Impact of National Institutions on Corporate Social Performance

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Abstract : In recent years, there is a growing interest about corporate social responsibility of firms in both academic literature and business world. Since business forms a part of society incorporating socio-environment concerns into its value chain, activities are vital for ensuring mutual sustainability and prosperity. But, until now most of the works have been either descriptive or normative rather than positivist in tone. Even the few ones with a positivist approach have mostly studied the link between corporate financial performance and corporate social performance. However, these studies have been severely criticized by many eminent authors on grounds that they lack a theoretical basis for their findings. They have also argued that apart from corporate financial performance, there must be certain other crucial influences that are likely to determine corporate social performance of firms. In fact, several studies have indicated that firms operating in distinct national institutions show significant variations in the corporate social responsibility practices that they undertake. This clearly suggests that the institutional context of a country in which the firms operate is a key determinant of corporate social performance of firms. Therefore, this paper uses an institutional framework to understand why corporate social performance of firms vary across countries. It examines the impact of country level institutions on corporate social performance using a sample of 3240 global publicly-held firms across 33 countries covering the period 2010-2015. The country level institutions include public institutions, private institutions, markets and capacity to innovate. Econometric Analysis has been mainly used to assess this impact. A three way panel data analysis using fixed effects has been used to test and validate appropriate hypotheses. Most of the empirical findings confirm our hypotheses and the economic significance indicates the specific impact of each variable and their importance relative to others. The results suggest that institutional determinants like ethical behavior of private institutions, goods market, labor market and innovation capacity of a country are significantly related to the corporate social performance of firms. Based on our findings, few implications for policy makers from across the world have also been suggested. The institutions in a country should promote competition. The government should use policy levers for upgrading home demands, like setting challenging yet flexible safety, quality and environment standards, and framing policies governing buyer information, providing innovative recourses to low quality goods and services and promoting early adoption of new and technologically advanced products. Moreover, the institution building in a country should be such that they facilitate and improve the capacity of firms to innovate. Therefore, the proposed study argues that country level institutions impact corporate social performance of firms, empirically validates the same, suggest policy implications and attempts to contribute to an extended understanding of corporate social responsibility and corporate social performance in a multinational context.

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