

How Does MNEs CSR Affect Its Branch Performance

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ABSTRACT. *Corporate social responsibility, which has emerged as a global trend, has gained increased focus in the everyday media and among practitioners on the political agenda. CSR has also risen as an important research topic in the field of organization. This paper investigates the link between social practices and product market performance at the branch level in the multinational context. The paper try to explore these two questions (1) does Multinational enterprise CSR in host country influence their branches' performance in emerging market; (2) how the spatial distance between home and host countries of Multinational enterprise impacts the relationship between MNE CSR and their branches' performance in emerging market. I will empirically examine the MNE CSR and market performance in China. The two expected results will show in this paper.*

KEYWORDS: *Multinational Enterprise (MNE); Corporate Social Responsibility(CSR) ;; Market Performance; Spatial Distance*

1. Introduction

CSR involves activities by private firms that appear to further social good, where the activity level is “above and beyond” that mandated by government (Campbell, Tochman, Lorraine and Stewart 2012) . MNEs operating in emerging markets increase economic efficiency, however, Christmann (2004) and Mezas (2002) debate that MNEs lower local labor rates and working standards for their own profit. Some MNEs operating in emerging markets have started to focus on CSR in marketing activities. Some MNEs improve CSR performance of their branches and suppliers in emerging market like China(Christmann P, G Taylor). MNEs practice CSR in host countries concern whether they can benefit from CSR (Klassen R, C McLaughlin). Although some researches such as Nehrt (1996), Berens, Van Riel and Van Bruggen (2005) find the linkage between CSR and firm financial performance such as profit, consumer purchase intention, most of the work has been limited in developed markets. Little empirical research is in foreign context. The limited empirical work Dowell, Hart, Yeung, and Bernard (2000) focusing

on environmental dimension suggested that MNEs adopting a single global standard have higher Tobin' Q than firms defaulting less stringent, or poorly enforced host country standards. As our knowledge, it is not direct evidence about effect of MNE CSR in host country on their branches' performance in emerging markets. As Lam (2009) claim, it is new issue for MNEs in China to engage CSR in a transient economy existing neither strong regulations nor strong independent organizations to monitor MNEs' behavior (Maria Lai-Ling Lam). So it is important to provide important enlightens for management practice in these regions in China. So it becomes important to answer (1) does MNE CSR influence their branches' individual performance in emerging market; (2) how spatial distance between home and host countries of MNE influence the relationship between MNE CSR and their branches' market performance in emerging market. To answer this question, in this paper will develop a theory to explain the role that CSR plays on MNE's branches market performance. First, investigate whether MNE's CSR in host country gain remarkable branches' revenue, the central issue to managers when devoting resources to CSR activities in emerging markets. Second, examine whether differs for firms with different spatial distance between home and host countries.

I empirically investigate these issues through examining the MNE's CSR performance and market performance in one of the rapidly growing emerging markets China. Organize the remainder of this article as follows: In the following section, provide the theory and develop hypotheses concerning the impact of MNE's CSR on market performance in emerging countries. Then describe our data, measure and estimation method, and then present empirical findings. Finally, conclude with a summary, a discussion of managerial implications and suggestions for further research.

2. Literature Review and Hypothesis

2.1 MNEs and CSR

Within the IB literature, there are no standard theoretical and operational definitions of MNE, despite the many that have been proposed by IB scholars (Aggarwal et al. 2011). One argument put forward is that the continuous change in the structure and strategies of these firms as they evolve over time has been the cause of such an absence in an agreed definition (Aggarwal et al. 2011). Another argument suggests that the definitional differences arise due to the interests of different researchers addressing a range of MNE-related issues (Aharoni and Brock 2010). In addition, this issue is reflected in the lack of consistency in defining MNE among IB scholars when conducting theory building and testing.

Regard to globally integrated versus locally responsive CSR strategies, Husted and Allen (2006) articulated that MNEs should also be concerned with the pressures to respond strategically to the growing need for MNEs to be socially responsible towards

the varying host country communities. Campbell et al. (2012) suggested that commitment to CSR can be viewed as a non-market coping mechanism for MNE subsidiaries to obtain legitimacy when operating within host countries where stakeholders are unfamiliar with the firm. This is because a societal contribution in the form of CSR enables firms to be seen as contributors to the general welfare of the society and not simply to the immediate host country economy growth (Campbell et al. 2012). Hence, by engaging in CSR activities in different host countries, MNEs can harness the importance of strategic CSR and proactively enable the firm to be seen as a legitimate entity. Similar to the MNE definition, CSR-related studies in the BE discipline (e.g. Barin Cruz and Boehe 2010; Jamali 2010; Yang and Rivers 2009) identify the difficulty in consistently defining the CSR concept due to the use of competing and different CSR terminologies which has become ‘a source of confusion and disagreement’ among researchers (Werther and Chandler 2006, p. 6). The lack of strong consensus on an appropriate definition of CSR is making it difficult to compare results across CSR studies and develop theory, which hampers our ability to fully understand the implications of CSR (Rodriguez et al. 2006).

For the purpose of the study, CSR is defined as instances where a firm goes beyond the firm’s interests and legal compliance to engage in activities that are able to advance social good (McWilliams and Siegel 2001). In the more recent literature, CSR is also viewed as an extension of corporate governance where a firm’s fiduciary duties are extended beyond its shareholders/owners and includes its broader stakeholders (Sacconi 2011). The current stakeholder approach of CSR indicates the increasing importance for MNEs to be sensitive and responsive to the demands of different stakeholders that are directly or indirectly affected by the firm’s transactions in host countries (Reimann et al. 2012; Sacconi 2011).

2.2 MNEs CSR and market performance

MNE’s CSR in host country include the activities on responsible supply chain management while ensuring that these initiatives take due account of their social and economic effects on developing countries and of existing internationally recognized standards. The activities of multinational enterprises, through international trade and investment, have strengthened and deepened the ties that join the countries and regions of the world. These activities bring substantial benefits to home and host countries. These benefits accrue when multinational enterprises supply the products and services that consumers want to buy at competitive prices and when they provide fair returns to suppliers of capital. Their trade and investment activities contribute to the efficient use of capital, technology and human and natural resources. They facilitate the transfer of technology among the regions of the world and the development of technologies that reflect local conditions. Through both formal training and on-the-job learning enterprises also promote the development of human capital and creating employment opportunities

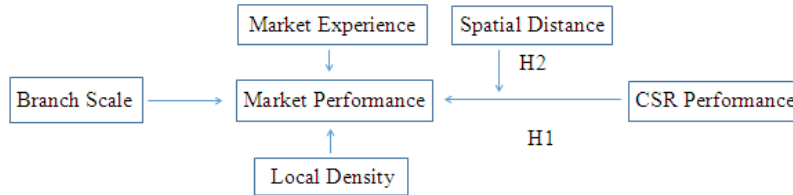
in host countries. Thus, market performance is determined by not only marketing and sales but also production efficiency and supply. We use market revenue to measure branch's market performance. The MNEs CSR may create returns from market, while CSR are strange to consumers in emerging markets, the environmental and social issues may make consumers to focus CSR. Many environmental and social issues have arisen, from product harm crisis, serious environment pollution, urgent needed health care and medical system reform, to insufficiency of social security system. Product-harm crises have not only caused loss of life, but also severely impacted consumers' confidence in the product safety. For example, a recent product-harm crisis of the "Sanlu" infant milk powder, which occurred in 2008 in China, created serious impacts on consumers' confidence in the Chinese domestic dairy industry. In order to purchase safe baby milk products, Chinese consumers headed to overseas to purchase large quantity of baby food, which caused a blooming sales for foreign brands of baby food. Chinese consumers willing to pay much higher price to buy safety food rather than food produced in China for health and life safety reasons. Accordingly, consumers are aware of the MNE product-responsive efforts, which create more sales to those firms with better CSR performance.

H1. MNE CSR has positively impact on their branches' market performance in emerging market.

3. Spatial distance

Spatial distance, which reflects physical remoteness, is the distance measured along the surface of the earth. The formula calculate distances between points which are defined by geographical coordinates in terms of latitude and longitude. Despite popular claims of globalization and fast development of information technology, international business researchers are well known that the international economic landscape is not flat but semiglobalized (Ghemawat P). So distance is still a very important factor when managers of multinational consider extending the overseas business. Personal contact between actors increases the perception of attachment and the likelihood of an empathetic response(Ray L). Research in social psychology suggests that the feeling resulting from an individual imagining himself or herself in another person's position (that is, imagine interpersonal distance to be zero) make sure that one person help another appropriately (what helper give is just what recipient want). Greater spatial distance leads to top manager to be less able to feel in the like situation as host country stakeholders live. As a result, the greater spatial distance is, the more likelihood of inconsistency between MNE CSR offer and local stakeholder's appeal, the more likely they disapprove MNE CSR, thus also weaken the MNE CSR effort on market performance. Therefore:

H2. Spatial distance weakens the positive effect of MNE CSR in host country on their branches' market performance.



4. Methodology

In this article multicollinearity diagnostics will set by using a linear regression model because, as Menard (2001) notes, the functional form of the model is irrelevant for the purposes of diagnosing collinearity. Due to the panel structure of the data, the Hausman test will be used to select between a fixed-effects and a random-effects model. The test rejects the null hypothesis, indicating that the fixed effects estimator will consistent.(Alan muller) Therefore, the panel regression will be used with fixed effect modeling.

I will empirically examine the impact of MNE CSR in host country on their branches' product-market performance in the emerging market by using the Multinationals listed in Fortune China CSR Ranking 2016, 2017 and 2018. The population of multinational firms ranking was derived from the Fortune Global 500 2016-2018 lists, and screened to include companies with significant revenues in mainland China (data from China's Ministry of Commerce). Data on the characteristics of population multinational were obtained from Fortune Global 500 2016, 2017 and 2018 lists. Data for their branches in China in our sample were obtained from China's Ministry of Commerce Census, which falls in the middle of our study's period. The data for rivals and local market in China were obtained from Fortune China 500 2016, 2017 and 2018 lists and National Bureau of Statistics of China.

4.1 Dependent variable

Market performance. As Waddock and Graves (1997) use sales as metrics for firm performance, branch's market revenue will be used to measure its market performance. Specifically, use the natural logarithm of branch's market revenue in Chinese market.

4.2 Independent variables

CSR performance The CSR scores of Multinationals listed in Fortune China CSR Ranking from 2016 to 2018. In creating the ranking, the ranking team aimed to strike a balance between global and local CSR agendas. Initially, a series of the world's leading CSR ratings, reporting standards (eg. ISO26000) and prominent environmental and social standards were studied, from which key criteria were identified, and conducted additional tailored interviews with experts to understand China's unique domestic CSR agenda.

4.3 Moderate variables

Spatial distance. The previous distance measures are based on the concept of distance in two dimensions. For small areas like cities or counties, this is a reasonable simplification. For longer distances such as those that span larger countries or continents, measures based on two dimensions are no longer appropriate, since they fail to account for the curvature of the earth.

4.4 Control variables

Branch scale measured as a natural logarithm of asset size, is included as a control since larger foreign affiliates have more resources and potentially greater ability to devote to marketing and sell. Market experience was measured as the natural logarithm of the difference between the branch's date of establishment in China and the year for which performance was measured. I also will control for the characteristics of the local market. Local density has been shown to affect firm performance: it is therefore included to control for the munificence of the local environment. I will measure local density as the natural logarithm of the number of firms in a particular sector in a year.

5. Expected Results and conclusions

This study conceptualizes and empirically examines a framework concerning (1) the influence of MNEs' CSR in emerging market on their performance in local market; (2) the differential impacts of MNEs with different spatial distance between home country and host country.

6. Limitations and Future Research

This study has several limitations. As the first step toward examining the financial performance of SRI in emerging markets, this study focuses on one of the fast growing

emerging markets China. Furthermore, this study only uses three years' data.

For further research there has several questions such as the following can be the basis of future research: What are the impacts of different types of formal and informal information exchange mechanisms on headquarters/branch integration? How do information exchange, awareness activities and definition of objectives influence each other and increase or decrease headquarters/branch integration.

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