The influence of subsidiary, international company and environment factors on social response activities and corporate social performance: The case of multinational enterprises operating in Tunisia

1. Research background and motivation

The rapid globalization of world economy has resulted the increasing number of multinational enterprises (MNEs) operating beyond domestic domains. MNEs which are the source of most of the world's foreign direct investment (FDI) have been playing a vital role in the advanced and emerging countries (Park and Ghauri 2015). In expanding the frontiers of globalization, MNEs can bring benefits to host countries such as technology and management, know-how transfers, enhancement of innovativeness of other firms and company spinoffs in the country (Dimitratos, Liouka, and Young 2009). However, those benefits come with great challenges. One of the major outstanding challenges that MNEs face is related to their policy approach toward preserving the host country's social well-being.

While MNEs are required to comply with good of conduct principles developed by the host countries, the extent to which MNEs are involved in a set of social activities and practices is one of the fundamental and prominent topics that have gained attention recently. This is primarily because of the increased awareness of foreign stakeholders that the quest for profit is thus the reason for the geographic expansion of MNEs (Zyglidopoulos 2002). Furthermore, some proponents argue that the involvement of MNEs in social activities and practices leads to maintaining legitimacy (Kostova and Zaheer 1999), consent and support of the foreign stakeholders (Reimann et al. 2012) and credibility (Bansal and Roth 2000).

As a recent phenomenon, MNEs must consider that their mission should move beyond mere profit maximization to satisfy the expectations of the society where they operate (Park and Ghauri 2015). Doing so effectively requires taking a strategic tool into account. In this vein, corporate social response seems a tool that can and should be used by MNEs to deal

with economic, ethical, social and environmental demands from a wide range of local stakeholders in host country. Therefore, corporate social response which is structured as a series of social activities can lead MNEs to trigger of the promotion of the host country's social well-being (de la Cruz Déniz-Déniz and Garcia Falcon 2002). However, given the importance of this subject, the current literature is essentially focused on local corporate social response, with too little attention being given to international corporate social response. This is the most common cause of failure of MNEs to respond effectively to social demands (Husted and Allen 2006).

Thus, the relative role of corporate social response raises critical questions about its antecedents and consequence(s) in MNE's subsidiaries. During the mid-seventies, two largely separate streams of research on MNEs have developed. First, there has been a shift in emphasis towards a wide range of MNE action areas such as employment (e.g., Alter 1994; Buch and Lipponer 2010; Dachs and Peters 2014), environment preservation (e.g., Zhao 2013) and technology transfer (e.g., Helleiner 1975; Ghoshal and Bartlett 1988; Görg and Greenaway 2004; Elmawazini 2014). Second, scholars in International Business (IB) have paid attention to the strategic importance of corporate social response and the subsidiary, international company and environment factors influencing it (e.g., de la Cruz Déniz-Déniz 1999; de la Cruz Déniz-Déniz and Garcia Falcon 2002; Borchani, 2010).

All scholars in the international corporate social response field have focused on MNEs operating in developed countries. But none of them have attempted to explain the main factors that prompt MNEs to adopt social response activities in emerging country settings. However, what is even more surprising is the lack of work that specifically addresses the links between the two. In essence, the former stream has emphasized some domains of corporate social performance, while the latter has focused on the antecedents of social strategy in the MNE's subsidiaries. The interdependence between multinationals' social

response and corporate social performance is very embryonic, then the explicit reconciliation of these two bodies of work represents a valuable contribution.

The present research took predominantly a stakeholder approach to study multinationals' social response. This research rested on the premise that MNE's subsidiaries face stakeholder issues and that their involvement in the social response activities contributes to satisfying local stakeholder demands and building a high social performance. In fact, the analysis of MNE's subsidiaries is becoming increasingly important since, unlike headquarters, MNE's subsidiaries seek to face the pressure of foreign stakeholders (Epstein and Roy 1998; Rugman and Verbeke 1998b). Moreover, MNE's subsidiaries are likely to be more risky than domestic firms because great pressures from local stakeholders faced by them. MNE's subsidiaries assume different roles and responsibilities in different host countries, in particular countries of the emerging world. Regarding those responsibilities, MNE's subsidiaries need to participate in institutional development and foster capabilities to respond to demands of stakeholders (Child and Tsai 2005; Tatoglu et al. 2014; de la Cruz Déniz - Déniz and Garcia Falcon 2002).

In addition, a basic criterion for MNE's subsidiaries success in responding to multiple stakeholder demands is their expatriate managers' ability (Miao, Adler, and Xu 2011). As noted by Ho (2007), "for expats, the assignment of the expatriate has become a matter of survival". A combination of individual and family factors is crucial for the effectiveness or success of expatriate assignment (Lee and Kartika 2014). Therefore, the personal factors in expatriation (e.g., marital status, previous international experience) can be served as moderating variables of the effect of expatriate managers' team on social response activities. This observation draws its theoretical foundations from stakeholder theory focusing on expatriate issues as emerging from the dynamics between expatriate managers and stakeholders.

Furthermore, the social response activities are defined (by some authors) in relation to the workplace which takes into account a host of factors including autonomy, trust and organizational justice (Weaver and Treviño 1999, 2001a). The relevant factor of the corporate social response and the work environment is procedural justice which is seen as perceived fairness of the procedures used in decision-making (Wan, Sulaiman, and Omar 2012). It is highlighted that procedural justice may act as a mediating variable between the subsidiary and its respect for the strategic decisions. Procedural justice also has direct impact on this respect (Taggart 1997a; Kim and Mauborgne 1988). Likewise, procedural justice in promotion decisions is also essential because it leads to organizational commitment (Rhoades, Eisenberger, and Armeli 2001; Murphy et al. 2006). Therefore, procedural justice may act as a moderating variable between corporate social mission and social response activities which are derived from it.

Based on the above discussion, it appears that very few studies have made a great deal of efforts to adopt an integrative approach taking the critical factors of corporate social response into account. Hence, we will attempt to fill this research gap. Although there are in fact welcome exceptions (e.g., de la Cruz Déniz- Déniz and Garcia Falcon 2002; Borchani 2010), most of them have focused on the social strategies in the developed world. Another gap that needs to be addressed is related to consequence (s) of the adoption of social response activities that remain relatively unexamined. In order to address this research gap, this study aims to get more understanding about the consequence(s) of corporate social response.

Taking a stakeholder approach to MNE's subsidiaries social response, this research examines one consequence that may capture a major element of it. The latter is corporate social performance which constitutes a major requirement for safeguarding social well-being. In this study, a results-oriented approach to corporate social performance is proposed for three main reasons (Husted 2000). First, from this perspective, corporate social performance

is intended to shift the emphasis away from corporate social policy process to results orientation. Second, through this clearer definition, a more precise operationalization can be found easily. In general, the more abstract concept the less likely it will be operationalized. Finally, the operationalized definition of corporate social performance serves to produce a clear prediction of the causal relationship with the independent variables such as corporate social response.

Therefore, the overall aim of this research is to incorporate organizational, international and environmental aspect of antecedents to determine their impact on MNE's subsidiaries social response and social performance. Within this broad theme, this study has a number of specific objectives:

(1) To explain the influences of subsidiary factors, international company factors and environment factors on social response activities of MNE's subsidiaries.

(2) To explain the influence of social response activities of MNE's subsidiaries on social performance.

(3) To identify the moderating effects of marital status and previous international experience on the relationship between origins of the managers and social response activities.

(4) To identify the moderating effect of procedural justice on the relationship between corporate social mission and social response activities.

2. Approach taken

2.1. Sample and data collection

A comprehensive model of MNE's subsidiaries social response which encompasses antecedents, moderators and consequence is developed. To empirically test the viability of this model, survey approach is applied in this study. Conducting survey approach involves the sample selection from population. The population of this research includes MNE's

subsidiaries from a wide variety of home countries and industries sector which are sampled by a random process. The list of 1736 FDI firms is obtained through the Foreign Investment Promotion Agency (FIPA- Tunisia). This source is particularly useful as it contributes to the vast information on inward FDI and all foreign investment activities undertaken in the country. While there is much reliable and accurate information, the access to the homepage is deemed necessary to ensure the continued existence of MNEs. After excluding firms whose corporate homepages are difficult to find, a total of 251 subsidiaries is selected using convenience sampling. The sample can be described in terms of home country, share capital, industries sector and number of employees. Most of the subsidiaries analyzed are mainly from European countries (more than 92 percent). Moreover, more than half of the subsidiaries have a share capital greater than 250 thousand euros. Relating to sector of operation, it derives that around 90.4 percent of subsidiaries operate in various manufacturing industries such as textile, automotive, electronics and electrical equipment. As far as the human resource of the investigated sample is concerned, the average number of subsidiaries' employees is 361.

In this study, the data are collected through face-to-face survey. The face-to-face survey is adopted to provide a means of generating a considerable amount of data and then obtaining a relatively high response rate. In addition, the flexibility and adaptability of face-to-face survey enable us to interact with respondents (Kelly et al. 2003). For these purposes a carefully designed questionnaire is developed, using a range of items based on existing literature (e.g., de la Cruz Déniz-Déniz 1999; de la Cruz Déniz-Déniz and Garcia Falcon 2002; Jaworski and Kohli 1993; Aryee, Budhwar, and Chen 2002). A pretest of the questionnaire is conducted among more than 30 subsidiaries. At this stage, many valuable improvements are made to it. During the data collection process, we distribute the final questionnaire to managers that are regarded as the best informants. In order to make

questions/items more easily understood this questionnaire is presented to them in French version. Managers are invited to answer questions about all research constructs. Once answers are provided, we treat them with strictly confidential guidelines. The key advantage of this approach is to make personal information harder to find.

2.2. Variables measurement

There are dependant, independent and moderating variables, coming from this questionnaire. Almost all of the questions variables are measured using five point Likert scale.

2.2.1. Dependent variables

The level of social response activities: This construct is treated as the dependant variable and is measured using de la Cruz Déniz-Déniz and Garcia Falcon's (2002) five dimensions, i.e. social mission establishment (4 items), stakeholders' environment analysis (4 items), social response formulation (5 items), social response implementation (4 items) and social response control and its results (4 items). An ordinal scale is proposed to capture the effort the MNE's subsidiaries devote to the set of sub-activities.

Corporate social performance: Although there is alternative valuation methods measuring corporate social performance (e.g., forced-choice survey instruments, content analysis for documents, behavioral and perceptual measures) problems exist in relation to its multi-faceted nature. Clear evidence verifying this situation can be found from Igalens and Gond (2003) commentary arguing that most of the measures developed focus on individual dimensions of corporate social performance yet one of them offers a comprehensive measurement tool focusing on corporate social performance domains. This tool, known as the Kinder, Lydenberg, and Domini (KLD) indicator, is commonly used in Anglo-Saxon empirical literature (e.g., Mattingly and Berman 2006; Wood 2010). It clearly distinguishes

between eight different domains by focusing on a company's stakeholders. According to Waddock and Graves (1997), the most relevant domains are employees, customers, the community and the environment. Thus, corporate social performance, which is considered as dependant variable, is assessed using Waddock and Graves's (1997) domains. An ordinal scale is created ranging from (1) very low to (5) very high to represent each domain respectively. Therefore subjective measures are used to ask respondents about performance in relation to four domains.

2.2.2. Independent variables

The independent variables included in the questionnaire are origins of the managers (1 item), autonomy (1 item), corporate social mission (2 items), number of countries (1 item), motives for entering the foreign market (6 items), competitive intensity (6 items), legislation (2 items) and actions and declarations of consumers and the general public (1 item) and potentially influence the phenomenon.

2.2.3. Moderating variables

Some moderating variables are also encompassed to account for marital status and previous international experience of expatriate managers and procedural justice.

3. Methods of analysis

3.1. Factor analysis and reliability test

An EFA with principal component extraction method and Varimax (orthogonal) rotation are conducted to assess whether the five social response constructs are distinct. The EFA suggests a clean and logical four-factor solution. The variables 'stakeholders' environment analysis and social response formulation' have high loadings on the first factor; and 'social mission establishment' has high loading on the second factor; and 'social

response implementation' has high loading on the third factor; and 'control of the social response process and its results' have high loading on the fourth factor. Cronbach's alpha values range from 0.89 to 0.96, exhibiting a high level of internal consistency for each construct (Nunnally 1978). A second EFA is conducted on the items of corporate social performance. The results indicate that two factors emerged with one factor representing environment and community and the other representing employees and customers. No factor loading is lower than 0.5. The correlation between these two factors is very low, indicating they bear little resemblance to one another.

Once factor reliability is assessed trough principal component factor analysis, the criterion validity results are reported. Using AMOS 18 software package, a confirmatory factor analysis (CFA) is also performed to test the model fit against the data. In order to attain this objective, a variety of fit indicators are currently available. The Chi-square is 676.07 with 419 degrees of freedom. The goodness of fit indices reveal that CFI = 0.962 and NFI = 0.932. In addition, the root mean square residual (RMSEA) is 0.05, indicates a good fit. Consequently, this study develops satisfactory model fit and ready to do further empirical validation. In the final measurement model, convergent validity is assessed with a single criterion recommended by Fornell and Larcker (1981), namely average variance extracted (AVE) should exceed the 0.5 threshold. All AVE values range from 0.504 to 0.86, greater than 0.5 for all constructs (see Table 1). In addition, Fornell and Larcker (1981) suggest that discriminant validity can be evaluated by comparing the AVE of each construct with the square of the standardized correlations between two constructs. We document that all AVE estimates are consistently greater than the squared correlation estimates, showing very good convergent validity and discriminant validity.

Table 1

AVE values and R-squareds

	AVE values	R-squareds
Social mission establishment	0.86	0.327
Stakeholders' environment analysis and social response formulation	0.504	0.314
Social response implementation	0.84	0.237
Social response process and its results	0.82	0.26
Employees and customers	–	0.07
Community and environment	–	0.162
Competitive intensity	0.504	–
Procedural justice	0.88	–

3.2. Testing techniques

To test the research hypotheses as developed in this study, the structural equation modeling (SEM) approach is used. Since all indicators are treated in a reflective manner (as in CFA), the model is first estimated using a covariance-based structural equation modeling (CBSEM). Due to the presence of multicollinearity in the data, a partial least square (PLS) regression is subsequently used as opposed to traditional CBSEM method. Some authors further explain why the PLS regression is more appropriate than CBSEM method. The IB literature provides only very limited insights into models and measures, as Vernaik, Midgley & Devinney (2005) indicate that the lack of scholarly attention is one of the reasons to consider adopting the PLS method. In addition, other inadequacies in data used are a very serious problem (e.g., data multinormality, data omissions). As primary data collection is mediocre, this seems to be another reason behind the focus on the PLS approach (Cassel, Hackl, and Westlund 1999). In this study, the PLS regression is conducted using Smart PLS 2.0 software (Ringle, Wende, and Will 2005). Like CBSEM method, PLS regression aimed at computing the statistical significance of the model path (but trough bootstrapping procedures) and the total effects (combined direct and indirect effects) (Vernaik, Midgley, and Devinney 2005; Snöke 2010, chap. 18).

4. Main findings

The findings of this research showed that customer loyalty and legislation are the factors functioning as catalysts in influencing social response activities of MNE's subsidiaries particularly in emerging country. In addition, there was no support for the moderating effects of personal factors (e.g., marital status, previous international experience) and corporate social mission. Furthermore, involvement in the social response activities is also important in enhancing certain priority domains of corporate social performance. More specifically, two of four social response activities - environment stakeholders' analysis and social response formulation and social response implementation- have positive effects on certain priority domains of social performance. However, each domain depends positively and significantly on only one social response activity. Table 2 summarizes the results.

Taken together, these results have important implications for subsidiaries' managers and employees. It is encouraging that, with two major exceptions, the four social response activities do not work at cross-purposes, in that they affect corporate social performance in the same direction. Moreover, it would be reasonable to note that, in dealing with powerless employees, subsidiaries' managers can focus on performance orientation. However, when dealing with good employees, subsidiaries' managers should rely on learning orientation (Dweck and Leggett 1988; Coad 1996). If they focus on two these goal orientations, MNE's subsidiaries are likely to strengthen the adoption level of social response activities which can further enhance social performance domains.

Table 2

Summary of significant effects of international company factors and environment factors on social response activities and domains of social performance

	Structural coefficients	t-Statistics total effects	Statistical significance
Customer loyalty AND stakeholders' environment analysis and social response formulation	0.27	2.13	$p < 0.05$
Customer loyalty AND social response process and its results	0.21	1.64	$p < 0.1$
Legislation AND social mission establishment	0.33	2.1	$p < 0.05$
Stakeholders' environment analysis and social response formulation AND employees and customers	0.24	2.1	$p < 0.05$
Social response implementation AND community and environment	0.2	1.97	$p < 0.05$

5. Research contributions

This paper makes several contributions to the general corporate social response literature. First, this study adds to the relatively small amount of empirical research to examine the influences of subsidiary factors, international company factors and environment factors on MNE's subsidiaries social response. This study helps provide a better understanding of the complex phenomenon of social response with MNE's subsidiaries. Second, unlike previous studies, this research investigates the moderating effects of personal factors (e.g., marital status, previous international experience) of expatriate managers and procedural justice. This research therefore contributes to this new evidence by using interaction terms to examine their moderating effects. Third, this study is the first empirical research to adopt a results-oriented approach looking at the relation between MNE's subsidiaries social response and corporate social performance particularly in an emerging economy context. Finally, this study is timely and relevant because it examines the complex phenomenon of MNE's subsidiaries social response not only from an aggregate perspective

but also for each theoretical framework separately. For example, stakeholder theory is adopted to explain the influence of MNE's subsidiaries social response on corporate social performance. It is also introduced to describe the influence of expatriates' marital status and previous international experience. Institutional theory is used to explain the influences of number of countries and legislation on adoption level of social response. Furthermore, industrial organization theory and resource based view of the firm are used to describe the influence of competitive intensity.

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