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Article

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MULTINATIONAL ENTERPRISES AND DISTANCE: EXPLORING OPPORTUNITIES AND CHALLENGES INVOLVED IN PRACTICING CSR IN HOST-COUNTRIES

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Abstract:

This study explores how multinational enterprises (MNEs) should implement corporate social responsibility (CSR) to build external legitimacy, especially in subsidiaries operating in host-countries, where the effects of distance is felt most by MNE foreign subsidiaries. For long, international business research has analysed the effects of distance on MNEs' expansion to host-countries, while a parallel strand of work in economic geography investigates the dimensions of proximity and how they influence firms' knowledge development, especially in the varying host-countries they operate. Despite the noticeable complementarities and relatedness, these two bodies of literature have so far poorly interacted. Moreover, inspite of increased strategic motivation for CSR, we still lack understanding of the effects of distance on MNEs' CSR behaviour in host-countries. This paper addresses this limitation and analyses and integrates extant literature on how MNEs can, through their CSR behaviour in host-countries, cope with and mitigate the effects of distance. It provides perspectives on what may constitute appropriate CSR strategies in varying host-countries' institutional environments (i.e., what CSR strategies might be appropriate for firms to adopt in a more proximate/less distant and less proximate/more distant institutional contexts and their implications for the effects of distance) are analysed. Based on the analysis of the literature, the present study discusses patterns of complementarities across distance and proximity, and draws attention to avenues for future research that interact the two strands of literature, thereby setting the ground for empirical testing of a conceptual framework proposed by this paper.

Keywords:

Multinational enterprises; distance; proximity; corporate social responsibility.

JEL Classification: F23, M14

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Introduction

A crucial issue that confronts Multinational Enterprises (MNEs) in host-countries is how to adapt to the many facets of host-countries' *distance* effects, relative to their home-countries. A large body of scholarly literature has studied MNEs expansion into host-countries, and the related adjustment to new local contexts. For instance, Johanson and Vahlne's (1977) internationalization model suggests that MNEs first enter more proximate countries before expanding into less proximate countries (i.e., countries with higher *psychic distance*). More recently, Johanson and Vahlne's (1977) internationalization model has been extended by Johanson and Vahlne (2009), suggesting that, it is not liability of foreignness (LOF) *per se* that matters, but rather liability of outsidership (LOO). They contend that MNEs face disadvantages, relative to local firms, as a result of being "outsiders" to relevant business networks in new local contexts. Beyond Johanson and Vahlne's notion of "psychic distance", scholars such as Kogut and Singh (1988); "cultural distance", Kostova (1996, 1999); "institutional distance", Zaheer (1995); "liability of foreignness", and Ghemawat (2001); "CAGE" Index have guided much of the international business (IB) scholarly literature.

Meanwhile, the vast literature on IB has typically conceived of *distance* in terms of the physical separation between a firm's home-country, where headquarters (HQ) is usually located, and host-countries, where subsidiaries may be located (see Ghemawat, 2001). Within the larger debate on the merits and demerits of globalization, IB research contextualizes *distance* as a multidimensional construct, having a negative impact on firms' internationalization (see Eriksson *et al*., 1997; Ghemawat, 2001). Studies of *distance* are grounded in two key assumptions. First, *distance* is symmetric; suggesting that a journey from Country **X** to Country **Y** is as challenging as moving from Country **Y** to Country **X**. Second, *distance* between home-country and host-country always results in a disadvantage for the MNE (Ghemawat, 2001). Moreover, as Zaheer *et al*. (2012, p.19) argued, "…essentially, international management (IM) is management of distance". This perhaps underscores the assertion in the literature that "… similarity is beneficial, as commonalities offer greater understanding and ease of interaction …" (Zaheer *et al*., 2012, p. 20).

Globalization, it seems, has re-directed attention to the need for managers of MNEs to be abreast with cultural differences, even as they attempt to understand *what* constitutes responsible behaviour in varying institutional context (Arthaud-Day, 2005; Rodriguez *et al*., 2006). Similarly, there are also suggestions that relations between MNEs foreign subsidiary and host-country's stakeholders could be improved, especially, when MNEs are understood as contributing to host-countries' economic growth and national welfare (Dunning, 1998; Rodriguez *et al*., 2006; Yang and Rivers, 2009). Kostova *et al*. (2008) have also argued that socially desirable contributions can be appropriate option for foreign- owned firms when it comes to obtaining *social license* in host-countries. Altogether, it is contended that CSR investments may be appropriate mechanism that MNEs could rely on to mitigate the impact of *distance* in host-countries.

However, researching CSR behaviour of MNEs is not without peculiar challenges, as they operate in diverse institutional settings with implications for socio-cultural orientations and adjustments (Rodriguez *et al*., 2006). For example, Jamali's (2010) analysis of MNE subsidiaries' responses to either more globally or locally oriented CSR approaches was observed to be an outcome of different dimensions of CSR (i.e., CSR motivations, CSR decision-making, and explicit CSR manifestations).
In particular, recent CSR literature (e.g., Rodriguez *et al*., 2006; Tan and Wang, 2011) suggests that MNEs' CSR strategies in host-countries are largely influenced by the degree to which their headquarters include CSR in their organizational level strategy, together with CSR expectations faced by MNEs in host-countries. As a result, MNE subsidiaries are more likely to encounter the challenge of either maintaining headquarters strategies, which may be more globally oriented in nature or adapting specific strategies to suit expectations in host-countries (Tan and Wang, 2011). Moreover, some studies, (e.g., McWilliams *et al*., 2006, p. 2), have argued that, CSR lacks a dominant paradigm, and that "… the analysis of CSR is still embryonic…" The implication of this contention is that CSR "… cannot be analysed through the lens of a single disciplinary perspective, [making] it appears that CSR is fertile ground for theory development …" (McWilliams *et al*., 2006, p.2).

Inspired by the above, in this contribution, we aim at providing new input to the ongoing debate about MNEs' CSR behaviour and the stumbling block of *distance* (e.g., Johanson and Vahlne, 1977; Johanson and Vahlne, 2009), especially as calls for MNEs to respond to host-country expectations through CSR (Jamali, 2010), in pursuit of external legitimacy intensifies (see Campbell *et al*., 2012; Yang and Rivers, 2009). Put differently, MNEs' "multiple embeddedness" (Meyer *et al*., 2011), (i.e., institutional differences and their influence on CSR practices), can pose challenges to MNE subsidiaries. Hence, "institutional duality" of MNE subsidiaries (Hillman and Wan, 2005), implies calls for MNEs to conform to home-country (i.e., *internal*) practices, whilst at the same time responding to host-country (i.e., *external*) pressures for legitimacy – all suggesting uneasy path for MNE subsidiaries to practice CSR in host-countries.

Drawing inspiration from multiple sources (e.g., Beugelsdijk and Mudambi, 2013; Campbell *et al*., 2012; Jamali, 2010), this article attempts to cross-fertilize insights from the *distance* and *proximity* (e.g., Boschma, 2005; Lundquist and Trippl, 2013) streams of literature to synthesize a framework that potentially can be applied in assessing the CSR behaviour of MNEs in host-countries. By turning to the *distance* and *proximity* streams of literature, we seek to draw patterns of complementarities across them, to extend understanding on the opportunities and challenges that come with MNEs practicing CSR in host-countries.

This article is structured as follows. The paper starts with a discussion on the theoretical and empirical foundations motivating the study. Thereafter, we review the relevant literature and develop propositions on MNEs and *distance*, MNEs and CSR practices in host-countries, *distance* and *proximity*, MNEs' external embeddedness, and MNEs' internal embeddedness. We then present a theoretically derived conceptual framework (see **F**igure **1**) that synthesizes our discussions and reviews with a view to identifying the concepts that influence MNEs' CSR adoption in host-countries. Finally, the paper closes with some concluding remarks, implications of the study and suggestions for future research.

Theoretical/empirical foundations and proposition development

MNEs and Distance

Hymer's (1960/1976) seminar work provided the theoretical roots of foreign direct investment (FDI), that highlights additional costs foreign-owned firms face, relative to local rival firms in a host-country. This is especially so when MNE subsidiaries operate in unfamiliar local market conditions that give rise to comparative disadvantages, which is often described as "costs of doing business abroad" (CDBA). Zaheer (1995) extended this notion by suggesting the concept of the "liability of foreignness" (*LOF*), denoting disadvantages that foreign-owned firms incur in host-countries, defined as "the costs of doing business abroad that result in a competitive disadvantage for an MNE subunit" (Zaheer, 1995, p. 342). Four main sources of *LOF*, identified by Zaheer (1995) are: (1) costs arising out of spatial distance (e.g., coordination over distance and time zones); (2) firm-specific costs (e.g., lack of roots in local environment); (3) home-country environment costs (e.g., embeddedness in home-country institutions); (4) host-country environment costs (e.g., difficulties of embedding in host-country institutions).

Zaheer and Mosakowski (1997) developed LOF further by suggesting that MNEs incur *LOF* due to their lack of embeddedness in host-country's information networks. Kostova and Zaheer (1999) and Mezias (2002), arguing from institutional theory perspectives, attributed *LOF* to MNE's lack of *isomorphism*, (i.e., MNEs' inability to *mimic* or adopt strategies of local firms, thus, rendered vulnerable to powerful institutional pressures from the host-country's environment) (Edelman, 1990). From the lens of internationalization process researchers, (e.g., Ellis, 2008; Johanson and Vahlne, 1977, 2009; Welch and Wiedersheim-Paul, 1980), firms reduce *LOF* by acquiring host-country knowledge through local agents. Following this premise, insufficient knowledge and "psychic distance" (Johanson and Vahlne, 1977) constitute major constraints of foreign-owned firms in host-countries. As a consequence, firms' internationalization process, it is argued, can be staged more successfully as an incremental process where firms move increasingly into unfamiliar new markets that pose new opportunities and challenges (Johanson and Vahlne, 1977).

Resource-based theory (RBT) (e.g., Barney, 1991; Penrose, 1959; Rugman and Verbeke, 2002), on its part, argues that a firm's bundle of heterogeneous resources can generate competitive advantages which may lead to sustainable superior returns. Following Baron (1995) and Penrose (1959), resources include assets, capabilities, knowledge, and competencies that a typical firm may possess. A firm's resources, according to Baron (1995) and Penrose (1959) can be further classified into market and non-market resources. However, whereas firms develop similar market resources (Hymer, 1976), that give them advantage in their home-market, and further induce them to internationalize (Cuervo-Cazurra and Genc, 2011), the same cannot be said of non-market resources. Non-market resources are related to, for example, foreign institutional knowledge (Eriksson *et al*., 1997), foreign complementary institutional resources (Cuervo-Cazurra *et al*., 2007), and ownership-specific institutional advantages (Dunning and Lundan, 2008).

Furthermore, extant literature focused on firm's internationalization (e.g., Miller and Eden, 2006; Zaheer, 1995), suggests that MNEs may resort to *isomorphic* behaviour (e.g., adopting the strategies of local firms), in order to overcome *LOF* in host-countries. Evidence further points to the adoption of market-based strategies (e.g., avoidance of asset-specific investments in host-countries), in an attempt to mitigate the effects of *LOF* (Eden and Miller, 2004; Kostova and Zaheer, 1999). Surprisingly, non-market resources, inspite of its explanatory power when it comes to exploring firms' superior advantages at their home-markets, (Ghemawat and Khanna, 1998), and firms' ability to navigate distant, difficult, and weak institutions abroad (Cuervo-Cazurra and Genc, 2008), has received little attention in the literature (see Cuervo-Cazurra and Genc, 2008, 2011).

The puzzle that emerges from these streams of literature is that, while on one hand, foreign-owned firms may be more likely to possess certain advantages that could help them outperform local rivals, on the other hand, these firms also suffer disadvantages due to their unfamiliarity with host-markets' conditions. Inspite of the extensive discussion on the existence of *LOF* and varying forms of *distance*, and their impacts on MNE foreign subsidiaries' performance, (e.g., Campbell *et al*. 2012; Zaheer, 1995; Zaheer and Mosakowski, 1997; Zaheer *et al*., 2012), little is known about *how* to mitigate firms' lack of "local embeddedness" in host-countries (Campbell *et al*., 2012; Mezias, 2002; Yang and Rivers, 2009).

Several recent studies have attempted to fill in this gap (see Campbell *et al*., 2012; Eden and Miller, 2004; Yang and Rivers, 2009). Yang and Rivers (2009) in their conceptual paper explore the antecedents of CSR practices of MNEs subsidiaries by developing a model of CSR practices in MNE host-countries. Eden and Miller (2004), in another conceptual paper, suggested that the key driver behind *LOF* is the institutional distance (i.e., cognitive, normative, and regulatory) between the home and host countries, and explore the ways in which institutional distance can affect *LOF*. In contrast, Campbell *et al*. (2012) adopted an empirical approach, focusing on *how* distance affects MNEs' *willingness* and *ability* to engage in CSR in host-countries, and *when* and *how* MNEs attempt to overcome legitimacy issues in host-countries.

MNE and CSR practices in host-country

While many studies have analysed the role of MNEs in CSR (see Husted and Allen, 2006; Logsdon and Wood, 2002; Snider *et al*., 2003), little attention has been given to "CSR dualities" (Peng and Pleggenkuhle-Miles, 2009) that MNEs face. Given CSR as a form of investment, and corporate resources to be limited, resources devoted to host-country CSR, suggest fewer resources remaining for home-country CSR (Peng and Pleggenkuhle-Miles, 2009). From the perspectives of MNEs' global strategy, an important issue within the larger debate on CSR is:

How can "good faith" social investments be useful in mitigating the disadvantages arising from distance faced by MNEs in host-countries?

In the context of MNEs, CSR is difficult to define, as by virtue of the diverse institutional environments they operate, MNEs are more likely to deal with stakeholder groups, with varying expectations (Rodriguez *et al*., 2006). It is therefore crucial that, as CSR reflects a firm's strategic approach directed at stakeholders' expectations (McWilliams and Siegel, 2001), a firm's stakeholders are clearly identified and prioritized. "By definition, CSR presumes an autonomous corporation, free to exercise discretion in *how* it deploys its resources. Yet the concept also entails conformance with laws which are primarily national in character, scope, and application, as well as with 'customary ethics', which again may reflect different ethical systems rooted in distinct patterns of business-government-society (BGS) relations" (Moon and Vogel, 2008, p. 306).

Although numerous scholarly definitions of CSR have been proposed (see McWilliams and Siegel, 2001; McWilliams *et al*., 2006; Rodriguez *et al*., 2006), in this study and consistent with McWilliams and Siegel's (2001) suggestion, we see CSR as instances where a firm goes beyond compliance and engages in actions that appear to respond to stakeholders' concerns. Stakeholder theory (Freeman, 1984) suggests that a "stakeholder can exercise influence on a company's CSR practices by developing the following strategies: (1) withholding strategy, by stopping the flow of resources to the firm; and (2) usage strategy, by limiting the way in which the firm can use resources" (Yang and Rivers, 2009, p. 157). Within the extant literature 'influential' stakeholders that have been studied is extensive. Following Yang and Rivers (2009), MNE subsidiaries' CSR practices may be targeted at: (1) formal government institutions; (2) the immediate community within which the firm operates; (3) recognized civil-society/advocacy organizations (CSO); (4) consumers; (5) local shareholders; (6) employees; (7) parent company and its affiliates; and (8) industry groupings.

CSR practices according to the extant literature (e.g., McWilliams *et al*., 2006; Rodriguez *et al*., 2006), can be extensive. Firm level CSR practices typically include activities such as: initiating community development projects, adopting ethical labour practices, and adopting environmentally friendly production processes. For MNEs therefore, the fact that business norms and regulatory frameworks can differ substantially across national borders may suggests the need to adopt CSR practices to suit varying national requirements and stakeholders' expectations. Although MNEs are often embroiled in controversies with host-environment constituents (Eweje, 2006, 2007; Frynas, 2005), we argue that by adopting CSR for strategic reasons, MNE foreign subsidiaries can establish good relations with key host-country constituents (e.g. regulators, local community, and other influential stakeholders). This leads to the following proposition:

P1. MNE subsidiaries' CSR practices, when tailored to suit the host-country's institutions and stakeholders' expectations are more likely to result in local support for the firm.

Distance/Proximity characteristics

It is logical to expect that the locations, (e.g. home- and host-countries) in which MNEs operate will show varying profiles. Such variations include economic characteristics, technological trajectories, institutions, and socio-cultural characteristics. As a result, it is also expected that MNE foreign subsidiaries will take more notice of differences in legislation. This is especially so if there are applicable sanctions for non-compliance. However, these variations, according to Lundquist and Trippl (2013), can be both a major source of innovative practices as well as barriers for interaction and knowledge exchange among firms. This view is consistent with Zaheer and Hernandez's (2011), assertion of "the paradox of distance". They argue that, whereas research focused on "knowledge transfer", emphasizes *costs of distance for performance*, those exploring the need for innovation, discusses the *benefits of reaching far* for novel and diverse ideas. Of importance to the present study, aside of the *distance* literature, is the *proximity* literature, which is largely grounded on the presumption that the more proximity there is between firms, the more they interact, the more they learn and innovate (Boschma, 2005; Lundquist and Trippl, 2013).

Geographic distance/proximity

Geographic distance reflects physical remoteness, and is characterized by the absence of common border, weak transportation network and communication infrastructure. Other notable characteristics of geographic distance include differences in climatic conditions and physical size of country (Ghemawat, 2001). Trust and cooperation among firms that are collocating in terms of a particular region is argued to drive knowledge production and dissemination. For example, Lazerson and Lorenzoni (1999, p. 250), in their study of the Italian industrial district of *Castel Goffredo* concluded that: "… cooperation and trust among firms in the district appears to be in large measure an outcome of the process of reciprocal relations that individual firms have constructed over time with each other …" Lazerson and Lorenzoni further suggest that proximity … "forces firms both to *mimic* each other and to distinguish themselves by developing incremental process and product improvements … [which] produces spontaneous social and professional interaction … facilitating the diffusion of information…" (Lazerson and Lorenzoni, 1999, p. 258).

Geographical proximity, on the other hand, reflects the spatial or physical distance between two organizations or locations (Boschma, 2005). Geographical proximity is argued to promote inter-firm learning and knowledge development (Lazerson and Lorenzoni, 1999; Polenske, 2004). However, geographical proximity is a relative term as its impacts on opportunities for interaction and learning is dependent on several factors including regulations and communication. A vast scholarly literature (e.g. Boschma, 2005; Lundquist and Trippl, 2013) suggests that firms that are spatially concentrated benefit from knowledge externalities. Evidence further points out (e.g. Boschma, 2005; Lundquist and Trippl, 2013) that firms near knowledge sources show a better innovative performance. Furthermore, research hints that firms can reduce the impact of distance by expanding to geographically proximate countries, and also by collocating with firms that have internationalized from the same home-country (Zaheer and Mosakowski, 1997).

Campbell *et al*. (2012) note that high geographic distance leads to less personal contacts and social interactions, which can affect a firm's willingness to engage in host-country CSR. However, when MNE subsidiaries are located at a distance from headquarters, we argue, the MNE stands to benefit in a number of ways. For example, the MNE, as a networked organization (Campbell *et al*., 2012) , may have access to diverse and novel ideas by reaching out afar, as proximate locations are more likely to show similar ideas that the firm possesses. Although the benefits of geographical proximity may be limited if there are administrative and other procedures that hamper border-crossing and inter-firm interaction (Lazerson and Lorenzoni, 1999; Polenske, 2004), we argue that knowledge externalities and learning effects of firms that are collocated can influence MNE foreign subsidiaries' CSR practices. Therefore we suggest as follows:

P2a. The less proximate the geographic distance between MNE headquarters and foreign subsidiary is, the more likely the subsidiary, on account of its network of relationships, will acquire diverse and novel CSR knowledge in order to gain legitimacy in the host-country.

On the contrary, Yang and Rivers (2009) note that a firm's CSR practices could be influenced by the host-country's business norms and practices. Thus, in such instances, one might expect that MNE foreign subsidiaries, originating from a more proximate country, would find it easier to identify with the prevailing business norms and practices, and accordingly engage in host-country CSR. This leads us to propose the following:

P2b. The more proximate the geographic distance between MNE headquarters and foreign subsidiary is, the more likely the subsidiary, on account of its prior CSR knowledge from similar business environment, will engage in CSR activities in the host-country.

Institutional distance/proximity

Institutional distance reflects the extent of similarity or difference between a firm's home-country and host-country in relation to institutional environments (Kostova, 1996; Kostova and Zaheer, 1999). Institutional environments, according to organizational theorists, consist of a variety of institutions, including, regulations and cultural norms, the fulfilment of which is deemed crucial as firms seek to be socially responsible (Campbell, 2006; Matten and Moon, 2008; Yang and River, 2009). This implies that institutional distance between countries can influence decisions in respect to ownership of firms (Eden and Miller, 2004), and firms' CSR practices in their host-countries (Campbell *et al*., 2012). Moreover, it has been suggested in several studies (e.g., Kostova and Zaheer, 1999), that as institutional distance increases, foreign firms face greater *LOF*, relative to local firms. As a result, foreign firms are more inclined to adapt to local CSR practices, in order to cope with legitimacy challenges arising from unfamiliar institutional environments.

Institutional theory is based on the presumption that organizations are influenced by common understanding of what is appropriate and, fundamentally, meaningful behaviour (Eden and Miller, 2004). It follows that in highly institutionalized environments, the structure of firms is influenced, to a large extent, by *coercive isomorphism* (formal pressure from other organizations), *normative isomorphism* (conformance to normative standards established by external institutions), and *mimetic isomorphism* (imitation of structures by other organizations in response to pressure) (DiMaggio and Powell, 1983). Thus, it is expected that organizations such as firms that are impacted by the same environmental settings, will tend to have similar structures.

Institutional proximity, on the other hand, reflects the extent to which two or more organizations operate under the same institutional environment (Boschma, 2005; Lundquist and Trippl, 2013). Formal institutions (e.g., laws and rules), and informal institutions (e.g., cultural norms and habits), may influence the extent to which firms coordinate their actions. Institutions therefore can be 'enabling' (i.e., where there are similarities) or 'constraining' (i.e., where there are dissimilarities) in character (Boschma, 2005). The cost of adapting to host-country institutions can be higher for firms that originate from home-countries with dissimilar institutions (Eden and Miller, 2004), and are likely to be lower for firms that originate from home-countries with similar institutions.

For example, Mezias (2002) notes that foreign firms often find it difficult to cope with host-countries' regulations, due to their unfamiliarity, and are thus prone to lawsuits, arising from non-compliance. Therefore, we expect MNEs headquartered in more proximate institutional environments, to have better exposure to apply prior CSR knowledge from home-country and engage in interactive learning with influential stakeholders and institutional actors in the host-country. This leads to the following proposition:

P3a. The more proximate the host-country's institutional environment is, the greater the ability, and the more likely the MNE subsidiary will engage in CSR in the host-country.

However, on account of prior dissimilar CSR experience from home-country, together with unfamiliar institutional environments, we expect MNEs from *more distant* home-countries to encounter difficulties, compared to MNEs from *less distant* countries. Although a firm from significantly different institutional environment could have market advantages (Cuervo-Cazurra and Genc, 2011), it is likely that such a firm would require some time to understand the host-country's societal expectations, the fulfilment of which can serve as a non-market advantage for a foreign-owned firm. Therefore, we suggest the following:

P3b. The more distant a firm's host-country's institutional environment is, the greater the challenge, and the less likely the MNE subsidiary will engage in CSR in the host-country, at least, in the early stages of its entry.

Economic distance/cognitive proximity

Economic distance, which reflects differences in consumer income and/or wealth between countries, is also associated with differences in costs and factors of production (Ghemawat, 2001). Also included in the notion of economic distance are differences in economic development, and macroeconomic characteristics. Cognitive proximity, on the other hand, indicates the extent to which actors (e.g. firms), that share the same or similar knowledge-base and expertise may learn from each other (Boschma, 2005; Lundquist and Trippl, 2013). While cognitive proximity facilitates effective communication, cognitive distance enhances interactive learning and innovation between firms (Boschma, 2005). There may be incentives for MNEs that aim at acquiring new knowledge to target dissimilar and complementary bodies of knowledge. For example, the fact that innovation is not evenly distributed across countries implies that MNE foreign subsidiaries' location decisions need to consider both complementary and dissimilar bodies of knowledge that is available in each potential location.

Proximity to knowledge is crucial in deciding where to locate foreign subsidiaries of MNEs (Nachum *et al*., 2008). Stakeholders in developing-countries, for example, expect MNEs to do more than local companies in terms of supporting local-communities to achieve locally defined social and economic goals (Eweje, 2006, 2007, Frynas, 2005). External legitimacy and stakeholders support are critical to the survival of MNE foreign subsidiary, especially if the subsidiary depends heavily on the host-environment for continuing access to vital resources such as raw materials (Eweje, 2006, 2007, Frynas, 2005). As the basis on which the practices of foreign-owned firms may be judged is more likely to be different from that of indigenous firms (Kostova and Zaheer, 1999), we argue that MNEs from more proximate economic environment would find it relatively easy to adapt to the host-country's institutional setting (DiMaggio and Powell, 1983). Moreover, we argue that when judging the legitimacy of a foreign-owned firm, based on its CSR performance, reference will be made to the legitimacy of similar firms operating in a proximate economic environment. These suggest that similarities in economic environments facilitate foreign-owned firms to engage in CSR in host countries in order to gain 'acceptance' (Dowling and Pfeffer, 1975; Suchman, 1995) by local stakeholders. Hence, we suggest the following:

P4a. The more proximate a foreign-owned firm is, in a particular economic environment, the fewer the challenges it faces in gaining external legitimacy in the host-environment, due to its prior experience in similar economic environment.

Moreover, in instances where the home- and host-country's economic environments differ markedly, (e.g., MNEs originating from emerging economy and establishing subsidiaries in industrial economy), the implication for CSR is likely to be different. A significant difference between industrial economy multinationals (IMNEs), and emerging economy multinationals (EMNEs), is the influence of their respective home-country's institutional environment (Cuervo-Cazurra and Genc, 2011), out of which the economic environment is a subset (Berry *et al*., 2010). Furthermore, EMNEs develop non-market resources to manage with the poorly developed institutions in their home-countries. This then earns them advantage over IMNEs, when they both compete in countries with poorly developed institutions (Cuervo-Cazurra and Genc, 2011). Following Cuervo-Cazurra and Genc (2011), we concur that, in view of the *distance* involved, and on account of their relatively weak market-resources, EMNEs cannot afford CSR spending in less proximate economic environments, since such firms need to commit resources to improve their market-advantages (e.g., investing to improve their technology-base). Hence, we propose the following:

P4b. The more distant a foreign-owned firm is, in a particular economic environment, the higher the challenges it faces in gaining external legitimacy in the host-country, due to its lack of prior experience in similar economic environment.

MNEs' external embeddedness

In their seminal paper, Cohen and Levinthal (1990) defined absorptive capacity (AC) as "the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends" (Cohen and Levinthal, 1990, p. 128). AC has been noted to contribute to IB insofar as it constitutes a major determinant of knowledge processes in the context of MNEs (Björkman *et al*., 2007; Gupta and

Govindarajan, 2000). AC is relevant in discussions on firms' internationalization as it analyses organizational change together with the evolution of firms in adapting to changes in their institutional environments (Chang *et al*., 2013; Li and Kozhikode, 2008). The vast IB literature confirms the relevance of AC in several contexts including: MNEs (e.g., Frost and Zhou, 2005), local versus foreign firms (e.g., Chang *et al*., 2013), and born global firms (e.g., Freeman *et al*., 2010). Of equal importance in discussions on AC is its ability to integrate with theories to explain knowledge diffusion. For example, in the literature, AC has been applied in theories such as organizational learning, resource dependence, network, and knowledge. Network theory, for instance, has been applied in inter-organizational relationship research (see Dhanaraj and Parkhe, 2006) in explaining *how* the relationship between firms can promote inter-organizational learning (Gulati, 1995).

Organizational scholars have long argued that a primary reason for MNEs' competitive advantage is their subsidiaries' embeddedness in different local networks (see Ghoshal and Bartlett, 1990; Malnight, 1996). Because foreign-owned firms' embeddedness in local networks can provide benefits such as access to new knowledge (Zaheer and McEvily, 1999), MNEs are increasingly motivated to seek and develop knowledge advantages, wherever they can find it (Meyer *et al*., 2011). By doing so, they increase the breadth of their network resources (Malnight, 1996). For example, Meyer *et al*. (2011) suggest that as the search for new knowledge intensifies, MNEs selectively tap into knowledge advantages that are linked to specific local contexts. As MNEs embed in different local networks, it becomes imperative that relationships with network members are strengthened over time. Relational embeddedness comprises direct cohesive ties necessary for accessing information from network members (Gulati, 1998). It is based on the notion that direct and strong relationships with stakeholders such as regulatory institutions, competitors, and suppliers, is crucial as it can serve as a source of learning for MNE foreign subsidiaries (Andersson *et al*., 2002).

A closely underlying notion in the proximity literature is social proximity. Social proximity reflects the extent to which members of two or more organizations engage in mutual beneficial relationships (Boschma, 2005). Although it is likely that firms may not have equal capacity to learn from each other (Andersson *et al*., 2002), we argue that, on the average, when firms are strongly tied to each other, the extent of information exchanges and learning effects can improve over time. Accordingly, we argue that once a MNE foreign subsidiary strengthens its relational embeddedness, it may compensate for its lack of firm-level experience in relation to the host-environment. We also contend that the global network of the MNE of which foreign subsidiaries are integral part, can facilitate access to resources that may not be available local firms. Positive associations with network members, especially those within the same industry, can produce peer pressure on foreign subsidiaries (Lennox and Nash, 2003), through which they can become "insiders" in local business networks.

In developing our arguments, we advance a novel concept of *home-bases learning* to deepen our understanding of the ongoing debate on *LOF* and *distance*. In doing so, we extend the existing scholarly literature and add contextual relevance in enriching our understanding of *how* MNE foreign subsidiaries are able to overcome the disadvantages of *distance* (Hymer, 1960/1976; Johanson and Vahlne, 1977, 2009; Zaheer, 1995) in relation to firms' internationalization. Although firms that internationalize will face the impact of "foreignness", especially in more distant environments (Johanson and Vahlne, 1977, 2009), with little opportunity to apply prior knowledge (Barkema *et al*., 1996), we argue that *home-bases learning*, will reduce the severity of the distance effect, whilst other firms are denied access to local knowledge due to their lack of embeddedness in local networks. We define "home-bases learning" as the *advantages accruing from cumulative external network exposure or the heterogeneity of MNE group interactions that a MNE foreign subsidiary potentially benefits from, as it operates in a defined host-country*. Hence, we suggest the following:

P5a: A parent company and its subsidiaries' prior experience in specific industries and host-countries over time will have a positive influence on a new foreign subsidiary's ability to cope with the impact of distance through its CSR practices.

Furthermore, as Zaheer and McEvily (1999) noted, embeddedness in local networks is a crucial factor in every organization's business life. This implies that firms can be interconnected with each other through a wide range of social and economic relationships (Gulati, 1998). In particular, a host-country's stakeholders' expectations from a firm reflect an implicit contract – a "promise" – between, for example, a firm and environmental and social change groups (Campbell *et al*., 2012). Such partnerships, we argue, have the prospect of raising firms' reputation, even beyond their immediate environments. Accordingly, we suggest that, MNEs foreign subsidiaries may become attractive to local industry level stakeholders as a result of subscribing to the host-country's CSR expectations. This allows us to propose as follows:

P5b: MNEs foreign subsidiaries that subscribe to a host-country's stakeholders' and institutions' expectations, are more likely to adapt to host-country CSR practices, become isomorphic with local competitors, and reduce the impact of distance.

MNEs' internal embeddedness

In reference to the order in which firms enter foreign markets, the work of Johansson and Vahlne (1977) suggests that risk increases when distance between the home and host country increases. Also, on the geographic scope of MNEs, it is important to emphasise that their 'portfolio' of internal units, together with headquarters, is largely globally dispersed. Similarly, the notion that MNEs are networked entities (Ghoshal and Bartlett, 1990), also brings into focus, how their organizational and fundamental geographical characteristics are related (Beugelsdijk *et al*., 2010) both within and across the countries in which they operate.

It is worthwhile noting, however, that the nature of interaction between MNEs' headquarters and subsidiaries may be relevant in exploring *how* knowledge and resources flow to foreign subsidiaries (Zaheer and Hernandez, 2011), which in a way amplifies the dynamics of *distance* and *proximity*. Moreover, extant literature (e.g., Zaheer, 1995) suggests that foreign subsidiaries of MNEs lacking in knowledge and key resources, relative to local firms, imitate (*mimetic isomorphism*) other firms in response to pressures (DiMaggio and Powell, 1983). We argue that, firms that are not well endowed may see the positive effects of *distance* and *proximity* when they learn from their parent company for reasons of parent-subsidiary relationships (Haunschild and Miner, 1997). This allows us to suggest the following:

P6a: MNE foreign subsidiaries will benefit from country-of-origin experience, when they practice 'home-base learning', by adapting to parent company CSR practices, especially in a less distant institutional environment.

A rich stream of literature on *distance* (e.g., Kogut and Singh, 1988) has suggested that country-of-origin constitutes an important factor that binds new-entrant firms from the same home-country. For example, the work of Earley and Ang (2003) suggests that a firm's country-of-origin influences the meanings managers assign to social norms in host-countries. Similarly, the work of Henisz and Delios (2001) also suggests that MNEs' foreign subsidiaries' experiences, in relation to their home-countries, can provide valuable learning inputs that may be applied in handling challenges that a firm may initially encounter in a host-country. We argue that the relative strength of such dependency will determine the extent to which the foreign subsidiary will adopt CSR practices internalized in the parent company, in order to maintain internal legitimacy, whilst being proactive in adapting to local context CSR practices to gain external legitimacy. This implies that home-country experience can be crucial, but it may not be sufficient, in reducing knowledge gaps that a foreign-owned firm may encounter in the host-country. Thus, we suggest the following:

P6b: MNE foreign subsidiaries will benefit from country-of-origin experience, when they practice 'home-base learning', by adopting CSR practices internalized in the parent company, and also adapt to local context CSR practices, especially in a less proximate institutional environment.

In summary, previous studies (e.g., Campbell *et al*., 2012; Rodrigues *et al*., 2006; Yang and Rivers, 2009), have underscored the importance of local contexts and non-market based strategies for coping with the effects of distance in host-countries (see **T**able **1**). Also, institutional duality of MNEs (Hillman and Wan, 2005) implies that, their CSR strategies could either be more globally or locally oriented, as suggested by Jamali (2010), with varying implications for their quest for legitimacy. It is thus logical to argue that a more responsive orientation to CSR might appear appropriate in addressing firms' quest for legitimacy, whilst contributing in mitigating the effects of distance in host-countries.

Table 1: Summary of findings from key studies relating to *LOF* and distance

Article	Findings from studies relating to MNEs' CSR Strategies and Distance
Campbell *et al*. (2012)	MNE foreign-affiliates from more distant home-countries are less likely to engage in CSR than affiliates from more proximate home-countries. A strategy of continued CSR engagement in the host-country may be considered advantageous by MNEs foreign-affiliates.
Jamali (2010)	The findings reveal patterns of global CSR being 'diffused' to developing countries, but also being 'diluted' along the way in view of specific subsidiary environments and host-market characteristics.
Yang and Rivers (2009)	MNE subsidiaries will be likely to adapt to local practices to legitimize themselves if they operate in host-countries that have very different institutional environments from their own, and if they have demanding stakeholders.
Rodriguez *et al*. (2006)	As MNEs operate in multiple countries and institutional environments, they must respond to local rules and institutions, adapt to diverse socio-economic conditions and respond to multiple stakeholders.
Husted and Allen (2006)	Foreign MNEs place similar importance on global CSR issues (e.g. environmental conservation), but multi-domestic and transnational MNEs place greater importance on country-specific CSR, than do global MNEs. CSR appears to conform to the MNE organization strategy established for product-market activities.

Towards the Development of a Conceptual Framework

Based on extant literature reviewed in the present study, a theoretically derived conceptual framework (see **F**igure **1**) illuminating *how* CSR can contribute in mitigating the effects of *distance* in MNE subsidiaries' host-countries has been proposed. As identified in the review of literature, when a firm internationalizes, it faces challenges in relation to obtaining external legitimacy in its host-country, and in the process, becomes 'outsider' to relevant business networks in new local context (Johanson and Vahlne, 2009). As a result, MNE foreign subsidiaries become prone to the effects of distance and *LOF* in host-countries. As the effects of distance is likely to be felt most in more distant and/or less proximate institutional environments, MNEs develop CSR strategies, which confer social legitimacy benefits on foreign firms in host-countries (see Campbell *et al*., 2012).

Drawing on institutional theory (e.g., Campbell, 2006; DiMaggio and Powell, 1983; Kostova and Zaheer, 1999), we explore how *distance* influence MNEs' CSR practices in host-countries. Following Hillman and Wan (2005), we argue that the need for MNEs to conform to parent company practices, for internal legitimacy. In addition, we also suggest the need for MNEs to respond to pressures for external legitimacy in host-countries, as these requirements, typically reflects challenges that confront MNE subsidiaries in host-countries.

Moreover, there are suggestions (e.g., Beugelsdijk and Mudambi, 2013; Zaheer *et al*., 2012) that, researching a phenomenon – in this study, *MNEs and Distance,* may sometimes be best informed by theories and constructs from different fields of study. In particular, prior studies (e.g., Boschma, 2005; Ghemawat, 2001; Lundquist and Trippl, 2013) have explored dimensions of *proximity and distance* (e.g., physical, functional, cognitive, organizational, social, institutional, and geographical), that points to similarities between the two strands of literature. Therefore, our framework identifies the complexities involved in MNEs foreign subsidiaries' CSR practices by synthesizing streams of literature on *distance* and *proximity*. By doing so, we provide insightful ways thereby bringing rigor to the construct of *distance* as proposed by Zaheer *et al*. (2012). Thus, by integrating streams of literature on *distance* and *proximity*, we highlight their complementary nature. In doing so, we contribute in enriching our understanding on *how* MNEs can adapt to CSR practices in host-countries to mitigate the effect of *distance* and/or cope with constraints resulting from "institutional duality" (Hillman and Wan, 2005).

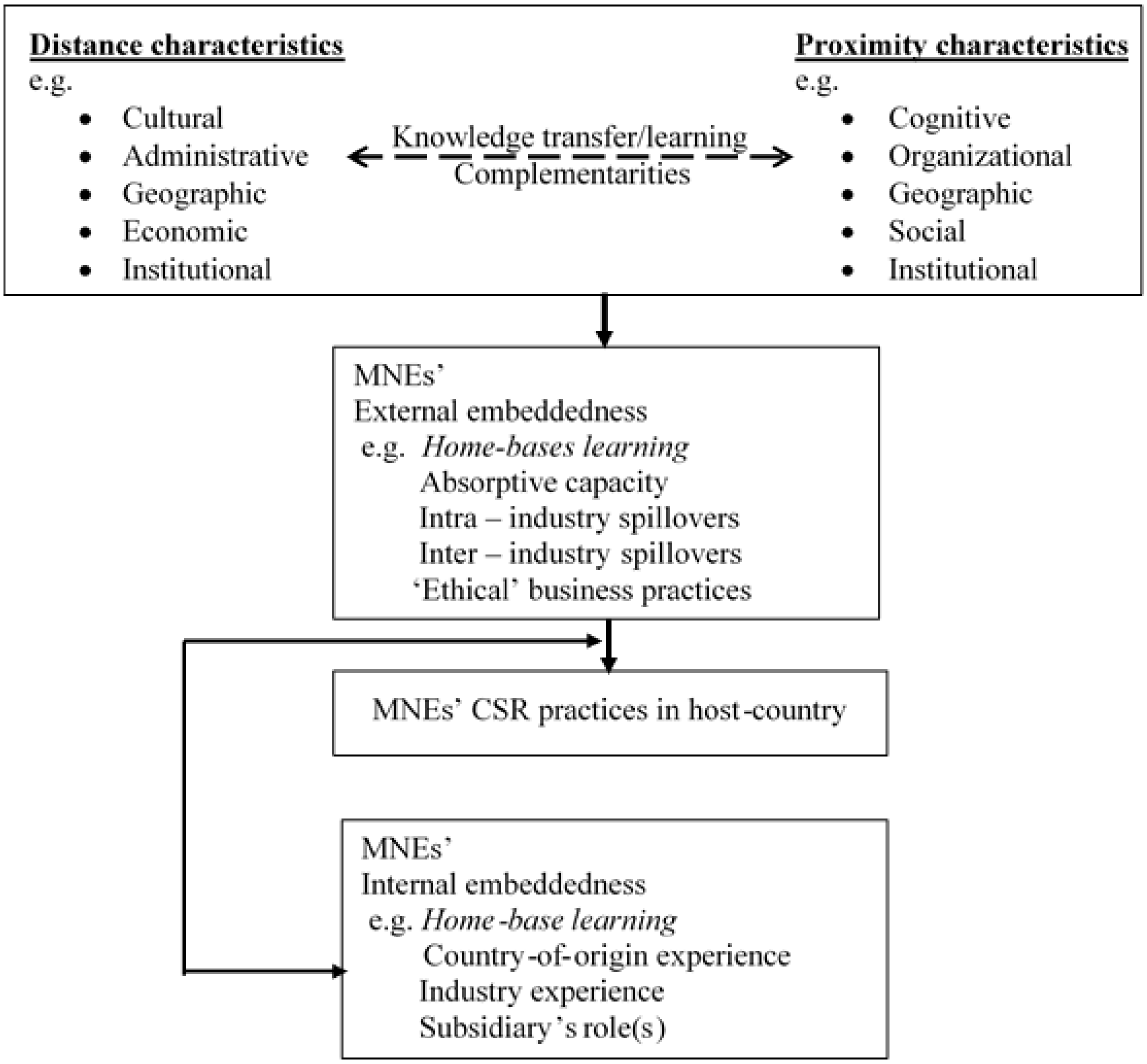

Figure 1: *A conceptual framework of MNEs' Multiple-embeddedness and CSR Practices in host-countries*

Conclusions, implications and future studies

The aim of our study is to explore the opportunities and challenges of managing CSR with emphasis on the strategic adoption of CSR by MNE subsidiaries to gain external legitimacy, and thereby cope with the effects of *distance* in host-countries. Despite increased strategic motivation for CSR, we still lack understanding of the effect of *distance* on MNEs' CSR behaviour in host-countries (see Campbell *et al*., 2012; Husted and Allen, 2006; Yang and Rivers, 2009). In particular, the literature on MNEs and their CSR behaviour is still embryonic (see McWilliams *et al*., 2006), suggesting, for instance, that theoretical frameworks have not yet been fully resolved. Our exploratory study highlights the need for integrating literatures across somewhat related fields of *distance* and *proximity*, in response to Zaheer *et al.'s* (2012) suggestion. Our study hints that a strategy of *home-bases learning*, pursued along with *home-base learning*, may be considered appropriate, and should enrich MNEs foreign subsidiaries' CSR behaviour for continued CSR practices.

As MNEs operate in varying institutional environments, a firm's strategies for the non-market environment become crucial. Through their CSR practices, MNE subsidiaries in host-countries, can obtain external legitimacy, and thereby contribute in mitigating the effect of *distance*. By exploring the dynamics of MNEs' CSR strategies in host-countries, in the midst of their embeddedness in varying local contexts (see Hillman and Wan, 2005), we provide important theoretical contributions to the literature. First, the present study attempts to address the research problem of *how* MNE foreign subsidiaries can adopt CSR to mitigate the effects of *distance* in host-countries. Second, this study explores the dimensions of *distance* and *proximity* as suggested by Beugelsdijk and Mudambi (2013), and suggests *how* they complement each other in the firm's quest for external legitimacy towards mitigating the impact of *distance*. Third, the present study develops a conceptual framework which explains the interplay between the constructs that influence MNEs' strategic adoption of CSR to mitigate the effects of *distance* in host-countries.

Fourth, this study advances a novel concept of *home-bases learning*, which we argue, can contribute to MNEs' access to CSR related knowledge emanating from prior and current operations, in varying institutional environments. This suggestion is derived from the premise that: first, there is vast literature on calls for MNEs (see Campbell *et al*., 2012; Rodriguez *et al*., 2006; Yang and Rivers, 2009) to respond to pressures for socially responsible behaviour in varying institutional environments. Second, that MNE parent companies' experience can be crucial, but it may not be sufficient, in reducing knowledge gaps that foreign-owned firms encounter in host-countries. As the established stream of *distance* literature often focuses on the negative consequences for MNE foreign subsidiaries (see Zaheer and Mosakowski, 1997), this study hints the need for a different coping mechanism: social contribution to the host-country in the form of CSR investment. For example, as evident from examination of the literature in this study, (see **T**able **1**), researching CSR in the context of MNEs and the impact of *distance* on their operations in host-countries, tend to focus on the importance of CSR as a non-market environment strategy. However, exploring the contexts that create opportunities as well as challenges in practicing CSR in host-countries to mitigate the effects of *distance* has received little research attention.

Managerial implications

The conceptual framework developed in this study (**F**igure **1**) provides insights for MNE managers. For example, MNE managers can draw insights from the dynamics of institutional *distance* and *proximity* and stakeholders' pressures for social contribution. Moreover, knowledge of varying pressures for CSR in both institutionally proximate and distant environments, can prepare MNE managers to adopt appropriate CSR strategies to achieve external legitimacy, and thus contribute in mitigating the impact of *distance*. This study assists MNE managers to acknowledge the heterogeneity of host-countries and to understand the importance of external legitimacy, as their firms operate in unfamiliar institutional environments.

Suggestions for future studies

The central issue explored in this study highlights a promising field of research that integrates research streams that cut across MNEs, CSR, and the effects of *distance* and *proximity* in host-countries. Clearly, such an approach can be addressed through integrative lens that draws on different strands of literature. As a consequence, suggestions for future studies is inspired by Rodriguez *et al*. (2006, p. 744) suggestion that "… the most influential and innovative research often combines the richest insights of various fields and forges them into new theories that integrate and answer old questions while creating entirely new ones". Thus, we suggest future research can test and apply the proposed conceptual framework for empirical development, especially in varying institutional contexts, characterized by growing awareness of CSR by stakeholders. As this study focuses on the CSR strategies of MNE subsidiaries in host-countries, future research can be directed at comparing the adoption of different CSR strategies, especially in *more proximate* and *less proximate* institutional environments, relative to a firm's home-country. And on that refreshing note, this is where I sigh off!

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