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How Corporate Social Responsibility Helps MNEs to Improve their Reputation. The Moderating Effects of Geographical Diversification and Operating in Developing Regions

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ABSTRACT

Multinational enterprises (MNEs) can enhance their reputations through advanced social initiatives and management practices. These firms often locate facilities in developing countries to benefit from lax environmental and social regulations, and to reduce their operating costs. MNEs can, however, also contribute positively to the development of those countries through corporate social responsibility (CSR) activities. This paper argues that MNEs operating in developing regions can enhance their level of corporate reputation through the implementation of CSR initiatives that meet specific stakeholders' expectations of the firm's activities in these areas. In addition, we argue that MNEs with units based in different regions strengthen the impact of corporate social performance on corporate reputation. Based on a sample of 113 US MNEs from the chemical, energy, and industrial machinery industries over the period 2005–2010, our findings show that CSR has a positive effect on corporate reputation. In addition, MNEs' operations in developing regions intensify the positive relationship between corporate social performance and reputation, although geographical diversification does not necessarily enhance MNEs' reputation through corporate social performance. Copyright © 2017 John Wiley & Sons, Ltd and ERP Environment

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Introduction

IN RECENT DECADES, BOTH ACADEMICS AND MANAGERS HAVE BECOME INTERESTED IN CORPORATE SOCIAL RESPONSIBILITY (CSR) (AGUINIS and Glavas, 2012), defined as 'actions that appear to further some social good, beyond the interests of the firm and that which is required by law' (McWilliams and Siegel, 2001: 117). Through CSR, firms demonstrate their commitment to contributing to sustainable economic development and to working with employees, their families, the local community, and society at large to improve quality of life (World Business Council for Sustainable Development, 2004). One of the main reasons for firms to invest resources in CSR initiatives is thus recognition from multiple stakeholders – shareholders, customers, employees, suppliers, management, and local communities, among others (McWilliams and Siegel, 2001).

Because they interact with a great variety of stakeholders with different CSR needs and requirements, multinational enterprises (MNEs) are especially concerned with social issues (Kolk and Lenfant, 2013). The identification and fulfilment of stakeholders' social expectations is complicated and complex because MNEs must manage demands from home and host countries (Eweje, 2006; Jamali, 2008). Furthermore, stakeholders' expectations differ from developed to developing countries, as do the CSR initiatives that MNEs must perform to fulfil these expectations (Moon *et al.*, 2005; Garberg and Fombrun, 2006; Mahmood and Humphrey, 2013). MNEs' CSR orientation towards different stakeholders helps them to gain legitimacy in home and host countries (Yang and Rivers, 2009; Jamali, 2010), as well as at international level (De Lange *et al.*, 2016; Sethi and Rovenpor, 2016).

Prior literature indicates that corporate reputation is one of the motivations for firms to engage in CSR initiatives (Fombrun, 2005). Corporate reputation – stakeholders' collectively perceived opinion of a firm (Fombrun and Shanley, 1990; Foroudi *et al.*, 2014) – depends on the extent to which firms meet stakeholders' social expectations (Fombrun and Shanley, 1990; Fombrun *et al.*, 2000; Waddock, 2000). CSR practices that meet stakeholders' social expectations can enhance corporate reputation (Sen and Bhattacharya, 2001; De Quevedo-Puente *et al.*, 2007; Hur *et al.*, 2014), and positive corporate reputation can attract investors and talented employees, improve public confidence, reduce stakeholders' uncertainty, and help the organisation in crisis situations (Fombrun, 1996).

Previous research on the influence of CSR on organisational outcomes such as reputation and financial performance has been inconclusive (Melo and Garrido-Morgado, 2012), mainly because of mediating and moderating effects related to stakeholders and the firm's context (Aguinis and Glavas, 2012; Vidaver-Cohen and Brønn, 2015). CSR manifests differently in developing countries than in developed ones (Baughn *et al.*, 2007; Jamali and Neville, 2011; García-Rodríguez *et al.*, 2013) because stakeholders' expectations vary from country to country (Garberg and Fombrun, 2006; Mahmood and Humphrey, 2013). Despite the significant influence of these effects, research on CSR and corporate reputation that analyses the cross-national context of MNEs has been very limited (Ma *et al.*, 2016; Musteen *et al.*, 2013).

Given the strategic value of corporate reputation as an intangible asset that can be a source of competitive advantage (Barney, 1991; Fombrun and Van Riel, 1997; Deephouse, 2000; Branco and Rodrigues, 2006), it is crucial to determine which contingent factors strengthen the relationship between CSR and corporate reputation (Maden *et al.*, 2012). We attempt to address this research gap by examining the influence of geographical diversification and of MNEs' operations in developing regions on the relationship between MNEs' corporate social performance and corporate reputation. Thams *et al.* (2016) have shown that geographical diversification may influence corporate reputation but only consider the reputation that emerges within the firm's home country. This study undertakes a more fine-grained analysis to understand how geographical diversification conditions the way MNEs' CSR in the different regions where they operate can influence their reputations.

MNEs' operations in developing regions may also affect how their CSR practices are perceived by stakeholders (Matten and Crane, 2005; Porter and Kramer, 2011; Musteen *et al.*, 2013), affecting their corporate reputation. Most previous International Business (IB) literature on CSR has focused on developed countries, for example Capar and Kotabe (2003), Lu and Beamish (2004) and Wiersema and Bowen (2011), although academia has paid increasing attention to understanding CSR in emerging economies in recent years (Nachum, 2004; Aguilera-Caracuel *et al.*, 2015; Wu *et al.*, 2015; Ma *et al.*, 2016). Still, with some exceptions, analysis of MNE's CSR and reputation is under-researched in developing countries (Ite, 2004; Jamali and Karam, 2016). The context of developing regions is particularly relevant for the formation of reputation. By adopting regional CSR practices that meet specific stakeholders' social expectations, MNEs can gain high visibility and recognition as responsible firms in developing

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regions (Musteen *et al.,* 2013; Williamson *et al.,* 2013), in the MNEs' home countries (Thams *et al.,* 2016), and at international level (Sethi and Rovenpor, 2016). Such initiatives can contribute to developing a favourable global reputation.

Drawing on the stakeholder theory (Freeman, 1984; McWilliams and Siegel, 2001; Jamali, 2008), we tested our hypotheses on a sample of 113 US MNEs from the chemical, energy, and industrial machinery industries over the period 2005 to 2010. Our results show that MNEs' corporate social performance is positively related to corporate reputation. Furthermore, MNEs' operations in developing regions could take advantage of the implementation of CSR initiatives to improve their corporate reputation significantly, although geographical diversification in itself does not necessarily enhance MNEs' reputation.

This study contributes to the management literature in at least four ways. First, we contribute to the literature on CSR by examining the impact of MNEs' CSR practices on corporate reputation in two different scenarios: operating in different markets (geographical diversification) and operating in developing regions. Second, empirical research on CSR and corporate reputation has been very limited and needs further development, although a few empirical studies have been performed, for example, Brammer and Pavelin (2006), Melo and Garrido-Morgado (2012) and Turban and Greening (1997). Our study extends existing research by providing statistical evidence for the CSR-corporate reputation relationship in a cross-region context. Third, we contribute to the IB literature by studying the MNEs' degree of internationalisation, represented by the MNEs' operations in different foreign regions in general (geographical diversification), and in developing regions in particular. We use the IB literature to better explain how MNEs manage their social impact and reputation in a cross-regional context. Finally, we enrich the stakeholder theory by considering that stakeholders' social demands proceed from different regions and settings, especially in MNEs that operate in developing regions.

Theoretical Background

MNEs' CSR and Corporate Reputation

MNEs' efforts to develop CSR initiatives have grown significantly in recent years (Park *et al.,* 2014). Some research on the influence of CSR on organizational outcomes (i.e., financial performance, corporate reputation) has been equivocal and inconclusive (Melo and Garrido-Morgado, 2012). As one of the expected organisational outcomes from CSR initiatives (Agarwal *et al.,* 2015; Lange *et al.,* 2011), corporate reputation has in fact become an extrinsic motivation for companies to engage in CSR (Fombrun, 2005).

Studies that analyse the impact of CSR initiatives on corporate reputation can be classified into two main groups. The first supports the idea that contextual factors influence the relationship between CSR and corporate reputation. Park *et al.* (2014), for example, found that consumers' trust affects the impact of CSR initiatives on corporate performance. They also concluded that the firm's fulfilment of economic and legal CSR initiatives had a direct positive effect on corporate reputation, whereas neither ethical nor philanthropic CSR initiatives did. Additionally, the impact of CSR on corporate reputation may also vary by sector, as every industry is subject to specific stakeholder pressures (Melo and Garrido-Morgado, 2012). Since industry mediates between CSR and reputation, achieving the desired response to CSR strategy would require MNEs to gauge their CSR practices to specific pressures in the industry (Brammer and Pavelin, 2006). Finally, Valenzuela-Fernández *et al.* (2015) found that the external economic environment significantly influences the relationship between CSR and corporate reputation.

In contrast to the studies mentioned above, which consider several factors, the second group of studies views the relationship between CSR and corporate reputation as direct and positive. This fundamental line of research shows the importance of increasing social performance through advanced CSR initiatives. Analysing sample of 10 MNE subsidiaries in Lebanon, for example, Jamali (2008) found that some managers responsible for CSR engaged in social initiatives to enhance their firm's reputation. Similarly, Bendixen and Abratt (2007) studied the relation between supplier–buyer relationships and the reputation of a large sample of South African MNEs and found that the buyer's ethical perception of suppliers formed the basis of corporate reputation.

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These prior studies attribute MNEs' efforts to improve CSR practices to demands of the institution itself (Sharfman *et al.*, 2004; Aguilera *et al.*, 2007; Campbell, 2007). That is, MNEs can improve their reputation by developing socially responsible behaviour with their employees and customers (Park *et al.*, 2014). The rationale is that increasing workplace satisfaction can make workers more productive, raise morale, (McWilliams and Siegel, 2001), reduce absenteeism (Berman *et al.*, 1999), and increase workers' reliability (Branco and Rodrigues, 2006). Another significant interest group is the MNE's customers, who can quickly pressure a socially irresponsible MNE by taking their business elsewhere (Lindgreen *et al.*, 2009). Some MNEs consciously gauge CSR initiatives to keep customers loyal based on the ethical behaviour expected in their markets (Yang and Rivers, 2009). Other MNEs manage their image by adopting measures to protect minorities and/or support ecological initiatives (Caves, 1996; Kolk and van Tulder, 2010; Aguilera-Caracuel *et al.*, 2012a).

Several scholars suggest a positive direct link between CSR practices such as community involvement and philanthropic initiatives, and corporate reputation (Fombrun and Shanley, 1990; Siltaoja, 2006; De Quevedo-Puente *et al.*, 2007). Community involvement has generally been shown to have a positive impact on corporate reputation, suggesting that various stakeholders expect good community performance (Brammer and Pavelin, 2006). Examining the effect of philanthropic initiatives on reputation, Fombrun and Shanley (1990) find that firms that establish a foundation and donate more to charity have more positive reputations. Analysing the determinants of corporate reputation in large UK companies, Brammer and Millington (2005) found that firms with higher philanthropic expenditure were perceived as more socially responsible and enjoyed stronger reputations than those that spent less on philanthropy.

CSR initiatives can thus be a form of strategic investment in reputation maintenance or building (Siltaoja, 2006), and they are especially effective in MNEs due to their stronger social and environmental impact worldwide (Christmann, 2004). A strong CSR profile can also mitigate the risk of reputation loss. Based on this reasoning, we propose that implementation and development of advanced CSR initiatives that improve MNEs' corporate social performance while meeting the demands of different stakeholders will contribute to improving MNEs' level of reputation.

Hypothesis 1. *MNEs' corporate social performance is positively associated with corporate reputation.*

The Moderating Effect of Geographical Diversification on the Relationship between MNEs' CSR and Corporate Reputation

Geographical diversification can be understood as a strategy through which a firm expands sale of its goods or services across the borders of global regions into different locations or markets (Hitt *et al.*, 1997). In this study, we define geographical diversification through the number of different markets in which the MNE operates and the importance of these markets to the firm (Hitt *et al.*, 1997; Li and Qian, 2005).

Researchers agree that geographical diversification brings both benefits and costs for the MNE (Qian *et al.*, 2008). When operating in new markets, geographically diversified MNEs encounter specific challenges. They must negotiate the complexities of foreign norms and customs, master the complexities of competition in that market and work within the region's economic, political, and legal institutions (Sambharya, 1996; Kostova *et al.*, 2008). Abroad and in multiple countries, MNEs face diverse and complex stakeholders' demands that are difficult to integrate into the company's organisational structure (Mahmood and Humphrey, 2013), incurring higher transaction costs than operating in domestic markets (King and Shaver, 2001; Meyer, 2001; Ruigrok and Wagner, 2003).

These potential disadvantages of geographical diversification can be offset by significant advantages. Expanding abroad can increase MNEs' opportunities for competitive advantage by granting access to new resources and markets internationally (Bartlett and Ghoshal, 1989), and to undiscovered market niches or linkages across borders (Thomas and Eden, 2004; Casillas *et al.*, 2009; Belderbos *et al.*, 2011). Furthermore, greater geographic diversification diversifies social investments, enabling MNEs to enhance their reputations through multiple initiatives in foreign markets, not just at home (Lange *et al.*, 2011). Based on a sample of 403 large firms from 30 countries, Thams *et al.* (2016) show that home country stakeholders have better images of MNEs that do business in more markets once the firm overcomes initial geographic diversification barriers.

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In the social arena, proper responses to social issues significantly reduce firm risk (Deckop *et al.*, 2006; Godfrey *et al.*, 2009). Since highly geographically diversified MNEs can distribute the costs and benefits of CSR-related investments across their subsidiaries, they have a stronger economic incentive to invest in social issues than do focused firms (McWilliams and Siegel, 2001). In fact, having a brand image as a socially responsible firm may help MNEs to overcome the liability of foreignness (King and Shaver, 2001; Bansal, 2005). MNEs pursuing geographical diversification are thus under strong and diverse social pressures from stakeholders (i.e., governments, trade unions and consumers) that may have different languages, customs, religions, social norms, and values (Christmann, 2004; Mahmood and Humphrey, 2013). Such differences encourage MNEs to commit to CSR principles and processes (Lin *et al.*, 2015) and to overcome these stakeholder pressures by enhancing positive visibility of their social actions to gain the favour of influential monitoring bodies, as well as of national and international activist groups (Bansal, 2005; Kang, 2013). International experience also improves MNEs' ability to manage stakeholder relationships (Contractor *et al.*, 2003) by detecting, interpreting, and ranking the social priorities in the different regions where they operate (Strike *et al.*, 2006; Aguilera-Caracuel *et al.*, 2012b).

As geographical diversification increases, we expect MNEs to increase both the size of their social network and their ability to communicate, negotiate and build social relationships with stakeholders in local, national, and international contexts (Hah and Freeman, 2014). Geographically diversified MNEs are much more exposed to public opinion because their activities are well-known. Indeed, when the MNE becomes more international, it assumes higher risk of damaging its corporate image (Strike *et al.*, 2006). MNEs thus not only comply with social requirements in local contexts but are also are committed to social progress at the global level. As a result, when MNEs' CSR initiatives in different countries and regions succeed in fulfilling stakeholders' social requirements, they improve corporate social performance within the MNE. In sum, we propose that the positive effect of MNEs' corporate social performance on corporate reputation is more evident in the case of MNEs with a high level of geographical diversification. In other words, geographical diversification of MNEs has a positive effect on the relationship between corporate social performance and corporate reputation, as formulated in the following hypothesis:

Hypothesis 2. *MNEs' geographical diversification will moderate the relationship between corporate social performance and corporate reputation: The relationship will be more positive for firms with high levels of geographical diversification.*

The Moderating Effect of Operating in Developing Regions on the Relationship between MNEs' CSR and Corporate Reputation

Differences across regions are critical to the formation of the firm's reputation (Soleimani *et al.*, 2014). The CSR expectations of the various stakeholders in the host country are often very different from stakeholders' CSR expectations in its home country (Yang and Rivers, 2009), especially when the host country is a developing one (Jamali and Neville, 2011). In developed regions, a firm's CSR is mainly related to environmental issues and community empowerment (Barkemeyer, 2011). In developing regions, in contrast, CSR is associated with measures directed to filling government gaps in policy areas such as environmental protection, human rights, labour rights, anti-discrimination and anti-corruption (Barkemeyer, 2011).

That MNEs' initiatives transcend national borders adds complexity to management of their internal operations (Christmann, 2004). This complexity is even higher when MNEs operate in developing regions because they are increasingly held accountable for greater transparency and responsibility in the social arena (Tan, 2009). In developing regions, MNEs are under great pressure from local stakeholders because they are expected to assume a great commitment to social responsibility (Palazzo and Richter, 2005). MNEs that operate in developing regions face the challenge of meeting not only local stakeholders' social demands but also social pressures from stakeholders in their home country (Thams *et al.*, 2016). In addition, MNEs are required to take into consideration stakeholders that act at the international arena (i.e., international non-government organisations or international organisations, such as the United Nations, International Labour Organisation, or World Economic Forum) (De Lange *et al.*, 2016). These stakeholders' social pressures can influence MNEs' CSR strategy (Wang and Qian, 2011; Sethi and Rovenpor, 2016) and public perception of the MNE due to its social behaviour. In this context, we argue that the MNE's operations in developing countries can strengthen the positive effect of CSR practices

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on its reputation because of the high visibility of the MNE's CSR initiatives in the host country, in the home country, and at international level.

First, CSR initiatives that meet the specific needs of the stakeholders in developing regions can enhance the MNE's visibility in the host country. MNEs must develop a set of specific advantages to cope with a changing environment and a relatively low development of local markets in developing regions (Filatotchev et al., 2003; Williamson *et al.,* 2013). MNEs' involvement in these regions has recently received more attention, and their behaviour is more closely scrutinised (Karnani, 2007; Halter and de Arruda, 2009). London and Hart (2004) posit that economic, cultural, political, and institutional differences between the MNE's home country and developing countries make business more difficult. Challenges often include lower levels of worker education and training, laxity in enforcement of labour rights (Webb *et al.,* 2010; Musteen *et al.,* 2013), and less developed infrastructure, potentially requiring adaptation of the MNE's business model (Moon *et al.,* 2005). MNEs should thus not only comply with legal requirements but also bear the responsibility to promote advanced CSR practices in these regions (Tan, 2009). In developing countries, local governments and other public institutions increasingly reward MNEs that establish advanced CSR initiatives (Musteen *et al.,* 2013). Consumers in developing regions are usually conscious of social issues and thus strongly support MNEs that carry out substantial CSR initiatives in the region (Prahalad, 2005). If MNEs fulfil the social needs of the stakeholders in developing regions, they can easily be considered as socially responsible agents there, enhancing their reputation.

Second, stakeholders from the home country also monitor what MNEs do in the different areas where they operate in order to capture a complete vision of the MNEs' CSR strategy (Ma *et al.,* 2016). For example, Thams *et al.* (2016) show that home countries with a high level of globalisation are more aware of MNEs' CSR initiatives worldwide. More globally connected through formal and informal media, MNE stakeholders in developed home countries (Thams *et al.,* 2016) tend to have more knowledge and awareness of social problems in developing areas (Fan *et al.,* 2013). This fuller picture of how MNEs perform in other areas, including their international CSR strategy, can make MNEs' CSR practices in developing countries relevant to home country stakeholders. MNEs that can meet these stakeholders' social expectations will increase their reputation via legitimacy and commitment to social improvement (Bansal, 2005).

Finally, MNEs that operate in foreign regions, especially in developing ones, tend to be more visible in their social actions worldwide (Chakrabarty and Wang, 2012). The tremendous growth of global media and information and communication technologies (ICTs), which now reach very remote areas, has increased the speed and reach of reporting on unethical local practices (Falkenberg, 2004). The large number of scandals has increased vigilance of corporate activity in underdeveloped regions (Falkenberg, 2004; Tan, 2009), and negative publicity from stakeholder protest now typically damages the MNE's global reputation (Chakrabarty and Wang, 2012). The general public is demanding that firms not only provide products and services but also exhibit good citizenly behaviour (Musteen *et al.,* 2013). Further, international agents such as intergovernmental organisations (i.e., United Nations, World Economic Forum, International Labour Organization, Greenpeace) monitor MNEs' CSR practices closely, especially in developing regions (De Lange *et al.,* 2016; Sethi and Rovenpor, 2016). Developing good relationships with non-governmental organisations (NGOS) in the social arena can help MNEs to make their CSR more visible and to improve their management of stakeholders' social requirements (Wang and Qian, 2011). Interacting with an NGO can avert or repair damage to the corporate reputation (Van Huijstee and Glasbergen, 2008). International organisations (e.g. the United Nations, the World Bank) are investing great effort in encouraging CSR, and the media have increased coverage of socially beneficial corporate activity. MNEs that engage this global network of institutions can persuade even more far-flung stakeholders of the impact of their CSR, enhancing their reputation when they respond properly to the social concerns of this larger group of agents.

Hence, MNEs that operate in developing regions and comply with stakeholders' diverse social expectations (i.e., socio-economic challenges, public service health programmes, capacity building for trade, or the building of schools) (Valente and Crane, 2010; Duque *et al.,* 2012) will gain a high visibility for their CSR practices – not only in the host country but also in the MNE's home country and internationally, consequently improving their level of corporate social performance. As such CSR practices are highly rewarded by the full diversity of their stakeholders in these three settings, the MNE achieves an extensive favourable corporate reputation. In this vein, Chiu and Sharfman (2011) found that best practices in the community, corporate governance, human rights and ethically conceived products and services within the firm had a positive impact on CSR initiatives while increasing the firms'

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visibility. We thus propose that MNEs' operations in developing regions positively moderate the relationship between corporate social performance and corporate reputation.

Hypothesis 3. *MNEs' operations in developing regions will moderate the relationship between corporate social performance and corporate reputation: The relationship will be more positive for MNEs with a high level of operations in developing countries.*

Methodology

Sample

We tested our hypotheses on a sample of US MNEs from the chemical (SIC 28), energy (SIC 29), and industrial machinery (SIC 37) sectors. These industries represent an appropriate setting for our research because of their deep environmental and social impacts worldwide (King and Shaver, 2001). The USA was selected as the parent-company's home country because these MNEs have a notorious socio-economic impact, not only in their home country but also in other markets, regardless of cultural similarities. Furthermore, the USA assigns great importance to social and environmental issues at the local and global levels (King and Shaver, 2001; Strike *et al.*, 2006).

We established an initial sample of 300 US MNEs (100 MNEs for each industry) based on the information available from the Standard & Poor's (Capital IQ) and KLD databases. Because of available information in the *Fortune* survey of *America's Most Admired Corpo*rations, our final sample consists of 102 MNEs and 652 observations over the period 2005–2010. By industry type, the MNEs were distributed as follows: 43 from the industrial machinery industry (279 observations), 40 from the chemical industry (260 observations), and 19 from the energy industry (113 observations).

Financial information was also collected from Standard & Poor's (Capital IQ), and information on CSR from the KLD database. Finally, *Fortune's* Corporate Reputation Index was used to measure the MNEs' degree of corporate reputation.

Description of the Variables

Independent Variables

Corporate Social performance of the MNE. CSR policies and practices were acquired from the KLD database, created by Kinder, Lydenberg, and Domini. KLD ranks companies based on a series of social dimensions. A broad range of prior studies use KLD (Sen and Bhattacharya, 2001; Servaes and Tamayo, 2013). KLD uses a great variety of sources to measure and evaluate firms' socially responsible behaviour. First, it includes annual information from the firm drawn from a questionnaire on the firm's social responsibility practices. It also gathers information on annual accounts, quarterly reports and other reports related to the responsible initiatives that the firm develops. Second, KLD obtains information from external sources, such as articles from the economics and business press (*Fortune*, *Business Week*, *Wall Street Journal*, among others), surveys and the Internet. This evaluation system has several advantages. First, it evaluates all firms that publish financial information in Standard & Poor's database. Second, it establishes a separate ranking for each of the main social dimensions. Third, it uses uniform, objective criteria in evaluating social aspects of firms. Finally, the information studied comes from divergent sources, from both internal sources (the firms themselves) and external sources (Waddock and Graves, 1997).

KLD includes a wide range of CSR practices. This study focuses on the social indicators that play an essential role in establishing relationships with different stakeholders (McWilliams and Siegel, 2001). Following Waddock and Graves (1997), we used the indicators regarding relations with the local community, relations with women and disadvantaged groups, relations with employees, environmental impact, and socially responsible characteristics of the products the organisations provide. Each indicator was assigned a score ranging from +2 to −2 points, where

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+2 indicated a clear strength, 0 a neutral position, and −2 a clear weakness. The global score of the *social performance of MNEs* variable was calculated as the arithmetic mean of the values of the five practices for each of the sample observations.

Geographical diversification. Previous international business studies have used a regional entropy index (REI) to measure the degree to which MNEs operate in differentiated markets (Hitt *et al.*, 1997). The REI is defined by the following formula:

$$REI_j = \sum_{i=1}^{n} P_{i,j} \times \left(Ln \frac{1}{P_{i,j}} \right) \quad (1)$$

where $P_{i,j}$ refers to percentage of sales from the j-th company in the i-th region and $Ln(1/P_{i,j})$ to the weight assigned to each region. Hitt *et al.*'s (1997) measure has gained strong and growing acceptance in the literature on firms' international diversification in recent years (Zahra *et al.*, 2000; Yeoh, 2004). The primary reason to use percentages of sales as a proxy for geographical diversification is that they capture the degree to which firms have international presence. Furthermore, the REI considers both the number of global market regions in which a firm operates and the relative importance of each global market region to total sales.

In the past few decades, researchers have grouped countries into global regions to identify the foreign regions where MNEs operate. Zahra *et al*. (2000) grouped countries into the following regions: USA, Canada, Asia, Australia, Latin America, and Africa. The World Bank (1995) developed a similar classification based on differences between developing and developed regions. Concretely, differences between these two types of regions consider not only the level of economic development, but also the political, social, and financial factors. Combining these classification criteria, and based on the importance of both developed and developing countries for this study, we used the following regions: Europe, America and Canada, the Middle East, Asia (excluding Japan and Korea), Australia, and Latin America. High index values of REI indicate that the MNE operates in many different regions and low values that the MNE operates in fewer or in a single region.

MNE's operations in developing regions. Berry (2006) classified foreign regions into two different global regions: advanced (developed) and developing, each consisting of various sub-regions. We based this study on the World Bank's classification of regions (2015), which includes East Asia and the Pacific, Africa, Central Asia, and Latin America as developing regions. The MNE's operations in developing regions were calculated using the total sales in all of the developing regions in which the MNE operates divided by total sales of the MNE (Aguilera-Caracuel *et al.*, 2015).

Dependent Variable

Corporate reputation. We used the *Fortune* survey of *America's Most Admired Corporations* to capture the reputation of the US MNEs. Since the early 1980s, *Fortune* has published the numerical corporate reputation scores annually, lauding the top firm as *America's Most Admired Company*. Prior to this ranking, firms certainly had reputations, whether communicated informally or based on a hodgepodge of measurements (Riahi-Belkaoui and Pavlik, 1992), but there was no easy way to compare corporate reputations. It was this 'problem' that the *Fortune* survey sought to resolve by soliciting evaluations of corporate reputation from directors, executives, and financial analysts (Bermiss *et al.*, 2013). To maintain data consistency, respondents rate firms from their own industries – where they conceivably have ample access to information about the focal firm as well as the industry – thereby assuring an informative perceptual result. Specifically, respondents are required to rate firms in their industry in eight dimensions, including asset use, financial soundness, community and environmental friendliness, ability to develop key people, degree of innovativeness, investment value, management quality and product quality. The firm's overall reputation score is the average of the 8 scores and ranges from 0 to 10. The scores are then used to rank firms in order of reputation within each industry. We used absolute ratings (not relative rankings) because we are here concerned with the individual MNE's reputation, not its relative standing within its industry (Basdeo *et al.*, 2006). All scores were standardised for the empirical analysis.

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Fortune scores have been used extensively to measure reputation in previous studies (Fombrun and Shanley, 1990; Roberts and Dowling, 2002; Basdeo *et al.*, 2006; Love and Kraatz, 2009; Philippe and Durand, 2011). Although this measure has some shortcomings (Brown and Perry, 1994; Fombrun and Shanley, 1990), we use it because it evaluates corporate reputation on the basis of several criteria, offers longitudinal data and includes a large number of firms (Philippe and Durand, 2011) key-features given the focus of our study. Moreover, *Fortune's* data have the virtue of not being highly correlated with KLD social rating data (Szwajkowski and Figlewicz, 1999), the data we used to operationalise corporate social performance.

Finally, this variable was led by one year in order to apply the Wiener-Granger test to ensure causality (Wiener, 1956; Granger, 1969). As a result, corporate reputation was measured during the period 2006–2011, while the information on control variables, and the independent and moderating variables were measured from 2005 to 2010.

Control Variables

Type of industry. To account for industry differences, we used industry dummies for two of the three activity sectors included (industrial machinery and chemical sectors).

Size. Firm size can positively influence the firm's reputation (Deephouse, 1996; Deephouse and Carter, 2005), visibility, and relationship to its environment (Deephouse, 1996). We included the total revenue for each MNE (all of the MNE's business units were included).

Slack financial resources. MNEs' level of slack financial resources could influence their corporate reputations. We used the current assets/current liabilities ratio (Bansal, 2005).

Firm financial performance. MNEs' level of financial performance may affect the MNE's reputation. We used the return on assets ratio (ROA) (Chih *et al.*, 2010; Razafindrambinina and Sabran, 2014).

Table 1 summarises the variables used in the empirical analysis. T1

	Variable name	Measurement
Control variables	Industrial machinery industry	Dichotomous variable (0 = does not belong to sector; 1 = does belong to sector)
	Chemical industry	Dichotomous variable (0 = does not belong to sector; 1 = does belong to sector)
	Firm size	Total sales of each MNE
	Slack financial resources	Total current assets/current liabilities (Bansal, 2005)
Independent variables	MNE's social performance	Indexes obtained from the KLD database, considering the criteria proposed by Waddock and Graves (1997): –Relations with the local community –Relations with women and disadvantaged groups –Relations with employees –Impact on the natural environment –Socially responsible characteristics of the products offered by the organisations
	Geographical diversification	Regional entropy index (Hitt et al., 1997)
	MNE's operations in developing regions	Total sales in the countries that belong to each developing region divided by total sales of the MNE
Dependent variable	Corporate reputation	*Fortune* Corporate Reputation Index (obtained through the *Fortune* survey of America's Most Admired Corporations) This survey rated firms in their industry in 8 dimensions: asset use, financial soundness, community and environmental friendliness, ability to develop key people, degree of innovativeness, investment value, management quality and product quality.

Table 1. Description of the variables

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Results

We conducted a static panel data analysis with STATA 12.0 software. This method considers unobservable heterogeneity, including fixed or random effects in the model. Whereas a fixed effects estimator assumes that the unobservable individual effects are fixed parameters to be calculated by correlation with the regressors, the random effects estimator considers the selected firms to constitute a random sample (unobservable individual effects are assumed to be stochastic and uncorrelated with the regressors included in the error term) (Hausman, 1978).

We performed the Hausman test to determine whether to apply fixed or random effects. The null hypothesis is that there is no difference between fixed and random estimators (Hausman, 1978); if the null hypothesis is rejected, fixed effects are used. The Hausman test led to rejection of the null hypothesis, so we chose the fixed-effects model. As mentioned above, the variable corporate reputation was led by one year (2006–2011) using STATA 12.0.

Table 2 presents the descriptive and correlation statistics for the variables used in the analysis. T2

Table 3 shows the results from the fixed-effects regression analysis using a hierarchical regression analysis to T3 better illustrate the moderating effects. Model 1 includes the control variables (type of industry, firm size, slack financial resources, and financial performance). Model 2 adds the independent variables (corporate social performance and geographical diversification). Finally, Model 3 incorporates the two moderating variables. Variance inflation factors (VIF) were below 5 in our three models, indicating that the results are not biased due to problems of multicollinearity (Hair *et al.*, 2009). We standardised the variables in order to incorporate multiplicative terms into Model 3 (Hair *et al.*, 2009). All values for the R^2 *within* are above the acceptable limit in the three models. The Wald-test also indicates that the model fits the data well.

Our results show that the relationship between corporate social performance and corporate reputation is positive and statistically significant, supporting Hypothesis 1.

The direct relationship between geographical diversification and corporate reputation is positive and significant, however it is beyond the scope of this research. However, and contrary to our expectations, we did not find evidence for a moderating effect of geographical diversification in the relationship between MNEs' social performance and corporate reputation. Hypothesis 2 is thus not supported for our sample of MNEs.

The moderating effect of MNEs' operations in developing regions on the relationship between corporate social performance and corporate reputation was positive and significant. Therefore, a high level of operations of MNEs in developing regions can help MNEs exploit their CSR initiatives to improve their reputation significantly. Figure 1 presents the moderating effect of operating in developing countries supporting F1 Hypothesis 3.

	Median	Standard deviation	1	2	3	4	5	6	7
1. Corporate social performance	0.11	0.5	1						
2. Industrial machinery sector	0.43	0.50	−0.01	1					
3. Chemical sector	0.41	0.49	0.01	−0.72***	1				
4. Firm size	21.45	45.34	0.05	−0.04	−0.01	1			
5. Slack financial resources	0.24	0.36	0.01	−0.10**	0.10**	0.10**	1		
6. Geographical diversification	0.6	0.43	0.26***	0.03	0.03	0.02	0.15***	1	
7. Financial performance	0.23	0.21	0.01	−0.09**	0.12**	0.13*	0.22***	0.12*	1
8. MNE's operations in developing regions	0.29	0.39	0.32***	0.02	0.03	0.02	0.17**	0.21***	0.18**

Table 2. Descriptive and correlation statistics
Number of observations (N) = 652; Number of groups (MNEs) = 102
$^{\dagger}p < 0.10$;
$^{*}p < 0.055$;
$^{**}p < 0.01$;
$^{***}p < 0.001$

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	Model 1	VIF	Model 2	VIF	Model 3	VIF
Constant	2.78 (2.35)	1.15	2.12 (2.25)	1.15	1.89 (2.22)	1.15
Industrial machinery sector	2.49 (4.24)	1.30	2.47 (4.25)	1.30	2.46 (4.24)	1.30
Chemical sector	−17.08 (9.56)	1.73	−17.11 (9.56)	1.73	−17.15 (9.56)	1.74
Firm size	−0.22 (0.36)	1.22	−0.23 (0.36)	1.22	−0.24 (0.30)	1.22
Slack financial resources	−0.09 (0.07)	1.19	−0.09 (0.07)	1.18	−0.09 (0.07)	1.17
Financial performance	−0.24 (0.18)	1.16	−0.23 (0.18)	1.16	−0.21 (0.18)	1.16
Corporate social performance			**0.38^{**} (0.08)**		**0.33^{**} (0.08)**	1.55
Geographical diversification			**0.41^{***} (0.06)**		**0.37^{***} (0.06)**	1.11
MNE's operations in developing regions					**0.20^{**} (0.09)**	1.73
Corporate social performance* Geographical diversification					**0.06 (0.07)**	1.37
Corporate social performance* MNE's operations in developing regions					**0.26^{***} (0.07)**	1.55
Hausman	10.08^{*}		11.06^{*}		12.19^{**}	
R^2 within	0.17		0.24		0.28	
Wald χ^2	81.02^{*}		83.01^{**}		84.01^{***}	
Number of observations	652		652		652	
Number of groups (MNEs)	102		102		102	

Table 3. Results of fixed effects regression
Dependent variable: Corporate reputation of the MNE
Table includes the regression model coefficients (estimators).
Standard deviations are contained in parentheses.
$^{\dagger}p < 0.10$;
$^{*}p < 0.055$;
$^{**}p < 0.01$;
$^{***}p < 0.001$

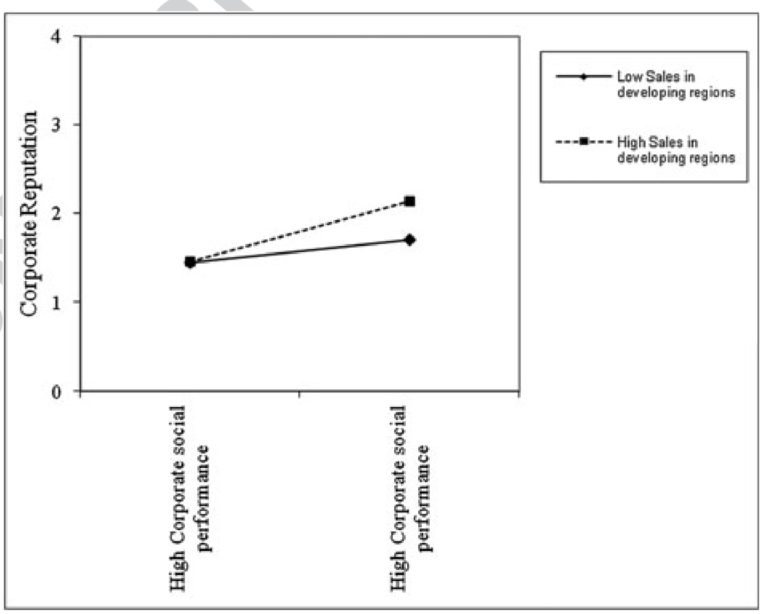

Figure 1. Moderating effect of MNEs' operations in developing regions in the relationship between corporate social performance and corporate reputation in MNEs

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Conclusions and Discussion

How the relationship between firms' CSR-reputation forms and functions in various regions around the world is a particularly intriguing and underexplored area of today's increasingly globalised business environment (Vidaver-Cohen and Brønn, 2015). Although CSR initiatives and corporate reputation are influenced by specific stakeholders' perception of the country-context in which firms operate (Brammer and Pavelin, 2004; Garberg and Fombrun, 2006; Mirvis, 2008), the role of MNEs' CSR and corporate reputation in accounting for country differences has not received sufficient attention to date (Kang, 2013; Hah and Freeman, 2014). We address this research gap by studying the relationship between MNEs' CSR and their corporate reputations. We also analyse whether the degree of geographical diversification and the MNE's presence in developing regions strengthened the relationship between MNEs' CSR initiatives and reputation.

Contributions and Implications for Research

Our results show a positive relationship between MNEs' CSR and their corporate reputation. Although some studies did not find evidence for a clear influence of CSR on reputation (Park *et al.*, 2014; Valenzuela-Fernández *et al.*, 2015), most prior research has shown that CSR initiatives influence reputation positively (Abdullah and Abdul Aziz, 2013; Fombrun and Shanley, 1990; Turban and Greening, 1997). For example, Fombrun and Shanley (1990) found that stakeholders assign higher reputations to firms that give proportionally more to charity than other firms, and Turban and Greening (1997) concluded that corporate social performance was related to firms' reputations and attractiveness as employers. Our results are consistent with the findings of most previous studies and support the view of corporate reputation as an expected outcome of CSR (Lange *et al.*, 2011; Agarwal *et al.*, 2015) and consequently as an extrinsic motivation for firms to engage in CSR initiatives (Fombrun, 2005; Jamali, 2008).

We also found that operating in developing regions can help MNEs to take advantage of their CSR to improve their corporate reputations. Previous research on the relationship between CSR and reputation has suggested that this relationship is affected by variables at industry level (Melo and Garrido-Morgado, 2012) and environmental level (Valenzuela-Fernández *et al.*, 2015). For example, Melo and Garrido-Morgado (2012) found that type of industry moderated this relationship in a sample of 320 American-listed companies. Valenzuela-Fernández *et al.* (2015) found that relationship between CSR and reputation was affected by the economic conditions of the environment. We extend the existing literature by providing empirical evidence that the CSR-reputation relationship is also influenced by the country-context where MNEs operate. In developing regions, MNEs gain high visibility and generous rewards from stakeholders. Our view and results are consonant with Brammer and Pavelin (2006), who argued that firms' social initiatives that result in a strong record of environmental performance could damage or enhance reputation, depending on whether the firm's activities 'fit' environmental concerns in the eyes of stakeholders.

Contrary to our expectations, we did not find evidence for a moderating effect of geographical diversification on the relationship between CSR and corporate reputation. The reason might be that some MNEs operate in many host countries but that most are very similar in terms of stakeholders' social needs and economic, legal, cultural, and institutional profile. If this is the case, a high level of geographical diversification would not necessarily mean that MNEs face a greater variety of stakeholders' social demands. In other words, these MNEs could operate in many countries and yet be very similar in terms of stakeholders' social demands because they share a common institutional profile (i.e., similar regulations, cultural values, and institutional support).

Following the IB literature (Kostova *et al.*, 2008; Casillas *et al.*, 2009; Kang, 2013), we regard MNEs as complex organisations that have operations in different countries and regions, considering not only the number of markets in which they operate, but also the weight of sales attributed to each market (Hitt *et al.*, 1997), and the MNEs' operations in very relevant regions, such as the developing ones (Aguilera-Caracuel *et al.*, 2015). Our results thus reinforce the internationalisation literature by applying these different settings to MNEs' CSR and reputation areas.

Finally, we extend the stakeholder theory (Freeman, 1984; McWilliams and Siegel, 2001; Jamali, 2008) in the context of MNEs (Christmann, 2004; Brammer *et al.*, 2009) by considering that MNEs face a great variety of stakeholders' CSR demands in the local context (host country), in the home country and at the international level.

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Managerial Implications

Our research also has significant implications for managers and policymakers. Our results suggest that managers should develop CSR initiatives to obtain reputational gains. Reputation is a valuable intangible asset for firms, and it can be a source of competitive advantage (Barney, 1991). MNEs that have a positive reputation will be able to attract more talented employees, improve their internal network, get better conditions for financing, and be better prepared to overcome crisis situations (Bansal and Clelland, 2004; Fombrun, 2005; Delmas and Burbano, 2011).

Managers of MNEs should develop CSR initiatives both in general and specifically in developing regions that are in greater need of political and financial support (Engle, 2007). By implementing CSR initiatives in developing regions, MNEs gain great visibility as responsible firms, and such visibility contributes to recognition and development of a favourable reputation. It is thus crucial that managers make identifying the stakeholders' specific social needs in the different regions where the MNE operates a priority. By doing so, the MNE will also contribute to enhancing sustainable and economic development worldwide and reinforce its reputation worldwide.

Finally, achieving worldwide visibility of the MNE's CSR initiatives is an ongoing challenge for executives. Successful management of this challenge requires both constantly evaluating the impact of the MNE's actions in the social arena and reacting quickly to any potential negative consequences of such actions in the different areas where the MNEs operate.

Limitations and Avenues for Future Research

Our study has several limitations. First, we must exercise have caution when generalising from our results. All MNEs in the sample were headquartered in the U.S. Home country regulations and institutional conditions influence MNEs' social approaches in the regions where they operate (Durán-Herrera and Bajo-Davó, 2013). Future studies could validate our results by using a sample of MNEs headquartered in different countries and/or including other types of firms, such as export firms or small and medium-sized enterprises.

Second, while we consider CSR as a whole, it is in fact a multidimensional construct including aspects such as community, diversity of the work force, employee relationships, product issues and environmental issues. It would be very interesting for future research to investigate the moderating role of geographical diversification and operating in developing countries on each dimension of CSR individually. In addition, alternative proxies of CSR such as CEO interviews and questionnaires could be used.

Third, we used the global *Fortune* score to measure corporate reputation. However, in the context of a particular developing country, stakeholders, for instance, might hold a company in high repute based on the quality of its products but in poor repute regarding its social behaviour in the context of a developing country. It is therefore advisable to use other complementary rankings to measure corporate reputation. For corporate environmental reputation, relevant rankings could include Best Global Green Brands (Interbrand, 2014) or the Global 100 Most Sustainable Corporations in the World, prepared by Corporate Knights.

Fourth, although MNEs' sales in developing regions prove that the firms interact in these areas (Aguilera-Caracuel *et al.*, 2015), it is advisable to reinforce this measure by obtaining data on the firms' assets in these regions (i.e., number and size of facilities).

Fifth, our study focuses on the impact of geographical diversification and operating in developing regions as moderators of the relationship between CSR and reputation. It would be interesting for researchers to continue to examine contingent factors that may influence this relationship, such as industry type, government, and institutional support.

Finally, we highlight that the IB literature lacks consensus on how MNEs should design CSR, specifically whether they should seek global integration through their own centralised CSR strategies or consult with stakeholders to respond to local needs (Muller, 2006). Global integration may be more 'proactive and efficient', but it can prevent a sense of local ownership and legitimacy. Further, decentralised strategies can also become 'fragmented/ad hoc' (Jamali, 2008) if not coordinated properly. A very detailed discussion of global integration versus adaptation of MNEs' CSR management practices would also be very relevant for academia.

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