ABSTRACT

This paper proposes a conceptual model that explains MNEs subsidiaries’ CSR engagement. Extending the awareness-motivation-capability framework (Chen, 1996), the current paper develops a tri-dimensional model which incorporates constructs of local connectedness, local responsiveness, and subsidiary resources to explain why and how MNE subsidiaries formulate and implement their CSR strategies and practices.

KEYWORDS: Corporate social responsibility, Awareness-motivation-capability, MNE subsidiary

INTRODUCTION

Corporate social responsibility (CSR) has been a popular research issue among academicians and practitioners, indicating the concept of sustainability become the competition focus of next era (Porter & Kramer, 2006). From the issues of environmental protection, human rights, labor relation, corporate governance, community to that of diversity, modern enterprises pursuing maximized profit should incorporate the ethical issues into their strategic planning. To enhance their competitiveness, MNEs through market-seeking and/or factor-seeking FDI strategy exploit the location advantage across borders. However, as bearing the foreign liability when competing with the local firms, MNEs are required to commit higher CSR activities.

Arthaud-Day (2005) pointed out that definitional, conceptual, and methodological complexity has made cross-cultural, empirical studies rather difficult to conduct. Instead, researchers have tended to focus on conceptual pieces, localized qualitative (i.e., case) studies, or quantitative evaluations of firms within a single country (as noted above). Multilevel and multi-method studies are noticeably missing, despite an overt academic call for a greater diversity of methods to capture the range of interests in the CSR field. In the next section we review the key studies that explore CSR in relation to MNEs, and MNE subsidiaries.

To date, the CSR studies indeed help us understand the logics of firms' willing to engage in CSR and its consequence. However, after literature review, the present project finds previous CSR studies based on domestic firms cannot clearly delineate cross-border CSR policies of MNCs. One common ground for all of the previous studies is that they all call for more empirical studies in the Asian context (Husted & Allen, 2006; Jamali, 2010; Muller, 2006), specifically in the small emerging markets such as Taiwan, Malaysia, Singapore, etc. (Hah & Freeman, 2013): What is the driving force of CSR adoption of MNE subsidiaries in small emerging countries? In response to these calls, the researcher proposes a tri-dimensional conceptual model, which is
built on the previous MNE CSR studies, for classifying the types of subsidiary CSR adoption in the next section.

**LITERATURE REVIEW AND PROPOSITIONS**

McWilliams & Seigel (2001) develop a perspective of firm to explain firm’s optimal CSR engagement. In the demand side, CSR can be used as a differentiation strategy to create competitive advantage. Extending this perspective, the researcher attempts to discuss that MNEs may not only engage in CSR for obtaining legitimacy, but also for building location-bounded competitive advantage in the host country. Instead of adopting one of previously explained MNE CSR frameworks, the project will employ a strategic approach to explore why and how MNEs manipulate their CSR strategies by developing a rigorous tri-dimensional conceptual framework based on the Awareness-Motivation-Capability (AMC) perspective (Chen, 1996), as shown in the Figure 1.

The proposed framework borrows and extends the concept of local responsiveness pressure and incorporates two concepts that may help explain MNE subsidiary actions (strategies). The dimension “local connectedness” is mainly borrowed from the network theory. The dimension “subsidiary resource” is borrowed from the resource-based view (RBV). The concepts of local connectedness, local responsiveness, and subsidiary resources in the proposed framework to explain MNE subsidiary CSR strategy exactly correspond to the concepts of awareness, motivation, and capability in the AMC framework respectively.

![Figure 1: A tri-dimensional conceptual framework of subsidiary CSR adoption](image)

The awareness-motivation-capability framework has been increasingly adopted by strategy research (Yu & Cannella, 2007). This project extends this framework into a global CSR context. The extended awareness-motivation-capability framework implies that MNEs will respond to a rival’s CSR engagement (action) to the extent that they are (1) aware of the action and of the country where the action took place, (2) motivated to respond to the action and to defend, and (3) capable of deploying resources for responding in the host country.
Awareness—Local Connectedness and CSR Adoption in Subsidiaries

When the subsidiaries local connectedness grows, its awareness of overall competitive environment and of its rivals’ strategic CSR actions grows simultaneously. The level of such awareness is dependent on several factors such as degree of resource dependency on host country, degree of vertical integration, timing of entry, and host country’s strategic importance to the MNE. As the awareness grows higher, the likelihood of effectively responding to these challenges also grows. Thus we propose:

*Proposition 1: Local connectedness is positively related to the subsidiary’s CSR engagement.*

Motivation—Local Responsiveness Pressure and CSR Adoption of the Subsidiary

Empirical studies confirm that pressure from government, NGOs, consumers, and community group have positive effect on firms CSR adoption. In the host country context, these pressures amplify with the liabilities of foreignness for MNE subsidiaries operating in the host country. Theories of foreign direct investment have argued that foreign firms are at a disadvantage in a local market versus indigenous firms (Hymer, 1976). This is because foreign firms often face discrimination by host country consumers, governments, and suppliers (Hymer, 1976). It is found in the work of Muller (2006) that multinational firms do more CSR than global firm, which indicate high local responsiveness pressure which triggers the legitimacy from systematically organized expectations from various stakeholders motivates MNE subsidiaries to engage strategic CSR activities. Thus, we propose as follows:

*Proposition 2: Local responsiveness pressure is positively related to the subsidiary’s CSR engagement.*

Capability—Subsidiary Resources and CSR adoption in subsidiaries

As the level of resources possessed by the subsidiary increase, the subsidiary reduces dependence on its headquarter and becomes more important to the performance of the MNC (Nohria & Ghoshal, 1994). Abundant resources possessed by the subsidiary can enhance its capacity of achieving organizational goals if it is granted greater autonomy and flexibility in making decisions. The greater the autonomy held by the subsidiary, the higher possibility it would have more capability to respond to the rivals’ CSR actions and to the change in competitive environment to create competitive advantage. Moreover, the capability of MNE subsidiaries to learn and imitate its rivals’ CSR actions is a function of their human capital and their organizational structures. The resource-based view also presents that the most important assets are strategic resources: those that are rare, valuable, and difficult to imitate. According to the above-mentioned attributes, scholars contended culture competitiveness is a strategic resource within supply chains (Hult, Ketchen, & Nichols, 2002). Culture competitiveness is also associated with innovativeness. Summarize the above perspectives; we can derive the second hypothesis

*Proposition 3: Subsidiary resources are positively related to the subsidiary’s CSR engagement.*

Two- and Three-way Interactions

Since LR represents the motivation and SR represents capability to respond to the rivals’ CSR actions and to the change in competitive environment, given the same degree of awareness, the
MNE subsidiaries in cell “B” or “leaders” are in a best position to implement CSR policy strategically and effectively than cell “D” (reactors), and thus benefit from it more than cell “A” (contributors) do.

**Proposition 4:** Given the same degree of local connectedness, the firms classified in the cell B are likely to do more CSR compared to firms in cells A, C, and D.

Since LC represents the awareness and LR represents capability to respond to the rivals’ CSR actions and to the change in competitive environment, given the same degree of awareness, given the same degree of subsidiary resources, the MNE subsidiaries in cell “F” are in a best position to implement CSR policy strategically than cell “H” (reactors), and by doing so it will strengthen its local connections that are valuable for continued business success. Thus we propose:

**Proposition 5:** Given the same degree of subsidiary resources, the firms classified in the cell F are more likely to do CSR compared to the firms in cells E, G, and H.

When considering all three dimensions at the same time, we will have eight cubes that classify MNE subsidiaries more precisely. Since all three dimensions are expected to be positively related to subsidiaries CSR engagement, implying that these subsidiaries are aware of the change in competitive environment and have motivations and capabilities to respond properly, the MNE subsidiaries in cube “BFJ” are in a best position to implement CSR policy more strategically and thus benefit from it more than others by two means: first, by strengthening the (strategic) connections it has in host country, and second, by receiving greater legitimacy from external stakeholders. Thus we develop our last proposition as follows:

**Proposition 6:** The MNEs’ subsidiaries that are classified in the cube BFJ are most likely to do CSR compared to firms that are classified in the rest of the 7 cubes.

**DISCUSSION ON METHODOLOGY**

Previous literature on CSR rarely integrates the concepts of local responsiveness pressure, subsidiary resources, and local connectedness to discuss the CSR strategies and practices of MNC subsidiaries. Therefore, in this respect, that the research of MNE’s subsidiary CSR can be considered exploratory in nature, in the sense that it is not seeking causal inferences, but rather to develop theoretically grounded empirical observations and inferences in a new environment, or what (Schrank, 2006) refers to as "concept formation" that could be useful for future social scientific inquiry.

**REFERENCES**


