

Does National Culture Influence Firm's CSR Engagement: a Cross Country Study

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Abstract. This paper explores the relationship between national culture and CSR. To test the hypotheses, we employ binary logistic regression with the sample of 1,189 firms collected from DJSI and Compustat Global Vantage databases. Findings of this research suggest that all of Hofstede's four cultural dimensions can predict firm's CSR commitment, indicating individualism and uncertainty avoidance have positive influence on firm's CSR commitment, while power distance and masculinity have negative influence on it. Finally, we compare our findings with Ringov & Zollo, (2007) and Ho, et al., (2011) to draw a conclusion and implications.

Keywords: National Culture, Corporate Social Responsibility (CSR), Institution-Based View, DJSI

1. Introduction

Growing social and environmental issues like global warming are the underlying factor of growing importance of corporate social responsibility (CSR) both in academic literature (McWilliams & Siegel, 2001), as well as in business world. For example, UN Global Compact – Accenture CEO study shows that ninety-three percent (93%) of 766 participant CEOs all over the world declared sustainability as an “very important” or “important” factor for their organizations success. However, the definition and measurement of CSR still vary in the extant literature (Campbell, 2007). In the field of management, most of existing literature on CSR examines the influence of CSR on firms' financial performance and vice versa, while there is only a handful of studies that focus on exploring the antecedents of CSR. Among of these studies, the determinants of CSR can be firm-level factors such as firm size (Chih, Chih, & Chen, 2010), industry-level factors (Spicer, Dunfee, & Bailey, 2004), or national-level factors such as laws, NGO density, societal culture, etc (Campbell, 2007; Chih et al., 2010; Moon, 2004; Waldman et al., 2006). In this paper, we adopt the institution-based view and place more interest on the cultural dimension to attempt to answer the question “Does National Culture Influence Firm's CSR Engagement?” Hypotheses were tested with a sample of cross-national 1,189 firm data from Compustat Global Vantage and DJSI databases. The current paper compares and extends the findings of Ringov & Zollo, (2007) and Ho et al., (2011) by employing a different methodology to shed some lights on the new directions of the impact of national culture on firm's CSR for the future studies.

In answering our research question, we structure the rest of the paper as follows. In the next section we briefly review key literature that has investigated and highlight those relate to our research question, and develop our hypotheses building on these literature. We then introduce the methodology of this study, describe the DJSI and S&P Global 1200 index, and then report the empirical results with accompanying discussion. Finally, we will draw a conclusion based on our finding and sketch avenues for future research.

2. Literature Review and Hypotheses

2.1. Corporate Social Responsibility and National Culture

The present study aiming to empirically examine the cultural antecedents of CSR leads us to review the key literature focusing on the issues such as “what are the main drivers of CSR” (Campbell, 2007; Chih et al., 2010), “what kind of relationship between national culture and CSR would be” (Ho, Wang, & Vitell, 2011;

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Ringov & Zollo, 2007), and “whether national culture substantially has changed over decades or not” (Geert Hofstede, 2001). It is argued in prior literature that “laws and mandatory regulations have a strong influence on establishing social expectations about responsible corporate behaviour and then this social expectation works as a ‘focal point’ around which firms structure their behaviour” (McAdams & Nadler, 2005). Of extant studies that explore antecedents of CSR, most of them emphasize the impacts of formal institutions, such as law, on CSR (Campbell, 2007; Chih et al., 2010; Moon, 2004) and pay little attention to informal institutions, such as culture (Maignan, 2001; Ringov & Zollo, 2007; Waldman et al., 2006). To the best of our knowledge, we only found two studies that have explored the impact of national culture on firm’s CSR engagement (Ho et al., 2011; Ringov & Zollo, 2007) and their findings are inconsistent. One possible drawback that might account for inconsistent and weak finding across these studies could be there is no consensus about the data collection and sampling methodology in the literature. Considering the unbalanced development of CSR theory, we will put more concern on exploring how the cultural variables influence firm’s CSR engagement.

2.2. Hypotheses Development

Within the long established literature of international business, national culture is recognized as fundamental determinants of differences between not only individuals but also organizations from different cultural backgrounds (G. Hofstede, 1983; Geert Hofstede, 2001). Ringov & Zollo, (2007) and Ho et al., (2011) examined the impact of national culture on firm’s CSR engagement, but their findings are inconsistent and contradicting, which suggests further examinations. In addition, several attempts have been made to explore the path how culture influence firm’s CSR engagement. For example, Maignan (2001) found that consumer pressure on firms to act ethically is highest in French and German consumers compared to the US. Thus building on previous literatur, we propose our hypotheses as below.

Power distance value reflects the degree to which the members of a society believe that power should be concentrated in the hand of leaders, and these people should be obeyed without question (Ho et al., 2011; Ringov & Zollo, 2007; Waldman et al., 2006). Therefore, high power distance value decreases the dialogue between the management team and employees, and also decreases consumer pressure on businesses with regard to CSR related issues. On the other hand, Ho et al (2011) found positive relationship as opposed to their hypothesized direction between two variables in concern and they explain it in a sense that high power distance enables the the high-ranked officials to pay special attention to the needs of key stakeholder and society more broadly. Considering the findings of previous studies, we expect first mechanism to be more prevailing in the context of CSP, thus We expect the net negative impact of power distance will overweight the positive. Thus the hypothesis one is as follows.

H1: Power distance value in a culture will be negatively related to corporate social respnsibility.

Individualism is defined as the extent to which people attach more importance on personal self-interest and value their personal time, freedom and indepence. In an high individualistic culture, ties between individuals are loose and individuals stress the primary responsibility for their own action. Contrary, in a low individualistic, in other words collectivist culture, people stress the interest and welfare of the group ahead of themselves. On the other hand, Matten and Moon (2008) argue that in high individualism culture, firms generally do explicit CSR activities, such as donation to the church. Since these voluntary activities are part of CSR proxies, we predict that there is a net positive relationship betwween individualism value and CSR.

H2: Individualism value in a culture will be positively related to corporate social responsibility.

As interpreted in the previous literature, in cultures with high masculinity score, people tend to prioritize masculine values such as their career development, business success, etc. In contrast, cultures with low masculinity score, people tend to value harmony with the group and society in which they are embedded, such as companies, any form of unions, etc. There is an experimental evidence shows that masculinity inhibits helping behaviour. Recently, Ringov & Zollo (2007) found a negative association between masculinity and CSR and Ho et all. (2011) found partial support for this relationship. Thus we expect a negative relationship between masculinity and CSR.

H3: Masculinity value in a culture will be negatively related to corporate social responsibility.

Uncertainty avoidance deals with the extent to which how individuals are socialized to feel comfortable in unstructured situation. There is evidence that people from low uncertainty avoiding culture more likely to take risks (Hofstede 1984) and this risk taking is highly correlated to unethical actions. On the other hand, people place great importance on keeping everything accountable or certain in cultures stressing high uncertainty avoidance. As a business strategy that helps firms to develop long term sustainable relationship with its stakeholders, doing CSR reduces the environmental uncertainties of the firms. Therefore we propose our last hypothesis as follows.

H4: Uncertainty avoidance in a culture will be positively related to corporate social responsibility.

3. Methodology and Analysis

3.1. Methodology

Basically, we collected firm-level and industry-level data from two databases, namely Dow Jones Sustainability Index (DJSI) and the Compustat Global Vantage database, specifically S&P Global 1200 index. We obtained country-level data from the CIA World Factbook web page. And the cultural scores for each country were obtained from (G. Hofstede, 1980; 2001). Our sample consists of 1,195 firms from S&P Global index and 319 firms from DJSI as of 2010. We found that 249 firms out of 319 DJSI firms were also incorporated into S&P Global 1200 index as of 2010. After the preliminary data inspection, our final sample consists of 1189 firms and 245 of them are incorporated into DJSI. These firms were collected from 25 different countries around the world. Our sample of 1,189 firms account for roughly 70% of total global market capitalization. .

Stocks with relatively small market capitalization or insufficient liquidity are excluded. As such, these criteria enable us to select comparable firms to test our hypotheses. Obviously, we would not like to compare IBM or Coca Cola with a small local firm, let's say, in China which has 50 employees and total asset of \$100 million. On the other hand, DJSI selects its firms based on the ranking of sum of the scores on three dimensions of CSR namely social, economic, and environmental scores. Usually top 10 percent Of Dow Jones Global Index (DJGI) are selected as DJSI firms. DJGI provides real-time information about more than 3000 companies. There is an advantage for collecting our sample from two independent databases by which we can overcome strict percentage limitations such as top 10 percent of DJGI.

The dependent variable in our analysis is firms' CSR engagement measured by DJSI index as of 2010. A dummy variable is utilized to identify whether a firms is CSR or non-CSR. We measure our independent variables using continuous data, cultural scores for each country (G. Hofstede, 1980; 2001). Following the footsteps of Ringov&Zollo, (2007) and Ho et al., (2011), in this paper we try to control the effects from all three levels: firm level effect such as firm size, firm performance, and net income per employee; industry level effect; and national level effect such as prosperity of the country. The binary logistic regression in SPSS v14 was used to test the proposed hypotheses.

3.2. Results

Overall, the regression model of this paper classifies 80.1 percent of the observations correctly. Model goodness-of-fit test and model chi-squares are provided right below in Table 1. It reports the results of the binary logistic regression analysis and reveals strong support of the proposed hypotheses. The regression coefficients related to **H1**, **H2**, **H3**, and **H4** are all statistically significant and the directions are also in line with theoretical expectation.

Table 1 shows that power distance (**H1**) and masculinity (**H3**) are both significant and their Exp(B) values are less than 1 which indicates a negative relationship between a dependant variable and an independent variable; and individualism (**H2**) and uncertainty avoidance (**H4**) are also significant and their Exp(B) values are more than 1 which indicates a positive relationship between a dependant variable and an independent variable. On the right hand side of the table, the numbers under Exp(B) show how one unit change in independent variable influence on change of odds of probability. Moreover, the lower and upper limits of confidence interval didn't cross 1, which indicates the finding can be generalized for the whole population

Table 1: Regression Results

	Model 1		Model 2		Model 2		
	B	(S.E.)	B	(S.E.)	95% C.I. for EXP(B)		
Included					Low	Exp(B)	Upper
<i>Independent variables</i>							
Power Distance			-0.06***	(-0.01)	0.92	0.94	0.96
Individualism			0.03**	(-0.08)	1.01	1.03	1.04
Masculinity			-0.02***	(-0.004)	0.97	0.98	0.99
Uncertainty avoidance			0.03***	(-0.01)	1.01	1.03	1.05
<i>Control variables</i>							
GDP per capita	0.00***	(0)	0.0***	(0)	1	1	1
Firm Size	0.26***	(-0.07)	0.3***	(-0.07)	1.17	1.34	1.54
Return on Asset	-0.02**	(-0.01)	-0.02**	(-0.01)	0.96	0.98	1
Leverage	0.38	(-0.45)	0.07	(-0.47)	0.42	1.07	2.69
Income per Employee	0.002**	(-0.01)	0.003**	(-0.001)	1	1	1.01
Constant	-2.93*	(-1.01)	-0.254	(-1.26)		0.78	
Industry fixed effect	Yes		Yes				
N (Observations)	1189		1189				
Note for Model 2: R ² = .41 (Hosmer & Lemeshow), .11 (Cox & Snell), .18 (Nagelkerke). Model χ^2 (17) = 138.05, p<.001. ** p<.01. *** p<.001.							

4. Discussion

The association between culture and CSR has been explored in Ringov & Zollo, (2007) and Ho et al., (2011). We employed a different methodology and found inconsistent results among three studies. Table 2 shows the differences among the hypothesized directions, significance level, and final results of all three studies. For example, in Ringov & Zollo, (2007) the predicted negative direction of power distance is supported at significance level $p < 0.01$; in Ho et al., (2011), the predicted negative direction of power distance is not supported, but it is still significant at $p < 0.05$ in the opposite direction; and finally, in our study the predicted negative direction of power distance is supported at significant level $p < 0.001$

Table 2: Comparison of Findings

Cultural Dimensions	Ringov & Zollo, 2007		Ho et al., 2011		Current Study	
	Predicted	Result	Predicted	Result	Predicted	Result
Power Distance	(-)	(-)** Yes	(-)	(+)* No	(-)	(-)** Yes
Individualism	(-)	(-) No	(-)	(-)* Yes	(+)	(+)** Yes
Masculinity	(-)	(-)* Yes	(-)	(+)* No	(-)	(-)** Yes
Uncertainty Avoidance	(-)	(+) No	(+)	(+)* Yes	(+)	(+)** Yes

Notes: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

There are many factors influencing the inconsistent findings across these three studies. Two possible causes from methodology may be the most critical ones. First, the samples that three studies used are different and should be clarified. In the current study, our sample is populated with comparable multinationals. The impact of national culture on firm's CSR engagement might be different according to the firm characteristics such as multinationality. Second, the definition and measurement of CSR of this study are not the same as the other two studies, That is, our CSR is a binary categorical variable, while that of the other two studies is a continuous one. Last, only one study employed a longitudinal research design, while the other two employed a cross-sectional one

5. Conclusion

This paper empirically examines the cultural influence on corporate social responsibility based on Hofstede's cultural dimensions. Our findings show that individualism and uncertainty avoidance have positive impacts on firms' CSR engagement, whereas power distance and masculinity have negative impacts on firms' CSR engagements, which are only partially consistent with the findings of previous studies (Ho et al., 2011; Ringov & Zollo, 2007). The fact that findings of the three studies are inconsistent indicates further examination of the association between national culture and CSR is still needed. Some managerial implications are provided as follows. Managers working for MNEs should consider applying customized CSR strategies in different countries according to their national culture. For policy makers especially responsible for inward foreign investment, they may evaluate the investors' potential CSR engagement in the host countries based on our findings.

The present study try to fill the theoretical gap by exploring the informal institution effects on firm's CSR (i.e. cultural effect), while we did not further explore how the interaction between institutions influences on CSR, which might also help to provide some explanatory power on firm's CSR engagement

6. References

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