Exploring Variations of Corporate Social Responsibility Across Business Sectors and Geographic Scope

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The paper aims to explore variations of CSR performance/ratings across business sectors and geographic scope. Specifically, the paper examines the strategic importance and implications of CSR for three business sectors: manufacturers, merchandisers and service providers and for firms with different geographic scope. Using a sample of 2,460 firm-year observations, the ANOVA shows significant differences on CSR performance/ratings among firms operating in different business sectors and among those having different geographic scope. There is a significant interaction between business sectors and geographic scope on CSR concerns; however, such significant interaction does not exist on CSR strengths.

INTRODUCTION

Corporate social responsibility (CSR) has been a topic that attracts both academic and managerial attention for decades (Aguinis & Glavas, 2012). Research interest on CSR is particularly popular in disciplines such as business strategy (Scherer & Palazzo, 2011), marketing (Enderle & Murphy, 2009), operations (Brammer, Hoejmose, & Millington, 2011), and information systems (Elliot, 2011). The strategic importance of CSR is its "impact on the ability of the enterprise to meet its objectives" (Ansoff, 1980: 133). Profitability and shareholder value are frequently among the top primary objectives of businesses. In the process of generating shareholder value, firms have to work with stakeholders whose satisfaction has direct bearings on corporate success.

According to the stakeholder theory, participation of key stakeholders such as employees, customers, suppliers, community and natural environment, is critical for a firm to survive and generate profits (Clarkson, 1995). The value creation process as well as the resulting business value is greatly shaped by the diverse background of the stakeholders, their interest in the business and the nature of the business. For example, multinational corporations often face an extended web of stakeholders across cultural, economic and national borders. As a result, these corporations tend to have a stronger sense of responsibility and a better score on the Ethical Performance Scorecard (EPS) proposed by Spiller (2000) than their local counterparts (Jamali, 2008). Furthermore, sectors where a business belongs also help shape the implementation of stakeholder value. Mura and Bonoli's (2005) "Grid of value" outlines the four classes of stakeholder expectations, including employees, suppliers, customers and community. These classes of stakeholder value could mean quite differently across different sectors of business. Take suppliers as an example, manufacturing firms require a greater deal of physical materials from the suppliers, while service firms rely quite minimally on their suppliers. Such a difference across business sectors could easily drive corporate priorities on social responsibility.

Additionally, the effect of business sectors on CSR is likely intertwined with that of geographic scope of the business outlined above. To date, researchers have yet paid adequate attention to the question – do firms differ in their CSR performance across different business sectors and geographic scope? This question is especially important as CSR is not a one-size-fits-all practice. Something that works for manufacturing firms may not be readily available or useful for service firms. CSR performance could suffer when one applies the general CSR guidelines blindly without a careful attention to the variability across business sectors and geographic scope.

To fill this gap, this study explores the strategic importance and implications of CSR for three business sectors: manufacturers, merchandisers, and service providers. These three business sectors involve different value-creating activities that influence or are influenced by different stakeholders. We also compare the CSR performance of firms without international sales and that of firms with international sales. Domestic firms and multinational firms face different institutional environments where stakeholders have different rights and expectations. As a result, their CSR priorities could vary. We then study the interaction of business sectors and geographic scope – how do they collectively influence firms' CSR performance/ratings.

This study contributes to the CSR literature and the strategic management literature in two primary ways. First, although research has well documented the industrial effect on the adoption of CSR practices and the impact of CSR engagement (e.g., Brammer & Millington, 2003; Kang, 2013; Sweeney and Coughlan, 2008), no study to date has examined CSR performance/ratings across business sectors that are defined by ways of generating profits. The present study focuses on three common business sectors, namely manufacturing, merchandising and service sectors, as these three involves different profit generation process and stakeholder groups. While single-industry studies can provide details of industrial CSR practices, examining firms in these three general business sectors may uncover further details on the variation due to the nature of business.

Second, in addition to studying CSR performance across business sectors and geographic scopes separately, we also test the interaction of these two factors, which has not been done before. Our findings show that certain combinations of business sectors and geographic scope result in an increased level of CSR concerns from the public. This finding advances our understanding of CSR and its determinants, providing important implications to business practitioners: CSR should be viewed as part of the overall corporate strategy and CSR strategy should be made and adjusted according to the critical firm-level strategic factors.

BACKGROUND

Stakeholder Demands and CSR

CSR is defined as "context-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance" (Aguinis, 2011: 855). Integrating economic, social, and environmental factors, CSR links diverse stakeholders who "bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm" (Clarkson, 1994:5). Without the participation of these stakeholders, a firm simply cannot survive (Clarkson, 1995).

On the one hand, considering the importance of stakeholders, many firms actively engage in CSR practices in response to stakeholders' demands. Research has found that CSR helps improve the relationship with both internal and external stakeholders, which leads to improved perceptions of the quality of management (Waddock & Graves, 1997b), increased demographic diversity (Johnson &

Greening, 1999), enhanced corporate reputation (Brammer & Pavelin, 2006) and consumer choice of firm or product (Arora & Henderson, 2007).

On the other hand, when a firm is exposed to intensive public scrutiny or faced demanding stakeholder groups, its socially irresponsible activities/practices are more likely to be detected and thus result in higher pressures to improve stakeholder relationships. To reduce such social pressures, these firms may show more responsibility in areas that are not directly related to their core products/businesses. As such, a firm can be both socially responsible in some areas while irresponsible in others (Strike, Gao & Bansal, 2006). Such a discretional selection of areas for CSR implementation could be the result of factors other than stakeholder demands (such as nature of business, geographic reach, and types of industry).

CSR Practices Across Industries

Firms differ in the diversity and salience of stakeholders on whom they rely for survival and success. Given this, firms usually follow different CSR strategies, such as what CSR practices to adopt, who are responsible for CSR initiatives, and how to disclose CSR engagement, etc. To date, this line of research has primarily focused on the comparison across industries.

Industries differ in the amount of pollution generated, level of public concern, stringency of environmental regulations, and environmental liability risks (Banerjee, Iyer, & Kashyap, 2003). Some industries are considered having high environmental impact. For example, chemical industry is one of the biggest polluters. U.S. Environmental Protection Agency (EPA) labeled utilities and manufacturing industries as “dirty” industries. In contrast, some industries have less environmental impact and are deemed to be “clean” industries, such as consulting. Industries that have high environment impact face more social pressures to reduce pollution and waste.

Industries also differ in their primary stakeholders. Firms are motivated to focus attention on the particular stakeholders they are directly dealing with (Cooper et al. 2001). For example, customers and communities are the primary stakeholders for financial service industry. Medical part of the pharmaceutical industry focuses less on customers due to the intermediated nature of their business – they provide products to health professionals rather than the end consumers. The telecommunication industry views customers as primary stakeholders given the importance of customer acquisition and retention. The automobile industry and the oil and gas industry place more emphasis on environmental performance. Retailing industry concentrates on their customers.

There are also significant differences between industries in regard to the choice of administrative structure for CSR and how CSR is reported. Brammer and Millington (2003) found that firms in financial industry are more likely to manage CSR activities through specialist CSR department, while those in utility industry and service industry do this through public relation/marketing department and central administration, respectively. When reporting on CSR, firms in different industries weigh different stakeholders differently in the CSR reports (Sweeney & Coughlan, 2008). Industry also influences CSR information disclosure on the Web in terms of CSR expression on the corporate homepage and CSR partnerships (Wanderley, et al. 2008).

CSR and Different Business Sectors

Firms generate profits through three common ways: manufacturing tangible products, selling products purchased from manufacturers, and providing intangible services. Manufacturers use labor, plant, and equipment to concert raw materials into new finished goods. Merchandisers resell tangible products they purchase from suppliers. Service providers sell intangible services such as health care, insurance, banking and consulting. Significant differences exist among these three business sectors in terms of their value proposition, value chain activities, outcome, inventory composition, cost structure, etc. In consequence, they face different stakeholder demands and are likely to weigh CSR differently in their strategic planning.

However, to date, no extant research has explored if and how different business sectors (defined by ways of generating profits) influence firms’ CSR engagement. This study aims to fill this gap in the literature. We suggest that the motivations for CSR engagement vary across firms operating in different business sectors because of the different value propositions and stakeholder demands.

Manufacturers

The imperatives of global competition often lead manufacturers to extract wage and benefits from their employees to maintain cost competitiveness. This practice is commonly deemed to be socially irresponsible. In the process of production, all manufacturers generate pollutants and wastes to different extents. Manufacturers are also somewhat constrained to comply with minimum regulatory requirements from a cost competitiveness point of view. Given that environmental protection has become an important CSR issue, manufacturers face considerable public pressures to behave in socially responsible ways. Due to the vast public and media attention, the socially irresponsible behaviors of manufacturers are more likely to be identified. However, benefits from additional friendliness toward the environment and better treatment to employees often would not outweigh the costs associated with them and might eventually threaten the survival of a firm. To improve reputation, manufacturers are more likely to give back in visible ways to the communities that might otherwise perceive them as having negative environmental impacts or ignoring human rights. Therefore, both CSR strength scores and CSR concern scores tend to be higher for manufacturers.

Service Providers

Service providers need strong community support for success because of the face-to-face elements involved in delivering effective services. Diversity of the workforce is also an important consideration, given the diversity of customers they serve. Service providers usually have less negative impacts on environment compared with manufacturers and merchandisers. Because of the nature of their business, service providers highly reply on professional employees who communicate with clients face-to-face. To attract and retain the most important assets for their business, service providers are less likely to incur human rights concern. Given the relatively small number of visible social issues involved in their business that may attract public attention, service providers tend to adopt a satisficing CSR strategy rather than a proactive stance as many manufacturers do.

Merchandisers

The overall stakeholder demands faced by merchandisers are relatively low. Merchandisers produce neither tangible products nor intangible services. Compared with manufacturers, merchandisers produce fewer pollutants in their value creating process. Compared with service providers, merchandisers' pressure on generating and maintaining good customer relationship is lower. Therefore, merchandisers are likely to be a moderate adopter of CSR practices.

CSR Practices Across Geographic Markets

The number and diversity of stakeholders a firm faces are also determined by its geographic scope. Firms operating in multiple geographic markets may face different social expectations and levels of stakeholder pressure.

As a social phenomenon, CSR does not exist independent of a firm's institutional context. The differences in institutions among countries raise variations in views and expectations of CSR (Wang et al., 2016). People living in different societies expect business enterprises to take on different social responsibilities. For example, firms in developed nations usually face higher expectations on environmental responsibility and natural resources management (George, Schillebeeckx, & Liak, 2015), while firms in developing nations are often expected to contribute to social development goals such as employment, education and health (Visser, 2008).

Different countries also differ in levels of stakeholder pressure. A socially irresponsible practice in a country where stakeholders are demanding may incur little or no stakeholder reaction in countries with lax stakeholder pressure. Taking advantage of the differences in environmental regulation and labor law, some multinational corporations reacted to mounting stakeholder pressure at home by transferring their socially irresponsible practices to their foreign subsidiaries (Surroca, Tribo, & Zahra, 2013).

CSR and Business Geographic Scope

The protests at the World Trade Organizational (WTO) meetings in the past decades emphasized the importance of social responsibility to multinational corporations. Some people believe multinationals are socially irresponsible and argue that multinationals exploit the lax social and environmental standards in foreign countries, especially developing economies (Low & Yeats, 1992). A well-known example is the irresponsible treatment to employees by Nike in developing economies in 1990s. In Asia, Nike employees were forced to work excessive hours, paid inadequate wages, and subject to violent intimidation for speaking out about labor abuses. In the past decades, media revealed many socially irresponsible behaviors of multinationals, which urged multinationals to rethink the role they play in the society and pay more attention to stakeholder management in the globe. In recent years, more and more multinationals began engaging in a variety of CSR practices to change their socially irresponsible image in public perception. Today, regularly publishing their environmental performance reports has become a common practice for multinationals (Rondinelli & Berry, 2000).

Multinationals confront with a wide range of issues, stakeholders and institutional contexts in both home and host countries. The CSR issues multinationals face can be classified into "global" and "local" issues (Husted & Allen, 2006). Global CSR refers to firms' obligations based on "social consensus." These CSR issues transcend national boundaries and are deemed essential in all societies, such as environmental protection and protecting human rights. In contrast, local CSR refers to firms' obligations based on "local standards." Some communities have unique CSR issues, which may not be deemed as essential or critical in other communities. There is no global consensus as to the obligation of firms to deal with these kinds of CSR issue.

For example, in South Africa, active cooperation in fighting against unemployment and HIV-AIDS is viewed as essential for a socially responsible firm (De Jongh, 2004). Similarly, job creation and education are viewed as principal social responsibilities of business and are key components of CSR in Mexico (Weyzig, 2006). However, despite the fact that unemployment and HIV-AIDS are sources of human suffering and that job creation holds a place on the agenda of all governments, they are not CSR issues for many firms around the world; nor do the most salient stakeholders of these firms demand activities related to reducing unemployment or HIV-AIDS.

Multinationals are more visible and subject to more media scrutiny (both at home and in host countries). They are often the target of incipient stakeholder attention, intensifying their interest in protecting their reputation (Fombrun, 1996). Due to such great scrutiny, both socially responsible activities and irresponsible activities of multinationals are more likely to be identified than those of domestic firms.

Multinationals have to deal with both "global" and "local" CSR issues (Husted & Allen, 2006). First, multinationals face the integration pressures in dealing with the global CSR issues, which stem from multinational stakeholders and NGOs, and the need to economize in the provision of CSR. For example, the environmental expectations of international markets are prominent themes. Marshall and colleagues (2010) found that the degree of winemakers' reliance on exports has a positive relationship with their environmental practices, such as energy reduction.

Second, multinationals also face the responsiveness pressures in dealing with the local CSR issues that stem from differences in stakeholders demands. As such, multinationals are subject to scrutiny from both host and home countries. As a result of the dual scrutiny, socially responsible activities of multinationals are more likely to be identified, which in turn results in higher CSR scores.

Multinationals are also likely to receive high scores for irresponsible activates due to two major reasons. First, aiming at economic development, governments in developing or emerging economies may lower regulatory standards in order to attract multinational companies (Christmann & Taylor, 2001). The comparatively weak institutions, standards, and systems hinder the development of CSR in developing economies (Jamali, 2007). Particularly, the underdeveloped civil society does not place enough societal demands and expectations on corporate social responsibility, which leaves the room for multinationals to act "irresponsibly" by U.S. and European standards. Consequently, multinationals' CSR scores for socially irresponsible activities are likely to be higher than domestic U.S. firms.

Interaction of Business Sectors and Geographic Scope

Different business sectors entail the need of dealing with different stakeholder groups, resulting in different levels of overall pressure to behave responsibly. Exposure to stakeholder pressure in multiple geographic markets also contributes to the overall social pressure. Given that both business sectors and geographic scope influence a firm's CSR rating, it is important to examine the interaction of these two factors in determining firms' CSR performance. Certain combinations of business sectors and geographic scope may have stronger effect on CSR performance than others.

METHODOLOGY

Sample and Data

Our sample is a balanced panel consisting of 2,460 firm-year observations representing 246 unique firms between year 2001 and 2010. We derive our sample from the Kinder, Lydenberg, and Domini (KLD) CSR ratings. Kinder, Lydenberg, and Domini (KLD) Research & Analytics, Inc. rates corporate social responsibility of the S&P 500 and the largest 3,000 U.S. companies on six primary dimensions - corporate governance, community relations, diversity, employee relations, environment, and product. This database has been employed in a large number of CSR studies, such as Servaes and Tamayo (2013), Hillman and Keim (2001), Berman *et al*. (1999), and Waddock and Graves (1997). A firm may behave in socially responsible ways in some dimensions while behave irresponsibly in others. When positive KLD scores are aggregated with negative scores to produce a single sum, the numbers cancel each other out. Therefore, we follow Strike et al. (2006) to examine both the positive and negative aspects of CSR performance separately, instead of using a single CSR performance indicator as most CSR studies do. We measure a firm's CSR strengths by adding up the strength scores across the six dimensions and its CSR concerns by the total concern scores. The correlation between CSR strengths and concerns is 0.4077. This medium correlation supports that a firm should not just build up their CSR strengths while ignoring the potential CSR concerns (and vice-versa).

To empirically test if and how firms operating in different business sectors differ in CSR performance, we categorize sample firms into manufacturer, merchandiser, and service provider by their two-digit SIC codes (SIC2). Firms with SIC2 codes of 1-39 are classified as manufacturers. Merchandisers include both wholesalers (SIC2 codes = 50-51) and retailers (SIC2 codes =52-59). Firms with SIC2 codes of 40- 49 and 60-99 are categorized as service providers. Table 1 shows the descriptive statistics of all three categories in our sample.

Results

Table 2 shows the average CSR strength and concern scores for the three business sectors. These descriptive statistics show that manufacturing is very high on the average CSR strengths and concerns compared to the other two business sectors. Business activities of manufacturers involve all aspect of CSR: environmental, community, product, employee, human rights, and diversity. In contrast, merchandisers do not engage in production, which reduces the diversity of demands from stakeholders. For manufacturers, the average CSR strength and concern scores are 2.75 and 2.29, respectively. For merchandisers, the average CSR strength and concern scores are 1.9 and 2.30, respectively. For service providers, the average CSR strength and concern scores are 2.48 and 1.81, respectively. Among the three business sectors, manufacturers perform the best in terms of actively engaging in socially responsible practices. Service providers perform the best in terms of not engaging in socially irresponsible practices. Merchandisers have the lowest CSR strength score and the highest CSR concern score, indicating less emphasis on CSR.

TABLE 1
SAMPLE COMPOSITION

Business model	SIC2	Frequency	Percent	Business model	SIC2	Frequency	Percent
Manufacturers	36	26	10.57	Service providers	73	23	9.35
SIC2 1-39	28	20	8.13	SIC 2 40-49, 60-99	49	21	8.54
	35	12	4.88		63	9	3.66
Subtotal = 127				Subtotal = 90			
(51.66%)	38	12	4.88	(36.61%)	67	7	2.85
	13	10	4.07		48	5	2.03
	37	8	3.25		62	5	2.03
	20	5	2.03		80	5	2.03
	27	5	2.03		47	3	1.22
	26	4	1.63		45	2	0.81
	33	4	1.63		87	2	0.81
	23	3	1.22		61	1	0.41
	25	3	1.22		64	1	0.41
	34	3	1.22		65	1	0.41
	16	2	0.81		70	1	0.41
	29	2	0.81		75	1	0.41
	10	1	0.41		79	1	0.41
	12	1	0.41		82	1	0.41
	14	1	0.41		99	1	0.41
	24	1	0.41	Merchandisers	53	6	2.44
	30	1	0.41	SIC2 50-59	56	5	2.03
	31	1	0.41		59	4	1.63
				Subtotal = 29			
	32	1	0.41	(11.79%)	51	3	1.22
	39	1	0.41		54	3	1.22
					52	2	0.81
					55	2	0.81
					57	2	0.81
					50	1	0.41
					58	1	0.41

To test if the group means are substantially different across business sectors, we conducted the analysis of variance (ANOVA). Results of one-way ANOVA (see Table 3) show that the differences between groups are statistically significant for both strengths and concerns (CSR strengths: F=10.20, p = 0.0000; CSR concerns: F=13.14, p = 0.0000). We then conducted post-hoc pairwise comparisons to see if group means differ between specific pairs of business sectors. Results from the Tukey post-hoc test show that a significant difference on CSR strengths exist between manufacturers and merchandisers (6.8194, $p<0.05$) and between merchandisers and service providers (4.6517, $p<0.05$) but not between manufacturers and service providers.

In regard to CSR concern score, significant differences exist between manufacturers and service providers (5.0613, $p<0.05$) and between merchandisers and service providers (5.1727, $p<0.05$) but not between manufacturers and merchandisers. Taking tables 2 and 3 together, the CSR strength score for merchandisers is the lowest while the CSR concern score for service providers is the highest.

TABLE 2
AVERAGE CSR PERFORMANCE (RATINGS) BY BUSINESS SECTORS

Business Sector	Variable	Observations	Mean	Standard Deviation	Min	Max
Manufacturers	CSR strengths	1270	2.75	2.97	0	19
	CSR concerns	1270	2.29	2.41	0	13
Merchandisers	CSR strengths	290	1.90	2.08	0	14
	CSR concerns	290	2.30	1.99	0	8
Service providers	CSR strengths	900	2.48	3.19	0	21
	CSR concerns	900	1.81	2.05	0	11

TABLE 3
ANOVA RESULTS – BUSINESS SECTORS

CSR strengths					
	SS	DF	MS	F	P>F
Between groups	179.2425	2	89.6212	10.2	0.0000
Within groups	21596.6746	2457	8.7899		
Total	21775.9171	2459	8.8556		
Post-hoc pairwise comparisons				Mean Dif	Tukey Test
Manufacturers vs. Merchandisers				0.8535	6.8194*
Manufacturers vs. Service providers				0.2713	2.1677
Merchandisers vs. Service providers				0.5822	4.6517*
(studentized range critical value(.05, 3, 2454) = 3.3165355)					
CSR concerns					
	SS	DF	MS	F	P>F
Between groups	131.7570	2	65.8785	13.14	0.0000
Within groups	12320.3450	2457	5.0144		
Total	12452.1020	2459	5.0639		
Post-hoc pairwise comparisons				Mean Dif	Tukey Test
Manufacturers vs. Merchandisers				0.0105	0.1114
Manufacturers vs. Service providers				0.4785	5.0613*
Merchandisers vs. Service providers				0.4890	5.1727*
(studentized range critical value(.05, 3, 2454) = 3.3165355)					

Table 4 shows the average CSR strength and concern scores for firms with different geographic scopes. The average CSR strength score of U.S. firms having international sales is 3.00, while that of U.S. firms solely operating at home is 1.72. The average CSR concern scores for these two groups of firms are 2.21 and 1.95, respectively. The statistics support our argument that multinationals are subject to greater scrutiny in regard with both their socially responsible and irresponsible activities. Results of one-way ANOVA (see Table 5) show that differences between groups are statistically significant (strengths: F=107.77, p = 0.0000; concerns: F=7.73, p = 0.0055). Taking tables 4 and 5 together, international firms seem to have a higher level of CSR strengths as well as concerns.

TABLE 4
AVERAGE CSR PERFORMANCE (RATINGS) BY GEOGRAPHIC SCOPE

Geographic Scope	Variable	Observations	Mean	Standard Deviation	Min	Max
Domestic	CSR strengths	852	1.72	1.99	0	12
	CSR concerns	852	1.95	1.90	0	9
International	CSR strengths	1608	3.00	3.30	0	21
	CSR concerns	1608	2.21	2.41	0	13

TABLE 5
ANOVA RESULTS – GEOGRAPHIC SCOPE

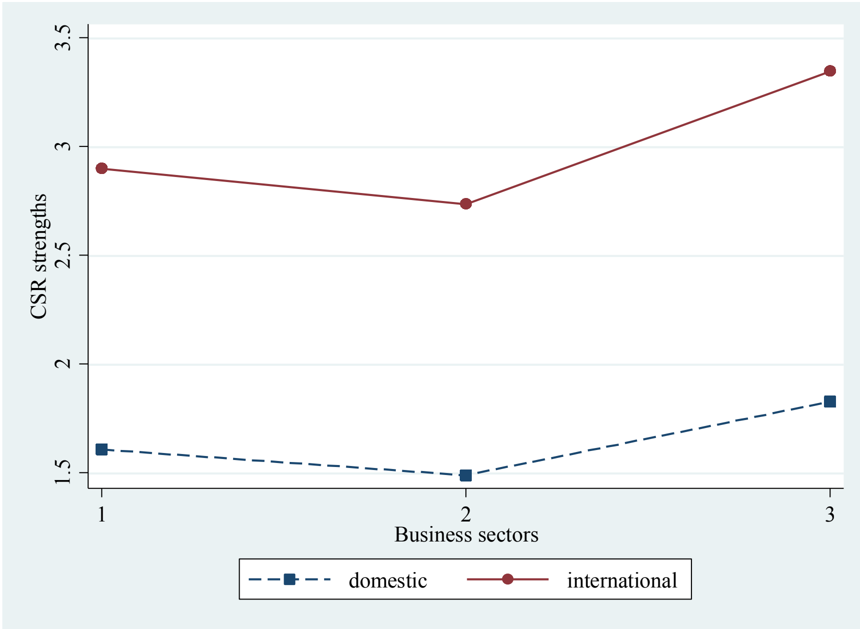
CSR strengths					
	SS	DF	MS	F	P>F
Between groups	914.6641	1	914.6641	107.77	0.0000
Within groups	20861.2530	2458	8.4871		
Total	21775.9171	2459	8.8556		

CSR concerns					
	SS	DF	MS	F	P>F
Between groups	39.0539	1	39.0539	7.73	0.0055
Within groups	12413.0481	2458	5.0501		
Total	12452.1020	2459	5.0639		

We ran a two-way ANOVA to examine the effect of business sectors and geographic scope on CSR strengths and concerns. Results of the two-way ANOVA (see Table 6) show that the interaction effect between the business sectors and geographic scope on CSR strengths is not significant, $F(2, 2454) = 0.36$, $p = 0.6982$ (see Figure 1). But there were statistically significant differences in CSR strengths between business sectors, $F(2, 2454) = 69.10$, $p = 0.0000$ and between geographic scope, $F(2, 2454) = 3.69$, $p = 0.0025$. These two main effects each individually has an effect on CSR strengths.

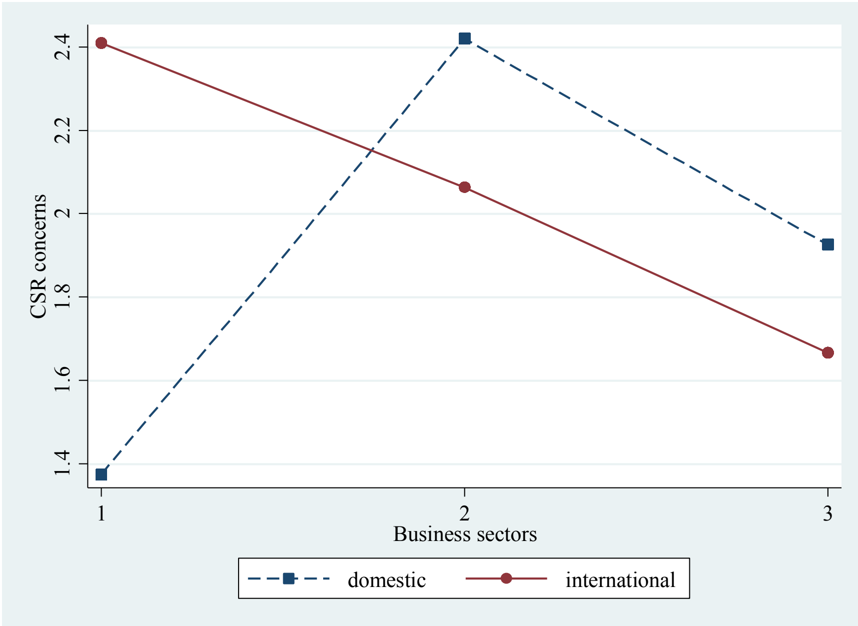
There was a statistical significant interaction between business sectors and geographic scope on CSR concerns, $F(2, 2454) = 15.46$, $p = .0000$ (see Figure 2 for this significant interaction). Simple main effects analysis show that international manufacturers have significantly higher CSR concern scores than domestic manufacturers (p = 0.0001), but no significant differences exist between firms with an international reach and firms that focus domestically for merchandisers (p = 0.1996) and service providers (p = 0.0838).

FIGURE 1
INTERACTION OF BUSINESS SECTORS AND GEOGRAPHIC SCOPE ON CSR STRENGTHS



Business sectors: 1: manufacturers, 2: merchandisers, 3: service providers

FIGURE 2
INTERACTION OF BUSINESS SECTORS AND GEOGRAPHIC SCOPE ON CSR CONCERNS



Business sectors: 1: manufacturers, 2: merchandisers, 3: service providers

TABLE 6
TWO-WAY ANOVA RESULTS – INTERACTION OF BUSINESS SECTORS AND GEOGRAPHIC SCOPE

CSR strengths						
	SS	DF	MS	F	P>F	R^2
Model	997.0278	5	199.4056	23.55	0.0000	0.0458
Geographic scope	585.0634	1	585.0634	69.10	0.0000	
Business sectors	62.5658	2	31.2829	3.69	0.0250	
Geographic scope*Business sectors	6.0858	2	3.0429	0.36	0.6982	
Residual	20778.8890	2454	8.4674			
Total	21775.9170	2459	8.8556			
CSR concerns						
	SS	DF	MS	F	P>F	R^2
Model	291.5874	5	58.3175	11.77	0.0000	0.0234
Geographic scope	6.2561	1	6.2561	1.26	0.2613	
Business sectors	39.3365	2	19.6682	3.97	0.0190	
Geographic scope*Business sectors	153.2285	2	76.6143	15.46	0.0000	
Residual	12160.5150	2454	4.9554			
Total	12452.1020	2459	5.0639			

DISCUSSION AND CONCLUSION

This study examines if and how business sectors and geographic scope influence a firm's CSR performance. Our findings suggest that there are significant differences in CSR performance among manufacturers, merchandisers and service providers. Taking business sectors alone, manufacturing is the only sector scored high on both CSR strengths and concerns. Merchandisers were high on CSR concerns, while service providers were high on strengths. As far as geographic scope is concerned, international firms scored high both on CSR strengths and concerns. The above main effects taken individually suggest that CSR performance variations are quite notable across the nature of business and geographic location.

The interaction effect between business sectors and geographic scope on CSR performance was most salient on CSR concerns but not CSR strengths. Figure 2 sheds some light on this finding by showing that domestic and international firms differ statistically on CSR concerns for the manufacturing sector only. The parallel lines for the other two business sectors support that geographic scope does not distinguish the two on CSR concerns. This supports our original argument that the manufacturing sector faces broader challenges than its counterparts since its business affects a broad range of stakeholders. If a manufacturing firm is international, it relies on even a wider range of stakeholders that span across social, political, economic and national boundaries. Therefore, concerns on the firm's CSR practice grow as the diverse background of the stakeholders allows them to critically observe the firm from multiple angles.

Additionally, manufacturers facing intensive global competition are more likely to take advantage of the low regulatory standards in developing economies, such as environmental regulation and labor policy. Many acceptable practices in developing economies are viewed as unethical by the standards in the U.S. This is a potential reason why international manufacturers have significantly higher CSR concern scores than their domestic counterparts when their social performance is evaluated by an institution in the U.S.

Indeed, multinationals are expected to transfer the best practices to developing economies, helping promote social justice and development.

Our findings on the interaction effect also show that concerns over CSR performance for merchandisers and service providers were not statistically distinguishable between domestic and international firms. Since these two sectors involve relatively clean industries compared to manufacturing, it is likely that the set of standards in the eyes of stakeholders does not vary much across countries. Further research is still warranted since the dynamics of foreign branches of a multinational firm might not act the same way for CSR as the parent company due to issues such as *Liability of Foreignness* (LOF) – the additional costs associated with doing business abroad (Zaheer, 1995). Such LOF could hinder foreign branches from engaging in full scale CSR activities imposed by the parent company. Figure 1, Figure 2 and Table 6 in our study show that despite no statistical significance between international and domestic firms on CSR concerns, they do differ on CSR strengths with international firms being higher on the score. It could be that other forms of activities made up for the cost associated with LOF. Although limited to the banking industry, Campbell, Eden and Miller (2012) provide some beginning evidence for a foreign affiliate to take advantage of a raised level of reputation on CSR practice to compensate the LOF.

Results of this study confirm the major argument of the instrumental CSR or the business case of CSR. That is, exposure to diverse stakeholder demands increases firms' pressure to behave in socially responsible ways. Firms facing substantial public scrutiny are more likely to show their social responsibility in other areas than the ones under criticism so as to improve its overall social image. In addition, this study also contributes to the line of research on how firm-level factors (in our case, business sectors and geographic scope) influence CSR engagement/performance, showing that CSR is in essence part of the corporate strategy that is determined in correspondence to other critical corporate decisions.

Our study also provides a number of implications for business practitioners. First, firms conducting manufacturing activities will likely generate more pollutant than firms involving in only selling goods or providing intangible services on average and thus raise more public concerns. While actively adopting green technologies and practices, manufacturers can show their social responsibility by promoting better corporate governance, better community relations, and higher levels of diversity.

Second, for firms operating internationally, managers have to meet the social expectations from both local and home markets. Many practices that are viewed as "extra" efforts for social goodness in developing nations have been institutionalized in the U.S. and the other developed nations. Some socially acceptable practices in developing nations are considered socially irresponsible in developed nations. In consequence, on the one hand, for a U.S. multinational firm, transferring the best standard/institutionalized practices across geographic boundaries will promote social justice and will be appreciated by the local community; on the other hand, stakeholders from the home market may blame the firm for its "dual standards" used in certain practices between local and home markets. For the latter, firms may need actively showcase the benefits brought about by their operating in the local market. For example, multinational firms may participate in CSR practices aiming at developing economies, such as introducing clean water system/equipment to Africa. The goal of such business activities is creating social benefits.

Third, multinational manufacturers face the most diverse stakeholder groups and are exposed to the highest levels of public scrutiny. These firms have to give more back to the society to improve their social image and reduce the negative impact of considerable CSR concerns raised by the public.

To conclude, while the importance of CSR is widely acknowledged both academically and practically, firms operating in different business sectors and have different geographic scopes face different pressures of behaving social responsibly and thus should weigh CSR differently in their overall corporate strategy.

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