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## **Foreign Direct Investments: The Role of Corporate Social Responsibility**

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### Abstract

This paper investigates whether superior corporate social responsibility (CSR) performance leads to greater firm-level foreign direct investment (FDI). We argue that the decisions managers take on their CSR can have a positive influence in the external perception of the firm and act as an important intangible asset. Using a sample of 4,764 firms from 44 countries spanning 2003-2014, we find evidence of a positive relation between CSR performance and the propensity to engage in FDI. The positive relation between CSR performance and FDI propensity is strongest for firms without prior international experience in FDI. Our results suggest that a strong CSR reputation can act as important intangible asset and help firms' internationalization by increasing external legitimacy and reputation. The results are robust to controls for endogeneity, alternative measures of international experience, and alternative model specifications.

*JEL Classification:* F23, G34, M14

*Keywords:* corporate social responsibility, foreign direct investment.

## 1. Introduction

It is commonly accepted multinational enterprises (MNEs) encounter greater costs when investing and operating in foreign markets and therefore managerial decisions on internationalization are strategically and economically important. Research has shown that these additional costs hamper MNEs from undertaking the strategic internationalization decision of foreign direct investment (FDI) (Wu and Salomon 2016; Zaheer 2002).<sup>1</sup> One of these potential problems for MNEs in FDI is the lack of legitimacy in the overseas target market, which can be perceived as a “liability” (Zaheer and Mosakowski, 1997). For example, Schmidt and Sofka (2009) argue that firms operating in international markets have a “legitimacy deficit” in the target domestic market. However, it is suggested that firms with legitimacy and prestige are more likely to be classified as leading firms in the internationalization process (Johanson and Vahlne 2009). Therefore, there can be benefits for MNEs in internationalization process if firms take the strategic decision to increase their external legitimacy and reputation.

The literature provides evidence for the global diffusion of corporate social responsibility (CSR) practices and a potential link to internationalization (Marano and Kostova 2016; Attig et al. 2016; Chioua and Shub 2019). In this paper we provide empirical evidence on the impact of CSR on FDI focusing on the home country firm characteristics. We argue that the decisions managers take on their CSR can have a positive influence in the external perception of the firm in the target FDI country. The level of CSR can be an important intangible asset for firms undertaking FDI (Edmans 2011; Hawn and Ioannou 2016). In this paper, we view CSR as an intangible asset for the host country firm that can increase external legitimacy and reduce the expected barriers and

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<sup>1</sup> For example, institutional, geographic and economic differences between the home and host country increase internationalization costs and make the FDI more costly or difficult than domestic investment (Berry et al. 2010; Dikova et al. 2010).

costs of internationalization in FDI. We argue that similar to other intangibles that are valuable to the firm (Edmans 2011), CSR may not be fully recognized by the market as a mechanism to reduce costs on FDI. Firms with high CSR performance increase their legitimacy through strong stakeholder relations and renowned reputation, and thus are able to undertake FDI and with greater frequency. Therefore, CSR reputation, as an important intangible resource, works as an external signaling device. We argue that firms with strong CSR reputations are more likely to gain acceptance from the host country, which reduces potential discrimination and transaction related costs of FDI. We hypothesize that a firm's CSR advantage facilitates the internationalization process by signaling the reputation or quality of the firm and provides legitimacy to the host countries' consumers, regulators and employees.<sup>2</sup>

We also posit that the benefits of CSR in providing external legitimacy are less important in the FDI process if the firm has an existing reputation in the host country and/or FDI process, for example recent experience of FDI (Calhoun 2002). Therefore, MNEs expected to suffer the greatest legitimacy deficit to benefit most from the reputational benefits of CSR when undertaking FDI transactions. We use prior experience as a moderating variable to test the relation between CSR performance and FDI decisions and we propose that the benefits of CSR are strongest for those firms with limited prior experience of undertaking FDI.

In a broader sense, investments by high quality CSR firms are welcomed and incentivized by host country governments (Dadush 2013), which can greatly reduce the discriminatory entry barriers of internationalization. Many countries provide incentives to attract sustainable investment projects by MNEs (Dadush 2013) and there is evidence that MNEs with strong CSR transfer their

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<sup>2</sup> Bell et al. (2012) focus on overcoming international costs in international capital markets, but there are similarities in our argument of CSR providing benefits to firms in FDI and their arguments on signalling good governance and reducing unfamiliarity costs in capital markets.

good practices in their internationalization activities.<sup>3</sup> Up to 2020, the UN Climate Accord provides for a commitment of \$20 billion per year from developed to developing governments and this will be levered by additional private sector investment. Although global FDI flows rose by 38% from 2014 to 2015, the United Nations still state that it as “a troubling development in light of the investment needs” to achieve the goal in the landmark 2030 Agenda for Sustainable Development and the Paris Agreement on climate change (UNCTAD 2016).

Our argument of the benefits of CSR is consistent with some of the other theoretical benefits of investing in CSR following the stakeholder maximization view (Deng et al. 2013). Investors are increasingly taking notice of how firms perform on CSR (including irresponsible behavior) and more attention has been paid to the impact of CSR on various aspects of business decision making. Research has shown that CSR ratings could influence firm performance (Edmans 2011; Surroca et al. 2010; Walker et al. 2019), reputation (Nardella et al. 2019), financing decisions and access to finance (Cheng et al. 2014; Benlemlih 2017), sell-side analysts (Ioannou and Serafeim 2015), investment efficiency (Samet and Jarboui 2017) and cross listing (Boubakri et al. 2016). However, whether, and if so, how CSR reputation can overcome and change the firm’s perception and behavior in its FDI process has not yet been fully investigated. In this study, we fill this gap in the literature by investigating the role of a firm’s CSR performance in its FDI decisions. Our key question is does a firm’s CSR performance affect its FDI decisions?

There is an opposing view to our hypothesis as prior studies suggest that there are costs involved for shareholders in trying to improve CSR performance, namely the shareholder expense view. This theory views CSR expenditure as a waste of company resources that diverts cash away

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<sup>3</sup> For example, companies including Eaton, DuPont, Pepsi, Procter & Gamble, Johnson & Johnson, Intel and BASF are recognized for their strong leadership in CSR and positive engagement in communities in China by “Foreign Investment in China” magazine (Business Wire 2007).

from alternative uses, including potentially in our case, positive net present value FDI activity (Deng et al. 2013; Borghesi et al. 2014). Moreover, MNEs with strong CSR reputation might be reluctant to undertake FDI in markets that could erode that reputation. The better the MNE's CSR reputation, the higher costs to maintain and protect it when operating in an overseas market, and therefore the less likely the firm would engage in FDI activities that could damage this reputational asset.

The empirical results support our view that CSR can provide legitimacy in FDI and allows MNEs to undertake more FDI activity. We find a significant positive relation between CSR measures and firm's propensity for FDI engagement. Therefore, CSR can positively contribute to the internationalization processes. The result holds for overall CSR and each of the individual environmental, social, and governance pillars of CSR reported in the Thomson Reuters ASSET4 database. Our results imply that a firm's CSR reputation can be viewed as an important intangible asset that reduces the legitimacy deficits encountered in FDI and therefore can provide benefits when a firm enters into new markets leveraging its reputation and resources.

We find that this relation is stronger for MNEs who do not have FDI experience, indicating that the impact of CSR is greatest for those firms with less international experience. These firms may have less of an international reputation and suffer from greater legitimacy deficits in the internationalization process. Therefore, being perceived externally as a socially responsible firm helps to enable a company to expand into new geographical markets by overcoming nationalistic barriers, gaining acceptance by external stakeholders.

Our results are robust to a range of additional tests. We address endogeneity concerns surrounding the possibility that firms with high CSR could be more likely to undertake FDI by using both instrumental variable and propensity score matching (PSM). We examine a number of

alternative proxies for the severity of internationalization costs, alternative model specifications, and different measures of FDI intensity. These additional findings confirm our base results, are strongest for the acquisition FDI entry method, and give some confidence to the direction of the CSR-FDI relation proposed in this paper.

We contribute to both the CSR and FDI research by showing for the first time, to the best of our knowledge, by focusing on home country firm characteristics that in an increasingly international and competitive markets that CSR performance is a valuable intangible asset. FDI is strategically important for long-term development and stakeholders appear to respond positively to CSR engagements. This asset can help to increase legitimacy and reduce a firm's barriers when they seek to expand internationally through FDI. We suggest that successful CSR strategies should provide MNEs with an important intangible asset to increase their external reputation and allow them to engage cooperatively with stakeholders during the FDI process. We add to this view by suggesting that MNEs invest in CSR to build a high quality reputation as this facilitates its internationalization process in a number of ways, including gaining recognition from the host country and reduce opportunistic behavior from potential partners (Rhee and Haunschild 2006; Surroca et al. 2010). Also, CSR activities can work as a tool to demonstrate a firm's social commitment to potential host country constituents (Campbell et al. 2012), and thus improve the firm's external legitimacy. This can reduce possible discriminatory treatment from the host country consumers and other stakeholders. Finally, the learning experience theory suggests that MNEs with superior CSR performance have strong corporate governance ability and effective staff training and development, which could aid in their internationalization process (Un 2016).

We also provide further support to the positive view of CSR in an international setting (Boubakri et al. 2016). CSR is linked with stronger stakeholder engagements (Cheng et al. 2014),

which reduce information asymmetry and enable MNEs to establish trustworthy and longer-lasting relations with key stakeholders in any potential host country.

The paper proceeds as follows. In section 2, we review the related literature and outline our hypotheses. Section 3 describes sample construction and data. Section 4 presents our results, followed by robustness testing. Section 5 concludes the paper.

## **2. Related literature and hypotheses development**

### *2.1. Related literature*

Our study builds on a number of related papers. Campbell et al. (2012) examine the relation between home-host country distance and CSR investment by foreign bank affiliates in the US. Nardella et al. (2019) propose a link between CSR investment and establishing a reputational asset. Their study shows that corporate irresponsibility affects the reputation of the company and that such reputations are largely stable in response to irresponsibility type events (Antonetti and Maklan 2016). There are also papers that examine the link between CSR and internationalization. Bondy and Starkey (2012) have investigated the impact of internationalization strategies on CSR activity. In addition, a number of empirical papers have CSR performance as a dependent variable and internationalization is used to explain CSR performance (Attig et al. 2016; Symeou et al. 2018). We contend that the association can run in the opposite direction and that CSR can help drive FDI by increasing the external legitimacy of the firm. Theoretical support for this argument is from Gardberg and Fombrun (2006) who propose a framework where CSR is as an intangible asset that can overcome internationalization costs facing MNEs,

## *2.2. Linking CSR performance and FDI engagement*

Our argument of the benefits of CSR in reducing the legitimacy deficit is consistent with some of the other theoretical benefits of investing in CSR following the stakeholder maximization view (Deng et al. 2013). We add to this view by suggesting that MNEs invest in CSR to build a high quality reputation, which decreases the legitimacy deficit, and this facilitates the internationalization process in FDI. CSR is linked with stronger stakeholder engagements (Cheng et al. 2014), which reduce information asymmetry and enable MNEs to establish trustworthy and longer-lasting relations with key external stakeholders in any potential host country. Also, CSR activities can work as a tool to demonstrate a firm's social commitment to potential host country constituents (Campbell et al. 2012), and thus improve the firm's external legitimacy. This can reduce possible discriminatory treatment from the host country consumers and other stakeholders. Furthermore, CSR reputation can help MNEs win recognition from the host country and reduce opportunistic behavior from potential partners (Rhee and Haunschild 2006; Surroca et al. 2010). Finally, the learning experience theory suggests that MNEs with superior CSR performance have strong corporate governance ability and effective staff training and development, which could aid in their internationalization process by increasing external legitimacy (Un 2016).

The shareholder expense theory views CSR expenditure as a waste of company resources that diverts cash away from alternative uses, including potentially in our case, positive net present value FDI activity (Borghesi et al. 2014; Deng et al. 2013). Moreover, MNEs with strong CSR reputation might be reluctant to undertake FDI in markets that could erode that reputation and legitimacy. The better the MNE's CSR reputation, the higher costs to maintain and protect it when operating in an overseas market, and therefore the less likely the firm would engage in any FDI activities that could damage this reputational asset. Evidence supporting the shareholder expense



view is limited. Therefore, we favour the view that as an important intangible asset, CSR has a positive influence in the external perception of the firm in the target FDI country. We suggest that MNEs with a CSR advantage have greater external legitimacy and this reduces the barriers to undertaking FDI, and are therefore more likely to engage in FDI. Therefore, our first hypothesis is:

**Hypothesis 1.** There is a positive relation between CSR performance and FDI propensity.

### *2.3. Interaction of CSR performance and FDI propensity*

Research shows a positive effect of prior experience on firm's likelihood of FDI (Kirca et al. 2012; Perkins 2014) and we suggest that the extent of the benefit of CSR in providing an external signal of legitimacy is dependent on the firm's experience in FDI and will vary by firm. With a longer and more frequent presence in overseas countries, MNEs acquire international experience and market knowledge of their host countries, develop relationships with local businesses, and gain an understanding of domestic regulations, values and norms in the host country (Andersson et al. 2002). By having prior experience MNEs can acquire foreign market specific knowledge and reputation (Dikova and Sahib 2013; Perkins 2014; Zaheer 1995).

We propose that for firms without prior experience of FDI the impact of CSR reputation has the strongest effect in driving FDI. Firms with recent FDI experience can work more successfully and efficiently in dealing with internationalization challenges. As a result, they are less reliant on their CSR reputation in overcoming the legitimacy deficit. Less experienced firms face greater challenges from international expansion and therefore benefit largely from CSR reputation in reducing the challenges of internationalization. In our tests, we focus on home firm

characteristics and we expect that the benefits of CSR in FDI are greatest for those firms with less FDI experience. This leads to our second hypothesis:

**Hypothesis 2.** The positive relation between CSR performance and FDI propensity is stronger for MNEs with less experience in FDI.

We define recent experience as having undertaken an FDI in the host country in the previous year.<sup>4</sup> The precise definition of prior experience varies in the empirical literature and we consider alternative definitions of prior experience in our robustness checks.

### **3. Data and methodology**

#### *3.1. Sample construction and identification of FDI transactions*

Our sample is sourced from several databases. CSR performance measures are obtained from the Thomson Reuters ASSET4 database. The initial sample includes all firms that are covered in the ASSET4 universe from 2002, the first year of data availability, to 2013. We exclude 69 firms that are located in countries with fewer than five firms in the database. The resulting sample is comprised of 4,786 public firms. Some firms are newly listed and/or picked up by the database after 2002, and some are delisted before the end of the sample period. We include firm-year observations only for the years where CSR performance measures are available through ASSET4. This screen produces a sample of 32,545 firm-year observations for 4,764 firms.

The sample covers firms from 44 countries. The country distribution is illustrated in Panel A of Table 1. It shows that US, Japan and UK are the three countries with the highest number of

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<sup>4</sup> Although our choice of recent period is subjective, macro-economic conditions and the MNE's operating environment can change significantly over time, therefore experience of FDI gained a number of years ago does not convey as much useful information as more recent experience, suggesting the benefits of prior experience decay over time (Hayward 2002).

observations in the sample.<sup>5</sup> Panel B of Table 1 presents the distribution of observations across industrial sectors. The manufacturing sector represents the largest proportion of observations. Following this, finance, insurance and real estate, and transportation, communications, electric, gas and sanitary services are the next most important industrial groups. Panel C of Table 1 presents the distribution of observations across years. Increasing data availability over time reflects increased coverage in the ASSET4 database year on year (consistent with Cheng et al. 2014).

[Insert Table 1 about here]

We match firms with available CSR coverage in ASSET4 to data on FDI transactions from the Thomson Reuters Securities Data Company (SDC) Platinum database. We define FDI as any cross-border merger or alliance transactions reported in the database. Our empirical strategy examines the propensity to engage in FDI activity and the empirical design used in this study examines the firm-level choice of whether or not to undertake an FDI in a given firm-year. In our baseline testing, we use a binary logit model to examine the relation between FDI propensity and CSR performance.<sup>6</sup> The dependent variable is a dummy variable that equals one if a firm undertakes FDI in a given year, and zero otherwise. To minimize concerns that the FDI itself leads to changes in CSR performance, we relate FDI activity during year  $t+1$  to the CSR performance measure in year  $t$ .

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<sup>5</sup> To test whether our findings are influenced by dominant countries, we repeat our main analysis after excluding firms from each of the following countries or groups one at a time: US, Japan, UK, and the Nordic countries. Excluding firms from any of these countries does not affect the significance of the relation between CSR performance and FDI propensity. This provides additional confidence that individual countries or a specific country group does not drive our main results. The regression findings are available on request from the authors.

<sup>6</sup> Consistent with prior studies of FDI determinants (Hu and Cui 2014) and FDI entry mode choice studies (Dikova and van Witteloostuijn 2007; Hennart and Park 1993; Maekelburger et al. 2012).

We examine the FDI entry method between full acquisition (FA), partial acquisition (PA), joint venture (JV), and strategic alliance (SA). To examine all completed takeovers, both full and partial, we impose the selection criteria outlined in Aktas et al. (2013). We require that the announcement date of the deal is between January 1, 2003 and December 31, 2014, the status of the deal is completed, and we include all transactions classified by SDC as mergers, acquisitions, acquisitions of majority interest, acquisitions of assets, acquisitions of certain assets, acquisitions of remaining interest, and exchange offers. To distinguish between PAs and FAs, we adopt the Akhigbe et al. (2007) approach, where a partial acquisition is defined as prior ownership less than 5% and ownership after the acquisition is less than 50%, but only including the first transaction from the acquirer to the target. We classify a transaction as a full acquisition where prior ownership is less than 5% and ownership after the acquisition is equal to 50% or more of outstanding shares.<sup>7</sup> For alliances we require that at least one party to the deal is a company in our ASSET4 sample. We use the SDC Joint Venture and Alliance database classification of whether the deal is a joint venture or strategic alliance transaction. In these tests, the omitted base category is no FDI activity, and we examine the choice of entry method between PA, FA, JV, and SA relative to this omitted group.

After filtering and matching with firms in the ASSET4 database, our sample contains 31,437 relevant deals over the 12-year sample period. 23,752 of them are full acquisitions, 4,040 partial acquisitions, 2,360 strategic alliances, and 1,285 are joint venture deals. We summarize these transactions in Panel D of Table 1.

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<sup>7</sup> We note that some studies use higher threshold such as 90%, 95%, or 100% to distinguish between partial/full acquisitions. In unreported analysis, we also employ these thresholds to redo our tests and find similar results.

### *3.2. Measuring CSR in the ASSET4 dataset*

To build the ASSET4 database, each year approximately 500 data points per firm are collected from various sources, including stock exchange filings, company reports, company websites, non-governmental organizations' websites, CSR reports, and established and reputable media outlets by professionally trained analysts. Using these data points as inputs, ASSET4 integrates this data into 226 key performance indicators under 18 categories and within four pillars: (1) environmental performance, (2) social performance, (3) corporate governance, and (4) economic performance. After weighting and modeling, every firm within the ASSET4 dataset is scored from zero to one for each pillar. An overall CSR ranking score captures a balanced view of the firm's performance in all four areas, while a pillar ranking score indicates a firm's performance in each category. We examine the impact of the overall CSR score (Overall CSR), but we also consider each of the ESG pillar scores, environmental CSR (Environmental CSR), social CSR (Social CSR), and corporate governance CSR scores (Governance CSR) on FDI propensity, and present their results with Overall CSR.

### *3.3. Prior international experience*

We define prior international experience using the previous year same country FDI experience as a dummy variable set equal to one if a firm undertook FDI in the host country in the previous year, and zero otherwise.

### *3.4. Control variables*

For control variables in our regression analysis, we include a number of firm-level variables that affect a firm's FDI decision. Firm size is expected to be positively correlated with

the extent of foreign operations (Hashai 2011; Kling et al. 2014). We use the natural logarithm of book value of total assets (in billion US dollars) to control for firm size.<sup>8</sup> A number of studies find a relation between firm's foreign market entry strategy and its technological intensity (Hashai 2011; Hennart and Park 1993; Wang et al. 2012). Technological intensity is measured by the ratio of research and development (R&D) expenses to sales. Bhaumik et al. (2010) and Hennart and Park (1993) argue that leverage has a positive effect on FDI propensity by providing additional funds for investment. Leverage is defined as the sum of short- and long-term debt divided by the book value of total assets. A firm's market-to-book (M/B) ratio has long been used in the literature as a determinant of acquisition probability (Akhigbe et al. 2007; Song and Walkling 1993). M/B is defined as the market value of equity divided by the book value of equity. Contractor et al. (2003) argue that firms with high tangibility face higher fixed capital costs and are less likely to have funds for internationalization. We define tangible resources as the book value of plant, property, and equipment divided by net sales. Finally, cash flow has been found to facilitate overseas expansion (Bhaumik et al. 2010). Cash flow is defined as funds from operation divided by book value of total assets. Accounting data for all of these controls is collected from Worldscope.<sup>9</sup>

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<sup>8</sup> For non-US firms, Worldscope provides book value of total assets in two currencies: the local currency and US dollar. We collect the book value of total assets in US dollar for both US firms and non-US firms.

<sup>9</sup> We note that a firm's financial performance could also affect its FDI propensity (Kling et al. 2014). We do not include financial performance as a control variable because it is highly correlated with cash flow. We choose cash flow rather than financial performance measures as control variable as cash flow has a more direct impact on firm's investment decisions.

## 4. Results

### 4.1. Summary statistics and univariate analysis

Summary statistics for sample variables are reported in Panel A of Table 2. FDI frequency by firm year is approximately 30% over the sample period.<sup>10</sup> By construction the Overall CSR score has a mean of 0.50 and median 0.49 (individual ESG pillar scores also have average values close to 0.50), but there is variation for individual firms. The average book value of total assets is \$28.79 billion, indicating that primarily the sample is composed of larger firms, but the standard deviation shows some variation.

[Insert Table 2 about here]

Panel B of Table 2 reports summary statistics for FDI firm-years and firm-years with no FDI activity. Firms that undertake FDI have better performance in the overall ESG score and in each of the three pillar scores. For example, the mean (median) Overall CSR score for FDI firm-years is 0.62 (0.70). The corresponding values for non-FDI firm-years are 0.45 (0.40). The difference in each category is highly significant, which provides preliminary support for our Hypothesis 1 that there is a positive relation between CSR performance and a firm's propensity to undertake FDI. We also find support for the prior experience proxies as drivers of FDI activity. FDI propensity is higher for firms with any type of experience of FDI. Panel B also shows that firms undertaking FDI are significantly larger, have higher investment spending based on research and development activities, and have lower asset tangibility. We find no significant difference in the mean leverage ratio, market to book ratio and cash flows between firms that undertake FDI

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<sup>10</sup> The number of firm-years with FDI transactions is different from the number of FDI transactions reported in Panel D of Table 1 because firms can undertake multiple transactions in a single year.

and firms that do not, although their median differences remain significant at the 1% level. These predictions are generally in line with expectations for those factors that drive corporate investment expenditure (Crocì and Petmezas 2015) and highlight a range of important factors that we control for in subsequent regression analysis.

Table 3 reports pairwise correlations among sample variables. As would be expected the CSR pillars and the overall score are highly correlated and as a result we will examine these separately in our regressions. Firm's previous year FDI experience is positively correlated with current FDI propensity and intensity, which supports our previous discussion that internationally experienced MNEs encounter lower costs in their subsequent internationalization process.

[Insert Table 3 about here]

#### *4.2. CSR and FDI propensity*

Table 4 presents the results from our baseline logit regressions. All regressions include country, sector, and year fixed effects and we cluster standard errors at the firm level. We report the estimates for our four CSR measures; Overall CSR, Social CSR, Environmental CSR, and Governance CSR performance in Models 1 to 4 respectively. In all cases, we find a significant positive relation between a firm's CSR performance and propensity to undertake FDI (at the 1% level). These findings support Hypothesis 1 that firms with superior CSR performance are more likely to undertake FDI. Prior research finds that a firm's FDI decisions are affected by economic and/or financial characteristics that are correlated with the costs faced by MNEs (Bhaumik et al. 2010; Hitt et al. 2006; Wang et al. 2012). Our results suggest that environmental, social and governance performance overcome some of the problems in the internationalization process. These



findings support the view that firms that adopt CSR practices positively signal to investors their superior capability for filling institutional voids in an unknown market (Su et al. 2016). Therefore, CSR has a positive impact on corporate reputation and legitimacy performance measures in the eyes of firm stakeholders (Claasen and Roloff 2012) and helps to enable a company to internationalize.

[Insert Table 4 about here]

The findings for control variables are consistent with prior evidence, larger firms are more likely to undertake FDI (Bhaumik et al. 2010; Hitt et al. 2006), less tangible resources corresponds to higher likelihood of FDI and cash flow proxies for the firm's ability to capture overseas investment opportunities and enter foreign markets (Bhaumik et al. 2010) and is positively related to FDI propensity.

To test Hypothesis 2 we interact CSR performance with a dummy variable to measure previous year same country FDI experience. We present these results in Table 5.

[Insert Table 5 about here]

The results in Table 5 are similar to the baseline logit model in Table 4 for the firm's Overall CSR score, as well as the individual ESG pillar scores. The coefficients remain significant and positive at the 1% level. In Models 1 to 3, previous year same country FDI experience has a positive and significant effect on FDI propensity (at the 1% level), which suggests that firms that

have undertaken FDI in the previous year are more likely to undertake FDI in the current year (Kirca et al. 2012; Zaheer 1995). The findings for control variables are also similar to Table 4.

Consistent with Hypothesis 2, the interaction term between the Overall CSR score, Social CSR, Environmental CSR and Previous year same country FDI experience are significantly and negatively related to FDI likelihood. The significant and negative interaction effect shows that firms without prior experience of same country FDI drive the positive relation between CSR performance and FDI propensity. The effect of the interaction term of Governance CSR score and previous year FDI experience is not significant.<sup>11</sup>

To better estimate the economic importance of our findings, we use the regression models in Table 5 to calculate the implied probability that a firm undertakes FDI in a given year. We allow the probability to vary with the same country prior FDI experience dummy and for values of CSR performance from the 10<sup>th</sup> to the 90<sup>th</sup> percentiles of the distribution. Using Models 1 to 4 from Table 5, implied probabilities are calculated by varying the prior experience and CSR performance variables, and holding all control variables constant at their respective sample means. We present these probabilities in Table 6.

[Insert Table 6 about here]

In Model 1, for firms with no prior year host country FDI experience the likelihood of undertaking FDI increases from 0.2015 to 0.3497 as Overall CSR performance moves from the 10<sup>th</sup> to the 90<sup>th</sup> percentile. In relative terms, this is an increase of approximately 75%, which is

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<sup>11</sup> One possible explanation for this result is that it is host country governance that is the key factor in internationalization rather than firm governance. For example, Doidge et al. (2007) find that country characteristics influence firms' costs and benefits in implementing measures to improve corporate governance. They also find that country characteristics are stronger predictors of variation in corporate governance than firm characteristics.

economically large and provides further confidence in Hypothesis 2. The predicted increase in FDI propensity as CSR performance increases is strongest for firms without recent FDI experience and who are therefore expected to benefit most from the reputational benefits of CSR in overcoming costs when investing internationally.

For MNEs with prior year experience of FDI in the same country, these values range from 0.2603 to 0.3073 as CSR performance is moved from the 10<sup>th</sup> to the 90<sup>th</sup> percentile, an increase of approximately 18% in relative terms. This increase supports the positive and significant coefficient on the linear CSR performance variable in Table 4, but is small in comparison to the increase in FDI probability for firms without recent same country prior experience for increasing levels of CSR performance. There is a similar pattern of the results in Models 2 and 3, which focus on Social and Environmental CSR. Although the FDI propensity increases with Governance CSR performance, this effect is indifferent with prior year same country FDI experience.

Overall, our results in Tables 5 and 6 indicate that strong CSR performance allows MNEs exposed to a higher legitimacy deficit, in part, to use their CSR reputation to gain external acceptance in the FDI process. Experienced MNEs acquire market specific knowledge about the host country through prior entry decisions, and are therefore less exposed to the range of challenges in the FDI process.

In our tests so far, we have aimed to minimize concerns surrounding endogeneity by lagging all explanatory variables by one-year relative to the dependent variable. This reduces the likelihood that the FDI transaction itself leads to a contemporaneous change in CSR performance that would bias our interpretation of the documented positive relation between CSR and FDI. We extend our coverage of endogeneity concerns in this section.

First, we follow Cheng et al. (2014) and Ghoul et al. (2017) and use an instrumental variable approach. We use two instruments: the average CSR score for each country-sector pair (excluding the focal firm) and the average CSR score for each year-sector pair (again, excluding the focal firm). The two instrumental variables are expected to be highly correlated with the focal firm's CSR performance but are unlikely to have a direct effect on the firm's FDI decision except via their effect on the firm's CSR performance (Cheng et al. 2014).

The results are presented in Models 1 to 3 of Table 7. As expected, in Model 1 we find that both instruments are significant and positively related to Overall CSR performance. The second stage logit regressions in Models 2 and 3 use the predicted CSR values and their interaction with Previous year host country FDI experience to explain FDI propensity in the current year. In Model 2, we find a significant positive relation between CSR performance and FDI propensity (at the 1% level), providing further support for Hypothesis 1. In Model 3, the interaction term between prior experience and CSR performance is significant and negative, supporting Hypothesis 2.<sup>12,13</sup>

[Insert Table 7 about here]

Second, we use PSM to minimize concerns surrounding selection bias in coverage by ASSET4 and propensity to engage in FDI. Of particular concern is the possibility that larger firms both have higher CSR values and are more likely to undertake FDI. We identify high (low) CSR

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<sup>12</sup> In Model 3, the implied probability of undertaking FDI moves from 0.1840 to 0.3718 for firms with no prior year host country FDI experience. Moving from the 10<sup>th</sup> to 90<sup>th</sup> percentile of Overall CSR performance produces similar implied probabilities to those in Table 6, providing support for the stability of the instrumental variable regressions.

<sup>13</sup> We also estimate an instrumental variable probit regression with endogenous covariates and separate second stage regressions for firms with and without prior year host country FDI experience. The first stage regression is identical to Model 1 of Table 7. In second stage regressions of FDI propensity the coefficient for Overall CSR performance is insignificant and close to zero for firms with prior year experience and significant and positively related to FDI propensity for firms without prior year experience of the host country, providing further support for Hypothesis 2.

firms as those with Overall CSR performance above (below) the median for each country, year, and industrial sector. To identify a control sample of low CSR performance firm-year observations that exhibit no significant differences in observable firm characteristics, we first estimate probit regressions where the dependent variable is one for high CSR firms and zero for low CSR firms. The explanatory variables are the same control variables used in our main FDI regressions as well as a number of additional control variables identified in prior literature as determinants of CSR performance. These include sales growth, return on assets (ROA), cash flow risk, the ratio of foreign sales to total sales, and a dummy variable to identify cross-listed firms (Boubakri et al. 2016; Campbell et al. 2012; Ioannou and Serafeim 2012). We then use the nearest-neighbour matching approach to match the observations between the treatment and control group based on the predicted probabilities in the probit regression. Each high CSR firm is matched to a low CSR firm with the closest propensity score. This matching produces a sample of 6,202 matched firm-year observations.<sup>14</sup> To verify the observations in the treatment and control groups are indistinguishable except their CSR performance, we undertake a set of diagnostic tests to validate that no significant bias remains for the matched sample.<sup>15</sup>

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<sup>14</sup> If a firm-year in the control group is matched to more than one firm-year in the treatment group, we retain only the pair for which the difference in the propensity score is the smallest. We set the caliper to 0.0001 to ensure observations in the treatment and control group are indistinguishable.

<sup>15</sup> In the first diagnostic test, we estimate pre- and post-matching regressions for the determinants of high/low CSR scores. In the pre-matching specification we find that CSR performance increases with firm size, market-to-book, tangible resources, cash flow, ROA, the proportion of foreign sales to total sales, and cross-listing. CSR performance is negatively related to leverage, sales growth, and cash flow risk. These findings are generally consistent with previous studies on CSR determinants. In the post-matching specification, we find that all of the coefficient estimates are statistically insignificant, highlighting that there are no distinguishable trends between the two groups (the pseudo R-squared drops from 18.2% to 0.2%), confirming the reduction in selection bias following the PSM procedure. In the second diagnostic test, we examine mean differences in explanatory variables between the treatment and control groups. The results again show that none of the differences is significant, confirming the reliability of the matched sample. In the third diagnostic test, we undertake covariate balance tests for each of the matching variables. All tests confirm that no significant bias remains for the matched sample. The results are not presented, but available from authors on request.

Models 4 and 5 of Table 7 present our main regressions of the relation between CSR, prior experience and FDI propensity for the PSM sample. Model 4 shows a significant positive relation between CSR performance and FDI propensity (at the 1% level), providing further support for Hypothesis 1. In Model 5, we add the interaction term between Previous year same country FDI experience and CSR performance to our regression model. We again find a positive relation between both Overall CSR performance and Previous year same country FDI experience and FDI propensity. The interaction term is significant and negative at the 1% level. This confirms that CSR performance allows MNEs to overcome costs when engaging in FDI transactions and that this effect is strongest for firms without recent FDI experience.<sup>16</sup> Collectively, the results in Table 7 confirm that potential endogeneity and selection bias does not appear to drive our main results, supporting Hypotheses 1 and 2.

#### *4.3. Alternative model specifications*

In this section, we discuss the results of further testing of the regression model specification. To explore the influence of CSR performance on the intensity of FDI, we use a Tobit regression analysis following Croci and Petmezas (2015). This test examines whether CSR can predict the level of FDI investment, in addition to the previously examined propensity to invest. The

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<sup>16</sup> Our PSM results hold if we relax the caliper to 0.001 (0.01), with the exception that low CSR control firms are significantly larger at the 10% (5%) level in univariate testing. In both cases, the difference is insignificant in the multivariate probit regression. The results presented in Models 4 and 5 of Table 7 retain their sign and statistical significance. It is also important to note that in the pre-match sample, high CSR firms are larger, suggesting that any selection bias that leads to larger firms simultaneously having higher CSR performance and undertaking more FDI activity predicts the opposite effect to the findings we observe in Table 7. Our findings show that the positive relation between CSR performance and FDI propensity is greatest for firms expected to suffer the highest costs to internationalization, which tend to be smaller firms (Baik et al. 2013).

dependent variable, FDI count, is a count of the number of FDI transactions initiated for each firm year. We present these results in Table 8.<sup>17</sup>

[Insert Table 8 about here]

In Models 1 to 4, we find that all CSR performance measures have a positive and significant effect on the number of FDI transactions undertaken by the firm, confirming Hypothesis 1. In Models 5 to 8 we find the interaction term for Overall CSR performance, Social CSR and Environmental CSR and Previous year same country FDI experience have a significantly negative effect on FDI intensity. Therefore, this provides further evidence in support of Hypothesis 2 that the relation between CSR performance and a firm's FDI investment is strongest for those companies without recent experience of engaging in FDI. We attribute this to CSR reputation being a valuable asset in overcoming costs that affect MNEs when investing in foreign markets. Similar to our earlier findings, the interaction between Governance CSR and Previous year FDI experience is not significant. Our findings for control variables also support the base regression findings in Tables 4 and 5. Firm size and cash flow have a positive and significant effect on FDI intensity and asset tangibility has a negative and significant effect on FDI intensity.

Finally, we change the model specification and use a multinomial logit model that examines the robustness of our findings to the choice of FDI entry method. The omitted base

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<sup>17</sup> In some studies, a zero-inflated Poisson model is also widely used when the dependent variable is a count outcome. In untabulated results, we also use Poisson and zero-inflated Poisson regressions to test our hypotheses. Hypothesis 1 holds across both models. Hypothesis 2 holds for Environmental CSR in the Poisson model and Overall CSR in the zero-inflated Poisson model. This further implies that our results are largely insensitive to the chosen model.

category is no FDI activity, and we examine the choice of entry method between PA, FA, JV, SA relative to this omitted group. The results are reported in Table 9.

[Insert Table 9 about here]

Table 9 shows a positive relation between CSR performance and FDI propensity, irrespective of the entry method. This provides further confirmation of Hypothesis 1 and our base proposition that CSR reputation is a valuable asset that allows MNEs greater ability to mitigate conflicts between various stakeholder groups when engaging in FDI activity. Moreover, the interaction term between prior experience and CSR performance is significant and negative for PA and FA entry methods. We expect that costs of integration and potential for conflicts with host country stakeholders are greatest under majority control models including acquisition and costs are highest for these entry methods (Cuervo-Cazurra et al. 2007). Such considerations are expected to be less important for partnership models including JV and SA. In general, the results provide additional corroboration of Hypothesis 2 that MNEs expected to suffer the greatest legitimacy deficit to benefit most from the reputational benefits of CSR when undertaking FDI transactions.

#### *4.4. Alternative measures*

We examine the sensitivity of our findings to alternative measures of internationalization costs by re-estimating Model 1 from Table 5 and replacing Previous year same country FDI experience with our alternative experience measures.<sup>18</sup> First, we measure as a dummy variable for any previous year FDI experience, irrespective of host country. Both Overall CSR performance and prior experience are significant and positively related to FDI propensity and the interaction

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<sup>18</sup> The results are not reported, but available on request from the authors on request.



between Overall CSR performance and any prior year FDI experience is significant and negative. This provides further support for Hypotheses 2. This shows that the benefit from CSR in facilitating FDI investment for firms with no recent experience of FDI transactions is not host country specific. CSR reputation and the resulting experience of managing stakeholder interests is a transferable asset from one market to another. This asset is most valuable for firms with no recent experience of FDI transactions, and who benefit from the reputational advantages of CSR.

Second, we replace previous year same country FDI experience with a dummy that measures if the firm has undertaken any FDI since the beginning of coverage in SDC Platinum, and zero otherwise. We find that the interaction term between any prior FDI experience and CSR performance is insignificant and the any prior FDI experience dummy is significant and positively related to current year FDI propensity. Combining with the previous findings, it shows that recent prior experience is more relevant to overcoming legitimacy deficits when undertaking FDI. This is consistent with organizational memory and international business literature, which shows that experience is a valuable asset that can decay over time unless renewed by recent stimuli (Liu and Maula 2016; Meschi and Métais 2013).

## **5. Conclusion**

This study investigates the effect of CSR performance on the outward FDI decisions of firms from 44 countries for the period 2002 to 2013. One view is that firms with strong CSR reputation could be less likely to engage in FDI if the risks associated with international investment harm that reputation. Alternatively, we propose that there is a positive relation between CSR performance and FDI decision if CSR reputation improves the legitimacy of firm and acceptance in the host country, reducing some of the problems of doing business abroad. Specifically, we suggest firms

with CSR advantage have strong stakeholder relations, high legitimacy, renowned reputation, and comprehensive staff training and development experience, and thus are more credible in the FDI process and are able to undertake FDI with greater frequency. We also propose that the benefits to CSR in FDI are greatest for MNEs expected to suffer the most significant problems in their internationalization process. If inexperienced MNEs encounter high costs in a host country, we expect them to benefit more from a high CSR reputation. We test whether and to what extent FDI decisions across MNEs can be explained by variations in firm-level CSR performance, and we suggest that the benefits of CSR in providing external legitimacy are less important in the FDI process if the firm has an existing reputation in the host country and FDI process.

We find that firms with better CSR performance have higher propensity to undertake FDI. Therefore, CSR reputation is a valuable asset that allows MNEs greater ability to mitigate conflicts between various stakeholder groups when engaging in FDI activity. Moreover, the positive relation between CSR and FDI propensity is strongest for MNEs who are inexperienced in international expansion. The main findings remain consistent when we control for endogeneity using both instrumental variable and PSM approaches, change the model specification, and are strongest for the acquisition FDI entry method.

Several issues remain open for future research. First, applying categorical CSR data such as emission reduction, water protection, and employee diversity in specific industries could provide new insights and help us have a better understanding of the benefits to a strong CSR reputation. Second, given our evidence that CSR performance affects the FDI decision, future research could be undertaken to investigate how CSR affects firm's performance after a FDI decision.

**Table 1**

## Sample distribution

The table reports the distribution of firms' home country, industrial sector and availability through time for firms with available data on environmental, social, and governance (ESG) performance in the Worldscope ASSET4 database. Data on FDI announcements are collected from SDC Platinum.

Panel A: ASSET 4 sample distribution across countries					
Country	Frequency	Percentage	Country	Frequency	Percentage
Australia	1,886	5.80	Korea (South)	485	1.49
Austria	188	0.58	Luxembourg	76	0.23
Belgium	276	0.85	Malaysia	203	0.62
Bermuda	87	0.27	Mexico	155	0.48
Brazil	403	1.24	Netherlands	407	1.25
Canada	2,117	6.51	New Zealand	100	0.31
Chile	106	0.33	Norway	206	0.63
China	624	1.92	Philippines	89	0.27
Colombia	45	0.14	Poland	111	0.34
Denmark	255	0.78	Portugal	127	0.39
Egypt	46	0.14	Russian Federation	204	0.63
Finland	274	0.84	Saudi Arabia	36	0.11
France	941	2.89	Singapore	407	1.25
Germany	810	2.49	South Africa	431	1.32
Greece	228	0.70	Spain	494	1.52
Hong Kong	815	2.50	Sweden	551	1.69
India	368	1.13	Switzerland	641	1.97
Indonesia	131	0.40	Taiwan	553	1.70
Ireland	193	0.59	Thailand	114	0.35
Israel	82	0.25	Turkey	129	0.40
Italy	507	1.56	United Kingdom	3,300	10.14
Japan	3,849	11.83	United States	9,495	29.18
			Total	32,545	100.00

  

Panel B: ASSET 4 sample distribution across sectors			
Sector	Frequency	Percentage	Cumulative percentage
Agriculture, Forestry and Fishing	113	0.35	0.35
Construction	1,087	3.34	3.69
Finance, Insurance and Real Estate	6,361	19.55	23.23
Manufacturing	11,649	35.79	59.03
Mining	2,910	8.94	67.97
Retail trade	1,942	5.97	73.94
Services	3,245	9.97	83.91
Transportation, Communications, Electric, Gas and Sanitary Services	4,440	13.64	97.55
Wholesale trade	798	2.45	100.00
Total	32,545	100.00	

**Table 1 continued**

Panel C: ASSET 4 sample distribution across years			
Year	Frequency	Percentage	Cumulative percentage
2003	930	2.86	2.86
2004	945	2.90	5.76
2005	1,757	5.40	11.16
2006	2,173	6.68	17.84
2007	2,199	6.76	24.59
2008	2,381	7.32	31.91
2009	2,857	8.78	40.69
2010	3,284	10.09	50.78
2011	3,899	11.98	62.76
2012	4,003	12.30	75.06
2013	4,084	12.55	87.61
2014	4,033	12.39	100.00
Total	32,545	100.00	

  

Panel D: FDI transactions undertaken by ASSET4 sample by entry method			
Entry method	Frequency	Percentage	Cumulative percentage
PA	4,040	12.85	12.85
FA	23,752	75.55	88.40
JV	1,285	4.09	92.49
SA	2,360	7.51	100.00
Total	31,437	100.00	

**Table 2**

Descriptive statistics and univariate comparison of FDI and non-FDI firms-years

Panel A reports the descriptive statistics. Panel B reports the univariate comparison of subsamples for FDI and non-FDI firm years. Tests of difference in means and medians are calculated using a two-tailed t-test and a Wilcoxon rank sum test respectively. All variables are defined in Appendix A. \*, \*\* and \*\*\* indicate statistical significance at 10%, 5% and 1% level respectively.

Panel A: Descriptive statistics						
Variables	N	Mean	Median	Std. dev	Min	Max
<i>FDI measures:</i>						
FDI dummy	32,545	0.30	0.00	0.46	0.00	1.00
FDI count	32,545	0.78	0.00	2.08	0.00	50.00
PA dummy	32,545	0.06	0.00	0.24	0.00	1.00
FA dummy	32,545	0.25	0.00	0.44	0.00	1.00
JV dummy	32,545	0.02	0.00	0.16	0.00	1.00
SA dummy	32,545	0.03	0.00	0.18	0.00	1.00
<i>Explanatory variables:</i>						
Overall CSR	32,462	0.50	0.49	0.31	0.02	0.99
Social CSR	32,481	0.50	0.48	0.31	0.03	0.99
Environmental CSR	32,507	0.49	0.45	0.32	0.08	0.97
Governance CSR	32,493	0.52	0.59	0.30	0.01	0.99
Previous year same country FDI experience	32,545	0.20	0.00	0.41	0.00	1.00
Previous year FDI experience	32,545	0.30	0.00	0.46	0.00	1.00
Any FDI experience	32,545	0.75	1.00	0.43	0.00	1.00
Total assets	32,545	28.79	5.76	74.96	0.01	471.22
R&D	32,545	0.02	0.00	0.04	0.00	0.25
Leverage	32,545	0.25	0.23	0.18	0.00	0.83
M/B	32,545	2.74	1.89	3.07	-2.75	22.23
Tangible resources	32,545	0.31	0.24	0.27	0.00	0.95
Cash flow	32,545	0.09	0.08	0.08	-0.21	0.37

Panel B: Univariate comparison of firms by FDI dummy

Variable	Subsample A (FDI dummy=1)			Subsample B (FDI dummy=0)			Test of difference (A-B)	
	N	Mean	Median	N	Mean	Median	Mean	Median
Overall CSR	9,876	0.62	0.70	22,586	0.45	0.40	47.79***	46.72***
Social CSR	9,882	0.61	0.69	22,599	0.45	0.39	46.08***	45.08***
Environmental CSR	9,885	0.57	0.65	22,608	0.50	0.57	18.99***	19.31***
Governance CSR	9,886	0.60	0.71	22,621	0.44	0.35	42.38***	42.11***
Previous year same country FDI experience	9,892	0.28	0.00	22,653	0.16	0.00	24.99***	24.76***
Previous year FDI experience	9,892	0.58	1.00	22,653	0.16	0.00	84.51***	76.53***
Any FDI experience	9,892	0.95	1.00	22,653	0.64	1.00	61.12***	57.889***
Total assets	9,892	51.79	9.75	22,653	18.74	4.73	37.35***	37.51***
R&D	9,892	0.02	0.00	22,653	0.02	0.00	13.19***	25.46***
Leverage	9,892	0.25	0.23	22,653	0.25	0.23	-1.46	2.72***
M/B	9,892	2.77	2.04	22,653	2.72	1.82	1.16	11.11***
Tangible resources	9,892	0.24	0.18	22,653	0.33	0.28	-29.88***	-25.11***
Cash flow	9,892	0.09	0.09	22,653	0.09	0.08	0.67	3.38***

**Table 3**

Correlation matrix

The table presents are correlation matrix of variables used in our analysis. All variables are defined in Appendix A. \*, \*\* and \*\*\* indicate statistical significance at 10%, 5% and 1% level respectively.

		1	2	3	4	5	6	7	8	9	10
1	FDI dummy	1.000									
2	FDI count	0.575***	1.000								
3	PA dummy	0.398***	0.436***	1.000							
4	FA dummy	0.891***	0.575***	0.212***	1.000						
5	JV dummy	0.248***	0.309***	0.140***	0.124***	1.000					
6	SA dummy	0.290***	0.329***	0.106***	0.142***	0.231***	1.000				
7	Overall CSR	0.256***	0.226***	0.129***	0.238***	0.107***	0.124***	1.000			
8	Social CSR	0.246***	0.218***	0.139***	0.220***	0.116***	0.132***	0.894***	1.000		
9	Environmental CSR	0.229***	0.204***	0.129***	0.201***	0.128***	0.138***	0.818***	0.784***	1.000	
10	Governance CSR	0.102***	0.094***	0.022***	0.121***	-0.009*	0.012**	0.546***	0.298***	0.178***	1.000
	Previous year same country										
11	FDI experience	0.134***	0.286***	0.119***	0.159***	0.070***	0.104***	0.186***	0.182***	0.169***	0.079***
12	Previous year FDI experience	0.422***	0.367***	0.210***	0.403***	0.122***	0.171***	0.261***	0.252***	0.237***	0.110***
13	Any FDI experience	0.319***	0.205***	0.133***	0.291***	0.084***	0.103***	0.321***	0.305***	0.296***	0.149***
14	Log of Total assets	0.226***	0.272***	0.247***	0.193***	0.143***	0.136***	0.369***	0.381***	0.371***	0.049***
15	R&D	0.074***	0.026***	-0.029***	0.066***	0.001	0.112***	0.058***	0.053***	0.077***	0.049***
16	Leverage	-0.007	0.015***	0.015***	-0.013**	0.026***	-0.009*	0.001	0.022***	0.045***	0.014***
17	M/B	0.008	-0.015***	-0.033***	0.014**	-0.040***	-0.006	0.010*	-0.002	-0.059***	0.082***
18	Tangible resources	-0.164***	-0.149***	-0.077***	-0.164***	-0.030***	-0.060***	-0.018***	-0.045***	0.027***	0.028***
19	Cash flow	0.004	-0.039***	-0.049***	0.009*	-0.041***	0.004	0.103***	0.063***	0.002	0.091***
		11	12	13	14	15	16	17	18	19	
	Previous year same country										
11	FDI experience	1.000									
12	Previous year FDI experience	0.780***	1.000								
13	Any FDI experience	0.301***	0.385***	1.000							
14	Log of Total assets	0.161***	0.230***	0.207***	1.000						
15	R&D	0.050***	0.068***	0.120***	-0.115***	1.000					
16	Leverage	0.008	0.001	-0.018***	0.146***	-0.160***	1.000				
17	M/B	-0.008	-0.001	-0.005	-0.213***	0.124***	-0.020***	1.000			
18	Tangible resources	-0.108***	-0.156***	-0.145***	-0.145***	-0.186***	0.290***	-0.072***	1.000		
19	Cash flow	-0.013**	-0.010*	0.019***	-0.253***	0.067***	-0.149***	0.370***	0.101***	1.000	

**Table 4**

The table presents logit regressions of FDI propensity where the dependent variable is FDI dummy. All variables are defined in Appendix A. All explanatory variables are measured at the financial year-end prior to the FDI announcement. Standard errors are clustered at the firm level and are reported in parentheses. \*, \*\* and \*\*\* indicate statistical significance at 10%, 5% and 1% level respectively.

Variables	(1)	(2)	(3)	(4)
Overall CSR	0.779*** (0.091)			
Social CSR		0.569*** (0.087)		
Environmental CSR			0.620*** (0.085)	
Governance CSR				0.548*** (0.114)
Log total assets	0.408*** (0.022)	0.435*** (0.022)	0.430*** (0.022)	0.474*** (0.020)
R&D	0.448 (0.500)	0.550 (0.499)	0.549 (0.495)	0.634 (0.495)
Leverage	0.054 (0.142)	-0.007 (0.141)	0.010 (0.140)	-0.036 (0.141)
M/B	0.007 (0.007)	0.008 (0.006)	0.008 (0.006)	0.009 (0.006)
Tangible resources	-1.427*** (0.135)	-1.378*** (0.136)	-1.450*** (0.134)	-1.352*** (0.135)
Cash flow	1.657*** (0.304)	1.831*** (0.303)	1.933*** (0.301)	1.979*** (0.301)
Constant	-10.092*** (0.578)	-10.467*** (0.570)	-10.400*** (0.567)	-11.445*** (0.545)
Country fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Log Likelihood	-16,431	-16,484	-16,485	-16,517
Wald Chi-square	1,994***	1,931***	1,948***	1,916***
Pseudo R-square	0.170	0.168	0.168	0.166
Observations	32,462	32,481	32,507	32,493



**Table 5**

Logit regressions of CSR and its interaction with same country prior year FDI experience on FDI propensity  
 The table presents logit regressions of FDI propensity where the dependent variable is FDI dummy. All variables are defined in Appendix A. All explanatory variables are measured at the financial year-end prior to the FDI announcement. Standard errors are clustered at the firm level and are reported in parentheses. \*, \*\* and \*\*\* indicate statistical significance at 10%, 5% and 1% level respectively.

Variables	(1)	(2)	(3)	(4)
Overall CSR	0.911*** (0.096)			
Social CSR		0.719*** (0.092)		
Environmental CSR			0.758*** (0.092)	
Governance CSR				0.561*** (0.121)
Previous year same country FDI experience	0.389*** (0.101)	0.445*** (0.101)	0.394*** (0.094)	0.057 (0.093)
Overall CSR * Previous year same country FDI experience	-0.632*** (0.146)			
Social CSR * Previous year same country FDI experience		-0.720*** (0.149)		
Environmental CSR * Previous year same country FDI experience			-0.643*** (0.137)	
Governance CSR * Previous year same country FDI experience				-0.066 (0.145)
Log total assets	0.412*** (0.023)	0.439*** (0.022)	0.433*** (0.022)	0.473*** (0.021)
R&D	0.468 (0.498)	0.582 (0.496)	0.580 (0.492)	0.625 (0.494)
Leverage	0.049 (0.141)	-0.014 (0.140)	0.009 (0.139)	-0.038 (0.140)
M/B	0.007 (0.007)	0.008 (0.006)	0.008 (0.006)	0.009 (0.006)
Tangible resources	-1.426*** (0.135)	-1.374*** (0.136)	-1.449*** (0.135)	-1.349*** (0.136)
Cash flow	1.675*** (0.305)	1.850*** (0.304)	1.965*** (0.302)	1.975*** (0.301)
Constant	-10.255*** (0.584)	-10.645*** (0.576)	-10.561*** (0.573)	-11.432*** (0.550)
Country fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Log Likelihood	-16,415	-16,462	-16,465	-16,516
Wald Chi-square	2,003***	1,952***	1,968***	1,953***
Pseudo R-square	0.171	0.169	0.169	0.166
Observations	32,462	32,481	32,507	32,493

**Table 6**

## Implied probabilities of FDI

The table reports the predicted likelihood of a firm undertaking a FDI transaction based on the logit models presented in Table 6. All variables are defined in Appendix A. All explanatory variables are measured at the financial year-end prior to the FDI announcement.

	CSR performance				
	10 <sup>th</sup> percentile	25 <sup>th</sup> percentile	50 <sup>th</sup> percentile	75 <sup>th</sup> percentile	90 <sup>th</sup> percentile
Model 1 – Overall CSR					
Previous year same country FDI experience = 1	0.2603	0.2669	0.2823	0.3002	0.3073
Previous year same country FDI experience = 0	0.2015	0.2201	0.2663	0.3253	0.3497
Model 2 – Social CSR					
Previous year same country FDI experience = 1	0.3124	0.3124	0.3123	0.3123	0.3122
Previous year same country FDI experience = 0	0.2375	0.2512	0.2915	0.3419	0.3607
Model 3 – Environmental CSR					
Previous year same country FDI experience = 1	0.2926	0.2940	0.3008	0.3101	0.3124
Previous year same country FDI experience = 0	0.2304	0.2386	0.2792	0.3412	0.3570
Model 4 – Governance CSR					
Previous year same country FDI experience = 1	0.2375	0.2518	0.2878	0.3079	0.3177
Previous year same country FDI experience = 0	0.2281	0.2440	0.2841	0.3068	0.3179

**Table 7**

## Sample selection regressions of FDI propensity

The table reports the results of regression models of FDI propensity with adjustments to control for endogeneity. Models 1 to 3 present instrumental variable regressions of FDI propensity. Model 1 presents an OLS model of the determinants of Overall CSR Score. In Models 2 and 3, the dependent variable is FDI dummy. Models 2 and 3 are estimated using the predicted value of Overall CSR from Model 1. Instrumental variables are mean CSR performance score for all sample firms in the same country as the sample firm during the same year and the mean CSR performance score for all sample firms in the same industry sector as the sample firm during the same year. Models 4 and 5 present regressions for a propensity score matched (PSM) sample of firms with above and below the median CSR score by country, year, and industry sector. All remaining variables are defined in Appendix A. All explanatory variables are measured at the financial year-end prior to the FDI announcement. Standard errors are clustered at the firm level and are reported in parentheses. \*, \*\* and \*\*\* indicate statistical significance at 10%, 5% and 1% level respectively.

Variable	Instrumental variable regressions			Propensity score matched (PSM) sample regressions	
	First stage	Second stage	Second stage	Logit	Logit
	OLS	Logit	Logit		
	(1)	(2)	(3)	(4)	(5)
Overall CSR		1.607*** (0.613)	1.828*** (0.617)	0.605*** (0.119)	0.807*** (0.127)
Previous year same country FDI experience			0.559*** (0.145)		0.486*** (0.142)
Overall CSR * Previous year same country FDI experience			-0.913*** (0.231)		-0.916*** (0.221)
IV1:Country sector mean of CSR	0.908*** (0.031)				
IV2:Year sector mean of CSR	0.213** (0.090)				
Log total assets	0.113*** (0.001)	0.314*** (0.074)	0.315*** (0.074)	0.336*** (0.035)	0.339*** (0.035)
R&D	0.210*** (0.032)	0.241 (0.522)	0.267 (0.520)	0.375 (0.683)	0.407 (0.684)
Leverage	-0.140*** (0.008)	0.165 (0.166)	0.160 (0.166)	0.261 (0.196)	0.267 (0.196)
M/B	0.004*** (0.000)	0.004 (0.007)	0.004 (0.007)	0.019** (0.009)	0.019** (0.009)
Tangible resources	0.088*** (0.006)	-1.468*** (0.144)	-1.468*** (0.144)	-1.605*** (0.184)	-1.613*** (0.186)
Cash flow	0.447*** (0.019)	1.282*** (0.416)	1.284*** (0.416)	1.146** (0.458)	1.167** (0.461)
Constant	-2.155*** (0.031)	-8.422*** (1.371)	-8.561*** (1.363)	-8.722*** (1.130)	-8.932*** (1.144)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes
R-square / Pseudo R-square	0.459	0.166	0.166	0.138	0.140
Observations	32,462	32,462	32,462	12,395	12,395

**Table 8**

Tobit regressions of FDI intensity

The table reports tobit regressions of FDI intensity where the dependent variable is FDI count and is left censored at zero. All variables are defined in Appendix A. All explanatory variables are measured at the financial year-end prior to the FDI announcement. Standard errors are clustered at the firm level and are reported in parentheses. \*, \*\* and \*\*\* indicate statistical significance at 10%, 5% and 1% level respectively.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Overall CSR	1.856*** (0.233)				0.550*** (0.055)			
Social CSR		1.331*** (0.217)				0.443*** (0.052)		
Environmental CSR			1.443*** (0.214)				0.460*** (0.052)	
Governance CSR				1.626*** (0.291)				0.300*** (0.067)
Previous year same country FDI Experience					0.279*** (0.056)	0.307*** (0.057)	0.273*** (0.052)	0.068 (0.052)
Overall CSR * Previous year same country FDI experience					-0.432*** (0.078)			
Social CSR * Previous year same country FDI experience						-0.475*** (0.079)		
Environmental CSR * Previous year same country FDI experience							-0.425*** (0.073)	
Governance CSR * Previous year same country FDI experience								-0.079 (0.079)
Log total assets	1.025*** (0.069)	1.091*** (0.072)	1.079*** (0.070)	1.161*** (0.070)	0.217*** (0.011)	0.232*** (0.011)	0.229*** (0.011)	0.254*** (0.010)
R&D	0.436 (1.096)	0.637 (1.098)	0.608 (1.085)	0.764 (1.085)	0.207 (0.274)	0.255 (0.274)	0.255 (0.271)	0.290 (0.275)
Leverage	0.703* (0.391)	0.558 (0.388)	0.595 (0.386)	0.502 (0.384)	0.051 (0.078)	0.015 (0.078)	0.027 (0.078)	0.003 (0.079)
M/B	0.019 (0.014)	0.020 (0.014)	0.020 (0.014)	0.024* (0.014)	0.005 (0.004)	0.005 (0.004)	0.005 (0.004)	0.006* (0.004)
Tangible resources	-3.480*** (0.357)	-3.363*** (0.355)	-3.535*** (0.358)	-3.316*** (0.351)	-0.798*** (0.072)	-0.769*** (0.073)	-0.814*** (0.072)	-0.757*** (0.073)
Cash flow	3.490*** (0.690)	3.946*** (0.693)	4.170*** (0.690)	4.212*** (0.694)	0.943*** (0.170)	1.048*** (0.170)	1.119*** (0.169)	1.126*** (0.170)

**Table 8 continued**

Constant	-25.600*** (1.747)	-26.540*** (1.792)	-26.359*** (1.774)	-28.588*** (1.820)	-5.398*** (0.307)	-5.610*** (0.304)	-5.564*** (0.303)	-6.094*** (0.290)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-35,714	-35,798	-35,806	-35,821	-24,316	-24,373	-24,382	-24,450
F-test	8.736***	8.690***	8.708***	8.779***	56.08***	54.44***	55.01***	53.03***
Pseudo R-square	0.102	0.101	0.101	0.100	0.120	0.119	0.119	0.116
Observations	32,462	32,481	32,507	32,493	32,462	32,481	32,507	32,493

**Table 9**

Multinomial logit regression of FDI entry method

This table reports the results of multinomial logit regression of FDI entry mode choices on CSR performance and control variables. The sample firms are from 44 countries between 2003 and 2014. All variables are defined in the Appendix. The dependent variable in Model 1 through Model 4 is a categorical variable, equals to either “PA”, “FA”, “JV”, “SA” or “NOFDI” in year t with “NOFDI” as the base. All independent variables are lagged by one year. Financial variables are winsorized at 1% and 99% level. To conserve space, results for country and year variables are not reported. Based on two-tailed tests, robust standard errors are clustered at the firm level in parentheses. \*\*\*, \*\*, \* indicate significance at 1%, 5% and 10% levels respectively.

Variables	PA	FA	JV	SA
Overall CSR	1.043*** (0.181)	1.306*** (0.096)	2.039*** (0.281)	1.997*** (0.272)
Previous year same country FDI Experience	0.385 (0.252)	0.575*** (0.109)	-1.894** (0.958)	-0.283 (0.411)
Overall CSR * Previous year same country FDI experience	-2.034*** (0.412)	-0.870*** (0.163)	0.075 (1.256)	-0.411 (0.553)
Log total assets	0.406*** (0.035)	0.137*** (0.019)	0.184*** (0.056)	0.179*** (0.056)
R&D	-2.402 (1.482)	1.805*** (0.496)	-1.807 (2.031)	9.941*** (1.143)
Leverage	0.083 (0.267)	0.150 (0.136)	1.435*** (0.430)	0.178 (0.421)
M/B	0.020 (0.015)	0.003 (0.007)	0.026 (0.030)	-0.015 (0.026)
Tangible resources	-0.886*** (0.201)	-1.553*** (0.109)	0.020 (0.320)	-1.121*** (0.330)
Cash flow	3.317*** (0.799)	2.407*** (0.304)	-2.150** (1.011)	1.538 (1.117)
Constant	-13.199*** (0.833)	-5.277*** (0.426)	-10.689*** (1.258)	-11.358*** (1.390)
Country Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Log Likelihood			-19,642	
Wald chi-square			109,108***	
Pseudo R-square			0.113	
Observations			30,456	

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## Appendix A

### Variable descriptions and data source

Variable	Description	Data Source
FDI dummy	A dummy variable set equal to one if a firm made foreign direct investment in a given year, and zero otherwise	SDC Platinum
FDI count	Total number of foreign direct investment transactions a firm has undertaken in a given year	SDC Platinum
PA dummy	A dummy variable set equal to one if a firm made partial acquisition in a given year, and zero otherwise	SDC Platinum
FA dummy	A dummy variable set equal to one if a firm made full acquisition in a given year, and zero otherwise	SDC Platinum
JV dummy	A dummy variable set equal to one if a firm made joint venture in a given year, and zero otherwise	SDC Platinum
SA dummy	A dummy variable set equal to one if a firm made strategic alliance in a given year, and zero otherwise	SDC Platinum
Overall CSR	Overall ESG performance score	ASSET4
Social CSR	Social performance score	ASSET4
Environmental CSR	Environmental performance score	ASSET4
Governance CSR	Corporate governance performance score	ASSET4
Previous year same country FDI experience	A dummy variable set equal to one if a firm undertook FDI in the host country during the previous year, and zero otherwise	SDC Platinum
Previous year FDI experience	A dummy variable set equal to one if a firm undertook FDI in the previous year, and zero otherwise	SDC Platinum
Any FDI experience	A dummy variable set equal to one if a firm undertook FDI at any point prior to the current year, and zero otherwise. Data coverage is based on the point of first reference in SDC Platinum.	SDC Platinum
Total assets	Book value of assets in thousand US dollars (WC07230)	Worldscope
R&D	Research and development expenses divided by net sales or revenues (WC01201/WC01001)	Worldscope
Leverage	Sum of long and short term debt divided by the book value of asset (WC03255/WC02999)	Worldscope
M/B	Market value of equity divided by the book value of equity (WC02999-WC03255)/(WC03501)	Worldscope
Tangible resources	Property, plant & equipment divided by net sales or revenues (WC02501/WC01001)	Worldscope
Cash flow	Cash flow divided by book value of assets (WC04201/WC02999)	Worldscope
Country sector mean of CSR	Instrumental variable calculated as the average Overall CSR score for each country-sector pair but excluding the focal firm	Own calculation
Year sector mean of CSR	Instrumental variable calculated as the average Overall CSR score for each year-sector pair but excluding the focal firm	Own calculation
Sales growth	(Net sales or revenues in year $t$ – Net sales or revenues in year $t-1$ ) divided by net sales or revenues in year $t-1$	Worldscope
Return on assets (ROA)	Return on asset, defined as earnings before interest and taxes (EBIT) divided by the book value of assets (WC18191/WC02999)	Worldscope
Cash flow risk	The standard deviation of return on assets	Worldscope
Foreign sales to total sales	Foreign sales as a percentage of total sales (WC08731)	Worldscope
Cross-listed	A dummy variable set equal to one if the firm cross-listed in foreign stock exchange(s), and zero otherwise (WC05427)	Worldscope