The Effects of Stakeholders Groups on MNEs' Corporate Social Responsibility Practices

Abstract

This research attempts to examine how specific stakeholders groups influence multinational enterprises' corporate social responsibility practices in South Korea. Generally speaking, the results show that both primary and secondary stakeholders positively influence multinational company's corporate social responsibility. Contrary to previous research, this work also demonstrates that business collaborators have a negative and significant effect on multinational companies' corporate social responsibility. Based on the findings this paper wishes to offer a framework for multinational enterprises to thoroughly consider the impact of stakeholders when drawing a picture for their CSR strategy. Further, this work also hopes to contribute to current discussions in the area of corporate social responsibility by bringing a new stream of research into the international business field. In addition, this work wishes to provide useful and practical implications for multinational enterprises wanting to operate in the South Korea market.

Keywords: Multinational enterprises, Corporate social responsibility, Stakeholders, Korea

1. Introduction

Despite the recent economic slump and subsequent reductions and fluctuations of investment activities undertaken by multinational enterprises (MNEs) in host markets, the overall volume of foreign direct investment (FDI) has significantly increased over the last three decades. As a result, since the 1980s, a surge of FDI has been sweeping not only through traditional advanced economies, such as Western Europe and North America, but also across developing and emerging countries, such as Asia and Latin America. In addition, a wide range of industrial sectors, including chemical, machinery, electronics, precision instruments, and telecommunications, banking among others have been influenced by this wave. According to UNCTAD (1999, 2001, 2011) estimates, the outward stock value of FDI transactions grew from US$0.5 trillion a year in 1980 to US$1.7 trillion in 1990 and US$6.0 trillion in 2000, respectively. The recorded figure for 2010 revealed a more than triple increase of the year 2000 figure with worldwide FDI activities amounting to US$20.4 trillion.

This consistent trend reflects the upward realization that FDI is a win-win strategy, which is beneficial for both home and host countries. For instance, home economies achieve market expansion, enjoy capital increase through earnings remitted by overseas subsidiaries, and learn local market information. Likewise, host countries have substantial benefits for their economies, as FDI helps in the creation of employment, the acquisition of valuable foreign technology, and the increase of exports that strengthen the balance-of-payments position of the local markets. However, we should also acknowledge that some governments in the world marketplace possess a different viewpoint in that inward FDI by MNEs would be harmful for their host economy. These governments strongly believe that MNEs attempt to dominate any markets they enter, drain business profits, break locally grown enterprises, and eventually ruin host economies. In this vein, they argue that governments should control economic activity through extensive planning, prohibit the inflow of FDI, and expel MNEs.

In our opinion, one of the best ways to lessen such skeptical attitudes on FDI is the fulfillment of various corporate social responsibilities (CSR) by MNEs in foreign markets. In other words, the negative impression of FDI might be significantly reduced if MNEs engage in actions that go beyond their direct economic and financial interests, get involve in activities that are not required by the law, further their social good and use their internal resources in ways to benefit local markets through a committed participation as members of society.

By adopting the explanations provided by Snider, Hill and Martin (2003) and Sheth and Babiak (2010), we define CSR as the above instances. However, for other CSR definitions, for example, please refer to Carroll (1999), Kakabadse, Rozuel and Lee-Davis (2005), De Bakker, Groenewegen and den Hond (2005), and Matten and Moon (2008).

In line with the work of Orlitzky, Schmidt and Rynes (2003), Lockett, Moon and Visser (2006), and Egri & Ralston (2008) a thorough review of the literature reveals that most studies exploring CSR are concentrated only on academic areas such as strategic management (e.g., CSR by local firms in the domestic markets), marketing (e.g., the influence of CSR on customer loyalty), and financial economics (e.g., the relationship between CSR and stock market returns). This indicates that the importance of CSR is, somehow, significantly overlooked in the international business (IB) field. Or put differently, it is exceptionally hard to find previous studies simply dealing with ‘CSR by MNEs’ even though a thorough search was undertaken via EBSCO, Elsevier

ScienceDirect and Proquest. Having said that, there are some welcome exceptions like the recent work of Husted and Allen (2006), Kolk and Tulder (2010) and Fortanier, Kolk and Pinkse (2011). However, to the best of our knowledge, so far no one has paid scholarly attention to the conditions motivating MNEs' CSR behaviour using the stakeholder approach. In order to fill the current research gap, this work aims at examining *how* and *if* different stakeholders influence CSR activities by MNEs in foreign markets. More specifically, this work focuses on the CSR activities of MNEs in the South Korean market.

In order to meet our research objectives, this work is structured as follows. The following section presents the theoretical development and hypotheses formulation. Section three explains the method of data collection, the specification of the model and variables used. Section four shows and discusses the results. Section five presents the concluding remarks as well as the study's limitations.

2. Theory Development and Hypotheses Formulation

Firms are surrounded by various entities that may influence corporate behavior and strategy designs. Firms constantly interact with them, and from the interaction process, strategic directions are often determined. Researchers commonly perceive the entities as *stakeholders* (Kakabadse, Rozuel, and Lee-Davis, 2005; Elg, Deligonul, Ghauri, Danis and Tarnovskaya, 2012). Stakeholders may be defined as "groups and individuals who can affect, or are affected by, the achievement of an organization's mission" (Freeman, 1984: 54) or alternatively as "those groups who have a stake in or a claim on the firm" (Evan and Freeman, 1988: 97).

Stakeholder theory emphasizes that organizational stability and survival depends considerably on the organization's ability to create sufficient wealth, value, or satisfaction for its primary stakeholders, though not exclusively for shareholders (Kakabadse, Rozuel and Lee-Davis 2005; Maon, Lindgreen and Swaen, 2009). Those whose primary relationships are crucial for the organization to realize its mission in producing goods or services are perhaps (a) internal managers and employees, (b) business collaborators (e.g., investors, partners and suppliers), and (c) consumers,. However, secondary stakeholders, functioning as a rudder for the business, include social and political actors who support the mission by providing their tacit approval of the organization's activities, thereby making them acceptable and giving the business credibility. Such secondary stakeholders may include (a) local government, (b) local media, (c) local community, and 4) non-governmental organizations (NGOs) (Post, Preston and Sachs 2002; Maon, Lindgreen and Swaen, 2009).

To reiterate, Freeman (1984) argues in his seminal work that business relationships should embrace all those who may "affect or be affected by" a corporation. Much of the research in stakeholder theory has sought to systematically address the question of which stakeholders deserve or require management attention (Mitchell, Agle and Wood, 1997). Although IB scholars have failed to appropriately capture the issue, MNEs are not able to circumvent themselves from the discussion. We should be aware that MNEs are also under constant pressure from employees, suppliers, community groups, NGOs, and governments, and in order to increase the possibility of organizational success in operating overseas subsidiaries, they should incorporate stakeholder needs and values within strategic and operational decision-making processes. That is to say, we need to take notice of the fundamental characteristics of MNE subsidiaries. MNEs run their businesses in an alien environment through FDI, and thus the relationship between the corporation and the local stakeholders is particularly important for MNEs to overcome such foreignness in unknown foreign host markets more than indigenous firm (Hadjikhanim Lee and Ghauri, 2008).

In addition, CSR involvement is typically fuelled by various stakeholder demands (Udayasankar, 2008). Mishra and Suar (2010) suggest that posterior to the introduction of the stakeholder concept (Freeman, 1984), reconfiguration of CSR from the stakeholders' perspective has provided a new path to organize thinking about the evaluation of CSR. Most firms including MNEs function under a desire to maximize shareholder wealth by undertaking actions that increase business earnings. However, in order to create corporate value they are frequently asked to take opinions of other interest groups (i.e., local stakeholders) on ethical issues into account and increasingly required to fulfill social responsibilities towards the environment in which they operate and go beyond their legal and economic obligations. Thus, MNEs have ethical and philanthropic obligations with all their stakeholders in foreign markets and are anticipated to be society-oriented, having voluntary activities aiming to raise the well-being of the local society as a whole (Singh, Sanchez and Bosque, 2007).

These explanations clearly indicate that stakeholder theory provides a useful framework to assess conditions motivating MNE CSR. In this vein, the theoretical perspective is closely relevant to the businesses.

2.1 Primary Stakeholders

Consumers: Consumers are perhaps a common stakeholder who exercise pressure on an organization if they believe the firm does not behave in a socially responsible way, particularly because their access to instant and free information on a multitude of alternative manufacturers has become even easier (Lindgreen, Swan and Johnson, 2009). Under parallel recognition, Mishra and Suar (2010) suggest that consumers often infer positively about certain products in the case where they believe that the firm is acting as a socially responsible entity. According to them, such inferences generate consumer goodwill, positively affect purchase intention, and increase market share, in that the proactive corporate citizenship and excellent CSR record of companies function as a signal enhancing organizational attractiveness. The same logic is more effectively applicable when the firms are MNE subsidiaries. Because MNEs are firms owning different national origins, their irresponsible behavior can easily aggravate the relationships with local consumers and also become a fuse agitating the consumers to reduce consumption of the subsidiaries' products, initiate legal action against them, spread bad word-of-mouth about undesirable business practices and eventually boycott the products of MNEs.

The typical examples of these events are long-term struggles experienced by Pepsi and Coca-Cola beverages in India due to the sharp reaction from consumers to the issue of pesticide content. In this vein, O'Shaughnessy, Gedajlovic and Reinmoeller (2007) believe consumers are the most important of all the stakeholders and thus emphasize that MNEs need to demonstrate differentiated CSR activities to the full range of consumers. Lamberti and Lettieri (2009) further explain reasons for such statements. As consumers become aware of the ethical implications of the MNEs' behavior, they develop a trust in the belief that the firms will maintain certain quality standards in order to maintain, or improve, their reputation. Consequently, beyond ethical considerations, consumers' perceptions concerning CSR deficiencies can be extremely detrimental to corporate profitability and market share. These explanations clearly point out that consumer pressure can be a crucial motivating factor for MNEs to undertake CSR practices and satisfaction of the local consumer demands is a vital prerequisite to elevate competitive advantages in foreign markets. In this regard our first hypothesis is as follow:

Hypothesis 1: As important primary stakeholders, consumers will have a positive influence on MNEs' CSR activities in foreign markets.

Internal Managers and Employees: The reason why internal managers and employees are central stakeholders influencing MNE CSR is probably twofold. First, human resource practices, such as policies towards union relations, employees' participation in decision making, compensation policy, working conditions, and elimination of forced/child labor, portray a firm's CSR towards employees (Mishra and Suar, 2010). By upgrading such corporate standards, firms are able to satisfy employees, improve their job commitment, and enhance financial and non-financial performance, and eventually secure an internal momentum for CSR.

Hartman, Rubin and Dhanda (2007) highlight that stakeholders including company executives, managers and employees in many cases try to adhere to higher labor standards, develop CSR activities and contribute to the society in order to attract and retain valuable employees and maintain high morale. That is, CSR is one of the decisive reputation factors and appears to considerably influence an organization's attractiveness to potential and current employees (Lindgreen, Swan and Johnson, 2009). Ethical reputation and CSR initiatives may help establish a bond between the organization and its employees, which results in lower employee turnover by evoking positive reactions from employees' families and friends. In addition, CSR might be particularly important for managers at MNEs because CSR could have positive effects in aiding MNEs to attract more talented and committed employees in new foreign markets, which motivates MNE managers to design subsidiaries to be socially responsible (Qu, 2007).

Second, managers have access to, or are themselves, the people in charge of decision making related to CSR, so they have the ability to assess the relevance and importance of stakeholder issues, select which issues should be considered, and participate in implementing the decisions (Lindgreen, Swan and Johnson, 2009). In order to maintain good and stable stakeholder relations, firms also need to communicate clear and strong ethical business values. These values are mainly chosen and implemented by managers. Greening and Gray (1994) also find that managers play important roles in orienting the organization and its decisions and actions, and in this sense, managers have considerable influence over the organization's CSR involvement regarding social and environmental sustainability. This empirical evidence indicates that management support for environmental and social initiatives positively influences an organization's citizenship orientation.

Likewise, O'Shaughnessy, Gedajlovic and Reinmoeller (2007) explain that a lot of work in CSR adopts the assumption that CSR is driven by firm specific factors and are the outcome of managerial decisions regarding corporate goals, strategies and resource allocation. In addition, in the perspective of MNEs, which are relatively new entrants in host markets, CSR activities often generate corporate reputation and depict firm image, which significantly affects the possibility of success of the subsidiary operation in foreign markets. In conclusion, we can assume that CSR issues should be of great concern for managers at MNEs and thus, they have considerable influence over the organization's CSR involvement. Hence, our second hypothesis is as follows:

Hypothesis 2: As important primary stakeholders, both internal managers and employees will have a positive influence on MNEs' CSR activities in foreign markets.

Business Collaborators: Although some studies fail to establish conclusive links between corporate financial performance and CSR (Margolis and Walsh, 2003), the bulk of studies provide empirical evidence that demonstrates a positive association between those two constructs. As examples of the latter studies, empirical experiment undertaken by Rettab, Brik and Mellahi (2009) on the relationship between CSR and organizational performance finds that, overall, firms perceived as having met social responsibility criteria have either outperformed or performed as well as other firms that are not necessarily socially responsible. Such positive association has also been supported by a recent meta-analysis by Orlitzky, Schmidt and Rynes (2003). The authors also demonstrate that the practice of CSR has a positive impact on business results by lending credence to the notion that being socially responsible would, in most cases, enhance a firm's financial performance.

Similarly, Ma (2009) sheds light on the impact of organizational business ethics on financial performance by emphasizing that investors as business collaborators tend to pay a premium for the stocks of well-governed firms and favor cooperation with firms that attempt to improve their corporate image and reputation through promoting corporate citizenship and adapting to CSR practices. In other words, suppliers of capital have a propensity to prefer to do business with firms exhibiting strong social performance because their cash flows may be perceived to be less risky and less prone to be negatively affected by public scandal (O'Shaughnessy, Gedajlovic and Reinmoeller 2007). These discussions are most pertinent to MNEs, as these enterprises are more likely to be publicly traded, highly visible to 'activists', and therefore vulnerable to pressure to improve social performance (Rodriguez, Siegel, Hillman and Eden, 2006). In addition, business partners considering CSR policies as a critical corporate mission may require counterparts to document that their raw materials, components, or services meet environmental and ethical standards (Lindgreen, Swan and Johnson, 2009). Moreover, in the case where the business collaborator is a large and powerful organization, its pressure for better social and environmental performance represents a formidable force that can efficiently exclude a partner firm, which appears socially irresponsible, from the marketplace. The same logic is not only relevant to firms domestically grown, but also applicable to MNEs in that the strong power of business collaborators can function as an influential supplier coercing MNEs into satisfying their CSR demands and affect the latter's own initiatives and accountability to socially responsible activities. Therefore we hypothesis as follow:

Hypothesis 3: As important primary stakeholders, business collaborators will have a positive influence on MNEs' CSR activities in foreign markets.

2.2 Secondary Stakeholders

Governments: Governments around the world seem to have an increasing interest in inspecting the behaviors of MNEs, which effectively force international companies to be "good corporate citizens" (Manakkalathil and Rudolf, 1995). Due to this, governments are recently viewed as one of the most important change agents affecting corporate actions by defining the rules of the game for companies (Qu, 2007). In this sense, governments have been involved in a new form of political connection with MNEs to encourage responsible and sustainable business practices (Albareda, Lozano and Ysa, 2007). According to Luo's (2006) explanation, MNE's governmental relations are essential to international expansion and firm growth as host governments can forcefully influence parameters of investment, production, localization, and management. He further suggests that the interaction between MNEs and host governments is a multifaceted, lively, and inter-reliant process in which MNEs can develop their relationships with governments. That is to say, political decisions can influence an MNE's economic returns, and these decisions themselves are determined by some conditioning factors that reflect an MNE's efforts, such as CSR activities. Detomasi (2008) states similar views by arguing that CSR efforts help MNEs in building local legitimacy and strong local relationships with host governments. This indicates that the institutional characteristics of the host political environment holds potential in determining whether and how MNEs might pursue CSR (Husted and Allen, 2006). Most of the research conducted on governments and CSR suggests the emergence of new roles adopted by governments in CSR issues. In the Chinese context, Lam (2009) documents that CSR is a way to develop harmonious relationships with the local government. Detomasi (2008) also asserts that MNEs often fear the political erection of barriers to investment and business and CSR often functions as a lubricant aiding to avoid unilateral hurdles imposed by host governments. These discussions lead to our forth hypothesis:

Hypothesis 4: As important secondary stakeholders, local governments will have a positive influence on MNEs' CSR activities in foreign markets.

Media: Deterioration in public relations, for example through misconduct in CSR, frequently causes serious damage to firms by worsening financial returns. Thus, the channels of communication with society and the way the media handles events concerning the firms cannot be ignored (Tixier, 2003). In the global and most transparent business environments, those who disobey the rules are often called out and attacked by the media, who criticize those who do not face or do not seem to be upholding their corporate responsibilities.

In particular, there is an increasing sense of public disquiet and disapproval of 'big business' in general (O'Riordan and Fairbrass, 2008). One issue giving rise to the negative reputation related to 'big business' is the recurring occurrence of certain high-profile events, labeled by many as 'scandals'. These events have involved some large international firms and MNEs, and their behavior has often been highlighted through attention from the media who have seized the opportunity to publicize their alleged failings (O'Riordan and Fairbrass, 2008). Han, Lee and Khang (2008) present the case of Nike as a typical example, which shows how and why media pressure is important for corporate reputation. In 1996, its share value plummeted to echo the disclosure that Nike used sweatshop labor conditions in Vietnam. Nike was not able to recover from the situation until it initiated CSR programs to improve the working conditions. In other words, due to the media pressure, Nike has had to change its corporate behavior, strengthen supervision on their production centers and consider improvements in CSR activities. The case clearly reveals that media has a central role to play in promoting CSR for businesses (Gugler and Shi, 2009). The media increasingly emerges as a 'demanding' stakeholder in ensuring socially responsible behavior from the businesses and exerts a tremendous amount of pressure on MNE CSR. Hence, our fifth hypothesis is as follows:

Hypothesis 5: As important secondary stakeholders, local media will have a positive influence on MNEs' CSR activities in foreign markets.

Local Community: As MNEs continuously endeavor to geographically expand their overseas markets, globalization has become an issue of interest not only to businesspeople, but also to local society and community in general (Torres-Baumgarten and Yucetepe, 2008). According to Walzer (1992: 9), an organization's basic principles associated with corporate obligations and moral rights reflect 'a set of standards to which all societies can be held.' Thus, CSR in foreign markets deals with the MNEs' obligations based on the standards of the local community (Husted and Allen, 2006).

In the same vein, social activists have been pushing businesses to focus on CSR efforts and it is increasingly being echoed by local communities in which the firms operate. As is often the case, the behaviors of the MNEs are under more intense scrutiny from local communities (Torres-Baumgarten and Yucetepe, 2008). However, the efforts to balance their obligations to its shareholders vis-à-vis their commitment to the local community usually generates positive effects to the MNEs. That is to say, when MNEs focus their social actions on communities in and around their area of operation, they reap the benefits of a socially responsible image, which leads to the enhancement of organizational performance and eventually results in the success of subsidiary operations (Mishra and Suar, 2010). It is also observed that investments in local community development and CSR activities help the MNEs to obtain competitive advantages through tax savings, decreased regulatory burdens, and improvements in the quality of local labor (Waddock and Graves, 1997). From these discussions, we can conclude that local community plays an essential role in supervising the CSR activities of MNEs, as well as it is a central stakeholder motivating the firms to do so. Therefore, our sixth hypothesis is as follows:

Hypothesis 6: As important secondary stakeholders, local communities will have a positive influence on MNEs' CSR activities in foreign markets.

A non-governmental organization (NGOs): To reiterate, concerns over the potential negative spillovers from globalization have led to increasing demands for MNEs to be faithful to international standards and codes of responsibility (Doh and Guay, 2004). In this situation, NGOs function as one of the key change agents in corporate behavior and policy. MNEs are constantly confronted by a greater range of international agreements and codes of conduct that try to oversee their behavior, many of which are driven by NGO pressure (Doh and Guay, 2004). In other words, NGO activism is the major cause of ethical justice in management and production of goods and services everywhere, and many NGOs have systematically campaigned against MNEs in order to push them to develop CSR by advocating sustainable innovations (Imbun, 2007).

In an effort to meet the expectations from the NGOs, MNEs have innovated their business practices with a positive impact on the host countries, societies and workers (Imbun, 2007). It is not in fact difficult to find similar comments from previous studies. Detomasi (2008) argues that there are large and growing numbers of NGO activists and they are devoted to tracking the international behaviors and operations undertaken by MNEs in host markets. Vachani, Doh and Teegen (2009) also indicate that NGOs act as agents of civil society and force MNEs to respond to demands for socially responsible strategies by influencing their transaction costs and choice of governance mechanisms.

In particular, examples suggested by Vachani et al (2009) help us to understand the role of NGOs on MNE CSR. According to them, NGOs pressure the MNE, for example, to price drugs differentially across countries and provide steep discounts in developing countries. In the case where MNEs do not gratify such social expectations, NGO pressures can result in high transaction costs for the MNE as it is compelled into a public relations campaign to deal with accusations of attempting to exploit host country customers. The rising transaction costs can affect business patterns in foreign markets, and even significantly deteriorate corporate brand image. Then, this situation may force the MNE to alter its corporate strategy, seek new governance mechanisms to implement a differential approach and undertake vigorous CSR activities. These series of explanations all emphasize that NGOs are an important overseer identifying whether MNEs adopt socially desirable actions. In this regard, our final hypothesis is as follows:

Hypothesis 7: As important secondary stakeholders, NGOs will have a positive influence on MNEs' CSR activities in foreign markets.

3. Methodology

3.1 Sample and Data Collection

The population of this study is MNE subsidiaries operating in the South Korean market (South Korea will be referred to Korea, hereafter). The list of all MNE subsidiaries was obtained from Foreign Direct Investment published by the Ministry of Knowledge Economy (2011). This is an official and trustworthy source of information on inward FDI in Korea, which covers all foreign investment activities undertaken in the country. Thus, a number of recent empirical experiments exploring ‘FDI in Korea’ have used the same information (e.g., Park, 2011; Park and Ghauri, 2011). Although this is official government material, we have also re-visited the corporate homepages of the directory under the idea that some MNEs might no longer have the subsidiary in operation and possibly have withdrawn foreign investments due to liquidation, termination of contract and/or various other reasons. In this vein, in the case where we did not find the corporate homepages, we decided not to include them in the sample. After careful research to identify whether any of the subsidiaries listed were no longer applicable to this research a total number of 1,531 firms were finally compiled as a sample.

Data collection was carried out through a questionnaire survey (Dillman et al, 2009). The survey was made between February and May 2012, questionnaires being sent to the CEOs of each subsidiary. When the survey was completed, a total of 312 responses were returned, giving a response rate of 20.38%. Among the responses, 12 were unusable (some respondents merely repeated a certain numeral or recurrently enumerated figures in consecutive order), which represents a final response rate of 19.60%. We tested the responses for non-response bias by using key parameters (detailed industry classification and origin of MNEs as well as early versus late respondents). However, we found no significant difference between the responding and the non-responding subsidiaries regarding two key parameters and significant differences between the early respondents and the late respondents were not found. Based on the results, we conclude that the non-response bias is not a problem.

3.2 Variable Measurement

The dependent variable is MNE CSR, and it was measured by a twelve-item scale based on Likert-type responses. We include seven independent variables as potential factors affecting the phenomenon and all were measured on a five-point Likert scale. Multi-item scales were used to measure the independent variables based on earlier literature. For a detailed description of the measurements of both dependent and independent variables please refer to Appendix A which also provides information on sources of variable measurements and Cronbach's alpha.

In order to control for the influences of other factors on the MNEs' CSR, four control variables were utilized in the model. The first control variable was the development status of MNE origin. There is no argument that MNEs from developed economies, such as USA, Europe or Japan, are more familiar to CSR than other firms rooted in developing countries. In anticipation of this, a dummy variable was created (1 for subsidiaries established by MNEs whose corporate origins are developed countries and 0 otherwise). The second control variable was ownership structure. We used another variable in the idea that ownership type is possibly associated with MNE motivation to conduct socially responsible activities and it was measured by the proportion of foreign ownership. The third control variable was the organizational size measured by the number of employees. The final control variable was the company's age and it was measured by the number of years since creation of the subsidiary.

3.3 Common Method Bias

We asked respondents to assess perceptually both dependent and independent variables, and thus we were aware of suffering from the possible presence of common method bias. To remedy this limitation, we have extensively reviewed the extant literature on similar topics (e.g., CSR, corporate social performance, corporate citizenship and ethics) and sought to uncover the items already validated by previous studies. All variables were diversely examined by using several individual items and the items measuring dependent and independent variables were not similar in content.

Second, we interviewed 10 respondents for the purpose of confirming response consistency as soon as we completed the survey. We did not find a significant difference between the respondents' interview reports and their survey answers, which indicates the minimum presence of common method bias (Luo, 2006).

Third, we also re-sent the same questionnaire to different people (e.g., general managers) of 50 sample firms, whose executives (CEOs) had responded to our survey earlier. We have received 19 responses, but we did not also find any considerable inconsistencies between the two informants from each firm (Park, forthcoming).

Fourth, following Podsakoff et al. (2003: 889), who suggest "One of the most widely used techniques that has been used by researchers to address the issue of common method bias is what has come to be called Harman's one-factor (or single-factor) test". We have entered all variables measured subjectively by the respondents into the technique. The proportion of variance criterion exhibits three independent dimensions. 'Internal managers and employees', 'business collaborators' and 'local community' have high loadings on the first factor (34.6%); 'media', 'NGOs' and 'CSR' have high loadings on the second factor (16.6%); and 'customer', and 'governments' have high loadings on the third factor (14.8%).

Podsakoff et al. (2003) explain that we need to suspect the presence of a substantial amount of common method in the case where (1) a single factor emerges from the factor analysis or (2) one general factor accounts for the majority of the covariance among the measures. The explanations given by the previous literature and the results clearly verify that common method bias in this research is negligible.

4. Result and Discussions

Hair, Anderson and Tatham (1987: 20) point out, “OLS regression analysis is a statistical technique that can be used to analyse the relationship between a single dependent (criterion) variable and several independent (predictor) variables. The objective of multiple regression analysis is to use several independent variables whose values are known to predict the single dependent value the researcher wishes to know”.

Based on the explanations, we used OLS regression as a main analysis method in this study. Prior to using the technique, we checked correlations between variables in order to confirm the non-existence of multicollinearity. Tabachnick and Fidell (1996) advise researchers to consider carefully the exclusion of variables from research framework in the case where a correlation of .70 or more is detected. In contrast, Kim (2005) suggests .80, and Pallant (2001) recommends .90, respectively, as the cut-off point at which multicollinearity is defined. Although we conservatively take into account the possibility as .7, the problem of multicollinearity is negligible (all of the correlations are below .5). Despite the result, we also ran the variance inflation factor (VIF) to more precisely test the level of multicollinearity among the variables. Hair, Babin, Money and Samouel (2003) argue that a maximum acceptable VIF value is 5.0, and the additional assessment results indicate that the highest value of VIF is less than 2.1, which confirms that multicollinearity is not high enough to cause problems.

*** Insert Tables 1 and 2 about here ***

Table 2 presents the results of the OLS regression analyses. Model 1 includes control variables and predictors associated with primary stakeholders, whereas Model 2 employs control and independent variables related to secondary stakeholders, respectively. In contrast, Model 3 is a full model. The results indicate that all regression models are highly significant ($p < .001$).

This research initially posited that primary stakeholders (i.e. "*consumers*", "*internal managers and employees*", and "*business collaborators*") will function as catalysts promoting MNE's CSR in host markets. In line with Mishra and Suar (2010) arguing that CSR initiatives are strongly affected by consumer attitudes and their purchase intentions, and Lindgreen, Swan and Johnson (2009) indicating that firms cannot be socially responsible without socially responsible organizational members like managers and employees, we find significant and positive impacts of both stakeholders on CSR behaviors by MNE's subsidiaries.

Although *business collaborators* (i.e., local firms surrounding subsidiaries) are also verified as an important element in the Korean research context, our finding is quite interesting as the sign of the variable is negative. This is a surprising result, but the empirical outcome is understandable if we refer to some previous literature. For example, Lee and Yoshihara (1997) examine the level of business ethics of Korean firms, and state that their manners are generally far from socially responsible attitudes though they are trying to change their way of behavior. They also point out that Korean firms think they should behave ontologically, but in the real world, they actually practice it in a different manner. Unlike managers and employees, top management running the businesses in the country often tend to charge private "expenses to company accounts", and they pay bribes but perceive it as a normal practice and others also do the same (pp. 9-10).

Another interesting comment can be found from Choi and Nakano (2008). According to their survey, Korean firms have made remarkable progress in making systematic measures to establish corporate ethics, but scandalous events, which are socially irresponsible deeds including giving of gifts, unfair gratuities and bribes, are still widespread in the market. We presume that an end result is commonly emphasized more than the process in order to achieve the goal of rapid growth in many emerging markets (e.g., Korea), and thus business collaborators in these countries perhaps concentrate less on CSR than those, for instance in developed economies. This might also yield gaps between rational thinking and actual actions in terms of business ethics. However, without minute examinations, this remains as simple conjecture.

The second dimension that was anticipated to be positively associated with MNE CSR is secondary stakeholders comprising of *local governments*, *media*, *community* and *NGOs*. For MNE's subsidiaries entering foreign markets, the creation of a noble corporate image is an important decisive element contributing to their performance enhancement and determining operational success. In this situation, local media often plays a pivotal supervisor role in urging MNE's subsidiaries to design strict ethical standards and initiate CSR moves in host countries. This might be because a bad reputation triggered by the local media is seriously fatal for MNE subsidiaries suffering the liabilities of foreignness and thus can be a detonator in inducing investment failure.

A number of operational safeguards are needed by MNEs to protect themselves from the liabilities and conversely, it means that exposure by media of their vigorous CSR activities are perhaps a useful means to overcome their weakness. However, our result reveals that the local media is not a motivator facilitating MNE's CSR in Korea. The reason for this unexpected result can be inferred from O'Riordan and Fairbrass (2008) arguing that larger firms are more visible and subject to more media scrutiny. As a consequence, they frequently become the target of incipient stakeholder attention, intensifying their interest in protecting their reputation. Tixier (2003) suggests that large MNE's subsidiaries cannot ignore the way the media handles events in local markets and the channels of communication with them so they have to manage, somehow, this new opinion risk factor. Foreign firms which disobey the rules will be called out and attacked by the media, which will criticize those who do not face or do not seem to be upholding their responsibilities vis-à-vis a planetary society.

Due to media pressure, MNEs such as Adidas and Nike have had to open all their doors to ethical investors and consider improvements after having opened their production centers to independent auditors. We believe these explanations may be true and correct. However, we should also note that these accounts generally fit large organizations and logically need to be confined to those firms. In contrast, it should be difficult for the media to detect whether small and medium-sized subsidiaries (SMSs) do not respect social criteria of operation and appropriately value whether they are socially responsible (the media have a propensity to focus on socially big events). We presume that unlike this research blending large with small organizations, future researchers may need to distinguish large firms from SMEs to thoroughly explore the role of the media and the extent to which they influence.

Our result confirms that NGOs put strong pressure on public opinion and function as an efficient stakeholder faithfully carrying out a role of social guard. However, unlike the NGOs, another startling problem is found from the influences of both local governments and local communities on MNE’s CSR. They are statistically positive and significant in Model 2, but they lose their power in Model 3 (i.e., the full model).

To inspect the reason, this research adds an additional factor (i.e., *consumer*) in Model 4. By doing this, we expect that the further action will give a clear picture of the relationships between both factors and the additional ingredient. Interestingly, when we include the variable in the new model this research uncovers a strong statistical association between the factor and MNE’s CSR, whereas both local governments and local communities do not again show any relationship with socially responsible performance at all. Taken together, the result may imply that in the absence of consumer pressure, MNEs need to build healthy relationships with governments and local communities especially in emerging economies (Luo, 2006). In contrast, in the case where consumers are a key factor determining whether MNEs have a reputation as good corporate citizens in local markets and thus commitment to CSR is widely affected by the stakeholder, both local governments and local communities play a relatively marginal role.

5. Conclusions

To sum up, this work has tried to examine how and if specific stakeholders groups influence multinational enterprises’ corporate social responsibility practices. In doing so, a stakeholder perspective has been used as an overarching theoretical lens to develop a research framework, which is useful for empirical tests where many predictors included in the model are confirmed as critical factors. Our results show that consumers, internal managers and employees, and NGOs are pivotal stakeholders pushing MNEs to faithfully operate subsidiaries in a socially responsible manner and behave ethically in local markets. In addition, the results indicate that both local governments and local communities keep a keen eye on what MNEs do in the absence of consumer power. Further, the results indicate that local media plays an important role in ensuring socially responsible behavior from businesses, by assuring a growing media surveillance, disapproval as well as concentration on ‘big business’ in general. What is more, the results demonstrate that business collaborators (i.e., local firms) do not much care about the issue and do not create a strong effect on CSR, although this perhaps may be only in emerging markets.

In our view, MNE’s managers should analyze the sources of their loyalties in terms of their corporate stakeholders. They need to think about how they can ameliorate their corporate image and reputation by exploring their stakeholders’ natures and characteristics. Moreover, they need to gauge the impacts of stakeholder perceptions on subsidiary operations and consider primary conditions leading to investment success in foreign markets. As a precaution, they also need to design contingency plans and strategies in order to quickly respond to any potential CSR crisis and recover competitiveness from CSR blunders by understanding the effect of each stakeholder.

We believe our framework will indirectly play a useful leading role in thinking about the essential particulars raised above, especially when firms seek to expand their business abroad.

While MNEs have amassed a stock of experience to handle sets of orthodox complexity and issues associated with international expansion (Yang and Rivers, 2009), many of them do not seem to understand the strategic importance of CSR and know the major motivators associated with CSR when operating internationally. As a recent phenomenon, many firms have attempted to invest directly into China to use relatively cheap skilled labor and access the potentially huge market. In contrast, the number of Chinese firms endeavoring to purchase firms in advanced economies are gradually growing and the reasons behind their (i.e., Chinese firms) conduct is to acquire technology and managerial knowledge.

In both cases, a decisive prerequisite for those that wish to succeed in foreign host markets is whether these firms adapt their CSR practices to fit into the local cultural and political environments (Yang and Rivers, 2009) and meet the demands of key stakeholders significantly influencing organizational performance.

We believe this paper offers a framework for MNEs to thoroughly consider the impact of stakeholders in drawing a picture for their CSR strategy. We also think that our findings contribute to the current knowledge and fill a significant research gap due to two reasons. First, IB research has innate characteristics that observe most of its phenomenon in the perspective of MNEs. Second, by predominantly focusing on issues such as, why MNEs choose certain entry modes under some conditions, how knowledge exchange can be facilitated between MNEs and subsidiaries and what corporate governance and control mechanisms lead to the enhancement of MNE performance, so far IB scholars overlooked the issue of how MNEs can contribute to local economies.

Despite the above contributions, we acknowledge that this work might suffer from some limitations. One of them can be the fact that this work only focuses on one geographical area. Thus, the current research model needs to be re-tested to produce generalizable results in other markets. That is, the same research framework can be used to identify the extent to which stakeholders influence MNE CSR mainly in other emerging or developing economies. Another shortcoming of this work could be the fact that this work does not differentiate subsidiary size. This might be of importance as the influences of certain stakeholders' groups stimulating CSR behaviors might perhaps differ between large and small and medium-sized MNEs. Final drawback of this work could come from the fact that CSR might consist of several dimensions (e.g., ethic codes, organizational credibility and philanthropic contribution) and contributors promoting CSR activities may hinge on such CSR characteristics. However, we do not clearly know the different impacts of stakeholders on each dimension. Exploring this future research theme could be regarded as an additional avenue aiding us in understanding the antecedents and consequences of CSR as well as MNE subsidiaries.

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Table 1. Descriptive statistics and correlations

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1.Development status of MNE origin	0.59	0.49	1.00										
2. Ownership structure	63.92	36.81	-0.29***	1.00									
3. Subsidiary size	57.57	90.60	0.31***	0.18***	1.00								
4. Subsidiary age	9.08	8.35	0.36***	-0.04	0.08	1.00							
5. Customer	3.18	0.60	-0.06	-0.08	-0.01	-0.05	1.00						
6.Internal managers and employees	3.37	0.51	0.11	-0.11	-0.10	0.06	0.38***	1.00					
7. Business collaborators	3.38	0.59	-0.00	-0.00	-0.05	0.01	0.33***	0.63***	1.00				
8. Local government	3.17	0.57	-0.17***	0.05	-0.08	-0.05	0.47***	0.03	0.04	1.00			
9. Local media	3.47	0.59	-0.06	-0.03	0.00	-0.10	0.31***	0.21***	0.27***	0.14**	1.00		
10. Local community	3.47	0.54	-0.08	0.00	-0.06	-0.03	0.48***	0.41***	0.48***	0.21***	0.36***	1.00	
11. NGO	3.01	0.63	-0.17**	0.17***	-0.11	-0.11	-0.04	-0.03	0.08	0.13**	0.36***	0.22***	1.00
12. CSR	3.60	0.43	-0.05	0.04	0.06	-0.05	0.25***	0.17***	0.09	0.12**	0.27***	0.25***	0.25***

Notes:
N = 300
**p < .05 ***p < .01

Table 2. OLS regression results

	Model 1	Model 2	Model 3	Model 4	VIF
Control variables					
Development status of MNE origin	-0.057	-0.012	-0.021	-0.005	1.364
Ownership structure	0.062	-0.013	0.004	-0.003	1.183
Subsidiary size	0.010	-0.007	-0.001	-0.013	1.166
Subsidiary age	-0.038	0.000	-0.016	0.001	1.185
Primary stakeholders					
Customers	0.259***		0.194**	0.229***	2.092
Internal managers and employees	0.230**		0.270***		2.054
Business collaborators	-0.153†		-0.246***		1.898
Secondary stakeholders					
Local governments		0.143**	0.066	0.054	1.456
Local media		0.117	0.054	0.061	1.470
Local community		0.160**	0.088	0.081	1.798
NGOs		0.221***	0.311*	0.280*	1.373
Adjusted R^2	0.098	0.153	0.217	0.178	
F	4.337*	5.863*	6.428*	6.157*	

Notes:
† p < 0.1 Coefficients standardized
*p < .001 **p < .05 ***p < .01

Appendix A. Variable measurements

1. Dependent variable (MNEs CSR: adopted from Luo, 2006)

Items (ranging from 1 = very strongly disagree to 5 = very strongly agree)	Cronbach's alpha
(1) Our company has established a set of transparent, comprehensive, and stringent codes of conduct aiming at resisting bribery, corruption, and other illicit acts in the host country. (2) Throughout the company, every manager and employee has strictly implemented the above codes of conduct. (3) Our company has established an ethics compliance department or division that specifically handles the improvement, training, and enforcement of the above codes of conduct. (4) Our company always attaches the utmost value to, and takes actual steps in, enhancing corporate image and reputation. (5) Our company always honors our promises regarding product and/or service offerings and is dedicated to adapt to the local consumers' needs. (6) Relying on its honesty and credibility, our company has maintained good and stable relationships with local suppliers, distributors, and other business partners. (7) Each year our company allocates some portion of retained earnings to charitable organizations. (8) Our company always recognizes its social responsibility and participates in helping the needy and the outcasts of society and improving a backward facility of the local community. (9) Each year our company uses some portion of retained earnings to help the local community to consummate the public infrastructure and environmental protection. (10) The resources (e.g., technology, skills, capital, or equipment) we invested in local project(s) are always complementary to the host country's economic development needs. (11) We always invest resources (e.g., technology, skills, capital, or equipment) that the local government needs for social development. (12) The resources (e.g., technology, skills, capital, or equipment) we invested in local project(s) always contribute to industrial development by enhancing technological and managerial knowledge in the local market.	0.821

2. Independent variables (continued)

Variable	Measurement (ranging from 1 = very strongly disagree to 5 = very strongly agree)	Cronbach's alpha
Consumer (Adapted from Tian, Wang and Yang, 2011)	(1) Consumers care about environmental protection in the daily consumption. (2) Consumers pay attention to some social issues involving firm's charitable donations. (3) Consumers tend to buy those products which are produced by firms that are socially responsible rather than goods which are fine and inexpensive.	0.874
Internal managers and employees (Adapted from Munilla and Miles, 2005)	(1) Our managers and employees perceive CSR as an important mechanism potentially contributing to the creation of corporate value. (2) Our managers and employees perceive that CSR enhances competitive advantage, and eventually improves the economic value of the firm. (3) Our managers and employees believe firms need to contribute to local countries, societies and markets. (4) Our managers and employees believe being ethical and socially responsible is the most important thing a firm should do.	0.729
Business collaborators (Created by this study)	(1) Local investors tend to prefer investment into firms which are socially responsible. (2) Local business partners tend to prefer close cooperation with firms which are socially responsible. (3) Local suppliers tend to prefer the maintenance of cooperation with firms which are socially responsible.	0.809

2. Independent variables (continued)

Variable	Measurement (ranging from 1 = very strongly disagree to 5 = very strongly agree)	Cronbach's alpha
Governments (Adapted from Qu, 2007)	(1) The local government has stricter regulations to protect the consumers. (2) The local government has effective regulations to encourage firms to improve their product and services quality. (3) There are complete laws and regulations to ensure fair competition.	0.785
Media (Created by this study)	(1) Media plays a pivotal role in maintaining and improving public relations between firms and consumers in the local market. (2) Mass media has a strong power in shaping corporate image and reputation in the local market. (3) Compared with other countries, mass media in Korea pays more attention to the societal role of firms in the local market.	0.827
Local community (Created by this study)	(1) Local communities expect companies to contribute to society development by volunteering time and effort to local activities. (2) Local communities expect companies to contribute to society development by getting involved in community event in non-financial ways. (3) Local communities expect companies to contribute to society development by providing jobs and treating their employees well.	0.829

2. Independent variables (continued)

Variable	Measurement (ranging from 1 = very strongly disagree to 5 = very strongly agree)	Cronbach's alpha
NGOs (Created by this study)	(1) NGOs police and supervise effectively corporate activities in the local market. (2) NGOs have a propensity to attempt to influence the CSR activities of corporate management by using various instruments. (3) NGO community in the local market has a sufficient power to exert pressure on multinational enterprises to change their behavior and corporate strategy on CSR activities.	0.828