty, 1974; Déniz & García-Falcón, 2002; Witt & Redding, 2009), yet cannot easily be incorporated into the stakeholder approach. It may be for this reason that some scholars have turned to institutional theory (DiMaggio & Powell, 1983; Scott, 1995) in search of more explanatory power with regards to CSR.

**Institutional influences on CSR behavior.** Institutional theory states that the organizational structure of a firm is a function of rules determined by the institutional environment, and that following these rules is not just a means to an end but an end in and of itself. While not necessarily efficient, following these rules leads to conformity within an accepted norm, which lends legitimacy to the firm. This legitimacy results in less uncertainty for the firm in its specific institutional field. This conformity expresses itself through isomorphism, or imitation, taking several forms depending upon the institutional pressures being applied for conformity (DiMaggio & Powell, 1983; Meyer & Rowan 1977; Scott 1995; Scott & Meyer, 1983). Isomorphic pressure can be regulatory, normative or mimetic. Regulatory isomorphism takes place in response to laws that firms within a specific institutional field are expected to obey, normative isomorphism is observed when firms follow well-established patterns of behavior, such as established human resource or accounting practices, and mimetic isomorphism results from the need to avoid uncertainty (Scott, 1995). Thus the basic insight gained from institutional theory is that firms’ conformance to predominant norms and social pressures in their external and internal environments leads to homogeneity among firms in their structures and
practices, and successful firms are those that achieve legitimacy by conforming to these social pressures (Oliver, 1997).

When institutional theory is used in the CSR literature, mimetic isomorphism is primarily invoked to explain CSR behaviors across firms. For example, Gardberg and Fombrun (2006) argue that the content of CSR agendas – what they term “citizenship programs” – reflect a balance between legitimization and differentiation, and the choices firms make are influenced by local institutional environments that shape expectations of firm commitment and by the degree of customization required due to institutional distance. They suggest that most previous studies fail to take into account that firms act within many diverse domestic and foreign contexts that make different demands on firms and award firms with varying levels of legitimacy (Kostova & Zaheer, 1999).

Some scholars have begun to explore this concept further. Matten and Moon (2008) uses both stakeholder theory and institutional theory to explain how institutional differences have resulted in different CSR practices, termed “explicit” CSR in the U.S. and “implicit” CSR in Europe. Explicit in this case refers to companies with stated corporate policies that articulate responsibility for specific societal interests in response to stakeholder pressure, whereas implicit CSR reflects norms and rules for corporations to engage in mandatory behavior to address stakeholder issues in a collective rather than individualistic manner. This seems to be, however, more a distinction between voluntary and overt CSR versus more customary and engrained behavior.

Marquis, Glynn and Davis (2007) present a model suggesting that institutional pressures lead to mimetic isomorphism at the community level and apply this model to CSR practices in seven major corporations in Cleveland and Columbus, Ohio. They
propose that greater connectivity between firms and nonprofit organizations increase the level of CSR activity and that community convergence around a specific form of CSR will lead to higher levels of corporate giving overall. Bertels & Peloza (2008) also suggest that the local geographic community plays a part in the isomorphic behavior seen in the adoption of CSR programs amongst firms. They determine that CSR norms become institutionalized both within and across industries, but that there is a temporal aspect: firms in sensitive industries such as banking and telecommunications both encounter and react to higher societal expectations for CSR, and in response elite firms operating in the same geographic community but across an array of industries take their cues from the behavior of the firms in the sensitive industries. Norms for CSR are thus first established among elite firms within a geographic community rather than within industries, but then are copied by the non-elite firms within industries. Over time as a gap in societal expectation develops, this cycle may be repeated, thus raising expectations for all firms within the geographic area. This suggests that a firm’s reputation for CSR may be constructed of not only its own activities but also the CSR activities of other firms (Bertels & Peloza, 2008), resulting in a “reputations commons” problem (King, Lenox & Barnett, 2002).

In a similar fashion, Earle, Spicer and Peter (2010) apply institutional theory logic to examine the proliferation of corporate social irresponsibility (CSIR), examining the phenomenon of wage arrears in a sample of 560 agricultural and industrial Russian firms. They conclude that the isomorphic normalization of the CSIR behavior will decrease the likelihood that opposition will change the behavior.
In a special issue of the *Academy of Management Review*, Bies, Bartunek, Fort and Zald (2007) make note of the increasing use of institutional theory in studies dealing with CSR, which they deem a contribution “to the growing awareness of means of institutional change” (Bies et al, 2007: 790). The addition of institutional theory in the CSR literature has highlighted how multifaceted are the relationships between firms and their wider environments, particularly with regards to CSR activities of firms. Institutional theory has incorporated more of this environment into the picture, above and beyond the contribution of stakeholder theory.

However, institutional theory still cannot account for all of the exogenous pressures upon a firm’s CSR decision. For example, while institutional theory takes into account the *regulatory* pressures coming from actors external to the firm, namely the government, in the form of legal rules and regulations, it does not afford the same attention to the effect of cultural pressures upon firm behavior. While it could be argued that these CSR practices and behavior have devolved from cultural norms and values, the link between culture and firm behavior is not firmly established by institutional theory. Institutional theory scholars also tend to assume that the institutional environment is established and that the firm changes behavior in response to institutional pressures, yet in practice institutional structures are changing, evolving entities, and as we have seen, firms must be reactive to these changing structures (Bertels & Peloza, 2008). Finally, the focus of institutional theory is on explaining why firms’ behavior is becoming homogeneous, attributing this behavior to the mimetic actions undertaken by firms in order to achieve legitimacy in their institutional fields. This explanation does not suffice
to explain firms’ heterogeneous behavior seen with regards to CSR activity across international contexts.

**Empirical evidence on a link between CSR and corporate financial performance**

While much of the theoretical literature acknowledges that exogenous factors such as customer concerns (Narver, 1971), government regulations (Preston & Post, 1981) and societal expectation play a part in a firm’s decision to engage in CSR behaviors (Strand, 1983; Wood, 1991), it is interesting to note that much of the empirical work to date has assumed the decision to engage in CSR behaviors as a given and focuses instead on determining a link between CSR and the financial performance of the firm. This work centers on the inherent tension between the economic imperative of the firm to maximize shareholder wealth (Friedman, 1970) and the growing societal expectation for the firm to engage in activities beyond those required by this economic imperative. Indeed, the main tension in CSR literature is predicated on the assumption that firm responsibilities potentially lie with two different groups: shareholders alone or shareholders and a broader base of other stakeholders (employees, customers, suppliers, society at large).

The CSR controversy arises when publicly-held companies undertake “socially responsible activities that might restrict profits” (Lantos, 2001). Proponents of CSR point to its benefits, however, claiming CSR activities lead to greater corporate financial performance (CFP). This can be seen through either an “income statement” effect through increased sales or improved short term morale leading to higher productivity, or a “balance sheet” effect through increased stakeholder trust, consumer and employee
loyalty and goodwill (Godfrey & Hatch, 2007). In fact, theoretical modeling efforts suggest a positive correlation between CFP and management choices to invest in social responsible activities with regards to maximizing the market value of the firm (Mackey, Mackey & Barney, 2007).

Much of the prior empirical work on CSR has focused on proving or disproving a link between CSR and CFP – that is, establishing that CSR behaviors provide a financial benefit to the firm. Some scholars find a positive link between CSR and CFP (Cochran & Wood, 1984), exemplified by the following statement by Davis (2001): “returns for the Domini 400 Social Index, a group of 400 publicly traded “socially responsible” businesses monitored by the investment advisory firm Kinder, Lydenberg, Domini and Company (KLD), consistently beat those for the Standard and Poor’s 500” (Davis, 2001). However, others some find a negative link in this regard (Hillman & Keim, 2001), while still others find no link at all (Aupperle et al, 1985). Various meta-analyses reviewing these empirical studies attempting to link CSR with CFP have shown the results to be noticeably mixed (Margolis & Walsh, 2003; Ullman, 1985). Some scholars have addressed why these results have been inconclusive. In order to explain these inconclusive results, McGuire, Sundgren & Schneeweis (1988) note that studies using stock market-based measures of return or focusing on either total or systematic risk have produced mixed results (Alexander & Bucholtz, 1978; Spicer, 1978), while those using accounting-based performance measures have commonly found positive results (Bragdon & Marlin, 1972; Bowman & Haire, 1975). For example, Spicer (1978) found that firms that engaged in CSR activities related to pollution control had lower total and systematic risk than less socially responsible firms, but Alexander and Bucholtz (1978) found little
connection between CSR and risk-adjusted returns on securities. McGuire et al. (1988) argue that accounting measures of return are more sensitive to firm-specific societal perceptions of social responsibility than stock market measures, which reflect systematic market trends and vary over time since they are more reactive to unanticipated changes in information.

On the other hand, McWilliams & Siegel (2000) suggest that the research and development (R&D) and advertising intensity industry variables used in the CSR-CFP calculation are being improperly specified or omitted across these studies. R&D spending is considered a form of investment in “technical” capital that results in knowledge enhancement, which in turn leads to innovation and enhanced productivity. According to McWilliams and Siegel (2000), investment in CSR promotes product differentiation because consumer-oriented CSR (such as the use of organic ingredients in natural foods) may involve intangible reputational attributes. This differentiation can likewise be promoted through advertising. They suggest that a report of a positive coefficient on CSR (see e.g. Waddock & Graves, 1997a) could simply be the reflection of R&D on firm performance. In addition, the coefficient on any variable such as CSR that is strongly correlated with R&D will be overestimated if R&D is omitted from the calculation. Once the variable was specified according to their model, McWilliams and Siegel (2000) found no significance. Margolis and Walsh (2003) also suggest that this instability is problematic and results from variance in how the studies were conducted, particularly in the data samples chosen, the operationalization of the CSR and CFP variables as well as the control measures used.
This previous empirical work has been primarily done with domestic U.S. data, and focuses on the effects of the outcomes of CSR. Little work has been done on the antecedents of CSR, with a few notable exceptions. Buehler and Shetty (1974) surveyed 144 U.S. firms on the motivations for corporate social action and the effects of size, type of industry and profitability of these motivations, and found that “enlightened self interest” (defined as serving the interests of the company as well as promoting societal welfare) was the most important motivating factor. This study also found that size and industry matter, differing significantly on the importance of socially responsible actions in urban, consumer and environmental affairs. Lepoutre and Heene (2006) also examined the impact of firm size on CSR and found that smaller firms face stakeholder pressures distinct from those of larger firms and that context does impose barriers on CSR engagement, in that small businesses often do not recognize specific social responsibility issues that may apply to larger firms.

While much of the early and ongoing empirical work in CSR focuses on endogenous factors such as managerial attributes such as altruism and self-interest (Keim, 1978), religious beliefs (Angelidis & Ibrahim, 2004), advertising (Fry, Keim & Meiners, 1982) and size and ownership structure (Buehler & Shetty, 1976; Deniz & Cabrera, 2005; Lepoutre & Heene, 2006), more recent empirical studies are redirecting their efforts towards exogenous factors, bringing stakeholder theory and institutional theory into the empirical methodology.

CSR has been categorized in various ways in the literature (Cox, Brammer, & Millington, 2004; Johnson & Greening, 1999; Strike, Gao & Bansal, 2006), but often fall into the following major groupings: employee-based (issues impacting the employees),
socially-based (issues impacting human rights, broadly determined), and environmentally-based (issues impacting the natural environment). Different conceptualizations are embraced within each of these categories. Employee-based CSR involves such things as improved safety regulations, providing or subsidizing employee education above and beyond the requirements of the job, and so forth. The social category includes such concepts as human rights and freedoms, community impact beyond just the needs of the employee. Admittedly that can be a fine line, for the employees of a firm can be firmly integrated into the community, and a CSR activity such as building a water purification plant or a hospital for a given community will also be improving the lives of the firm’s employees. The third category, environmental, is distinct in that the focus of the CSR activities in this area is geared towards something other than human stakeholders, though human stakeholders may reap the benefits of these efforts.

Treating CSR as a multi-dimensional construct, some scholars have attempted disaggregating CSR into component parts in order to examine firm CSR attention to specific stakeholder groups. For example, Johnson and Greening (1999) distinguish between a “community, women, minorities, and employee relations dimension” and a “product quality and environment dimension” in their study of institutional ownership and CSR by using a sample of 252 firms from Compustat cross-referenced with the KLD database, the largest multidimensional CSR database publicly available. They found that different types of institutional investors have different goals; for example pension funds were positively related to both dimensions, mutual and investment bank funds demonstrated no direct relationship with either, and top management was positively
related to the product quality dimension but not the people dimension. Cox et al. (2004) also examine the how preferences of different institutional investors vary across different dimensions of CSR, and find that employee-related CSR has a stronger relationship with long-term investment than community-related or environmental CSR.

Some scholars view CSR as an intangible asset of the firm. For example, Davis (1973) links engaging in CSR with an enhanced public image for the firm and Hillman and Keim (2001) find that CSR can be an intangible asset if directed at specific stakeholder groups. Godfrey (2005) develops a conceptual explanation for a link between corporate philanthropy and shareholder wealth, asserting that CSR behavior can generate positive “moral capital” that can insure shareholders with protection in the firm’s relationship-based intangible assets. Gardberg and Fombrun (2006) argue that CSR programs are strategic investments analogous to R&D and advertising that help firms overcome nationalistic barriers and outcompete local rivals. However, Dentchev (2004) examines whether CSR can contribute to the competitive advantage of firms in the petrochemical industry and discovers that CSR strategy must be considered carefully, otherwise improper implementation can actually harm the firm’s competitive advantage.

As mentioned above, much of the empirical work in CSR focusing on determining a CSR-CFP link has inconclusive results (Margolis & Walsh, 2003; McWilliams & Siegel, 2000). The issue may be that it is not a conflict between purely “financial” and purely “social” tensions (Parmar et al, 2010), or even between stakeholder and social issues (Clarkson, 1995; Hillman & Keim, 2001), but that “specific stakeholder conceptions, which have both financial and social dimensions, conflict with
each other” (Parmar et al, 2010: 414). This notion hints at antecedents driving these stakeholders’ expectations, which indicates a need for further investigation.

Prior work in international CSR

Some studies have demonstrated that the way firms approach CSR is different across countries (Matten & Moon, 2008; Waldman et al, 2006), further complicating understanding of this issue. CSR scholars need to disentangle these differences in order to more fully understand the phenomenon. Much of the research into international CSR focuses on large firms, particularly MNEs, which are thought to be held to higher standards than local firms (Zyglidopoulos, 2002). This may be because MNEs are often large enough to affect the institutional environment of the countries in which they operate. MNEs can internalize or influence government decision-makers (Boddewyn & Brewer, 1994; Kobrin, 1982) and thus influence the regulatory environment which can have significance for MNE’s CSR choices. The concept of CSR assumes that society has certain expectations of proper business behavior, and such expectations are generally more relevant for MNEs because MNEs have been stereotyped as exploiting host country resources, especially in developing countries (Vachani, 1995; Vernon, 1971). For example, Aaronson (2005) examines what the U.S. government can do to ensure U.S. MNEs act more responsibly in foreign markets, and suggests that the U.S. government should serve as a CSR role model in its own purchasing activities overseas. Cheah, Chan & Chieng (2007) compared the effect of pharmaceutical product recalls in the U.S. and U.K. markets, finding that while U.S. investors punish non-CSR active firms that perform recalls they were more forgiving of CSR active firms that perform recalls, but that U.K.
investors are less sensitive to whether or not firms were CSR active, suggesting that the primarily multinational firms in this industry may wish to be more sensitive to locality when determining their overall CSR program. And Maignan & Ralston (2002) compared the content of firms’ communication regarding their CSR practices in France, the Netherlands, the U.K. and the U.S. and found quite a bit of diversity in both methods of conveying social responsibility images and eagerness to appear socially responsible across a dataset of 400 firms.

Matten and Moon (2008) also primarily examine MNE CSR behavior, focusing on the cultural dissimilarity between the U.S. and Europe and its effect on their markedly different national business systems. However, the primarily Western European countries they have chosen to focus on in this conceptual article (Scandinavia, the Benelux countries, Germany, Switzerland, Austria, France, Italy, the United Kingdom and Ireland) are typically considered to be more similar to the U.S. than countries such as those in Asia, Africa or South America (see e.g. Hofstede, 1980; Ronen & Shenkar, 1985). Matten and Moon (2008) use an institutional theory argument to explain why some European firms are starting to mimic the behavior of U.S. firms and become more explicit in CSR activities. However, they confine their theorizing on this point to large firms, stating that smaller firms still tend to engage in implicit CSR.

In fact, it may be that CSR can be viewed on both a local and global scale – what may be considered a social responsibility issue (such as job retention and the unemployment rate) in one locale may not be important in another region, but there may be a concern (such as global warming) that both regions share in common. According to Husted and Allen (2006) local CSR deals with firm’s obligations based on the standards
of the local community, whereas global CSR deals with the firm’s obligations based on standards to which all societies can be held. It is not clear, however, that there are such universal standards (Matten & Moon, 2008). Indeed, Strike et al. (2006) suggest that this difference of opinion across countries may have significant implications for the way CSR is conceptualized. Strike et al. (2006) disentangle CSR and CSIR using data taken from the KLD social responsibility index of U.S. firms to demonstrate that firms may act both responsibly and irresponsibly at the same time, and that this may have implications for firms’ decision to internationalize. One of a firm’s subsidiaries may act ‘irresponsibly’ according to local expectations while another subsidiary may act ‘responsibly’ according to other expectations. This conflict could impact the firm’s reputation and thus have implications for CFP.

Most of the work on CSR thus far has been done primarily on the U.S. (see e.g. Bhambri & Sonnenfeld, 1988; Buehler & Shetty, 1974, 1976; Fry et al., 1982; Hillman & Keim, 2001; Keim, 1978; McGuire et al, 1988) and to a lesser extent on Europe, which ignores much of the rest of the world. For example, Maignan (2001), in her “cross-cultural” comparison of consumers’ perceptions of CSR, used U.S., French and German consumers as a sample, finding that French and German consumers are more willing to actively support socially responsible firms (see also Maignan & Ralston, 2002; Matten & Moon, 2008).

In addition, despite the importance of context to international business research and the understanding that context differs across a multiple country setting (Boddewyn & Brewer, 1994), there have been very few multi-country studies in international CSR research. In fact, much of the research into “international” CSR examine CSR in a single
country setting, which merely makes it domestic to that particular country. For example, Jamali (2007) conducted interviews at eight firms with reputations for good CSR behavior operating in Lebanon to determine that CSR in this context is still typically comprised of voluntary philanthropic efforts that could be deemed altruistic rather than strategic in nature. Alas and Tafel (2008) also conducted interviews with 26 managers at Estonian firms to determine the perception of CSR within a rapidly changing economic landscape and found that in the early years of economic transition, the focus of these managers was on economic development rather than social improvement and that in some cases CSR was being negatively equated with socialism. Déniz and García-Falcón (2002) attempted to identify factors explaining different levels of social response in 96 subsidiaries in Spain within the chemical and automobile industries, and found that international firms that enter a country in pursuit of low-cost resources or in order to supply other divisions of the same firm noticeably reduce their efforts to make commitments to stakeholders. And as previously noted, Henriques and Sadorsky (1999) surveyed 400 Canadian firms on the influence of stakeholder groups on the firms’ environmental CSR practices.

Very few international CSR studies involve a large multi-country dataset. Waldman et al.’s (2006) study did examine cultural and leadership predictors of CSR values of top executives in 15 countries (Austria, Brazil, China, Germany, Greece, Guatemala, India, Mexico, the Netherlands, Nigeria, Russia, Slovenia, Spain, Taiwan and Turkey). However this study applied variables gathered from Phase II of the GLOBE study, rather than the 62 countries total in the GLOBE study.
It is possible that restricting these studies to only one or two countries has resulted in a lack of nuance that may be teased out if more countries had been included. For example, Quazi and O’Brien (2000) develop a two-dimensional model of CSR and empirically test its validity in Australia and Bangladesh. Factor analysis revealed two leading dimensions: the span of CSR from a narrow to a wide perspective, and the range of outcomes of the social commitments of businesses from a cost-driven to a benefit-driven initiative. Quazi and O’Brien (2000) determine that CSR is two-dimensional and universal in nature and therefore differing cultural and market settings may have little impact on the ethical perceptions of managers. When Déniz and Cabrera (2005) conducted an empirical test of Quazi and O’Brien’s (2000) model in Spain, they found that 112 Spanish family firms are heterogeneous in their orientation to CSR, demonstrating that the CSR orientation of family firms can be determined using the same measures as non-family firms. However, the Spanish family firms only fell into three of Quazi and O’Brien’s (2000) four categories, philanthropic, classic and socio-economic, leaving out modern, demonstrating that there is a difference between family owned and other types of firms with regards to CSR orientation. In addition, Graafland, Eijffinger & Smid (2004) investigated the problems and possibilities of benchmarking CSR based on the opinions of companies and non-governmental organizations (NGOs) using a sample of more than 50 large Dutch companies. They found that neither stakeholder group differences (employees, suppliers, customers, competitors, shareholders, society at large) nor industry sector (construction, retail, chemical or financial) had a major impact on the benchmarking results across 70 categories of CSR.
The need for further work

There is a need for further study of the phenomenon of CSR, particularly in the area of international CSR. While several international CSR studies have been done, this research is far from comprehensive. Much of the work done thus far is concentrated on multinational enterprise (MNE) CSR behaviors, and disregards small to medium-sized enterprises (SMEs) which make up much of international business worldwide. Second, there is the question of global scale: much of the empirical work has been conducted in only one or two country settings, which denies the field the richness that comes from examining CSR in multiple institutional environments.

The institutional context in which the firm operates needs further exploration, particularly the differences between institutional contexts which may help explain heterogeneity in CSR behavior between firms. International business (IB) scholars have long recognized the importance of the institutional environment to the study of international business (Kobrin, 1982; Dunning, 1988). Toyne and Nigh (1998) make a call for more attention to the institutional environment, introducing a new paradigm for IB research that shifts attention away from the firm as the central unit of analysis to a more comprehensive multilevel, hierarchical view of IB process including the individual, group, firm, industry, societal (for nation-state level) as well as suprasocietal (which includes entities whose scope crosses national boundaries, such as the United Nations and the World Trade Organization).

While institutional theory does bring regulatory (i.e. governmental) pressures into the equation, and normative pressures such as established human resources practices, or cognitive and/or affective pressures may have their roots in cultural differences,
institutional theory may not distinguish clearly enough between the distinct institutional pressures that may come to bear on the focal firm. For example, Dacin, Goodstein and Scott (2002) discuss the notion of social pressure upon firms (Oliver, 1992), associated with the differentiation of groups, beliefs, practices that might hinder the continuation of an institutional practice in their discussion of institutional change. However, social pressure also includes changes in laws and social expectations, particularly social expectations for CSR, thus blurring the lines between governmental and cultural institutions (Preston & Post, 1981). Institutional economics (North, 1990) with its distinction between formal and informal institutions may better help scholars determine whether these institutional pressures are truly only cultural or if there is an ascertainable difference between culture and other types of institutions.

Theoretical arguments in CSR literature seem to indicate that the stakeholders of the firm and the institutional environment in particular may be the key to further understanding of these antecedents, but more work is necessary. Stakeholder theory aids scholars in identifying the groups affecting and affected by the firm’s actions, including the firm’s CSR behavior. However, this does not inform scholars why stakeholders apply specific pressures in the first place. There are other factors both exogenous and endogenous to the firm contributing to a firm’s CSR behavior that remain unexplained by stakeholder theory. This is particularly evident in the study of international CSR, where stakeholder theory lacks explanatory power for differences in CSR behavior across countries.

Institutional theory has extended our knowledge of the factors affecting firms’ CSR behavior to include elements of the institutional environment not addressed by
stakeholder theory. However, the focus of institutional theory on the mimetic behavior of firms resulting in the homogenizing of firms in the search for legitimacy does not seem to hold when examined across different institutional contexts such as those found in different countries. Additionally, by focusing on the mimetic behavior of firms, institutional theory does not address why the copied firm chooses specific behaviors initially. This has left a void in our understanding of firm CSR behavior, particularly where CSR behavior varies in different institutional environments.

Finally, the heavy focus in CSR empirical research on establishing a CSR-CFP link and the resulting lack of consensus has demonstrated a need for a detailed consideration of the antecedents of CSR. Since these antecedents may differ across different international contexts because different institutional contexts result in different drivers for CSR, the study of international CSR becomes even more relevant here. However it is clear that international CSR has been underexamined in the literature, especially regarding multiple international contexts. There is a need to address these issues before progress can be made.
Chapter 3: Cross-National Differences in Corporate Social Responsibility: The Role of the Institutional Environment

Introduction

Despite sixty years of academic attention on the subject of corporate social responsibility (CSR), or the notion that a firm has a duty to act in a socially responsible manner (Bowen, 1953; Carroll, 1999), our understanding of its causal effects remains incomplete. Prior studies have primarily focused on endogenous explanations such as managerial altruism, self-interest and religious beliefs (Angelidis & Ibrahim, 2004; Keim, 1978), or have ascribed ethical or strategic motivations to CSR behavior (Carroll, 1998; Godfrey & Hatch, 2007; Lantos, 2001; Sethi, 1975). With the exception of external stakeholders such as special interest groups (Crawford & Gram, 1978; Henriques & Sadorsky, 1999; Jones & Goldberg, 1982), there has been little consideration of environmental factors that put systematic pressures on the firm to engage or not engage in CSR. Since much of CSR research has been U.S.-centric or compare across only a few countries, the multifaceted effects of varied country contexts on firms’ CSR behavior has not been fully explored. To address this void in the literature is the goal of this research.

We begin with the notion that, like any other firm activity, engaging in CSR is not a costless behavior. Firms will choose to incur these costs only when they lead to the creation of value or when they have slack resources (Campbell, 2007; Waddock &
Graves, 1997b). We expect that, when faced with greater competition, firms will be more concerned about reducing their costs. Under such conditions, costly CSR activities may serve to hamper performance, reducing firms’ incentives to engage in such behavior. Under less competitive conditions, however, such costs play a lesser role, giving rise to greater incentives to engage in CSR activity. Drawing on North (1990), which highlights the effects of national institutions on the production costs faced by firms, we develop a model that shows how costs associated with firms’ institutional environments influence their likelihood of engaging in CSR activities. In particular, we argue that institutions that enhance the competitive conditions faced by firms—i.e., preservation of property rights, freely functioning capital markets, and market entry by foreign firms—reduce their incentives to engage in CSR. On the other hand, institutional environments that reduce competitive forces—i.e., through greater government participation in the economy, lack of governmental transparency and higher labor cost structure—increase incentives to engage in CSR.

To test the hypotheses associated with this argument, this study uses a unique database of 461 firms’ detailed CSR behavior in 35 countries in one industry—the worldwide apparel industry. Doing so facilitates our ability to hold constant differing industry conditions faced by firms that might influence their CSR behavior. The highly globalized nature of competition in this industry leads to similar demand conditions across countries (Makhija, Kim & Williamson, 1997; Porter, 1980), allowing for a clear comparison of CSR behavior among firms located in varying institutional environments. In addition, the traditionally labor-intensive nature of this industry makes CSR related to employees particularly salient, allowing us to clearly demarcate the nature of CSR under
study. Thus, CSR activities relevant to this study are those based on ethical guidelines laid out by the International Labor Organization (ILO) in the United Nations, which include the ensuring of high health and safety standards for the workers in the workplace, rights to representation, collective bargaining and association, freedom from indiscriminate firing, country-appropriate wages as well as overtime compensation, ensured training and education related to work, ensured time off from work, and non-discrimination on the basis of age, race, religion, gender or political views.¹

This study strongly confirms the role of firms’ institutional environments for their CSR decisions. In general, we find support for our overall argument that institutions enhancing the free functioning of the market reduce incentives to engage in CSR behavior, while those that reduce pressure on production costs increase these incentives. Nonetheless, the evidence indicates that, despite greater pressure on production costs, scarcity of a key input—labor—tended to increase CSR. In all, these findings suggest that diverse cost issues stemming from firms’ operating environments have important and surprising ramifications for their CSR behavior. In doing so, this research supports the argument that CSR behavior is grounded in firms’ underlying motivation for wealth maximization. We depart from prevailing wisdom, however, by showing that CSR decisions are not automatically firm-specific in nature. Since important production-related costs faced by firms stem from their institutional environments, they affect all

¹ Note that, despite the fact that most of the 184 member countries of the ILO have labor policies in place mandating such activities, governments’ predisposition to enforce them varies significantly (ILO, 2012). Even the United States, a highly developed economy, is not seen to uniformly enforce such laws—for example, only a small proportion of its labor force is unionized.
firms in that environment in more or less the same way. Thus, there will be systematic variations in CSR behavior across national contexts.

**Literature Review**

CSR has been characterized as “the social responsibility of business encompass(ing) the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979: 500). Such a notion suggests that firms have an obligation to the needs and goals of society that goes beyond the merely economic (Eells & Watson, 1974; Jones, 1980; Waldman et al., 2006), involving discretionary allocation of corporate resources for accomplishing these goals (Barnett, 2007). Furthermore, the role of society in determining ethical standards suggests that societal attributes should play an important role in determining firms’ predispositions towards CSR. Nonetheless, despite decades of research, we continue to have little understanding of CSR across national contexts. As we show below, most CSR work focuses on endogenous influences on firms’ CSR behavior rather than on external country-level factors that may also influence firms’ CSR behavior. The literature remains highly U.S.-centric, consisting primarily of single country studies or comparisons across a few countries, thus limiting the conversation on other perspectives on CSR behavior. The relatively small proportion of research that is cross-national in nature has largely concentrated on the CSR behavior of Western multinational enterprises (MNEs) operating in foreign countries while disregarding that of local firms. Below we review the literature in relation to these points and propose a solution to further our understanding of international differences in CSR.
Focus on endogenous factors

A primary approach in the literature to explain variations in CSR is to consider factors internal to the firm. In particular, managers’ personal belief systems concerning society and those less fortunate than themselves are thought to explain their predisposition towards CSR activity. In line with this, CSR researchers have examined the role of managerial altruism and self-interest (Holmes, 1976; Keim, 1978; McGuire & Parrish, 1971), religious beliefs (Angelidis & Ibrahim, 2004; Ibrahim, McDougall & Greene, 1991), as well as leadership, education level and integrity (Waldman et al., 2006). Ibrahim et al. (1991) show that religious beliefs do indeed affect managerial behaviors. Indeed, in a study of Christian business students from five universities in the eastern United States, Angelidis and Ibrahim (2004) demonstrate that students with a high degree of religious beliefs exhibit greater concern about the ethical component of social responsibility and a weaker concern for economic performance. Waldman et al. (2006) find that CEOs’ visionary leadership, education levels and personal integrity are strongly associated with managerial CSR values. Buehler and Shetty (1974) find that “enlightened self interest” (defined as serving the interests of the company as well as promoting societal welfare) was a key motivating factor for CSR by managers. At the same time, there is mixed evidence on managers’ altruism and their predisposition towards CSR activity. McGuire and Parrish (1971) and Holmes (1976) find support for the argument that executives pursue social goals out of a belief that businesses should help solve social problems “even if there is no short run or long run profit potential” (Holmes, 1976: 36), while Keim (1978) finds no support for this notion.
In addition to managerial attributes, studies have considered other factors endogenous to the firm in order to explain CSR behavior. In a survey of 144 U.S. firms, Buehler and Shetty (1974) find that CSR concerns vary by firm size and industry; while manufacturing firms may be more concerned about anti-pollution and safety regulations, service firms were concerned about inner cities and violence reduction. Lepoutre and Heene (2006) also examine the impact of firm size on CSR, finding that smaller firms face different CSR pressures in comparison to larger firms, including media attention, reputational concerns and lack of resources. Fry, Keim and Meiners (1982) also find that income matters—as income increases, corporate giving practices increase relative to advertising expenses, but point out as well that firms with more public contact spend more on both advertising and giving than those with little public contact. Indeed, Fry et al. (1982) interpret this finding as a refutation of a CSR rationale for corporate philanthropy.

It is interesting to note that the vast majority of empirical work in CSR has been on U.S. firms (for example, see Bhambri & Sonnenfeld, 1988; Buehler & Shetty, 1974, 1976; Egri & Ralston, 2008; Fry et al., 1982; Keim, 1978; McGuire, Sundgren & Schneeweis, 1988). Relatively few studies look beyond the U.S. context, and those that do are mostly in the form of case studies. Single-country studies set outside the U.S. include Canada (Henriques & Sadorsky, 1999), Lebanon (Jamali, 2007), Estonia (Alas & Tafel, 2008), Spain (Déniz & Cabrera, 2005; Déniz & García-Falcón, 2002), Kenya (Muthuri, & Gilbert, 2011) and the Netherlands (Graafland, Eijffinger, & Smid, 2004), as well as Europe (Habisch, Jonker & Wegner, 2005).
studies that are set outside the U.S. suffer from the same bias as those set within the U.S., namely that findings within a single context may not translate across other contexts (Golberg, 2009). Even in comparative work, the U.S. dominates (Egri & Ralston, 2008); for example, prior studies have compared the U.S. and U.K. (Cheah, Chan & Chieng, 2007), the U.S., France and Germany (Maignan, 2001), the U.S., the U.K., France, and the Netherlands (Maignan & Ralston, 2002). The US’s developed country status and particular CSR traditions and institutions may give rise to substantially different conditions for CSR behavior than other countries.

**Treatment of context in CSR research**

Early theoretical work in CSR has also considered the role played by exogenous factors, such as government regulations (Preston & Post, 1981) and societal expectations (Strand, 1983; Wood, 1991), in a firm’s decision to engage in CSR behaviors. For example, Narver (1971) notes that “external effects” such as “the present and future….expectations of society” (1971: 102) can pressure a firm to behave in specific ways. While some researchers have suggested that CSR is context-dependent (Gjolberg, 2009; Habisch, Jonker & Wegner, 2005; Koleva, Rodet-Kroichvili, David, & Marasova, 2010; Matten & Moon, 2008), only limited work has actually examined the role of such factors.

One approach taken with respect to context is consideration of MNEs’ CSR activities in host countries. Since the concept of CSR assumes that society has certain expectations of proper business behavior, such expectations are thought to be more relevant for MNEs since they are in a position to exploit host country resources in ways
that can be detrimental to the country (Vachani, 1995; Vernon, 1971). An example in this regard is Aaronson (2005), which highlights the concern that U.S. MNEs act more responsibly in foreign markets. However, some research suggests that MNEs may be held to higher standards than local firms (Zyglidopoulos, 2002). In comparing the effect of pharmaceutical product recalls in two markets, those of the U.S. and U.K., Cheah, Chan & Chieng (2007) point out that the greater visibility of multinational firms in this industry required them to be more concerned about CSR. In their study on U.S. and European MNEs, Matten and Moon (2008) show how European MNEs are emulating the CSR reporting styles of U.S. MNEs in an effort to raise their transparency.

Although work on MNEs highlights how they can use CSR strategies for their benefit in different institutional contexts, a critical problem for assessing the role of context for CSR stems from the fact that MNEs are very different from the local firms operating in the same environment. In contrast to the immense size of many MNEs, much of the business environments in the world consist of small- and medium-sized firms (SMEs), particularly in the less developed nations of the world. MNEs bring market power, beliefs, technologies, etc., into host country environments that are a function of their home institutional context rather than the institutional pressures faced by local firms. Since MNEs do not reflect the host country environment in which they operate, such research poses difficulties for assessing the role of context for firms’ CSR behavior. While cross-national comparisons of CSR behavior can help address this problem, there have been very few such studies.
Need for further research

Despite the substantial attention paid to the phenomenon of CSR, the impact of national context on firm CSR behavior has been given little serious consideration in the literature. The heavy focus in CSR research has been on establishing firm-specific endogenous features as causal factors, However, firms do not operate in a vacuum; they are influenced by the institutional environment in which they are embedded (North, 1990). Durable national institutions shape vital corporate decisions (Pauly & Reich, 2007). Differing institutional environments give rise to different competitive and regulatory environments, which can alter the exogenous drivers for firm behavior, including CSR behavior. Thus, there are reasons to expect national contexts to also play a decisive role in firm CSR behaviors (Golberg, 2009; Lee, 2011).

To address these concerns requires a more extensive and systematic approach which is able to consider the effects of specific institutional features characterizing firms’ environments on their CSR decisions, and allow for multiple country comparisons at the same time. While new to the CSR literature, an institutional environments (IE) approach has already been used to examine other topics, including the effects of accounting regulations variance across national contexts on the information firms must disclose (Alford, Jones, Leftwich & Zmijewski, 1993), how such regulatory variations impact firm performance (Ball, Kothari & Robin, 2000), the influence of national institutions on perceived risk by managers in the U.S. vs. the Czech Republic (Makhija & Stewart, 2002), the effects of institutional change on firms’ diversification (Khanna & Palepu, 2000; Makhija, 2004), the use of antidumping laws as a barrier to entry in emerging economies (Peng, Wang & Jiang, 2008), and constraints created by diverse institutional
contexts for U.S. venture capital firms investing across 95 host countries (Guler & Guillén, 2009). An IE brings “extra-market” considerations into the picture by considering the influence of broader political and economic institutions characterizing the environment in which the firm is embedded. Below we lay out this approach in detail, and then draw on it to develop testable hypotheses.

**Theoretical Development and Hypotheses**

According to institutional economics (IE), institutions are the “rules of the game” operating in a given environment that influence firm behavior by raising or lowering transaction and transformation costs in that environment (North, 1990). Such institutions include the set of laws and regulations characterizing the firms’ operating environment (Makhija & Stewart, 2002; Reed, 2001), the lack of such laws and regulations, or “institutional voids” (Khanna & Palepu, 1997, 2000), as well as the role and nature of governmental involvement in the economy (Henisz & Zelner, 2005). The institutional environment provides the structure for exchange that determines the costs associated with transacting for firms. When institutions lower information, monitoring and policing costs by increasing transparency and creating efficient means for enforcing agreements, firms will need to devote fewer of their own resources to such activities. On the other hand, when the existing institutional framework is characterized by features such as limited property rights, poor transparency and an undermanned court system, firms face the heightened risk of others being able to affect desired outcomes. In this case, they will be motivated to undertake additional investments and costs to minimize such occurrences.
Along with transaction costs, institutions play a critical role in determining the firm’s costs of transforming inputs into outputs. For example, efficient factor and product markets are implicitly assumed in free markets, but as North (1990) points out, “their existence entails a complex set of institutions that encourage factor mobility, the acquisition of skills, uninterrupted production, rapid and low-cost transmission of information, and the invention and innovation of new technologies” (1990: 64). In other words, what underlie market efficiency are institutions that facilitate perfect information flows, facility of measurement and enforcement. However, the complex set of institutions necessary for bringing about all of these conditions at the same time are unlikely to exist for most countries. Governments attempt to maximize a varied set of goals, in which efficiency may not be foremost. When faced with inefficient factor and product markets, firms will organize operations and use technologies in ways that reduce their production costs. Indeed, Khanna and Palepu (2000) have highlighted such effects of institutions, showing how firms in emerging economies facing underdeveloped intermediate markets lower transformation costs by undertaking those activities themselves. In this way, institutions affect performance through their effect on the costs of exchange and production (North, 1990). The set of production costs, consisting of transaction and transformation costs created through the institutional framework, define and limit firms’ wealth-maximizing opportunities, and in doing so, influence their strategic decisions.

Like other firm activities, CSR is associated with costs for the firm. In a highly competitive environment keeping costs down is particularly vital to the survival of a profit-maximizing firm; therefore, there must be a compelling reason for a firm to engage
in CSR. We expect that this decision, like others made by the firm, is influenced in part by the myriad of production costs stemming from the institutional environment. Since the institutional framework characterizing any particular country is typically a mixed assortment, with some institutions promoting efficiency and others creating barriers to entry and information restrictions, it is important to take into account the effects of specific institutions on CSR decisions. In this regard, we consider below institutions directly associated with market efficiency (regulations pertaining to property rights and capital markets), competition (regulations pertaining to FDI and international trade), nature of governmental activity in the economy (participation and accountability), and general characteristics of the institutional environment (cost structure and political uncertainty). The overall argument is summarized in Figure 1.

![Figure 1: The Effect of the Institutional Environment on CSR](image-url)
Institutions affecting market efficiency

*Property rights.* Property rights are the rights individuals appropriate over their own labor as well as the tangible and intangible resources they possess. Laws governing property rights affect the capacity of individuals and firms to obtain and secure their property against the threat of expropriation (Kobrin, 1980), and the ability to enter into and safeguard contracts (Alchian & Demsetz, 1973). While property rights are never completely specified or enforced, leading to positive transaction costs (Williamson, 1981; 1985), the extent to which individuals have to devote resources to ensure these rights varies across institutional arrangements (Gradstein, 2004). As the nature of exchanges increase in size, variety and length, the more difficult it becomes to ensure property rights, and the greater need for effective third-party enforcement. The distribution and enforcement of property rights in a country influences both transaction and transformation costs faced by firms, and in turn, how firms organize their business activities within that institutional context (Baumol, 2002).

In environments where property rights are not well protected, firms will need to expend more resources to design, monitor and enforce transactions in order to better resolve embedded transactional uncertainties. When transaction costs are high, a common means for addressing such conditions is by adopting smaller-scale and less specialized production that curtails reliance on a large set of external transactions. While such an approach serves to minimize transaction costs, it is important to note that the substantially lower potential for gaining scale efficiencies greatly increases firms’ transformation costs. Firms are thus unable to compete on their ability to lower production costs. Instead, the inherently high-cost nature of production does not support
multiple firms in the same market, thus reducing competition. When firms do not actively attempt to lower their costs, they are more likely to incorporate costly CSR activities.

On the other hand, environments characterized by strong delineation and enforcement of property rights reduce firms’ uncertainties regarding their transactions (Alchian & Demsetz, 1973). Firms in such environments would be willing to enter into external transactions due to lower transaction costs, which in turn would allow them to invest in more complex and specialized production (Khanna & Palepu, 2000). Such conditions would facilitate the entry of new firms with specialized competencies into the market, firms with the ability to compete on improved transformation processes (Stroup, 2007). Greater competitive forces in the market would give rise to increasingly more efficient production. In such an environment, we expect firms to be watchful of their production costs, and therefore, less likely to engage in costly CSR activities.

Hypothesis 1a: The stronger property rights laws there are in a country, the less CSR activity that will be undertaken by the firm.

Capital markets. Regulations pertaining to capital markets influence the degree to which the government can intervene in decisions or control activities in the financial and banking sectors. Involvement of the government in capital markets can take multiple forms, including the degree of state intervention in banks and other financial firms through direct and indirect ownership, government influence on the allocation of credit, openness to foreign competition, and extent of financial and capital market development (Caves, 1982; Porter, 1990). When the financial sector is impeded from allocating capital in accordance with its most productive use, the cost of capital to firms will increase. Borrowing or raising capital will be associated with greater transaction costs, and the
higher cost of capital will reduce productive investments and raise transformation costs. In an environment characterized by high cost of capital, fewer firms will have the resources to enter the market. Reduction of competition will reduce firms’ concerns over cost; thus, firms will be more likely to undertake CSR activities.

When capital market institutions reduce restrictions on capital allocation, financial institutions have incentives to put capital to its most productive use (Friedman, 1962). Firms that offer superior opportunities for financial institutions to earn interest will be sought out and competed over. This process not only reduces the cost of capital for the firm but also lowers its transformation costs. Institutional environments in which capital markets are unrestricted will continually attract new firms with fresh approaches. These increased competitive forces will force all firms to rationalize their production processes and search for ways to reduce costs. Thus, we expect firms in such environments to reduce costly CSR activities. We predict:

_Hypothesis 1b: The less restrictive the financial regulations are in a country, the less CSR activity undertaken by the firm._

**Institutions affecting openness of the economy**

*Foreign direct investment.* When governments legislate the conditions under which foreign firms can invest locally, it is usually due to concerns over the effects of the increased competition for local firms and the desire to influence foreign activity in ways that are believed will best serve the country (Makhija, 1993). Thus, laws that govern FDI into a country may include the need to gain official approval prior to entry or prescreening to determine if the foreign firm should be allowed to operate within a
country’s borders, the amount of “red tape” involved in complying with regulations governing FDI, allowing foreign ownership of land, the determination of industry sectors in which foreigners are allowed to do business, foreigners’ access to foreign monetary exchange, and ability to repatriate profits back to the home country (Sohinger & Harrison, 2004). When countries are very restrictive towards foreign firms, policies that impose burdens or create inefficient operations can heighten the uncertainty of the business environment for foreigners and deter their entry (Agarwal & Ramaswami, 1992). In general, laws that limit foreign participation in local industries are designed to reduce competition and the threat of bankruptcy for local firms (Buckley & Casson, 1981; Flores & Aguilera, 2007). It may be that the goals of the government are not strongly market-driven, as those seen in more socialist regimes, and instead reflect concerns about environmental stability and steady employment for workers. Due to the lower uncertainty of their competitive environment created through FDI restrictions, firms face reduced transaction costs in that environment, and thus are better able to control the conditions of their operations. Since less competitive pressure reduces the need to enhance production efficiencies, we expect firms in such institutional environments to more likely engage in costly CSR activities.

On the other hand, countries that are less restrictive towards foreign investment and give foreigners the same rights as domestic firms will, all else being equal, facilitate foreign firms’ entry into the domestic market (Sohinger & Harrison, 2004). Institutions that permit free movement of foreign firms into the country and investing as they see fit heighten the competitive conditions of the local environment. There will be greater competition for raw materials, labor, intermediate products and services, as well as final
markets. The increased uncertainty created by heightened competition may result in higher transaction costs in these arenas as well as lead to lower control over the conditions of their operations. Firms will need to work harder to overcome these costs.

In such conditions, firms will be less likely to engage in costly CSR activities. This leads to the following hypothesis:

**Hypothesis 2a:** The less restrictive the FDI laws are in a country, the less CSR activity undertaken by the firm.

**International trade.** Laws governing international trade include tariff and non-tariff barriers that place restrictions on what is allowed to cross a country’s borders, including quotas on the quantity of items allowed into a country, local content requirements and anti-dumping policies, and subsidies for local firms. Laws that govern the import and export of goods and services have a direct impact on the costs associated a firm’s ability to get its goods to potential markets, as well as the competitive forces firms must face (see e.g. Hall, 1986; Murtha & Lenway, 1994). For this reason, trade laws also have an important effect on market efficiency. When the goal of these policies is to protect domestic producers by restricting competition, they will have little incentive to lower costs and gain production efficiencies. Further, due to the lower uncertainty of their competitive environment, local firms face reduced transaction costs. In such circumstances, local firms have greater freedom to allocate resources towards CSR practices.

On the other hand, nations that are more inclined to allow the market to determine the flow of product across its borders will have less restrictive trade policies. Such policies, including low tariff rates on imports, no anti-dumping laws or local content
requirements on goods sold in local markets, and no subsidies to supplement local firms, encourage foreign firms to offer goods and services in local markets at competitive prices. This increases competition for local firms, incentivizing them to reduce costs in order to remain competitive and reduce the uncertainty of increased competition. The economic need to survive will drive local firms to reduce costs as much as possible, including those related to expenditures on CSR practices. Thus we hypothesize:

_Hypothesis 2b: The less restrictive the trade laws in a country, the less CSR activity undertaken by the firm._

**Institutions relating to the government**

_Government involvement in the economy._ Governments vary in their responsibilities for the functioning of the economy (Vives, Corral & Isusi, 2005), which can include fostering and regulating economic activity, reducing unemployment and redistributing wealth (Katzenstein, 1985), and protecting and caring for its citizenry (Ring, Bigley, D’Aunno & Khanna, 2005). For example, socialist systems are predicated on the belief that the social welfare of their citizens is improved by government involvement in the economic system (Makhija & Stewart, 2002). Welfare state countries may therefore spend more money on economic functions such as state-run health care, pensions or social security, tighter controls of resource allocation, infrastructure development and job creation. Conversely, less socialist governments may be more inclined to allow supply and demand in the market to determine investments, pricing and distribution of products and services, income, and health care (Scherer, 1980). The
degree of government involvement in the economy is expected to affect the overall efficiency with which it operates.

When the government reserves participation in specific segments of the economy for itself, it does so because the market is deemed unable to achieve desired goals. Thus, it may choose to provide healthcare or universal education at subsidized costs, erect tall skyscrapers that showcase the country’s wealth, or take over fertilizer production in order to facilitate low-income farmers’ access to this critical input. In this regard, the objectives are less about achieving economic efficiencies and more about other national goals (Stroup, 2007). In general, by reducing the ability of firms to participate, greater government involvement in an economy has the effect of reducing the extent of its underlying competitive forces (Friedman, 1962; Hayek, 1988). In such environments, firms have lower concerns regarding costs of production. In this case, we expect that they will be more likely to undertake costly CSR activities.

In contrast, some governments may not be directly involved in the functioning of the economy, instead preferring the “invisible hand” of the market to dictate economic activity (Smith, 1776). In this case, more competitive conditions will be seen due to the greater role of firms in all sectors of the economy. The need for efficient production will lead firms to stress rationalization of costs in order to stay competitive. We expect that this will result in fewer firm resources available for CSR. Therefore, we predict:

*Hypothesis 3a: The more government involvement there is in a country, the more CSR activity undertaken by the firm.*

**Government accountability.** Government accountability refers to the extent to which government offices and employees follow the country’s laws and regulations.
Despite the existence of laws, there can be variation in the extent to which they are upheld and enforced. Government accountability is determined by the existence of mechanisms to enforce established laws and regulations, the transparency or opaqueness of administrative processes in the government, and the tolerance for corruption, reflected in the use of legislated powers by government representatives for illicit private gain (Uhlenbruck, Rodriguez, Doh, & Eden, 2006). How accountable a government is for its actions and its level of transparency varies across national contexts (Uhlenbruck et al., 2006), and affects transaction costs incurred by firms.

When the extent to which government entities uphold the laws and regulations of the country is not easily predictable, or government decisions are opaque to the public which tries to understand how they are made, the uncertainty of the business environment increases for a firm (Luo, 2006; Uhlenbruck et al., 2006). When firms perceive that the legal system cannot protect their interests, they will reduce their reliance on contracts for transactions involving risk (Zhou & Poppo, 2006), thus increasing their transaction costs. In addition, the extent to which firms have to make additional payments through other more ambiguous channels, such as bribery, in order to achieve the same ends, which also serves to increase transaction costs (Uhlenbruck et al., 2006). We expect that the increased costs faced by firms will reduce their incentives to engage in CSR activities.³

³Some scholars note that, even in the face of laws mandating certain CSR behaviors, low government accountability may lead firms to not engage in those behaviors. If individual firm action is neither rewarded nor punished in the short term, some firms are unwilling to engage in that action (Schaper, 2002; Sharma, 2000), particularly when poor behavior is met with no or only mild punishment (Treviño & Youngblood, 1990). In this way, poor government accountability may further disincentivize firms from engaging in CSR practices (Karpoff & Lott, 1999; McGuire et al., 1988).
In countries where government accountability is high, governmental workers can be expected to follow established rules and procedures for upholding laws and regulations, with the expectation of punishment for transgressors. When the transparency of the government’s actions is apparent, firms can trust that the contracts they hold will be defended and will rely on the legal system to protect their interests (Zhou & Poppo, 2006). The transparency of government processes reduces the uncertainty of the business environment, and in turn, the transaction costs for a firm operating within that context. Thus, we expect that the lower costs faced by firms due to greater government accountability will increase their likelihood of engaging in CSR activities.

*Hypothesis 3b: The greater the government accountability there is in a country, the more CSR activity undertaken by the firm.*

**Characteristics of the institutional environment**

*Cost structure.* Overall cost structures within institutional environments reflect the costs incurred by firms to do business, including the taxes they must pay, costs of investments and inputs into the transformation process, such as labor rates. The overall cost structure can differ widely across different countries, in turn influencing production choices of the firm. For example, since labor is a key factor of production, firms’ ability to reduce wage-related costs may greatly influence their competitiveness (Stroup, 2007).

All else being equal, higher labor costs in a country tend to reflect either greater relative scarcity of labor or the existence of human capital endowed with superior skills. Both characteristics suggest that this type of labor is not easily replaceable; thus, turnover would be costly to the firm. In light of this, the firm has a strong incentive to extract as
much productivity out of its employees as possible and continually improve the quality of their skills. Training costs would be amortized over time, thus providing incentives to maintain employees as long as it can. Turban and Greening (1996) note that a reputation for CSR behavior can make firms more attractive to potential employees. Under these conditions, we expect firms to use CSR as a strategy to retain particularly valuable employees, as well as to improve their quality.

In countries with lower labor costs, labor is likely to be more plentiful and less skilled. The larger applicant pool allows firms to engage in ‘at will’ hiring and firing of employees, contract freely for labor and dismiss redundant workers when they are no longer needed. Thus, lower costs imposed on firms through a less expensive factor market for labor can help the firm gain greater labor efficiencies without investing significantly in the upgrading of their skills. In this case, firms may have less concern for providing ancillary benefits or perks such as CSR practices in order to retain workers. This suggests the following:

Hypothesis 4a: The higher the labor cost structure there is in a country, the more CSR activity undertaken by the firm.

Institutional environment uncertainty. Institutional uncertainty reflects an inability of the firm to predict changes in its institutional environment (Henisz & Delios, 2004). This uncertainty may result from unanticipated changes in laws and regulations that affect the firm’s production costs (Kobrin, 1980; Makhija, 1993), political instability stemming from changes in governmental structures (Henisz & Zelner, 2005), or flux in economic conditions due to underdeveloped or missing institutions (Khanna & Palepu, 2000). Environments with a high potential of political unrest and unpredictable currency
fluctuations will raise the cost for firms operating within those environments (Henisz, Mansfield & Von Glinow, 2010). Political and economic institutions that fail to constrain arbitrary behavior by political and economic actors increase transaction costs, but also negatively affect transformation costs by dampening the incentive for firms to deploy capital and other resources (Henisz & Zelner, 2002). The unpredictability characterizing the business environment can thus adversely affect the value of or profits generated by investments (Dess & Beard, 1984; Thompson, 1967). Thus, in conditions of high institutional uncertainty, the firm may need to keep tighter control on costs in order to be able to dedicate more resources towards mitigating this uncertainty. In this case, we expect the firm to be less likely to engage in CSR behaviors.

On the other hand, countries that provide a stable institutional environment greatly reduce the level of uncertainty with which the firm must contend, and thus the costs associated with mitigating that uncertainty. Firms operating within such a stable environment are less likely to be concerned with allocating resources for uncertainty mitigation, and therefore may have slack resources that are available to dedicate to CSR activities (Campbell, 2007; Gainet, 2010; Waddock & Graves, 1997b).

*Hypothesis 4b: The higher the institutional uncertainty there is in a country, the less CSR activity undertaken by the firm.*

**Methods**

**Data and Sample**

*Study setting.* The global apparel industry was chosen as the setting for this study due to its highly competitive structure stemming from thousands of firms dispersed
across the globe.\(^4\) Severe cost pressures characterize this industry, which uses mostly standardized and available technology and labor-intensive production. Overseas apparel firms have been criticized in recent years due to poor working conditions that are injurious to the health of workers, low wages that foster poverty, and questionable forms of labor such as children or prison inmates. A firm that upholds higher standards in this regard unavoidably incurs higher labor and production costs and is therefore often placed at a competitive disadvantage. Yet penalizing firms for violations can have a devastating effect on the surrounding community through lost business and unemployment. This tension makes the global apparel industry particularly appropriate to study with regards to institutional effects on CSR.

Since scholars have demonstrated that industry differences affect CSR practices (Buehler & Shetty, 1974; Fry et al., 1982; McWilliams & Siegel, 2000), a single industry setting allows us to control for variations in CSR practices seen across industries that might stem from differences in technology and skill requirements. CSR is often considered multidimensional, typified into employee-, socially-, and environmentally-based categories; such dimensions are not equivalent and can have different consequences for the firm (Cox, Brammer, & Millington, 2004; Johnson & Greening, 1999; Strike, Gao & Bansal, 2006). Thus, we focus on only one category–employee-based–to facilitate a more nuanced examination of this issue.

\(^4\) Apparel refers to items of clothing such as tee shirts, blouses, trousers, sportswear and swimsuits, jackets and other outerwear, graduation gowns, socks, lingerie and other undergarments, headwear such as baseball caps, footwear such as running shoes, and some textiles such as towels and slipcovers.
Sample. To test the hypotheses, we used expert evaluations on CSR activities of garment manufacturing firms across national contexts (McGuire, et al., 1988). In particular, we obtained comprehensive audit reports on firms’ CSR activities amassed from 2002 to 2009 by the Fair Labor Association (FLA), a not-for-profit organization located in the U.S. which monitors such behavior. An accredited inspector conducts unannounced audits, comprised of interviews with factory management, workers, and union representatives in their own language, reviews of relevant documentation, and tours of the facility to assess conditions. Each facility is evaluated on compliance with ten CSR-related areas. The monitors submit an intermediate written report of their findings to the FLA, the factory, and the firms buying from this manufacturer. The FLA also requires monitors to consult regularly with local NGOs, to aid communication with the factory employees when conducting employee interviews and reporting noncompliance. The factory is given a chance to review the audits and respond; after a period of time (typically three to four months) the auditors return to reassess any violations that have been remediated and those that remain unaddressed through physical, photographic and written evidence. A final report of findings is then submitted to the FLA.

The author evaluated the audits, identifying information such as country location, number of employees, types of products produced, end user customers, etc., resulting in an original dataset consisting of 669 firms in 38 countries across both developed and developing nations. The average firm in this dataset has 1217 employees and produces

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5 Firms producing apparel, headwear and footwear products use similar processes and skill sets (i.e., cutting, sewing, washing, knitting, hand stitching, embroidery, inspection and packing), and were included in the final dataset. Firms with products requiring very different skills (i.e., injection molding, metal work) were removed from the sample.
1.4 different products. After incorporating the institutional variables, the final dataset was 461 firms across 35 countries (institutional data were not available for Mauritius, Macao and Cambodia). No major differences in CSR activities were found for firms that were not included in the final sample, reducing any omission bias.

**Measures**

**Dependent variable: CSR activity.** The dependent variable of this study is level of CSR activity by the firm. The data for this variable was based on the FLA’s assessments of firms’ activities in ten different categories of CSR—treatment of the employee with respect and dignity, enhanced health and safety standards, freedom of association and collective bargaining, no discrimination on basis of religion, age or sex, reasonable hours of work, appropriate wages, appropriate overtime compensation, no forced labor, no child labor, and ensuring employees are aware of their rights. Appendix B contains a detailed explanation of these items. It is important to note that the firms in the dataset are not required to adhere to the FLA’s code of conduct or even to remediate any violations noted, thus underscoring the voluntary nature of CSR behavior. The FLA stresses they do not want client firms to stop sourcing from these firms, as that would create unemployment and additional hardships on the workers.

Since the FLA assesses firms’ deviations in its own CSR standards, the authors began by coding the presence or absence of deviations or violations in each of the 10 categories. Where violations were present, number was recorded and then aggregated across the ten categories to achieve a total number of violations for each firm. Since we
are interested in the level of CSR activity of the firm rather than violations, we reverse-coded this number. The maximum possible level of CSR activity in the dataset is 80.⁶

**Independent variables: Institutions.** Data on several institutions were taken from Heritage Foundation’s Economic Freedom Indices (HFI).⁷ Scores for countries range from 0 to 100, with higher scores indicating greater freedom (or less restriction) for firm behavior, and lower scores reflecting less freedom or greater restriction on acceptable modes of action. **Property rights:** This measure reflects the degree to which a country's laws protect the ability of individuals to accumulate private property, and the degree to which government enforces these laws. Higher scores reflect stronger property rights for individuals and firms within the country. **Capital Markets.** This measure reflects the banking efficiency and independence from government control of the financial sector, including the extent of government regulation of financial services, degree of state intervention in banks and other financial firms through direct and indirect ownership, and extent of financial and capital market development. Higher scores reflect lower restrictions on firms’ access to capital. **FDI:** This measure evaluates the regulations directed towards foreign investors, including the ability to move capital in and out of the country, bureaucratic regulations, and restrictions on ownership. Higher scores reflect lower restrictions on FDI entry strategies. **International trade:** This measures the absence of tariff and non-tariff barriers affecting imports and exports of goods and

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⁶ Since CSR audits for specific firms took place in different years, all institutional variables were matched to the year of the audit.

⁷ The aggregated form of HDI has been extensively used in international business to examine, for example, entry strategies in emerging economies (Meyer, Estrin, Bhaumik & Peng, 2009), social welfare (Stroup, 2007); economic growth (Berggren & Jordahl, 2005; Easton & Walker, 1997), and FDI inflows (Bengoa & Sanchez-Robles, 2003).
services. Higher scores reflect lower restrictions on firms’ ability to export into and out of the country. *Government involvement in the economy:* This was measured by government expenditures in the economy as a percentage of GDP. Higher levels of government expenditures are thought to reflect greater intervention or participation by the government in the country’s economic affairs. Higher scores indicate less government involvement in the economy. *Government accountability:* this is a measure of the transparency of government behavior within a country, lower levels of which can introduce uncertainty into economic relationships. Higher scores reflect greater government accountability.

*Institutional uncertainty:* This measures the level of uncertainty stemming from political, economic and financial conditions that firms face when doing business in a country. This measure was taken from the International Country Risk Guide and ranges from 0 to 100 with higher scores indicating lower uncertainty (or greater institutional stability).

*Cost structure:* The purpose of this variable is to capture the differential cost structures associated with the institutional environment, particularly those relating to a major input into the production process—labor. We capture cost structures relating to labor through GDP per capita in U.S. dollars (at PPP).

*Control variables.* We included variables to control for country-level characteristics. *Labor Laws:* Because firms’ interactions with employees can be influenced by the labor laws of a country, labor laws will be treated as a control variable. This variable measures the legal and regulatory framework of a country's labor market, using the following six factors: ratio of minimum wage to the average value added per
worker, hindrance to hiring additional workers, rigidity of hours, difficulty of firing redundant employees, legally mandated notice period and mandatory severance pay (taken from the HFI). Population: In order to control for country differences not related to our hypotheses, we have controlled for population. We take the natural log of this number to correct for heteroskedasticity.

We also include several variables to control for endogenous firm-level characteristics. Company size: Because company size has been found to affect CSR (Buehler & Shetty, 1974), it has been operationalized as a control variable. Size is relevant because there is evidence that smaller firms do not exhibit as many overt CSR behaviors as do larger firms, and in fact may not recognize specific social responsibility issues that may apply to larger firms (Lepoutre & Heene, 2006). Size is assessed by the number of employees. The number of employees at a firm varies from under a dozen to several thousand. To correct for heteroskedasticity, we took the natural log of this number. Number of processes: The complexity of the apparel item produced indicates the skill level of the workers required to produce it. Firms may engage in CSR in order to retain skilled workers. Therefore we control for the number of actual processes engaged in by factory. Customer sales: Customers can also affect a firm’s CSR behavior (Johnson & Greening, 1999; Narver, 1971). Customers who face a higher probability of detection and expected penalty may be more motivated to regulating their supply chains than other buyers (Oka, 2009). In particular, larger customers may feel a greater pressure to use suppliers with a good reputation for CSR because their size makes them more visible and prone to greater attention regarding CSR (Zyglidopoulos, 2002). We therefore control for the size of the customer, using the log of total revenue for customers
for which the firm produces items (in U.S. dollars). *Union-like conditions:* Unions can have an effect on the relationship employees have with the firm as well as the labor-related choices firms make (Deery & Iverson, 1999; Kirmeyer & Shirom, 1986). Therefore we control for the presence of union-like conditions in the firm. (Dichotomous variable: 0 = no union-like conditions present; 1 = union-like conditions present).

**Analytical method.** To statistically test our hypotheses we used ordinary least squares regression using STATA version 10 with a robust variance estimator. One potential concern in estimating the regression models was a potential lack of independence for observations from firms in the same country. The number of firms across countries is not equivalent. In order to avoid undue influence by one country environment and account for the correlation of the error terms for firms in the same country, we used a robust variance estimator in our models (Huber 1967). We performed this analysis using the variance estimator option “cluster” for the *country* variable. This technique accounts for the within-group correlation of error terms. This technique is preferable because ordinary least squares regression normally assumes independence of the error terms for each observation; this technique accounts for the dominance of one country over others within the dataset. The full regression equation is as follows:

\[
Level \ of \ CSR \ Activity = \beta_0 + \beta_1(\text{property rights}) + \beta_2(\text{capital markets}) + \beta_3(\text{FDI}) + \beta_4(\text{trade}) + \beta_5(\text{government involvement}) + \beta_6(\text{government accountability}) + \beta_7(\text{cost structure}) + \beta_8(\text{institutional uncertainty}) + \text{Control Variables} + \epsilon
\]
Results and Discussion

Table 1 presents country averages for dependent and independent variables. The average amount of CSR activity is around 63 per firm, with Canada and Brazil at the high end around 74-75 to Indonesia and Guatemala at the low end at 50. Interestingly, the institutional variables exhibit no clear pattern in variations across countries, thus highlighting the importance of differentiating among specific institutions when examining firm strategies across countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Avg CSR</th>
<th>FDI</th>
<th>Property Rights</th>
<th>Government Accountability</th>
<th>Labor Laws</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>75</td>
<td>70</td>
<td>90</td>
<td>86</td>
<td>64.3</td>
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<tr>
<td>Brazil</td>
<td>74</td>
<td>50</td>
<td>50</td>
<td>39.6</td>
<td>65.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>72</td>
<td>80</td>
<td>90</td>
<td>93.5</td>
<td>98</td>
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<tr>
<td>South Korea</td>
<td>71</td>
<td>70</td>
<td>70</td>
<td>45.8</td>
<td>57.5</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>70</td>
<td>90</td>
<td>90</td>
<td>80.7</td>
<td>86.8</td>
</tr>
<tr>
<td>Taiwan</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>58</td>
<td>46.5</td>
</tr>
<tr>
<td>Argentina</td>
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<td>50</td>
<td>30</td>
<td>25</td>
<td>44.4</td>
</tr>
<tr>
<td>USA</td>
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<td>74.2</td>
<td>90</td>
<td>75.4</td>
<td>95.7</td>
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<td>50</td>
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<td>61.5</td>
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<td>China</td>
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<td>30</td>
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<td>33.5</td>
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<td>30</td>
<td>25</td>
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<td>45</td>
<td>28</td>
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<td>64.3</td>
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<td>50</td>
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<td>50</td>
<td>30</td>
<td>24.8</td>
<td>60.3</td>
</tr>
</tbody>
</table>

Table 1: Examples of Country Averages for CSR and Institutional Variables
Table 2 presents the means, standard deviations, and correlations for all the variables. As mentioned previously, there is a tendency towards violations in the apparel industry, so the standard deviation for the dependent variable CSR is high as expected at 12.59. We find high correlations among several of the independent variables, including cost structure, government accountability, property rights, FDI, capital markets, and labor laws, possibly reflecting the co-development of institutions to bring about free markets or restricted markets (North, 1990). It is interesting that, even so, all these variables hold their significance in the model. Capital markets is also highly correlated with trade, suggesting a relationship between the ability to obtain capital and freedom to engage in international trade.

Table 3 presents the results of the regression analysis. We ran two control models, one with firm-level controls only, and one with firm-level controls plus two institutional-level controls. Model 3 added the hypothesized variables. Because of the possibility of multicollinearity stemming from the high correlations seen in the correlation table, the variance inflation factor (VIF) was checked for each model. The VIFs of models 1 and 2 (control models) and 3 were 1.1128, 1.134 and 1.357, respectively. Since these are well below the cutoff levels of 10, they are not a cause for concern. While the two control models had R-squared of 0.1014 and 0.1185, respectively, inclusion of the independent variables (model 3) increased it to 0.2629, reflecting the significantly higher predictive value provided by the hypothesized variables for explaining CSR behavior.
<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>CSR</th>
<th>Property Rights</th>
<th>Capital Markets</th>
<th>FDI</th>
<th>Int'l Trade</th>
<th>Govt Involve</th>
<th>Govt Acct</th>
<th>Inst'l Uncertainty</th>
<th>Cost Structure</th>
<th>Labor Laws</th>
<th>Population</th>
<th>Company Size</th>
<th>Processes</th>
<th>Cust Sales</th>
<th>Unions</th>
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<td>12.5816</td>
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<tr>
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<td>Inst'l Uncertainty</td>
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<td>-0.0529</td>
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</tr>
<tr>
<td>Population</td>
<td>12.0705</td>
<td>1.8909</td>
<td>-0.0180</td>
<td>-0.3593</td>
<td>-0.5591</td>
<td></td>
<td></td>
<td>-0.4807</td>
<td>-0.2977</td>
<td>-0.2303</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company Size</td>
<td>6.3927</td>
<td>1.3127</td>
<td>0.0397</td>
<td>-0.3891</td>
<td>-0.3424</td>
<td></td>
<td></td>
<td>-0.4154</td>
<td>-0.2404</td>
<td>-0.1107</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Processes</td>
<td>4.6982</td>
<td>1.9509</td>
<td>-0.0654</td>
<td>-0.1814</td>
<td>-0.1647</td>
<td></td>
<td></td>
<td>-0.2065</td>
<td>-0.0830</td>
<td>-0.0033</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cust Sales</td>
<td>21.9309</td>
<td>1.7592</td>
<td>0.0216</td>
<td>-0.0207</td>
<td>-0.0653</td>
<td></td>
<td></td>
<td>-0.0150</td>
<td>0.0743</td>
<td>0.07655</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unions</td>
<td>0.4036</td>
<td>0.4910</td>
<td>0.3159</td>
<td>0.2813</td>
<td>0.2520</td>
<td></td>
<td></td>
<td>0.2395</td>
<td>0.1153</td>
<td>-0.0819</td>
<td></td>
<td></td>
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</tbody>
</table>

Table 2: Means, Standard Deviations, and Correlations
Table 3: The Relationship between Formal Institutional Variables and CSR

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Size</td>
<td>0.352</td>
<td>0.717</td>
<td>1.603 **</td>
</tr>
<tr>
<td></td>
<td>(0.684)</td>
<td>(0.602)</td>
<td>(0.535)</td>
</tr>
<tr>
<td>Processes</td>
<td>-0.208</td>
<td>-0.406</td>
<td>-0.527 *</td>
</tr>
<tr>
<td></td>
<td>(0.253)</td>
<td>(0.337)</td>
<td>(0.296)</td>
</tr>
<tr>
<td>Cust sales</td>
<td>-0.015</td>
<td>0.068</td>
<td>0.237</td>
</tr>
<tr>
<td></td>
<td>(0.382)</td>
<td>(0.298)</td>
<td>(0.230)</td>
</tr>
<tr>
<td>Unions</td>
<td>7.970 ***</td>
<td>8.234 ***</td>
<td>8.233 ***</td>
</tr>
<tr>
<td></td>
<td>(1.161)</td>
<td>(1.424)</td>
<td>(1.300)</td>
</tr>
<tr>
<td>Labor Laws</td>
<td>0.123</td>
<td>-0.180 *</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.084)</td>
<td>(0.070)</td>
<td></td>
</tr>
<tr>
<td>Population</td>
<td>0.313</td>
<td>0.229</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.628)</td>
<td>(0.362)</td>
<td></td>
</tr>
<tr>
<td>Property Rights</td>
<td></td>
<td>-0.182 **</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.464)</td>
<td></td>
</tr>
<tr>
<td>Capital Markets</td>
<td>0.160 *</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.301)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>-0.335 ***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.155)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Trade</td>
<td>-0.089 +</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2.599)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt Involvement</td>
<td>-0.135 *</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.659)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt Accountability</td>
<td>0.364 *</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2.233)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Structure</td>
<td>0.001 **</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.380)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Uncertainty</td>
<td>0.023</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.920)</td>
<td></td>
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</tbody>
</table>

n = 614  n = 468  n = 461
R² = 0.1014  R² = 0.1185  R² = 0.2629
F(4, 37) = 13.  F(6, 37) = 10.79  F(14, 34) = 35.96

p ≤ .001 ***
p ≤ .01 **
p ≤ .05 *
p ≤ .10 +
Standard errors are reported in parentheses.
Among the firm-level controls, we find that union-like conditions was the only one significant across all models ($\beta = 8.233$, $p \leq .001$ in the full model). Interestingly, it is only after adding the institutional-level independent variables that some other controls became significant, including labor laws ($\beta = -0.180$, $p \leq .05$), company size ($\beta = 1.603$, $p \leq .01$) and number of processes ($\beta = -0.527$, $p \leq .05$). As expected, union-like conditions and company size increase CSR behavior in firms. It is interesting that labor laws and number of processes decrease firms’ CSR behavior, suggesting that labor laws may serve to benefit free market activity rather than employee-related standards, and that greater labor specialization may actually reduce employees’ bargaining power.

Hypothesis 1a argued that stronger property rights in a country will reduce firms’ propensity to engage in CSR. The rationale for this hypothesis was based on the expectation that stronger property rights will increase competitive forces by reducing costs of contracting and increasing firms’ ability to specialize in activities in which they have superior competitive advantages. The need to lower production costs in such an environment will reduce firms’ likelihood of engaging in costly CSR. On the other hand, weak property rights reduce competitive forces by increasing costs of contracting and limiting entry of new firms. In such an environment, firms will have a lower need to reduce costs, and therefore, will be more likely to engage in CSR. The findings indicate that this argument is strongly upheld ($\beta_1 = -0.182$, $p \leq .01$), thus supporting hypothesis 1a.

Hypothesis 1b posits that the less restrictive the capital markets are in a country, the less likely firms will engage in CSR. Using a rationale similar to hypothesis 1a, we argued that environments in which capital can be efficiently allocated will lead to greater competitive forces, since low cost of capital reduces production costs while attracting
more firms seeking such capital. On the other hand, more restricted capital markets will reduce competitive forces faced by firms. Since governments may intervene in capital markets in ways that reduce their efficient allocation and increase the cost of capital, firms will be unable to procure capital for superior investments. This inability is expected to increase firms’ production costs and forestall entry of new firms. The results show that the relationship is significant but not in the predicted direction ($\beta_2 = 0.160, p \leq 0.05$), leading us to reject this hypothesis. A possible explanation for this finding may be that the reduction of firms’ overall production costs from lower cost of capital may give them room to incur costs associated with CSR.

Hypothesis 2a argued that lower restrictions on the entry of FDI into the country will lead to lower CSR activities on the part of firms operating there. The rationale presented for this hypothesis was based on the notion that less restrictive FDI policies will expose firms to greater competitive pressures, and increase their need to reduce costs, including those related to CSR. On the other hand, restrictive FDI laws protect local firms from foreign competition and thus reduce their cost pressures. Under such conditions we expect that they will be more likely to engage in costly CSR. We find this relationship to be significant in the predicted direction ($\beta_3 = -0.340, p \leq .01$); thus, this hypothesis is supported.

Drawing on a similar rationale as above, hypothesis 2b argued that the less restrictive the trade laws are in a country, the less firms will engage in CSR activities. We expected that when a firm’s institutional environment facilitates competition from foreign imports, they will need to control their costs in order to compete, including those associated with CSR. On the other hand, restrictive trade laws with high tariffs and non-
tariff-barriers that discriminate against foreign producers reduce competition for local firms. This in turn reduces the pressures they face to control costs. Our findings indicate that this relationship is significant in the predicted direction (β₄ = -0.089, p ≤ .10). This hypothesis is therefore supported.

Hypothesis 3a argued that more government involvement in a country’s economy would lead to greater CSR activity on the part of firms. We suggested that in countries exhibiting low levels of government involvement in the economy, governments allow the “invisible hand” of the market to dictate economic activity, thus increasing competitive pressures on firms. Under such conditions, firms will be more concerned about their costs in order to stay competitive. On the other hand, when governments participate in economic functions such as health care provision or guaranteed pensions, or intervene in the free functioning of certain industrial sectors, they reduce competitive pressures on firms for providing such functions themselves and freeing up firm resources which could be used for CSR. Our findings show that this relationship was significant and in the predicted direction (β₅ = -0.135, p ≤ .10).

Hypothesis 3b posited that stronger government accountability will lead to greater CSR activity on the part of firms. We had argued that when governments are highly transparent and less corrupt, they pose fewer transaction costs for firms. Thus increasing government accountability may reduce firms’ overall costs, making them more likely to engage in otherwise costly CSR. It is also likely that such institutions may lead to greater government oversight over firm behavior, leading firms to engage in CSR to avoid negative repercussions. Indeed, this relationship was found to be significant in the predicted direction (β₆ = 0.364, p ≤ .05). Thus, this hypothesis is supported.
According to hypothesis 4a, a higher labor cost structure of a country will lead firms to engage in higher levels of CSR. Since labor is a key production input, firms’ attitudes towards labor costs will be influenced by its relative scarcity and quality. Lower labor costs may reflect more supply of labor relative to demand, as well as signal lower or more generally available skills, both of which reduce firms’ incentives to attract and retain workers through CSR. In contrast, countries in which labor costs are higher may have more competitive labor markets, either due to scarcity or superior skills. In this case, firms will need to go above and beyond wages in order to attract and retain quality employees. This relationship was very significant in the predicted direction ($\beta_7 = 0.001$, $p \leq .01$), supporting this hypothesis.

Finally, hypothesis 4b argued that higher institutional uncertainty in a country will lead firms to engage in less CSR activity. The logic for this hypothesis stemmed from the fact that unpredictability in firms’ operating environments increases their costs. Firms in such operating environments must allocate resources to address unanticipated contingencies, such as investments in flexible technologies or higher employment. Under such conditions, they are less likely to allocate resources for CSR. In contrast, firms operating in stable environments have less need to allocate resources for uncertainty mitigation, and thus are more likely to have slack resources that can be dedicated to CSR activities (Campbell, 2007; Waddock & Graves, 1997b). According to our findings, however, this relationship was not found to be significant or in the predicted direction ($\beta_8 = 0.023$). In light of this, hypothesis 4b is not supported, suggesting that institutional uncertainty does not play an important role in influencing firms’ CSR behavior.
In all, of the eight hypothesized relationships, six were supported in the correct direction. In general, we supported our argument that institutions which enhanced market efficiency—through property rights, economic openness and less government involvement—reduce firms’ propensity to engage in CSR. We also supported our contention that scarce or valuable human resource conditions as well as greater government accountability will lead to greater CSR. At the same time, we uncovered the unexpected finding that institutional environments with less intervention in capital markets actually increase firms’ CSR. It may be that the lowering of costs through such institutions may not necessarily lead to increased competitive pressures, thus allowing firms to undertake costly CSR activities. We also did not find any relationship between institutional uncertainty and CSR. Overall, however, our findings highlight the importance of firms’ institutional environments for explaining their CSR decisions.

Conclusions and Implications

The purpose of this paper was to offer a new conceptual approach for studying cross-national differences in CSR. We drew from North (1990) to show how different features of firms’ institutional environments affect their decisions to engage in CSR. While prior studies have focused primarily on endogenous explanations for firms’ CSR behavior, including managerial altruistic and religious beliefs (Angelidis & Ibrahim, 2004; Keim, 1978) or the role of external stakeholders such as consumers or environmentalists (Crawford & Gram, 1978; Henriques & Sadorsky, 1999; Jones & Goldberg, 1982), our study considered the effects of eight different types of institutions on firms’ economic motivations to engage in CSR across national contexts. Although not
always as predicted, we find seven of these to significantly explain firms’ CSR behavior. Interestingly, firm attributes (which may reflect endogenous influences on CSR) were seen to be mostly insignificant, that is, until institutional variables are added to the equation. In all, this study demonstrates how firms are a reflection of their environment—along with their CSR behavior.

The findings of this research have several theoretical and practical implications. First, this study finds that formal institutions influencing free-market conditions and the economic orientation of society significantly impact a firm’s inclination to engage in CSR activity across diverse national contexts. In particular, our findings indicate that greater free-market orientation of institutions often reduce incentives to engage in CSR behavior by enhancing firms’ competitive and cost pressures. On the other hand, institutions that improve the quality of human resources, increase government accountability or otherwise reduce firms’ costs without increasing competitive pressures, actually increase incentives to engage in CSR. In doing so, this study highlights the importance of taking into account the multifaceted influences of context for firms’ strategies in general, and those related to CSR in particular.

Our empirical test allowed us to address several important factors necessary for testing our hypotheses. For example, researchers have pointed out the likelihood of industry-related variations in CSR behavior (Buehler & Shetty, 1974; Fry et al., 1982; McWilliams & Siegel, 2000), since different industries face highly contrasting competitive conditions, or require employees with dissimilar skill sets which may not be valued in an equivalent manner (Gardberg & Fombrun, 2006). By controlling for industry, we were able to avoid such confounds that would be associated with a multiple
industry study. This study is also the first systematic cross-country analysis of CSR that takes into account 35 countries, facilitating a more nuanced understanding of the role of institutional context. Prior studies have typically focused on a single country, frequently the U.S. or to a lesser extent a European country, omitting much of the rest of the world.

This study also provides insights on small and medium sized firms, not just huge MNEs which are often the focus of international CSR research. Smaller firms differ from MNEs in many ways, including cost pressures, ownership, and strategies used (Fernández & Nieto, 2006), yet receive less attention than MNEs in the literature, particularly regarding CSR practices. Small firms typically have fewer resources than MNEs, including those they can dedicate to CSR efforts. This is especially relevant in a highly competitive environment such as the apparel industry, where cost pressures may exacerbate the dilemma of how to treat employees fairly and yet survive as a firm. Ironically, smaller firms may also be under less scrutiny than larger firms (Zyglidopoulos, 2002), and can “fly under the radar” thus allowing more violations to occur. This has implications for policy-makers, who may wish to devote more attention towards SMEs rather than the larger targets of MNEs, which can also be regulated by public opinion (Teegen, Doh, & Vachani, 2004).

A number of elements of this study highlight the need for future research. While this study focused on one industry across national contexts, it would be useful to assess the effects of institutional environments on CSR decision of other types of industries, including those that involve more complex production processes or require greater skills from their labor force, for example. It may be that such industries will face less competitive pressures, even in free market oriented institutional environments, due to the
complicated nature of their technologies or specialized production processes that forestall competition. This in turn should have a positive effect on their CSR decisions. On the other hand, industries associated with agriculture, food product manufacturing or consumer products, may be more affected by competitive pressures in this regard.

Future research can also consider comparisons of different types of institutional environments, such as those associated with developed and developing economies. A comparison of specific countries such as China and India can help show how transitional institutional environments may differ in the effects on CSR practices, which would add a nuance missing in the literature. Recent work in the international business field is delving into the effects of different types of capitalism on business; an interesting approach would be to see how these different types of capitalism affect firms’ CSR behaviors.

Finally, a fruitful direction for future research is more robust consideration of differing types of CSR. In this study CSR activity was assessed in an aggregated manner, through the condensing of different employee-related CSR activities into a single variable. It would be very valuable to see how different types of CSR activities are affected by institutional conditions. For example, CSR related to health and safety practices may be influenced by very different conditions than that related to wages and pensions. By the same token, it may the case that certain issues are better addressed by public policy, while others remain the domain of the firm.
Chapter 4: The Influence of Cultural Norms on Firms’ Corporate Social Responsibility Behavior

Introduction

Corporate social responsibility (CSR) reflects the idea that firms have obligations to the larger societal collective that go beyond the merely economic (McGuire, 1963; Gardberg & Fombrun, 2006; Waldman et al., 2006), for which they must allocate discretionary resources. Drawing on institutional perspectives (e.g., DiMaggio & Powell, 1983; Meyer & Rowan, 1991; Zucker, 1987), researchers have noted that the societal context within which the firm is embedded plays a key role in determining its CSR choices, by imposing systematic institutional pressures that influence the firm’s need for legitimization. CSR activities allow firms to gain legitimacy in their environment through behaviors that are consistent with societal expectations. To test this, a large array of studies have considered the effects of pressures stemming from environmental attributes such as the regulatory framework (Bansal & Clelland, 2004; Bansal & Roth, 2000) and firms’ stakeholders (Henriques & Sadorsky, 1999; Jones & Goldberg, 1982). The dilemma with such approaches is that compliance cannot be separated from their punitive or economic consequences (Jones, 1980), thus undermining the institutional rationale of congruence between the social values associated with firm activities and norms of acceptable behavior in the larger social system (Dowling & Pfeffer, 1975).
The emphasis on social values and norms in institutional theory suggests that the cultural context in which organizations are embedded is fundamental in determining how they are viewed and evaluated. Suchman (1995) also highlights the role of cultural elements in this regard, noting that a firm’s legitimacy stems from the perception that its actions are “desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (p. 574). Despite this, few CSR studies drawing on institutional theory have actually considered which cultural norms might be relevant for firms’ CSR behavior or how they might influence such behavior. A study by Waldman et al. (2006) does consider collectivism and power distance, but the majority of the work done in “international” CSR tends to be single country setting studies (Egri & Ralston, 2008), with little consideration for the many diverse domestic and foreign contexts that make different demands on firms (Gardberg & Fombrun, 2006). The purpose of this research is to address this critical void in the CSR literature.

We begin by developing a theoretical framework which highlights three categories of cultural dimensions that help to form society’s expectations regarding appropriate behavior of firms—these include orientation towards humanity, relational orientation, and external orientation. We argue that when firms behave in line with these cultural expectations with respect to their CSR activities, they will be perceived by societal actors as legitimate members of that society. Based on this argument, we develop testable hypotheses relating seven different cultural dimensions to the level of firms’ employee-related CSR activity. We use an original database of 461 manufacturing firms in one industry—garment manufacturing—in order to control for important industry variations that have been shown to affect the nature of and propensity towards
CSR (Buehler & Shetty, 1976). The firms were distributed across 23 countries, allowing for an appropriate comparison of cultural dimensions.

Our results indicate strong support for the effects of culture on the propensity to engage in CSR. By considering seven cultural dimensions, we demonstrate that not only does culture affect the decision to engage in CSR, but that different cultural dimensions have varying impact on this decision. In particular, our findings support our argument that societies characterized by more assertiveness and future orientation lead to less CSR activity on the part of firms, while societies connected to greater humane orientation, gender equality and uncertainty avoidance give rise to more CSR. Contrary to expectations, collectivism was seen to reduce CSR activity, while power distance played no role in this regard. These findings demonstrate the importance of taking into account how systematic variations in firms’ institutional environments influence their strategic decision making, including that related to CSR.

**Literature Review**

The very notion of CSR underscores that firms do not operate in a vacuum, and that the environment in which the firm is embedded plays a key role in its decision making. Such a focus is evident in the definition of CSR as “the social responsibility of business encompass(ing) the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979: 500). Others have conceptualized CSR in a similar fashion, highlighting the responsibility of firms to behave in a fashion that is “desirable in terms of the objectives and values of our society” (Bowen, 1953: 6), along with their need to operate “within a socio-cultural system that
outlines through norms and business roles particular ways of responding to particular situations” (Johnson, 1971: 51), and bring “corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations of performance” (Sethi, 1975: 62). Interestingly, these definitions stress that the primary benefits of CSR accrue not to the firm itself, but to others outside the firm—i.e. society at large—though the costs themselves accrue to the firm (Barnett, 2007).

Such a conceptualization of CSR has three important implications. The first is that the external context matters greatly to firms, and acts as an impetus for firms’ CSR behaviors. Secondly, given that societies vary across the world, they will differ in their expectations with respect to such firm behavior. Third, given that the bases for societal expectations stem from prevailing cultural norms and belief structures, these are likely to be a key source for the social pressures that influence firms’ CSR choices. As we show below, while the literature has indeed emphasized the external underpinnings of CSR behavior, it has not gone far enough in providing insight into the second and third implications.

**The Importance of External Context for CSR**

The relevance of the external environment for firms’ CSR behavior is one of the strongest and most consistent notions underpinning the CSR literature. To explain this relationship, the literature has typically drawn on two key theoretical perspectives, stakeholder theory and institutional theory, both which highlight attributes of firms’ environment that influence their decision-making.
**Stakeholder theory and CSR.** A stakeholder approach allows researchers to identify specific groups that put pressure on firms to engage in CSR behavior (e.g., see Bansal & Clelland, 2004; Waldman et al., 2006). A stakeholder is considered to be “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984: 46), and frequently consist of customers, employees, financiers, suppliers and nonprofits that protect of the environment (Dunham, Freeman & Liedtka, 2006). Stakeholder theory has been embraced both conceptually and empirically for its ability to indicate specific groups a firm may consider in its social obligations—in particular, to determine how managers may better create value (Parmar, Freeman, Harrison, Wicks, Purnell & De Collle, 2010).

In the context of CSR, researchers have noted that stakeholder groups are not only affected by a firm’s behavior but also “have the ability to influence it” (Savage, Nix, Whitehead & Blair, 1991: 61). For example, Crawford and Gram (1978) use stakeholder logic in their conceptual work on CSR as an interorganizational transaction, claiming that so-called “interest organizations” (i.e., specific organized groups in the social environment affected by corporate policies) act as arbiters of social responsibility for a firm. Scholars have also examined the role that exogenous factors such as customer concerns (Narver, 1971) and specific stakeholder groups such as suppliers, shareholders, trade associations, the media, etc. play in firms’ CSR decisions. For example, in a survey of 400 Canadian firms, Henriques and Sadorsky (1999) find that environmentally proactive firms find all stakeholders except the media to be important to the firm for determining their CSR activities, while environmentally reactive firms consider only the media of importance, suggesting that stakeholder groups can have differing effects on
specific firms’ CSR behavior. Jones and Goldberg (1982) also distinguish between types of stakeholders, proposing that firms have to set a balance in their corporate decision-making where a decision considered responsible by one constituency of the firm (i.e. environmentalists) may be deemed irresponsible by another (i.e. employees).

Stakeholder theory has done much to extend our understanding of how the external context can affect firms’ CSR behavior. However, both Hillman and Keim (2001) and Clarkson (1995) have demonstrated the necessity of distinguishing between stakeholder issues and social issues, since managers can manage relationships with specific groups without considering the impact on society at large. By focusing on specific groups, stakeholder theory does not take into consideration the larger societal structure or prevailing norms that inform and guide stakeholders’ opinions regarding firms’ CSR behaviors (Bansal & Clelland, 2004). In addition, stakeholder theory is not as successful in explaining societal pressure across national contexts, for what may be an important stakeholder issue in one context may not be as important in another (Husted & Allen, 2006). It may be for this reason that some scholars have turned to institutional theory (i.e., DiMaggio & Powell, 1983; Scott, 1995) in search of more explanatory power with regards to CSR.

**Institutional theory and CSR.** Institutional theory-based CSR studies look at macro institutional factors such as policy, cultural norms, and routines as the main factors shaping corporate social behavior (Aguilera, Rupp, Williams & Ganapathi, 2007; Campbell, 2007). When institutional theory is used in the CSR literature, mimetic isomorphism is typically invoked to explain the convergence of CSR strategies across firms (Hoffman, 1999; Marquis, Glynn & Davis, 2007). For example, Marquis et al.
(2007) examine CSR practices in seven major corporations in Ohio and find that community convergence around a specific form of CSR such as paid volunteer time for employees will lead to higher levels of corporate giving overall. In research comparing international CSR practices, Matten and Moon (2008) use institutional theory to explain why American-style “explicit” CSR (that is, firm policies that assume and articulate responsibility for societal interests) is spreading globally, even in Europe where “implicit” CSR (or, firm policies resulting from mandated and customary requirements) has been more prevalent.

A key notion associated with institutional theory is that organizations will act to achieve legitimacy within their environment (Suchman, 1995). Gaining such legitimacy is important in that it results in less uncertainty for the firm in its specific institutional field (DiMaggio & Powell, 1983; Meyer & Rowan 1977; Scott 1995; Meyer & Scott, 1983). Some researchers have suggested that dynamics in the organizational environment affecting legitimacy stem not from material imperatives such as firm performance, but rather from cultural norms, beliefs and rituals (Powell & DiMaggio, 1991; Scott, 1995). While not necessarily efficient, conformity with an accepted norm lends legitimacy to the firm. Others have stressed that legitimacy has important performance implications for the firm. For example, suppliers may be more likely to provide resources to organizations that appear appropriate, proper, or decent (Parsons, 1960). Establishing legitimacy may also be associated with lower systematic risk for investors and other stakeholders (Bansal & Clelland, 2004); organizations lacking legitimacy may be more vulnerable to claims of negligence or lack of necessity within an institutional environment (Meyers & Rowan, 1991). For example, Bansal and Clelland
(2004) show how environmental legitimacy (i.e. gained by engaging in ecologically friendly CSR practices) can reduce unsystematic stock market risk for firms.

Some theorists suggest that seeking legitimacy is a strategic behavior on the part of firms. In this regard, legitimacy is considered an operational resource that can be extracted competitively from a cultural environment (Ashforth & Gibbs, 1990; Dowling & Pfeffer, 1975; Suchman, 1988). Indeed, Hillman and Keim (2001) find that CSR can be an intangible asset if directed at specific stakeholder groups. Here, firms gain legitimacy by meeting the expectations of specific “social actors” (DiMaggio & Powell, 1991). However, more traditional institutional theorists consider legitimacy as a set of constitutive beliefs (DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1991; Meyer & Scott, 1983; Suchman, 1988; Zucker, 1987). In this view, cultural norms determine how the firm is built, run, and, simultaneously, how it is understood and evaluated (Suchman, 1995).

Institutional theory has furthered our understanding of the effect of societal pressures on firms’ CSR behaviors, and its use has increased in recent years (Bies, Bartunek, Fort & Zald, 2007). However, as with the case of stakeholder theory in the CSR literature, the differences found in the international context have not been considered much.

**Cross-national Consideration of CSR Behavior**

Despite the importance of context to CSR research and the understanding that differences across countries can influence CSR behavior (Husted & Allen, 2006; Lee, 2011), the majority of the work done in “international” CSR tends to be single country
setting studies (Egri & Ralston, 2008). Only a few studies have compared firms’ CSR behavior across national contexts, with most of these focusing primarily on the overseas behavior of multinational firms and covering only a small set of countries. Indeed, Gardberg and Fombrun (2006) suggest that most previous studies fail to take into account that firms act within many diverse domestic and foreign contexts that make different demands on firms and award firms with varying levels of legitimacy (Kostova & Zaheer, 1999). This does little to address the diversity that varied national contexts can bring to the study of CSR. In particular, this does not capture the effect that different cultural settings can have on differences in societal expectations on firms’ CSR behavior.

While some work has been done in the CSR literature to recognize the importance of the effect of cultural norms on firms’ CSR behavior, these studies are limited by their comparison of few countries and inability to assess determinants of actual CSR behavior. For example, based on a survey of public relations practitioners’ perceptions of CSR in South Korea, Kim and Kim (2010) argue that values associated with social traditionalism have more explanatory power than other cultural dimensions in explaining CSR attitudes. Maignan (2001), in her comparison of perceptions of CSR among U.S., French and German consumers, finds that French and German consumers are more willing to

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8 Examples include Matten and Moon’s (2008) examination of the effect of the U.S. and Europe’s markedly different national business systems on the dissimilarity in CSR reporting methods in multinational firms, Maignan and Ralston’s (2002) examination of disclosure in the content of firms’ communication regarding CSR practices in the Netherlands, the U.K., the U.S. and France, as well as Cheah, Chan and Chieng’s (2007) study on U.S. and U.K. investors’ response to pharmaceutical product recalls, finding U.S. investors to be more sensitive to how “CSR-active” a firm is and punishing non-CMR active firms, but that U.K. investors are less concerned about firms’ CSR tendencies.
actively support socially responsible firms (see also Maignan & Ralston, 2002; Matten & Moon, 2008). Other research has also shown that there is a cultural aspect to consumers’ perception of CSR (Katz, Swanson & Nelson, 2001; Williams & Zinkin 2006; Maignan, 2001), but the nature of the relationship is still uncertain (Ramasamy & Yeung, 2009). A study by Waldman et al. (2006) is distinctive in that it covers a larger set of countries—fifteen in total—yet it focuses on only the cultural dimensions of collectivism and power distance (along with CEO leadership characteristics) to predict managers’ social responsibility values.

Need for Further Work

Although some strides have been made in examining the cultural antecedents to firms’ CSR behavior, we continue to have an insufficient understanding of this relationship. A review of the literature suggests a number of directions for future work in this regard. First, there is an overriding need for a more systematic consideration of societal values that can influence firms’ predispositions towards CSR behavior. Often the effect of cultural norms is treated as an abstract concept in the CSR literature and not broken out with all the richness it has received in other management literatures. While prior studies have examined one or two cultural values at a time, the rationale for examining these and not others is unclear. This can be particularly problematic since the ones chosen may play unequally important roles for different countries. It remains vital to develop a theoretical framework for CSR that takes into account a more comprehensive range of cultural norms. Second, a better understanding of the relationship between societal values and CSR behavior has empirical implications—it
mandates an examination across a larger and more diverse set of countries than has been accomplished thus far. The ability to truly understand the role of societal values for firms’ CSR behavior requires a comparison of countries that vary along a number of such dimensions.

Finally, despite the fact that different types of CSR exist, this fact often goes unacknowledged in the literature. We find that prior research has tended to treat CSR as though it is a uniform notion. In reality, however, the ramifications of different types of CSR vary widely across firms. For example, CSR relating to the environment may be more salient for energy and chemical industries (Bansal & Clelland, 2004), than, say, the garment and software industries. On other hand, CSR relating to poverty alleviation and education may generate greater attention for industries that face greater mechanization or layoffs than those in agricultural or mining sectors. CSR choices also vary in their cost implications for firms, thus giving rise to differing motivations to undertake them. Rather than take these considerations into account, the literature has often confounded different CSR behavior, and discussed them as though they constitute a monolithic concept. In light of this, it is also important for subsequent research to disaggregate and distinguish among CSR behaviors.

**Theoretical Development and Hypotheses**

We draw on institutional theory to understand how the nature of the environment influences firms’ legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1991; Meyer & Scott, 1983; Powell & DiMaggio, 1991; Zucker, 1987), leading them to be viewed as more worthy, relevant, understandable, and trustworthy by community members
(Jepperson, 1991; Suchman, 1995). As noted by Dowling and Pfeffer (1975), legitimacy accorded to organizations reflects congruence between the social values associated with their activities and the norms of acceptable behavior in the social system within which they operate. Since culture constitutes particular knowledge, beliefs, morals, values and customs that underlie acceptable behavior in a society (House, Hanges, Javidan, Dorfman, & Gupta, 2004; Shenkar & Luo, 2008), it stands to reason that these will play a key role in determining the norms against which legitimacy is evaluated.

Researchers have highlighted variations in the importance of different cultural dimensions across different cultural contexts (Hofstede, 1980; House et al., 2004; Kluckhohn & Strodtbeck, 1961; Ronen & Shenkar, 1985). We expect that some of these cultural norms will be particularly salient for establishing societal expectations regarding the role played by firms. Cultural dimensions that stress connectedness and compassion among societal members are more likely to lead to expectations that firms should treat all employees as social equals whose lives are highly valued. When firms demonstrate such CSR behavior, they will be accorded with more legitimacy. On the other hand, cultural dimensions that emphasize the value of competitiveness and accept power differentials within society will tend to reduce the stringency of expectations on how others are treated. Since superior treatment of employees will not gain them legitimacy, firms are less likely to engage in such CSR. Finally, certain cultural norms reflect attitudes towards aspects of the environment that are ‘unknowable’ or out of one’s control. When norms foster optimism or sanguinity with such conditions, firms may be expected to behave with less concern over the future or uncertainty. CSR behaviors that reflect this will result in greater legitimacy.
Consistent with the discussion above, we identify seven dimensions of culture that relate to CSR, and group them into three main categories: orientation towards humanity, relational orientation and external orientation. In accordance with institutional theory, we expect that these cultural dimensions will shape societal expectations towards firm behavior. Firms will in turn conform to this societal pressure to behave in specific ways through CSR in order to gain legitimacy. This relationship between cultural norms and firms’ CSR activity is diagramed in Figure 2.

Figure 2: The Relationship between Cultural Norms and Firm’s CSR Activity
Orientation towards humanity

Societies differ on their perspectives on the well-being or treatment of other people both within and outside their society—we refer to such cultural norms as orientation towards humanity. Cultural norms of this type indicate the value placed on the well-being of others even when no pre-established relationship with them exists, and having a concern for peoples’ best interests at heart despite no discernible benefit to oneself (Suchman, 1995). Such norms reflect society’s sense of moral obligation to act in the interest of others rather than only for one’s gain (Chen, Peng, & Saparirto, 2002). Cultural dimensions that express such values include humane orientation, gender equality and collectivism. As we discuss below, such norms are expected to influence the likelihood of engaging in CSR practices that emphasize the well-being of others.

Humane orientation. The cultural norm of humane orientation refers to the degree to which societies reward individuals for being fair, altruistic, generous, caring, and kind to others, even when these constitute individuals that are unknown or outside of society (House et al., 2004). In high humane orientation cultures, people are considered to have an intrinsic importance by virtue of their membership in the human race. Thus, even those who are complete strangers are accorded respect and thought to be deserving of benevolence and kindness (Triandis, 1995). In contrast, low humane orientation cultures reflect the notion that caring for the self and one’s own circle of friends and family takes greater precedence over concern for unknown individuals. In this case, individuals give higher priority to self-enhancement and self-interest than worrying about the state of humanity (Kabasakal & Bodur, 2004; Schwartz, 1992). Schwartz’s (1992) study across 54 countries confirmed that humane orientation as a basic value is globally
prevalent. Others have also shown that cultures vary on their humane orientation (Schwartz, 1992; Schwartz & Bilsky, 1990).

In societies that emphasize greater humane orientation, societal members expect individuals to practice the understanding, tolerance, and protection of all people, including strangers—termed universalism—and work to enhance and preserve the wellbeing of friends and family—termed benevolence (Schwartz, 1992). In addition, paternalistic norms, where members of society act like father figures and are responsible for promoting the well-being of others, are highly valued in high humane orientation cultures (Kabasakal & Bodur, 2004). Therefore, firms engaging in CSR activities that express individualized concern and compassion for others, even when such activities lead to higher costs for the firm, will gain legitimacy in a high humane orientation culture. In order to fulfill societal expectations related to such cultures, firms would be more likely to take a very proactive approach towards CSR.

In low humane orientation cultures, however, individuals are expected to solve their own problems and be responsible for their own welfare (Kabasakal & Bodur, 2004). In this case, less emphasis is placed on benevolence and universalism, with society having other expectations of firm behavior. Instead of providing benefits for individual employees such as high wages, pensions and healthcare, firms may stress more fundamental firm-specific goals such as efficiency, profitability and satisfying its shareholders rather than other stakeholders such as employees. Therefore, we suggest the following:

_Hypothesis 1a: The more humane orientation characterizing a country, the more CSR the firm will engage in._
Gender equality. The cultural dimension of gender equality expresses the extent to which gender differences within society are deemphasized or egalitarianism among such groups is promoted (House et al., 2004). Gender equality affects the freedom of choices available to men and women within a society and reflects the level of discrimination between the two groups. In general, less egalitarian societies in this regard expect men to be the ones that work outside the home, thus gaining the potential to choose among occupations, enhance their own income levels and achieve greater independence from others. In this case, women are relegated to less lucrative occupations within or outside the home, and tend to be more dependent on males due to their inability to support themselves. In contrast, more egalitarian societies encourage both genders to participate equally in the workplace and are accorded similar opportunities for advancement (Emrich, Denmark, & Den Hartog, 2004). Thus, this cultural norm reflects the equality associated with males and females as well as the level of discrimination present within a society. Indeed, norms associated with gender equality are seen to differ significantly across cultures (Coltrane, 1992; Hofstede, 1980).

In cultures associated with high gender equality, women are expected to have the same rights to education and positions of authority as men and to play an equally important role in societal decision-making (Emrich et al., 2004). The assurance of such rights in a society reflects concern that such traditionally disadvantaged groups should be protected. In such an environment, we expect that firms with CSR policies enhancing the well-being of all of its employees and reduce discrimination will be perceived with greater legitimacy than those that do not have such policies. Thus, a firm operating in a
society with higher expectations of gender equality is expected to increase its incentives to engage in CSR with respect to its employees.

In contrast, in cultures characterized by low gender equality it is expected that women will occupy a lower status in society, and play little to no role in societal decisions (Emrich et al., 2004). Instead, men will tend to form strong fraternal interest groups to maintain control over scarce resources to enhance power and prestige (Coltrane, 1992). In such cultures, there will be less expectation that the rights of women (or other disadvantaged groups) in the workplace need to be protected, and therefore, a lower need for CSR. This leads us to the following hypothesis:

*Hypothesis 1b: The more gender equality characterizing a country, the more CSR a firm will engage in.*

**Collectivism.** The cultural norm of collectivism reflects the extent to which a society prizes collective action, and in particular, the collective allocation of resources (House et al., 2004). A collectivistic society considers the group or collective as the center point of identification for the individual, with the needs and goals of the collective taking precedence over those of the individual (Shenkar & Luo, 2008); in contrast, individualistic cultures view the self as the center point of identification (Hofstede, 1980). Collectivistic societies will tend to perceive a stronger moral obligation to other members of society, while more individualistic ones will be more concerned with preserving rights of the individual and enhancing self-fulfillment (Chen, Peng & Saparito, 2002). Indeed, collectivism within a culture has been identified as a key cultural construct in many studies (Hofstede, 1980; Schwartz, 1992, 1994; Schwartz & Bilsky, 1990; Smith, Dugan, & Trompenaars, 1996; Triandis, 2004).
In highly collectivist cultures individuals identify strongly with other societal members (Park, Li, & Tse, 2006). Duty and obligations to these other members are strong influences on behavior. This expectation manifests in important decisions made by groups rather than individuals, and accountability for organizations’ successes and failures rests with groups as well (Gelfand, Bhawuk, Nishi, & Bechtold, 2004). There is a strong emphasis of collectivist societies on others and giving priority to their needs. In order to gain legitimacy in a highly collectivistic culture, then, we expect firms to be more likely to engage in CSR practices for their employees.

In less collectivistic cultures, however, individuals are expected to act with more autonomy in decision-making. They may therefore be expected to make important decisions on their own, rather than by consensus, and be individually held accountable for success or failure (Gelfand et al., 2004). In such societies, it is “permissible” to pursue personal interests over those of the group (Parsons & Shils, 1951), and actually considered more desirable to do so. Firms operating in such environments are able to gain legitimacy by pursuing their own goals and enhancing their own outcomes over those that may benefit the welfare of that society. This may lead managers to act with less concern over the welfare of other members of society or within the firm, such as employees. This suggests the following hypothesis:

*Hypothesis 1c: The more collectivism characterizing a country, the more CSR the firm will engage in.*

**Relational orientation**

In contrast to the cultural norms above which stress a more general orientation towards humanity and human welfare, another category of cultural dimensions focuses on
how people view themselves specifically in relation to others; we refer to this as *relational orientation*. Cultural norms pertaining to relational orientation reflect perceptions of importance of status, authority over others, as well as competitiveness with others within their societal context (Etzioni, 1988). Cultural dimensions that express such values include *power distance* and *assertiveness*. By influencing sense of entitlement over others through status or achievement, such norms are expected to influence firms’ predisposition to engage in CSR, in the manner discussed below.

**Power distance.** The cultural norm of power distance reflects the extent to which members of a society accept power differences between individuals, and determines the degree to which members of the community endorse the authority of one member over another (House et al., 2004). Individuals in cultures with higher power distance will be less likely to expect upward mobility between stratified social classes. The power differential among segments in society stems from differentially distributed resources and capabilities, and thus, such stratification is often viewed as essential for social order. Cultures with lower power distance will tend to perceive less persistent differences among classes, and presume valuable capabilities to spring from any segment from society. Such cultures are characterized by high expectations of upward social mobility and transient power bases (Carl, Gupta & Javidan, 2004). As one of the most studied cultural attributes, researchers have demonstrated significant differences in the level of power distance across societies (Ingelhart, 1997; Haire, Ghiselli, & Porter, 1966; Helmreich & Merritt, 1998; Hofstede, 1980; Schwartz, 1999; Shane, 1994).

In high power distance cultures, certain individuals are perceived as having a rank whose authority is incontestable and practically unachievable by those with less power.
Due to such intractable standards, individuals in such societies expect their civil liberties to be weak due to the concentration of power amongst a few members of society, resulting in unequal opportunities for advancement (Carl et al, 2004). Societal expectation is that people in power will have less concern for those below them, and thus, have less desire to treat them ‘fairly.’ Firms in high power distance cultures may thus be able to gain legitimacy by focusing on firm-specific goals that enhance their market power rather than on CSR activities that provide benefits to workers who may have less relative power in society.

In contrast, since individuals in low power distance cultures perceive strong civil liberties as well as opportunities for advancement based on skills and abilities (Carl et al., 2004), they are more likely to expect that treatment of employees should not vary according to rank. In such cultures, then firms are expected to gain legitimacy by treating employees as social equals deserving the same perks and privileges as themselves. Given this, we expect to see more CSR in low power distance cultures. Thus we predict:

Hypothesis 2a: The more power distance characterizing a country, the less CSR the firm will engage in.

Assertiveness. The cultural norm of assertiveness reflects the degree to which people within a culture are encouraged to be forceful, aggressive, tough or dominant in their social relationships (House, Hanges, Ruiz-Quintanilla, Javidan, Dickson, & Gupta, 1999). In a psychological sense, assertiveness means directly “asking for what one wants, refusing what one doesn’t want, and expressing positive and negative messages to others” freely (Booream & Flowers, 1978: 15). In a high assertiveness culture, assertiveness tends to be equated with positions of strength or success, conveying a sense
of a competitive edge and superiority over others. In contrast, low assertiveness cultures tend to value more passive, deferential, diplomatic or acquiescent interactions with others, and consider cooperation to be desirable (Crawford, 1995; Den Hartog, 2004). Cultures have also been shown to vary on the degree of assertiveness considered preferable within the society (Hofstede, 2001; Peabody, 1985).

Since individuals in high assertiveness cultures value competition, success, and control over the environment, they are more likely to emphasize results over relationships, reward performance and plan actions as if others as opportunistic (Den Hartog, 2004). A more assertive culture can therefore result in a more highly competitive business environment, in which firms face greater threats from others. In such cultures, then, firms may have more pressure to compete and perform well; this may in fact be the basis of their ongoing survival. Under such conditions, firms are expected to gain legitimacy by pursuing efficiency and market power, potentially undermining goals relating to costly CSR.

In low assertiveness cultures, however, individuals value cooperation and ongoing relationships, while at the same time emphasizing tradition, solidarity and loyalty (Den Hartog, 2004). People in this case may associate competition with defeat, as it tends to devalues relationships and collaboration (Bonta, 1997). In such cultures, society will expect people to have more sympathy towards the weak and value people and quality of life over business outcomes (Den Hartog, 2004). Thus, we can expect that firms will gain legitimization in low assertiveness cultures by demonstrating their concern for the well-being of their employees through CSR activity over economic imperatives. This suggests the following:
Hypothesis 2b: The more assertiveness characterizing a country, the less CSR the firm will engage in.

External Orientation

While the previous two categories of cultural dimensions are concerned with moral obligations to humankind as well as beliefs and attitudes towards other people, cultural norms that have external orientation reflect individuals’ relationship with their environment, and focus on individuals’ comfort with future and unknown elements stemming from environmental changes. Cultural norms related to external orientation reflect perceptions regarding the value of environmental consistency and predictability (Peetsma, 1993). Conceptualizations of desired environmental states are also expected to influence CSR choices believed to affect these environmental states. Cultural dimensions that express such values include future orientation and uncertainty avoidance.

Future orientation. The cultural norm of future orientation reflects the extent to which the members of a society or organization believe that the future matters, and that their current actions will benefit future outcomes (House et al., 2004). Future orientation determines whether a society rewards forward-planning behaviors and the delay of gratification in order to provide for future needs. Cultures with low future orientation appreciate the capacity to be spontaneous and enjoy the moment, tend to be free of future anxieties, and may prefer the pursuit of current pleasures rather than sacrificing for future goals. In contrast, high future orientation cultures stress the importance of considering future contingencies, and prefer to have strategies in place to meet future objectives (Keough, Zimbardo, & Boyd, 1999). Indeed, orientation towards the future and time has
been shown to be an important norm that differentiates cultures (Hall, 1960; Hofstede & Bond, 1988; Kluckhohn & Strodtbeck, 1961; Trompenaars & Hampden-Turner, 1998).

In high future orientation cultures, individuals keep in mind the future in their decision making, including, for example, saving financially for the future or educating oneself to improve career advancement potential. Such cultures tend to view spiritual fulfillment and materialistic success as an integrated whole (Ashkanasy, Gupta, Mayfield & Trevor-Roberts, 2004). Individuals in high future-oriented cultures are expected to act in ways that enrich their lives down the road and maintain self-control in pursuit of these distant goals. However, they may have less of an appreciation of situational realities as a result of neglecting societal relationships (Keough et al., 1999), and thus be less concerned with the needs of others. In such a context, legitimization for the firm relies on the societal expectation of an emphasis on delayed gratification of present concerns so as to achieve greater long-term rewards. Such a perspective may lead to the sacrifice of CSR in the present term for greater firm earnings in the future.

In contrast, low future-oriented societies create expectations that individuals should strive for simplified and straightforward lives, in which relationships with friends and family and reliance on others are the source of comfort rather than pursuit of wealth. As a result, individuals in low future orientation cultures perceive a critical trade-off between spiritual fulfillment and materialistic success (Ashkanasy et al, 2004). In such a context, we may expect firms to gain legitimacy by taking care of the present needs of employees through CSR activity. Thus we predict the following:

*Hypothesis 3a: The more future orientation characterizing a country, the less CSR the firm will engage in.*
**Uncertainty avoidance.** The construct of uncertainty avoidance reflects the extent to which individuals in a society tolerate unknown conditions or ambiguous situations (House et al., 2004). In cultures characterized by high uncertainty avoidance, individuals have a greater appreciation for “orderliness, consistency, structure, formalized procedures, and laws to cover situations” in their encounters with others (De Luque & Javidan, 2004: 603), which help to reduce perceptions of uncertainty. In cultures with low uncertainty avoidance, individuals are more comfortable with unstructured situations and are more tolerant of change in their environment. Cultures have been found to vary on the amount of uncertainty they are willing to tolerate (Kwok & Tadesse, 2006; Makhija & Stewart, 2002; Weber & Hsee, 1998).

When a culture is strong on uncertainty avoidance, individuals are uncomfortable with situations that lead to unknown conditions. Thus, they will tend to formalize their interactions with others through legal contracts, take fewer calculated risks and show less tolerance for rule-breakers (De Luque & Javidan, 2004: 618). Thus, firms operating in high uncertainty avoidance cultures will gain legitimacy by adopting procedures that minimize the need to deal with uncertainty (Cyert & March, 1963). CSR practices that reduce employee-related uncertainty would therefore be legitimizing for the firm. Despite the possibility of greater costs incurred through such practices, engaging in CSR that improves the welfare of employees may lead to a less risky and more stable environment by improving employee motivation and reducing turnover (Moskowitz, 1972; Turban & Greening, 1996). In line with this, we expect that, as uncertainty avoidance increases in societies, firms will engage in more CSR.
If, on the other hand, a culture is low on uncertainty avoidance, people are much more comfortable with unexpected changes in the future and feel equipped to deal with them. They will be less likely to show resistance to change, and be more likely to take risks (De Luque & Javidan, 2004). Individuals in such contexts will prefer to have as few rules as possible encumbering their courses of action (Hofstede, 1980), and will tend to embrace informality in relationships for this reason. In light of this, we expect that legitimacy will be based on firms’ agility in the face of uncertainty and ability to adapt to new circumstances as they emerge rather than being locked into specific high-cost strategies. Thus, firms will tend to be less rewarded for their CSR activities than for activities that allow them to adapt quickly to changing market conditions. For this reason, we would expect less CSR in low uncertainty avoidance cultures. This suggests the following:

**Hypothesis 3b:** The more uncertainty avoidance characterizing a country, the more CSR activity the firm will engage in.

**Methods**

**Data and Sample**

**Study setting.** The global apparel industry was chosen as the setting for this study due to its labor-intensive and standardized production practices, as well as the attention it has received with regards to CSR practices. The universal demand for apparel products has raised the level of competition throughout the world. Thus, apparel firms face similar global pressures for efficiency and cost reduction irrespective of the societal context in

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9 Apparel refers to items of clothing such as tee shirts, blouses, trousers, sportswear and swimsuits, jackets and other outerwear, graduation gowns, socks, lingerie and other undergarments, headwear such as baseball caps, footwear such as running shoes, and some textiles such as towels and slipcovers.
which they operate. This makes the global apparel industry particularly appropriate for studying the effects of differing societal expectations for firms’ CSR behavior. In particular, the labor-intensive nature of the global apparel industry allows us to consider employee-related CSR in a more nuanced manner. A single industry setting such as this one allows us to control for important variations in the nature of CSR practices seen across industries.¹⁰

**Sample.** To test the hypotheses, we used expert evaluations on health and safety-related CSR activities of garment manufacturing firms across national contexts (McGuire, Sundgren & Schneeweis, 1988), based on ILO standards of conduct towards employees. We obtained comprehensive audit reports on firms’ CSR activities amassed from 2002 to 2009 by the Fair Labor Association (FLA), a not-for-profit organization located in the U.S. which gathers such data for informational purposes. The unannounced audits are conducted by an accredited inspector, with data collected through (a) interviews with factory management, workers, and union representatives in their own language, (b) reviews of relevant documentation, as well as (c) facility tours to visually assess working conditions. The monitors submit a written report of their findings to the FLA and the firm.

Based on these audits, we coded information such as country location, number of employees, types of products produced, end user customers, etc., resulting in an original

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¹⁰ CSR is frequently typified into employee-, environmentally-, and socially-based categories (Cox, Brammer, & Millington, 2004; Johnson & Greening, 1999; Strike, Gao & Bansal, 2006). The relevance of these CSR categories tend to vary across industries and consequences for the firm (Buehler & Shetty, 1974; Fry, Keim & Meiners, 1982; McWilliams & Siegel, 2000). For example, heavily polluting industries such as pulp and paper, petroleum, and chemicals are more likely to be associated with environmental CSR efforts (Bansal & Clelland, 2004), while the pharmaceutical industry more linked to socially-based CSR related to disease alleviation or access to healthcare by poor people (Cheah, Chan & Chieng, 2007).
dataset consisting of 669 firms in 38 countries across both developed and developing nations. The average firm in this dataset has 1217 employees and produces 1.4 different products. After incorporating the explanatory variables, the final dataset included 461 firms across 23 countries (cultural data were not available for the remainder of the countries). No major differences in CSR activities were found for firms that were not included in the final sample, reducing any omission bias. Since CSR audits for specific firms took place in different years, all independent variables were matched to the year of the audit.

Measures

**Dependent variable: CSR activity.** The dependent variable of this study is level of CSR activity relating to enhanced health and safety standards for employees. The firms in the dataset are not required to change their behavior in response to the FLA’s assessment, consistent with the voluntary nature of CSR behavior. The FLA identifies the firm’s lack of CSR with respect to specific aspects of health and safety standards, so we began by tabulating this number. Since we are interested in the level of CSR activity of the firm, we reverse-coded this number. The maximum possible level of CSR activity in the dataset is 59.

**Independent variables: Cultural dimensions.** Data on cultural dimensions were taken from the GLOBE study (House et al., 2004). Using dimensions from GLOBE

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11 Since firms producing apparel, headwear and footwear products use similar processes and skill sets (i.e., cutting, sewing, washing, knitting, hand stitching, embroidery, inspection and packing), they were included in the final dataset. Firms with products using very different processes (i.e., injection molding, metal work) were removed from the sample.
allowed us to represent the widest range of countries in our dataset—23—and consider a larger set of cultural dimensions than other studies. We use the GLOBE study’s measures of societal “values” to capture societal expectation or belief in how individuals and firms should behave. Scores are based on a 7-point Likert-type scale.

The cultural norms examined are seven in total. *Humane Orientation:* This measure reflects the degree to which a society values altruistic, friendly, generous, caring, and kindness towards all people, with higher scores indicate greater humane orientation. *Gender Equality:* This measure reflects the degree to which society values fair and equitable distribution of roles and benefits to both sexes, without discrimination in society and in the workplace. Higher scores indicate greater gender equality. *Collectivism:* This measure reflects the degree to which society expects the goals of the collective to take precedence over those of individuals and rewards the collective distribution of resources. Higher scores indicate greater collectivism. *Power Distance:* This measure reflects the degree to which a society expects power to be hierarchical and concentrated at higher levels of society. Higher scores indicate greater power distance. *Assertiveness:* This measure reflects the degree to which a society values dominant and assertive behavior, competition and desire for control, and emphasis on results over relationships. Higher scores indicate greater assertiveness. *Future Orientation:* This measure reflects the degree to which a society values future-oriented behaviors such as planning and the delay of gratification to invest for future needs. Higher scores indicate greater future orientation. *Uncertainty Avoidance:* This measure reflects the degree to which a society prefers reliance on established social norms, rituals, and bureaucratic
practices such as formalized contracts in order to reduce uncertainty. Higher scores indicate greater uncertainty avoidance.

**Control variables.** We control for country-level characteristics that may also affect the dependent variable in our analysis. Given that economic considerations can also influence a society’s preference for CSR (Javidan & Hauser, 2004; Smith, 2002), we control for GDP per capita (PPP), taking the natural log of this number to correct for heteroskedasticity. Since an excessively large labor pool can create a labor surplus and reduce wage rates, we also control for population size, also taking the natural log of this number to correct for heteroskedasticity.

We also control for firm-level characteristics that may affect CSR behavior. Smaller firms may not exhibit as much CSR behavior as larger firms (Lepoutre & Heene, 2006), or may consider different CSR dimensions to be important when compared to larger firms (Buehler & Shetty, 1974). *Firm size* is assessed by the number of employees, taking the natural log to correct for heteroskedasticity. The number of processes used in the production of a garment reflects the complexity of the item and the skill level of the workers required to produce it. Since firms may engage in CSR in order to retain skilled workers (Turban & Greening, 1996), we control for the *number of processes* engaged in by factory. We control for customer sales as well (Johnson & Greening, 1999; Narver, 1971), since customers who face higher transparency may be more motivated to regulate their supply chains than other buyers (Oka, 2009; Zyglidopoulos, 2002). We use the log of total revenue for customers for which the firm produces items (in U.S. dollars). Collective bargaining can have an effect on the employee-firm relationship and especially impact the labor-related choices firms make.
(Deery & Iverson, 1999; Kirmeyer & Shirom, 1986). We therefore control for the presence of collective bargaining in the firm using a dummy variable, with 0 indicating no collective bargaining and 1 reflecting the existence of collective bargaining.

**Analytical method.** To statistically test our hypotheses we used ordinary least squares regression using STATA version 10 with a robust variance estimator. One potential concern in estimating the regression models was a potential lack of independence for observations from firms in the same country. To avoid undue influence by one country environment and account for the correlation of the error terms for firms from the same country, we used a robust variance estimator in our models (Huber, 1967), using the variance estimator option “cluster” for country. This technique accounts for the within-group correlation of error terms, and is preferable here since ordinary least squares regression normally assumes independence of the error terms for each observation. Thus, we are able to address problems stemming from dominance of one country over others within the dataset. The full regression equation is as follows:

\[
\text{Level of CSR Activity} = \beta_0 + \beta_1(\text{humane orientation}) + \beta_2(\text{gender equality}) + \beta_3(\text{collectivism}) + \beta_4(\text{power distance}) + \beta_5(\text{assertiveness}) + \beta_6(\text{future orientation}) + \beta_7(\text{uncertainty avoidance}) + \text{control variables} + \varepsilon
\]

**Results and Discussion**

Table 4 presents country averages for dependent and independent variables. The average amount of CSR activity is around 52 per firm, with Brazil at the high end around at nearly 57 to Albania at the low end at 45. Interestingly, the cultural dimensions exhibit no clear pattern in variations across countries (e.g., China and Mexico are very similar with regards to uncertainty avoidance at 5.28 and 5.26 respectively, but vary greatly with
regards to assertiveness at 5.44 and 3.79 respectively). This highlights the importance of differentiating among specific cultures when examining firm strategies across countries.

Table 5 presents the means, standard deviations, and correlations for all the variables. The standard deviation for the dependent variable CSR is high at 6.2, suggesting significant variation among firms. We find high correlations among several of the independent variables, including assertiveness, gender equality, future orientation and uncertainty avoidance and population. It is interesting that, even so, all these variables hold their significance in the model with the exception of the control variable population. Uncertainty avoidance is also highly correlated with GDP, suggesting a possible relationship between wealth and risk.

Table 6 presents the results of the regression analysis. Model 1 is the baseline model with all firm-level controls plus two institutional-level controls, with Model 2 adding the hypothesized variables. The VIFs of models 1 and 2 were 1.0916 and 1.3579, respectively, indicating no cause for concern since they are well below the cutoff level of 10. The change in the adjusted R-squareds of the two models, from 0.0839 to 0.2636, reflect the significantly higher predictive value provided by the hypothesized variables for explaining CSR behavior.
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Table 5: Means, Standard Deviations, and Correlation Table for variables
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n = 614                      n = 461
R² = 0.0839                  R² = 0.2636
F(7, 37) = 5.61              F(14, 22) = 325.09

p ≤ .001 ***
p ≤ .01 **
p ≤ .05 *
p ≤ .10 +

Standard errors are in parentheses.

Table 6: The Relationship between Cultural Norms and CSR
Among the control variables, we find that only *collective bargaining* and *GDP per capita* were significant across both models (β=1.525, p≤.01 in Model 1 and β=0.000, p≤0.10 in Model 2, respectively). Interestingly, it is only after adding the cultural independent variables that *company size* becomes significant (β=0.441, p≤.05). As expected, *collective bargaining* and *company size* increase CSR behavior in firms. No other control variables were significant.

Hypothesis 1a posited that greater humane orientation in societies will result in more CSR behavior in firms. The rationale for this argument was based on the notion that societal members that shared such cultural norms would associate greater legitimacy with firms that treated their employees in as kind and benevolent a manner as possible due to their common membership in the human race. In societies characterized by low humane orientation, such behavior would have no such legitimizing effect, reducing firms’ incentives to undertake it. The findings indicate that this argument is strongly upheld (β₁=10.084, p≤.001). Thus, hypothesis 1a is supported.

According to Hypothesis 1b, societies characterized by greater gender equality will see greater CSR behavior in firms. The rationale for this argument stemmed from the expectation that higher gender equality reflects a societal preference for equity and fairness for differing groups within the society, thus, firms that demonstrated such behavior through employee-related CSR would be accorded greater legitimacy. Since lower gender equality reflects complacency towards discrimination and unfair treatment towards certain types of people, we would not expect such behavior to lead firms towards legitimization. The findings in Table 6 uphold this expectation, since gender equality is
seen to be significant in the predicted direction ($\beta_2=1.798$, $p\leq.05$). Hypothesis 1b is therefore also supported.

For Hypothesis 1c, we had argued that countries characterized by greater collectivism will see greater CSR behavior in firms. The rationale for this hypothesis was based on the notion that more collectivist societies would confer legitimacy to firms that treated members of the “collective” as equals through their CSR activities. Less collectivist societies, on the other hand, are not expected to care as much about such behavior, reducing firms’ incentives to engage in CSR. Interestingly, we find this relationship to be significant, but not in the predicted direction ($\beta_3=-1.598$, $p\leq.05$). Thus hypothesis 1c is not supported. This finding is surprising in light of the strong assumption in the literature that more collectivist societies are focused on the rights and needs of their overall populace, and therefore would strongly endorse CSR undertaken by firms. One explanation for these results may be the greater role of the government in such societies for providing social welfare services to its citizens, thus reducing imperatives on the firm to take on this role. In less collectivist societies, governments may be less likely to provide such services, thus legitimizing firms who do so.

Hypothesis 2a had posited that countries characterized by greater power distance will see less CSR behavior in firms. The logic for this hypothesis was based on the notion that societies that legitimized huge differences in status and power within societal ranks would be more accepting of lower treatment for workers, reducing firms’ incentives to engage in employee-related CSR. In contrast, those that disapproved of such differences would accord greater legitimacy to firms that provided better treatment to its employees through CSR. According to our findings, however, this relationship was not significant.
or even in the predicted direction ($\beta_4=1.71$). In light of this, hypothesis 2a is not supported. The finding that power distance does not play an important role in influencing firms’ CSR behavior stands in contrast to findings by Waldman et al. (2006) that suggest that power distance does affect CEOs’ values in relation to CSR. This difference may stem from the differing dependent variable used in that study, and points to the importance of differentiating managers’ proclivity towards CSR and their actual behavior in this regard.

Drawing on a similar rationale as above, hypothesis 2b argued that more favorable attitudes towards assertiveness in a society would lead firms to engage less in CSR activities. This argument was predicated on the notion that more assertiveness led societal members to accept competitiveness and authoritative differences among themselves, thus making CSR less of a vehicle for legitimizing firms. On the other hand, societies that are less assertive view relationships and people as more important than competition, and thus will associate legitimacy with firms that engage in such CSR. Indeed, we find that this relationship is highly significant in the predicted direction ($\beta_5=-1.426$, $p\leq .001$). This hypothesis is therefore supported.

According to Hypothesis 3a, the more future-oriented a country’s society is, the less firms’ CSR activity we would see. The basis for this argument was that future orientation would be associated more with wealth maximization and less with living in the moment. Thus, such a society would be less likely to associate legitimacy with firms’ CSR activities. On the other hand, a less future-oriented society that would tend to value interpersonal relationships over wealth maximization, and thus, more likely to appreciate
firms’ CSR efforts. Indeed, our results show that this relationship is significant and in the predicted direction ($\beta_6=-3.558, p \leq .01$), thus supporting hypothesis 3a.

Finally, hypothesis 3b argued that greater uncertainty avoidance in a society would lead to greater CSR activity on the part of firms. We had suggested that such a relationship was based on the preference for higher societal stability that would from social welfare and CSR activities. In contrast, a society characterized by lower uncertainty avoidance would be more accepting of risky situations and environmental change, and thus, less likely to endorse the need for CSR. Indeed, this relationship was also found to be significant in the predicted direction ($\beta_7=4.597, p \leq .01$). This hypothesis is therefore supported.

Of the seven hypothesized relationships, five were supported in the predicted direction—these include humane orientation, gender equality, power distance, assertiveness, future orientation and uncertainty avoidance. While a sixth norm—collectivism—was not in the predicted direction, it was seen to affect CSR as well. Interestingly, power distance, a cultural norm much discussed in the literature in relation to CSR values, was not seen to affect firms’ CSR decisions. In all, the evidence supports our argument that cultural norms influence firms’ CSR behavior.

**Conclusions and Implications**

The purpose of this research was to examine how, through the creation of societal expectations for firms’ behavior and the firms’ need for legitimacy, cultural norms influence CSR. Using an institutional theory framework, we argued that societies with cultural norms that are oriented towards humanity and on the general well-being of
people within and outside their society will, in general, associate greater legitimacy with firms that engage in CSR, thus increasing a firm’s propensity to engage in CSR, while societies with cultural norms that encourage more competitive behaviors or expect firms to plan for long-term success rather than short term gain will associate less legitimacy with CSR, thereby reducing firms’ incentives to engage in such activity. To examine these arguments, this study considered the effects of seven different cultural dimensions on firms’ need for legitimacy across 23 national contexts. Although not always as predicted, we find six of these to significantly explain firms’ CSR behavior. In particular, our findings support our argument that societies characterized by more assertiveness and future orientation lead to less CSR activity on the part of firms, while societies connected to greater humane orientation, gender equality and uncertainty avoidance give rise to more CSR. In all, this study demonstrates how firms are a reflection of their cultural environment with regards to their CSR behavior.

This research provides a number of theoretical insights that are important for future work. First, this research extends institutional theory further into the domain of cultural norms and firms’ need for legitimacy as a driver of their actions. While institutional theory has been used to explain pressures faced by firms in the past (DiMaggio & Powell, 1983; Meyer & Rowan 1977; Scott 1995; Meyer & Scott, 1983), prior studies have tended to focus primarily on other institutional pressures on firms’ CSR, such as the regulatory environment (Bansal & Clelland, 2004) or the role of specific external stakeholders (Crawford & Gram, 1978; Henriques & Sadorsky, 1999; Jones & Goldberg, 1982). In contrast, this study differentiates among the influences of particular cultural norms on perceptions of firms’ legitimacy in this regard.
Another key insight provided by this research is the need to take into account the complex structure of firms’ cultural contexts. The findings of this study underscore the multifaceted nature of cultural environments that give rise to conflicting pressures driving individual and organizational behaviors, including those related to CSR. In the CSR literature cultural norms have often been treated as a single entity and have rarely been disaggregated (see, e.g., Lee, 2011). By considering seven different dimensions of culture, this study extends institutional theory by showing the relevance of distinct cultural norms for CSR and allowing more nuance to this construct. Our framework has identified three cultural orientations that play a role in motivating CSR behavior: orientation towards humanity, relational orientation, and external orientation. While future work should continue to identify other attributes that may also be important for CSR, this research has helped to pave the way to a more comprehensive understanding of how cultural norms are linked to firm behaviors.

In order to study the relevance of cultural norms for CSR, our analysis incorporated a number of new elements not previously seen in the literature. In addition to seven different cultural norms noted above, the study examined firms in 23 different countries into the analysis, constituting the most comprehensive set of countries to date on this topic and allowing for a more fine-tuned comparison of cultural norms. In addition, prior comparative work has tended to measure managers’ values or preferences relating to CSR, but this may not always predict their actual behavior, which may be the outcome of more complex set of pressures. In addition, previous work has not tended to differentiate among types of CSR, and instead treated them as a monolithic whole. In contrast, this research measures in detail actual CSR behavior of firms, bypassing what
managers only say or express regarding CSR. We focus specifically on CSR related to the firms’ employees, recognizing that other types of CSR, such as those related to the environment or social causes, can be based on dissimilar incentives and associated with very different costs, thus analytically “muddying the waters.”

This research suggests a number of directions for future research. While this study has highlighted the relationship between cultural norms and firms’ quest for legitimacy, it may be that different types of legitimacy lead to different types of CSR. Suchman (1995) describes multiple types of legitimacy that may operate differently in dissimilar contexts. Future studies could consider the link between legitimacy and CSR more extensively, delving deeper into this relationship by taking different types of legitimacy into account. For example, pragmatic legitimacy takes a similar approach to stakeholder theory, where support for a particular firm’s CSR policy is based on that policy's expected worth to a particular set of constituents (see e.g., Dowling & Pfeffer, 1975). This may encourage CSR behaviors that meet the needs of one division of society to the possible detriment of others. It may be that the effect of certain cultural dimensions is reduced if they run counter to a specific group’s needs. In contrast, moral legitimacy reflects a “positive normative evaluation of the organization and its activities” (Suchman, 1995: 579), where legitimacy is granted to firms that do the “right” thing rather than what may benefit a specific group’s interests. In this case, the effect of cultural dimensions may be stronger, and more closely linked to firms’ CSR behaviors. Future work could parse out these differences, adding much more richness to our basic framework.
While this study examined firms’ CSR behaviors in one industry across national contexts, it would be useful to analyze and even compare the effects of cultural norms on CSR behaviors in other industries. Though employee-related CSR is highlighted in this study due to the labor-related issues prevalent in the apparel industry, we noted earlier that other industries may receive more attention for environmentally- or socially-based CSR concerns (Cox, Brammer, & Millington, 2004; Johnson & Greening, 1999; Strike, Gao & Bansal, 2006). An examination of how effects of cultural norms differ across industries or across different types of CSR categories would also greatly enrich our theoretical understanding of this construct.

Finally, while this study proposed a link between cultural norms and societal expectation as drivers of CSR action, it would also be valuable to consider how cultural values directly affecting managerial values determine CSR behavior. As noted by Suchman (1995), a manager's decisions are often established by the same belief systems that determine societal expectation. The effect of manager’s beliefs such as altruism and self-interest (Keim, 1978), and integrity and visionary leadership (Waldman et al., 2006) on CSR values has been examined in the literature, but limited attention had been paid to how these values are derived from cultural norms. Further, while Waldman et al. (2006) examine the effect of institutional collectivism, in-group collectivism and power distance on managerial values towards CSR, there is no direct link to how these managerial values result in CSR action. The model proposed in this paper could be extended by taking into account how managerial attitudes regarding CSR are derived from cultural norms and the CSR practices that result from them.
Chapter 5: Do All Firms Seek Legitimacy? An Examination of Firms in the Global Apparel Industry

Introduction

The notion of legitimacy forms the backbone of the institutional perspective (DiMaggio & Powell, 1983; Suchman, 1995), based on the principle that goodwill from societal members reduces the uncertainty of organizations operating in that environment (Oliver, 1991; Turban & Greening, 1996). Drawing on this principle, researchers have suggested that firms’ corporate social responsibility (CSR) decisions are based on the desire to gain legitimacy in their institutional environment (Buehler & Shetty, 1976; Bansal & Clelland, 2004; Henriques & Sadorsky, 1999), which establishes societal norms and values related to CSR (Bansal & Roth, 2000; Campbell, 2007; Maignan & Ralston, 2002). The theoretical implication here is that all firms facing similar institutional conditions require the same level of legitimacy, and thus will behave similarly in terms of their CSR decisions (Galaskiewicz, 1997; Hoffman, 1999; Marquis, Glynn & Davis, 2007; Matten & Moon, 2008; Oliver, 1991). Such a perspective overlooks critical differences among firms which may cause them to differ on their dependence on the goodwill of society at large, and in turn, their requirements for legitimacy. Thus, we would expect that, even when exposed to similar institutional norms and standards, firms’
motivation for engaging in CSR will vary. The purpose of this research is to shed light on this issue.

Due the fact that, similar to any firm activity, engaging in CSR is associated with costs (Keim, 1978), we anticipate firms will do so only if they add value to the firm through legitimacy. We argue that firms’ need for legitimacy will vary according to two factors: (a) the extent of their transparency and visibility to societal members, and (b) their vulnerability to uncertainties stemming from their institutional environment. The role of transparency stems from the expectation that if societal members are unaware of the firm or unable to easily observe its activities, the value of legitimacy to the firm will go down, while those that are more in the public eye will have a comparatively greater need for legitimacy. Attributes driving transparency include firm size, number of customers, collective bargaining, and prior reputation for CSR. The role of vulnerability is based on the notion that firms facing greater economic uncertainties will benefit comparatively more from the goodwill of societal members, and thus, will require more legitimacy, while those that face less uncertain conditions will not need to rely as much on such goodwill. Attributes reflecting firms’ economic vulnerability include operational complexity, automation, and customer size. Firms with greater transparency and vulnerability are more likely to seek legitimacy in their environment through improvement of their existing CSR portfolio, referred to as CSR responsiveness.

Based on these arguments, eight hypotheses relating firms’ transparency and vulnerability to their responsiveness towards CSR are developed and tested, using a unique database of 462 manufacturing firms across 35 countries in the global apparel industry. Controlling for institutional contextual factors that affect firms’ motivation for
legitimacy, our findings indicate considerable support for our arguments, with seven of the hypotheses upheld. In doing so, this research contributes in a number of ways to both the institutional theory and CSR literatures. First, by demonstrating that firms’ need for legitimacy is not constant within a given institutional context, instead varying according to their transparency and dependence on the environment, this research provides greater depth to the concept of legitimacy than previously considered in the literature. In particular, it indicates that, while the institutional environment is important to firms, how important it is varies according to firm characteristics. Furthermore, by showing how a firm’s CSR behaviors varies according to its need for legitimacy, this research underscores the differential economic motivations that firms have for engaging in CSR. This stands in contrast to prior literature that has tended to stress only preexisting managerial values for CSR.

Literature Review

Scholars have often turned to institutional theory to explain why firms are motivated to act in socially responsible ways (Bies, Bartunek, Fort & Zald 2007; Gardberg & Fombrun, 2006; Marquis, Glynn and Davis, 2007; Matten & Moon, 2008). The primary argument drawn from this approach is that firms undertake CSR in order to enhance their legitimacy, reflecting the view by societal actors that the firm’s presence in the environment is desirable and socially worthy relative to prevailing norms, values, beliefs, and definitions (DiMaggio & Powell, 1983, 1991; Suchman, 1995). The value of legitimacy to firms stems from its ability to reduce uncertainty faced by firms’ from its environment through, for example, increased access to necessary resources (Oliver,
1991), better ability to attract talented employees (Turban & Greening, 1996), or lessening of adverse attention from internal and external constituents (Meyer & Rowan, 1997).

As we note below, prior literature drawing on institutional theory has identified a number of environmental features that might influence perceptions of firms’ legitimacy, and in turn, their CSR decisions. We examine these studies below and consider their implications for the literature.

The relationship between the external environment and CSR

The importance of the environment underscored by institutional theory has led researchers to study a number of macro-level institutional factors, including regulatory policy, cultural norms and social preferences, as explanatory factors for firms’ CSR. The application of institutional theory has highlighted how multifaceted the relationships are between firms and their wider environments, particularly with regards to CSR activities of firms. Institutional theory allows us to go beyond the consideration of the influence of specific stakeholder groups on firm’s CSR decisions (Clarkson, 1995; Freeman, 1984), and allows inclusion of more wide-ranging environmental effects. This is particularly useful in cross-national studies, where country differences can be paramount (Boddewyn & Brewer, 1994; Kostova, Roth, & Dacin, 2008). For example, Campbell (2007) proposes several contextual conditions that influence firms’ motivation for CSR, including the health of the economy, the regulatory environment and the presence of NGOs. Bansal and Roth (2000) consider the effect of legislation as a primary driver for corporate ecological responsiveness across diverse industries including automotive, food
retail, and oil extraction and refining, while Bansal and Clelland (2004) show how ecologically friendly CSR practices earn firms “environmental legitimacy” that reduces their unsystematic stock market risk. The role of cultural norms has been highlighted in, among others, Maignan and Ralston (2002), which finds differences in consumers’ values regarding social responsibility in U.S, France and Germany, and Waldman et al. (2006), which shows how the cultural dimensions of collectivism and power distance help to predict managers’ social responsibility values.

While prior research has done much to identify critical elements in firms’ environments that influence their CSR approaches, an implication of this approach is the assumption of convergence of firms’ CSR strategies within institutional settings (Galaskiewicz, 1997; Hoffman, 1999; Marquis, Glynn & Davis, 2007; Matten & Moon, 2008; Oliver, 1991). The implication of conformity is that all firms within a given institutional setting will behave in more or less identical ways in terms of their CSR decisions (Galaskiewicz, 1997; Hoffman, 1999; Marquis, Glynn & Davis, 2007; Matten & Moon, 2008; Oliver, 1991). Such a notion assumes that firms all require the same level of legitimacy. Firms are, however, heterogeneous, with different resources, abilities, and requirements from their institutional environment. Thus, all firms may not have the same level of “need” for legitimacy.

The possibility of heterogeneity in firms’ CSR behavior has thus far been overlooked in this literature. Little attention has been paid to why individual firms might differ in their motivations for undertaking CSR, even though they operate within the same institutional context. A sole consideration of external drivers for firm’s motivations for undertaking CSR activity may lead us to miss an essential part of this story. This
may be an implicit rationale for why some researchers turned their attention to micro-level factors to explain CSR. We consider this line of inquiry below.

**The relationship between individual characteristics and CSR**

A number of studies have suggested that managers’ values and attitudes towards CSR influence the likelihood that the firm will undertake corporate socially responsible behaviors. To provide evidence on this relationship, researchers have examined managerial attributes such as altruism and self-interest (Keim, 1978), “enlightened” self-interest (Buehler & Shetty, 1974), “moral intensity” (Paopillo & Vitell, 2002), personal values and religious beliefs (Hemingway & Maclagan, 2004; Angelidis & Ibrahim, 2004), managerial support for employee voluntarism (Peloza & Hassay, 2006), perceptions regarding different stakeholder groups (Agle, Mitchell & Sonnenfeld, 1999; Henriques & Sadorsky, 1999), and CEO leadership in the form of vision and as a role model of integrity (Waldman et al., 2006). Others have focused on observable CEO characteristics such as age, functional experience, and education (Manner, 2010), as well as their personal incentives for engaging in CSR (McGuire, Dow & Argheyd, 2003), to suggest a role for learning in affecting attitudes towards CSR.

Some have suggested, however, that managerial values (learned or otherwise) are simply a reflection of the belief systems of the institutional environment in which the firm is embedded, and thus, evidence of the influence of societal cultural norms (Suchman, 1995). This suggests an institutional frame may be relevant for a managerial values approach, although no such theory has been applied. Instead, this work has tended to draw from more micro-based theoretical approaches that stress individual choices and
subjective viewpoints. It remains unclear, therefore, what role might be played by legitimacy in this approach. Additionally, due to the emphasis in this approach on managers’ values with respect to CSR rather than the firm’s actual CSR behavior, it is hazy to what extent managerial values are actual drivers of a firm’s CSR activity.

In all, two limitations present themselves in both macro and micro approaches to CSR—one is the sole focus on institutional influences which reduces understanding on firm differences in CSR, and the other which stress managers’ values in this regard which does not adequately consider the role of legitimacy. In light of these limitations in the current literature, it remains essential to further consider why firms’ CSR behavior might vary within the same institutional environment.

**Conceptual Development**

We attempt to address the void in the literature noted above by focusing in greater depth on a key assumption in institutional theory—that organizations, including firms, conform to societal standards and values in order to be viewed as legitimate members of society. According to institutional theory, a firm’s legitimacy is formed by three sets of factors: (1) the characteristics of the institutional environment, (2) the firm’s own attributes and activity, and (3) the legitimization process by which the environment builds its perceptions of the firm (Kostova & Zaheer, 1999: 66). Extending these three elements for the purpose of this research, the characteristics of the institutional environment are those that establish societal norms, values and expectations towards CSR relating to employees, and that firms operating in this environment choose the extent to which they undertake such CSR activities. The legitimization process is represented by
the extent to which the firm’s level of engagement in CSR aligns with prevailing social norms and values. This engagement is demonstrated by the firm’s willingness to increase its level of CSR activities, which we term here as CSR responsiveness. Keeping in mind that CSR activity, like other firm activities, is costly to the firm (Keim, 1978), it is vitally important to understand why firms are willing to enlarge their CSR profile.\footnote{As noted by Keim (1978), the inclusion of social goals as additional objectives of such a business results in a change in the firm's allocation of resources at a cost. The cost is the foregone profits or earnings that could be obtained if all resources were employed in pursuit of that sole goal.}

We start with the recognition that, even within the same institutional context, firms are highly diverse, with dissimilar resource endowments and strategic orientations that give rise to differing needs and concerns with regard to their institutional environment. Firms that are more reliant on the goodwill of societal observers will find it valuable to increase investments in activities that enhance their legitimacy, while those that are less so will be comparatively less inclined to do so. In this way, firms may not have the same need for legitimacy. We argue that firms’ need for legitimacy will vary according to two factors: (a) their transparency and visibility within their institutional environment, and (b) their vulnerability to economic uncertainties stemming from their institutional environment. We discuss each in turn, and develop associated hypotheses.

**Transparency**

In order for societal observers to accept and confer legitimacy upon a firm, they must be aware and approve of that firm’s value system. The best way for society to have knowledge of a firm’s values is to observe the firm’s actions relative to expected behavior. Firms that are more transparent in their activities will tend to be more observed...
by societal actors (Scott, 1987: 78-92; Suchman, 1995). Thus, attributes of firms that increase their transparency with regard to CSR behavior relative to their other counterparts will have a comparatively greater need for legitimacy. Attributes driving this need for legitimacy include firm size, number of customers, collective bargaining, and prior CSR experience.

**Firm size.** Some have argued that the firm’s social responsibilities should be proportionate to its political, social and economic power (Bowie, 1983; Lippke, 1996). Indeed, a firm’s size often reflects such power. Larger firms are associated with more resources and capital, which often make them a target of interest for governments and investors. They also have more employees, and thus, have larger ties to the local community. Such also firms tend to receive more publicity and have greater name recognition (Fombrun, 1996; Suchman, 1995). Such factors give larger firms more attention in a community, and make them more visible to public scrutiny. Firms are more likely to care about how they are being perceived if societal actors such as the media, NGOs, consumer groups, institutional investors and the like are able to monitor and express public opinions on firm behavior (Campbell, 2007; Martin, 2003; Maignan & Ralston, 2002; Smith, 2005). Firms that care to maintain access to resources, capital and employees and preserve favorable status with their established networks will want to capture a favorable public image (Davis, 1973); this indicates their greater need for legitimacy. Therefore we expect that the larger the firm, the greater its CSR responsiveness.

In contrast, smaller firms have less economic power. Their relatively fewer employees reduce their ties to the community, and thus, tend to receive less publicity.
Thus, we expect smaller firms to be better able to ‘fly under the radar’ and escape the notice of institutional observers in comparison to larger firms. Less visibility in the community reduces attention on the firm’s internal workings, thus leading to lower transparency in terms of their activities, including those relating to CSR. Lower visibility in the community reduces the firm’s need to gain approval of community actors for their activities, and therefore, lower requirements for legitimacy. This in turn reduces the pressure on smaller firms to be highly responsive towards CSR and make improvements in such behavior. This implies the following:

**Hypothesis 1a: The larger the firm, the more CSR responsiveness the firm will exhibit.**

**Number of customers.** Customers can be considered part of the greater societal collective, and the information they gather through their relationship with the firm is easily communicated beyond the firm’s boundaries. Indeed, customers signal their opinion through their support of the firm or lack thereof (Bansal & Roth, 2000; Berry & Rondinelli, 1998; Vandermerwe & Oliff, 1998). As the firm increases its customer base, the number of possible channels that are available to communicate firm behavior to society in general increases as well. Therefore, we would expect that the more customers a firm possesses, the more vulnerable it is to exposing information about itself to the external environment. It is for this reason that customers are perceived to have the ability to influence societal perceptions of the firm, and therefore, the legitimacy conferred on it (Agle, Mitchell & Sonnenfeld, 1999). In light of this, we expect that firms with more customers will be more concerned about maintaining legitimacy than those with fewer customers (Powell, 1991), and thus, to demonstrate greater CSR responsiveness.
Conversely, when a firm has relatively fewer customers, it will be less transparent to the general society. Fewer customers imply fewer channels available to transfer information regarding the firm to external societal members. A smaller number of customers may also suggest an even greater connection between the firm and its customer, through for example, the provision of a unique product or service the customer cannot obtain elsewhere, or representing a large portion of the buyer’s cost structure. In this case, it may be in the customer’s best interests to safeguard any firm information as privileged, and further reduce transparency. Firms that have less transparency are less affected by public opinion, and consequently, have less need for legitimacy. Thus, we expect these conditions will lead them to be less responsive to CSR.

_Hypothesis 1b: The more customers the firm has, the more CSR responsiveness the firm will exhibit._

**Collective bargaining.** The ability of employees to engage in collective bargaining activities within a firm also increases the firm’s transparency within its community. Unionization and the ability to collective bargain give employees a voice regarding employers’ treatment of them and their own choices in this regard (Deery & Iverson, 1999; Kirmeyer & Shirom, 1986; Kochan & Helfman, 1981). In addition, since unions often have a national presence, collective bargaining efforts raise the visibility of firm practices to external parties (Campbell, 2007). Firms that allow collective bargaining are thus more transparent due to such connections to the outside world. For this reason, we argue that collective bargaining within firms boosts their need for legitimacy compared to those that do not. Due to their need to continually uphold a
positive public image regarding the treatment of employees, such firms will tend to be more responsive to CSR.

Firms that do not have formalized collective bargaining procedures will not be as visible as those that do have them, due to fewer avenues available to employees to highlight any concerns in a manner that is accessible to the outside world. Newspapers and other media would be less aware of the firm’s behavior, including that related to CSR. External societal members would thus have less understanding of firm practices and policies, particularly with regards to the treatment of employees. Society’s lack of attention towards the firm reduces its ability to benefit from goodwill generated from its conduct, and thus, any incentive to improve upon it. In this way, lower transparency signifies a lower need for legitimacy (Powell, 1991), and therefore less need to engage in CSR for the purposes of gaining societal approval.

*Hypothesis 1c: Collective bargaining will increase the firm’s CSR responsiveness.*

*Learning effects from CSR experience.* Prior CSR activity gives the firm a number of advantages on which to build subsequent CSR activity. Prior CSR experience allows the firm to observe the effects of these activities on its reputation and standing in the community. If these effects are seen to be favorable for their legitimacy, as is expected, they will be more likely to deepen their CSR commitments in the future. In addition, firms with more past practice with CSR may benefit from learning curve effects (Strike, Gao & Bansal, 2006), in which subsequent CSR activity is more efficiently undertaken than earlier ones through improved understanding on how they should be managed. Such firms are thus able to maintain or increase their legitimacy at lower cost.
In all, we expect that firms with greater prior experiences in undertaking CSR will better appreciate the legitimacy effects associated with such behavior (Fombrun, 1996), and thus more likely to increase their CSR portfolio.

In contrast, firms with less prior CSR experience will be less likely to have developed the skills necessary to efficiently execute CSR activities (Strike, Gao & Bansal, 2006), and instead, more likely to undertake such activities in a reactive manner. Such firms will have lower reputational effects within society with terms of CSR, and thus, will tend to be less visible in this regard. Firms with low prior levels of CSR may not have learned how a reputation for CSR can benefit the firm through increased legitimacy, and will therefore have less incentive to increase their CSR down the road. Thus we predict:

Hypothesis 1d: The greater prior CSR experience the firm has, the more CSR responsiveness the firm will exhibit.

Economic vulnerability

The environment in which the firm operates is dynamic and can change over time (Campbell, 2007), which affects its conditions for survival. For example, some firms are highly affected by unpredictable movements in demand for its products, or swings in the availability of critical resources including labor. Because both institutional environments and organizations are complex (Kostova & Zaheer, 1999), sources for economic uncertainty can take different forms. More volatile environments raise the firm’s economic vulnerability, and necessitate the seeking of stability through other means. In particular, we expect firms with greater exposure to economic uncertainty to seek more legitimacy in their environment (Campbell, 2007), which can serve as a form of
insurance against changes in their economic environment (Meyer and Rowan, 1991; Suchman, 1995), through greater CSR responsiveness. Attributes reflecting firms’ economic vulnerability include automation, operational complexity, and customer size. We discuss the effects of each on firms’ quest for legitimacy and CSR responsiveness, and develop testable hypotheses for each.

**Automation.** While labor is an important factor in any production process, it can be a source of significant economic uncertainty for the firm. Wage rates are not always stable, and firms may need to continually increase these rates in order to attract workers, resulting in higher costs for the firm. One way in which firms address this problem is by increasing the level of automation in their production processes. While automated production may require specialized employees to monitor and maintain the equipment, firms that have more automated processes are less reliant on labor in general to drive their output, and therefore less dependent on the availability of a stable labor pool from which to draw. Because more automated firms are less vulnerable to economic uncertainties stemming from labor costs and worker availability, it may matter less to them how they are viewed by institutional observers. Since they are less dependent of their environment in this regard, they may consider legitimacy to be less vital. Thus, we expect that more automated firms will be less concerned with CSR responsiveness.

In contrast, firms with low levels of automation are more dependent on the availability of workers. Labor is more directly tied to the production process, and therefore a key resource for the firm (Lado & Wilson, 1994). Such firms are more vulnerable to economic shifts that can alter the availability of a reliable labor pool, and consequently, have greater need for institutional support that can cushion them from such
adverse conditions (Meyer & Rowan, 1991). Such firms may, for example, look to the
government to assist them by providing necessary educational and retraining
opportunities in the labor force, thus facilitating their access to trained labor, or draw on
customers that are willing to pay higher prices. When firms are viewed with legitimacy,
environmental actors are more likely to be more supportive and provide assistance
(Parsons, 1960). Firms with a greater reputation for CSR are more likely to be associated
with such legitimacy (Campbell, 2007; Fombrun, 1996). Thus, we anticipate that less
automated firms that are relatively more vulnerable to economic conditions will be more
CSR responsive. Therefore we hypothesize the following:

Hypothesis 2a: High automation will reduce the firm’s CSR
responsiveness.

Operational complexity. Another aspect of firms’ operations affecting their
dependence on the environment is the complexity of their production processes, typically
assessed in terms of the number of interrelated manufacturing steps required for
completing a product. Processes that consist of a large number of integrated phases are
more difficult to undertake than those that consist of relatively simple steps, thus
increasing firms’ need for skilled labor and intricate manufacturing due to greater
potential for error. Such conditions make the firm more vulnerable to economic
uncertainties, not only with respect to retaining superior labor, but also the higher
potential for operational mistakes. Under such conditions, greater legitimacy in their
institutional environment will allow firms to gain assistance and resources for their
particular needs (Parsons, 1960). Thus, we expect that firms with higher operational
complexity will exhibit greater CSR responsiveness.
In contrast, firms with more standardized or simpler production requirements are less dependent on expensive and scarce skilled labor, and able to draw more heavily on the larger pool of unskilled labor typically present in an institutional environment. Because unskilled labor is less costly and generally more available, there is less economic uncertainty attached to the requirements for labor, and consequently less pressure on firms to seek legitimacy. With lower need for legitimacy, there is less incentive for firms to be CSR responsive. This suggests the following:

*Hypothesis 2b: The higher the operational complexity of the firm, the more CSR responsiveness the firm will exhibit.*

**Customer size.** The size of a firm’s customers can also influence its vulnerability to economic forces. When customers are very small firms, it is unlikely that they will buy in significant quantities from the firm, which reduces the firm’s market size and potential for economies of scale. Very small customers also signify a smaller stream of revenue for firms, and may represent specialized products or services for which the market is limited. These factors increase a firm’s vulnerability to economic forces, thus leading it to have a less reliable income stream. Under such conditions, the firm may be more incentivized to seek legitimacy in order to benefit more from societal safety nets (Meyer and Rowan, 1991; Parsons, 1960.) To augment its legitimacy, the firm is more likely to demonstrate its CSR responsiveness. Thus, we posit:

*Hypothesis 2c: Very small customers will increase the firm’s CSR responsiveness.*

While the argument pertaining to firms with very small customers rests on such firms’ need to rely more greatly on social goodwill, those with very large customers will
operate very differently. Importantly, very large customers represent great revenue streams for the firm, facilitating their ability to increase their economies of scale and attract other customers by offering lower costs. Due to this, firms will be less interested in seeking out society’s goodwill and less concerned about societal legitimacy as a shield against economic volatility. Instead, they will be more beholden to the requests and concerns of their large customers, including the lowering of costs. With less incentive to seek legitimacy from other societal members, we expect firms to less likely to exhibit CSR responsiveness. Therefore we propose the following:

_Hypothesis 2d: Very large customers will reduce the firm’s CSR responsiveness._

**Methods**

**Data and Sample**

_Study setting._ In order to examine the effect of firm-level attributes on firms’ CSR responsiveness, we have chosen the global apparel industry. The apparel industry has a highly competitive structure characterized by severe cost pressures, mostly standardized and available technology, and largely labor-intensive production. In such a context, without countervailing benefits, a firm that engages in CSR will be placed at a competitive disadvantage due to higher labor and production costs. An additional consideration is the increased attention the apparel industry has received in recent years due to concerns over poor working conditions (Strike et al., 2006), low wages that may foster poverty, and questionable forms of labor such as children or prison inmates. This

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13 Apparel refers to items of clothing such as tee shirts, blouses, trousers, sportswear and swimsuits, jackets and other outerwear, graduation gowns, socks, lingerie and other undergarments, headwear such as baseball caps, footwear such as running shoes, and some textiles such as towels and slipcovers.
attention will increase the probability that individuals in society will have opinions on the role of CSR. The high level of competition worldwide ensures that firms in this industry will have other internal objectives related to efficiency and cost reduction which can conflict with societal expectation of CSR activities. This tension makes the global apparel industry particularly appropriate to study with regards to the role of legitimacy on firms’ CSR decisions.

Holding the industry constant allows the heterogeneity of firm attributes to become more observable. Since scholars have shown that industry differences affect CSR practices (Buehler & Shetty, 1974; Fry, Keim & Meiners, 1982; McWilliams & Siegel, 2000), a single industry setting allows us to control for differences in CSR behaviors seen across industries that might stem from variations in technology and skill requirements. We focus on one type of CSR—labor-related—in order to focus on the biggest societal concern regarding this industry, and eliminate any “noise” that may be tied to other types of CSR.14

Sample. To test our hypotheses, we used expert evaluations on CSR activities of apparel and footwear manufacturing firms across national contexts (McGuire, Sundgren & Schneeweis, 1988), based on ILO standards of conduct towards employees. We obtained comprehensive audit reports on firms’ CSR activities amassed from 2002 to 2009 by the Fair Labor Association (FLA), a not-for-profit organization located in the U.S. which gathers such data for informational purposes, on ten different employee-
related areas of CSR. The unannounced audits are conducted by an accredited inspector, with data collected through (a) interviews with factory management, workers, and union representatives in their own language, (b) reviews of relevant documentation, as well as (c) facility tours to visually assess working conditions. The monitors submit a written audit report of their findings to the FLA and the firm. After a certain amount of time (roughly 6 months), the auditors return to conduct a second audit, and make note of any new changes to the firms’ CSR activity.

Based on this information, the authors coded information such as country location, number of employees, types of products produced, end user customers, etc., resulting in an original dataset consisting of 669 firms in 38 countries across both developed and developing nations. After incorporating the explanatory variables, the final dataset included 462 firms across 35 countries. No major differences in CSR activities were found for firms that were not included in the final sample, reducing any omission bias. Since CSR audits for specific firms took place in different years, all independent variables were matched to the year of the audit.

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15 These ten categories are: treatment of the employee with respect and dignity, enhanced health and safety standards, freedom of association and collective bargaining, no discrimination on basis of religion, age or sex, reasonable hours of work, appropriate wages, appropriate overtime compensation, no forced labor, no child labor, and ensuring employees are aware of their rights.

16 Since firms producing apparel, headwear and footwear products use similar processes and skill sets (i.e., cutting, sewing, washing, knitting, hand stitching, embroidery, inspection and packing), they were included in the final dataset. Firms with products using very different processes (i.e., injection molding, metal work) were removed from the sample.

17 Institutional data were not available for Mauritius, Macao and Cambodia, thus firms from these countries were removed from the database.
Measures

**Dependent variable: CSR responsiveness.** The dependent variable of this study is the change in the level of firm’s CSR activity relating for employees after receiving feedback from the FLA on their CSR behaviors. It is important to note that, due to the observational purposes of the audits, the firms in the dataset are not required to change their behavior in response to the assessments, consistent with the voluntary nature of CSR behavior. The willingness of firms to improve or increase their CSR behaviors demonstrates how responsive they are regarding prevailing social norms and values. CSR responsiveness is measured as the change in CSR activity, expressed as a ratio of a count of CSR activities in the second audit divided by the count of CSR activities in the first audit. If all items noted in the first report were subsequently reported as improved in the second audit, this ratio will be 1.00. This variable ranged from 0.00 to 1.00.

**Independent variables: Firm-level attributes.** The first set of hypotheses considered firm characteristics reflecting transparency. *Firm size* is assessed by the number of employees. Because the number of employees at a firm varies from under a dozen to several thousand, we take the natural log to correct for heteroskedasticity. The average firm in this dataset has 1217 employees. *Number of customers* is assessed as the number of the most significant buyers indicated by the given firm. This number ranged from 1 to 4. We measure the presence of *collective bargaining* in the firm using a dummy variable, with 0 indicating no collective bargaining and 1 reflecting the existence of collective bargaining. To measure the *level of prior CSR* for a firm, we assess the firm’s original level of CSR, contained in the first audit. Since the FLA identifies the firm’s *lack* of CSR with respect to the ten employee-related categories, we first tabulate this
number for each category and aggregated across all ten, then we reverse-coded this number to arrive at the level of CSR activity of the firm. The maximum possible level of CSR activity in the dataset is 80.\(^1\)

The second set of hypotheses pertained to firm characteristics reflecting economic vulnerability. The level of *automation* present in a firm is proxied by the type of product being manufactured in our sample. Two types of products are represented: apparel (which includes clothing such as t-shirts, sweaters, blouses, baseball caps, etc.) and footwear (which includes tennis shoes and sandals). Footwear requires more automated equipment than apparel. We measure the presence of *automation* in the firm using a dummy variable, with 0 indicating no automation (i.e. apparel) and 1 reflecting the existence of automation (i.e. footwear). Another attribute of firms’ operations that affect their dependence on the environment is the *complexity* of their production processes. For this variable we counted the number of different processes involved in manufacturing the product as identified in the audit. This number ranged from one to fourteen. *Very small customers* is measured with a dummy variable, with 1 reflecting those firms whose customers’ total revenue is estimated to be less than $10 million and 0 indicating all others. *Very large customers* is also measured with a dummy variable, with 1 reflecting those firms whose customers’ total revenue is estimated to be greater than $10 billion and 0 indicating all others.

**Control variables.** We control for country-level characteristics that may also affect the dependent variable in our analysis. Scholars have noted that a country’s general

\(^1\) Since CSR audits for specific firms took place in different years, all institutional variables were matched to the year of the audit.
level of economic institutional development may have an impact on firms’ CSR activity (Vives, Corral & Isusi, 2005). Given that economic considerations can also influence a society’s preference for CSR (Javidan & Hauser, 2004; Smith, 2002), we control for GDP per capita (PPP) as a proxy for institutional development in general. Lower levels of GDP per capita reflect lower values of CSR desired. We take the natural log of this number to correct for heteroskedasticity.

An excessively large labor pool can create a labor surplus and reduce the level of economic uncertainty firms face with regards to the availability of a key production input. We therefore control for population size, taking the natural log of this number to correct for heteroskedasticity.

Countries differ on the level of uncertainty stemming from political, economic and financial conditions that firms face when doing business in a country. Thus we control for country risk, taking this measure from the International Country Risk Guide. This measure is a composite of the political, financial and economic risk present in the institutional environment. This variable ranges from 0 to 100, where higher scores indicate greater institutional stability (or lower uncertainty).

Because labor regulations can be important for establishing overall regulatory standards vis-à-vis labor, we control for the labor laws of each country. This variable measures the legal and regulatory framework of a country's labor market, using the following six factors: ratio of minimum wage to the average value added per worker, hindrance to hiring additional workers, rigidity of hours, difficulty of firing redundant employees, legally mandated notice period and mandatory severance pay (taken from the
Heritage Foundation’s Economic Freedom Indices (HFI). This score ranges from 0 to 100, with higher scores indicating greater freedom (or less restriction) for firm behavior.

**Analytical method.** To statistically test our hypotheses we used ordinary least squares regression using STATA version 10 with a robust variance estimator. One potential concern in estimating the regression models was a potential lack of independence for observations from firms in the same country and varying numbers of firms within the same country. In order to avoid undue influence by one country environment and account for the correlation of the error terms for firms in the same country, we used a robust variance estimator in our models (Huber, 1967). We performed this analysis using the variance estimator option “cluster” for the country variable. This technique accounts for the within-group correlation of error terms. This technique is preferable because ordinary least squares regression normally assumes independence of the error terms for each observation; this technique accounts for the dominance of one country over others within the dataset. The full regression equation is as follows:

\[
\text{Level of CSR Activity} = \beta_0 + \beta_1(\text{firm size}) + \beta_2(\text{number of customers}) + \beta_3(\text{collective bargaining}) + \beta_4(\text{level of prior CSR}) + \beta_5(\text{level of automation}) + \beta_6(\text{complexity}) + \beta_7(\text{small customers}) + \beta_8(\text{large customers}) + \text{Control Variables} + \epsilon
\]

**Results and Discussion**

Table 7 presents the means, standard deviations, and correlations for all the variables. On a scale of 0 to 1.00, the average for CSR responsiveness is .70, with a standard deviation of .40, supporting our belief that this industry garners high societal
attention regarding CSR. In general there are very low correlations among all of the variables, with the only moderately high correlations occurring between GDP per capita and firm size, GDP per capita and labor laws, and country risk and population size.

Table 8 presents the results of the regression analysis. We ran two models, a control model with institutional-level controls only, and a full model adding the hypothesized variables. Because of the possibility of multicollinearity stemming from potentially high correlations among variables, the variance inflation factor (VIF) was checked for each model. The VIFs of models 1 and 2 were 1.0298 and 1.2424, respectively. Since these are well below the cutoff levels of 10, they are not a cause for concern. The two models had adjusted R-squareds of 0.0289 and 0.1951, respectively, reflecting the significantly higher predictive value provided by the hypothesized variables for explaining CSR responsiveness.

The institutional-level controls were mostly insignificant across both models, although population size gained some significance after adding the firm-level variables ($\beta = -0.016$, $p \leq .10$ in the full model), while country risk actually lost significance after doing so ($\beta = -0.005$, $p \leq .05$ in the control model). As expected, population size decreased CSR responsiveness in firms, though only slightly, suggesting that when a large labor pool is available firms may be less concerned about CSR due to more labor options. It is interesting that country risk lost significance in the full model, suggesting that firm-level attributes may serve to alleviate the political, financial and economic risks firms face in the general institutional environment.

Hypothesis 1a argued that the larger the firm, the more CSR responsiveness it will exhibit. A firm’s size signifies how many resources it controls and reflects the power it
can wield within a given institutional environment. Larger firms were argued to receive more attention (Davis 1973) and thus have greater expectation placed upon them by society (Bowie, 1983; Lippke, 1996), while smaller firms were suggested to be less visible and better able to “fly under the radar.” The findings indicate that firm size is positively and significantly related to CSR responsiveness ($\beta_1 = 0.041, \ p \leq .05$), thus supporting hypothesis 1a.

Hypothesis 1b argued that the more customers a firm has, the more CSR responsiveness it will exhibit. Because customers are perceived to have the ability to influence societal perceptions of the firm, and therefore, the legitimacy conferred on it (Agle, Mitchell & Sonnenfeld, 1999), the number of customers was expected to indicate the availability of avenues society has to learn about firm behaviors. The findings indicate that this relationship is also highly significant and in the correct direction ($\beta_2 = 0.130, \ p \leq .001$), thus strongly supporting this hypothesis.

Hypothesis 1c posited that the existence of collective bargaining will lead a firm to exhibit more CSR responsiveness. Collective bargaining was argued to have an effect on the employee-firm relationship and impact the labor-related choices firms make (Deery & Iverson, 1999; Kirmeyer & Shirom, 1986), thus giving employees a voice regarding employers’ treatment of them and their own choices in this regard (Kochan & Helfman, 1981), In this way, the ability to bargain collectively was thought to raise the visibility of firm practices to external parties in society. The results show that this relationship is also significant in the predicted direction ($\beta_3 = 0.081, \ p \leq .05$). Thus, hypothesis 1c is supported.
<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>CSR Responsiveness</th>
<th>Prior CSR</th>
<th>Firm Size</th>
<th>Complexity</th>
<th>Collective Bargaining</th>
<th>Automation</th>
<th>Number of Customers</th>
<th>Small Customers</th>
<th>Large Customers</th>
<th>GDP Per Capita</th>
<th>Population Size</th>
<th>Labor Laws</th>
<th>Country Risk</th>
</tr>
</thead>
<tbody>
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<td>CSR Responsiveness</td>
<td>0.699</td>
<td>0.399</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Prior CSR</td>
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<td>0.2100</td>
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<td>-0.0652</td>
<td>0.2100</td>
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<tr>
<td>Number of Customers</td>
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<td>0.528</td>
<td>0.1678</td>
<td>0.0224</td>
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<tr>
<td>Small Customers</td>
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<td>0.086</td>
<td>0.0760</td>
<td>0.0680</td>
<td>-0.0648</td>
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<td>-0.0476</td>
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<td>Large Customers</td>
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<td>0.0254</td>
<td>0.0349</td>
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<td>0.1050</td>
<td>0.2658</td>
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<td>-0.1831</td>
<td>0.1924</td>
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<td>Population Size</td>
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<td>1.891</td>
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<td>-0.0163</td>
<td>0.1102</td>
<td>-0.2327</td>
<td>0.1689</td>
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<tr>
<td>Labor Laws</td>
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<td>0.0248</td>
<td>0.4043</td>
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Table 7: Means, Standard Deviations, and Correlation Table for variables
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<th>CSR Responsiveness</th>
<th>Model 1</th>
<th>Model 2</th>
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<tbody>
<tr>
<td>GDP Per Capita</td>
<td>3.110E-06</td>
<td>3.440E-06</td>
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<tr>
<td></td>
<td>(2.34e-06)</td>
<td>(3.12e-06)</td>
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<tr>
<td>Population Size</td>
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<tr>
<td></td>
<td>(0.0106)</td>
<td>(0.010)</td>
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<td>Labor Laws</td>
<td>0.002</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>(0.003)</td>
<td>(0.003)</td>
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<tr>
<td>Country Risk</td>
<td>-0.005 *</td>
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<td></td>
<td>(0.002)</td>
<td>(0.002)</td>
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<td>Firm Size</td>
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<tr>
<td>Number of Customers</td>
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<tr>
<td></td>
<td>(0.0304)</td>
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<td>Collective Bargaining</td>
<td>0.081 *</td>
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<tr>
<td></td>
<td>(0.040)</td>
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<tr>
<td>Prior CSR</td>
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<tr>
<td></td>
<td>(0.002)</td>
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<tr>
<td>Automation</td>
<td>0.127 ***</td>
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<td></td>
<td>(0.030)</td>
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<td>Complexity</td>
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<td>(0.009)</td>
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<tr>
<td>Small Customers</td>
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</tr>
<tr>
<td></td>
<td>(0.031)</td>
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<tr>
<td>Large Customers</td>
<td>-0.085 *</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.039)</td>
<td></td>
</tr>
</tbody>
</table>

n = 477                       n = 462

R² = 0.0289                   R² = 0.1915
F(4, 34) = 16.26             F(12, 34) = 346.84

p ≤ .001 ***
p ≤ .01 **
p ≤ .05 *
p ≤ .10 +

Standard errors are in parentheses.

Table 8: The Relationship between Firm-level Attributes and CSR Responsiveness
According to hypothesis 1d, firms with more prior CSR experience are more likely to exhibit more CSR responsiveness. The argument for this hypothesis was based on the notion that firms with greater prior experience in CSR have the opportunity to observe the effects of these activities on their reputation and standing in the community, and go further down the learning curve regarding the effective operationalization of CSR than their less experienced counterparts. Indeed, we find this relationship to be highly significant as predicted ($\beta_4 = 0.008$, $p \leq .001$). Therefore, hypothesis 1d is supported as well.

For Hypothesis 2a, it was argued that firms with high levels of automation are less likely to exhibit CSR responsiveness. We had argued that, since labor can be a source of economic uncertainty for the firm, one way the firm can address this uncertainty is through the automation of production processes. Higher levels of automation thus indicate less dependence on the labor pool, thus reducing the need for approval from societal observers regarding their CSR behavior towards employees. Interestingly, we find this relationship to be highly significant but not in the predicted direction ($\beta_5 = 0.127$, $p \leq .001$). Instead, the results suggest that higher automation in a firm leads to greater CSR responsiveness. An explanation for this finding may be that, while fewer workers are required in highly automated plants, they will need to be more highly skilled in order to operate and maintain the more complex machinery. The training costs incurred for developing these skills may lead the firm to adopt CSR as a way to retain workers (Turban & Greening, 1996). In all, however, this hypothesis is not supported.

Drawing on a similar rationale as above, hypothesis 2b argued that firms with higher operational complexity will exhibit greater CSR responsiveness. The number of
processes used in the production of a garment reflects the complexity of the item and the skill level of the workers required to produce it. More complicated processes may lead the firm to incur more risk in its competitive environment due to difficulties in procuring the necessary skilled workers and reducing error in its processes. Due to this, firms may need to rely more greatly on the goodwill of society, and thus, on legitimacy. Our findings indicate that this relationship is significant in the predicted direction ($\beta_6 = 0.019$, $p \leq .05$). This hypothesis is therefore supported.

According to hypothesis 2c, firms with very small customers are more likely to exhibit CSR responsiveness. We noted that firms with very small customers are more economically vulnerable due to the inability of their customers to offer them sizeable contracts that gave them stable sources of revenue. For this reason, such firms may require more of a societal safety net, and benefit from heightened legitimacy from environmental constituents. Our findings show that this relationship was highly significant and in the predicted direction ($\beta_7 = 0.285$, $p \leq .001$), strongly supporting hypothesis 2c.

Finally, hypothesis 2d posited that very large customers are less likely to exhibit CSR responsiveness. We noted that very large customers represent significant revenue streams for firms, thus reducing their concern for societal legitimacy as a shield against economic volatility. Instead, firms are expected to exhibit greater attention to the needs of these important customers, such as lower costs. Indeed, this relationship was found to be significant in the predicted direction ($\beta_8 = -0.085$, $p \leq .05$). Therefore hypothesis 2d is supported as well.
All eight of our hypothesized relationships were significant, and seven of the eight were supported in the correct direction, generally upholding our argument regarding the role of firm-level attributes on the firm’s need for legitimacy and CSR responsiveness. In general, our findings are consistent with the idea that firms with greater transparency to external audiences or more vulnerability to economic uncertainty have greater need for societal legitimacy, and thus are more likely to exhibit CSR responsiveness. However, firms that are less transparent or are less vulnerable to economic volatility appear to be more likely to allow other concerns such as self-interest and cost management to hold sway in their decision not to be CSR responsive. Thus, we found that firms that are larger, have more customers, rely on customers that are smaller, sanction collective bargaining, or comprise complex operations are more likely to exhibit CSR responsiveness, while those with customers representing a very large revenue stream are less likely to be CSR responsive. Contrary to predictions, firms with high levels of automation were also seen to exhibit greater CSR responsiveness. Overall, our findings highlight the importance of firms’ individual characteristics for explaining their CSR responsiveness.

Conclusions and Future Directions

The goal of this research was to explain how firms in the same institutional environment make their CSR choices. The rationale for this goal stemmed from the implicit but widely accepted assumption in institutional theory that norms and standards associated with an institutional environment impose the same pressure for legitimacy on all firms operating there, thus leading to convergence in their behavior. We noted that
such an approach largely ignores the nature of firms’ specific operating conditions which can differentially influence their need for legitimacy, and therefore, their CSR behavior. By highlighting the role played by these conditions, this research emphasizes the economic costs associated with firms’ quest for legitimacy through CSR.

Our argument centered around the notion that, in any given environment, firms will undertake the costs of CSR only when it was worth their while to do so, that is, when they had a greater requirement for institutional legitimacy. We noted that a firm’s need for legitimacy increased in line with greater transparency and vulnerability to environmental risks. The more transparent or visible the firm was in its institutional environment, the greater accountability it was expected to have to institutional observers. By the same token, a firm that was more vulnerable to environmental risks would in turn be more dependent on its institutional environment, particularly on the social safety nets it could provide. We suggested that factors such as firm size, number of customers, collective bargaining and past CSR behavior reflected firms’ transparency, while operational complexity, automation, and the size of customers pointed towards economic vulnerability. Based on these arguments, eight hypotheses were developed and tested on a unique database of internationally located firms within the apparel industry. In all, our findings reflected strong support for our argument.

This research has important implications for both the institutional and the CSR literatures. One such implication relates to the concept of legitimacy in institutional theory. While prior research has suggested that CSR allows firms to gain legitimacy in the eyes of institutional observers, this does not explain why firms operating within the same institutional environment differ in their CSR behavior. First, by demonstrating that
firms’ need for legitimacy is not constant within a given institutional context, this research contributes additional insights to the concept of legitimacy than previously noted in the literature on institutional theory. While affirming the importance of legitimacy in an institutional context (i.e., Suchman, 1995), it also establishes the differential value placed on legitimacy by firms stemming from their own particular needs in relation to their environment.

Furthermore, by showing how a firm’s CSR behaviors varies according to its need for legitimacy, this research underscores the differential economic motivations that firms have for engaging in CSR. In doing so, this research is conceptually in line with other work suggesting a relationship between firms’ CSR choices and performance (e.g., Mackey, Mackey & Barney, 2007; Russo & Fouts, 1997; Bansal, 2005). While such studies suggest that CSR is undertaken to enhance firm performance, either through reputational or other value-creating effects, our work goes further in developing this economic rationale by identifying the contingent conditions under which specific CSR choices are actually made.

Since the focus of this research was on the extent to which firms undertook a particular type of CSR—those relating to employees’ wellbeing—this research ranks among the few that actually measure firms’ CSR activities across a large sample. This improves upon other empirical research that only consider CSR from a reputational perspective, which may be like “comparing apples with oranges” due to the inability of distinguishing among different types of CSR and other sources of noise associated with firms’ reputations, or use other proxies for CSR behavior (see e.g. Agle et al., 1999; Paopillo & Vitell, 2002; Waldman et al, 2006). Our approach also stands in contrast to
prior literature that has tended to consider only preexisting managerial values as representations of the firm’s orientation towards CSR. Expressed values may only be reflecting established norms in the institutional context, but may not take into account other equally important motivations the firms may have regarding CSR. Since the extent of the firm’s CSR activity is not assessed in these other studies, it remains unclear to what extent managers’ values reflect actual firm behavior.

This research suggests a number of directions for further research. While we identified two categories of factors that influence firms’ need for legitimacy—transparency and economic vulnerability—it is likely that others play a role in this regard as well. Identifying these other effects on firms’ need for legitimacy will provide further insight into this issue and help to better clarify the nature and importance of legitimacy. For example, one possible factor influencing firms’ need for legitimacy may stem from the increasing globalization of industries that tie together the fortunes of firms in different countries (Kostova & Zaheer, 1999; Makhija, Kim & Williamson, 1997; Porter, 1986). From a theoretical point of view, it would be very useful to consider how interactions or connections among institutional contexts generally affect firms’ need for legitimacy in their own institutional context. In this regard, one argument may be that the need for legitimacy is reduced in global industries due to firms’ greater reliance on external parties. However, a different argument can also be made in this regard that suggests the opposite, where globalization leads firms to count more deeply on the support of and benefits derived from their institutional environment. Indeed, the exact relationship between international ties and legitimacy may constitute an important empirical investigation.
While this research did not consider performance effects of firms’ CSR activity, we believe that it is important that future research contemplate ways to incorporate such effects. Doing so would benefit the literature in many ways. First, while some studies, including this one, have suggested performance motivations stemming from CSR, others imply no such relationship between CSR choices and performance, instead suggesting that CSR choices derive solely from managers’ personal motivations. Since no evidence has been shown regarding the relationship between CSR and performance, this debate rages unabated. It would be valuable to the literature to actually demonstrate the effects on firms’ bottom line from their CSR choices, as well as the role played by legitimacy in this regard.

Finally, due to the fact that this research concentrated on a labor-intensive industry, we were able to focus on a particular type of CSR, that relating to employees. This begs the question regarding the applicability of the proposed relationships for more mechanized industries or those involving more skilled labor, such as certain types of service or technology-based industries. While we expect the arguments relating to transparency and vulnerability to be more or less universally applicable, future research should examine these relationships in other industry settings to compare with our findings. Since the relevance of particular forms of CSR is likely to vary according to industry characteristics (Buehler & Shetty, 1974; Fry, Keim & Meiners, 1982; McWilliams & Siegel, 2000), it would also be fruitful to consider how our arguments might relate to different types of CSR activities in other industries.
Chapter 6: Conclusion and Implications for Future Research

In this dissertation we identified some important limitations in the international CSR literature and attempted to address them. In particular, we developed a set of theoretical models to help understand why firms’ CSR behavior differs across national contexts. Our goal in this dissertation was to provide a more extensive and systematic approach to the consideration of international CSR than currently exists in the literature, one that is able to consider the effects of specific institutional features characterizing firms’ environments on their CSR decisions, and allow for multiple country comparisons at the same time. Using two different institutional theoretical frameworks for three empirical examinations of the relationships between institutions and firm’s CSR behaviors, this dissertation extend the CSR literature through a more detailed consideration of the effect of institutional and firm-level attributes on firms’ CSR behavior.

To do so we used a unique dataset created by coding comprehensive CSR audit reports obtained from the Fair Labor Association, resulting in an original dataset consisting of 669 firms in 38 countries across both developed and developing nations. In the first study we presented our first model. Drawing on an institutional economics perspective (North, 1990), this model outlines the effects of the formal institutional environment on firms’ production costs, which in turn influence their incentives for
engaging in CSR activity. In the second study, we present another model that takes into consideration how cultural norms affect societal expectations, thereby influencing firms’ legitimacy through their CSR behavior. Finally, the third study examines the relationship between firm-level attributes and their CSR responsiveness, based on the argument that heterogeneity in firm attributes cause them to differ on their dependence on the goodwill of society at large, and therefore, their requirements for legitimacy. Taken together, all three studies support the importance of taking into account how systematic variations in firms’ institutional environments—as well as firm-level attributes related to the need for legitimacy— influence their strategic decision making, especially that related to CSR.

**Cross-national Differences in Corporate Social Responsibility: The Role of the Institutional Environment**

In the first study, we used institutional economics (1990) to show how different features of firms’ institutional environments affect their decisions to engage in CSR. Our study considered the effects of eight different types of institutions on firms’ economic motivations to engage in CSR across national contexts. Although not always as predicted, we find seven of these to significantly explain firms’ CSR behavior. Of the eight hypothesized relationships, six were upheld in the correct direction. In general, we supported our argument that institutions which enhanced market efficiency—through property rights, economic openness and less government involvement—reduce firms’ propensity to engage in CSR. We also supported our contention that scarce or valuable human resource conditions as well as greater government accountability will lead to greater CSR. At the same time, we uncovered the unexpected finding that institutional
environments with less intervention in capital markets actually increase firms’ CSR. Overall, our findings highlight the importance of firms’ institutional environments for explaining their CSR decisions.

The findings of this first study have several theoretical and practical implications. First, this study finds that formal institutions influencing free-market conditions and the economic orientation of society significantly impact a firm’s inclination to engage in CSR activity across diverse national contexts. In particular, our findings indicate that greater free-market orientation of institutions often reduce incentives to engage in CSR behavior by enhancing firms’ competitive and cost pressures. On the other hand, institutions that improve the quality of human resources, increase government accountability or otherwise reduce firms’ costs without increasing competitive pressures, actually increase incentives to engage in CSR. In doing so, this study highlights the importance of taking into account the multifaceted influences of context for firms’ strategies in general, and those related to CSR in particular. By controlling for industry, we were able to avoid such confounds that would be associated with a multiple industry study. This study is also the first systematic cross-country analysis of CSR that takes into account 35 countries, facilitating a more nuanced understanding of the role of institutional context. This study also provides insights on small and medium sized firms, not just huge MNEs which are often the focus of international CSR research.

A number of elements of this study highlight the need for future research. While this study focused on one industry across national contexts, it would be useful to assess the effects of institutional environments on CSR decision of other types of industries, including those that involve more complex production processes or require greater skills
from their labor force. Future research can also consider comparisons of different types of institutional environments, such as those associated with developed and developing economies. Finally, a fruitful direction for future research is more robust consideration of differing types of CSR. In this study CSR activity was assessed in an aggregated manner, through the condensing of different employee-related CSR activities into a single variable. It would be very valuable to see how different types of CSR activities are affected by institutional conditions.

The Influence of Cultural Norms on Firms’ Corporate Social Responsibility Behavior

In the second study, we use an institutional theory framework to examine how, through the creation of societal expectations for firms’ behavior and the firms’ need for legitimacy, cultural norms influence CSR. To examine this argument, this study considered the effects of seven different cultural dimensions on firms’ need for legitimacy. Although not always as predicted, we find six of these to significantly explain firms’ CSR behavior. Five were supported in the predicted direction—including humane orientation, gender equality, power distance, assertiveness, future orientation and uncertainty avoidance. While a sixth norm—collectivism—was not in the predicted direction, it was seen to affect CSR as well. Interestingly, power distance, a cultural norm much discussed in the literature in relation to CSR values, was not seen to affect firms’ CSR decisions. In general, our findings support our argument that societies characterized by more assertiveness and future orientation lead to less CSR activity on the part of firms, while societies connected to greater humane orientation, gender equality
and uncertainty avoidance give rise to more CSR. In all, this study demonstrates how firms are a reflection of their cultural environment with regards to their CSR behavior.

This research provides a number of theoretical insights that are important for future work. First, this research extends institutional theory further into the domain of cultural norms and firms’ need for legitimacy as a driver of their actions. While prior studies have tended to focus primarily on other institutional pressures on firms’ CSR, this study differentiates among the influences of particular cultural norms on perceptions of firms’ legitimacy in this regard. Second, our analysis incorporated a number of new elements not previously seen in the literature—in addition to seven different cultural norms noted above, the study examined firms in 23 different countries into the analysis, constituting the most comprehensive set of countries to date on this topic and allowing for a more fine-tuned comparison of cultural norms. In addition, prior comparative work has tended to measure managers’ values or preferences relating to CSR, but this may not always predict their actual behavior, which may be the outcome of more complex set of pressures. In contrast, this research measures in detail actual CSR behavior of firms, bypassing what managers only say or express regarding CSR.

This research suggests a number of directions for future research. Our framework has identified three cultural orientations that play a role in motivating CSR behavior: orientation towards humanity, relational orientation, and external orientation. Future work could continue to identify other attributes that may also be important for CSR. While this study has highlighted the relationship between cultural norms and firms’ quest for legitimacy, it may be that different types of legitimacy lead to different types of CSR. Future studies could consider the link between legitimacy and CSR more extensively,
delving deeper into this relationship by taking different types of legitimacy into account. Finally, while this study proposed a link between cultural norms and societal expectation as drivers of CSR action, it would also be valuable to consider how cultural values directly affecting managerial values determine CSR behavior. The model proposed in this paper could be extended by taking into account how managerial attitudes regarding CSR are derived from cultural norms and the CSR practices that result from them.

**Do All Firms Seek Legitimacy? An Examination of Firms in the Global Apparel Industry**

Finally, in the third study we use institutional theory in a distinctive way to explain how firms in the same institutional environment make their CSR choices. By highlighting the role played by the nature of firms’ specific operating conditions which can differentially influence their need for legitimacy, this research emphasizes the economic costs associated with firms’ quest for legitimacy through CSR. We test this through eight hypotheses regarding firm-specific attributes. All eight of our hypothesized relationships were significant, and seven of the eight were supported in the correct direction, generally upholding our argument regarding the role of firm-level attributes on the firm’s need for legitimacy and CSR responsiveness. In general, our findings are consistent with the idea that firms with greater transparency to external audiences or more vulnerability to economic uncertainty have greater need for societal legitimacy, and thus are more likely to exhibit CSR responsiveness. However, firms that are less transparent or are less vulnerable to economic volatility appear to be more likely to allow other concerns such as self-interest and cost management to hold sway in their decision
not to be CSR responsive. Specifically we found that firms that are larger, have more customers, rely on customers that are smaller, sanction collective bargaining, or comprise complex operations are more likely to exhibit CSR responsiveness, while those with customers representing a very large revenue stream are less likely to be CSR responsive. Contrary to predictions, firms with high levels of automation were also seen to exhibit greater CSR responsiveness. Overall, our findings highlight the importance of firms’ individual characteristics for explaining their CSR responsiveness.

This research has important implications for both the institutional and the CSR literatures. First, by establishing the differential value placed on legitimacy by firms stemming from their own particular needs in relation to their environment and therefore not constant within a given institutional context, this research contributes new insights to the concept of legitimacy than previously noted in the literature on institutional theory. Second, while such previous studies suggest that CSR is undertaken to enhance firm performance (e.g., Mackey, Mackey & Barney, 2007; Russo & Fouts, 1997; Bansal, 2005), either through reputational or other value-creating effects, our work goes further in developing this economic rationale by identifying the contingent conditions under which specific CSR choices are actually made. Finally, this improves upon other empirical research that only consider CSR from a reputational perspective, which may be like “comparing apples with oranges” due to the inability of distinguishing among different types of CSR and other sources of noise associated with firms’ reputations, or use other proxies for CSR behavior (see e.g. Agle et al., 1999; Paopillo & Vitell, 2002; Waldman et al, 2006).
This research suggests a number of directions for further research. While we identified two categories of factors that influence firms’ need for legitimacy—transparency and economic vulnerability—identifying other effects on firms’ need for legitimacy will provide further insight into this issue and help to better clarify the nature and importance of legitimacy. Second, while this research did not consider performance effects of firms’ CSR activity, we believe that it is important that future research contemplate ways to incorporate such effects. It would be valuable to the literature to actually demonstrate the effects on firms’ bottom line from their CSR choices, as well as the role played by legitimacy in this regard. Finally, due to the fact that this research concentrated on a labor-intensive industry, we were able to focus on a particular type of CSR, that relating to employees. This begs the question regarding the applicability of the proposed relationships for more mechanized industries or those involving more skilled labor, such as certain types of service or technology-based industries.

Through this dissertation, we have provided a more extensive and systematic approach to the consideration of international CSR, one that is able to consider the effects of specific formal and cultural institutional characteristics on firms’ CSR decisions across multiple national environments. It is our hope that future work can build on our efforts.
References


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Observatory of European SMEs: 2002, European SMEs and social and environmental responsibility \textit{(Office for Official Publications of the European Communities, Luxembourg)}.


## Appendix A: Definitions of Corporate Social Responsibility

<table>
<thead>
<tr>
<th>Year</th>
<th>Source</th>
<th>Definition of CSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>Bowen (1953: 6)</td>
<td>[Social responsibility is] the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society</td>
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<tr>
<td>1960</td>
<td>Davis (1960: 70)</td>
<td>[CSR is] businessmen’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest</td>
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<td>1960</td>
<td>Frederick (1960: 60)</td>
<td>Social responsibility... implies a public posture toward society’s economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms.</td>
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<tr>
<td>1963</td>
<td>McGuire (1963: 144)</td>
<td>The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations</td>
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<tr>
<td>1966</td>
<td>Davis &amp; Blomstrom (1966: 12)</td>
<td>Social responsibility... refers to a person’s obligation to consider the effects of his decisions and actions on the whole social system....Businessmen apply social responsibility when they consider the needs and interest of others who may be affected by business actions. In so doing, they look beyond their firm’s narrow economic and technical interests.</td>
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<tr>
<td>1967</td>
<td>Walton (1967: 18)</td>
<td>Social responsibility recognizes the intimacy of the relationships between the corporation and society and realizes that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals</td>
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<td>Year</td>
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<tr>
<td>1971</td>
<td>Johnson</td>
<td>(1971: 51)</td>
</tr>
<tr>
<td>1971</td>
<td>Steiner</td>
<td>(1971: 164)</td>
</tr>
<tr>
<td>1972</td>
<td>Manne &amp; Wallich</td>
<td>(1972: 4-6)</td>
</tr>
<tr>
<td>1973</td>
<td>Davis</td>
<td>(1973: 312-313)</td>
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<tr>
<td>Year</td>
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<td>1973</td>
<td>Eilbert &amp; Parket (1973: 7)</td>
<td>Social responsibility means the commitment of a business or Business, in general, to an active role in the solution of broad social problems, such as racial discrimination, pollution, transportation, or urban decay.</td>
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<tr>
<td>1973</td>
<td>Votaw (1973: 11)</td>
<td>[Social responsibility] means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behavior in an ethical sense; to still others, the meaning transmitted is that of responsible for,” in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for “legitimacy,” in the context of “belonging” or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behavior on businessmen than on citizens at large.</td>
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<tr>
<td>1974</td>
<td>Eells &amp; Walton (1974: 247)</td>
<td>In its broadest sense, corporate social responsibility represents a concern with the needs and goals of society which goes beyond the merely economic. Insofar as the business system as it exists today can only survive in an effectively functioning free society, the corporate social responsibility movement represents a broad concern with business’s role in supporting and improving that social order.</td>
</tr>
<tr>
<td>1975</td>
<td>Preston &amp; Post (1975: 9)</td>
<td>Social responsibility [refers to] a vague and highly generalized sense of social concern that appears to underlie a wide variety of ad hoc managerial policies and practices. Most of these attitudes and activities are well-intentioned and even beneficent; few are patently harmful. They lack, however, any coherent relation to the managerial unit's internal activities or to its fundamental linkage with its host environment.</td>
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<tr>
<td>1975</td>
<td>Sethi (1975: 62)</td>
<td>Social responsibility implies bringing corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations of performance.</td>
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<tr>
<td>1976</td>
<td>Fitch (1976: 38)</td>
<td>Corporate social responsibility is defined as the serious attempt to solve social problems caused wholly or in part by the corporation.</td>
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<td>Year</td>
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<td>1979</td>
<td>Carroll</td>
<td>(1979: 500)</td>
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<td>1980</td>
<td>Jones</td>
<td>(1980: 59-60)</td>
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<tr>
<td>1983</td>
<td>Carroll</td>
<td>(1983: 604)</td>
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<tr>
<td>1984</td>
<td>Drucker</td>
<td>(1984: 62)</td>
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<tr>
<td>1985</td>
<td>Wartick &amp; Cochran</td>
<td>(1985: 758)</td>
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<tr>
<td>Year</td>
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<td>Definition</td>
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<tr>
<td>1987</td>
<td>Epstein (1987: 104)</td>
<td>Corporate social responsibility relates primarily to achieving outcomes from organizational decisions concerning specific issues or problems which (by some normative standard) have beneficial rather than adverse effects on pertinent corporate stakeholders. The normative correctness of the products of corporate action have been the main focus of corporate social responsibility.</td>
</tr>
<tr>
<td>1991</td>
<td>Wood (1991: 693)</td>
<td>[Corporate social performance is] a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships.</td>
</tr>
<tr>
<td>2000</td>
<td>Waddell (2000: 107)</td>
<td>The term [corporate citizenship] is used...to connect business activity to broader social accountability and service for mutual benefit, and…reinforces the view that a corporation is an entity with status equivalent to a person.</td>
</tr>
<tr>
<td>2001</td>
<td>Maignan (2001: 59)</td>
<td>Economic responsibilities designate the obligations for businesses to be productive and profitable. Legal responsibilities correspond to society’s expectations to see businesses meet their economic duties within the framework of legal requirements. Ethical responsibilities require that businesses abide by established norms defining appropriate behavior, and philanthropic responsibilities reflect the common desire to get actively involved in the betterment of society.</td>
</tr>
<tr>
<td>2001</td>
<td>McWilliams &amp; Siegel (2001: 117)</td>
<td>We define CSR as actions that appear to further some social good, beyond the interests of the firm and that which is required by law. This definition underscores that…CSR means going beyond obeying the law.</td>
</tr>
<tr>
<td>2006</td>
<td>Gardberg &amp; Fombrun (2006:330)</td>
<td>Corporate citizenship refers to the portfolio of socioeconomic activities that companies often undertake to fulfill perceived duties as members of society.</td>
</tr>
<tr>
<td>2006</td>
<td>Husted &amp; Allen (2006: 839)</td>
<td>Corporate social responsibility is defined as the firm's obligation to respond to the externalities created by market action.</td>
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<tr>
<td>Year</td>
<td>Author(s)</td>
<td>Citation (Year: Page)</td>
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<td>2006</td>
<td>Strike, Gao &amp; Bansal (2006: 852)</td>
<td>CSR is the set of corporate actions that positively affects an identifiable social stakeholder's interests and does not violate the legitimate claims of another identifiable social stakeholder (in the long run).</td>
</tr>
<tr>
<td>2006</td>
<td>Waldman et al (2006: 824)</td>
<td>We describe CSR as actions on the part of the firm that further the needs or goals of an identifiable stakeholder group, or a larger societal collective…actions that go beyond the immediate legal requirements of the firm.</td>
</tr>
<tr>
<td>2006</td>
<td>Windsor (2006: 93)</td>
<td>Corporate social responsibility (CSR) is, regardless of specific labeling, any concept concerning how managers should handle public policy and social issues.</td>
</tr>
<tr>
<td>2007</td>
<td>Barnett (2007: 801)</td>
<td>[CSR is] a discretionary allocation of corporate resources towards improving social welfare that serves as a means of enhancing relationships with key stakeholders.</td>
</tr>
<tr>
<td>2007</td>
<td>Campbell (2007: 951)</td>
<td>Corporations [act in] socially responsible ways if they…not knowingly do anything that could harm their stakeholders - notably, their investors, employees, customers, suppliers, or the local community in which they operate [and] if corporations do cause harm to their stakeholders, they must then rectify it whenever the harm is discovered and brought to their attention.</td>
</tr>
<tr>
<td>2008</td>
<td>Detomasi (2008: 807)</td>
<td>CSR can be conceived broadly as the practice of incorporating stakeholder and shareholder interests in firm decision making, with an eye to increasing societal and shareholder value.</td>
</tr>
<tr>
<td>2011</td>
<td>Muthuri &amp; Gilbert (2011: 467)</td>
<td>CSR [is] the duty of the companies to the development of its stakeholders, and to the avoidance and correction of any negative consequences caused by business activities</td>
</tr>
</tbody>
</table>
Appendix B: Ten Categories of CSR: Adapted from the FLA Code of Conduct

The FLA examines each firm’s manufacturing facilities in relation to the following labor standards. Each item may have more than one measure. Examples for each category are provided.

**Treatment with Dignity and Respect:** Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse. Examples include: established disciplinary practices, management training in disciplinary practices, no verbal or physical abuse, and freedom of movement.

**Nondiscrimination:** No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin. Examples include: recruitment and employment practices, job descriptions/advertisements, and evaluation policies.

**Health and Safety:** Employers shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of employer facilities. Examples include: personal protective equipment supplied to every worker, evacuation procedures, chemical management for hazardous materials, sanitation in facilities / dormitories, worker training, and scheduled machinery maintenance.

**Freedom of Association and Collective Bargaining:** Employers shall recognize and respect the right of employees to freedom of association and collective bargaining. Examples include: the right to freely associate, worker constitutions, elections, administration and bargaining programs.

**Appropriate Wages and Benefits:** Employers recognize that wages are essential to meeting employees’ basic needs. Employers shall pay employees, as a floor, at least the minimum wage required by local law or the prevailing industry wage, whichever is higher, and shall provide legally mandated benefits. Examples include: wage recording systems, time-recording systems, timely payment of wages, payroll reporting, established minimum wage, and established training wage.
Reasonable Hours of Work: Except in extraordinary business circumstances, employees shall (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country do not limit the hours of work, the regular work week in such country plus 12 hours overtime and (ii) be entitled to at least one day off in every seven day period. Examples include: limitations on or voluntary overtime, record-keeping for overtime, annual leave/vacation time, sick leave and rest days.

Assurance of Overtime Compensation: In addition to their compensation for regular hours of work, employees shall be compensated for overtime hours at such premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate. Examples include: established overtime pay rate, and bonuses.

Freedom from Forced labor: No use of forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise. Examples include: voluntary agreement / work contracts

Minimum Age Requirements: No person shall be employed at an age younger than 15 (or 14 where the law of the country of manufacture allows) or younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15. Examples include: age documentation, childcare facilities, young worker identification system, and legal compliance for juvenile workers.

Code awareness: Workers are to be aware of their rights regarding workplace standards for safety, reporting unfair treatment, etc. Examples include: the posting of a workplace code / information, worker / management awareness of the code, and the availability of confidential noncompliance reporting channels.