

Master Thesis

*“Corporate Social Responsibility (CSR) engagement of
Multinational Corporations (MNCs) and their effect on firm
financial performance in emerging economies.”*



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Abstract

This master thesis deals with the impact of Corporate Social Responsibility (CSR) engagement of Multinational Corporations (MNCs) on firm financial performance in emerging economies. CSR is a widely used term in today's business world and refers to the responsibility of companies of their impact on society. This thesis compares various definitions of CSR and comes up with a suitable solution. Furthermore, companies are driven to engage in CSR not only because of financial but also due to legitimacy reasons. Emerging economies, on the other side, are markets that are characterized by a liberal trade policy and show high economic growth rates. CSR in those markets differs from CSR in developed markets in a way as CSR is more adapted to local circumstances. However, the actual on-site practices are similar. Due to the political and economic environment, Brazil, as one figurehead of emerging markets, turns out to be a suitable environment for companies to engage in CSR. Within a statistical analysis it is analyzed if CSR increases firm financial performance in Brazil and if the origin of the MNC has a moderation effect. Results state that indeed engaging in CSR pays out financially. On the other hand, the origin of the company, i.e. if local or foreign, does not seem to play any role. Fast adaptation to local market conditions may seem to be responsible for that situation, however, further investigation is needed. One interesting finding this thesis bears is that the engagement in general CSR topics, like fighting climate change, is sufficient to extract financial gains. Finally, this thesis contributes also to less researched topics like ethnocentrism in CSR and concludes that engaging in CSR is fruitful, financially as well as for other reasons, in emerging economies.

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- 'Did you ever expect a corporation to have a conscience, when it has no soul to be damned and no body to be kicked? (And by God, it ought to have both!)' -

(The First Baron Thurlow [1731–1806] Lord Chancellor of England) (Banerjee, 2008)

Chapter I Introduction

1.1 Research background

December 12th 2015 was a decisive point of global importance. In Paris 195 countries agreed on a new climate contract that obliges participating countries to cut greenhouse gas emissions in order to fight climate change. Policy makers around the world acknowledged their responsibility towards society.

In today's world not just states but also private enterprises are required to show sustainable business practices and do more for society than just providing jobs. The pressure for engaging in Corporate Social Responsibility (CSR) is immense for every Multinational Corporation (MNC) in every country around the world (Porter and Kramer, 2007). Global companies cannot ignore the global poor anymore (Stiglitz, 2002). In fact, companies engage in CSR not just because of external pressure but for several other reasons (Werther Jr and Chandler, 2010).

Academic literature about CSR agrees that companies can exploit benefits when engaging in CSR. On the one hand, those incentives can be financially (Carroll and Shabana, 2010). Literature states that engaging in CSR pays out financially meaning that firm financial performance is increased (Orlitzky et al., 2003, Margolis and Walsh, 2003). However, this is not valid for all cases and research mostly focused on developed countries (Frynas, 2006, Muller and Kolk, 2009, Crisóstomo et al., 2011). Increasing firm financial performance considering income has been proven (Margolis and Walsh, 2003) but there is also literature that states that engaging in CSR can lower costs. Boosted employee commitment, a lower retention rate and lower salaries are just some monetary sections where CSR can lead to lower costs (Rettab et al., 2009, Barbian, 2001). Most literature about CSR further agrees that it is not just about financial gains but also about increasing legitimacy (Werther Jr and Chandler, 2010, Carroll and Shabana, 2010, Porter and Kramer, 2007).

However, academic literature mostly focused on developed countries and a lack of research about CSR in emerging markets is noticeable (Frynas, 2006, Crisóstomo et al., 2011). Where there is a lack of CSR research in emerging markets, there is an abundance of research about emerging markets themselves. Although there is a vast amount of literature about emerging markets it is not easy to define them. Literature basically agrees that emerging markets are characterized by high economic growth rates, a low per-capita income and a liberal trade policy (Hoskisson et al., 2000, Arnold and Quelch, 1998). But what literature cannot deliver is a definite list of emerging markets.

This master thesis focuses in particular on Brazil. Brazil not only qualifies as an emerging market (Hoskisson et al., 2000, EAGLE, 2014) but even is a prime example of emerging economies (Wilson and Purushothaman, 2006). With a population of about 205 million people (Fujiwara, 2015) the application of CSR would impact a tremendous amount of people. As every country shows unique characteristics and literature states that the history of a country and the development of its institutions is important when conducting research about CSR (Matten and Moon, 2008), it is necessary to shed light on the environment of CSR research, in this case Brazil. With (expected) high economic growth rates (Wilson and Purushothaman, 2006) it is relevant for companies if engaging in CSR pays out financially or if Brazil is a country where consumers do not honor CSR engagement.

Multinational Corporations are by definition companies that operate in several countries but are managed from the home country (Dunning, 2000). In the globalized world we have, corporations spread out to emerging markets in order to step in those markets. As the concepts of CSR emerged in the western world it can be seen as a western concept (Muller and Kolk, 2009). Western MNCs that step in emerging markets thus bring their concept of CSR to those economies. However, business strategy proposes that internationalization means getting familiar with local circumstances and cooperating with local partners (Khanna et al., 2005, Hoskisson et al., 2000). Thus the concept of CSR may look differently in emerging markets than in developed markets (Muller and Kolk, 2009) where most research about CSR has been done (Crisóstomo et al., 2011).

In fact there is few literature that examines CSR in emerging markets. One finding, however, is that CSR differs in emerging markets in a sense that it is more adapted to local circumstances (Logsdon et al., 2006). The actual on-site practices, however, are similar to those in developed markets (Muller and Kolk, 2009). The various financial endowment of consumers is another

reason why CSR might be rewarded differently in emerging than in developed countries (Werther Jr and Chandler, 2010).

The question if Brazil, as one of the figureheads of emerging markets, is suitable for companies for engaging in CSR is answered within this thesis by analyzing the political, economic and religious background. A perceived corrupted government opened up space for private companies to step in that gap and offer social support as Brazilian people are disappointed by their government and do not expect too much social help from it (Griesse, 2007). Brazil further is a religious country and there is literature that identifies a relation between religiosity of people and social expectations to companies (Brammer et al., 2007). All in all Brazil can be seen as a country that is suitable for companies to extract benefits by engaging in CSR.

As a lack of focus on emerging markets in CSR research is persistent (Crisóstomo et al., 2011, Frynas, 2006) it is interesting to evaluate this topic in Brazil in particular whether firm financial performance can be increased as well by engaging in CSR. Moreover, another aspect is worth to gain attention. It is interesting to examine if there is a moderation effect of the origin of the MNC. Literature states that companies are exposed to pressure from other markets, especially from the home market (Zadek et al., 2012). Thus CSR is executed differently, also considering the fact that CSR emerged in the western world (Muller and Kolk, 2009).

Another topic that is not obvious on the first sight but might explain why consumer take the origin of a MNC into account is ethnocentrism in CSR. Ethnocentrism describes the situation that consumers prefer products of a local company over products of companies from another country (Strehlau et al., 2012). As there is a lack of research about ethnocentrism in CSR it is unclear how strong this effect is (Strehlau et al., 2012). However, there is literature that states that it depends on the culture and characteristics of the country if ethnocentrism in CSR plays a role (Choi et al., 2016). Therefore, a certain focus on the origin of the MNC is important.

Theoretically there is quite some literature about CSR, e.g. (Werther Jr and Chandler, 2010, Margolis and Walsh, 2003) and many more. However, apart from theory it is important to provide evidence from real data. For this reason this thesis performs a statistical analysis with data from MNCs operating in Brazil in order to test two hypotheses concerning the effect of CSR on firm financial performance and the importance of the origin of the MNC. After then having evidence from a statistical analysis as well as theoretical foundation it is possible to give answer to the main objective of this thesis, i.e. to find out to what extend CSR in emerging markets contribute to firm financial performance.

1.2 Problem statement

There is literature about the effect of CSR on firm financial performance. There is also literature that indicates a positive relationship (Margolis and Walsh, 2003, Orlitzky et al., 2003). What is missing in academic research is the focus on emerging markets (Crisóstomo et al., 2011, Muller and Kolk, 2009, Frynas, 2006). The problem of the missing examination about CSR in emerging markets is tackled by this thesis. This thesis provides theoretical and statistical foundation in order to close that gap.

What is further noticeable is that literature mostly assumes a positive relation between CSR and firm financial performance but this is not valid for all cases. The meta study of Margolis and Walsh (2003) provides an overview over existing results about that topic. 54 out of 109 examined studies indeed found a positive relationship. Although that is about half of the size of the research sample size that does also mean that almost half of the studies did not support this view. 48 studies found an either non-significant relationship or provided mixed findings. However, only 7 studies (out of 109) found a negative relationship. This can lead to the conclusion that literature mostly assumes a positive relationship with a high amount of mixed findings. Negative relationships can be (almost) neglected due to poor research evidence (Margolis and Walsh, 2003). To a similar result comes the meta-study of Orlitzky et al. (2003). In this meta-study 52 studies are compared concluding that CSR practices pay out financially. Nonetheless, it is shown that there is contradiction in existing literature that examines CSR practices and its impact on firm financial performance, i.e. that findings are mixed, certainly not clear.

In particular this thesis takes Brazil as research environment into account. This is because Brazil is an example of emerging markets and thus suitable for the examination. Further there is few literature that analyses CSR in Brazil (Crisóstomo et al., 2011). Another problem about CSR research in Brazil is that there are contradicting findings. Crisóstomo et al. (2011) for example state in their research that CSR in Brazil is not only value destroying but also they do not find a positive relationship between CSR engagement and firm financial performance. In contrast to that most literature about CSR like Orlitzky et al. (2003) or Margolis and Walsh (2003) indicate a positive relation, however, mostly focusing on developed markets. The lack of focus on emerging markets and the partly contradicting literature (Crisóstomo et al., 2011) are problems in academic literature that need to be solved and this thesis delivers foundation to do so.

CSR differs in emerging markets from developed markets (Jamali and Mirshak, 2007). There are reasons that explain this behavior. The western origin of the CSR concept (Muller and Kolk, 2009), external pressure from home market (Zadek et al., 2012), characteristics of emerging markets (London and Hart, 2004) or simply less financial power of the consumers (Werther Jr and Chandler, 2010) may explain this situation. There is also literature that states that the culture of a country is important when consumers honor CSR engagement of MNCs (Choi et al., 2016). Ethnocentrism in CSR is under researched and it is questionable how important this issue when analyzing the financial effect of CSR in Brazil (Strehlau et al., 2012). Next to the lack of focus on emerging markets and the partly contradicting literature also the field of ethnocentrism in CSR is unclear. This thesis does not undertake research about ethnocentrism and CSR but it gives a starting point for future research and sheds light on this problem.

1.3 Research question

As seen literature about CSR does not take emerging economies into focus (Crisóstomo et al., 2011). Consequently it is not clear how CSR behaves in emerging markets regarding the impact on firm financial performance. Therefore, the purpose of this research is to find out:

To what extent does CSR relate to firm financial performance in emerging economies, and in particular in Brazil?

1.4 Sub-questions

Within the examination of the main research question, that investigates the relationship between CSR engagement and firm financial performance in emerging markets, there are several sub-questions that need to be investigated in order to fully understand the research topic. These sub-questions will analyze (a) the characteristics of Corporate Social Responsibility, (b) the characteristics of emerging economies and (c) how the embodiment of CSR in emerging economies and in Brazil in particular is characterized. To understand the research topic it is essential to have a deep understanding of what CSR actually is. Corporate Social Responsibility plays an important role for firms in developed economies nowadays (Porter and Kramer, 2007) and are widely examined, see e.g. Margolis and Walsh (2003). However, it is essential to fully understand what the topic of CSR is all about as this term is widely used but less widely precise (Dahlsrud, 2008). For that reason is it crucial to examine sub-question a:

a) What is CSR?

Next to evaluating the effect of CSR engagement on financial performance it is important to understand the environment, i.e. the nature of emerging markets. As literature already examined the effect in industrialized economies (Babiak and Trendafilova, 2011) it is necessary to understand the definition and characteristics of emerging economies as they differ in certain essential aspects from developed markets (Hoskisson et al., 2000). Also there is not an unique valid definition of emerging markets requiring need for clarification (Tarun Khanna, 2010). This leads to sub-question b:

b) What are the characteristics of emerging economies?

Although this question seems odd it is crucial to have an in detail understanding of the background of emerging markets in order to fully understand market logics.

After having evaluated the characteristics of CSR and emerging markets it is necessary to examine the connection between those research objectives. The shape of CSR differs between emerging and developed markets (Logsdon et al., 2006). CSR is underdeveloped in emerging markets (Muller and Kolk, 2009) and more adapted to local circumstances (Logsdon et al., 2006). Also the specific characteristics of emerging markets needs to be taken into account, in particular the specific country background (Maignan and Ralston, 2002), here Brazil, needs to be considered. Brazil has unique political, economic and other unique characteristics that make a specific consideration of those necessary (Matten and Moon, 2008). Therefore, sub-question c) examines:

c) How is the embodiment of CSR in emerging economies and in Brazil in particular?

1.5 Outline

The introduction of **Chapter I** that outlined the importance of CSR in today's world and especially in emerging markets was followed by stating the research question and problem. Further, sub-questions have been developed that deliver illumination about the research background.

In **Chapter II** the theoretical framework is presented. At first the concept of CSR will be evaluated. Its definition and the drivers of CSR are presented in this section. The topic of CSR is followed by an examination about emerging markets. Bringing the topics of CSR and emerging markets together Chapter II is ended by showing that CSR behaves differently in emerging and developed markets (Logsdon et al., 2006). Finally, it is analyzed if Brazil, as an example of an emerging economy, bears a suitable environment for engaging in CSR by MNCs.

Following that two hypotheses are developed. Hypothesis I assumes a positive relation between engagement in CSR and firm financial performance (Margolis and Walsh, 2003). Hypothesis II examines if the origin of a MNC has a moderating effect (Muller and Kolk, 2009). Out of these two hypotheses the conceptual framework is presented and elucidated.

Chapter III outlines the methodology section. In this section the data analysis strategy is outlined in order to explicate what the aim of the statistical analysis is. Furthermore, the data set is elaborated in detail.

In **Chapter IV** the actual analysis is performed. After analyzing the data the statistical results are presented.

Chapter V provides a detailed discussion. The meaning of the prior extracted results are discussed in depth. Further the contribution of this thesis, managerial implications and recommendations for future research are provided. Finally this thesis ends with a conclusion of the topic.

Chapter II Theoretical framework

In this master thesis several theories are discussed. Starting with an overview of the topic of CSR, emerging economies are discussed in detail. Further the combination of those two fields is evaluated as CSR in emerging markets is examined with a particular focus on Brazil in order to answer the sub-questions that were proposed earlier on.

2.1 Corporate Social Responsibility

A big theoretical topic is the issue of CSR. There is vast literature about that matter as nowadays CSR is an “almost universal practice” (Dressel, 2003). As in today’s world governments see their role in becoming less influential compared to overtaking institutions there is space that needs to be filled. In this space companies step in and have to take over responsibility for their behavior. Therefore, especially big MNCs, need to introduce and increasingly apply CSR practices (Elkington, 1997). The pressure for engaging in CSR is immense for every (big) company in every country around the world (Porter and Kramer, 2007). In the following it is therefore outlined what CSR actually is and why it exists, i.e. what the drivers of CSR are.

2.1.1 Definition of Corporate Social Responsibility

Although it seems as a not too difficult task at the first view, it is not easy to define CSR as this term is widely used and a big variety of definitions exist (Garriga and Melé, 2004). The European Commission defines CSR simply as “the responsibility of enterprises for their impacts on society” (EUCommission, 2011). But in a general sense there are several different approaches.

Academic literature also defines CSR in a wide range and no standard definition can be derived. The concept of CSR can be seen as an umbrella term for the relation of businesses towards society (Matten and Crane, 2005). Argandoña and von Weltzien Hoivik (2009) describe CSR as all the moral and legal responsibilities towards other people and its in- and external stakeholders. Matten and Moon (2008) represent CSR as a reflection of the social consequences of business’ success.

In recent times Dahlsrud (2008) analyzed 37 various definitions of CSR concluding that the confusion is not so much about how CSR is defined but more “about how CSR is socially constructed in a specific context”. Further, he identifies 5 different dimensions that were most commonly used to define CSR. These dimensions are in descending order: (1) stakeholder, (2) social, (3) economic, (4) voluntariness and (5) environmental. Although the dimensional ratio of the environmental dimension is lower than the other dimensions it is still significant

(Dahlsrud, 2008). One reason for that may be that early definitions of CSR did not include the environmental dimension (Carroll, 1999) so that current definitions might lack this element. However, following Dahlsrud (2008) there is a 97% chance that a random definition of CSR contains at least 3 out of the 5 elements. Moreover, most definitions are somewhat congruent. This makes the vast amount of definitions of CSR less grave as there are no severe contradictions about the general meaning of Corporate Social Responsibility (CSR).

Apart from the wording and the attempt to describe CSR in a nutshell, in 1991 Carroll developed a first standard approach, that imparts more depth towards the CSR concept and that rapidly became dominant when considering CSR. Carroll (1991) developed the model of the pyramid of Corporate Social Responsibility containing four levels of responsibilities. These are (1) economic, (2) legal, (3) ethical and (4) philanthropic (see Appendix 1).

Apart from certain exceptions level one and two need to be applied by every company. The third level is not compelling, however, demanded if a company wants to be accepted in the society. The fourth level is voluntarily but desired by society.

Not too far away from Carroll (1991), Garriga and Melé (2004) show that almost all theory about CSR can be divided into groups that are similar to those Carroll (1991) found. These four groups are: (1) instrumental theories, which see companies just as an instrument to be profitable and all social activities are only means to achieve this goal; (2) political theories, which deal with the role of companies in society and the responsible use of their power in the political setting; (3) integrative theories, which see the role of the company to satisfy social demands and (4) ethical theories, which emphasize the ethical responsibility of firms towards society (Garriga and Melé, 2004). However, it is important to state that all those theories do not stand on their own but each theory is related to the others. Garriga and Melé (2004) conclude that there is a necessity for a new theory that combines and integrates all those dimensions providing a new theory on the business and society relationship. CSR is further not a static concept, it is open for developments in new directions and adaptations (Matten and Moon, 2008, Carroll, 1999).

Literature about defining CSR is numerous and versatile (Dahlsrud, 2008). While it is important to being able to define CSR in a nutshell there is also literature that tries to show the underlying logic. Researchers like Carroll (1991) or Garriga and Melé (2004) do exactly that. They define CSR by disassembling them in their single levels. They have in common that they are able to provide different levels, where the economic level is the foundation and indispensable. They

also have in common that they state that these levels are not standing on their own and that they are interrelated (Garriga and Melé, 2004, Carroll, 1991). Whereas certain literature such as Carroll (1991) even claims a certain hierarchy of levels (pyramid of CSR) other literature like Garriga and Melé (2004) does not see such a strong hierarchy, however, a strong interrelation between the various levels.

The differences in defining CSR, however, are just minor and not crucial. For instance the evaluated levels of CSR are not exactly the same, however, closely related. Whereas certain literature, e.g. Dahlsrud (2008), just tries to define CSR on the surface by trying to provide a definition in a nutshell, other literature like Carroll (1999) or Garriga and Melé (2004) tries to find an underlying logic, identify certain levels of CSR and their interrelationship and out of that develop a definition of CSR.

As shown there is a wide range of definitions of CSR. After taking the academic literature into account the definition used in this master thesis to define CSR is:

The responsibility companies have towards their in- and external stakeholders and towards the local and global society as a whole due to the impact of their business activities on environment and society.

This definition is in line and not contradicting to those of other academic researcher, e.g. (Argandoña and von Weltzien Hoivik, 2009, Garriga and Melé, 2004). Further, contribute is paid to the economic level and legislation by taking into account the responsibility towards the in- and external stakeholders which is a necessity in the definition of CSR, e.g. (Carroll, 1991, Garriga and Melé, 2004, Dahlsrud, 2008). Apart from the economic point of view, the social aspect, e.g. (Garriga and Melé, 2004) is covered by taking over responsibility towards society. Although definitions for CSR do not differ in emerging and developed countries the execution does, e.g. by taking the local environment more into account (Muller and Kolk, 2009)(see also 2.3). Therefore, a separation between local and global society is applied in this definition as especially in emerging economies the local aspect plays an important role whereas in developed markets the responsibility towards the society as a whole and in a global sense is important (London and Hart, 2004). Companies cannot ignore the world's poor population anymore and thus need to take global responsibility (Stiglitz, 2002). Further, the reasons why companies enact CSR is because their business activities have an impact on society and thus this aspect needs to be taken into account (Matten and Crane, 2005).

2.1.2 Drivers of Corporate Social Responsibility

After clarifying what CSR is, it is important to understand why companies actually engage in CSR. Literature argues that usage of CSR practices depends on several factors like size or level of diversification and that there is an ideal level of CSR (McWilliams and Siegel, 2001). Literature further states why there is pressure for introducing environmental stimulating practices (Babiak and Trendafilova, 2011). Pressures for introducing CSR practices are (1) consumer demand and (2) demand from other stakeholders (McWilliams and Siegel, 2001). Firms thus need to consider that they have responsibilities towards their stakeholders and customers (Elkington, 1997). Demand from other stakeholders helps to explain why the effect of CSR on financial performance varies across firms and time (Barnett, 2007).

There is literature that identifies 5 main drivers of CSR. These are (1) growing affluence, (2) ecologic sustainability, (3) globalization, (4) communication technologies and (5) brands (Werther Jr and Chandler, 2010). Although managers might neglect certain aspects due to the field of business they operate in a strong interaction effect is given.

As it is important to understand what drives companies to introduce CSR practices at all a closer look on the 5 drivers of CSR offered by Werther Jr and Chandler (2010) is advisable. (1) It is argued that CSR is more important in developed countries as stabilized work and security systems allow the luxury of social responsible consumption among customer. Thus CSR is more important in developed countries as no such luxury exists when basic needs are not fulfilled. (2) Companies are driven towards CSR by ecologic sustainability as it is essential for the long term success of a company to rely on its resources in a sustainable and non-destroying way enabling them to operate their business in an environment they are dependent on. (3) Especially for big MNCs it is important to consider its business activities with a global mindset. Stakeholders are observing business activities all over the world which leads to the fact that companies have to take the ethics and management style of regions into account where they might not operate in by themselves but stakeholders are located. (4) Moreover, nowadays we live in a world of open information. Due to the rise of information technology as well as free flow of information such as in web-blogs it is difficult if not impossible to keep information secret. Thus companies can no longer hide information. Proactively reporting firm's own CSR actions helps to strengthen the firm's image and makes it comparable with competitors (Elkington, 1997). (5) Another important aspect is brand building respectively improving a company's image. By engaging in CSR a firm hopes to improve its image making the brand

more attractive for consumers and finally gain (financial) advantages out of it (Rettab et al., 2009).

Apart from the drivers Werther Jr and Chandler (2010) offer, Carroll and Shabana (2010) conclude that there are four further reasons why companies in the end benefit from engaging in CSR and thus are driven to apply them. These are (1) reducing costs and risks, (2) strengthening legitimacy and reputation, (3) building competitive advantage and (4) creating win-win situations through synergistic value creation.

(1) By engaging in CSR companies can reduce risks as voluntary activities in social or environmental affairs may prevent stricter legislation which would result in more effort and thus costs. Also certain tax benefits may be achieved which would lower costs as well. (2) Legitimacy and reputation in a very important point. CSR activities show that a company is part of the community and that they are a partner rather than an opponent. It shows that the company can operate profitably and at the same time meet the various and competing needs of its stakeholders (Carroll and Shabana, 2010). (3) Building competitive advantage means that a firm can get the support of its stakeholders by building strong relations with them and thus retrieve competitive advantages (Carroll and Shabana, 2010). These advantages may be a lower rate of employee turnover (Greening and Turban, 2000), higher consumer loyalty (Du et al., 2010) or attraction of talents (Scherer and Palazzo, 2011). These outcomes of CSR but also further benefits may give the company an advantage over its competitors (Carroll and Shabana, 2010). (4) Via synergistic value creation a company can fulfil the needs of its stakeholders by taking opportunities that are only possible by engaging in CSR by following the goal of making profit at the same time (Kurucz et al., 2008).

Porter and Kramer (2007) also identify 4 general reasons why companies engage in CSR. These are (1) moral obligation, (2) sustainability, (3) licence to operate and (4) reputation. There is no need to elaborate those drivers in more detail as they overlap with those Werther Jr and Chandler (2010), Carroll and Shabana (2010) and other literature propose.

Apart from the mentioned main classifications of CSR drivers, demands of various stakeholders or pressures from developed countries (Zadek et al., 2012), there might also be country specific characteristics that enhance CSR practices and seem to be of higher importance in emerging markets than in developed markets (Frynas, 2006). For example religious pressures like Islamic prescriptions of certain business practices are at least partly the cause for executed CSR practices in Islamic countries like Pakistan or Malaysia. Another example of a country specific

characteristic would be the case of Argentina where the economic crisis of 2001 led to a huge discussion and adaptation of the importance and standing of corporate social activities of companies and their meaning for society.

Next to religious restrictions there are also legal restrictions varying from country to country (see e.g. Carroll, 1991). In order to embed better governance many emerging market policy makers increase the pressure on companies to further operate in CSR by imposing laws and regulations (Baskin, 2006). Especially in markets where the state still has a lot of power in economic decisions such as China, public policy is still a main driver of companies to engage in CSR (Zadek et al., 2012).

The overview over the various drivers provides several insights. At first it is to state that there are several drivers that prompt companies to engage in CSR. There are drivers that almost every company faces regardless market (developed or emerging), size or consumer preferences such as economic benefits, e.g. (Carroll and Shabana, 2010). On the other hand, there are drivers that are exclusive to companies in certain markets, like religious prescriptions (Frynas, 2006) or a high market power of the state (Zadek et al., 2012). Those country specific drivers, however, have a higher relevance in emerging markets than in developed markets (Frynas, 2006), see also 2.3 CSR in emerging economies.

In what the various literature concerning drivers of CSR concludes is that it is not just about financial gains but also about legitimacy, e.g. (Werther Jr and Chandler, 2010, Carroll and Shabana, 2010, Porter and Kramer, 2007). Surely, financial advantages are one main reason why companies engage in CSR (Porter and Kramer, 2007), but companies need to show that they are a member of the community and care for their environment in order to improve reputation, avoid sanctions or stronger legislation and be long-term profitable (Carroll and Shabana, 2010).

After considering the various definitions of CSR it was possible to come up with a definition of CSR that is used throughout this thesis (see above). Furthermore, it was elaborated what actually drives companies to engage in CSR. With all the above provided information a clear picture about CSR is formed and consequently sub-question a (What is CSR?) is answered in detail.

2.2 Characteristics of emerging economies

Emerging economies were the sweetheart of investment traders in the last decade. Astonishing economic growth rates and high financial returns were the reason for that (Wilson and Purushothaman, 2006). Besides, expectations of the domestic population were in no way lower as an increase of standard of living was taken for granted. The following section thus deals with the characteristics of emerging economies in order to answer sub-question b: What are the characteristics of emerging economies?

A broad term such as emerging economies or emerging markets goes hand in hand with a wide range of definitions. Literature commonly refers to three major aspects a country classifies as an emerging market. These are (1) absolute level of economic development (usually average GDP per capita), (2) relative pace of economic development (usually GDP growth rate) and (3) governmental policy that favors liberalization (Arnold and Quelch, 1998). Following that emerging economies are countries that show a low income per capita, have a rapid economic growth and use economic liberalization strategies as their primarily source of growth (Hoskisson et al., 2000).

As there is a wide range of definitions of emerging markets there is also a wide range of classifications of emerging markets. An emerging market may be classified as such by one institution whereas another institution does not classify it as emerging economy what makes it difficult to provide a definite list of emerging markets. Hoskisson et al. (2000) state that “there is no standard list of countries agreed to be emerging economies”. According to Hoskisson et al. (2000) they can be divided into two groups. The first group consists out of developing countries in Asia, Latin America, Africa and the Middle East. The second group consists out of transition economies in the former Soviet Union and China (Hoskisson et al., 2000). Thus, Hoskisson et al. (2000) identified 64 countries that are classified as emerging economies in the year 2000. Also they differ between 51 rapid growing countries of the first group and 13 countries belonging to the second group.

Another impression of which countries belong to the group of emerging provides the definition of the BBVA RESEARCH (EAGLE, 2014). This research further distinguishes between so called **EAGLEs** and **NESTs** countries within the emerging markets group. EAGLEs are the top performers among emerging markets and defined as those emerging economies contributing more than the average of the G6 countries (G7¹ excluding USA) to global growth in the next

¹ Members of G7: Canada, France, Germany, Italy, Japan, United Kingdom, USA

ten years. The Nest group is formed by those emerging economies contributing less than the average of the G6 countries to world growth in the next ten years but more than the average of non-G7 developed countries with GDP of over USD100bn PPP-adjusted (EAGLE, 2014). The list of emerging markets thus consists out of 7 EAGLE and 19 Nest countries, offering 26 emerging markets in total. These are:

EAGLE (7): China, India, Indonesia, Russia, Brazil, Turkey, Mexico.

Nest (19): Nigeria, Thailand, Colombia, the Philippines, Malaysia, Vietnam, Pakistan, Bangladesh, Poland, Egypt, Peru, South Africa, Chile, Argentina, Saudi Arabia, Iraq, Iran, Kazakhstan, Qatar.

This list is not definite and not an international standard classification but it provides a good and commonly accepted overview of emerging markets (see Appendix 2). However, other countries might be classified as emerging markets as well, depending on the definition (EAGLE, 2014).

Considering alone the two researches of Hoskisson et al. (2000) and EAGLE (2014) it shows tremendous differences in classification. 64 recognized emerging economies vs. 26 recognized emerging economies. Also the differentiation between group 1 and 2 of Hoskisson et al. (2000) is not shared in the second research. The huge differences in classification evokes the question which definition finally to use in this research. Thus in this master thesis the general understanding and underlying logic of emerging economies is used instead of being able to offer a list of emerging economies.

In this thesis an emerging market is defined as a market that uses a liberal trade policy to achieve high economic growth rates whereas the per capita income of the population is at low or medium level.

This definition is close to those in relevant literature (Hoskisson et al., 2000, Arnold and Quelch, 1998). The basic characteristics of emerging markets are not disputed in literature in its fundamentals. However, this master thesis will not provide a list with emerging countries, as literature is too indistinct in this aspect and it also does not make a lot of sense to do so.

In fact, the inception of the term ‘emerging market’ never was to set specific criteria to classify countries. The inventor of the term and World Bank economist Antoine van Agtmael coined the term more as a marketing catch phrase in the early 1980s (FinancialTimes, 2015). Less developed or even third world countries were now considered as emerging economies, which

sounded more aspiring to investors all over the world. They sent out rays of a promising future, of strong growth and high economic potential instead of sticking to an image of a third world country. Or to say it with the words of the inventor of the term ‘emerging markets’ Antoine van Agtmael: “third world suggested stagnation; emerging markets suggested progress, uplift and dynamism” (Economist, 2008).

Emerging markets are a well-known term in academic literature (Hoskisson et al., 2000). The information this thesis provides in section 2.2 give answer in detail about the characteristics of emerging markets. Thus sub-question b (What are the characteristics of emerging economies?) can be answered.

2.3 CSR in emerging economies

As already outlined a lack of research about CSR in emerging markets is given (Frynas, 2006, Muller and Kolk, 2009). Although the interest of research about CSR in emerging markets has risen in the past years the focus of current research is still about developed markets (Muller and Kolk, 2009). Moreover, if research about CSR in emerging markets has been conducted, the usual focus was on North American or European subsidiaries of MNCs in those emerging markets rather than taking local companies into account, e.g. (Husted and Allen, 2006).

The little research about CSR in emerging economies has, nonetheless, provided some useful and new indications in the past years. While traditional literature indicates that CSR is underdeveloped in emerging markets compared to developed markets, literature in recent years provides new insights (Muller and Kolk, 2009, Jamali and Mirshak, 2007). The need for CSR engagement is higher in emerging markets than in developed markets (Jamali and Mirshak, 2007). It is unlikely that living conditions improve if not private enterprises engage in improvement programs. Also more systematic planning is needed as the political, economic or social environment often is less promotional (Jamali and Mirshak, 2007).

Moreover, CSR in emerging markets differs from CSR in developed markets as in emerging markets CSR reflects more the social and political background of the region (Logsdon et al., 2006). This is especially viable for local companies and does not so much apply for local subsidiaries of MNCs which have different pressure from stakeholders and links to different institutional forces (Muller and Kolk, 2009).

A further reason why CSR differs in emerging markets simply is the different financial endowment of consumers. Emerging markets are characterized by a low per-capita income by

definition (Hoskisson et al., 2000). Consumers thus do not have the financial power as consumers in developed markets what may influence companies' decisions to engage in CSR (Werther Jr and Chandler, 2010).

Another reason why this is the case is the fact that the concept of CSR is often seen as a 'western' approach (Muller and Kolk, 2009). Therefore, it is not as easy applicable in other 'non-western' markets. Following that local companies deal differently with CSR activities as they take the local background more into account than foreign subsidiaries of MNCs (Logsdon et al., 2006). Muller and Kolk (2009) further indicate that judging CSR activities in emerging markets following 'western' standards thus will lead to poor results.

The adaptation to local circumstances in emerging economies may provide reasons why CSR is executed differently than in developed markets. Singh and Zammit (2004) argue that companies in emerging economies simply have different priorities and thus do not enact CSR as companies in developed markets. For Christmann and Taylor (2001) a lack of access to technology is a further reason. If companies do not have the financial resources or simply not the possibility for various reasons to acquire a certain technology it may be hindered and in the end deterred from using certain CSR practices that companies in developed markets have (Christmann and Taylor, 2001).

CSR, on the other side, gets more and more similar in emerging as in developed countries, at least in communication. It is stated that emerging economies catch up with communicating their CSR activities and start to adopt language and style of communication (Matten and Moon, 2008). MNCs in emerging markets are indeed not only catching up but are more professional than commonly expected and even supersede standards in high-income countries (Baskin, 2006). A look at the statistics also backs up this view. While about 53% of emerging market companies publish details of their environmental policy only a slightly higher number of about 59% of OECD countries do so. On the other side, reporting about CSR is not homogenous among emerging markets. While 82% of Brazilian companies published information about environmental programs only 32% of Chinese companies did so (Baskin, 2006).

Finally there is to state that CSR differs between emerging and developed markets but when it breaks down to the question of how CSR activities are executed and if they differ from those in developed markets, no severe differences are observable (Muller and Kolk, 2009). Muller and Kolk (2009) show “that local companies [in emerging markets] do engage in the type of CSR activities commonly associated with CSR in developed countries”.

2.4 CSR in Brazil

Emerging economies are highly diverse among each other e.g. (Zadek et al., 2012, London and Hart, 2004). Therefore, a special focus needs to be set on Brazil as this master thesis deals with an analysis where data from Brazil is used and thus it needs to be researched if Brazil, a federation of 27 states and with a population of about 205 million inhabitants (Fujiwara, 2015), is a suitable country for an analysis about CSR in emerging economies.

The question if Brazil can be classified as an emerging economy can be answered quickly as literature is clear about that and concludes that this is the case e.g. (Hoskisson et al., 2000, EAGLE, 2014). In fact, as one of the BRIC² countries, Brazil is actually one of the figureheads of emerging economies and expected to show major growth and a huge gain in global importance in the close future (Wilson and Purushothaman, 2006).

Furthermore, it is to elaborate if Brazil is a suitable country for MNCs to engage in CSR. Only if that is the case companies can do so in a noteworthy extend. For that reason Brazil is analysed for its main environmental settings of enabling CSR. These are the political setting, economic and as a special characteristic the religious setting. These are surely not the only environmental issues that decide whether CSR can be applied in Brazil but they provide a good overview about how CSR actually can develop in Brazil.

Matten and Moon (2008) state that the reasons why companies change and adapt their CSR practices among countries can be found in the structure and history of institutions of countries. The institutional context is a main driver of CSR and thus needs to be taken into account (Maignan and Ralston, 2002, Campbell, 2007). Institutional theory focuses on how the various institutions influence the way companies enact CSR (Li et al., 2010). Institutions are therefore important to understand the background setting in which CSR is embedded (Campbell, 2007). Therefore, it is important to check for an institutional friendly environment for the development of CSR in Brazil.

² Brazil, Russia, India, China

The political environment is surely an important issue and needs to be examined. de Abreu et al. (2012) argue that CSR depends on the historical national development of its business systems. In the case of Brazil it is highly dependent on the development of the political system. The political development from a dictatorship to a more liberal and open democracy made space for the development and introduction of CSR systems in Brazil (de Abreu et al., 2012). Outstanding debts have led the Brazilian government to cut on social spending after the dictatorship in the late 1980s which resulted in the situation that people did not trust the government in providing aid to tackle the basic social needs and thus made space for private companies to step in this field (Griesse, 2007). Further, widespread corruption among state decision makers shatters trust of people towards the state leading to a low level of social expectations (Alston et al., 2006). Brazilian people, especially low-income people, have a strong feeling for being compensated for their social needs (Barki and Parente, 2006). In that gap of low trust in politics private companies step and try to gain advantages out of applying CSR practices. In summary, the democratic but corrupt public policy provides a friendly environment for private companies to engage in CSR as people do not expect the state to engage in it due to a low level of trust (Griesse, 2007).

Another aspect is the economic background of Brazil. Brazil's economic history is characterized by a high degree of volatility (Jayme, 2003). During the 1980s and until the mid-1990s Brazil showed reasonable high economic growth numbers but this time is also characterized by a period of high inflation, even hyperinflation with its peak in 1994 when the monthly inflation rate was around 80 percent (Jayme, 2003). Several economic and currency reforms put an end to the galloping inflation and stabilized the economic climate. Brazil's economy shifted from an economy that was highly dependent on natural resources (e.g. sugar, soy...) towards a liberal trade economy, which is an indicator of an emerging market (Hoskisson et al., 2000), and with high economic growth rates (Jayme, 2003). However, in contrast to the other three members of the BRICs, Brazil's economy has stalled during the past 25 years (Elstrodt et al., 2007). Brazil further has a major problem that threatens to draw economic growth, i.e. a slow growth in labor productivity which is the primary determinant of national wealth (Elstrodt et al., 2007). A look at the numbers shows that Brazil's labor productivity was just 18 percent of the US level in 2004 (Elstrodt et al., 2007). Doing business is thus not easy, however, reasonable economic growth rates in an emerging market setting provide a good environment for operating profitably and thus engage in CSR activities is possible.

A characteristic of CSR in emerging markets are that they are more adapted to local circumstances than in developed markets (Logsdon et al., 2006). One example of such a local circumstance is the importance of religion (Frynas, 2006) in Brazil. Over 90% of Brazilians consider themselves Christians. Brammer et al. (2007) found a relation between the religiosity of people and their attitude towards CSR. On the one hand, religious people do not prioritise the responsibilities of the firm differently. On the other hand, they tend to hold broader conceptions of the social responsibilities of businesses than non-religious individuals. Also the extent to which people demand companies to show responsible business activities is higher among religious people compared to people that are not religious (Brammer et al., 2007). From a religious aspect Brazil provides a friendly environment for companies to engage in CSR.

Although there is hardly any literature that describes how CSR engagement in Brazil works out concrete, i.e. which specific actions and practices are undertaken by companies, it can be assumed that they do not differ heavily from CSR activities in developed markets. Although CSR activities are more adapted to the local context, the specific actions in emerging markets are similar to those in developed markets (Muller and Kolk, 2009), also valid for Brazil.

Because of all these reasons, Brazil can be seen as a friendly environment for engaging in CSR as the political, economic and religious background promotes CSR engagement. Therefore, sub-question c (How is the embodiment of CSR in emerging economies and in Brazil in particular?) can be answered.

2.5 Hypotheses

The following section deals with describing the (expected) interaction between CSR engagement of a company and firm financial performance. In this thesis a positive relation of engaging in CSR on the financial performance is expected. Although this seems obvious, logical and well proven at first glance, at second glance this cannot be taken for granted. At first literature is not as clear as it seems. McWilliams (2000) states that “researchers have reported a positive, negative, and neutral impact of corporate social responsibility (CSR) on financial performance.” Also the meta-analysis of Margolis and Walsh (2003) delivers only a 50% sample size support for this assumption. Therefore, there is need to clarify this relationship within emerging economies. One reason for this inconsistency might lay in the methodology section (McWilliams and Siegel, 1997). Orlitzky et al. (2003) conclude that sampling and

measurement errors can indeed explain a vast part of the inconsistency between the results of studies.

As social and environmental issues are of increasing interest within the population, consumers honor such related behavior of a firm with increasing purchasing decisions leading to higher revenues of a firm (Mohr and Webb, 2005). Furthermore, literature supports this view or as Sen and Bhattacharya (2001) state: “A growing number of marketplace polls attests to the positive effects of corporate social responsibility (CSR) on consumer behavior.” Further, two meta-studies support a positive relation between using CSR practices and firm financial performance. Margolis and Walsh (2003) and Orlitzky et al. (2003) draw a general trend that is on the horizon, i.e. a positive correlation. With in total 161 compared studies, these meta-studies provide support for this assumption, however, not finally definite.

As shown, literature indicates but not proves that there is a positive relationship. This is because customers value and demand the CSR engagement of a firm. In fact, a survey found that about 88% of customers are the opinion that companies should apply CSR practices to improve the environment and the society (Forbes, 2010). That this behavior is not only demanded by customers but also honored financially is also proven (Mohr and Webb, 2005). Indeed there is literature that states that consumers are willing to pay higher prices for products that are made by companies that apply CSR practices (Nielsen, 2013). Although distinct numbers vary among studies the amount of customers that is willing to pay higher prices for products from socially responsible companies is significant (Mohr and Webb, 2005). The high amount of religious people in Brazil should further increase firm financial performance of MNCs when they engage in CSR (Brammer et al., 2007).

In order to exploit financial advantages a company therefore needs to engage in CSR. Moreover, reasons why companies may benefit apart from just financial surpluses of their products vary. Boosted employee commitment (Barbian, 2001), a better public image, better and more media coverage or the attraction and retention of investors are factors that may further increase a firm's financial performance (Urip, 2010). If employees are committed to what they are doing they show higher levels of productivity. Employees that feel that they are contributing to a better world show a higher commitment towards their work and overall performance is increased (Barbian, 2001).

Therefore, Hypothesis I presumes:

Hypothesis I: A MNC that engages in CSR in Brazil performs financially better than firms that do not engage in CSR.

MNCs differ among themselves heavily and it is interesting to see if there is a financial difference in performance if MNCs are originally from Brazil or if they just have a local subsidiary but are founded elsewhere, considering their CSR engagement. In this thesis MNCs are thus broadly divided into two groups. MNCs whose origins are in Brazil but have subsidiaries in other countries, classifying them as multinational and labeled for easiness reasons as ‘local MNCs’ in the further context. The other group consists out of companies whose origins are outside Brazil but have an active subsidiary in Brazil, classifying them as a MNC and are labeled as ‘foreign MNCs’ in the further context.

It is interesting to follow up the question if there is a difference in financial performance considering CSR engagement by looking at the two different groups of local and foreign MNCs. Local MNCs can be assumed to have closer ties and more experience to the local market due to their history of origin.

Foreign MNCs, on the other hand, face a lot of pressure from the home market (Zadek et al., 2012), which is usually stronger than the pressure from the Brazilian market. Thus foreign MNCs have to react to pressure and needs they face from other markets which leads to the situation that they cannot commit their CSR engagement to local circumstances as strong as local MNCs (Logsdon et al., 2006). Local MNCs take the specific needs and characteristics of the region more into account than foreign MNCs do (Muller and Kolk, 2009). Therefore, CSR activities of local MNCs might fit better to the local needs, tackle the needs of the local population more effectively and thus be of higher impact (Muller and Kolk, 2009). Consumers might reward those effective CSR activities of local MNCs more than the CSR engagement of foreign MNCs and thus firm financial performance of local MNCs might be better.

Muller and Kolk (2009) state that CSR is often seen as a western concept. Many firms transfer their CSR concepts from the western, developed market to emerging economies. Adaptation to local circumstances takes place but foreign MNCs do not have the same insights into the specific social or environmental needs and thus the transfer is often not exactly suitable (Logsdon et al., 2006).

On the other hand, CSR is still underdeveloped in emerging economies (Muller and Kolk, 2009). Thus foreign MNCs may have more experience with CSR as they might have dealt with

them in their home market for a longer time (Logsdon et al., 2006), presupposed that the foreign MNC originated in a developed economy.

Moreover, foreign MNCs usually do not enter foreign markets without careful preparation. When entering emerging markets foreign MNCs follow certain business strategies to be successful. One of those strategies is to partner up with local companies and organizations (London and Hart, 2004, Hoskisson et al., 2000). By partnering up foreign MNCs gain knowledge and insights into local circumstances (London and Hart, 2004). They can use those insights to adapt their CSR engagement to the local context and thus be able to apply as effective CSR activities as local MNCs. Therefore, if entering emerging markets is done right (London and Hart, 2004), no significant effectivity losses in CSR engagement might be recognizable.

Another aspect that needs to be considered is the trust issue. Corruption is not only widespread in Brazil in the political sector but also in private companies (Armijo, 2007). Consumers are not only suspicious of politics (Alston et al., 2006), but also of companies. However, people also tend to favor products of local companies over foreign ones. This effect is called ethnocentrism (Booth, 2014). People thus might also honor CSR activities of local companies more than those of foreign MNCs due to a higher level of ethnocentrism. Brazil level of ethnocentrism is rather moderate meaning that consumers prefer local products over foreign products but not tremendously (Strehlau et al., 2012). How ethnocentrism behaves in the CSR aspect has not been focus of research yet but it can be assumed to have an effect (Strehlau et al., 2012, Choi et al., 2016). Indeed, people from different countries and cultures do have different attitudes towards activities of local and foreign firms (Choi et al., 2016). A moderate level of ethnocentrism thus would favor local MNCs as people would honor CSR activities of local MNCs more than those of foreign MNCs.

On the other hand, foreign MNCs might enjoy higher levels of trust as they are perceived as not as steeped with corruption as local MNCs (Armijo, 2007). Therefore, CSR engagement of foreign MNCs might be trusted more and thus honored in a financial way. Literature is not clear or even existing about the effect of ethnocentrism in CSR but it can be assumed to have an effect and thus will be evaluated (Strehlau et al., 2012, Choi et al., 2016).

Because of all those reasons it can be assumed that there is a difference in assessment of CSR activities between local and foreign MNCs in Brazil (Choi et al., 2016). Due to certain aspects it can be further proposed that local MNCs have an advantage over foreign MNCs, especially because of the better adaptation to local needs (Muller and Kolk, 2009). Thus the origin of the

MNC has a moderating effect on the relation between CSR and firm financial performance and thus Hypothesis II states:

H II: *Local MNCs that engage in CSR perform financially better than foreign based MNCs that engage in CSR.*

2.6 Conceptual framework

The two hypotheses can be summarized in a conceptual model (see Figure 1). The CSR engagement of MNCs operating in Brazil is assumed to have a positive effect on firm financial performance. This assumption is tested in Hypothesis I. Hypothesis II assumes a positive moderation effect of the origin of the company. That means that the conceptual model assumes that the origin of a MNC, i.e. if it is local, has a positive influence on firm financial performance.

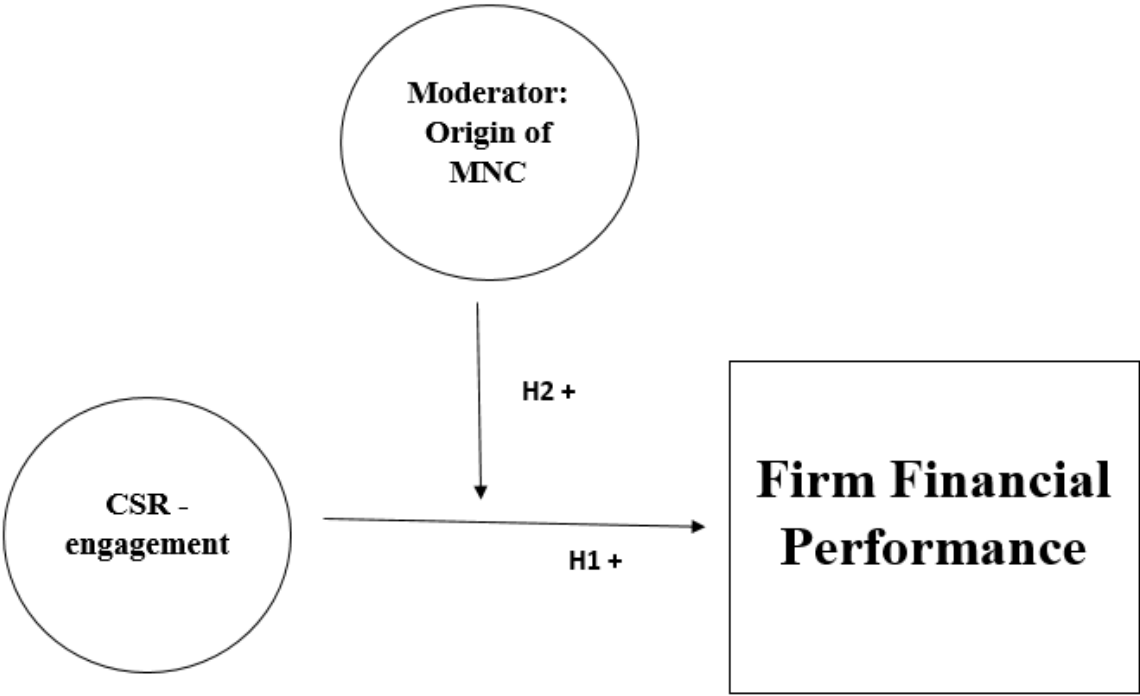


Figure 1: Conceptual model

Chapter III Methodology

In the following section the methodological process is outlined. Starting from definitions, the research design follows and data sources as well as the data analysis technique is contoured. To get a detailed understanding of the analysis the composition of the single variables are outlined.

3.1 Definitions of conceptual model

Firm Financial Performance: The conceptual model assumes an impact on firm financial performance. As larger companies usually generate more revenue this aspect needs to be taken into account. Therefore, in order to correct for the size of a company Firm Financial Performance is defined as the revenue a firm generates within one calendar year (2012) in Brazil, divided by its number of employees. Note: Due to kurtosis and skewness violation the value is logarithmized, see Appendix 5.

CSR - engagement: It is important for a company to engage in CSR (Hart and Christensen, 2002). However, there are various forms and possibilities to do so and there is no standard measurement of CSR (Margolis and Walsh, 2003). In this thesis a differentiation is done between MNCs that engage in CSR and those that do not. The indicator if companies engage in CSR is if they have plans or actions against climate change, so a more general approach towards CSR.

Moderator: As seen in 2.3 there are differences in CSR behavior depending on the origin of a MNC (Muller and Kolk, 2009). Local MNCs adapt their CSR engagement more to the local circumstances than subsidiaries of foreign based MNCs do (Muller and Kolk, 2009, Logsdon et al., 2006). Therefore, this thesis differentiates between ‘local’ and ‘foreign’ MNCs. Local MNCs are those multinational companies that are founded in Brazil and have subsidiaries in other countries. Foreign MNCs are those multinational companies that were founded outside Brazil but have an operating subsidiary in Brazil. In order to compose the moderator variable the standardized values of the CSR-engagement variable are multiplied with the standardized values of the origin of a MNC characteristic.

For a detailed description and discussion of the single variables see 3.5 Variable measurement and Table 2.

3.2 Research design and data sources

The aim of this research is to provide a statistical analysis about the impact of using CSR practices on financial performance of MNCs in emerging markets, in particular in Brazil.

Therefore, a data set is used that contains information about Brazilian companies. As already mentioned above revenue (corrected for size) will be used as variable for financial performance and thus serves as the dependent variable. Engagement in CSR and a moderator variable to check for the influence of the origin of a MNC are used as independent variables. Control variables, i.e. industry sector, are used in order to improve validity of the analysis.

The analysis is performed using a data set provided by Dr. C. L. Voinea (Assistant Professor in Strategic Management) of the Nijmegen School of Management. The data set contains a list of MNCs that are operating in Brazil and relate to their business activities in this country exclusively. Considered MNCs have a range from 5 to 41092 employees and generate a revenue between 12 and 36500 million USD, forming a total sample size of 257 companies with data retrieved from the year 2012. The MNCs in this analysis operate in four different industry sectors, these are: agro, commerce, industry and service (for frequencies see Appendix 3, Frequencies industry sectors).

Provided data cannot be checked for integrity as the origin of the data is unclear. This means that it needs to be considered as a random sample and it is unclear how the data has been collected and if values can be taken for granted. However, as data got approved by Radboud University it can be assumed that the data set is appropriate for a statistical evaluation. Due to the unknown selection criterion of the sample, representativeness cannot be assumed and inferences at data collection cannot be excluded.

The analysis is performed by using a data set of MNCs that operate in Brazil. Brazil, as one of the BRIC countries, is a prime example of a fast growing emerging economy (Armijo, 2007) and with that suitable for the analysis.

3.3 Data Analysis Technique

The analysis in this study is performed by applying a multiple regression analysis. Regression analysis in general is the most widely used dependence technique in business analysis and for academic purposes (Hair, 2009). The general aim is to use the independent variables to predict the dependent variable. As this research examines a dependence relationship between revenue and applied CSR practices this analysis technique is appropriate. As there is only one dependent variable and several independent variables a multiple regression analysis is performed (Hair, 2009).

In order to perform a multiple regression analysis several general conditions need to be fulfilled. All variables need to be measured on a metric scale and data needs to be normally distributed which makes a check for skewness and kurtosis necessary. To possess sufficient statistical power the analysis further needs to rely on a sufficiently high enough sample size. As a general rule in multiple regression the sample size should not be lower than a ratio of 5 to 1 of observations to independent variables. More preferable a ratio of 15 or 20 to 1 is desired (Hair, 2009). Further, there are four assumptions that have to be examined before the actual analysis can be performed. These assumptions are: (1) Linearity of the phenomenon measured, (2) constant variance of the error terms, (3) independence of the error terms and (4) normality of the error terms (Hair, 2009). Next to checking these assumptions it is important to check for multicollinearity. In order to get low multicollinearity measures the values for tolerance and the VIF indicator (Variance Inflation Factor) need to range in acceptable levels.

3.4 Variable measurement

For the analysis various variables for measuring the hypotheses are taken as independent variables as well as several control variables are considered. In the following a detailed description of the single independent variables and the dependent variable is provided.

As the aim of this analysis is to find out whether CSR engagement has an effect on firm financial performance a financial indicator must form the dependent variable. As larger companies usually generate more revenue and profits this fact needs to be considered as well. Therefore, the financial indicator and dependent variable in this thesis is the revenue of the MNC within one year (2012) in Brazil divided by its number of employees. However, financial performance measurement of MNCs in emerging markets is a difficult issue. One aspect of financial reporting is that in emerging markets it may not depend on the same standards as in developed markets (Hoskisson et al., 2000). Another aspect of emerging markets is the enforcement of such standards. Even if certain rules have been enacted those countries might lack the ability or will to enforce them (Hoskisson et al., 2000). Economies with underdeveloped financial systems such as emerging markets also may apply a higher amount of economic barter which consequently results in distorted and unprecise financial reporting (Hoskisson et al., 2000). These problems are especially widespread among private enterprises that try to hide profits or other financial numbers from the state or organized crime (Hoskisson et al., 2000). As it is

easier to hide profits than revenue numbers, revenue is a more suitable indicator to use as measurement of financial performance.

In order to test Hypothesis I an indicator needs to be found that measures CSR engagement. In this thesis a MNC is classified as engaged in CSR if it already has actions or plans against climate change in practice. It is hard to put CSR in numbers and there is no standard measurement of CSR (Margolis and Walsh, 2003, Orlitzky et al., 2003). Furthermore, the data set only contains specific variables making it difficult to consider all aspects of CSR. However, using the fight against climate change as a measurement of CSR is not wrong as it includes the consequences companies put on society within their business practices. For that reason it is in line with CSR theory and can be used as a measurement of CSR, e.g. (Argandoña and von Weltzien Hoivik, 2009, Dahlsrud, 2008). Interesting to note is that CSR is measured in this thesis more in a general manner. The results will show if the engagement in a less concrete form of CSR (fight against climate change) will end in benefits for firm financial performance.

For testing Hypothesis II a differentiation between foreign and local MNCs is done. What seems obvious at first sight is not as easy on the second view. As already outlined a differentiation makes sense as the CSR behavior is different as local MNCs adapt their CSR engagement more to the local context and thus might gain a stronger (financial) advantage (Muller and Kolk, 2009). Within this master thesis a local MNC is defined as a MNC that originated in Brazil, i.e. was founded in Brazil. A foreign MNC, on the other hand, is a MNC that originated, i.e. was founded, outside Brazil and has a working subsidiary in the Brazilian market. That this differentiation is sometimes borderline is comprehensible. For example the dataset contains the MNC 'Volkswagen do Brazil', which is the Brazilian subsidiary of the German company 'Volkswagen'. It is classified as a foreign MNC as its origins are in Germany. However, Volkswagen do Brazil is active in Brazil since 1953. Being active for 63 years in a certain market means being familiar with the local context (Khanna et al., 2005). The argument of Muller and Kolk (2009) that foreign firms are not as familiar as local firms is at least questionable for companies such as Volkswagen do Brazil which have been active on a market for a very long time. On the other hand, Zadek et al. (2012) claim that MNCs are exposed to pressures from other markets and especially the home market. Thus, there is no severe error to classify companies such as Volkswagen do Brazil as a foreign MNC, however, the long-time activity on a 'foreign' market needs to be considered.

Furthermore, it is sometimes hard to differentiate when a company was the objective of an acquisition or merger. If a Brazilian company (local) was acquired by a foreign company can it

then still be considered as local, as technology transfer and pressure from outside (Zadek et al., 2012) takes place? This question is even more vivid when a merger takes place with confusing ownership structure. However, the data set is quite clear about the ownership differentiation and the ambiguous cases are rare or at least do not distort the results as they balance each other. Nevertheless, also this aspect needs to be considered.

A closer look on the data set concerning local and foreign MNCs provides following overview:

	N	Ø revenue	Ø employees	N-CSR (%)
Local MNC	192	2114	3889	72 (37.5%)
Foreign MNC	65	2246	3898	36 (55.4%)
Total	257	2147	3892	108 (42%)

Table 1: Data overview (revenue in million US-Dollars)

The table provides three main insights. At first it is recognizable that there are considerably more local than foreign MNCs operating in the Brazilian market, at least in this data set. The share is almost exactly $\frac{3}{4}$ to $\frac{1}{4}$ between local and foreign MNCs. This is actually not so much surprising as it can be expected that in a certain market more local companies are active than foreign subsidiaries. However, as it is questionable how representative the data set is, this share of local to foreign MNCs should be enjoyed with caution if generalizability is at stake.

Secondly, local and foreign MNCs do not or just insignificantly differ in average revenue and employee numbers. Also the distribution of observations is distributed similarly and thus statistical interferences can be excluded (see Appendix 4). This is more surprising as it could not be expected in the first place. Foreign MNCs e.g. could have just invested less in foreign markets than local MNCs do in their home market and thus local MNCs could be expected to generate more average revenue or have a higher number of employees. However, numbers show that this is not the case in this data set but it is also not a methodological or theoretical problem or contradictoriness.

The third and biggest distinctive feature is the difference in CSR engagement between local and foreign MNCs. While only 37.5% of local MNCs engage in CSR, a majority of 55.4% of foreign MNCs does. This is a significant difference and would need further investigation. Maybe local

MNCs are still not used to the concept of CSR (Logsdon et al., 2006) or they do not publish their CSR engagement as foreign MNCs (Maignan and Ralston, 2002, Matten and Moon, 2008). However, this difference is not objective of the research but also there are methodological circumstances why these numbers should be taken critically. Especially the measurement of CSR engagement can be assumed to be responsible for this seemingly significant difference. As the enablement of plans or actions against climate change is the indicator for CSR engagement in this thesis the difference in CSR engagement share needs to be seen critically. As this point is important it is further elaborated in 5.2 Discussion.

Further, there is need for control variables. The industry sector a company operates in serves as an important control variable as differences between industry sectors can be expected. As consumers have a different commitment towards different products or services, industry sector serves as an indicator for measuring consumers' commitment. In the sample there are companies operating in four different sectors. These are: *Agro*, *Commerce*, *Service* and *Industry*.

To get a better understanding about the used data Table 2 provides an overview over the used variables.

Variable name	Type	Composition
Firm Financial Performance	numeric	revenue as of 2012 in million US\$ / number of employees Note: Values are logarithmized, see Appendix 5
CSR-engagement	dummy	1 = the MNC has plans or actions against climate change 0 = the MNC has no plans or actions against climate change
Origin of MNC*	dummy	1 = the MNC is local, i.e. was founded in Brazil 0 = the MNC is foreign, i.e. was founded outside Brazil
Moderator**	numeric	(CSR-engagement**) x (Origin of MNC**)
control variables***	dummy	1 = MNC is active in certain reference industry 0 = MNC is not active in certain reference industry

* not included in regression table, displayed here for explanation purposes

** values are standardized

*** reference industries: Agro, Commerce, Service, Industry

Table 2: Variable overview

Dependent variable and control variables remain constant for all analyses regarding Hypotheses I and II. Further all variables, except the dependent variable and the moderator are measured dichotomously.

However, there are also drawbacks when taking revenue as indicator for financial performance (see 5.4 Limitations).

Chapter IV Analysis and Results

After outlining the general purpose and conditions for multiple regression analysis in Chapter III, Chapter IV deals with the actual analysis and displays the results.

4.1 Pre-analysis

Before running the regression analysis data need to be examined whether they are suitable for regression analysis. At first the sample size is checked whether it is sufficient. With a total sample size of 257 observations it fulfills the requirements and is considered as satisfactory. In order to avoid skewness and kurtosis among data the dependent variable (revenue/employees) is log transformed (see Appendix 5, Log-transformation). During the further procedure the analysis is performed with the log transformed dependent variable. Although also two control variables, i.e. industry sector agro and commerce, violate the acceptable range of skewness and kurtosis (value between -3 and 3) it is not necessary to transform them due to their dichotomous nature. Further, the data set is freed from outliers that would have distorted the results.

Moreover, four assumptions need to be checked. These assumptions are: (1) Linearity of the phenomenon, (2) constant variance of the error terms, (3) independence of the error terms and (4) normality of the error term distribution (Hair, 2009).

First linearity of the phenomenon is checked (1). In order to do so a look at the scatterplot is undertaken. As seen in Appendix 6 (Scatterplot) no certain pattern is observable and therefore assumption 1, linearity of the model, can be confirmed. Due to the dichotomous nature of the data the scatterplot shows this type of distribution but linearity of the model is still given.

To check assumption 2, the constancy of the variance of the error term, a check for homoscedasticity is conducted. The assumption of an equal error is crucial in order to perform an appropriate regression analysis (Hair, 2009). Again the scatterplot is adducted (see Appendix 6). As no certain pattern is observable it can be stated that the data is homoscedastic.

Assumption 3, independence of the error terms, states that each predicted value is independent. That means that the predicted value is not related to any other prediction. The Durbin-Watson test delivers a value of 1.271 which is sufficient and thus indicates independence of the error terms (see Appendix 7, Model summary). Assumption 3 is therefore fulfilled.

Assumption 4 is the normality of the error term distribution. To check for normality a look at the histogram is undertaken (see Appendix 8, Histogram). It can be stated that the histogram shows normal distribution and thus assumption 4 is also checked.

Further, correlations among variables need to be checked. Table 3 presents bivariate correlations among each other.

	N	1	2	3	4	5	6
1. Revenue (size-corrected)	257						
2. CSR - engagement	257	0.095					
3. CSR - moderator	257	-0.02	-0.05				
4. Agro	257	0.173**	-0.100	-0.057			
5. Commerce	257	0.055	0.079	0.111	-0.085		
6. Industry	257	0.008	0.022	-0.165**	-0.232**	-0.280**	
7. Service	257	-0.128*	-0.018	0.129*	-0.221**	-0.267**	-0.725**

*p<0.05; **p<0.01

Table 3: Bivariate correlations

Correlation among independent variables is low so that no severe obstacles for the analysis are recognizable.

Another aspect is multicollinearity. According to Hair (2009) a number of independent variables should highly correlate with the dependent variable. Further, little correlation among themselves is desired. A look at the bivariate correlation table (Table 3) and the collinearity statistics at the regression table (Table 4) confirms that multicollinearity is no problem in this analysis (see also 4.2 Results of multiple regression analysis).

After checking all assumptions and meeting all preconditions it can be stated that the data set is appropriate for the regression analysis and the proposed model (see Figure 1) can be tested.

4.2 Results of multiple regression analysis

After checking the preconditions and general assumptions the multiple regression analysis is performed. The results of the multiple regression is presented in the following regression table (Table 4). Note: For detailed Spss output of all relevant results see Appendix 9.

Variables	Unstandadized coefficients	(standard errors)	Collinearity statistics	
			Tolerance	VIF
CSR-engagement	0.275*	(0.159)	0.987	1.020
CSR-moderator	0.000	(0.078)	0.957	1.045
Agro	0.865***	(0.326)	0.920	1.087
Commerce	0.173	(0.284)	0.882	1.133
Service	-0.199	(0.172)	0.847	1.181

dependent variable: (log) revenue/employees

*p<0.1; **p<0.05; ***p<0.01

Table 4: Regression table

Concerning Hypothesis I (A MNC that engages in CSR in Brazil performs financially better than firms that do not engage in CSR) results indicate that this hypothesis can be approved. The positive value lays out that a company that engages in CSR indeed generates more revenue than companies that do not, meaning that Hypothesis I can be confirmed. Further, the value is significant on the 10% level (0.085). Therefore, H I is accepted.

The results state that engaging in CSR increases financial output of MNCs in Brazil. A positive relationship between firm financial performance and engagement in CSR (Margolis and Walsh, 2003) can be approved, also in emerging markets. This result does not bear a surprising twist as this relationship has been proven in developed markets and partly also in emerging markets already (Margolis and Walsh, 2003, Orlitzky et al., 2003). Interestingly, on the other hand, is that the general form of CSR engagement, here the fight against climate change, seems to be sufficient for Brazilian customers to honor this behavior financially.

When looking at the results of Hypothesis II it must be stated that the hypothesis cannot be confirmed. The moderation effect of the origin of the MNC does not play a role at all, according to the results. The effect is not just insignificant, in fact with a value of 0.996 the significance is not given at all. Although corruption is a big issue in Brazil (Griesse, 2007), Brazilian people do not seem to mistrust CSR activities of Brazilian MNCs. On the other hand, they also do not honor CSR engagement of foreign MNCs more than CSR activities of local MNCs.

For a detailed discussion of the meaning of the results see 5.1 Results interpretation.

Regarding control variables it is to state that they are all insignificant except Agro. The operating industry does not seem to play a major role except the Agro industry. The values of the three industry sectors (agro, commerce, service) are related to the reference category (industry).

A look at the collinearity statistic (see Table 4, Regression table) provides the values for tolerance and VIF. In order to state that there is no multicollinearity the values in the tolerance box need to exceed 0.1 and lie below a value of 10 in the VIF box. As both measurements deliver acceptable values it can be stated that multicollinearity is not a problem in this analysis.

When checking the validation of the analysis the adjusted R^2 value is adducted. In this model the value is 0.033 (see Appendix 7, Model summary). That means that 3.3% of the variance can be explained by the model. This value seems to appear not very high. There seem to be other variables that are more important to explain firm financial performance (e.g. marketing expenses, quality of product/workforce...) (Hair, 2009). The aim of this analysis is to find out the financial impact of CSR on firm financial performance. That means that the main attention is on CSR. CSR surely has an impact on revenue (Orlitzky et al., 2003), as also proven by this analysis, but it is not the main factor of firm financial performance. Thus a value of 3.3% can be considered as satisfactory for this analysis. Also the lack of a high number of control variables contributes to this (putative) low value.

Chapter V Discussion and Conclusions

This last chapter deals with the interpretation, importance and future of research. CSR is a topic that has been researched but lacked certain focus on emerging markets and validation (Frynas, 2006). This thesis contributed to academic research about CSR in emerging markets, however, there are aspects that need to be considered in future analysis. Lastly, a final conclusion is provided.

5.1 Results interpretation

The results do just partly confirm the proposed hypotheses. It can be stated that engaging in CSR in Brazil increases firm financial performance, however, on a 10% level. On the other hand, it cannot be stated that it has an effect if the MNC is local or foreign. It is not the task of this thesis to evaluate why this is the case, however, certain reasons can be proposed.

As shown in 2.4 Brazil provides a suitable environment for CSR and the extraction of financial advantages. People in Brazil as well as people in developed markets seem to be willing to honor CSR engagement financially. This is an interesting result as the purchasing power is lower in Brazil due to lower income per capita (Werther Jr and Chandler, 2010). Further, the high degree of corruption does not seem to have eroded the trust of people into private enterprises (Griesse, 2007). Moreover, the results of Brammer et al. (2007), who state that the religiosity of Brazilians leads to a suitable environment of CSR engagement, can be confirmed. The suitable background of Brazil for extracting (financial) gains out of engagement in CSR seems to be exploitable for companies.

These are reasons why it may be financially rewarded, however, it is important to engage in CSR for several other reasons. Increasing legitimacy is a main reason why companies should engage in CSR next to financial reasons (Carroll and Shabana, 2010). The results indicate that there is financial advantage, nevertheless, for legitimacy reasons a MNC should consider engaging in CSR even more actively. Other reasons like cost-saving-effects of CSR engagement (Barbian, 2001) further increase the financial gains, however, are not considered in this research as only information about revenue is available.

Another interesting fact is the measurement of the CSR variable. In this thesis CSR is measured whether a company engages in the (global) fight against climate change. This is not wrong as there is no standard variable for measuring CSR. Margolis and Walsh (2003) provide dozens of studies about CSR, each using a different variable for measuring CSR. This shows that the method of measuring CSR in this thesis is not unusual but current practice in CSR research.

Due to missing information about social aspects, a more general approach considering climate change is used to measure CSR. Climate change is often an abstract topic as the consequences of global warming are often not concrete enough for the individual person. Thus it could be assumed that a person might not honor this kind of CSR engagement as it would honor a more concrete CSR activity. The results of the analysis show that this is not the case. Indeed, people seem to honor CSR engagement that aims at fighting a global problem rather than a concrete local one. What actions against climate change are is, however, not specified in the data set. It could be local, like reforestation the local area but it could also be a more general attempt that is not in the concrete field of vision of the individual person. Results suggest therefore that CSR engagement does not need to be concrete but also can be in a more general manner.

Although literature states that emerging markets have not been the focus of CSR research (Frynas, 2006, Muller and Kolk, 2009), that does not mean that no research has been conducted at all. Crisóstomo et al. (2011) e.g. take Brazil into their CSR focus. This research concludes that CSR is actually value destroying and a neutral relation between CSR and firm financial performance has been found. Why these contradictions exist is not clear and has to be object of future examinations.

Concerning Hypothesis II, it is interesting to evaluate why the findings do not meet the assumptions. Against the proposition it is not important if a local or foreign MNC engages in CSR. There are several possible reasons why this might be the case. The most likely assumption why this is the case is the fast adaptation to the local context. Business strategy suggests to e.g. partner up with a local partner even before entering the market (Hoskisson et al., 2000, Khanna et al., 2005). The idea behind that is to get familiar with local circumstances. When foreign MNCs are familiar with the local context it is unlikely that they perform (significantly) worse than local MNCs as they have almost the same knowledge (Khanna et al., 2005). When they partner up or even acquire local companies they are hardly performing differently, presupposed they are not doing grave (cultural) mistakes in internationalization. Table 1 also shows this situation. Local and foreign MNCs are hardly distinguishable from each other concerning revenue and number of employees. A company like Volkswagen that is labeled as ‘foreign’ loses its liability of foreignness (Hoskisson et al., 2000). Especially when it is (successfully) active for over 60 years on the Brazilian market.

Moreover, the concept of CSR may have emerged in the western world and can be seen as a western concept (Muller and Kolk, 2009). On the other hand, companies adapt their business strategies and with that also the engagement in CSR to the local context (Hoskisson et al., 2000,

Khanna et al., 2005). It is thus unrealistic to believe that CSR is tremendously differently executed by local or foreign MNCs. There are differences but the actual activities on site are similar between local and foreign companies (Muller and Kolk, 2009). Therefore, the importance of separation between a local and a foreign company might not be evident for the individual person.

The supposed importance of ethnocentrism further does not seem to have any value. As ethnocentrism in CSR is an under-researched topic (Strehlau et al., 2012), importance was not clear. For people in Brazil it obviously does not matter if CSR is undertaken by a local or a foreign MNC. They do not seem to prefer a company just because it is local. The mediocre level of ethnocentrism in Brazil may not be high enough to matter, important in the CSR aspect or valid for the whole country (Strehlau et al., 2012). On the other hand, the corruption in Brazil companies (Alston et al., 2006) does not seem to make Brazilians honor CSR engagement of foreign MNCs more. There is literature that states that the culture of the country is important when judging the CSR effects of either local or foreign companies (Choi et al., 2016), but Brazil does not seem to be a country where customers differ. However, as this topic is still not well researched, expressiveness is not very high and needs further investigation (Strehlau et al., 2012).

When taking again the main research question of this thesis (*to what extent does CSR relate to firm financial performance in emerging economies, in particular in Brazil?*) into account it is now possible to give a precise answer. Not only did the analysis show that engagement in CSR increases firm financial performance but also provided several further information. CSR engagement pays out financially even if the specific engagement is in a general topic, like climate change. It does not need to be adapted to local circumstances like Muller and Kolk (2009) argue, however, considering that the specific shape of the on-site CSR practice can be. Moreover, the origin of the MNC does not play a role at all. Therefore, it can be stated that CSR engagement in emerging markets increases firm financial performance (Orlitzky et al., 2003) and that the origin of the company does not seem to be important.

5.2 Contribution

This master thesis contributes to academic research about CSR in an important way. The focus of this analysis was on emerging markets, in particular on Brazil, and thus an important addition to general CSR research as the specific focus on emerging markets was missing (Crisóstomo et al., 2011). This thesis expands literature about CSR, especially the few existing researches about CSR in emerging markets. Further, this thesis does not only deliver theoretical background but also provides a statistical analysis and provides data of which managers and other decision makers can build up on making their (managerial) decisions. The results challenge existing literature as a positive relation between CSR and firm financial performance in emerging markets has been found (Crisóstomo et al., 2011) and question existing literature if consumers really do not have the luxury of paying price premiums for CSR activities in emerging markets (Werther Jr and Chandler, 2010). Apart from providing statistical results this thesis delivers clarification about the spongy definitions of Corporate Social Responsibility and emerging markets. A structured overview of CSR and emerging markets helps to provide understanding of the existing diversity of these idioms. The highlighting of the diversity of emerging markets gives a clearer understanding of how these markets work in general and in respect to CSR.

Furthermore, this thesis contributes to the field of CSR and ethnocentrism. It gives a starting point, suggesting that ethnocentrism is not important in CSR. At least results show that it makes no difference if a MNC is local or a foreign subsidiary. While Choi et al. (2016) state that ethnocentrism plays a role depending on the culture of the country, this thesis states that Brazil, with a mediocre level of ethnocentrism (Strehlau et al., 2012), is not a country where people differ between CSR engagement of local or foreign MNCs.

5.3 Managerial implications

This thesis provides theoretical insights into the topic of CSR, emerging markets and MNCs. The theoretic background as well as the results of the statistical analysis provide important insights for managers of MNCs. At first managers have a more substantial understanding of the widely used terms of CSR and emerging markets. But more important are the statistical results. The proof of financial advantages of applying CSR in emerging markets helps managers in their decisions. If managers doubt if it is worth introducing CSR practices, this thesis supports the position in doing so. When managers from developed countries, where a lot research about CSR has already been undertaken (Crisóstomo et al., 2011), work as an expatriate in an emerging

market within their MNC and they have doubts if CSR is honored the same way as in developed markets this thesis provides support for this issue. Managers should engage in CSR in emerging markets as it has financial advantages (Margolis and Walsh, 2003, Orlitzky et al., 2003), however, considering the costs. To achieve the ideal level of CSR practices a cost-benefit analysis should be applied and those CSR practices executed where the surplus of revenue exceeds costs (McWilliams and Siegel, 2001). If firms do so they meet the demand of their stakeholders. That is on the one side the group of stakeholders that demand CSR like employees, consumers or society and on the other side the different shareholders, i.e. the owner of the firm.

Interesting for managers is further the composition of the CSR variable. As engagement in the global fight against climate change is the indicator for CSR in this thesis and the results are significant managers have new insights in how they should engage in CSR. Companies can choose from a wide range of CSR activities, however, this thesis provides evidence that the engagement in CSR does not need to be topic or country specific. It does not need to be especially adapted to local circumstances as e.g. Muller and Kolk (2009) suggest. Climate change is a topic that is an issue for the global world as a whole and not specific to a certain country. Of course there may be issues where Brazil suffers from climate change but not in a way that Brazilians would take this topic as a solely Brazilian one.

The second finding of this thesis, i.e. that it does not matter if a foreign or local MNC engages in CSR, is also important for managers. In general it can be stated that managers should not differ the way of engaging in CSR between developed and emerging markets. In fact they are already similar (Muller and Kolk, 2009). The western concept of CSR (Muller and Kolk, 2009) should also be applied and adapted in emerging markets (Hoskisson et al., 2000). Results of the statistical analysis of this thesis show that managers should not focus on the fact if they are operating a local or foreign MNC as customers do not differ between that issue. If managers fear that ethnocentrism may play a role in CSR it can be stated that although Brazilian population shows a mediocre level of ethnocentrism (Strehlau et al., 2012), this fact does not seem to have any impact in CSR.

5.4 Limitations

The result of the analysis can only be as good as the input is. Therefore, the results of the analysis do indeed have some limitations. At first for generalizability issues there is to mention that the data stem from Brazil companies only. In fact, Brazil is an emerging economy but emerging economies are not homogenous in their characteristics (London and Hart, 2004). That

makes it difficult to transfer the results of the study one by one to other emerging markets. Just because the findings are valid for Brazil it does not mean that the implications are valid as well in rural China, Thailand or India. Different regulations, pressures and stakeholder demands make CSR activities of companies highly diverse in different countries, e.g. Alon et al. (2010) find huge differences in CSR behavior alone among the BRIC countries. All emerging markets have unique characteristics which makes it difficult to transfer the results without adapting to local circumstances. However, even if the comparison is not doable one by one, the shared characteristics of emerging markets make it possible to transfer the general idea to the base understanding of emerging economies.

The analysis focuses on a data set retrieved from one country at one certain point of time (financial statements as of 2012). A comparison of various countries over a period of time is interesting, however, goes along with certain problems. Changes in legislation as well as inflation and devaluation of local currencies may be obstacles (Hoskisson et al., 2000).

The specific characteristics of Brazil make it difficult to transfer the results to other emerging markets. Even transferring the results to other BRIC countries is not advisable as neither the same strengths nor the same weaknesses are shared among the BRICs (Armijo, 2007). If results shall be transferred to other emerging economies it is more advisable to use those countries that are similar in their characteristics. Results of this study thus could be transferred in a more meaningful way to emerging economies like Argentina, Mexico, Chile or Colombia as they share more commonalities with Brazil (Armijo, 2007).

Although the BRIC countries are the figurehead of emerging economies they are hardly to take as a homogenous setup. Quite in contrast, they show either opposing or different strengths and weaknesses (Armijo, 2007). While Russia's economy shows a tremendous dependence on natural resources, especially oil and gas, the economies of the remaining BRIC countries are way more versatile (Armijo, 2007). China's economy shows heavy problems in pollution and lack of natural resources. India's economy suffers immensely under a poor physical infrastructure. Together with a current instable political system the Brazilian economy differs even among the other BRIC countries (Armijo, 2007). For generalizability reasons, transferability of the results to other emerging markets is therefore limited.

Another limitation is the limited number of companies and the data set itself. It is almost impossible to use data from all MNCs in Brazil, therefore a limited amount of companies serves as source for the analysis. The sample size of the analysis of 257 companies is sufficient,

however, it does not reflect the total amount of MNCs. Also, only MNCs from four different industry sectors are considered, lacking certain other industry sectors. This random sample suffers the representativeness problems every random sample suffers. Also, only H I is significant and that on 10% level. The insignificance of H II has been explained above.

Furthermore, cost saving effects of CSR like employee acceptance of lower salaries (Barbian, 2001) are not considered in the analysis due to the use of the revenue variable as indicator for firm financial performance. Thus the effect of CSR engagement can be assumed to have an even stronger effect on financial performance. However, it is unclear how strong these cost saving effects are and do not appear in this analysis, thus this aspect has to be considered

To take revenue as a measure for financial performance may have its advantages but surely also has its disadvantages and limitations. Due to missing information about profitability it is still appropriate for the analysis, however, not perfect. It might be logical that engaging in CSR leads to higher revenue. But in the end that is just half way (if at all) important for MNCs. The important thing to know is if the surplus of revenue exceeds costs of introducing and maintaining CSR practices. Only if there is a profit in the end for the company there is a financial incentive to introduce them. One limitation this analysis surely bares is the missing information about costs of the CSR activities. If they are unproportioned higher than the (financial) benefits the financial advantage vanishes. However, financial reasons are not the only incentives to engage in CSR, other benefits like legitimacy reasons are important as well (Porter and Kramer, 2007, Werther Jr and Chandler, 2010).

An important and severe limitation of this research is the measurement of the CSR variable. There is no standard approach to measure CSR or how to put it in numbers (Margolis and Walsh, 2003). The used variable, the fight against climate change, can surely be seen as a CSR measurement as it contains the environmental level and takes the consequences of business practices on the people into account, e.g. Dahlsrud (2008). However, there are various forms and shapes of CSR. A company that supports social matters surely engages in CSR. Due to missing information about those kind of activities in the data set and the formation of the CSR variable regarding climate change, those companies are classified as not-engaging in CSR in this thesis but in reality they might do so. Thus it cannot be taken for granted that a company that is classified as not-engaging in CSR really does not apply CSR practices. In fact Muller and Kolk (2009) state that especially in emerging markets companies do adapt their CSR engagement more to the local context. This local engagement may be hard to put into numbers and thus might be missing in the data set. The used data set in this thesis might be thus distorted

in the classification if a company engages in CSR or not. Therefore, especially the share of 42% of companies that engage in CSR (see 3.4 variable measurement) has to be taken very critically. This aspect needs to be taken into account when considering the result of the analysis.

5.5 Future research

Emerging markets are highly diverse. General research about CSR in emerging markets is thus difficult and only limited transferable. This research focuses on MNCs in the Brazilian market. To increase validity of the results reflecting emerging markets in general more research needs to be done in other emerging markets. Future research should focus on other specific emerging markets (as this research did with Brazil) in order to be able to compare results. If more research in other markets has been done it is possible to compare the results. With this possibilities it is possible to state if a general framework for emerging markets, concerning the impact of CSR on firm financial performance, is visible or if emerging markets are just too diverse to generalize the results.

Most existing Literature as well as this thesis further mainly focus on MNCs. This is adequate for academic and economic purposes but a lack of focus on small and medium sized enterprises (SMEs) is surely visible even if academics lately take this aspect slowly into account as well (Murillo and Lozano, 2006). Therefore, future research should not neglect this aspect but indeed conduct research about the impact of CSR on financial performance of small and medium sized enterprises. This field combined with the focus on emerging markets is lacking in literature and thus should be considered in the future. This thesis made a first step by providing information about CSR in emerging markets, however, focusing on MNCs and therefore delivers assistance for the analysis about smaller businesses.

Also interesting to investigate for future examinations is the development over time. Especially integrating CSR into a company's business operations can be expected to have a long term effect rather than a short term effect. This analysis uses data from the year 2012 and thus future research should keep an eye on its development within the next years and decades.

This thesis also provides first steps of research about ethnocentrism in CSR. This topic still lacks substantial academic literature and should be researched in the future more detailed (Strehlau et al., 2012). Recently literature is expanding but still hardly existing. Choi et al. (2016) state that there is a difference in attitudes of people towards CSR activities of foreign and local firms. However, this is depending on the culture and characteristics of the country (Choi et al., 2016) and does not apply for Brazil, due to research results. This thesis thus gives

a first starting point for research about ethnocentrism in CSR in emerging markets but more academic literature is needed to further expand that topic.

Finally, contradictions need to be solved. As there is still few literature about CSR in emerging markets there is no general valid trend observable. However, the result of this study (partly) contradict existing literature about CSR in Brazil (e.g. Crisóstomo et al., 2011). How severe and why these contradictions exist should be part of future examinations. Further, as this analysis delivers (partly) insignificant result, future research should take this aspect into account, trying to find significant effects examining the same or similar hypotheses as this research does.

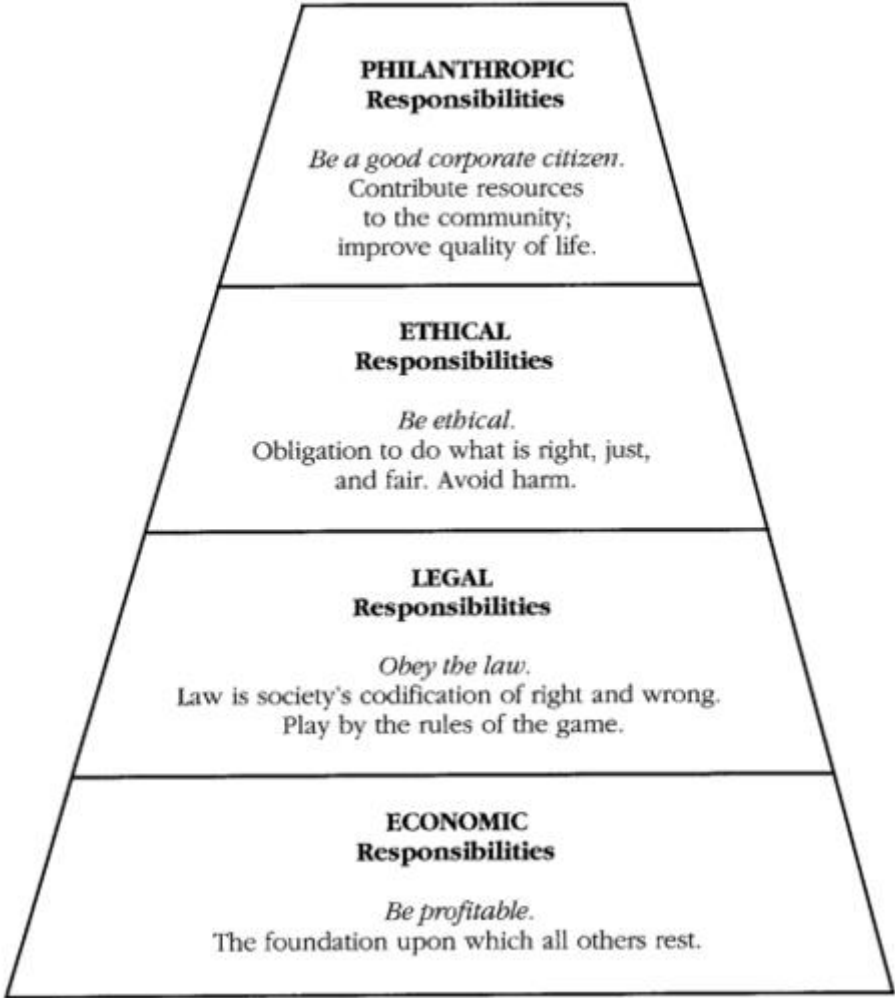
5.6 Conclusion

The topic of CSR is imminent at companies around the world (Porter and Kramer, 2007). This thesis covers the topic of CSR by providing additional research about CSR in emerging markets. Not only it is clear now that the wide range of definitions about CSR is not the important point when referring to CSR as they are somewhat congruent when it comes down to the meaning of it (Dahlsrud, 2008). It is more difficult considering emerging markets. An also wide range of definitions makes it more complicated to find a general common ground (Hoskisson et al., 2000). Brazil, as one figurehead of emerging markets, bears suitable conditions for the engagement in CSR by MNCs (Griesse, 2007). When analyzing if companies gain financial advantages out of it, this thesis found two main results. At first companies that engage in CSR in Brazil in fact have financial advantages. Interestingly the engagement in CSR can cover a more general topic, like the global fight against climate change, and still results in financial gains. It does not need to be specific to a certain market environment in order to achieve financial gains. The second important finding is that it does not matter for Brazilian consumers if the CSR engagement is performed by a local or a foreign MNC. CSR engagement is honored the same way. Brazil seems to be a country where ethnocentrism in CSR does not play a role, however, more research needs to be done (Choi et al., 2016, Strehlau et al., 2012). One reason for this situation may be that foreign MNCs adapt fast to local market conditions and thus are hardly distinguishable from local companies (Hoskisson et al., 2000, Khanna et al., 2005). After considering all the information it can be stated that engagement in CSR in emerging markets, with main attention on Brazil, pays out financially and that the origin of the company does not seem to play a role at all.

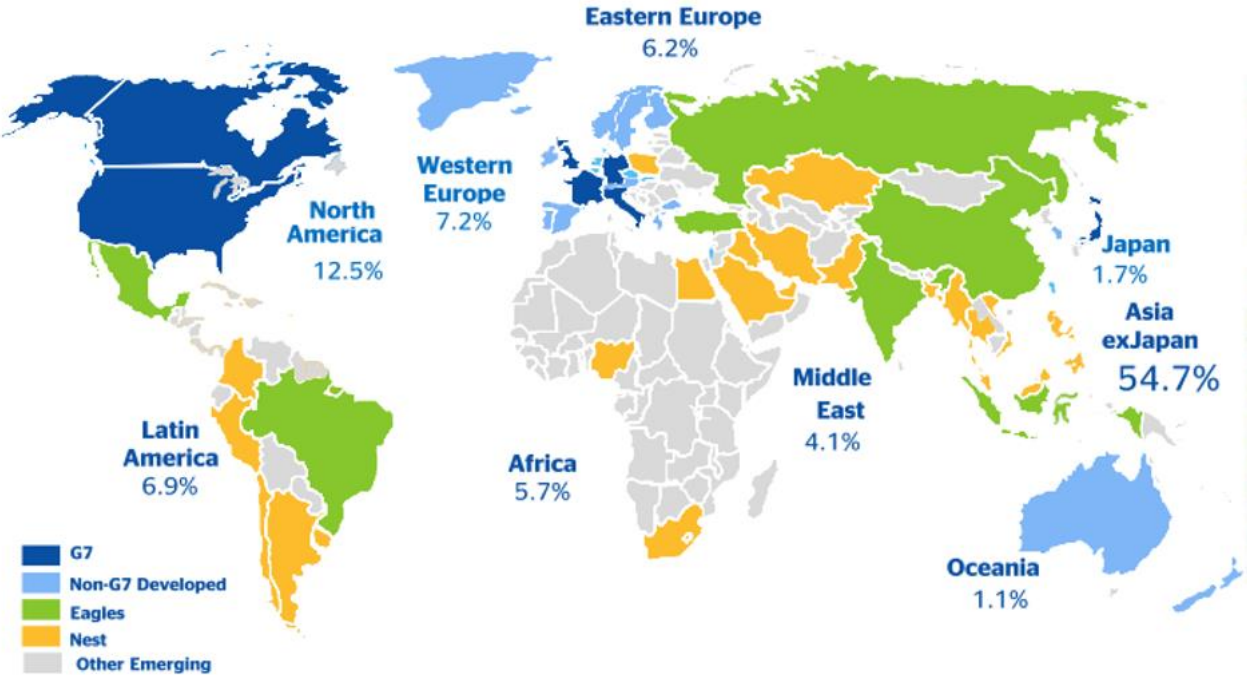
Finally, to close the circle, the 12th of December 2015 indeed was an important day to remember. Not only did states acknowledge their responsibility towards environment and global society. This thesis states that the engagement of MNCs in the global fight against climate change and with that in CSR is not only advantageous for the environment and people around the world but also improves their own firm financial performance, no matter if in developed countries (Margolis and Walsh, 2003, Orlitzky et al., 2003) or emerging markets.

Appendix

Appendix 1: The Pyramid of Corporate Social Responsibility (Carroll, 1991)



Appendix 2: EAGLEs and Nest members in 2014 (EAGLE, 2014)



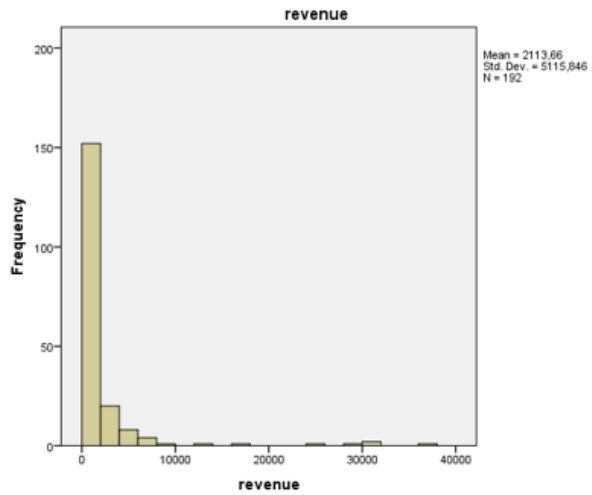
Appendix 3: frequencies

Frequencies of Industries				
Agro	Commerce	Industry	Service	N
17	24	111	105	257

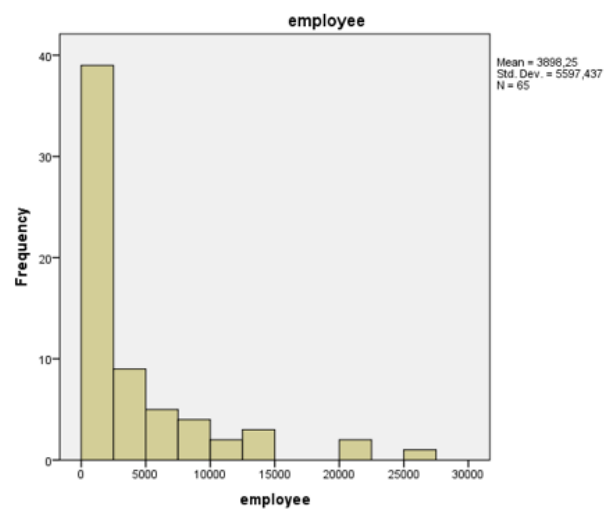
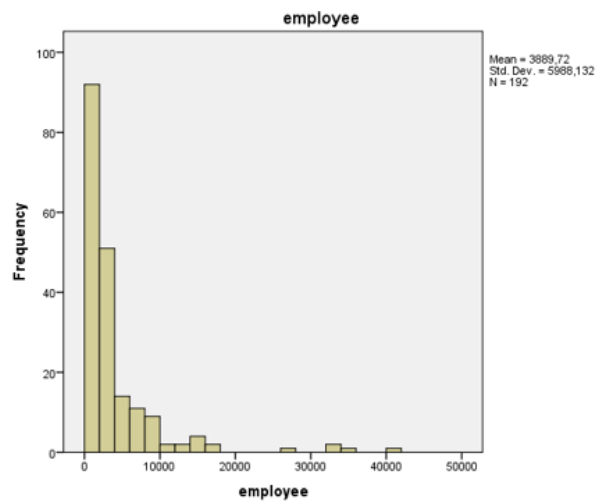
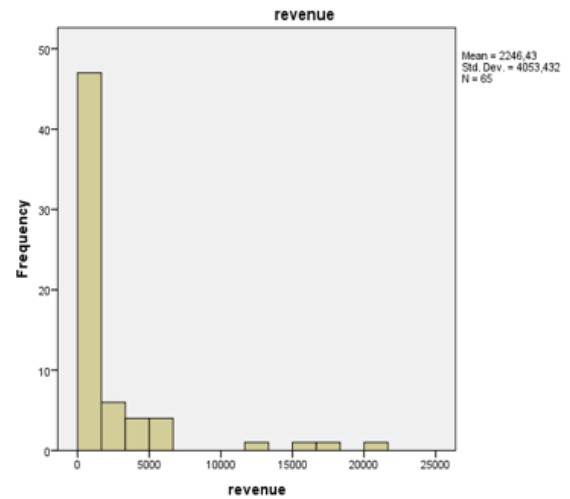
Note: Interrelations possible

Appendix 4: Distribution comparison

Local MNC:



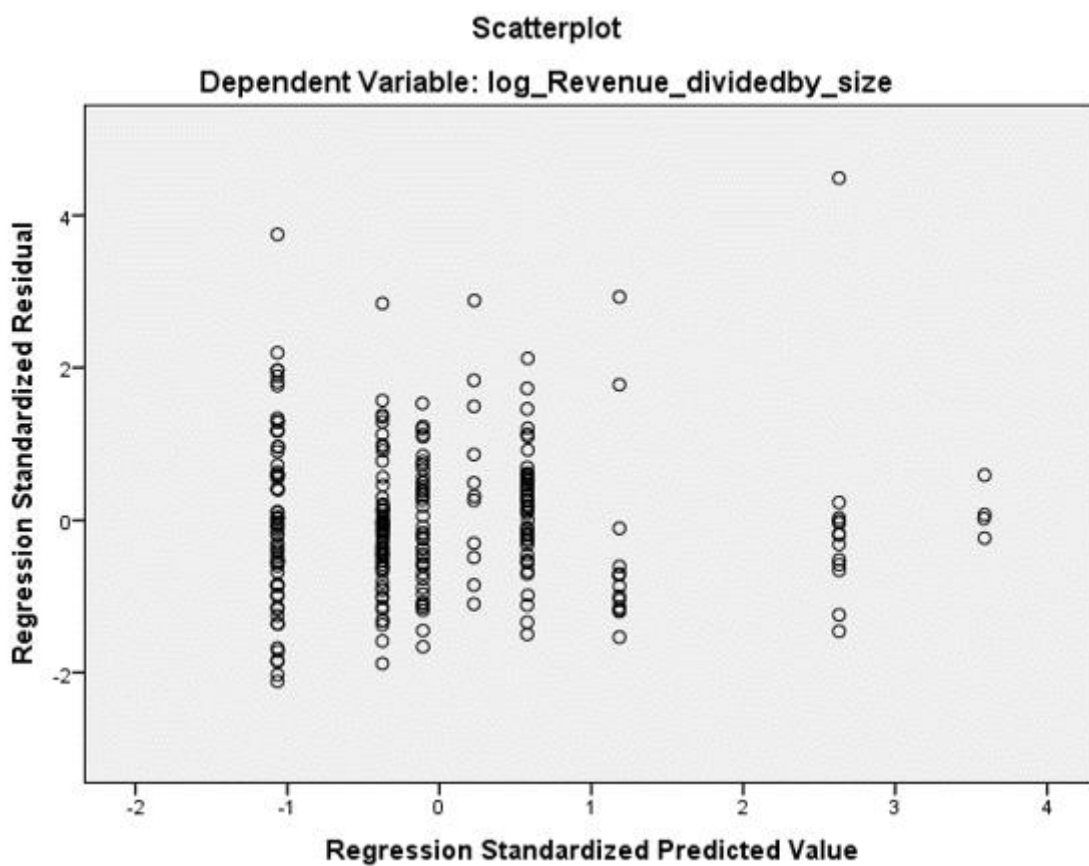
Foreign MNC:



Appendix 5: Log-transformation

	Revenue/nr. employees	log transformed
N	257	257
SD	17.687	1.265
Skewness	15.223	0.825
Std. Error	0.152	0.152
Kurtosis	238.737	2.572
Std. Error	0.303	0.303
Minimum	0.03	-3.65
Maximum	279.6	5.63

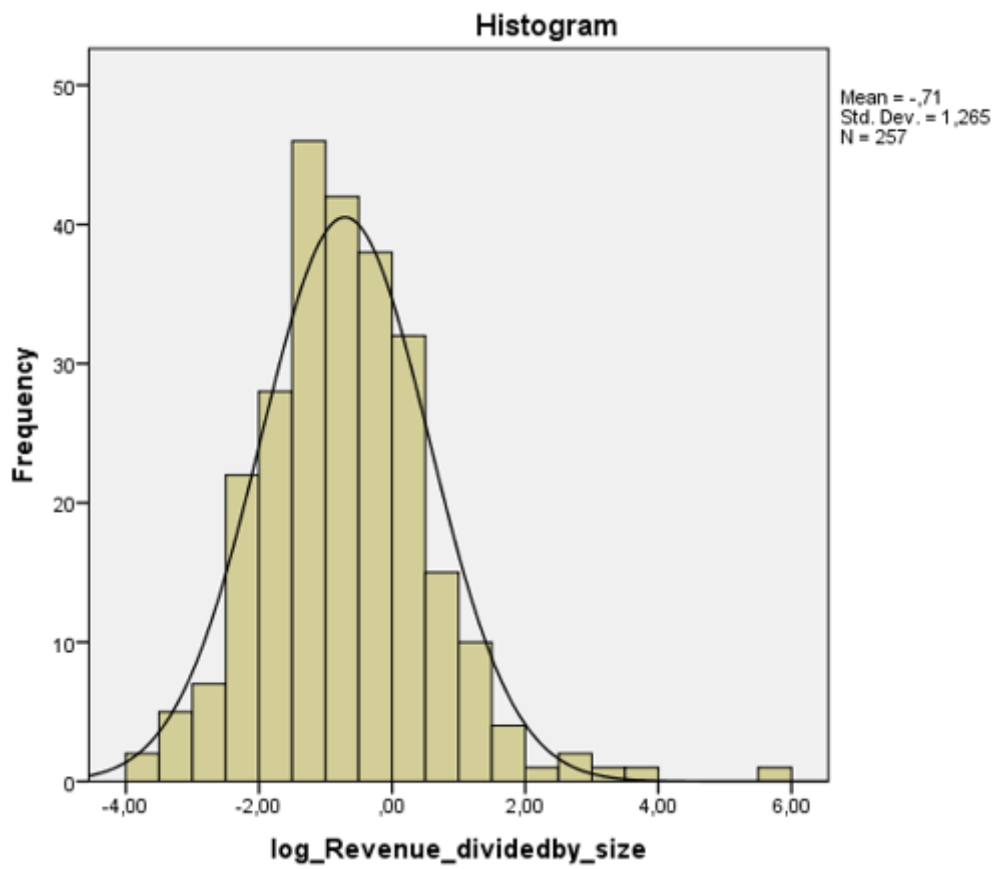
Appendix 6: Scatterplot



Appendix 7: Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.227	0.052	0.033	1.244	1.271

Appendix 8: Histogram



Appendix 9

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
revenue	257	36488	12	36500	2147,24	4861,851	4,739	,152	24,595	,303
Revenue_dividedby_size	257	279,57	,03	279,60	2,2820	17,68687	15,223	,152	238,737	,303
log_Revenue_dividedby_size	257	9,28	-3,65	5,63	-,7083	1,26516	,825	,152	2,572	,303
H1_CSR_engagement	257	1,00	,00	1,00	,4202	,49456	,325	,152	-1,909	,303
moderator	257	3,47	-2,01	1,46	-,1569	1,01442	-,263	,152	-,546	,303
Origin_of_MNC	257	1,00	,00	1,00	,7471	,43553	-1,144	,152	-,698	,303
Agro	257	1,00	,00	1,00	,0661	,24903	3,512	,152	10,413	,303
commerce	257	1,00	,00	1,00	,0934	,29154	2,811	,152	5,950	,303
industry	257	1,00	,00	1,00	,4319	,49631	,277	,152	-1,939	,303
service	257	1,00	,00	1,00	,4086	,49253	,374	,152	-1,875	,303
Valid N (listwise)	257									

Regression

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-,816	,138		-5,894	,000		
	H1_CSR_engagement	,275	,159	,107	1,732	,085	,981	1,020
	moderator	,000	,078	,000	,005	,996	,957	1,045
	Agro	,865	,326	,170	2,657	,008	,920	1,087
	commerce	,173	,284	,040	,611	,542	,882	1,133
	service	-,199	,172	-,077	-1,158	,248	,847	1,181

a. Dependent Variable: log_Revenue_dividedby_size

Correlations

		log_Revenue_ dividedby_si ze	H1_CSR_eng agement	moderator	Agro	commerce	industry	service
log_Revenue_dividedby_ size	Pearson Correlation	1	,095	-,020	,173**	,055	,008	-,128*
	Sig. (2-tailed)		,129	,745	,005	,384	,903	,041
	N	257	257	257	257	257	257	257
H1_CSR_engagement	Pearson Correlation	,095	1	-,050	-,100	,079	,022	-,018
	Sig. (2-tailed)	,129		,424	,111	,207	,731	,774
	N	257	257	257	257	257	257	257
moderator	Pearson Correlation	-,020	-,050	1	-,057	,111	-,165**	,129*
	Sig. (2-tailed)	,745	,424		,359	,076	,008	,038
	N	257	257	257	257	257	257	257
Agro	Pearson Correlation	,173**	-,100	-,057	1	-,085	-,232**	-,221**
	Sig. (2-tailed)	,005	,111	,359		,172	,000	,000
	N	257	257	257	257	257	257	257
commerce	Pearson Correlation	,055	,079	,111	-,085	1	-,280**	-,267**
	Sig. (2-tailed)	,384	,207	,076	,172		,000	,000
	N	257	257	257	257	257	257	257
industry	Pearson Correlation	,008	,022	-,165**	-,232**	-,280**	1	-,725**
	Sig. (2-tailed)	,903	,731	,008	,000	,000		,000
	N	257	257	257	257	257	257	257
service	Pearson Correlation	-,128*	-,018	,129*	-,221**	-,267**	-,725**	1
	Sig. (2-tailed)	,041	,774	,038	,000	,000	,000	
	N	257	257	257	257	257	257	257

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21,201	5	4,240	2,739	,020 ^b
	Residual	388,562	251	1,548		
	Total	409,763	256			

a. Dependent Variable: log_Revenue_dividedby_size

b. Predictors: (Constant), service, H1_CSR_engagement, moderator, Agro, commerce

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,227 ^a	,052	,033	1,24421	1,271

a. Predictors: (Constant), service, H1_CSR_engagement, moderator, Agro, commerce

b. Dependent Variable: log_Revenue_dividedby_size

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Research Integrity Form

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Thesis title: “Corporate Social Responsibility (CSR) engagement of Multinational Corporations (MNCs) and their effect on firm financial performance in emerging economies.”

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