THE DISCIPLINARY EFFECT OF SELLING TO COUNTRIES WITH HIGHER LEVELS OF PRESS FREEDOM

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Abstract

Using a sample of firms that are present in major stockmarket indexes, I show that selling to foreign countries with higher levels of press freedom than the home country has a disciplinary effect on the firms' CSR performance. My results show that a Chinese firm that sells in the United States would have, on average, an environmental score, whose values are between 0 and 100, higher by 27 than if it was selling exclusively to China. The social performance and the concern for the respect of human rights in the supply chain would also be higher. These results provide support for the hypothesis that in countries with higher levels of press freedom firms are more exposed to public scrutiny, which may lead to higher levels of CSR performance in order to attract ethically-oriented consumers and/or to avoid consumer awareness campaigns and boycotts.

Keywords:

CSR, Corporate Reputation, Internationalization, Press Freedom

Over the last decades, the role of globally-operating firms in the regulation of the economy has become increasingly important. Nowadays, these firms cooperate across borders with other private and public actors, establishing rules, regulations and institutions that build up private regimes of global governance (Willke, 2009). They implement socially responsible measures, adopt voluntary codes of conduct and cooperate with NGOs and other civil society members.

According to Vogel (2006), some practices and philanthropic activities that existed already a century ago could be considered as a form of "primitive" Corporate Social Responsibility (CSR). However, even if companies have been implementing socially responsible measures since the XIXth century, it is not until the last three decades that a major interest in CSR issues has emerged. This is probably due, at least in part, to the boycotts suffered by large firms such as Nestlé, Dow Chemical, Nike and Shell, as well as the increasing concern of consumers and civil society for the consequences of the business activity on society and the environment. Presently, consumers, activists and other civil society members are private actors that bring social and environmental issues to the attention of firms. Experts and reporters can also participate in the process, not only by identifying issues, but also by making them salient (Bonardi & Keim, 2005). The process, which involves the discussion of these issues in the public arena, is facilitated in countries where the free speech and the freedom of the press are guaranteed by democracy (Habermas, 1996).

In this paper I test whether the level of press freedom in foreign markets has a disciplinary effect on firms by raising their environmental and social performance. Indeed, in

countries where the press is free, firms are more subject to scrutiny by consumers, reporters, activists and other civil society members. As a result, in order to increase their market share and/or to avoid consumer awareness campaigns and boycotts, firms have more incentives to maintain a good reputation by implementing CSR measures. Therefore, firms selling in foreign countries with higher levels of press freedom should exhibit, all other things being equal, higher levels of CSR performance.

I perform a study at the firm level using a sample that contains the firms present in the major stockmarket indexes. I show that the press freedom in the foreign markets has a disciplinary effect on firms as long as the press freedom in the foreign markets is higher than in the home market. Indeed, when a firm enters foreign markets whose press freedom is lower or equal to the home market, the CSR performance that managers consider adapted to the home market should also be sufficient for the foreign markets' requirements. However, entering markets with more press freedom than the home country should lead a firm to become more socially and environmentally responsible. An identification strategy that relies on the press freedom gap between the international markets and the home country provides support for this hypothesis. According to the data, a Chinese firm that sells in the United States should have, on average, an environmental score, whose values are between 0 and 100, higher by 27 than if it was selling exclusively to China. The score in the society dimension of CSR, whose values are also between 0 and 100, should also be higher by 27. Moreover, the concern about the health, the safety and the training of its employees, as well as the concern for the respect of human rights in its supply chain, would also increase.

The identification strategy must address two potential sources of bias that might contaminate the results. First, there could be reverse causality due to the firms' market entry decisions. Indeed, firms with higher levels of CSR might prefer foreign markets with high levels of press freedom, where they have a competitive advantage, while poor performers might avoid these markets. While the press freedom gap between the foreign markets and the home country is the explanatory variable, I introduce the press freedom in the foreign markets to control for a potential reverse causality problem. The presence of reverse causality should result in positive and significant estimate for this variable's coefficient. Since the estimate is never significantly different from zero, reverse causality is unlikely to be a source of bias. Second, there could be confounding factors that contaminate the results: some country-level time-invariant characteristics could have an impact both on the CSR performance displayed by this country's firms and their market entry choices, which determines the value of the explanatory variable. The same applies to industry-level time-invariant characteristics. To address these issues, I introduce country and industry-fixed effects.

The results I obtain have two implications. First, internationalization towards countries with higher levels of press freedom than the home country has a disciplinary effect on firms, thereby increasing their CSR performance. Second, the results suggest that in markets where the level of press freedom is higher firms encounter competitors that are, on average, more socially and environmentally responsible than in markets with less press freedom.

THEORY AND HYPOTHESES

Firms decide to implement socially responsible measures for a variety of reasons. While some authors address the question using a cost-benefit analysis approach (Baron, 2003; Fernández-Kranz & Santaló, 2010), cultural factors could also affect the management's decision to implement socially responsible measures, independently of these measures' effect on profits. Indeed, decision-making processes within the firm depend, at least to some extent, on the managers' and workers' cultural background (Bollinger & Hofstede, 1987; d'Iribarne, 2003). On the other hand, a survey of 643 middle managers showed that propensity to engage in socially responsible behavior is positively related with self-transcendence values (universalism and benevolence), with positive affect and with moral and reputation-based reasoning styles (Crilly, Schneider, & Zollo, 2008). Finally, personal values help a firm's decision makers decide the relevance of a signal from the firm's environment and which issues deserve their attention, while they also determine the top management receptiveness to changes in the organization, products or processes (Bansal & Roth, 2000).

From a cost-benefit analysis perspective, the motivations of profit-maximizing firms to be socially responsible are summarized by Fernández-Kranz and Santaló (2010: 456):

> "From the consumer side, CSR practices may increase profits because they directly increase consumer willingness to pay for the firm product [...]; prevent consumer boycotts [...]; or they credibly signal to the consumer the unobserved high quality of the firm products [...]. Good CSR standards can help to attract more or cheaper sources of capital from altruistic investors or investors that consider that socially responsible actions

> signal the high quality of the management team [...]. Responsible firms may also benefit from improved employee morale and retention [...]. Finally, businesses could use CSR as a means to preempt more costly regulatory actions [...], to avoid taxes [...] and even to influence regulations in such a way that their competitors face higher costs than the firms practicing CSR"

Therefore, high levels of CSR performance can be a good strategy to attract ethically-oriented consumers and/or charge a higher price for the products. Indeed, exhibiting high levels of CSR performance can work as a signal of a product's quality to affluent consumers who believe that a reliable and honest firm tends to produce better goods and services (Siegel & Vitaliano, 2007). In such cases, CSR is an instrument to advertise the quality of the products and sustain brand loyalty. However, the literature suggests that most consumers buy a greener product only if its price is not superior, it comes from a brand they know and trust, it can be found in stores they already frequent, it does not imply a major change in habits to use, and has at least the same level of quality as the less-green alternative (Vogel, 2006). Moreover, even if ethical consumerism can sometimes involve a large market share, such as the free-range egg sales in the UK, niche marketing remains the norm (Smith, 2008). In any case, a high level of CSR performance can attract consumers who are concerned with environmental and social issues. Indeed, CSR seems to be a source of competitive advantage for firms with products that embody ethical and social values, such as The Body Shop, Ben&Jerry's or Whole Foods (Castaldo, Perrini, Misani, & Tencati, 2009).

Furthermore, consumers might stop buying a firm's products for the firm's perceived failings in the field of CSR. According to Castaldo et al. (2009), the main motivation for

companies to engage in CSR activities is avoiding social penalties. Thus, exhibiting a high level of CSR is expected to reduce the likelihood of consumer awareness campaigns and boycotts. Indeed, some years ago, before the 2010 Gulf of Mexico oil spill, British Petroleum had adopted a green position, while Exxon Mobil had decided to oppose the Kyoto Protocol. Even if both companies have received activist pressure, the pressure on Exxon Mobil seemed to be stronger (Baron, 2003). However, by choosing a responsive position the firm's management might also invite private politics and increase the likelihood of being a target of activists. Indeed, activists who want to draw attention to an issue might decide to target the most visible firms, regardless of the actual magnitude of the firm's impact on the problem (Porter & Kramer, 2006). Despite the fact that a firm's positioning as socially conscious might invite private politics, low CSR performances increase the likelihood of activist pressure, as suggested by the Exxon Mobil example and the attacks on Monsanto (Robin, 2008). Therefore, CSR is likely to protect firms from activists' attacks, especially in environments where the press is free.

To sum up, high levels of CSR performance should appeal to ethically-oriented customers and protect the firm from consumer awareness campaigns and boycotts. The potential benefits of maintaining a good reputation and the risk of exposure of a firm for socially irresponsible behavior is larger in countries where the firms' behavior can be exposed by the media and freely discussed by consumers, activists, and civil society. Therefore, the incentive for managers to choose high levels of CSR performance should be higher when a firm sells in markets with more press freedom.

A previous study showed that there is a positive correlation between a country's press freedom and the responsiveness of this country's private sector to environmental concerns (Dick & Zingales, 2002). However, this result does not prove that there is a causal relationship from the press freedom in the market to the CSR performance. First, there could be confounding factors at the country level that explain the positive correlation between the press freedom and the environmental performance, without the former being the cause of the latter. For example, a higher prevalence of postmodern values in a country could have contributed historically to high levels of press freedom and, at the same time, to a greater concern of the country's private sector for environmental issues. Second, even if there was a causal link from the press freedom in a country to its private sector's CSR performance, it could be completely unrelated to the home market. For example, in countries where the press can expose a firm's deeds more easily, managers and board members might have an incentive to choose high levels of CSR performance. Indeed, most managers are likely to be concerned about their reputation in the eyes of shareholders, future employers, their communities and their families (Dyck & Zingales, 2002). In order to assess the impact of the press freedom in the foreign markets on the firms' CSR performance, a study at the firm-level is required.

The disciplinary effect of the press freedom in the foreign markets should only be observable for the firms that have entered foreign markets with higher levels of press freedom than the home country. If a firm that sells exclusively in the home market enters a foreign market with less press freedom than the home market, the CSR performance that the managers consider adequate for the home market should be sufficient for the new market. However, if there is more press freedom in the new market than in the home country, the firm might have an incentive to

increase its CSR performance in order to meet the new market's requirements. As a result, the disciplinary effect of the press freedom in the foreign markets should only be observed if there is more press freedom in the foreign markets than in the home market.

Therefore, firms selling in foreign markets with more press freedom than in the home country should exhibit a higher CSR performance, in order to attract foreign consumers and decrease the likelihood of consumer awareness campaigns or boycotts.

Hypothesis 1. As long as there is more press freedom in the foreign markets than in the home country, the press freedom in the foreign markets has a disciplinary effect on the firm's CSR performance.

Finally, Brown, Vetterlein and Roemer-Mahler (2010) distinguish two types of actors within a firm: internal actors (company management and the operational staff that work at that firm) and external actors (NGOs, investors and public actors). Thus, consumers, activists, the media and society at large, excluding those who work for the firm, are external actors. If firms respond to the press freedom in the foreign markets with the intention of attracting ethically concerned consumers and avoiding consumer awareness campaigns and boycotts, the disciplinary effect of the press freedom in the markets should be stronger in the CSR dimensions that affect external actors than on those that affect internal actors.

Hypothesis 2. The disciplinary effect of the press freedom in a firm's foreign markets on the CSR performance exhibited by the firm is stronger on the dimensions of CSR

that affect external actors (the environment and society at large) than on those that affect internal actors such as the workforce.

Since CSR is a multidimensional concept, it is possible to evaluate the CSR performance of firms on several dimensions and, therefore, to test this hypothesis.

DATA AND METHODS

Sample

The sample includes the 4012 firms covered by the Asset4 database (Thomson-Reuters) on December 6, 2011. This database provides the firms' CSR performances on environmental and social issues. According to Thomson-Reuters, the sample covers firms that are constituents of major indices, including: MSCI World, FTSE 100, Russell 1000, S&P 500, ASX300, NASDAQ100 and STOXX 600. [1]

Variables

I consider a total of eight dependent variables representing different dimensions and subdimensions of CSR performance. The explanatory variable accounts for the level of press freedom of a firm's foreign markets (*Foreign Markets Press Freedom*). Since the identification

[1] On November 8, 2011, the detailed list of the indices covered by Asset 4 Universe was: S&P/TSX COMPOSITE INDEX (Canada), SMI INDEX (Switzerland), DAX INDEX (Germany), CAC 40 (France), FTSE 100 INDEX (United Kingdom), FTSE 250 INDEX (United Kingdom), S&P 500 INDEX (USA), NASDAQ 100 INDEX (USA), DJ STOXX INDEX (Europe), Russell 1000 INDEX (USA), S&P ASX 300 INDEX (Australia) and MSCI World Index.

strategy relies on the press freedom gap between the foreign markets and the home market, it requires a variable that accounts for the press freedom in the home country (*Home Country Press Freedom*). The country of domiciliation assigned by the Worldscope database (Thomson-Reuters) is used as a proxy for the home country. This choice is justified because the country of domiciliation is, in most cases, where the firm is incorporated, where the head offices are located and were it has been historically located.[2] Moreover, the home country is often the first market, or at least one of the firm's largest markets.[3]

Firm size, profitability and leverage are control variables that account for firm-level characteristics that might affect the CSR performance. There are two indicators of size: market capitalization and net sales. The international markets' average environmental regulation stringency is introduced as a control variable when the indicator of environmental performance is the dependent variable, while the international markets' average social safety net protection is a control variable for the dimensions of CSR related to social issues.

[2] The country of domiciliation is a proxy for the home country. Of the 1286 firms for which there is a full set of data in terms of all the variables, including both indicators of size, I kept the 25% of the sample with the largest firms. Of these firms, only 3% were founded in a totally different country than the country of domiciliation. On the other hand, 97% of the firms in the subsample had the headquarters exclusively located in the country of domiciliation Therefore, it is reasonable to assume that most firms in the sample for which there is a full set of data were founded and have their headquarters in the country of domiciliation, or are the result of mergers in which at least one of the firms is from the country of domiciliation.

[3] Of the 1286 firms for which there is a full set of data in terms of all the variables, the first market and the country of domiciliation are the same in 94% of the cases, while for 2% of the firms the country of domiciliation is mentioned as one of the firm's markets, but not the first one. Therefore, more than 96% of the subsample for which there is a full set of data sells in the country of domiciliation.

Dependent variables. The indicators of CSR performance are obtained from the Asset4 database (Thomson-Reuters). This database provides a measure of global environmental performance (*Environmental Score*). There are also seven subscores in the social dimension (community, human rights, product responsibility, diversity&opportunity, employment quality, health&safety and training&development). First, I calculate the 2009-2010 average of each subscore[4]. In order to test hypothesis 2, I use these seven subscores to construct two indicators of CSR performance in the social dimension. First, the average of the community, human rights and product responsibility subscores is a proxy for the performance on the society dimension (*Society*), which concerns external actors. Second, I average the four subscores related to the workforce, that is, diversity&opportunity, employment quality, health&safety and training&development to obtain a proxy for the CSR performance in the workforce dimension (*Workforce*), which concerns exclusively internal actors. The value of all the scores and subscores of CSR performance is comprised between 0 and 100. Finally, the Asset4 database also provides *Human Rights Breach Contractor*, a dummy variable which is equal to unity if the managers report to be ready to end a partnership with a supplier who does not respect human rights and zero otherwise. This variable is a proxy for the reported concern of the firm's managers for the CSR performance in the supply chain dimensions. Thus, I consider four dimensions of CSR performance (environment, society, workforce, supply chain). Support for hypothesis 2 requires that the disciplinary effect in the workforce dimension is significantly smaller than in the other three dimensions, or even undetectable. If the disciplinary effect in the workforce dimension is not significantly different from 0, the four Asset4 subscores related to the workforce (*Diversity&Opportunity*, *Employment Quality*, *Health&Safety* and

[4] The 2009-2010 average increases the sample size by around 12% with respect to the 2010 average. Thus, the 2009-2010 average allows the exploitation of a higher amount of information on firms.

Training&Development) can be used as dependent variables to confirm the absence of a disciplinary effect in the workforce dimension.

Foreign Markets Press Freedom. The indicator of the level of press freedom in the foreign markets is a weighted average of level of press freedom in the markets where a firm sells, for the 2002-2010 period, excluding the home country. First, I collect the data available on each firm's ten most important markets in terms of sales for the 2002-2010 period, which is available in the Worldscope database (Thomson-Reuters). Second, I attribute to each market the level of press freedom of the corresponding country using the press freedom index, which is available since 2002, on the Reporters Without Borders website (Reporters Without Borders, 2011).[5] In order to facilitate the interpretation of the regression coefficients, the Press Freedom Index is recoded so that the level of press freedom is between 0 and 10 and increases with increasing levels of press freedom.[6] Third, I calculate a weighted average of the level of press freedom of all the markets, excluding the country of nationality, for every year between 2002 and 2010. The weight for each market is the fraction of sales in that market, with respect to the total international sales. Finally, I average these values over the entire 2002-2010 period to obtain the value of *Foreign Markets Press Freedom*.

[5] When one of the firm's markets is constituted by more than one country ("Africa/Australia", "Pakistan & Sri Lanka", "All other countries", etc.) the data on that market is discarded because it is not possible to attribute a level of press freedom to this market. However, when all the countries in the area have a high level of press freedom ("European Union Countries", "USA/Canada", "Benelux", etc.). I attribute to that geographic area the 2002-2010 average level of press freedom of all the countries that belong to the following United Nations geographic areas: North America, Australia&New Zealand, Northern Europe and Western Europe (United Nations Statistics Division, 2012). All the countries in these geographic areas display high levels of press freedom. The objective is to remove from the database as few observations as possible and minimize the loss of information.

[6] The Press Freedom Index can adopt values between 0 and 115.5, and it increases with decreasing levels of press freedom. The recoding assumes a linear relationship between the original index and the new indicator.

Home Country Press Freedom. The level of press freedom in the home country is required to identify the disciplinary effect of selling to foreign markets with higher levels of press freedom than the home market. Each country is attributed the median of the annual press freedom index in the home country for the 2002-2010 period.[7] The data are available at the Reporters Without Borders website (Reporters Without Borders, 2011).

Firm Size. Larger firms tend to face significant stakeholder pressure and, as a result, they exhibit on average higher levels of corporate donations (Adams & Hardwick, 1998; Brammer, Pavelin & Porter, 2009) and, more generally, higher levels of CSR performance (Ioannou & Serafeim, 2012; Jackson and Apostolakou, 2010). To control for firm size, I introduce the firm's market capitalization at the end of 2010, in trillion USD, in the regressions. The market capitalization data is retrieved from the Datastream database (Thomson-Reuters). I check the robustness of the results to replacing the market capitalization by the net sales. The firm's net sales at the end of 2010, in billion USD, are available in the Worldscope database (Thomson-Reuters). In previous studies where the dependent variable was an indicator of CSR, firm size has been introduced as a regressor either in levels or in logarithms (Jackson and Apostolakou, 2010; Brammer et al., 2009; Ioannou and Serafeim, 2012; Waddock and Graves, 1997). I also check the robustness of the results to using the natural logarithm of the market capitalization and the sales.

[7] The press freedom index tends to change little from year to year. However, some unusual event that happens on a given year can result in an unusually high or low press freedom index on that year. The median minimizes the impact of extreme values of the index on the press freedom level that characterizes the 2002-2010 period.

Profitability. While profitable firms have more resources for CSR, firms with poor financial performance are more likely to restrict managerial discretion over CSR expenditures (Adams & Hardwick, 1998). Some studies that use firm profitability as an explanatory or a control variable when the dependent variable is an indicator of CSR performance find a positive relationship between the two (Adams & Hardwick, 1998; Ioannou & Serafeim, 2012), while others do not find any significant relationship between them (Brammer et al., 2009; Jackson & Apostolakou, 2010). More generally, a meta-analysis of 251 studies published between 1972 and 2007 shows that, on average, the correlation between CSR and corporate financial performance is positive but weak (Margolis et al., 2009). Therefore, the return on assets in 2010 is introduced to control for firm profitability. The data is retrieved from Worldscope (Thomson-Reuters).

Leverage. High levels of firm leverage can constitute a burden upon future returns (Brammer and Pavelin, 2006), while imposing on firms high debt contracting costs, which has a negative impact on the firms' resources available for CSR (Adams and Hardwick, 1998). The value of this control variable is the firm's debt as a percentage of total assets in 2010, available in the Worldscope database (Thomson-Reuters).

Foreign Markets Environmental Regulation. Since there is a positive relationship between civil liberties and post-materialist values (Inglehart, 2000), it is likely that in countries with higher levels of press freedom the public is more concerned about environmental and social issues. Therefore, in countries where the press is free, politicians face a public that pays more attention to these issues and, simultaneously, they are more concerned about the potential impact of media exposure on their own reputation (Dyck & Zingales, 2002). Therefore, higher levels of

press freedom should increase the incentives for politicians to introduce environmentally and socially friendly regulations. As a result, a firm that enters a foreign market with a higher level of press freedom than the home country might be faced to more stringent environmental and social regulations, thereby increasing its environmental and social performance. I introduce the foreign markets' average of the World Economic Forum (WEF) indicator of environmental regulation stringency. This control variable is calculated using the procedure designed for *Foreign Markets Press Freedom*, but with the WEF indicator of environmental regulation stringency instead of the press freedom level.[8]

Foreign Markets Social Regulation. When the dependent variable measures social performance, the proxy for the social regulation stringency is the foreign markets' average of the WEF indicator of social safety net protection. It is calculated following the same procedure as for *Foreign Markets Environmental Protection*.[9]

The identification strategy

When a firm enters a foreign market with lower levels of press freedom than the home country, there is no reason for the managers to modify the level of CSR performance displayed.

[8] In this case, I could not consider that there were geographic areas with a maximum environmental stringency. Moreover, since the WEF indicator of environmental regulation stringency was only available since 2004, the 2004 data is used for the 2002-2003 foreign sales data. Before calculating the foreign markets' average, the indicator, whose values are between 1 (very lax environmental regulation) and 7 (among the worlds' more stringent environmental regulation), is recoded so that its value is between 0 and 10.

[9] Since the WEF indicator of social safety net protection was only available for 2009 and 2010, the 2009 data is used for the 2002-2008 foreign sales data. Before calculating the foreign markets' average, the indicator, whose values are between 1 (no formal social safety net provide protection from economic insecurity in the event of job loss or disability) and 7 (full protection), is recoded so that its value is between 0 and 10.

On one hand, an increase in the level of CSR performance is unnecessary because the media pressure is not stronger in the foreign market than in the home country. On the other hand, there is no reason to lower a level of CSR performance that managers consider adapted to the home market requirements. However, when the press is freer in the foreign markets than in the home country, we should observe a disciplinary effect of the press freedom in the foreign markets on the firm's CSR performance. Therefore, the press freedom gap between the foreign markets and the home market should only have an impact on the CSR performance as long as this gap is positive. As a result, I model the relationship between the press freedom in the foreign markets and the indicator of CSR performance as follows:

$$CSR_{ics} = \alpha + \gamma \, max[0 \, , \, ForeignMarketsPressFreedom_{ics} - HomeCountryPressFreedom_{ics}] + \delta \, X_{ics} + \varepsilon_{ics} \quad (1)$$

where *i* represents the firm, *c* its home country, *s* is the industry sector and *X* is a column vector that contains all the controls and δ a row vector with the coefficients. If hypothesis 1 is verified, γ should be positive and significant.

However, the model I test is:

$$\begin{aligned} CSR_{ics} = {} & \alpha + \beta \; Foreign\,Markets\,Press\,Freedom_{ics} \\ & + \sigma \; [Foreign\,Markets\,Press\,Freedom_{ics} \times Positive\,Gap_{ics}] \\ & + \varphi \; [Home\,Country\,Press\,Freedom_{ics} \times Positive\,Gap_{ics}] \\ & + \delta \; X_{ics} + \theta_{c} + \mu_{s} + \varepsilon_{ics} \end{aligned} \quad (2)$$

where *Positive Gap*$_{ics}$ = 1 if *Foreign Markets Press Freedom*$_{ics}$ > *Home Country Press Freedom*$_{ics}$ and 0 otherwise. θ_c and μ_s are country-specific and industry-specific fixed effects.

The first difference between models (1) and (2) is that I introduce the variable *Foreign Markets* in the RHS. While I expect that entering markets with more press freedom than the home country affects positively the level of CSR performance, market entry decisions could also be determined by the firm's CSR performance. Managers of firms with high levels of CSR performance might have an incentive to choose foreign markets with high levels of press freedom, where being socially and environmentally responsible can confer a competitive advantage to the firm. On the other hand, managers in firms with low levels of CSR performance might avoid markets with high levels of press freedom, where the risk of public exposure is higher. Therefore, reverse causality could contaminate the OLS coefficients. Since my aim is to identify the causal impact of the press freedom in the foreign markets on the firm's CSR performance, this problem must be addressed. In the event of reverse causality, *Foreign Markets Press Freedom* and the CSR performance indicator would be positively correlated. In such a case, we would expect β to be upwards biased (Acemoglu, Johnson, & Robinson, 2001). A test on β that is not able to reject the null hypothesis $\beta = 0$ indicates that the presence of reverse causality is unlikely.

Moreover, if we ignore the country-specific and the industry-specific fixed effects in (2), as long as β is not significantly different from 0 and $\sigma = -\varphi = \gamma$, models (1) and (2) are equivalent. Therefore, testing $\beta = 0$ and $\sigma = -\varphi$ allows ascertaining that the disciplinary effect is due to the press freedom gap between the foreign markets and the home country.

Some country-specific time-invariant characteristics could affect simultaneously the CSR performance and market entry decisions, which determines *Foreign Markets Press Freedom*. For example, strong post-materialist values in a country could have a positive impact on the CSR performance of the country's firms and, at the same time, render potential foreign markets with low levels of press freedom less attractive. To address this problem, I introduce country-fixed effects (θ_c), by attributing the country of domiciliation that appears in the Worldscope database (Thomson Reuters) to each firm. It should be noted that these country fixed effects also absorb the impact of the press freedom in the home country on the firm's CSR performance.

Similarly, firms in a given industry might have common characteristics that affect simultaneously their CSR performance and their market entry decisions. For example, let's consider firms in countries with low levels of press freedom that belong to industries that are characterized by high levels of environmental performance because the industry simply does not pollute. These firms are more likely to exhibit higher levels of environmental performance and, simultaneously, they might also be more likely to enter foreign markets with high levels of press freedom, because there is no risk of being exposed for environmental issues. I control for this potential source of bias by introducing industry sector-fixed effects (μ_s). To construct these fixed effects, each firm is attributed the industry sector that appears in the Worldscope database (Thomson-Reuters).[10]

[10] The 25 industry sectors are: Aerospace; Apparel; Automotive; Beverages; Chemicals; Construction; Diversified; Drugs, Cosmetics & Health Care; Electrical; Electronics; Financial; Food; Machinery & Equipment; Metal Producers; Metal Product Manufacturers; Oil, Gas, Coal & Related Services; Paper; Printing & Publishing; Recreation; Retailers; Textiles; Tobacco; Transportation; Utilities; Miscellaneous (Woldscope database, Thomson-Reuters)

It should be noted that one of the dimensions of CSR considered in this study is *Human Rights Breach Contractor*, which is a dummy variable. Therefore, if *Human Rights Breach Contractor* is the dependent variable, I estimate the probit version of model (2).[11] All the regression models are run using STATA (StataCorp LP).

RESULTS

Descriptive statistics

The descriptive statistics of the variables are presented in Table 1. There are 3965 firms out of 4012 for which there is data available on the country of nationality and the industry sector. Of these, 83% are domiciled in OECD countries, while about one in four firms is domiciled in the United States of America. When only the 1286 firms for which there is a full set of data in terms of all the variables are considered, 87% of the firms are domiciled in the OECD countries, while the proportion of American firms is also approximately one in four. When only the firms for which there is a full set of data are considered, the variables' mean values do not change significantly.

11 $\Pr(Human\ Rights\ Breach_{ics} = 1 | X) = \Phi(\alpha + \beta\ Foreign\ Markets_{ics} + \sigma\ [Foreign\ Markets_{ics} \times Positive\ Gap_{ics}] + \varphi\ [Home\ Country_{ics} \times Positive\ Gap_{ics}] + \delta\ X_{ics} + \theta_c + \mu_s)$

where X contains all the regressors

Table 1. Descriptive statistics of the variables

VARIABLES	Number of Observations	Mean	Standard Deviation	Minimum value	Maximum value
Dependent variables (Scores)					
Environment	3713	48.79	31.45	9.14	94.53
Society	3713	48.42	24.19	9.47	96.59
Workforce	3713	49.12	24.62	5.75	95.51
Human Rights Breach	3713	0.09	0.29	0	1
Diversity&Opportunity	3713	48.42	30.86	4.85	96.22
Employment Quality	3713	49.88	28.96	2.71	97.70
Health&Safety	3713	47.63	29.69	3.19	97.95
Training&Development	3713	50.53	30.81	5.50	95.03
Explanatory variables					
Foreign Markets Press Freedom	1695	8.64	1.88	1.60	10.00
Home Country Press Freedom	3944	9.02	1.36	2.29	9.96
Positive Gap	1681	0.43	0.49	0.00	1.00
Firm Size	3638	15.13	1.43	6.22	19.83
Profitability	3653	5.02	11.02	-178.35	209.96
Leverage	3680	19.41	23.13	0.00	321.29
Foreign Markets Environmental Regulation	1672	7.15	1.41	2.48	10
Foreign Markets Social Regulation	1421	6.69	1.50	1.76	10

The effect of the press freedom in the foreign markets and the firm size on CSR performance

Table 2 reports the results for the four dimensions of CSR considered (environment, society, workforce and supply chain) when the indicator of size is *Market Capitalization*.

Columns (1) to (3) report OLS results for the three continuous CSR performance indicators, while column (4) reports probit marginal effects, since *Human Rights Breach* is a dummy variable. As discussed previously, country and industry-specific fixed effects have been introduced in all the regressions. The results are robust to replacing the market capitalization by the net sales, as well as when natural logarithm of the indicator of size is used instead of the level.

Two necessary conditions are required for hypothesis 1 to be verified. First, the coefficient for *Foreign Markets Press Freedom* must not be significantly different from 0, which also means that, even if it is not possible to rule out entirely the existence of an attenuation bias or an omitted variable bias, the presence of reverse causality, due to the fact that firms with high (low) levels of CSR performance tend to enter (avoid) foreign markets with high levels of press freedom, is unlikely. Second, the coefficients of the first and second interaction terms should be positive and negative, respectively, and not significantly different in absolute value. The Wald test failed to reject the null hypothesis that these coefficients are equal in absolute value in all four regressions (the Wald test's p-values were between 0.20 and 0.99). Therefore, the results in Table 2 provide support for hypothesis 1: as long as the level of press freedom in the foreign markets is higher than in the home country, there is a disciplinary effect of the press freedom in the foreign markets on the firm's CSR performance. However, the effect is not detected in the workforce dimension. The firm size coefficient estimates are positive and strongly significant. This could be explained by the fact that large firms are more visible or that they might have more resources to dedicate to CSR.

Table 2. The disciplinary effect of the foreign markets' press freedom on the four dimensions of CSR performance considered

VARIABLES	(1) Environment	(2) Society	(3) Workforce	(4) Human Rights Breach Contractor
Foreign Markets Press Freedom	-0.53	0.14	0.56	0.01
	(0.89)	(0.74)	(0.55)	(0.01)
Foreign Markets Press Freedom × Positive Gap	4.02**	3.82***	1.76	0.18**
	(1.76)	(1.16)	(1.78)	(0.085)
Home Country Press Freedom × Positive Gap	-4.47**	-3.88***	-2.07	-0.18**
	(1.94)	(1.29)	(1.83)	(0.089)
Firm Size	368.00***	314.00***	339.00***	2.53***
	(45.3)	(55.3)	(46.0)	(0.62)
Profitability	-0.18***	-0.05	-0.07	-0.00
	(0.053)	(0.04)	(0.05)	(0.00)
Leverage	0.09	-0.00	0.03	-0.00
	(0.06)	(0.05)	(0.04)	(0.00)
Foreign Markets Environmental Regulation	2.84***			
	(0.92)			
Foreign Markets Social Regulation		0.51	1.18**	-0.01
		(0.68)	(0.52)	(0.01)
Constant	14.50**	32.00***	26.70***	
	(5.97)	(5.47)	(5.11)	
Observations	1,418	1,305	1,305	1,138
R-squared	0.359	0.324	0.357	
Robustness checks : the disciplinary effect after excluding the following control variables:				
Profitability	3.88**	3.78***	1.70	0.18**
	(1.76)	(1.16)	(1.78)	(0.08)
Foreign Markets Environmental/Social Regulation	4.17**	4.11***	2.43	0.16
	(1.81)	(1.30)	(1.78)	(0.10)
Profitability, Foreign Markets Environmental/Social Regulation	4.03**	4.08***	2.38	0.16
	(1.82)	(1.30)	(1.77)	(0.10)

Notes: The unit of observation is the firm. *Positive Gap* is equal to 1 if the press is freer in the foreign markets than in the home country and 0 otherwise. Probit marginal effects are reported in model (4) Country-fixed effects and industry-fixed effects are included in all the models. The robusntess check section reports the estimates of the *Foreign Markets' Press Freedom × Positive Gap* coefficient when the variables mentioned are removed from the regression models. Below each coefficient robust standard errors, clustered by country of nationality, are reported in brackets.

† $p < .10$ * $p < .05$ ** $p < .01$

According to the estimates in Table 2, when the average level of press freedom in the foreign markets, whose values are between 0 and 10, increases by one unit, the performances in the environmental and the society scores, whose values are between 0 and 100, are higher by approximately 4. The probability that the firm is concerned by the respect of human rights in its supply chain also increases by approximately 0.1. Therefore, according to the data, if a Chinese firm was selling in the United States instead of selling exclusively in China, we would expect this firm's environmental and society scores to be higher by 27. The firm would also exhibit considerably more concern for the respect of human rights in the supply chain.

The introduction of profitability as a control variable could potentially bias all the regression coefficients. Indeed, CSR is endogenous with respect to corporate financial performance (Flammer, 2012). First, there are unobservable firms characteristics that might result in a higher likelihood to implement long-term CSR strategies and, simultaneously, in a higher financial performance. For example, well-managed firms are also better at managing CSR (Vogel, 2006). Besides managerial talent, Orlitzky (2001) mentions social capital, organizational learning, and organizational knowledge as likely predictors of both high social and financial performance. Moreover, past CSR and financial performance can be correlated with present values of CSR and financial performance. Firms that were more profitable in the past might be more likely to have dedicated resources to CSR and be more profitable in the present. High levels of CSR performance in the past could also have contributed positively to high CSR levels in the present and, simultaneously, have contributed to a higher present financial performance. Indeed, Waddock and Graves (1997) find empirically that corporate social performance is positively correlated with prior and future financial performance. To rule out the possibility that the introduction of *Profitability* as a control variable generates an endogeneity

bias in the coefficient that captures the disciplinary effect, I run the same regressions without this control variable. The estimates of this coefficient after removing *Profitability* from the regression models are reported at the bottom of Table 2. The magnitude and the statistical significance of the disciplinary effect are similar regardless of whether *Profitability* is included in the regression models or not. Therefore, it is unlikely that the presence of *Profitability* in the regression model contaminates the estimate of the disciplinary effect.

Moreover, the regulation control variables could also introduce a bias in the regression estimates. Columns (1) and (3) show a positive relationship between the CSR performance and the environmental and social regulation stringency. While this suggests that environmental and social regulation in the foreign markets may have a disciplinary effect on firms, it is also possible that firms with high (low) levels of environmental and social performance tend to enter (avoid) foreign markets with stringent environmental and social regulations, respectively. If this was the case, the coefficient of this potentially endogenous regressor would be positive and significant (Acemoglu et al., 2001). Because the coefficients in columns (1) and (3) are positive and significant, the regulation control variables could be introducing a bias in the coefficient estimates. Therefore, I evaluate the effect of excluding regulation control variables from the regression models. The magnitude of the coefficient that captures disciplinary effect on the performance in the environmental, society and supply chain dimensions changes little when these control variables are excluded from the regression models, while the coefficient remains statistically significant, except in the supply chain dimension. The same applies when both *Profitability* and the regulation control variables are excluded from the regression models.

Table 3. The disciplinary effect in the workforce dimension

VARIABLES	(1) Environment	(2) Society	(3) Workforce	(4) Human Rights Breach Contractor
Foreign Markets Press Freedom	0.51	0.82	0.42	0.48
	(0.70)	(0.50)	(0.78)	(0.67)
Foreign Markets Press Freedom × Positive Gap	-1.97	-0.074	5.35**	3.72***
	(3.41)	(2.36)	(2.20)	(1.10)
Home Country Press Freedom × Positive Gap	1.75	-0.08	-5.89**	-4.12***
	(3.42)	(2.49)	(2.24)	(1.21)
Firm Size	414***	225***	329***	387***
	(41.7)	(66.8)	(49.0)	(45.8)
Profitability	-0.09	-0.00	-0.08	-0.11
	(0.06)	(0.08)	(0.10)	(0.07)
Leverage	0.05	0.05	0.06	-0.01
	(0.06)	(0.05)	(0.04)	(0.05)
Foreign Markets Social Regulation	1.82***	1.01	0.64	1.23*
	(0.62)	(0.61)	(0.69)	(0.73)
Constant	26.20***	17.80***	36.30***	26.60***
	(6.07)	(5.27)	(7.21)	(5.79)
Observations	1,305	1,305	1,305	1,305
R-squared	0.337	0.285	0.310	0.319
Robustness checks : the disciplinary effect after excluding the following control variables:				
Profitability	-2.04	-0.08	5.29**	3.64***
	(3.39)	(2.38)	(2.19)	(1.09)
Foreign Markets Social Regulation	-0.93	0.50	5.72**	4.43***
	(3.21)	(2.43)	(2.17)	(1.23)
Profitability, Foreign Markets Social Regulation	-0.99	0.50	5.66**	4.35***
	(3.19)	(2.45)	(2.15)	(1.24)

Notes: The unit of observation is the firm. *Positive Gap* is equal to 1 if the press is freer in the foreign markets than in the home country and 0 otherwise. Country-fixed effects and industry-fixed effects are included in all the models. The robusntess check section reports the estimates of the *Foreign Markets' Press Freedom* × *Positive Gap* coefficient when the variables mentioned are removed from the regression models. Below each coefficient robust standard errors, clustered by country of nationality, are reported in brackets.

† $p < .10$ * $p < .05$ ** $p < .01$

In order to confirm that the disciplinary effect is absent in the workforce dimension, I apply the regression model of Table 2's column (3) to the four Asset4 subscores used in the calculation of *Workforce*. The estimates reported in Table 3 show that there is actually a disciplinary effect of the press freedom in the workforce dimension, but only in two subdimensions, namely health&safety and training&development. Therefore, these results invalidate Hypothesis 2. The results are robust to excluding either *Profitability*, or *Foreign Markets Social Regulation*, or both, from the regression models.

According to the estimates in Table 3, when the average level of press freedom in the foreign markets, whose values are between 0 and 10, increases by one unit, the health&safety and the training&develompent subscores, whose values are between 0 and 100, increase by approximately 5 and 4, respectively. Therefore, according to the data, if a Chinese firm was selling in the United States instead of selling exclusively in China, we would expect this firm's health&safety and the training&develompent subscores to be higher by 34 and 27, respectively.

DISCUSSION AND CONCLUSIONS

In this article, I examine the disciplinary effect of the press freedom in the foreign markets where a firm sells on its CSR performance. The results show that a higher level of press freedom in the foreign markets than in the home country leads a firm to be, on average, more socially and environmentally responsible than if the sales were restricted to the home country. Moreover, selling in foreign markets with higher levels of press freedom than in the home

country increases the likelihood of being concerned about the respect of human rights in the supply chain.

The disciplinary effect of the press freedom in the foreign markets on the CSR performance has been conceptualized as a market effect, motivated by the managers' wish to attract ethically-oriented consumers and avoid consumer awareness campaigns and boycotts. However, there are potentially other explanations for the results obtained in this study. For example, if firms were more likely to conduct foreign direct investment (FDI) in the countries where they sell than in other foreign countries, the identification strategy I have chosen would not guarantee that the disciplinary effect I have identified operates exclusively through the foreign markets. If some parts of the production process are more likely to be located in the firm's foreign markets than in foreign countries where the firm does not sell, the disciplinary effect of the press freedom in the foreign markets could be due to the presence of production units.

FDI involves not only investment in manufacturing plants in foreign countries, but also in a dedicated distribution network or brand building (Lessard, 2003). FDI, as a firm's internationalization process, can respond to two types of demands the international environment imposes on firms: the demands for global-scale efficiency, or strategic integration requirements, and the demands for nationally responsive strategies, or national responsiveness requirements (Bartlett & Goshal, 1987; Doz & Prahalad, 1984).

Strategic integration requirements push firms to locate subsidiaries where the inputs are most productive and/or cheaper, in order to reduce the average cost of production. If the production process is located exclusively in one foreign country, the firm can also cut down production costs by exploiting economies of scale. Since the location of foreign production units responds to the availability, the productivity and the cost of the inputs, is unlikely to result in spatial concurrence of markets and production units (or subsidiaries). Therefore, in this case, it is unlikely that the disciplinary effect of the press freedom in the foreign markets is actually driven by the presence of production units in the foreign markets.

The demand for local responsiveness originates from the local characteristics of consumer tastes, distribution channels, government regulations and, more generally, from the social and political environments in the foreign markets. The location of subsidiaries is determined by the need to adapt the product, as well as the advertising and distribution strategies, to the particularities of the country where the firm sells. The internationalization strategies that respond to the particularities of foreign markets lead to spatial concurrence of markets and subsidiaries. In this case, other local characteristics besides the market could also explain the disciplinary effect of the press freedom on the CSR performance.

In case of spatial concurrence of markets and production units, three other factors than the market could explain the positive correlation between the press freedom in the home country and the firm's CSR performance. First, managers might be more concerned about their own reputation in countries where the press is free and their actions can be easily exposed in the media (Dyck & Zingales, 2002). Second, the managers' culture can determine their decisions

concerning CSR performance: higher levels of press freedom could be associated with stronger post-materialist values and a higher concern for environmental and social issues. Third, maintaining a good firm reputation might be a strategy to attract the most productive managers and workers, as well as to keep turnover rates low.

However, three facts support my hypothesis that the disciplinary effect of the press freedom in the foreign markets is not a managers' reputation effect or a managers' culture effect or a workforce productivity effect and, therefore, does not result from FDI. First, it seems that most managerial decisions concerning CSR policies are taken either in the home country and/or by home country nationals. Indeed, previous research seems to support the idea that the drivers of CSR are top executives (Swanson, 2008), who generally work in the head offices located in the home country. Second, despite globalization, boards of directors have remained heavily biased toward home country nationals (Jones, 2006), who are likely to have incorporated the cultural values of their home country. Therefore, it is unlikely that the disciplinary effect observed is due to a managers' reputation effect or a managers' culture effect in the foreign country. Third, the disciplinary effect in the workforce dimension is strong in the health&safety subdimension, which is related to accidents and workplace-induced illnesses, two types of events that are particularly visible to external actors, while it is absent in two other subdimensions related to the employees' satisfaction. The effect is also positive and significant in the training&development subdimension. However, this last result may simply reflect a firm's effort to increase its labor productivity. Therefore, it is more likely that the disciplinary effect observed in the environmental and social dimensions of CSR is motivated by the firm's concern for its public image than for the firms' reputation in the eyes of its employees.

The disciplinary effect of the press freedom in the foreign markets I have identified raises new questions: which part of the effect is due to the effort to attract ethically-concerned consumers and which part can be attributed to the risk management policy implemented to avoid reputational damage? How does the disciplinary effect observed depend on the firm's characteristics?

The positive correlation between size and CSR performance also raises a question about how firm size can affect the impact of increasing the level of CSR performance on the likelihood of being the target of activists and consumer boycotts. Even if this likelihood should decrease with increasing levels of CSR performance, by choosing a responsive position and by publicizing the firm's good deeds, managers might increase the firm's visibility and invite private politics (Baron, 2003). This could be a disincentive for some firms to increase their level of CSR performance and become one of the top firms in terms of CSR performance. However, the disincentive might be less important for large firms, which are already highly visible due to their size, than for smaller firms.

The main conclusion of this study is that internationalization towards new markets where there is more press freedom than in the home country has a disciplinary effect on firms from countries with low levels of press freedom. It should also be noted that the positive effect of the press freedom in the market on the firms' CSR performance suggests that any firm that enters markets with higher levels of press freedom faces competitors that are, on average, more socially and environmentally responsible than in the home country. Finally, the results obtained in this

study also indicate that CSR as a regulatory mechanism is more efficient in environments where the press is free.

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