

## DO-NO-HARM VERSUS DO-GOOD SOCIAL RESPONSIBILITY: ATTRIBUTIONAL THINKING AND THE LIABILITY OF FOREIGNNESS

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**Research summary:** The efforts of multinational corporations to be socially responsible do not always engender positive evaluations from overseas stakeholders. Drawing on attribution theory, we argue that two heuristics guide stakeholders in evaluating firms' social performance: foreignness and the valence of firms' social responsibility. We provide evidence from a field study of secondary stakeholders and an experimental study involving 129 non-governmental organizations. Consistent with attribution theory, the liability of foreignness is minimized when firms engage in "do-good" social responsibility (focused on proactive engagement creating positive externalities) but is substantial when firms engage in "do-no-harm" social responsibility (focused on attenuating negative externalities). In online supporting information, Appendix S1, we demonstrate that these evaluations have consequences for whether stakeholders subsequently cooperate, or sow conflict, with firms.

**Managerial summary:** There is no guarantee that efforts to be socially responsible will improve multinational corporations' relations with overseas stakeholders, such as customers, governments, and activists. In a field study and an experiment, we unpack when foreign firms suffer from harsh stakeholder evaluations. Foreign firms especially suffer from harsh evaluations when they conduct "do-no-harm" CSR rather than "do-good" CSR. Stakeholders attribute the motive for foreign firms' do-no-harm CSR to managerial interests and shareholder pressures, perceiving a wedge between managers and owners (who may be unmotivated to reduce the negative impacts of their business activities) and local stakeholders (who bear the social costs). A practical implication is that foreign firms gain more from highlighting do-good rather than do-(no)-harm CSR initiatives. Copyright © 2015 John Wiley & Sons, Ltd.

## INTRODUCTION

Multinational corporations (MNCs), operating at a disadvantage to domestic competitors (Kostova, Roth, and Dacin, 2008), increasingly take their corporate social responsibility (CSR) seriously (Campbell, Eden, and Miller, 2012). Sometimes, efforts to be socially responsible bear fruit, helping

MNCs appear legitimate overseas and improving their financial and operational performance (Henisz, Dorobantu, and Nartey, 2014). Nonetheless, there is no guarantee that these efforts always pay off. BP headed Fortune's 2007 ranking of the world's most responsible companies. Three years later, British Petroleum, as Obama conspicuously named the firm, became the villain of the 2010 Deepwater Horizon oil spill, whereas its U.S. partner, Halliburton, was largely exonerated.

We seek to understand *when* and *why* local stakeholders will value and undervalue MNCs' social performance. Social performance—firms' value

Keywords: corporate social responsibility; stakeholders; attribution theory; liability of foreignness; international

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creation for actors in their social, political, and natural environments (Clarkson, 1995)—is inherently perceptual (Wood, 1991). We draw on attribution theory, developed to explain perceptions of responsibility (Heider, 1958; Shaver, 1985), to generate insight. Attributions are often ethnocentric (Nisbett, 1971) and thus play a central role in shaping perceptions of foreign firms. When onlookers evaluate the conduct of outsiders, such as foreign firms, they routinely attribute their misconduct to negative intent and ascribe their positive conduct to situational influences outside their control. In contrast, they systematically exonerate insiders, such as domestic firms, by attributing their misconduct to situational influences while ascribing their good deeds to their internal strengths and noble motivations.

Though attributional thinking leads stakeholders to discriminate between foreign and domestic firms, it is more acute when onlookers perceive negative behaviors than good deeds. Though some CSR (“do good”) involves proactive strategies to create social value, many forms of CSR (“do no harm”) seek to limit the social costs of business, ironically highlighting the negative consequences of corporate activity that are rarely entirely eliminated. Attribution theory implies that stakeholders will be most dismissive of foreign firms’ social responsibility when it is of the do-no-harm kind as they impute negative intent to their owners and managers, perceiving them as inauthentic (see Cording *et al.*, 2014), whereas they will accept local firms’ do-no-harm CSR as an inevitable consequence of business activity.

We conduct two studies. In a field study, we build on social rating data and 210 interviews with secondary stakeholders of multinational corporations to identify how stakeholders evaluate the social performance of domestic and foreign firms. In our second study, we use an experimental design involving 129 non-governmental organizations to build causal evidence about the mechanism of attribution that drives stakeholders to distinguish between domestic and foreign firms’ social performance.

Our contribution responds to the call of Devinney, McGahan, and Zollo (2013: 326) to investigate why stakeholders treat foreign and local firms differently. Whereas prior work has documented the liability of foreignness (Li, Yang, and Yue, 2007; Mezas, 2002) and identified industry-level contingencies influencing its presence (Rosenzweig and Singh, 1991), we complement this by focusing on

the heuristics that stakeholders employ when evaluating domestic and foreign firms. This focus provides an explanation for the liability of foreignness in the CSR domain and a theory for when its magnitude will be greatest.

## CAUSAL ATTRIBUTIONS AND PERCEPTIONS OF SOCIAL PERFORMANCE

Intergroup causal attribution offers an explanation for understanding when and why stakeholders undervalue foreign firms’ social performance. In attribution theory (Kruglanski, 1975), causes of behavior are categorized as internal to the person (e.g., ability, intrinsic motivation) or external to him/her (e.g., social influence, situational constraints). Attributing behavior to an internal cause assumes the actor chooses to, and can, act in that way. Attributing behavior to an external cause infers the actor is compelled to act in that way. In the social responsibility domain, attribution theory sheds light on two heuristics—(1) foreignness, and (2) the nature of firms’ CSR (whether it is focused on positive or negative externalities)—that potentially moderate the liability of foreignness.

### Causal attributions and foreignness

Attributional thinking is prevalent when the actors being evaluated are outsiders (Nisbett, 1971), especially foreigners (Hewstone and Ward, 1985; Razran, 1950). Thus, attributions come to the fore when stakeholders evaluate foreign firms’ investments (Jensen and Lindstaedt, 2013). Onlookers make internal attributions for the positive behavior of members of their in-group and external attributions for their negative behavior (exonerating in-group members, such as domestic firms,<sup>1</sup> of wrongdoing). In contrast, they make external attributions for the positive behavior of members of their out-group and internal attributions for their negative behavior (accentuating the wrongdoing of out-group members, such as foreign firms). This phenomenon is known as the “ultimate attribution error” (Hewstone, 1990; Pettigrew, 1979).

<sup>1</sup> The in-group/out-group distinction is intensified by the equity interests that many citizens have in domestic firms. Many have an indirect interest through pension funds that prioritize domestic investments.

Attribution theory can be applied to organizational settings (Weiner, 1995), such as responses to performance downturns (Ford, 1985) and CEO dismissal (Haleblian and Rajagopalan, 2006). We apply it to investigate stakeholders—"groups without whose support the organization would cease to exist" (Stanford Research Institute, in Freeman and Reed, 1983)—who are an important category of onlookers who form inferences about corporate activities. They make judgments about companies when assessing CSR activities (Sen, Bhattacharya, and Korschun, 2006) and distinguish between actions driven by internal pressures, such as shareholder interests or managerial incentives, and those driven by external pressures, such as the interests of local stakeholders (Ellen, Webb, and Mohr, 2006; Groza, Pronschinske, and Walker, 2011).

Attribution theory predicts that stakeholders will make internal attributions about the motives that drive local firms to engage in CSR (i.e., assume that it is caused by noble managerial motivations) and external attributions about the motives that drive foreign firms to engage in CSR (i.e., assume that it is driven by situational pressures such as the need to conform). This difference in perceived motives matters for how stakeholders view firms' CSR. When social responsibility is perceived as compliance driven, stakeholders are cynical (Yoon, Gürhan-Canli, and Schwarz, 2006) and react unfavorably (Wagner, Lutz, and Weitz, 2009), as generally stakeholders do when they perceive managers as inauthentic (Cording *et al.*, 2014). From this perspective, local stakeholders will under-evaluate MNCs' social performance vis-à-vis that of domestic firms. This leads to the baseline hypothesis:

*Hypothesis 1: Even controlling for their value creation for actors in their social, political, and natural environments, foreign firms will receive lower evaluations of their social performance from local stakeholders than will domestic firms.*

### **Causal attributions and CSR valence (do-good versus do-no-harm CSR)**

Attributional thinking is more prevalent when people or organizations are associated with committing harmful acts (Wong and Weiner, 1981) than delivering benefits. Even when firms allocate the same amount of resources to social responsibility programs, they may focus on different

forms of CSR. A distinction, established in the ethics, psychology, and management literatures (Baron, 1996; Mattingly and Berman, 2006), exists between do-no-harm CSR (attenuating negative externalities such as pollution) and do-good CSR (increasing positive externalities such as when firms up-skill their workforce and promote the diffusion of environmentally friendly technologies) (Godfrey, Merrill, and Hansen, 2009; Whetten, Rands, and Godfrey, 2002). Externalities influence the net benefits and costs of foreign investment to the host country (Singh, 2007):

Both the increase of positive externalities with do-good CSR and the decrease of negative externalities with do-no-harm CSR matter for how stakeholders judge corporate behavior. In particular, attributional thinking is intensified in the face of negative outcomes (Weiner, 1985), heightening blame heuristics when out-group members are associated with negative externalities as they are seen to cause these consequences themselves (whereas in-group members are perceived as performing undesirable actions only in response to external pressure, see Hewstone, 1990). Indeed, egregious cases of discrimination arise in polluting industries where foreign firms receive harsh treatment after environmental accidents. Contrast the reactions to U.S.-owned ConocoPhillips and Chinese-owned CNOOC after the 2011 oil spill in China's Bohai Bay: Despite having only a minority stake in the venture, ConocoPhillips was fined, whereas its Chinese partner was not. This occurred despite ConocoPhillips's reasonable record and support for mandatory emissions caps.

Overall, we argue that, while do-good and do-no-harm CSR may both increase stakeholders' affinity with companies, stakeholders may develop different perceptions and attributions in the context of foreign firms. The actions of do-no-harm CSR involve measures to manage risk, such as cleaning up pollution and safeguarding workers' rights (Nelson, 2004), but fall short of abolishing social costs completely and can even heighten awareness of the social costs of business. Do-no-harm CSR frames CSR in terms of negative externalities, priming attributional thinking in onlookers who may be sensitized to the negative impacts of firms' activities and either attribute their inability to control these completely to a lack of managerial motivation or authenticity (likely for out-group members such as foreign firms) or to the impossibility of doing so (likely for in-group members

such as domestic firms). In contrast, onlookers do not question actors' motives as strongly when these actors produce benefits (Shaver, 1985). Attribution error is attenuated when corporate activity is associated with positive externalities compared to when it is perceived as a response merely to limit negative externalities. Hence, we make the following proposition about the effect of CSR type on how local stakeholders evaluate the social performance of foreign firms.

*Hypothesis 2: Among foreign firms, even controlling for their value creation for actors in their social, political, and natural environments, those that engage in do-good CSR will benefit from more positive stakeholder evaluations than those that engage in do-no-harm CSR.*

## STUDY 1: FIELD STUDY

We designed a field study to deepen our knowledge of when the liability of foreignness matters in stakeholders' evaluations of social performance. In Appendix S1, a subsequent experimental study provides evidence of the causal mechanism of attribution.

### Sample

We first selected a core set of 18 MNCs, based on a matched sample, whereby we identified 18 major firms in seven sectors (natural resources, energy, chemicals, information technology, finance, food, and pharmaceuticals). These sectors cover a broad range of CSR issues (e.g., environmental care, resource usage, and product access). Consistent with a matched sample design (Crilly and Sloan, 2014), within each sector, we chose two or three firms that were matched on their headquarter location (North America, Northern Europe, or Southern Europe), size, and global scope, but differed in their efforts to create value for actors in their social, political, and natural environments.<sup>2</sup> To

identify these efforts, we used the database of a major social ratings agency.

Our focus in selecting our stakeholder sample was on constituencies such as non-governmental organizations that influence public opinion. These secondary stakeholders differ from primary stakeholders that are directly involved in the production process (Tantalo and Priem, 2014) and, instead of being affected by firms' activities (Zsolnai, 2006), represent the interests of affected parties. Nonetheless, they matter for firms' performance. They directly impose costs (Eesley and Lenox, 2006), and provide MNCs with resources to conduct their operations unhindered (Henisz *et al.*, 2014). Indirectly, they influence performance by monitoring corporate behavior and shaping public opinion (Feddersen and Gilligan, 2001).

We conducted a two-stage selection process. In the first stage, representatives from the MNCs in the study identified salient stakeholders. In the second stage, we circulated the stakeholder list to academics in seven business schools to ensure, as far as possible, an even representation of stakeholders across the sectors. Using the stakeholder typology of Post, Preston, and Sachs (2002) as guidance, we aimed for a balance of perspectives across the sectors, interviewing a representative sample of resource-based stakeholders (client associations, socially responsible investment fund managers) and industry-structure stakeholders (regulators, unions). We provide an overview of the distribution across the sectors in Table 1. The stakeholders came from 20 countries. Their spread (Africa: 5%; Asia: 3%, North America: 29%; South America: 4%; Western Europe: 44%, Central/Eastern Europe: 15%) follows the distribution of revenues of our sample firms.

In total, we conducted interviews with 210 stakeholders from 2005 to 2007. Interviews, lasting on average 60 minutes, were recorded and transcribed. Interviewees were the heads of the stakeholder organizations or, in the case of the largest organizations, representatives with oversight for corporate relations. Our questions focused on expectations from MNCs vis-à-vis social responsibility. We inquired about one of the original 18 focal firms in our sample, and asked stakeholders to name and evaluate other top-of-mind competitors in the same sector. MNCs have different geographic footprints, making it inappropriate for us to select an identical listing of firms for stakeholders to evaluate. Our interviews resulted in 434 stakeholder evaluations

<sup>2</sup> Within each pair or triad, one firm received AAA, the highest possible letter rating from Innovest on a seven-point scale, whereas the other firm(s) in the pair or triad received, on average, BBB (three levels below on the scale). Consistent with this matched sampling approach, in our regression analysis, we estimated a fixed effects model where all observations for a matched pair/triad are coded with a dummy variable for the sector (Zhang, Traskin, and Small, 2012).



Table 1. Distribution of interviewed stakeholders per sector

Sector	Resource base stakeholders (%) SRIs, customer associations	Industry structure stakeholders (%) Unions, regulators	Sociopolitical stakeholders (%) NGOs, community groups
High-tech	22	19	58
Chemicals	26	19	56
Extractive	20	25	55
Energy	14	29	57
Banking	18	23	59
Food and drink	21	24	55
Pharmaceutical	18	24	59

of firms. However, social rating data used to generate an objective social performance measure did not exist for the smallest firms, and our database includes 301 evaluations for which we can compare stakeholders' evaluations and the more objective social ratings data from a major agency.

## Measures

### *Stakeholder rating of firm's social performance*

We solicited our perceptual measure directly from stakeholders in the interviews. Stakeholders were asked first to define firms' responsibilities toward society, and then: "Where would you position the firm in honoring its responsibilities?" They used a ten-point Likert scale (1 = *very poorly*; 10 = *very highly*). Consistent with our theoretical lens, emphasizing the perceptual nature of social responsibility, we avoided imposing our own definition of social responsibility on the interviewees.

### *Value creation for actors in the social, political, and natural environment*

We control for firms' efforts to create value for actors in their social, political, and natural environments using data from Innovest, part of MSCI. Social rating agencies use objective data in compiling their ratings. As an example, environmental performance scores reflect past pollution levels and compliance violations (Chatterji, Levine, and Toffel, 2009). In our analyses, we include both of Innovest's aggregate scales: ECO (overall measure of environmental performance) and IVA

(overall measure of social-political performance), from 2006 to coincide with the timing of our interviews. These aggregate scales are based on 36 environmental and social performance dimensions ( $\alpha$  is above 0.92 for either scale). The items that comprise the environmental scale include environmental management, environmental reporting, certification, and materials usage. The items that comprise the social-political scale include human rights, incidents of forced labor, customer partnerships, and community relationships.<sup>3</sup>

### *Foreignness*

We measure foreignness as a dummy with value 1 if the firm being evaluated is headquartered in a different country than the stakeholder, and 0 if both are headquartered in the same country. Because foreignness can vary by degree (Perkins, 2014; Xu and Shenkar, 2002), we also capture cultural and regulatory distance (Kostova and Zaheer, 1999). We measure the cultural distance between the MNC's home country and the host country, using Kogut and Singh's (1988) index based on Hofstede's (1987) four cultural dimensions:

$$CD_j = \sum_{i=1}^4 \left\{ (I_{ij} - I_{ik})^2 / V_i \right\} / 4,$$

where  $I_{ij}$  represents the index for the cultural dimension  $i$  and host country  $j$ ,  $V_i$  is the variance of the index of cultural dimension  $i$ , and  $k$  presents the headquarter country. Consistent with Kogut and Singh (1988), we used Hofstede's data on national cultures.<sup>4</sup>

We measure regulatory distance using the difference between the quality of regulation in the MNC's home country and the host country on the dimensions of credit, labor, and business regulation. Our source is the Economic Freedom Network (see DiRienzo *et al.*, 2007; Wan and Hoskisson, 2003). A positive score means that the MNC's home country has more sophisticated regulation than the stakeholder's country. This measure encompasses both

<sup>3</sup> Our results are robust to including individual items (e.g., between 4 and 8 items to include a range of environmental and social dimensions) rather than Innovest's two aggregate scores.

<sup>4</sup> As a robustness check, we replicated the analysis using GLOBE measures instead of Hofstede's indices (cf. Estrin *et al.*, 2009). The direction of all main effects in our analysis was identical. However, GLOBE measures are available for fewer countries.

absolute regulatory distance (Estrin, Baghdasaryan, and Meyer, 2009) and differences in regulatory sophistication.

### *Do-good and do-no-harm CSR*

To test our second hypothesis, we collected sustainability reports for the year 2006 for all firms in our data set. For foreign firm-stakeholder dyads, we identified whether each report mentioned one or more CSR initiatives in the country where the stakeholder was based. In a second step, we then coded whether the initiative(s) corresponded to do-good or do-no-harm CSR using binary variables. A given firm-stakeholder dyad could score 1 for both do-good and do-no-harm CSR if the report indicated both kinds of initiatives in the country. Two researchers independently coded the data, using a coding scheme based on Baron (1996). The conservative Cohen's kappa measure of interrater agreement was 0.602, above the threshold for substantial agreement (Landis and Koch, 1977). Of the 208 foreign-firm stakeholder dyads, 45 report evidence of do-good CSR in the stakeholder's home country and 60 report evidence of do-no-harm CSR.<sup>5</sup> Eighteen of these 60 simultaneously report do-good and do-no-harm CSR initiatives in the stakeholder's home country.

We control for the effects of other variables that might influence perceptions of MNCs' social performance:

**Sector.** We include fixed effects for each of the sectors in our study.

**National development.** Expectations of social performance might differ according to the host country's level of economic development. We control for the development of the country in which the stakeholder is based, using the exponent of the Human Development Index (HDI) data for 2006 (UNDP, 2008).

**Firm size.** Large firms are subject to greater public scrutiny than their smaller counterparts (Rowley and Moldoveanu, 2003; Siegel and Vitaliano, 2007). Thus, their social programs are more likely to be observed. We calculate the logarithm of firms' global dollar revenues from the period

(2006) of our interviews. As local size might weigh heavily on stakeholder impressions, we also measure revenue in the stakeholder's home region using the regional breakdown of Qian *et al.* (2010). Specialist. Stakeholders with a focus on a sole issue (e.g., a labor union that monitors employment) might be better informed than those with a diffused focus (Crilly, Zollo, and Hansen, 2014). Stakeholders described their activities. We assessed whether they focused on one, or on multiple, of the six Global Reporting Initiative (2006) domains: economy, environment, labor practices, human rights, society, and product responsibility. We control for whether the stakeholder is a specialist (single focus) by a dummy variable.

**Resource exchange.** Reciprocity that arises when stakeholders receive resources from firms might lead stakeholders to make more positive assessments than warranted. We control for whether there had been resource exchange in the previous year between the stakeholder and the firm it was evaluating.

**Sociopolitical stakeholders.** Sociopolitical stakeholders may take the greatest interest in CSR. We control for whether the stakeholder pursues sociopolitical goals rather than represents the interests of primary stakeholder groups.

**National political affiliations.** We include dummy variables for whether the firm-stakeholder dyad has one party that is from a member state of the EU and the other not, or one party is from a member state of NATO and the other not.

## RESULTS

We present the descriptive statistics for our variables and correlation matrix in Table 2. An inspection of collinearity diagnostics reveals no multicollinearity problem (Belsley, Kuh, and Welsch, 1980). The highest variance inflation factor is 1.27.

To assess whether foreign firms systematically suffer from lower evaluations, we perform ordinary least squares (OLS) with robust standard errors clustered at the firm level to take account of instances where multiple stakeholders evaluate the same firm. We show our results in Table 3.

Models I, II, and III compare domestic firm-stakeholder dyads and foreign firm-stakeholder

<sup>5</sup> We only observe CSR initiatives that are reported by the firms, and these may be incomplete. The experimental study (Study 2) assesses whether the findings are replicable under experimental conditions.

Table 2. Descriptive statistics and correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7
1. Stakeholder evaluation	6.286	2.180							
2. Innovest environmental score	1.382	326.911	0.271						
3. Innovest social-political score	1.302	302.886	0.285	0.853					
4. Foreign firm	0.718	0.451	−0.108	0.132	0.152				
5. Cultural distance	0.879	1.084	−0.166	0.140	0.162	0.478			
6. Regulatory distance	0.227	0.681	−0.030	0.094	0.062	0.171	0.290		
7. HDI	2.558	0.181	0.079	−0.023	0.019	−0.091	−0.237	−0.385	
8. Do-good CSR	0.216	0.413	0.214	0.088	0.195	−0.011	−0.187	0.026	0.045
9. Do-no-harm CSR	0.288	0.454	−0.021	−0.030	−0.024	0.012	−0.015	−0.125	0.063
10. Resource exchange	0.183	0.387	0.242	0.127	0.100	−0.066	−0.115	0.163	0.039
11. Specialist stakeholder	0.296	0.457	−0.296	−0.033	−0.045	−0.224	−0.087	−0.082	0.036
12. Social stakeholder	0.419	0.454	−0.127	0.072	0.087	−0.096	−0.107	0.055	0.035
13. Global size	3.976	0.761	−0.033	0.354	0.303	0.178	0.141	0.098	0.014
14. Local size	3.600	1.080	−0.022	0.278	0.258	−0.009	−0.019	0.114	0.006
	8	9	10	11	12	13	14		
8. Do-good CSR									
9. Do-no-harm CSR	0.129								
10. Resource exchange	0.183	−0.046							
11. Specialist stakeholder	−0.007	−0.074	−0.005						
12. Social stakeholder	0.083	−0.117	−0.018	0.395					
13. Global size	0.004	0.033	0.040	0.075	0.214				
14. Local size	0.021	0.069	0.033	0.078	0.203	0.588			

dyads and thus include the entire sample of 301 stakeholder evaluations. Model I shows only the influence of the control variables. Model II provides support for our baseline hypothesis (Hypothesis 1): Firms suffer from poorer social performance evaluations ( $p < 0.01$ ) when they are headquartered in a different country than that of the stakeholder even after controlling for their social, political, and environment performance, as measured by a major ratings agency, Innovest. As further evidence, we replace the binary measure of foreignness with continuous measures of cultural and regulatory distance (Model III). Though regulatory distance does not predict poor evaluations, cultural distance does ( $p < 0.01$ ).

Models IV and V use the sample of 208 foreign firms-stakeholder dyads as we assess whether, given that a firm is foreign, reports of do-good CSR in the stakeholder's country are associated with better evaluations than reports of do-no-harm CSR. There is no indication that the mere reporting of a CSR initiative in the stakeholder's country is associated with superior evaluations of social performance (Model IV). While this could be because firms do not report every initiative in a given foreign country in their sustainability reports, we

find support ( $p < 0.05$ ) for Hypothesis 2 that, among foreign firms, reporting do-good CSR initiatives in the host country is associated with positive evaluations (Model V). The coefficient on reporting do-not-harm CSR is negative but insignificant. In both models, we continue to control for the firm's social performance as measured by Innovest.

We conducted a number of robustness tests. As firms from sectors readily associated with negative externalities (here, the natural resources and energy sectors) are the most likely to engage in do-no-harm CSR (Baron, 1996), we measured the interaction between being a foreign firm and being in a positive- or negative-externality sector. Operating in a positive-externality sector is significantly ( $p < 0.05$ ) associated with higher social performance evaluations, i.e., foreign firms are less heavily penalized in these sectors vis-à-vis domestic counterparts than foreign firms in sectors more readily associated with negative externalities.

The results we report are based on OLS regression. OLS is usually appropriate for ordered dependent variables measured on a ten-point scale. Our findings are robust to an ordered probit specification whereby the evaluations are grouped into quintiles.

Table 3. Results

Variables	DV: Stakeholder evaluation of firm's social performance				
	I	II	III	IV	V
Foreign firm		−0.840*** (0.251)			
Cultural distance			−0.408*** (0.125)	−0.234 (0.145)	−0.213 (0.147)
Regulatory distance			−0.065 (0.203)	−0.133 (0.193)	−0.164 (0.198)
EU and non-EU dyad			0.221 (0.271)	0.389 (0.29)	0.393 (0.298)
NATO and non-NATO dyad			−0.096 (0.291)	0.313 (0.326)	0.323 (0.318)
CSR reported in country				0.322 (0.259)	
Do good CSR in country					0.578** (0.258)
Do no harm CSR in country					−0.025 (0.311)
Innovest environment score	0.001* (0.001)	0.001 (0.001)	0.001 (0.001)	0.002** (0.001)	0.002** (0.001)
Innovest social-political score	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
HDI	1.322 (1.235)	1.052 (1.174)	0.003 (1.49)	0.602 (1.589)	0.607 (1.631)
Resource exchange	1.233*** (0.235)	1.136*** (0.215)	1.063*** (0.246)	1.113*** (0.34)	1.111*** (0.354)
Specialist stakeholder	−1.305*** (0.283)	−1.486*** (0.302)	−1.352*** (0.286)	−1.977*** (0.43)	−1.960*** (0.431)
Social stakeholder	−0.097 (0.29)	−0.159 (0.290)	−0.203 (0.292)	0.009 (0.363)	−0.032 (0.378)
Global size	−0.304* (0.167)	−0.196 (0.165)	−0.207 (0.155)	−0.187 (0.176)	−0.159 (0.181)
Local size	−0.142 (0.223)	−0.197 (0.214)	−0.203 (0.234)	−0.112 (0.223)	−0.078 (0.228)
Industry effects	Yes	Yes	Yes	Yes	Yes
Constant	5.453*** (1.541)	5.664*** (1.471)	6.960*** (1.707)	5.158*** (1.716)	5.122*** (1.742)
Observations	301	301	301	208	208
R-squared	0.276	0.298	0.306	0.382	0.387

\*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.1$ 

Robust standard errors in parentheses.

## STUDY 2: EXPERIMENTAL STUDY

A field study cannot conclusively show causality. Field data are inherently noisy (Croson, Anand, and Agarwal, 2007). Stakeholder evaluations might reflect differences in how firms act locally that are not reflected in rating data or reports. Also, stakeholders may vary in their experience (Bridoux and Stoelhorst, 2014) and be selective in the kinds of corporate actions they observe (Chatterji *et al.*, 2015; Delmas, Etzion, and Nairn-Birch, 2013). We therefore conduct an experiment to establish a

causal relationship between firm foreignness and stakeholders' evaluations. One aim is to replicate the central finding of the field study (i.e., the effect of foreignness on stakeholder evaluations is attenuated when firms engage in do-good CSR and amplified when they engage in do-no-harm CSR). An experiment also allows us to identify whether attributions are the causal mechanism linking firms' CSR to stakeholders' perceptions (and thus to address the "why" of our research question). Hence, we establish the following hypothesis consistent with attribution theory.



*Hypothesis 3: In instances of do-no-harm CSR, stakeholders will be more likely to attribute foreign firms' activities to internal pressures, and more likely to attribute domestic firms' activities to external circumstances.*

## Method

We partnered with Qualtrics Panels, which has access to specific populations for more targeted empirical analyses than conventional laboratory studies, to recruit representatives from 129 U.S.-based non-governmental organizations. Over 23 percent had a primary interest in healthcare, mainly around access to drugs. The remainder interfaced with healthcare organizations through primary interests in community development (e.g., concerns about local issues of mental and physical health, and employment), ecological issues (concerns about environmental impact), and/or education (e.g., concerns about good health education). Participants were randomly assigned to one of 2 (CSR type: do-no-harm vs. do-good)  $\times$  2 (firm foreignness: domestic vs. foreign) between-subjects conditions.

Participants were informed that they were taking part in an academic study to understand reactions towards investments in the pharmaceutical sector. A pharmaceutical company was planning to set up a new manufacturing center soon in their local community. To manipulate the foreignness of the company, participants were told that this company was either from the United States or from Canada. We purposely selected Canada because it has a similar culture and regulatory regime to the United States (Gwartney, Lawson, and Easterly, 2006). Hence, any observed effect will be caused by foreignness per se rather than confounded by cultural and regulatory differences.

The pharmaceutical industry gives rise to positive and negative externalities (e.g., positive externalities from research spillovers and negative externalities from pollution and poorly tested drugs, Baron, 1996), enabling us to manipulate CSR valence. We provided identical information about the firm's activities to all participants. Participants were informed that "the manufacturing of pharmaceuticals can sometimes bring environmental risk to the local community (e.g., lower air quality, usage of hazardous chemicals, etc.)." In the next sentence, we manipulated the firm's CSR type. In the do-good CSR condition, it was stated that "the company

will undertake initiatives to support the local environment through technologies that it will also make available to other local firms, to invest in employee training and development, and to contribute positively to the local community." In the do-no-harm CSR condition, it was stated that "the company will undertake initiatives to limit the negative effects of its activities on the environment, to restrict unsafe treatment of its workers, and to reduce disruption to the local community from its manufacturing." These descriptions were informed by the responsibilities outlined in the United Nations' Global Compact (Global Compact, 2000), adapted to reflect emphasizing positive externalities (do good) or attenuating negative externalities (do no harm).

After reading the scenario, participants indicated their impression of the company on three nine-point scales: (1 = *bad/unfavorable/negative*, 9 = *good/favorable/positive*;  $\alpha = 0.98$ ). Finally, they specified to whom they attributed the firm's investment decision (using an instrument adopted from Klein and Dawar, 2004): Participants assigned 100 points among six constituencies—(1) the firm's shareholders, (2) managers, (3) (future) U.S. employees, (4) consumers, (5) U.S. government, and (6) the local community—to represent their perceived influence on the plan to establish the manufacturing center. We treated the interests of managers and shareholders (i.e., those with an ownership stake or direct influence on resource allocation) as internal to the firm. We summed the scores attributed to the four remaining stakeholder groups to create a measure of external attribution.

## Results

### *Company impression*

A 2 (CSR type: do-no-harm vs. do-good)  $\times$  2 (firm foreignness: domestic vs. foreign) ANOVA (analysis of variance) on company impression reveals a significant interaction effect of CSR type and firm foreignness ( $p < 0.05$ ). When the firm commits to engage in do-no-harm CSR, participants have a more favorable impression of the domestic firm (mean = 6.54) than the foreign firm (mean = 5.72;  $p = 0.086$ ). This effect disappears when the purpose of CSR is to do good (means = 5.77 vs. 6.29,  $p = 0.27$ ). We depict these results in Figure 1.

### *Internal attribution*

We use the points assigned to internal stakeholders (the managers and shareholders) as an index

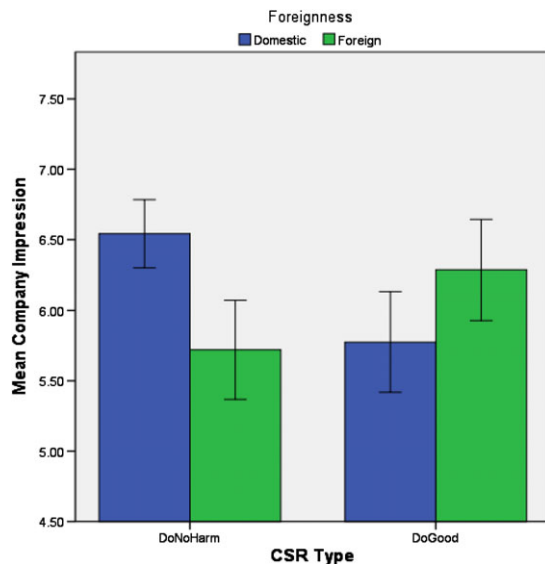


Figure 1. Influence of foreignness and CSR type on company impression

of internal attribution. A  $2 \times 2$  ANOVA on internal attribution reveals a marginally significant interaction ( $p = 0.079$ ). When domestic firms engage in do-no-harm CSR, local stakeholders attribute their actions less to internal interests (managers' interests, shareholder returns) (mean = 42.90) than when foreign firms engage in do-no-harm CSR (mean = 54.68,  $p = 0.052$ ). This effect disappears when firms engage in do-good CSR (mean = 48.03 for domestic firms versus 44.69 for foreign firms,  $p = 0.570$ ).

To test Hypothesis 3 formally, we assess whether the effect of CSR type and firm foreignness on company impression is mediated by internal attribution. As we observe an interaction between CSR type and firm foreignness, a test for moderated mediation is appropriate (Langfred, 2004). Using bootstrapping procedures (PROCESS model 8 with 5,000 resamples, see Hayes, 2013), which generate confidence intervals in moderated mediation tests, we find that the mediation is significant (95% confidence interval:  $-0.1762$  to  $-0.0287$ ). Our findings provide support for the hypothesis. In the do-no-harm CSR case, the effect of being a foreign firm on stakeholders' impressions is mediated by the extent to which stakeholders attribute the investment decision to the firm internally (95% confidence interval:  $-0.607$  to  $-0.017$ ). Whereas stakeholders perceive do-no-harm foreign firms as investing to satisfy their managers and shareholders

(internal attribution), they perceive do-no-harm domestic firms as investing in response to pressures from external stakeholders such as the community and government. There is no evidence of mediation in cases of do-good CSR (95% confidence interval:  $-0.122$  to  $0.371$ ).

In conclusion, our experiment underscores that the liability of foreignness is aggravated when foreign firms engage in do-no-harm CSR and attenuated when they engage in do-good CSR. It offers evidence that attributional thinking explains this pattern.

## DISCUSSION AND CONCLUSION

Some foreign firms appear to benefit from their CSR overseas, whereas others do not. Though stakeholders react positively to social responsibility (Barnett, 2007), do they identify *which* firms act responsibly? In two studies, we unpack when foreign firms suffer from harsh stakeholder evaluations in the context of corporate social responsibility. We depict our model in Figure 2. Foreign firms especially suffer from a perceptual disadvantage when they engage in do-no-harm CSR rather than do-good CSR. Stakeholders attribute the motive for foreign firms' do-no-harm CSR to managerial interests and shareholder pressures, perceiving a wedge between managers and owners (who may be unmotivated to reduce negative externalities entirely) and local stakeholders (who bear the social costs). Our research extends studies that examine CSR as a social construct and demonstrates the relevance of behavioral perspectives, especially causal attribution, to stakeholder theory.

Stakeholder management is gaining traction in the strategy (Freeman *et al.*, 2010; Garcia-Castro and Aguilera, 2015) and international business literatures (Devinney *et al.*, 2013). Subject to scrutiny overseas as well as at home, MNCs implement social responsibility across the global scope of their operations. We show that the liability of foreignness, widely demonstrated in product markets (Zaheer, 1995), extends to how local actors evaluate firms' social responsibility programs. Though MNCs often invest in social responsibility because, as outsiders, they face a challenge to their legitimacy, these investments are generally undervalued by local constituencies. This is problematic because perceptions of social performance matter for how easily firms gain resources from stakeholders.

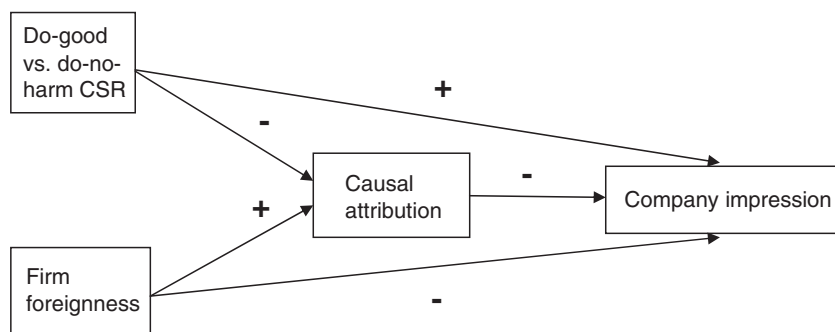


Figure 2. Model

Ultimately, perceptions of social performance depend not only on firms' actions but also on the motives that stakeholders believe to be driving these actions. Attributional thinking is one mechanism that explains why the liability of foreignness arises: local stakeholders are sensitive to the discrepancy in the nationality of firms' owners and their non-shareholding stakeholders when corporate activities give rise to social costs. Stakeholders make situational attributions about local firms, especially when they focus on do-no-harm CSR (i.e., they believe that the investments are supported by employees and communities, for example, by providing employment opportunities) and yet make internal attributions about foreign firms that do harm (i.e., they overwhelmingly believe that these efforts are inauthentic and motivated by the interests of owners).

Our focus on how stakeholders perceive corporate action is, we believe, a promising extension to behavioral perspectives to strategy. Consistent with these, our stakeholder-focused approach aims for "realistic assumptions about human cognition, emotion, and social interaction" (Powell, Lovullo, and Fox, 2011: 1369). Whereas research mainly addresses executives' decision making and biases, we address the judgments and biases of stakeholders, who rely on the heuristics of (1) firms' foreignness, and (2) CSR type in evaluating social performance. The effectiveness of strategy depends on the receptivity of actors outside the firm, e.g., analysts, customers, and governments (Baron, 2001; Sen *et al.*, 2006). Communication with intermediaries is of prime importance (see Philippe and Durand, 2012). If stakeholders engage in attributional thinking when outcomes are framed negatively, a practical implication is that foreign firms might frame their CSR initiatives

in terms of do good rather than do (no) harm. While MNCs' actual conduct matters, framing might accentuate or attenuate the disadvantages of foreignness.

### Limitations and extensions

Our experimental study testifies to the mechanism of attribution. Of course, MNCs may also suffer from poor social performance perceptions because they implement inappropriate policies. Norms of corporate conduct differ across contexts (Henriques and Sadosky, 1996; Husted and Allen, 2006; Witt and Redding, 2009). In our experiment, we use the scenario of a Canadian firm investing in the United States to minimize the influence of cultural and regulatory distance. Even in this conservative setting, we find the same effect of foreignness observed in our field study. Nonetheless, we welcome research that assesses the consequences of transferring inappropriate CSR policies to host countries.

Attribution theory does not predict how judgments made on the basis of attributions will influence subsequent actions (Jones and Nisbett, 1971). Nonetheless, we recognize that linking stakeholders' evaluations to their interactions with firms is a valuable endeavor. A promising approach to identify stakeholder actions across multiple countries is to employ the content-analysis technique of Henisz *et al.* (2014) who use regional media as a source to measure conflict and cooperation events. We replicate their method on the firm-stakeholder dyads in our field study, and present the results in Appendix S1. These results are encouraging: Negative evaluations at the time of our interviews strongly predict the likelihood of subsequent stakeholder conflict with the firms in question.

We focused on secondary stakeholders because of their formative role on public opinion and capacity to affect firms' performance directly and indirectly (Eesley and Lenox, 2006). We see two lines of inquiry. First, what are the implications for financial performance from losing the support of secondary stakeholders? Firms often gain more from limiting the negative effects of their activity (i.e., do-no-harm CSR) than investing in socially oriented programs (Hillman and Keim, 2001). While our study does not make claims about financial performance, our findings suggest that, when firms cross borders, there are reputational benefits from do-good CSR. Second, how do primary stakeholders evaluate foreign firms' social performance? We welcome efforts to replicate our study among primary stakeholders to understand how attributional thinking affects their evaluations of firms' CSR and, ultimately, their interactions with firms.

## ACKNOWLEDGEMENTS

The authors thank associate editor Tomi Laamanen and two anonymous reviewers for their constructive advice. The authors are indebted to Lourdes Casanova, Kai Hockerts, Mario Minoja, Peter Neergaard, Esben Pedersen, Francesco Perrini, Susan Schneider, Antonio Tencati, and Maurizio Zollo for contributing to the research design and data collection in the field study section. This paper has benefited from London Business School Research and Materials Development funding and Hong Kong Research Grants Council funding (PolyU 155030/14B, and 155054/14B).

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## SUPPORTING INFORMATION

**Additional supporting information may be found in the online version of this article:**

Appendix S1: Assessing post-evaluation stakeholder events.