The effect of corporate social responsibility on firm's foreign direct investment

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Declaration

This thesis is the result of the author's original research. It has been composed by the author and has not been previously submitted for examination which has led to the award of a degree.

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Abstract

This thesis examines the relation between corporate social responsibility and firm's foreign direct investment decisions. Three empirical chapters focusing on the different aspects of the relation are investigated.

I begin the analysis by examining whether there is a positive relation between corporate social responsibility and firm's overall foreign direct investment propensity. I find that corporate social responsibility can help firms to overcome the liability of foreignness, thus increase their likelihood of undertaking foreign direct investment. The thesis then focuses on the influence of corporate social responsibility on multinational enterprises' foreign investment location and entry mode choices. I find that multinational enterprises with high corporate social responsibility performance have higher likelihood to invest in a developed rather than a developing country, and to choose a full rather than a partial control entry method. I further find that the relation above are affected by the level of liability of foreignness multinational enterprises encountered and the institutional qualities of the host country. The final part of the empirical analysis examines whether corporate social responsibility can create value for shareholders around the foreign direct investment announcements. I find a neutral relation between corporate social responsibility and firm's three day, five day, and 11 day cumulative abnormal returns, thus in general corporate social responsibility cannot create value for shareholders in the short term. However, I identify several occasions where a positive relation exists. That is when the investment is in developing countries, or through a partial control entry method, or the investing firm encounters a high level of liability of foreignness.

This thesis contributes both to academic literature and practice by examining the various impact of corporate social responsibility on firm's foreign investment decisions. Evidence is provided on the important role corporate social responsibility plays on firm's foreign investment decision making process.

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Chapter 1 Introduction

Recently more and more attention have been paid to the impact of corporate social responsibility (CSR) in the business world. For example, a recent report published by United Nations Global Compact (2017) found that 75% of companies have actions in place to address the Sustainable Development Goals set out by the United Nations, and 70% of the companies are reporting sustainability in their annual report. In terms of academic research, a number of papers (e.g., Barnett & Salomon, 2012, Eccles, Ioannou, & Serafeim, 2014, El Ghoul, Guedhami, Kwok, & Mishra, 2011, Margolis, Elfenbein, & Walsh, 2009) have considered various aspects of the impact of CSR. The importance firms have emphasized on CSR engagements has, to a great extent, changed our view on the association between firms' decision-making process and their consideration for various stakeholders, including suppliers, customers, employees, local communities, governments and civil society.

There are various definitions of CSR in the academic literature. In this thesis I follow Wood (1991: 693) in defining CSR as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships". In other words, CSR constitutes firm's social interactions with the society through various engagements. This has encouraged business organizations to implement a series of CSR strategies and undertake a range of CSR activities.

Firm's performance in respect of CSR are rated and ranked by various independent agencies, such as Morgan Stanley Capital International (MSCI), Bloomberg, and Thomson Reuters. In this study, I follow other scholars and use Thomson Reuters ASSET4 dataset as a source of measurement for firm's CSR

performance (e.g., Aouadi & Marsat, 2017, Cheng, Ioannou, & Serafeim, 2014, Dorfleitner, Halbritter, & Nguyen, 2015, Hawn & Ioannou, 2016, Ioannou & Serafeim, 2012, Luo, Wang, Raithel, & Zheng, 2015, Qiu, Shaukat, & Tharyan, 2016, Stellner, Klein, & Zwergel, 2015).

Academic research has shown that CSR ratings influence firm performance (Barnett & Salomon, 2012, Edmans, 2011, Flammer, 2015, Surroca, Tribó, & Waddock, 2010), reputation and recruitment (Turban & Greening, 1997), consumers (Sen & Bhattacharya, 2001), access to finance (Cheng et al., 2014, Goss & Roberts, 2011), and sell-side analysts (Ioannou & Serafeim, 2015). However, whether, and if so, how CSR reputation can change the firm's perception and behavior in its foreign direct investment (FDI) process has not yet been fully investigated. Only a limited number of studies have theoretically characterized the mechanisms through which firm's various engagement in CSR may impact its FDI decisions (Goyal, 2006) or have empirically documented national CSR's role in determining FDI across a broad set of countries (Peng & Beamish, 2008). This is partly due to the lack of comparable firm level CSR data across a large number of countries (Ioannou & Serafeim, 2012) and partly due to the fact that CSR related research is mainly focused on firm performance rather than strategy management or investment decisions (Margolis et al., 2009).

The research on how CSR influence firm's internationalization strategies is important. FDI allows specialization of national economies and pooling resources across nations (Meyer, 2017), thus has great impact on world economy. Economic data and analysis show that FDI has been one of the major sources of economic growth and prosperity (Bhagwati, 2004). According to UNCTAD (2016), the worldwide FDI to GDP ratio increased from 9.6% in 1990 to 30.9% in 2007 and after a temporary setback

during the global financial crisis to 33.6% in 2015. However, the apparent onset of anti-globalization movements creates significant challenges for MNEs and their FDI activities (Meyer, 2017). In countries with strong anti-globalization and anti-corporate feelings among the citizens, corporations essentially feel that need to showcase themselves as socially responsible players and so resort to CSR activities (Al Yammahi & Guruswamy, 2017).

Although anti-globalization to some extent impedes MNE's foreign investment decisions, many countries provide incentives to attract sustainable investment projects by MNEs (Dadush, 2013) and there is evidence that MNEs with strong CSR performance transfer their good practices to foreign countries in their internationalization activities.[1] Up to 2020, the United Nation 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: iii).

In the view of a large volume of cross-border investment, growing importance of social responsibility, and the ongoing debates on the environmental and social impacts of multinational enterprises (MNEs) on a global scope, the relation between CSR and FDI is becoming increasingly important. It is argued that we are still far from being able to explain CSR heterogeneity across firms' internationalization decisions.

[1] 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).

Some scholars have called for a comprehensive theoretical and empirical investigation into the non-market mechanism in determining firm's foreign investment decisions. This motivates this study, and I explore whether and to what extent FDI decisions across firms can be explained by variations on firm level CSR performance.

I attempt to investigate the relation between firm's CSR performance and its FDI through three individual chapters in this PhD thesis. They are correlated, but focus on different areas of FDI. Combining all of them would provide us a more complete picture on whether and how CSR affect firm's FDI decisions, strategies and short-term stock market returns.

I start the investigation on whether a superior CSR performance leads to higher propensity of FDI in Chapter 2. Two opposite propositions exist in this area. On the one hand, firms with superior CSR reputation might be reluctant to undertake FDI due to the higher costs to maintain and protect such reputation in the overseas market. On the other hand, superior CSR reputation can be regarded as valuable intangible assets that help firms win recognition from the overseas market, thus increase the propensity of FDI. In my view, the advantages of CSR in reducing liability of foreignness (LOF) costs outweigh any potential risk to their CSR reputation, therefore, high CSR firms have a higher propensity to undertake FDI.

In order to verify whether CSR boost or hamper FDI, I build on an international sample of 4,764 firms from 44 countries with available CSR data during 2002-2014 and investigate whether there is a positive link between their CSR performance and FDI propensity. Firms' overall CSR performance score and the environmental, social, and governance (ESG) pillar scores are retrieved from the database directly. For the FDI propensity, I define it as a dummy variable, which equals one if a firm has

undertaken any FDI transactions in a given year, and zero otherwise. I regress FDI propensity on firm's CSR performance and other control variables using a logit model. The results support the hypotheses that CSR can overcome LOF and increase firm's likelihood of FDI. Such effects are stronger for MNEs that are expected to suffer higher LOF costs.

Now that CSR improve MNE's overall FDI propensity, it is natural that MNEs may consider their CSR performance when designing their FDI strategies. There are abundant research on the determinants of FDI location and entry mode studies (e.g., Hernández & Nieto, 2015, Kyrkilis & Koboti, 2015, Lien & Filatotchev, 2015, Ramasamy & Yeung, 2010, Treviño & Mixon Jr, 2004, Zhou, Delios, & Yang, 2002), however, very few have considered the influence of CSR. Investigating the role of CSR in FDI strategic choices is important. The United Nations Global Compact (2015: 31) reports that 84% of CEOs believe "companies should play a leading role in addressing global sustainability challenges", but only 33% feel that "business is currently making sufficient efforts". The big gap in number indicates that MNEs have great potential to improve on their CSR performance to cope with global challenges. It also implies that CSR strategy will affect the important decisions MNEs will make in the short run, including FDI.

I examine whether and if so, how CSR performance affect specific FDI strategies in Chapter 3. I focus on two FDI strategies: location and entry mode. Drawing on the eclectic framework developed by Dunning (1977), I regard CSR as one of firm's ownership advantage and examine how it affects the other two dimensions (Location and Internalization) within the framework.

For the FDI location, I classify all countries into developed countries and

developing countries. I argue that MNEs have incentive to protect their CSR advantages as well as explore and exploit their CSR advantages in developed countries, thus they have higher likelihood to choose developed rather than developing countries as investment location. For the FDI entry mode strategies, I propose that MNEs with superior CSR performance have incentives to choose either a full or a partial control entry method. On the one hand, MNEs have incentive to choose a full control entry mode to safeguard their CSR reputation abroad; on the other hand, they have incentive to choose a partial control entry mode to take full advantages of better stakeholder relationships. Building on previous literature, I further hypothesize that LOF and host country institutions will weaken the relation proposed above within the framework.

To test the hypotheses above, I construct a location sample, and use logit regression to test firm's choice between developed and developing countries; then construct an internalization sample, and use logit regression to test firm's choice between full control and partial control entry method. The firms in both samples are sourced from Chapter 2, but only firms that have both CSR data, as well as undertaking FDI, are included. Firms that have CSR data available, but have not undertaken any FDI within the sample period are excluded from analysis. Firm's overall CSR and ESG pillar of CSR are still the variable of interest, I also add other firm and country level control variables into the main regression models.

For the location choice, I find that, in general, MNEs with superior CSR performance have higher propensity to invest in developed countries rather than developing countries, and such effect becomes weaker if the LOF is high. For the internalization choice, the results suggest that firms with superior CSR performance

prefer to take a full rather than a partial control entry method, and the effect is especially strong in host countries with poor institutions.

Based on the findings from Chapter 2 and Chapter 3, I go a step further to investigate whether a superior CSR performance creates value for shareholders around FDI announcements in Chapter 4. The debate on whether CSR creates or destroys shareholder value has been going on for several decades (Margolis et al., 2009). Some studies argue that CSR has a positive effect on shareholder value (e.g., Becchetti, Ciciretti, Hasan, & Kobeissi, 2012, Edmans, 2011, Flammer, 2015, Godfrey, Merrill, & Hansen, 2009), others find a negative relation (e.g., Barnea & Rubin, 2010), and there is no consensus so far.

I test two opposite hypotheses on the relation between CSR and shareholder value under an FDI setting. From the positive point of view, CSR engagements align the interests of different stakeholders and overcomes LOF, therefore, FDIs initiated by superior CSR firms are more likely to be successful and get positive response from the stock market. From the negative view, CSR creates value for other stakeholders at the expense of shareholders, thus FDI initiated by superior CSR firms are more likely to be regarded pessimistically by the stock market.

I use event study to test the above hypotheses. Based on a sample of 20,275 FDIs announced by firms with available CSR data, I employ the classic market model to calculate firm's three days, five days, and 11 days' cumulative abnormal returns (CARs) around FDI announcement. Using the CARs as measurement of shareholder value, I do both the univariate and multivariate analysis to test the two opposite views above. Although the preliminary results from the univariate analysis suggest a negative relation between CSR and FDI abnormal returns, a neutral relation is identified when

adding other control variables into the multivariate regressions. It suggests that, overall, CSR does not affect shareholder value around FDI announcement. This is either due to a sample selection bias, or high CSR firms are more conservative in choosing FDI projects, and thus are less likely to take extra risks and enjoy high returns in FDI.

Although the base finding in Chapter 4 suggests a neutral relation between CSR and FDI abnormal returns, I find a positive relation between CSR and shareholder value when the investment is in developing rather than developed countries, or when a partial rather than a full control entry mode is chosen, or when the firm encounters a high level of LOF.

The findings in each chapter broaden our knowledge in both CSR and FDI areas. In the CSR area, all three empirical chapters provide evidence to support the resource based view of CSR (Hart, 1995). CSR is a valuable intangible asset and can be regarded as an important competitive advantage of the focal firm. Firms with CSR advantages can explore and exploit such advantages in the international market through FDI. In the FDI area, I compliment the current FDI literature (e.g., Kowalewski & Radło, 2014, Luiz & Charalambous, 2009, Luo, Luo, & Liu, 2008, Wei, Zheng, Liu, & Lu, 2014) by adding another important determinant, i.e. CSR performance. CSR not only affects firm's overall FDI propensity, but also location and entry mode strategies. Therefore, firms that intend to invest abroad should engage more in their CSR activities. Besides CSR and FDI, this thesis also investigates how LOF and host country institutions interact with CSR during the FDI process. The findings imply that barriers and challenges in international investment can be mitigated by CSR advantages. Countries that aim to attract sustainable foreign investment should make effort to improve their institutional quality.

Three chapters above form the main body of my PhD thesis. The details of each chapter will be presented one by one in the following sections. Each empirical chapter will have its own literature review which is used to generate the hypotheses tested.

Chapter 2 Overcoming the liability of foreignness in foreign direct investments: the role of corporate social responsibility

2.1 Introduction

The international business literature has long established that MNEs encounter liability of foreignness when investing and operating in foreign markets. LOF represents the additional costs that affect foreign firms in an unequal proportion to that of domestic firms in a host country (Baik, Kang, Kim, & Lee, 2013, Bell, Filatotchev, & Rasheed, 2012, Eden & Miller, 2004, Wöcke & Moodley, 2015, Zaheer, 1995). It has been argued that MNEs deal with the problems arising from LOF in various ways (Campbell, Eden, & Miller, 2012). In this chapter we suggest that one way for MNEs to reduce their LOF is through building a reputation for their CSR activities. I examine this proposition by considering the strategic internationalization decision of foreign direct investment where MNEs are exposed to various levels of LOF. Research has shown that LOF could hamper MNEs from undertaking FDI (Mezias, 2002, Wu & Salomon, 2016, Zaheer, 2002). For example, institutional, geographic and economic differences between the home and host country increase LOF and make FDI more costly or difficult than domestic investment (Berry, Guillen, & Zhou, 2010, Dikova, Sahib, & van Witteloostuijn, 2010). Therefore, LOF costs can explain why only a select number of internationalization strategies are conducted through FDI (Hennart, Roehl, & Zeng, 2002). In this chapter, I propose that LOF costs in FDI can be reduced for firms with strong CSR performance.

I hypothesize that a firm's CSR advantage facilitates the internationalization process by reducing the LOF that MNEs encounter in a foreign market. CSR can act

as a signal of the reputation or quality of the firm and provide legitimacy to the host countries' consumers, regulators and employees.[2] I explore whether and to what extent FDI decisions across MNEs can be explained by variations in firm-level CSR performance and LOF costs.[3]

My study builds on theories developed in 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. They argue that greater distance is associated with stronger LOF costs and that firms can invest in CSR as a means to overcome LOF. In Campbell et al. (2012), LOF costs affect CSR investment but the study does not consider the impact of CSR investment on FDI decisions, which I analyze here. There is also a literature that examines the link between CSR and internationalization where CSR performance is examined as a dependent variable and internationalization is used to explain CSR performance (Attig, Boubakri, El Ghoul, & Guedhami, 2016, Del Bosco & Misani, 2016). I propose that causality can run in the opposite direction and that LOF is the channel that drives the relation between CSR performance and FDI. Gardberg and Fombrun (2006) propose a theoretical framework where CSR is as an intangible asset that can overcome LOF costs facing MNEs. I develop and add to this theory by providing measures of LOF to empirically test the relation between CSR, LOF, and their impact on FDI decisions. I focus on the following key question: does a firm's CSR performance affect its FDI decisions by

[2] In their discussion of LOF and knowledge spillovers, Schmidt and Sofka (2009) describe one of the main problems a foreign firm faces in international markets as "legitmancy deficit". Although Bell et al. (2012) focus on overcoming LOF in capital markets, there are similarities in our argument of CSR providing benefits to firms in FDI and their arguments on signaling good governance and reducing unfamiliarity costs.

[3] Similar to other intangibles that are valuable to the firm in this case to reduce LOF, CSR may not be fully recognized by the market (Edmans, 2011).

reducing LOF? I propose that CSR performance reduces LOF and affects a firm's FDIs decisions, and that this effect is most pronounced for MNEs expected to suffer high costs from LOF.

My argument of the benefits of CSR in reducing LOF is consistent with some of the other theoretical benefits of investing in CSR following the stakeholder maximization view (see Deng, Kang, & Low, 2013). I add to this view by suggesting that MNEs invest in CSR to build a high quality reputation as this facilitates its internationalization process by potentially reducing the costs of LOF in a number of ways. 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. 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 be regarded as an important and valuable intangible asset that helps MNEs win recognition from the host country and reduce opportunistic behavior from potential partners (Rhee & 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 (Un, 2016).

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 from alternative uses, including potentially in our case, positive net present value FDI activity (Borghesi, Houston, & Naranjo, 2014, Deng et al., 2013). 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. However, my view is that if the benefits from FDI are higher than for domestic investment including consideration of LOF costs, MNEs would still undertake FDI as the advantages of CSR in reducing LOF costs outweigh any potential risk to their CSR reputation. In fact, there is evidence that MNEs (in both developed and emerging markets) adopt higher levels CSR reporting and practices to reduce LOF and provide legitimacy in internationalization strategies (Del Bosco & Misani, 2016; Marano, Tashman, & Kostova, 2017).

The results support my hypotheses that CSR can overcome the costs of LOF and allows MNEs expected to experience higher LOF costs to undertake more FDI activity than would otherwise be the case. I find a significant positive relation between CSR measures and firm's propensity for FDI engagement. 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. My results imply that a firm's CSR reputation can be viewed as an important intangible asset that reduces the expected barriers and LOF costs to internationalization through FDI and this relation is stronger for MNEs expected to suffer higher LOF costs.

My results are robust to a range of additional tests. I address endogeneity concerns using instrumental variable, propensity score matching (PSM), firm fixed

effects, and exogenous shock test. I examine a number of alternative proxies for the severity of LOF costs, alternative model specifications, and different measures of FDI intensity. These additional findings confirm the base results and give some confidence to the direction of the CSR-FDI relation proposed in this chapter.

The rest of this chapter is structured as follows. In the next section, I review the background literature on CSR, LOF, and FDI, and outline my hypotheses. In the following section I describe sample construction and data. The subsequent section presents our results, followed by robustness testing. Finally, I present the conclusions.

2.2 Literature review and hypotheses development

2.2.1 Linking CSR performance, LOF, and FDI engagement

In this section, I discuss how firm-level CSR performance could facilitate FDI by overcoming LOF related hazards and challenges. Since the 1960s the definition of LOF has been widely accepted as the existence and persistence of additional costs to MNEs operating in overseas markets (Mezias, 2002, Miller & Parkhe, 2002, Zaheer, 2002, Zaheer & Mosakowski, 1997). LOF has been used in the international business literature in a variety of studies (for recent examples, see Del Bosco and Misani (2016) on cross listing and Sojli and Tham (2017) on political connections). Also there have been a number papers examining ways in which MNEs can overcome LOF in both product and capital markets (Bell et al., 2012) and comparisons of performance between foreign and indigenous firms competing in the same location (Nachum, 2003). Eden and Miller (2004) break LOF into three hazards that affect MNEs disproportionately to domestic firms: unfamiliarity hazard, discrimination hazard and

relational hazard. I argue that CSR could affect firm's propensity and intensity to engage in FDI through reducing all three types of LOF costs.

Compared to domestic firms, foreign subsidiaries can operate at a competitive disadvantage due to unfamiliarity hazard when operating in the host country.[4] CSR strategies can be seen as efforts to organize corporate activities to ensure that the transparency and assurance of stakeholders' interests and goals can be achieved (Jones, 1995). MNEs with a strong environmental CSR reputation are expected to spend time investigating the local environment and this investigative effort reduces the unfamiliarity disadvantage MNEs face in a foreign market (Rhee & Haunschild, 2006). Moreover, MNEs with superior social CSR performance typically invest more in training their employees. Training generally improves employee skills (Un, 2016) and in the case of FDI encourages host country employees to become more cognitively multicultural. Governance has also been shown to be correlated with asymmetric information and contracting imperfections that MNEs face (Klapper & Love, 2004). If superior CSR results in better governance, MNEs are able to reduce the risk associated with asymmetric information, and thus have a better understanding of the foreign market, which should reduce the LOF costs in FDI. We propose that for the combination of these reasons a firm's CSR reputation can help MNEs acquire local knowledge and reduce unfamiliarity hazard related LOF.

Focusing on discrimination hazard, foreign subsidiaries operating in a host country can receive discriminatory treatment from the local government and

[4] Petersen and Pedersen (2002) argue that firms are required to be familiar with at least two kinds of knowledge about a foreign market: institutional knowledge and business knowledge. Institutional knowledge is familiarity with the institutional framework, rules, regulations, norms, and values in a foreign country. Business knowledge is awareness of customers, suppliers, distributors, and competitors as well as the local business culture.

consumers due to their limited involvement in the local community (Dunning, 1998, Luo, 2001).[5] I argue that CSR reporting and disclosure practices improve a firm's external legitimacy and internal transparency. Seok Sohn, Han and Lee (2012) show that CSR engagement is a long-term corporate communication tool that can instill a positive public image of the firm. Moreover, Eccles et al. (2014) find that high sustainability companies are more likely to have established processes for stakeholder engagement. MNEs with superior CSR reputation have been shown to face less discrimination from the host country as local residents expect them to continue their high standards in social and environmental practices (Kostova, Roth, & Dacin, 2008, Luo, 2001). Socially responsible firms are less likely to manage earnings and manipulate real operating activities, and are therefore less likely to be the subject of government investigations (Kim, Park, & Wier, 2012). MNEs with a high quality CSR performance record are more likely to be incentivized by the host country government and welcomed by host country stakeholders (Dadush, 2013). Similarly, Rhee and Haunschild (2006) find that firms with a high reputation suffer more penalties as a result of product recalls and a favorable reputation has been shown to affect the willingness of buyers and suppliers to transact with the local firm (Doney & Cannon, 1997). Collectively, this evidence shows that a strong CSR reputation could improve MNE's ease of acceptance with host country stakeholders by reducing discrimination hazard.

Finally, foreign firms are expected to bear higher level of relational hazard LOF than firms that only operate domestically as MNEs are expected to incur extra costs in

[5] Even if foreign affiliates are guaranteed with equal treatment under the host country laws and regulations, informal and latent discriminatory treatment still occurs if the affiliates are deemed to be an outsider (Mezias, 2002).

negotiating, monitoring, dispute settling and trust building with local partners in the host country (Eden & Miller, 2004). We argue that CSR engagement can also reduce conflicts among stakeholders for MNEs facing relational hazard LOF (Heal, 2005, Porter & van der Linde, 1995b). From learning experience theory, Eden and Miller (2004) argue that a firm that is accustomed to building trust in business relations at home is inclined to better understand information sharing and operate more effectively abroad. If superior social CSR performance is linked to better stakeholder engagement (Cheng et al., 2014, Eccles et al., 2014) this can also reduce the relational LOF hazard. Firms with social CSR advantages recognize the value of different stakeholders, and contribute to the benefits of all related parties. Internally, they recognize the importance of and contribution from employees. Externally, they focus on improving the experience of customers and suppliers, and contribute to communities. Such practices help MNEs establish mutual trust and cooperation with stakeholders in the host country. Moreover, firms with better corporate governance CSR performance are more transparent, enjoy lower levels of information asymmetry and agency costs, and higher level of external legitimacy (Cheng et al., 2014). This reduces transaction costs during the FDI process by improving the relation between the MNE and stakeholders in the host country.

In summary, this evidence proposes a number of reasons for why CSR engagement is a potentially important mechanism in reducing the three hazards of LOF faced by MNEs when investing in the host country. We suggest that MNEs with a CSR advantage experience lower LOF costs that act as a barrier to undertaking FDI, and are therefore more likely to engage in FDI. I propose the following hypothesis:

Hypothesis 2-1: CSR performance reduces LOF and there is a positive relation between CSR performance and FDI propensity.

2.2.2 Interaction of CSR performance, LOF and FDI propensity

I now suggest that the severity of LOF difficulties will vary by firm and home country characteristics, and that the severity of these costs can have an impact on the relation between CSR performance and FDI propensity. Empirical studies in international business have measured LOF in a variety of indirect ways. These include regulatory institutions and exit rates (Hennart et al., 2002, Mata & Freitas, 2012); assessing the impact of foreignness on financial performance measures (Sojli & Tham, 2017, Wu & Salomon, 2016); measuring home based advantages such as access to local information, preference of local customers and reliance on local resources (Nachum, 2003); or finally, country specific factors such as cultural differences, information costs and institutional factors (Baik et al., 2013).

The empirical design used in this chapter examines the firm-level choice of whether or not to undertake an FDI in a given firm-year. The propensity of FDI is defined as a dummy variable, equals one if a firm undertakes any FDIs in a given year, and zero otherwise. If a firm undertakes several FDIs in different host countries in the same year, using the host country characteristics to define the LOF on each firm-year level becomes impractical. As such, the measures of expected LOF costs focus only on home country and home firm characteristics. This approach may not precisely measure the LOFs involved in each FDI transactions. To minimize the concern, I consider three proxies to represent LOF from different angles and argue that CSR performance is most important for MNEs facing high levels of LOF in their FDI

strategies. In later chapters that examine individual FDI transactions, some bilateral (both home and host country) proxies of LOF will be used.

2.2.2.1 Prior Experience

A firm's cost of doing business abroad can change over time (Zaheer & Mosakowski, 1997), and this implies LOF can also vary over time. 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, Forsgren, & Holm, 2002). By replicating prior experience, MNEs can acquire foreign market specific knowledge, and reduce a large proportion of LOF costs (Delios & Henisz, 2000, Dikova & Sahib, 2013, Malhotra & Zhu, 2013, Perkins, 2014, Zaheer, 1995). Therefore, we expect that MNEs encounter less LOF in the FDI process if they have recent experience of FDI transactions in the host country (Calhoun, 2002). This reduces the relative importance of CSR reputation to overcome LOF in the internationalization process. I propose that firms without prior experience of FDI drive the positive relation between CSR and FDI propensity. CSR reputation has the strongest effect in reducing LOF for this group of firms.

The precise definition of prior experience varies in the empirical literature. The arguments presented above focus on MNEs with recent experience in the host country, and in this paper we define recent experience as having undertaken an FDI in the host country in the previous year. However, firms with general recent experience of FDI can develop transferable skills and routines on how to invest abroad, how to compete with domestic firms, and how to secure outside capital (Hayward, 2002, Hitt, Harrison,

Ireland, & Best, 1998). This general experience includes knowledge of compliance with legal and regulatory requirements, optimal integration levels (Vermeulen & Barkema, 2001), how to form an efficient integration team (Hebert, Very, & Beamish, 2005), and capability in solving administrative issues (Lubatkin, 1983). If this is a transferable skill, I expect that any recent experience of FDI can reduce LOF costs. Therefore, I extend my definition of prior experience to include any prior year experience of FDI transactions. However, where macro-economic conditions and the MNE's operating environment change over time, experience of FDI gained a number of years ago does not convey as much useful information as more recent experience and the benefits of prior experience decay over time (Hayward, 2002). To examine this issue I also include a measure of any prior experience of FDI transactions for the home firm.

2.2.2.2 Language

Bell et al. (2012) argue that foreign subsidiaries experience LOF partly because local firms have better information about the local culture and language. As an important component of culture, language differences between the home and host country make it difficult for MNEs to understand business practices and corporate cultures in the host country, adversely affecting their ability to cooperate with host country stakeholders and deal with relational hazards of LOF (Baik et al., 2013, Grinblatt & Keloharju, 2001).

Since English is the most widely used language in international trade and communication, we argue that MNEs that are from English speaking home countries experience lower levels of LOF when investing abroad. Evidence supporting this is

provided by both Baik et al. (2013) and Boubakri, El Ghoul, Wang, Guedhami and Kwok (2016) who find that LOF is higher for investors and MNEs who are from non-English speaking home countries. Therefore, I expect that the role of CSR in mitigating LOF and thus facilitating FDI is more pronounced for MNEs that are from countries where English is not the primary or official language.

2.2.2.3 Internationalization

I also expect that the internationalization of the home country and home firm are correlated with the severity of LOF concerns. Focusing on the home country, export intensity contributes to the degree of LOF through unfamiliarity and a country's exposure and experience in international trade and this could affect an individual firm's unfamiliarity costs (Baik et al., 2013). Specifically, MNEs from countries with more exposure in international trade are likely to face smaller unfamiliarity costs than those from countries with less international trading exposure. A country with a high levels of exports has better knowledge about other foreign countries as well as stronger relations with them, and therefore the extent of a country's exports could proxy for firm's unfamiliarity LOF (Boubakri et al., 2016). We use the home country's exports as a percentage of GDP as a factor that is likely to contribute to the degree of LOF and expect that the positive effect of CSR on FDI is more pronounced from MNEs located in home countries with lower export intensity.

As an alternative to a country level measure of internationalization, I also use the percentage of a firm's foreign sales to its total sales as a proxy for LOF. Wang, Hong, Kafouros and Wright (2012) suggest that activities involving foreign sales provide information about new markets. With more and better information about the

foreign markets, MNEs can reduce the LOF that arises from unfamiliarity of the host country. Therefore, we suggest that the effect of CSR on FDI propensity is more pronounced for MNEs that have less foreign sales.

Summary and hypothesis

My discussion highlights a range of proxies for LOF based on prior experience, language, and home country and firm internationalization which I can use to measure the severity of LOF.

These arguments lead to my second hypothesis:

Hypothesis 2-2: The positive relation between CSR performance and FDI propensity is stronger for MNEs with greater levels of LOF.

2.3 Data, sample and method

2.3.1 Sample construction and identification of FDI transactions

My 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. I 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. I 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 2-1. It shows that US, Japan and UK are the three countries with the highest number of observations in the sample.[6] Panel B of Table 2-1 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 2-1 presents the distribution of observations across years. Increasing data availability over time reflects increased coverage in the ASSET4 database year on year. The national, sector, and time-series distribution is similar to Cheng et al. (2014) who also use ASSET4.

[Insert Table 2-1 about here]

I match firms with available CSR coverage in ASSET4 to data on FDI transactions from the Thomson Reuters Securities Data Company (SDC) Platinum database. I define FDI as any cross-border merger or alliance transactions reported in the database. My empirical strategy examines the propensity to engage in FDI activity. In the baseline testing, I use a binary logit model to examine the relation between FDI propensity and CSR performance.[7] The dependent variable is a dummy variable that

[6] To test whether our findings are influenced by dominant countries, I repeat the 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 influence our main results. I do not report these results for brevity. The regression findings are available on request from the author.

[7] The logit model has long been used in prior studies of FDI determinants (e.g., Hu & Cui, 2014, Lien, Piesse, Strange, & Filatotchev, 2005) and FDI entry mode choice studies (e.g., Dikova & van

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, I relate FDI activity during year t+1 to the CSR performance measure in year t.

In further analysis, I also 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, I impose the selection criteria outlined in Aktas, de Bodt and Roll (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 I 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, I adopt the Akhigbe, Martin and Whyte (2007) approach, where a partial acquisition is defined as prior ownership less than 5% and ownership after the acquisition of less than 50%, but only including the first transaction from the acquirer to the target. I 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. For alliances I 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 transactions.

After filtering and matching with firms in the ASSET4 sample, the sample contains 31,437 relevant deals over the 12-year sample period. 23,752 of them are full

Witteloostuijn, 2007, Gomes-Casseres, 1989, Hennart & Park, 1993, Maekelburger, Schwens, & Kabst, 2012).

acquisitions, 4,040 partial acquisitions, 2,360 strategic alliances, and 1,285 joint venture deals. I summarize these transactions in Panel D of Table 2-1.

2.3.2 Measuring CSR in the ASSET4 dataset

I use a global ESG database developed by Thomson Reuters ASSET4, which specializes in collecting data and scoring firms on their ESG dimensions since 2002 (Thomson Reuters, 2013). The ASSET4 dataset are validated and widely used by recent scholars in CSR related research (Aouadi & Marsat, 2016, Cheng et al., 2014, Dorfleitner et al., 2015, Hawn & Ioannou, 2016, Ioannou & Serafeim, 2012, Luo et al., 2015, Qiu et al., 2016, Stellner et al., 2015).

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.

The environmental pillar consists of 70 key performance indicators covering typical information such as energy used, water recycled, CO_2 emissions, waste reduced, and spills and pollution controversies. For the social pillar the data typically include employee satisfaction, working and training hours, female employees, customer satisfaction, quality management, donations, and health and safety controversies. 88 key performance indicators are under the social pillar. For the governance pillar the data typically cover anti-takeover measures, board diversity, compensation

independence, and board experience. It is sourced from 68 key performance indicators. I examine the impact of the overall CSR performance, and three ESG pillar performances: environmental CSR, social CSR, and corporate governance CSR scores on FDI propensity. I ignore economic performance, which is outside of the focus of this study.

After weighting and modelling, every firm within the ASSET4 dataset is scored from zero to one for each pillar. By normalization and adjustment for skewness and the differential, the raw scores are then converted into percentage ratings scores that represent the relative ESG practices of each firm. They are fitted to a bell curve between zero and 100 and centered on 50 percentages. An environmental rating score is assigned to each firm according to its relative environmental performance within 52 separate industries. A social rating score is assigned based on: 1) the focal firm's relative social performance within 52 industry groups; 2) the focal firm's relative social performance within nine regions; 3) the focal firm's relative social performance universally. A governance rating score is assigned based on a firm's relative performance within nine separate regions.[8] The resulted rating score is a consistent, objective and calibrated rating that provide the most appropriate peer to peer comparisons (Thomson Reuters, 2013). 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 relative pillar performance with regard to its industrial or regional peers.

In this study, I use the overall CSR score and ESG pillar scores to proxy for a firm's overall CSR performance and its environmental CSR, social CSR and corporate

[8] For detailed methodology used to derive the ranking scores, please visit Thomson Reuter's website.

governance CSR performance respectively. I believe that the ESG measures provided by ASSET4 greatly mitigate some concerns about CSR measures underlined by Graafland, Eijffinger, and SmidJohan (2004), Griffin and Mahon (1997) and Rowley and Berman (2000). Three main concerns are identified by them. Firstly, there are many subjective elements when benchmarking CSR measures. Sometimes researchers just make choices by themselves. My data does not present this problem given that all data are quantitative and no subjective assessments or overrides are used by ASSET4 (Thomson Reuters, 2013). Secondly, individual dimensions of CSR are sometimes uncorrelated, which makes the aggregated CSR measures unrepresentative. In my case, both the composite CSR rating score and ESG pillar CSR rating scores are used to test the hypotheses. Thirdly, firms from different regions and sectors are subject to different external circumstances, therefore they cannot fully control some actions. As explained by Thomson Reuters (2013), each ESG pillar are handled and modelled differently. Environmental performance tends to be global industry specific, while governance practices are best benchmarked by region. By using different weighting and modelling methodologies, endeavors have been made by ASSET4 to avoid the over-fitting problems and to ensure the scores remain robust over time.

2.3.3 Liability of foreignness (LOF)

To test the moderating effect of LOF on the relation between CSR performance and FDI propensity I measure expected LOF costs using dummy variables for the three groups of proxies as outlined in Section 2.2.2. In each case, the dummy variable is identified as an inverse measure of expected LOF costs. I expect a positive relation between the relevant LOF proxy and FDI propensity, and that the interaction term

between CSR performance and LOF is negatively related to FDI propensity.

Prior research demonstrates a positive effect of prior experience on firm's likelihood of FDI (Kirca, Hult, Deligonul, Perryy, & Cavusgil, 2012, Perkins, 2014). Therefore, we define 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. In further testing, we extend the definition of prior experience to include dummies for previous year FDI experience in any country (Previous year FDI experience), and any FDI experience since the beginning of coverage in SDC Platinum (Any FDI experience).

I examine LOF costs associated with language using a dummy variable for firms domiciled in English-speaking countries. We define English speaking home country as a variable equal to one if English is the primary or official language of the ASSET4 firm's home country, and zero otherwise.

Finally, I use dummy variables to proxy for the internationalization of the home country and firm. We define above median exports/GDP as a dummy variable equal to one if the firm's home country has a ratio of exports to GDP above the sample median, and zero otherwise (Baik et al., 2013, Bell et al., 2012, Boubakri et al., 2016). I also add a dummy variable for sample firms where the ratio of reported foreign sales divided by total sales is above the sample median. Above median foreign sales equals one if the ratio is above the sample median, and zero otherwise.

2.3.4 Control variables

For control variables in the regression analysis, I 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). I use the natural logarithm of book value of total assets (in billion US dollars) to control for firm size.[9] A number of studies find a relation between firm's foreign market entry strategy and its technological intensity (Hashai, 2011, Hennart & Park, 1993, Wang et al., 2012). Technological intensity is measured by the ratio of research and development (R&D) expenses to sales. Bhaumik, Driffield and Pal (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, Schwartz, 1982, Song & Walkling, 1993). M/B is defined as the market value of equity divided by the book value of equity. Contractor, Kundu and Hsu (2003) argue that firms with high tangibility face higher fixed capital cost burden and are less likely to have funds for internationalization. I define tangible resources as the book value of plant, property, and equipment divided by net sales. Finally, sensitivities between investment spending and cash flow have long been documented in the finance literature (Fazzari, Hubbard, Petersen, Blinder, & Poterba, 1988). Cash flow has been found to facilitate overseas expansion in the international business literature (Barbopoulos, Marshall, MacInnes, & McColgan, 2014, 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.

[9] For non-US firms, Worldscope provides book value of total assets in two currencies: the local currency and US dollar. I collect the book value of total assets in US dollar for both US firms and non-US firms.

2.4 Results

2.4.1 Summary statistics and univariate analysis

Summary statistics for sample variables are reported in Panel A of Table 2-2. FDI frequency by firm year is approximately 30% over the sample period.[10] 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 there is also some variation in firm size as shown by the standard deviation.

[Insert Table 2-2 about here]

Panel B of Table 2-2 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 Hypothesis 2-1 that there is a positive relation between CSR performance and a firm's propensity to undertake FDI.

In Table 2-2 I also find support for prior experience and internationalization LOF proxies as drivers of FDI activity. FDI propensity is higher for firms with any type of experience of FDI, for home firms with high foreign sales, and firms located

[10] The number of firm-years with FDI transactions is different from the number of FDI transactions reported in Panel D of Table 2-1 because firms can undertake multiple transactions in a single year.

in home countries with high export intensity. Interestingly, I find higher FDI propensity for firms located in non-English speaking countries. This might reflect a selection bias towards larger firms in the ASSET4 database or aggressive internationalization, potentially government backed, by firms located in emerging market economies (Filatotchev & Stahl, 2015).

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 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 (Croci & Petmezas, 2015) and highlight a range of important factors that we control for in subsequent regression analysis.

Table 2-3 reports pairwise correlations among sample variables. 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 LOF costs in their subsequent internationalization process.

[Insert Table 2-3 about here]

2.4.2 CSR and FDI propensity

Table 2-4 presents the results from the baseline logit regressions where FDI dummy is

the dependent variable. All regressions include country, sector, and year fixed effects and I cluster standard errors at the firm level. I report the estimates for four CSR measures; overall CSR, social CSR, environmental CSR, and governance CSR performance in Models 1 to 4 respectively.

In all cases, I find a significant positive relation between a firm's CSR performance and propensity to undertake FDI at the 1% level. These findings support Hypothesis 2-1 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 LOF costs faced by MNEs (Bhaumik et al., 2010, Hitt, Bierman, Uhlenbruck, & Shimizu, 2006, Wang et al., 2012). The results suggest that environmental, social and governance performance overcome some of the problems caused by LOF in FDI transactions. Eccles et al. (2014) find that highly sustainable firms are more likely to have established processes for stakeholder engagement and to be more long-term oriented. Therefore CSR reputation which is an important intangible resource (Edmans, 2011, Hawn & Ioannou, 2016) works as a signaling device. I argue that firms with strong CSR reputations are more likely to gain acceptance from the host country, which reduces potential discrimination and transaction related LOF. In a broader sense, investments by high quality CSR firms are welcomed and incentivized by host country government (Dadush, 2013), which can greatly reduce the discriminatory entry barrier of LOF.

[Insert Table 2-4 about here]

The findings for control variables in Table 2-4 suggest that larger firms are more likely to undertake FDI. This is consistent with the view that larger firms are able to bear relatively higher costs associated with FDI and are less vulnerable to market fluctuations in the host country (Bhaumik et al., 2010, Hitt et al., 2006). Also we find that a smaller portion of tangible resources corresponds to higher likelihood of FDI. Finally, 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.

2.4.3 CSR, LOF and FDI propensity

I attribute the base finding of a positive relation between FDI propensity and CSR performance to CSR helping to overcome the LOF problems that MNEs encounter in a foreign country. I directly examine the suggested mechanism by interacting our proxies for LOF with CSR performance to augment our baseline logit models and formally test Hypothesis 2-2. For ease of presentation I begin by considering one of our LOF measures, previous year same country prior FDI experience. I present these results in Table 2-5 and report the findings for alternative proxies for LOF later in this section.

[Insert Table 2-5 about here]

The results from Table 2-5 are similar to the results from the baseline logit model in Table 2-4 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 2-4.

Consistent with Hypothesis 2-2, the interaction term between the overall CSR, 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 reported in Table 2-4. Experienced MNEs acquire market specific knowledge about the host country through prior entry decisions, and are therefore less exposed to LOF challenges in the FDI process. The effect of the interaction term of governance CSR score and previous year FDI experience is not significant.[11] My previous discussion highlights the role of prior experience in reducing the LOF that MNEs encounter in foreign expansion. Firms without recent international experience are exposed to higher levels of LOF. Our results in Table 2-5 indicate that strong CSR performance allows MNEs exposed to higher LOF costs, in part, to use their CSR reputation to overcome the LOF in the FDI process.

To better gauge the economic importance of our findings, I use the regression models in Table 2-5 to calculate the implied probability that a firm undertakes FDI in

[11] 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, Karolyi and Stulz (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.

a given year. I allow the probability to vary with the same country prior FDI experience dummy and for values of CSR performance from the 10th to the 90th percentiles of the distribution. Using Models 1 to 4 from Table 2-5, implied probabilities are calculated by varying the prior experience and CSR performance variables, and holding all control variables constant at their respective sample means. I present these probabilities in Table 2-6.

[Insert Table 2-6 about here]

In Model 1, for firms with no prior year host country FDI experience the likelihood of undertaking FDI increases from 0.202 to 0.350 as overall CSR performance moves from the 10th to the 90th percentile. In relative terms, this is an increase of approximately 75%. The increase is economically large and provides further confidence for Hypothesis 2-2. 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 LOF when investing internationally.

For MNEs with prior year experience of FDI in the same country, these values range from 0.260 to 0.307 as CSR performance is moved from the 10th to the 90th 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 2-5, 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 for overall CSR performance in

Model 1 as 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.

I examine the sensitivity of our findings to the measure of LOF by re-estimating Model 1 from Table 2-5 and replacing prior year host country experience with our alternative proxies for LOF. First, in Model 1 I measure LOF 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 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 in overcoming LOF.

In Model 2, I replace previous year 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. I 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. A comparison of Models 1 and 2 in Table 2-7 shows that recent prior experience is more relevant to overcoming LOF 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 (Levinthal & March, 1993, Liu & Maula, 2016, Meschi & Métais, 2013).

[Insert Table 2-7 about here]

In Models 3 to 5 I replace prior experience with the other measures of LOF. In Model 3 using English speaking dummy I find that firms domiciled in countries where English is the first language are significantly more likely to undertake FDI. Although inconsistent with my univariate findings presented in Table 2-2, the results indicate that after controlling for known determinants of FDI firms domiciled in English speaking countries suffer lower LOF and find it easier to undertake FDI transactions. In Models 4 and 5 I find that home country (high export intensity) and home firm (high proportion of foreign sales) measures of internationalization are positively related to FDI propensity. In each model I also find the interaction between overall CSR performance and our alternative LOF measures are significantly negative (at the 5% level of better). Thus, the positive effect of CSR on FDI propensity is again greatest for MNEs that are expected to suffer the highest costs due to LOF. This provides further support for Hypothesis 2-2 and confirms that my results are not restricted to a definition of LOF based on prior experience. Implied probabilities generated from all regression models in Table 2-7, using the alternative measures of LOF, are comparable to those presented in Table 2-6. These are available on request from the author.

Overall, the results presented in Tables 2-5 to 2-7 provide strong support for Hypothesis 2-2, both in statistical and economic terms. The results highlight the reputational benefits to CSR performance, which is positively correlated with a firm's

propensity to undertake FDI transactions. These reputational benefits are most pronounced for MNEs that suffer the greatest costs to LOF when engaging in FDI.

2.5 Robustness testing and further analysis

2.5.1 Endogeneity and selection bias

In my tests so far, I 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 my interpretation of the documented positive relation between CSR and FDI. I extend my coverage of endogeneity concerns in this section.

First, I follow Aouadi and Marsat (2017), Cheng et al. (2014), and Ghoul, Guedhami and Kim (2017) and use an instrumental variable approach. I 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 2-8. As expected, in Model 1 I 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 prior year host country FDI experience to explain FDI propensity in the current year. In Model 2, I find a significant positive relation between CSR performance and FDI propensity (at the 1% level), providing

further support for Hypothesis 2-1. In Model 3, the interaction term between prior experience and CSR performance is significant and negative, supporting Hypothesis 2-2.[12,13]

[Insert Table 2-8 about here]

Second, I 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. I identify high (low) CSR firms as those with overall CSR performance above (below) the median for each country, year, and industrial sector. I 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 the 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 & Serafeim, 2012, Kang, 2013).

[12] In Model 3, the implied probability of undertaking FDI moves from 0.184 to 0.372 for firms with no prior year host country FDI experience. Moving from the 10^{th} to 90^{th} percentile of overall CSR performance produces similar implied probabilities to those in Table 2-6, providing support for the stability of the instrumental variable regressions.

[13] I 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 2-8. 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 2-2.

I present pre- and post-matching regressions for the determinants of high CSR scores in Panel A of Appendix B. In the pre matching specification presented in Model 1, I 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. I then construct a treatment group and a control group using the nearest-neighbour matching approach and based on the predicted probabilities in Model 1. 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. In Model 2 I re-estimate the probit model of CSR determinants for the post-matched sample. 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.[14,15]

After the PSM procedure, I have a subsample that is comprised of the treatment group and the control group. Each firm in the treatment group has a matched firm in the control group that are from the same country, industrial sector, and year, and are similar in observable firm characteristics. The only difference is the firm in the treatment group has higher CSR performance and the firm in the control group has

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

[15] To further verify that observations in the treatment and control groups are indistinguishable, I present two additional diagnostic tests in Appendix B. Panel B examines 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. Finally, in Panel C we present covariate balance tests for each of the matching variables. The table confirms that no significant bias remains for the matched sample.

lower CSR performance. Using this subsample, I redo the main regression analysis. Models 4 and 5 of Table 2-8 present my 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 2-1. In Model 5, I add the interaction term between prior year same country FDI experience and CSR performance to the regression model. I again find a positive relation between both overall CSR performance and prior 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 the known LOF when engaging in FDI transactions and that this effect is strongest for firms without recent FDI experience.[16] Collectively, the results in Table 2-8 confirm that potential endogeneity and selection bias does not appear to drive my main results, supporting Hypotheses 2-1 and 2-2.

Third, I redo the test by introducing firm fixed effects to mitigate concerns that the results are driven by an unidentified time-invariant firm characteristic that affects both CSR performance and firm's FDI propensities. Under this specification, the coefficient is estimated through changes over time within a focal firm. As variations within a single firm tend to be small within a short period, I restrict the sample to firms that have complete data for the whole sample period.[17] The number of observations

[16] My PSM results hold if I 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 2-8 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 2-8. My findings show that the positive relation between CSR performance and FDI propensity is greatest for firms expected to suffer the highest costs through LOF, which tend to be smaller firms (Baik et al., 2013).

[17] In further testing, I loosen the restrictions by using firm fixed effects regressions to test firms that have at least three years' data available during the sample period and firms that have minimum five

drop sharply from 32,462 (as shown in Table 2-5, Model 1) to 6,655. Based on the restricted sample, I present the results from firm fixed effects regressions in Table 2-9.

[Insert Table 2-9 about here]

CSR measures are significantly positive across all models, which is consistent with my main results, and support Hypothesis 2-1. The interaction terms of CSR (overall CSR, social CSR, and environmental CSR) and experience is significantly negative in Models 5, 6, and 7. Even for the governance CSR, its interaction term with experience is negative and weakly significant at the 10% level. Therefore, Hypothesis 2-2 are well supported by using the firm fixed effects models.[18]

In respect of control variables, the effect of cash flow on FDI propensity remains positive and significant, the effect of M/B ratio and technological intensity on FDI remain insignificant, but the effects of other control variables change a little bit compared to the result from Table 2-4 and Table 2-5. Leverage (defined as sum of long and short term debt divided by the book value of asset) does not have significant effect on FDI propensity in either Table 2-4 or Table 2-5. However in all models with firm fixed effect in Table 2-9, it plays a negative and significant role in determining firm's FDI propensity (it is only weakly significant in Models 5, 6, 7, and 8). Tangible resources (defined as property, plant & equipment divided by net sales or revenues)

years' data available. The results are qualitatively similar to the results reported in this section, thus are not tabulated.

[18] I also test other LOF proxies using firm fixed effects regressions. The results are similar to the main results. They are available on request from the author.

are not significant determinants of FDI propensity in most of the firm fixed effects logit regression models any more. In sum, the results from firm fixed effect regressions corroborates the hypotheses that there is a positive relation between CSR performance and firm's propensity to undertake FDI.

Finally, Chatterji and Toffel (2010) and Cheng et al. (2014) argue and empirically confirm a significant improvement of a firm's CSR performance after it was involved into a rating agency. The coverage by a rating agency could be regarded as an exogenous shock to the focal firm, which drives it to improve CSR performance and protect its reputation with the public. I carry out an exogenous shock test to examine whether there is significant difference on FDI propensity between firms that are involved into ASSET4 database and similar firms that have not been involved into ASSET4.

In my exogenous shock test, in a given year I divide all firms into two groups. The treated group includes firms that were involved into ASSET4 at least one year before the given year, and the untreated group includes firms that has not been involved into ASSET4 yet. Then I match firms from the two groups on five firm characteristics (total assets, cash flow ratio, leverage ratio, market to book ratio and tangibility), and exactly on country and sector.[19] After matching, firms in the treated group and untreated groups are in the same country and sector and similar in firm characteristics but are different in their CSR performance as firms in the treated group should have higher CSR score than firms in the untreated group. We test the yearly average treatment effect on firm's FDI propensity from 2003 to 2012 and present the results in Table 2-10. The positive and significant coefficients in 2003, 2005, 2006,

[19] I use nearest neighbouring matching (see Heider and Ljungqvist (2015), Rajan and Zingales (1995)).

2007, 2008 and 2011 show that firms that were involved into ASSET4 dataset (the treated group) have higher propensity to undertake FDI. For the rest of the years, all the coefficients are not significant, but remains positive. Overall, the results from exogenous test are consistent with the main argument.

[Insert Table 2-10 about here]

2.5.2 Alternative model specifications

In this section, I discuss the results of further testing of the regression model specification. To explore the influence of CSR performance on the intensity of FDI, I use a Tobit regression analysis following Ahern, Daminelli and Fracassi (2015) and 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 dependent variable, FDI count, is a count of the number of FDI transactions initiated for each firm year. I present these results in Table 2-11.

[Insert Table 2-11 about here]

In Models 1 to 4, I find that all CSR performance measures have a positive and significant effect on the number of FDI transactions undertaken by the firm, confirming Hypothesis 2-1. In Models 5 to 8 I 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 2-2 that the relation between CSR

performance and a firm's FDI investment is strongest for those companies without recent experience of engaging in FDI. I attribute this to CSR reputation being a valuable asset in overcoming the known LOF that affects MNEs when investing in foreign markets. Similar to my earlier findings the interaction between governance CSR and previous year FDI experience is not significant. My findings for control variables also support the base regression findings in Tables 2-4 and 2-5. 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, I change the model specification and use a multinomial logit model that examines the robustness of my findings to the choice of FDI entry method. The omitted base category is no FDI activity, and I examine the choice of entry method between PA, FA, JV, and SA relative to this omitted group. The results are reported in Table 2-12.

[Insert Table 2-12 about here]

Table 2-12 shows a positive relation between CSR performance and FDI propensity, irrespective of the entry method. This provides further confirmation of Hypothesis 2-1 and my 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. I expect that costs of integration and potential for conflicts with host country stakeholders are greatest under majority control models including acquisition and LOF

costs are highest for these entry methods (Cuervo-Cazurra, Maloney, & Manrakhan, 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 2-2 that MNEs expected to suffer the greatest costs to LOF benefit most from the reputational benefits of CSR when undertaking FDI transactions.

2.6 Conclusion

This chapter investigates the effect of CSR performance on the outward FDI decisions of firms from 44 countries for the period 2002 to 2013. My 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, I propose that there is a positive relation between CSR performance and FDI decision if CSR reputation reduces the MNE's social costs of doing business abroad. Specifically, I suggest firms with CSR advantage have strong stakeholder relations, high legitimacy, renowned reputation, and comprehensive staff training and development experience, and thus are able to undertake FDI with greater frequency.

I also propose that the benefits to CSR are greatest for MNEs expected to suffer the most significant costs to LOF in their internationalization process. I use prior experience and a number of alternative measures of LOF costs as moderating variables to test the relation between CSR performance and FDI decisions. If inexperienced MNEs encounter high costs of LOF in a host country, I expect them to benefit more from CSR's role in reducing LOF.

I provide empirical evidence that firms with better CSR performance have higher propensity to undertake FDI. I find that the positive relation between CSR and

FDI propensity is strongest for MNEs expected to experience the greatest costs to LOF when undertaking FDI. The main findings remain consistent when I control for endogeneity using four different approaches (instrumental variable, PSM, firm fixed effects, and exogenous shock tests), change the model specification, and are strongest for the acquisition FDI entry method.

The results contribute to both the CSR and FDI areas by showing that in a global economy, where FDI is strategically critical for firm's long-term development and where the public increasingly appreciates CSR engagements, that CSR advantage is a valuable intangible asset. This asset helps to reduce a firm's LOF barriers. I suggest that successful CSR strategies should provide MNEs with significant external reputation and allow them to engage cooperatively with stakeholders during the FDI process.

Table 2-1
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 2-1 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 2-2

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
FDI measures:						
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
Explanatory variables:						
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
English speaking home country	32,545	0.53	1.00	0.50	0.00	1.00
Exports/GDP	31,970	32.56	22.52	39.81	9.04	230.27
Foreign sales to total sales	27,056	0.38	0.33	0.33	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

Table 2-2 continued

Panel B: Univariate comparison of firms by FDI dummy

	Subsample A (FDI dummy=1)			Subsample B (FDI dummy=0)			Test of difference (A-B)	
Variables	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***
English speaking home country	9,892	0.49	0.00	22,653	0.55	1.00	-9.51***	-9.49***
Exports/GDP (in %)	9,828	33.23	25.91	22,142	32.25	21.14	2.03**	16.88***
Foreign sales to total sales	9,053	0.50	0.50	18,003	0.32	0.21	44.68***	47.52***
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 2-3
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	11
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	
11	Previous year same country FDI experience	0.134***	0.286***	0.119***	0.159***	0.070***	0.104***	0.186***	0.182***	0.169***	0.079***	1.000
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***	0.780***
13	Any FDI experience	0.319***	0.205***	0.133***	0.291***	0.084***	0.103***	0.321***	0.305***	0.296***	0.149***	0.301***
14	English speaking home country	-0.054***	-0.062***	-0.073***	-0.024***	-0.089***	-0.088***	0.081***	-0.126***	-0.192***	0.659***	-0.037***
15	Exports/GDP (in %)	0.010*	0.012**	0.028***	0.005	0.001	-0.005	-0.065***	-0.018***	-0.032***	-0.127***	0.018***
16	Foreign sales to total sales	0.255***	0.177***	0.073***	0.250***	0.063***	0.091***	0.215***	0.207***	0.225***	0.070***	0.187***
17	Log of Total assets	0.226***	0.272***	0.247***	0.193***	0.143***	0.136***	0.369***	0.381***	0.371***	0.049***	0.161***
18	R&D	0.074***	0.026***	-0.029***	0.066***	0.001	0.112***	0.058***	0.053***	0.077***	0.049***	0.050***
19	Leverage	-0.007	0.015***	0.015***	-0.013**	0.026***	-0.009*	0.001	0.022***	0.045***	0.014***	0.008
20	M/B	0.008	-0.015***	-0.033***	0.014**	-0.040***	-0.006	0.010*	-0.002	-0.059***	0.082***	-0.008
21	Tangible resources	-0.164***	-0.149***	-0.077***	-0.164***	-0.030***	-0.060***	-0.018***	-0.045***	0.027***	0.028***	-0.108***
22	Cash flow	0.004	-0.039***	-0.049***	0.009*	-0.041***	0.004	0.103***	0.063***	0.002	0.091***	-0.013**

		12	13	14	15	16	17	18	19	20	21	22
12	Previous year FDI experience	1.000										
13	Any FDI experience	0.385***	1.000									

Table 2-3 continued

14	English speaking home country	-0.054***	-0.021***	1.000								
15	Exports/GDP (in %)	0.017***	0.021***	-0.356***	1.000							
16	Foreign sales to total sales	0.255***	0.328***	-0.102***	0.181***	1.000						
17	Log of Total assets	0.230***	0.207***	-0.173***	-0.002	-0.053***	1.000					
18	R&D	0.068***	0.120***	0.048***	-0.084***	0.219***	-0.115***	1.000				
19	Leverage	0.001	-0.018***	-0.004	-0.028***	-0.109***	0.146***	-0.160***	1.000			
20	M/B	-0.001	-0.005	0.103***	-0.020***	0.013**	-0.213***	0.124***	-0.020***	1.000		
21	Tangible resources	-0.156***	-0.145***	0.057***	0.024***	-0.078***	-0.145***	-0.186***	0.290***	-0.072***	1.000	
22	Cash flow	-0.010*	0.019***	0.080***	-0.025***	0.092***	-0.253***	0.067***	-0.149***	0.370***	0.101***	1.000

Table 2-4

Regressions of CSR 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	0.779***			
	(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***	0.435***	0.430***	0.474***
	(0.022)	(0.022)	(0.022)	(0.020)
R&D	0.448	0.550	0.549	0.634
	(0.500)	(0.499)	(0.495)	(0.495)
Leverage	0.054	-0.007	0.010	-0.036
	(0.142)	(0.141)	(0.140)	(0.141)
M/B	0.007	0.008	0.008	0.009
	(0.007)	(0.006)	(0.006)	(0.006)
Tangible resources	-1.427***	-1.378***	-1.450***	-1.352***
	(0.135)	(0.136)	(0.134)	(0.135)
Cash flow	1.657***	1.831***	1.933***	1.979***
	(0.304)	(0.303)	(0.301)	(0.301)
Constant	-10.092***	-10.467***	-10.400***	-11.445***
	(0.578)	(0.570)	(0.567)	(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 2-5

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***	0.445***	0.394***	0.057
	(0.101)	(0.101)	(0.094)	(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***	0.439***	0.433***	0.473***
	(0.023)	(0.022)	(0.022)	(0.021)
R&D	0.468	0.582	0.580	0.625
	(0.498)	(0.496)	(0.492)	(0.494)
Leverage	0.049	-0.014	0.009	-0.038
	(0.141)	(0.140)	(0.139)	(0.140)
M/B	0.007	0.008	0.008	0.009
	(0.007)	(0.006)	(0.006)	(0.006)
Tangible resources	-1.426***	-1.374***	-1.449***	-1.349***
	(0.135)	(0.136)	(0.135)	(0.136)
Cash flow	1.675***	1.850***	1.965***	1.975***
	(0.305)	(0.304)	(0.302)	(0.301)
Constant	-10.255***	-10.645***	-10.561***	-11.432***
	(0.584)	(0.576)	(0.573)	(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 2-6
Implied probabilities of FDI
The table reports the predicted likelihood of a firm undertaking an 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				
	10th percentile	25th percentile	50th percentile	75th percentile	90th percentile
Model 1 – Overall CSR					
Previous year same country FDI experience = 1	0.260	0.267	0.282	0.300	0.307
Previous year same country FDI experience = 0	0.202	0.220	0.266	0.325	0.350
Model 2 – Social CSR					
Previous year same country FDI experience = 1	0.312	0.312	0.312	0.312	0.312
Previous year same country FDI experience = 0	0.238	0.251	0.292	0.342	0.361
Model 3 – Environmental CSR					
Previous year same country FDI experience = 1	0.293	0.294	0.301	0.310	0.312
Previous year same country FDI experience = 0	0.230	0.239	0.279	0.341	0.357
Model 4 – Governance CSR					
Previous year same country FDI experience = 1	0.238	0.252	0.288	0.308	0.318
Previous year same country FDI experience = 0	0.228	0.244	0.284	0.307	0.318

Table 2-7

Logit regressions of CSR and its interaction with alternative LOF measures

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)	(5)
Overall CSR	0.755***	0.200	1.055***	1.181***	0.770***
	(0.087)	(0.197)	(0.115)	(0.122)	(0.128)
Previous year FDI experience	1.703***				
	(0.079)				
Any FDI experience		1.606***			
		(0.103)			
English speaking home country			1.675***		
			(0.399)		
Above median exports/GDP				0.445**	
				(0.215)	
Above median foreign sales					0.730***
					(0.095)
Overall CSR * Previous year FDI experience	-0.397***				
	(0.122)				
Overall CSR * Any FDI experience		0.329			
		(0.205)			
Overall CSR * English speaking home country			-0.567***		
			(0.145)		
Overall CSR * Above median exports/GDP				-0.691***	
				(0.152)	
Overall CSR * Above median foreign sales					-0.301**
					(0.144)
Log total assets	0.308***	0.344***	0.415***	0.414***	0.396***
	(0.018)	(0.022)	(0.022)	(0.024)	(0.025)
R&D	0.235	-0.038	0.389	0.463	-0.637
	(0.396)	(0.484)	(0.497)	(0.532)	(0.522)
Leverage	-0.026	0.058	0.032	0.074	0.108
	(0.114)	(0.140)	(0.137)	(0.147)	(0.155)
M/B	0.006	0.009	0.009	0.003	0.002
	(0.006)	(0.007)	(0.006)	(0.007)	(0.008)
Tangible resources	-1.066***	-1.224***	-1.420***	-1.475***	-1.548***
	(0.106)	(0.129)	(0.135)	(0.143)	(0.153)
Cash flow	1.575***	1.714***	1.657***	1.646***	1.359***
	(0.258)	(0.306)	(0.300)	(0.323)	(0.353)
Constant	-8.461***	-9.982***	-11.774***	-10.604***	-9.783***
	(0.461)	(0.569)	(0.705)	(0.639)	(0.782)
Country fixed effects	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-15,202	-15,738	-16,378	-13,924	-11,107
Wald Chi-square	4,223***	2,711***	2,003***	1,748***	1,483***
Pseudo R-square	0.232	0.205	0.171	0.171	0.165
Observations	32,462	32,462	32,392	26,992	20,257

Table 2-8

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.

	Instrumental variable regressions			Propensity score matched (PSM) sample	
	First stage	Second stage	Second stage		
	OLS	Logit	Logit	Logit	Logit
Variables	(1)	(2)	(3)	(4)	(5)
Overall CSR		1.607***	1.828***	0.605***	0.807***
		(0.613)	(0.617)	(0.119)	(0.127)
Previous year same country FDI experience			0.559***		0.486***
			(0.145)		(0.142)
Overall CSR * Previous year same country FDI experience			-0.913***		-0.916***
			(0.231)		(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***	0.314***	0.315***	0.336***	0.339***
	(0.001)	(0.074)	(0.074)	(0.035)	(0.035)
R&D	0.210***	0.241	0.267	0.375	0.407
	(0.032)	(0.522)	(0.520)	(0.683)	(0.684)
Leverage	-0.140***	0.165	0.160	0.261	0.267

Table 2-8 continued

	(0.008)	(0.166)	(0.166)	(0.196)	(0.196)
M/B	0.004***	0.004	0.004	0.019**	0.019**
	(0.000)	(0.007)	(0.007)	(0.009)	(0.009)
Tangible resources	0.088***	-1.468***	-1.468***	-1.605***	-1.613***
	(0.006)	(0.144)	(0.144)	(0.184)	(0.186)
Cash flow	0.447***	1.282***	1.284***	1.146**	1.167**
	(0.019)	(0.416)	(0.416)	(0.458)	(0.461)
Constant	-2.155***	-8.422***	-8.561***	-8.722***	-8.932***
	(0.031)	(1.371)	(1.363)	(1.130)	(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 2-9

Firm fixed effect regressions of FDI propensity

This table reports firm fixed effects logit regressions of FDI propensity on CSR performance and control variables. Panel A present results based on firms that have complete data during the whole sample period. Panel B is based on firms that have at least five years' data during the sample period. Panel C is based on firms that have at least three years' data during the sample period. 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	0.642***				1.041***			
	(0.200)				(0.222)			
Social CSR		0.457**				0.821***		
		(0.192)				(0.212)		
Environmental CSR			0.492***				0.731***	
			(0.182)				(0.203)	
Governance CSR				0.123				0.432*
				(0.222)				(0.251)
Previous year FDI experience					-1.222***	-1.165***	-1.341***	-1.354***
					(0.208)	(0.196)	(0.183)	(0.194)
Overall CSR * Previous year same country FDI experience					-0.709**			
					(0.280)			
Social CSR * Previous year same country FDI experience						-0.817***		
						(0.273)		
Environmental CSR * Previous year same country FDI experience							-0.552**	
							(0.254)	
Governance CSR * Previous year same country FDI experience								-0.555*
								(0.285)
Log total assets	0.129	0.144	0.136	0.151*	0.189**	0.210**	0.204**	0.227**
	(0.090)	(0.090)	(0.090)	(0.090)	(0.095)	(0.095)	(0.095)	(0.094)
R&D	-0.811	-1.018	-0.733	-0.694	-0.524	-0.765	-0.462	-0.318
	(2.613)	(2.613)	(2.608)	(2.603)	(2.743)	(2.741)	(2.743)	(2.737)

Table 2-9 continued

Leverage	-0.901**	-0.940**	-0.952**	-0.917**	-0.747*	-0.796*	-0.816*	-0.765*
	(0.404)	(0.404)	(0.404)	(0.403)	(0.427)	(0.427)	(0.426)	(0.426)
M/B	0.008	0.007	0.007	0.007	0.011	0.009	0.009	0.010
	(0.015)	(0.015)	(0.015)	(0.015)	(0.016)	(0.016)	(0.016)	(0.016)
Tangible resources	-0.607	-0.655	-0.645	-0.683	-0.875	-0.951*	-0.936	-0.954*
	(0.557)	(0.556)	(0.556)	(0.554)	(0.575)	(0.575)	(0.575)	(0.572)
Cash flow	1.488*	1.686*	1.742**	1.815**	1.581*	1.889**	1.938**	2.008**
	(0.865)	(0.861)	(0.859)	(0.858)	(0.915)	(0.910)	(0.908)	(0.908)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of groups	558	558	558	558	558	558	558	558
Log Likelihood	-2663	-2666	-2665	-2668	-2,397	-2,399	-2,402	-2,406
LR Chi-square	191.4	186.8	188.4	181.5	723.8***	719.1***	714.5***	705.6***
Pseudo R-square	0.0347	0.0339	0.0342	0.0329	0.131	0.130	0.129	0.128
Observations	6,655	6,655	6,655	6,655	6,655	6,655	6,655	6,655

Table 2-10

Average treatment effects estimation of propensity of FDI

This table reports the results of the average treatment effect on firm's propensity to do FDI. Two groups of firms are compared: treated group includes firms that were involved into ASSET4 dataset at least one year before the given year, untreated group includes firms that have not been involved into ASSET4 dataset until the given year. Firms in the two groups are chosen by minimizing the Mahalanobis distance between log of total assets, cash flow ratio, leverage ratio, market to book ratio and tangibility, and matching exactly on country and sector. Abadie-Imbens robust standard errors are corrected for matching bias. Z statistics are reported in parentheses. ***, ** and * denote statistical significance at the 1%, 5% and 10% levels respectively.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FDI propensity	0.070*	0.060	0.135***	0.079***	0.140***	0.139***	0.034	0.008	0.109***	0.087
	(1.75)	(1.56)	(5.09)	(2.61)	(4.33)	(4.31)	(0.96)	(0.17)	(4.38)	(0.93)
Observations	2,230	1,701	2,405	2,810	2,634	2,499	2,496	1,724	1,294	1,288

Table 2-11

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***				0.550***			
	(0.233)				(0.055)			
Social CSR		1.331***				0.443***		
		(0.217)				(0.052)		
Environmental CSR			1.443***				0.460***	
			(0.214)				(0.052)	
Governance CSR				1.626***				0.300***
				(0.291)				(0.067)
Previous year same country FDI Experience					0.279***	0.307***	0.273***	0.068
					(0.056)	(0.057)	(0.052)	(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***	1.091***	1.079***	1.161***	0.217***	0.232***	0.229***	0.254***
	(0.069)	(0.072)	(0.070)	(0.070)	(0.011)	(0.011)	(0.011)	(0.010)
R&D	0.436	0.637	0.608	0.764	0.207	0.255	0.255	0.290
	(1.096)	(1.098)	(1.085)	(1.085)	(0.274)	(0.274)	(0.271)	(0.275)
Leverage	0.703*	0.558	0.595	0.502	0.051	0.015	0.027	0.003
	(0.391)	(0.388)	(0.386)	(0.384)	(0.078)	(0.078)	(0.078)	(0.079)
M/B	0.019	0.020	0.020	0.024*	0.005	0.005	0.005	0.006*
	(0.014)	(0.014)	(0.014)	(0.014)	(0.004)	(0.004)	(0.004)	(0.004)

Table 2-11 continued

Tangible resources	-3.480***	-3.363***	-3.535***	-3.316***	-0.798***	-0.769***	-0.814***	-0.757***
	(0.357)	(0.355)	(0.358)	(0.351)	(0.072)	(0.073)	(0.072)	(0.073)
Cash flow	3.490***	3.946***	4.170***	4.212***	0.943***	1.048***	1.119***	1.126***
	(0.690)	(0.693)	(0.690)	(0.694)	(0.170)	(0.170)	(0.169)	(0.170)
Constant	-25.600***	-26.540***	-26.359***	-28.588***	-5.398***	-5.610***	-5.564***	-6.094***
	(1.747)	(1.792)	(1.774)	(1.820)	(0.307)	(0.304)	(0.303)	(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 2-12

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***	1.306***	2.039***	1.997***
	(0.181)	(0.096)	(0.281)	(0.272)
Previous year same country FDI Experience	0.385	0.575***	-1.894**	-0.283
	(0.252)	(0.109)	(0.958)	(0.411)
Overall CSR * Previous year same country FDI experience	-2.034***	-0.870***	0.075	-0.411
	(0.412)	(0.163)	(1.256)	(0.553)
Log total assets	0.406***	0.137***	0.184***	0.179***
	(0.035)	(0.019)	(0.056)	(0.056)
R&D	-2.402	1.805***	-1.807	9.941***
	(1.482)	(0.496)	(2.031)	(1.143)
Leverage	0.083	0.150	1.435***	0.178
	(0.267)	(0.136)	(0.430)	(0.421)
M/B	0.020	0.003	0.026	-0.015
	(0.015)	(0.007)	(0.030)	(0.026)
Tangible resources	-0.886***	-1.553***	0.020	-1.121***
	(0.201)	(0.109)	(0.320)	(0.330)
Cash flow	3.317***	2.407***	-2.150**	1.538
	(0.799)	(0.304)	(1.011)	(1.117)
Constant	-13.199***	-5.277***	-10.689***	-11.358***
	(0.833)	(0.426)	(1.258)	(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		

Chapter 3 Explaining the role of CSR in firm's FDI location and internalization choice: an extension and application of the eclectic OLI paradigm

3.1 Introduction

MNEs encounter LOF when making FDI, which puts them in a disadvantageous position compared with indigenous firms. For MNEs to be able to compete with indigenous firms in the host market, they must possess additional advantages sufficient to outweigh the extra costs of operating in an unfamiliar, distant, or discriminatory environments (Hirsch, 1976). The advantages to a firm from having superior CSR performance and CSR's capability in mitigating LOF have been investigated in the previous chapter. The conclusion I draw is that firms with high CSR performance are more likely to invest abroad. In this chapter, I will divert my attention from firm's overall likelihood of FDI and focus on specific investment decisions. To be precise, I will look into how CSR affects two FDI choices: location choice and internalization choice.

The world FDI pattern tilted in favour of developed economies before 2009, then FDI inflows to developing and transition economies surpassed developed countries from 2010 to 2014 (UNCTAD, 2016). In 2015, the FDI flows to developed economies nearly doubled and the share of developed economies in world FDI inflows raised from 41% in 2014 to 55% in 2015, becoming the majority recipients of FDI inflows again (UNCTAD, 2016). As FDI flows account for more than 40% of external development finance to developing and transition economies (UNCTAD, 2015), analysing MNE's investment pattern between developed and developing countries is

of great importance for governments, industrial practitioners and international organizations. Besides where to invest, how to enter a foreign market is also a crucial decision for MNEs as this will affect their entire marketing and business planning process in the international market.

Research on FDI location and internalization (or entry mode) choice are abundant (e.g., Brouthers, 2002, Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007, Buckley, Devinney, & Louviere, 2007, Cui & Jiang, 2012, Hennart, 1991, Mani, Antia, & Rindfleisch, 2007). Many of these previous studies deal with choices on locations between emerging/developing countries and developed countries, as well as on entry modes between full control and partial control. However, the transmission mechanisms through which CSR affects firms' FDI decisions are still a relatively unexplored area in both CSR and FDI literature. To fill in this gap, I draw upon the eclectic OLI paradigm and integrate CSR and two FDI choices into the paradigm to explain how CSR affects firm's FDI decisions. Specifically, I investigate the relation between firms' CSR performance and their location choice (between developed and developing countries) and internalization choice (between full control and partial control).

An "eclectic OLI" framework was proposed by Dunning (1977) to investigate FDI decisions by MNEs. "OLI" stands for "Ownership", "Location", and "Internalization", three potential sources of advantage that may underlie a firm's decision to become a multinational. As shown in the previous chapter, a firm's CSR advantages increase its propensity to undertake FDI. These CSR advantages might act through these three sources. First, "ownership" advantages in the OLI paradigm refer to a firm's tangible and intangible assets that a firm can exploit internationally (Nielsen,

Asmussen, & Weatherall, 2017). CSR related assets can be regarded as a type of firm ownership advantage that creates competitive advantages to the focal firm (Branco & Rodrigues, 2006). Second, "location" advantages are associated with host country endowments and characteristics that attract inward FDI, such as stable political environment, cheap labour, etc. Finally, "internalization" advantages refer to internal operations within the firm (through FDI). Only when all three advantages are present, then FDI is an ideal strategy for MNEs. As choosing a developed country rather than a developing country as the FDI destination minimizes MNEs' risk of CSR advantages being endangered abroad, and provides opportunities for focal firms to seek strategic assets to further enhance and improve their CSR performance, I hypothesize that firms with CSR advantages have a greater likelihood to invest in developed countries rather than developing countries. Similarly, since firms with CSR advantages have an incentive to protect its CSR reputation abroad, a full rather than a partial control mode will provide them more guarantee in doing so. Therefore, I also hypothesize that firms with high CSR performance are more likely to choose a full rather than partial control of their foreign affiliates.

The two hypotheses above set up links within the three advantages in the OLI paradigm: the link between ownership and location, and the link between ownership and internalization. As a firm's FDI decisions are not only determined by its own characteristics, but also the external circumstances, I go a step further and introduce two strands of IB factors into the paradigm: LOF and host country institutions. Numerous studies have documented the important roles they are playing in influencing MNE's investment decisions (e.g., Eden & Miller, 2004, Guler & Guillén, 2010, Lu, Liu, Wright, & Filatotchev, 2014). However, rare studies have examined LOF and host

country institutions within the OLI paradigm. In this study, I hypothesize that LOF and host country institutions will moderate the relation between the three advantages in the OLI paradigm. For one thing, when the LOF in the host country is high, MNE is at a riskier position of its CSR reputation being misused by irresponsible stakeholders abroad. Hence its incentive to choose developed country and a full control entry method is weakened. For another, if a host country has well-established institutions, firms' incentive to protect their CSR reputation in a developed country and through a full control mode will be weaker.

Sourced from the dataset in the second chapter, I test these hypotheses using a sample of FDI deals that were undertaken by MNEs from 48 home countries[20] to 111 host countries for the period 2003-2014. I find that firms with superior CSR performance, in general, have higher propensity to invest in developed countries rather than developing countries. This is due to firm's incentive to exploit and explore its CSR advantages in developed countries and protect its CSR reputation in more advanced economies. This propensity becomes weaker if the LOF is high. I also find that firms with superior CSR performance prefer to take a full rather than a partial control entry method. This is because they intend to protect their CSR related assets in the host country. This effect is especially strong in host countries with poor institutions.

To test the validity of the results, I perform a series of robustness checks. I employ different thresholds to distinguish between full and partial control entry modes, conduct propensity score matching estimation to address selection bias, introduce

[20] I reported 44 home countries in the previous chapter, but 48 home countries now. The difference is because in the previous chapter most of the variables used were sourced from Worldscope, thus I use "Nation" in Worldscope to classify the focal firm's home country. However, in the current chapter, I focus on each FDI transactions. Therefore, I use SDC Platinum's classification on the focal firm's home country. For the same firm, it may be classified into different home countries by Worldscope and SDC Platinum. Therefore, the reported number of home countries are different here.

instrumental variables, and restrict my analysis only to the subsample of merger and acquisition (M&A) deals. My core findings hold in most cases.

The changing global context demands researchers to adopt a more interdisciplinary and eclectic approach to studying FDI. With this respect, this study will contribute to several strands of literature. First, to the best of my knowledge, it is the first attempt to integrate CSR into the traditional eclectic OLI paradigm. Applying CSR into the paradigm can help to explain where firms with superior CSR performance should locate their foreign investment and how it should manage and control its foreign operations. Secondly, it complements the CSR literature by providing evidence to support the resource based view of CSR (Hart, 1995). Unlike tangible resources that are difficult to transfer into foreign countries, CSR as MNE's important intangible resource and competitive advantage, can be explored and exploited in the international market. Thirdly, it contributes to FDI location research by investigating the investments of firms from a wide scope of home countries into wide scope of host countries. It shows that even with the large country heterogeneity, there is still a consistent pattern for high CSR firms to invest in developed countries to take full advantages of CSR asset. Fourthly, it empirically finds that LOF and host country institutions are very important factors that affects MNE's overseas location decisions and entry mode choice. Firms have incentive to protect their CSR reputation in a developed country and through a full control mode, but the incentive is weakened when LOF is high, or the host country has well-established institutions.

The remainder of the chapter is structured as follows: in the next section, I introduce the theoretical framework, and develop hypotheses that predict how CSR may determine firm's location and internalization choices. Subsequently, I describe

the sample construction procedures, the analytical models employed to test the hypotheses, and the measurement of variables. I present the results in the fourth section and check robustness of the main results in the fifth section. Finally, I conclude with a discussion, including the limitations of the current study and present suggestions for future research.

3.2 Literature review and hypotheses development

3.2.1 A view of the OLI paradigm

The eclectic OLI paradigm of international production (Dunning, 1977) in itself does not constitute a formal theory that can be confronted with data in a scientific way, but it provides a helpful framework for international business researchers to explain MNE's existence and behaviour. The OLI paradigm argues that the propensity of a firm to engage in international production in different host countries is strongly linked to three groups of advantages: ownership (O), location (L), and internalization (I). The variables in each group act comprehensively and interdependently to determine a focal firm's engagement in FDI (Dunning, 1998). The main argument of the OLI paradigm is that the more ownership specific advantages a firm possesses, the greater its inducement to engage in FDI and, hence, to operate and compete in other countries (Campa & Guillén, 1999, Dunning & Lundan, 2008b).

The eclectic OLI paradigm has been used extensively as a theoretical framework to examine MNEs' internalization activities in prior research (Demirbag & Glaister, 2010, Kim & Aguilera, 2016). For example, Demirbag and Glaister (2010) draw on the OLI paradigm to examine the determinants of offshore location choice for R&D projects among developed and emerging regions. They find two groups of FDI

location determinants: on the regional level, R&D wage difference between home and host countries, knowledge infrastructure difference between home and host countries, the science and engineering talent pool size of the host countries, and political risk level of host countries; on the firm level, the focal firm's experience of overseas R&D projects, and prior experience of research in the host country. Singh and Kundu (2002) extend the eclectic paradigm to explain the growth of e-commerce corporations. Their proposed framework not only extends the explanatory power of traditional OLI paradigm in the context of e-business, but also includes a network-based advantages into the paradigm. In this study, I will extend the OLI paradigm by incorporating CSR into the framework and examining CSR's role in firm's location and internalization choice based on the OLI paradigm.

3.2.1.1 Ownership advantage

Ownership advantage refers to the resources and capabilities a focal firm possesses to gain a competitive advantage over its competitors or potential competitors. Firms are viewed as collections of assets and candidate MNEs possess higher-than-average levels of assets that can be applied to production at different locations without reducing their effectiveness. A firm's assets are commonly modelled in terms of a single index of firm productivity, which may encompass product development, managerial structures, patents, and marketing skills, the so-called "headquarter services" (Helpman, 1984). Industries with greater firm heterogeneity will have relatively more firms engaged in FDI.

I argue that CSR performance can be regarded as one type of firm's ownership advantage (O dimension), which brings about competitive advantage to the focal firm.

This is in accord with resource-based view (RBV) of the firm. Hart (1995) proposes a natural RBV of the firm, under which a firm's competitive advantage is based upon the firm's relationship to the natural environment, specifically, three key strategic capabilities: pollution prevention, product stewardship, and sustainable development. McWilliams and Siegel (2011) argue that enhanced CSR reputation is a strategic resource as it increases premium pricing and consumer loyalty and decreases personnel and capital costs. Barney, Ketchen and Wright (2011) propose that CSR related resources such as organization culture, human resources, organizational identity, etc. are sources of firms' sustained competitive advantages. Internally, CSR engagement creates fundamental intangible resources that are associated with employees and corporate governance. Externally, CSR is related to corporate reputation, which is a fundamental intangible resource. Firms with good CSR reputation could improve relations with external stakeholders. They could attract and retain better employees or increase current employees' motivation, morale, commitment and loyalty to the firm (Branco & Rodrigues, 2006). Therefore, CSR could be seen as having strategic value and create competitive advantage to the focal firm. CSR related resources are highly proprietary and no effective substitutes are available (Dierickx & Cool, 1989). For example, the loyalty from employees and trust of customers cannot be bought; neither does an environmental friendly reputation. CSR related resources must be cultivated and earned through a long history and a successful implementation of CSR related strategies and practices. Even if firms are able to acquire imperfect substitutes sometimes, they still need to adapt them, at a cost, to the specific use they intend (Dierickx & Cool, 1989). Just as Williamson (1979) points out, the idiosyncratic nature

of CSR precludes their tradability on open markets and requires them to be accumulated internally in the focal firm as firm-specific component.

Under the OLI paradigm, CSR as a firm-specific advantage can create competitive advantage for the focal firm, thus help firms overcome LOF and promote it to enlarge its scope and scale of global operations. However, this does not mean that firms with superior CSR performance can undertake FDI under any conditions. For CSR to play its role effectively, there needs to be proper configuration of the other two OLI dimensions: location and internalization.

3.2.1.2 Location advantage

Location advantage is related to the favorable factors a host country possesses when receiving FDI. The factors can be economic, technological, infrastructural, political, legal, social and cultural characteristics embedded in the host country. A distinction between "horizontal" and "vertical" FDI has been made in terms of location. Horizontal FDI refers to a scenario in which a firm locates a plant abroad in order to improve its market access to foreign consumers, while vertical FDI seeks lower production costs in a foreign country. In reality, the parent firm in almost all cases retain its headquarters in the home country and the firm-specific or ownership advantages can be seen as generating a flow of "headquarter services" to the host country plant, so all FDIs have a vertical component. The horizontal motive for FDI has the advantage of proximity; but it loses the benefits of concentrating production in the firm's home plant. The vertical motive of FDI implies moving its production facilities to a cheaper foreign location. The empirical work based on data at the level of individual firms by Yeaple (2003) suggests that both motives are important.

Although every country has its own locational advantages, international organizations and academic researchers mainly divide countries into two (developed and developing/less developed) or three (advanced, emerging, and developing) groups (Galan, Gonzalez-Benito, & Zuñiga-Vincente, 2007, Makino, Lau, & Yeh, 2002, The World Bank, 2016, United Nations, 2017). Each group is distinct in its economic development and institutional features (Hoskisson, Eden, Lau, & Wright, 2000). In line with the literature on economic catch-up and convergence, Galan et al. (2007) categorise countries into three groups. The first group comprises the developed countries, or wealthy industrialized countries, which have experienced a convergence in their income levels, consumption patterns, and technological resources and capabilities over the last two decades. The second group consists of the newly industrialized countries, which are catching up with the developed countries, such as countries from Latin America, Eastern Europe and South-Eastern Asia. The third group is made up of less developed countries, such as countries from Latin America, North Africa and the rest of Asia. They further combine the second and third groups into one group named less developed countries because of their similarity in investment development path. The World Bank categorizes countries into four groups according to their income levels: high income countries, upper middle income countries, lower middle income countries, and low income countries. Although the classifications about developed and developing countries are not consistent among different organization or researchers, most of the countries remain in the same group. As World Bank's data and categorization are widely used in academic research, I will base on it and follow Yu, Zhang, Southern and Joiner (2004) and Nielsen (2011) to classify high income countries as developed countries and the rest of the three groups

of countries as developing countries, including the upper middle income, lower middle income, and low income countries.

Inefficient judiciary, unpredictable and burdensome regulations, heavy bureaucracy, political instability or discontinuity in government policies, characterizes developing countries. Developed countries tend to have a well-established infrastructure, a matured market mechanism, and more advanced contracting and intellectual property rights regime (Cuervo-Cazurra & Genc, 2008).

Because developed and developing countries are embedded with significantly different resources and institutions, they provide different locational advantages for MNEs to choose in their FDI process. For example, Disdier and Mayer (2004) investigate the determinants of location choices of French MNEs in Eastern and Western Europe and find that investors consider Western and Eastern Europe as two distinct groups of potential host countries. Focusing on Spanish MNEs, Galan et al. (2007) find that firm managers consider factors associated with strategic asset seeking when locating in developed countries (European Union) and social and cultural factors when locating in less developed countries (Latin America).

3.2.1.3 Internalization advantage

Internalization advantage stems from the market imperfections and transaction costs associated with the different methods of entering a foreign market, including exporting, licensing, contracting, acquisition, joint venture, wholly owned subsidiaries, etc. The optimal degree of internalization reflects a balance between the transaction costs of using the market and the organizational costs of running a firm. More uncertainty raises the likelihood that production will be vertically integrated through MNEs. More

efficient firms and firms for which headquarter services are more important should exhibit internalization (the owner contracts with the supplier, who becomes an employee) while less efficient firms should exhibit arm's-length trade (the supplier remains a separate legal entity) (Antras & Helpman, 2004, Ethier, 1986).

The classification of a firm's internalization level is diverse as it relates to MNEs' foreign market entry strategies. For example, Buckley and Casson (1998) compare four types of foreign market entry strategies: exporting, licensing, joint venturing and wholly owned foreign investment, each with an increasing level of internalization. Meyer, Estrin, Bhaumik and Peng (2009) classified it into three: Greenfield, acquisition and joint venture. A binary definition is also popular, such as a shared control governance mode versus a full control mode (Nielsen & Nielsen, 2011), acquisition versus alliance (Ang, Benischke, & Doh, 2015), etc. As I focus more on firm's extent of internalization rather than other entry skill or techniques, I follow Lahiri, Elango and Kundu (2014) and define two levels of internalization: full control and partial control.

3.2.1.4 The interplay between ownership, location and internalization advantages

Among Dunning's three dimensions of advantages, ownership advantages are firm-specific, while location advantages and internalization advantages depend on both firm and country characteristics and their interplay, thus are context-specific. For CSR to be taken full advantage of, firms need to invest in an appropriate location using proper entry method. In another word, controlling for other firm-specific ownership advantages, MNEs need to choose the best configuration of location and internalization to maximize CSR's role in overcoming LOF in FDI. As ownership

advantage such as CSR is sourced from firm's own endowments, it will affect the choice of other two dimensions: location and internalization. CSR in itself cannot guarantee the survival and success of FDI. In conjunction with my first chapter, my argument in this chapter is that firms with superior CSR performance have higher propensity to invest in developed countries and under a full control mode. This is due to firm's incentive to exploit and explore its CSR advantages in developed countries and protect its reputation by taking full control of its foreign subsidiaries. A detailed discussion is made in the following section.

3.2.2 CSR and location choice

3.2.2.1 Review on developed and developing countries as investment destination

Firms choose to invest in either developed or developing countries under three typical views: asset exploitation view (Makino et al., 2002), competence constraint view, and the institutional escapism view (Luo et al., 2010). These views are either used in isolation (Child & Rodrigues, 2005, Duanmu, 2012, Rui & Yip, 2008) or combined (Luo, Xue, & Han, 2010).

The asset exploitation perspective argues that MNEs possess proprietary resources, skills and capabilities which bring about competitive advantages in the international market (Hymer, 1976). FDI is an asset-exploitation process that occurs when firms use their rent-yielding resources and skills to achieve a monopolistic position in the host country (Dunning & Lundan, 2008b, Makino et al., 2002). This view has long been considered as a necessary motivation of FDI (Yamakawa, Peng, & Deeds, 2008). It is widely used to explain developed country firm's investment motivation in developed countries (Galan et al., 2007), or developing country firm's

investment in developing countries (Cuervo-Cazurra & Genc, 2008). This is due to the fact that LOF tends to be lower when investing in host countries that are economically, geographically, culturally and politically proximate to the home country (Asmussen, Pedersen, & Dhanaraj, 2009).

Later studies recognized that firms invest in foreign markets not only to exploit, but also to explore and develop their firm specific advantages due to their own competence constraint (Duanmu, 2012, Luo et al., 2010). The underlying assumption of the competence constraint view is that key resources and capabilities that firms seek are often distributed in different countries rather than existing within a single country (Makino et al., 2002). Therefore, firms will undertake overseas investment to compensate for their competitive disadvantages in their home country. In particular, firms from developing countries tend to seek strategic assets through acquiring developed country firms (Child & Tsai, 2005, Duanmu, 2012, Rui & Yip, 2008), whereas firms from developed countries seek lower production cost, advantageous tariff and tax, or natural resources in developing countries (Luo et al., 2010).

Institutional escapism views FDI as a firm's escape response to the misalignment between firm needs and home country institutions (Witt & Lewin, 2007). For example, Vernon (1998) finds that firms relocate their domicile to escape from the high tax rates in their home country. When considering either developed or developing countries as the targeted location, poor institutional environments in the developing country impede inward FDI and push MNEs to invest in developed countries (Witt & Lewin, 2007, Yamakawa et al., 2008). For example, Le and Zak (2006) showed that capital flight in developing countries is partly driven by political risk, including unconstitutional government change, internal uprisings and policy uncertainty.

In general, the three views above co-exist and push MNEs to expand abroad. The actual influence of each view on FDI varies among different countries, industries and firms. They provide a strong theoretical base in analysing the relation between firm's CSR performance and its FDI location choice.

3.2.2.2 Link CSR and location choice

Based on the views developed in the previous section, I argue that firms with superior CSR performance have higher propensity to invest in developed countries rather than developing countries.

First of all, according to the institutional escapism view, a firm with superior CSR performance needs to protect its CSR reputation at present, and maintain, improve, or strengthen its CSR reputation in the longer term. To do so, it is better to choose an FDI destination that could protect its CSR reputation and reduce the risk of its reputation being destroyed or degraded in foreign countries. Although exposed to different institutions, many developing countries tend to have poor institutional environments. Investing in developing countries is risky for firms with superior CSR reputation as they are not able to provide appropriate environment to protect firms' CSR assets from being destroyed. On the contrary, developed countries have the ability and environment to ensure the implementation and continuation of better CSR practice abroad.

Second, based on the competence constraint view, firms seek strategic assets through FDI. Strategic assets, such as advanced technology, know-how, and brand assets are more likely to exist in developed country markets rather than developing

country markets (Rui & Yip, 2008).21 By undertaking FDI in developed countries, firms with superior CSR performance can attract and utilize the strategic assets in the developed country to further strengthen its own CSR performance at home. This works as a loop: 1) a firm with superior CSR performance in the home country; 2) needs to protect and strengthen CSR reputation abroad; 3) needs to seek strategic assets in the host country; 4) improved ability to integrate the acquired strategic assets to create firm specific advantages; 5) a stronger CSR performance. This argument is consistent with Eccles et al. (2014), who suggest that high sustainability companies are more long-term oriented and outperform their counterparts in both the market and accounting performance in the long run.

On the other hand, a superior CSR performance impedes firms from investing in developing countries. Competing with local firms in the developing country, foreign firms face LOF, which puts them in a disadvantageous position. Developing countries tend to have lower standards in legal, environmental and social requirements. Therefore local firms have lower operating cost (Yildiz & Fey, 2012). Foreign firms, on the contrary, have to spend more on CSR related activities to maintain a good CSR reputation, which increases its cost. Furthermore, to maintain a good CSR reputation, firms with superior CSR performance tend to avoid operating in an irresponsible way. This further restricts their ability to operate in a challenging institutional environment, such as in a developing country where the contracting environment and market mechanism are less developed.

[21] For example, according to a recent report from World Intellectual Property Organization, around 80.4% of patent applications were made from developed countries in 2005. Although this figure has declined yearly, developed country still takes up 53.5% of patent applications in 2015 (WIPO, 2016).

In summary, as developed countries have location advantages over developing countries in attracting strategic asset investment and protecting CSR reputation, firms with CSR advantages have higher propensity to invest in developed countries rather than developing countries. I propose the following hypothesis:

Hypothesis 3-1: MNEs are more likely to invest in developed countries than in developing countries when they have a high CSR performance score.

3.2.3 CSR, LOF, and location choice

A major premise of the LOF theory is that firm assets that are within one location cannot be dislodged and transferred to other locations without incurring extra costs (Kim & Aguilera, 2016). The concept of LOF was originated with the work of Hymer (1960) to describe the social and economic disadvantages faced by foreign firms when competing against purely domestic firms in the local market. Those disadvantages are due to lack of information about the host market, host market discrimination against outsiders, and the need for coordination across country borders (Eden & Miller, 2004). Although LOF exists widespread in oversea investment, it should not be seen as a universal constant, but as a context specific variable (Asmussen, 2009, Miller & Parkhe, 2002, Nachum, 2003). Different industries or country pairs impose different levels of challenges to MNEs when they invest abroad. While foreign firms encounter LOF in both developed and developing countries, the extent of LOF that they encounter are different. In the second chapter, I examine both firms that do and do not invest abroad, and use three sets of variables (prior FDI experience, language, home country and firm internationalization level) as LOF proxies to examine the relation

between CSR performance and FDI propensity. Now that I look specifically at FDI transactions in this chapter, I am able to consider other sets of LOF proxies and use them to examine the relation between CSR performance and FDI location/internalization choice.

3.2.3.1 Distance

In Zaheer (1995: 341), LOF partly arises "from cultural, political, and economic differences", which suggests that, in the context of OLI paradigm, the variation of LOF due to the difference between the home and host country affect a firm's "L" and "I" choices in the OLI paradigm. To measure the difference between countries, several types of distance, such as cultural distance (e.g., Caprar, Devinney, Kirkman, & Caligiuri, 2015, Kogut & Singh, 1988), geographic distance (e.g., Campbell et al., 2012), institutional distance (e.g., Hernández & Nieto, 2015, Salomon & Wu, 2012), regulatory and normative distance (e.g., Ang et al., 2015) have been used by international business scholars. Greater distance is generally related to higher unfamiliarity and discriminatory hazards of LOF (Eden & Miller, 2004). This is in line with the liability of regional foreignness literature, which suggests that MNEs' international expansion should occur primarily within their home regions, and to a much lesser degree in other regions due to the lower level of LOF within the same regions (Asmussen, 2009, Rugman & Verbeke, 2007). Cuervo-Cazurra et al. (2007) point out that LOF happens when a firm lacks complementary resources required to operate in a new institutional environment and is lower when the host environment is similar to its home country. The increase of country distance increases the level of

LOF and brings in more uncertainties and barriers in cross-border transactions (Treviño & Mixon Jr, 2004, Zhou & Guillén, 2015).

Distance is not a unidimensional concept, but rather a concept with multi-dimensions that capture heterogeneity between countries. In this chapter, I follow Campbell et al. (2012) and Lavie and Miller (2008) and use Ghemawat's CAGE approach to capturing distance between home and host countries, although the CAGE measure, like other distance measures, is not a perfect proxy for the LOF involved in cross-border transactions (Berry et al., 2010). CAGE represents cultural, administrative, geographic, and economic distance. Cultural distance refers to differences in social norms, religions, languages, and ethnicities between the home and host countries. Administrative distance is defined as the differences in government policies, regulations and legal systems. Geographic distance reflects physical remoteness. Finally, economic distance is associated with differences in consumer wealth between countries, along with differences in costs and quality of factors of production (Ghemawat, 2001). The smaller the distance between the home and host countries, the more similar the countries are in terms of culture, administration, geography, and economy, thus the lower level of unfamiliarity and discrimination hazards, and reduced costs in coordination and communication.

3.2.3.2 Type of assets invested

The industry of assets invested will impose different levels of LOF to MNEs as well (Zaheer, 1995). For example, Caves (1982) argues that LOF is higher in a simple, market-seeking, horizontal MNE where foreign subsidiaries are replicas of each other and provides similar goods and services to the local market. On the contrary, LOF is

lower for a vertical MNE which uses its geographically dispersed subunits as stages in a globally value-adding system and each unit can exploit economies of scale or scope in an integrated system (Ghoshal & Nohria, 1989). Delios & Beamish (1999) suggest that firms should take a lower equity position when requiring complementary resources to establish a foreign entry, but a higher ownership as the specificity of the assets transferred to the foreign affiliate increases. In this chapter, I consider MNE's investment in two specific industries in the host country: the resource based industry and the asset specific industry.

The resource based industry used in this chapter refers to industries including food and beverages, tobacco, textile mills, wood except furniture, pulp and paper, petroleum, and primary metals.[22] MNEs investing in these industries encounter higher level of LOF due to: (1) a discriminative treatment as previous studies suggest that local firms are more likely than foreign firms to have privileged access to a domestic supply of those resources (Ang et al., 2015); (2) these resources represent activities that countries engage in the early stage during their industrialization process, thus are least likely to depend on sophisticated R&D and marketing capabilities from MNEs (Gomes-Casseres, 1989). Based on the two arguments, the access to and familiarity with resource based industry facilitate local firms to take an advantageous position, while MNEs that have more sophisticated R&D and marketing capabilities are exposed to a higher level of LOF.

The asset specific industry is associated with industries that require specialized assets in production. Titman (1984) find that liquidation is especially costly for firms

[22] The "resource" here mainly refers to natural resources. In other part of the article, I have used the "Resource based view". That "resource" has a broader coverage including both tangible and intangible resources.

that make products requiring specialized assets. Titman and Wessels (1988) further document that industries that have SIC codes between 3400 and 3999 (manufacturers of machines, tools, instruments, etc.) require highly specialized assets. As firms with specialized assets are exposed to high transaction costs (Anderson & Gatignon, 1986), the relational hazards of LOF they encounter will be especially prominent.

3.2.3.3 Moderating effect of LOF on the link between CSR and FDI location choice

I link the "O" and "L" advantages of OLI in section 3.2.2 and hypothesize that firms with superior CSR performance have higher propensity to invest in developed countries rather than in developing countries. In this section, I examine how this link changes with varying levels of LOF.

The first incentive for MNEs with CSR advantages to choose developed countries rather than developing countries as investment destinations is to seek strategic assets. This incentive will be weakened if they encounter higher levels of LOF in the host country due to two reasons. On the one hand, unfamiliarity related LOF, such as greater country distance, resource based industry, or asset specific industry implies more expenditure of MNEs on information searching, processing, and appraisal, thus make the seeking process extremely costly for MNEs, which leads to a lower incentive to seek strategic assets in the destination country. On the other hand, LOF sourced from discrimination and relational hazards make it more difficult for MNEs to establish effective relationships with host country stakeholders. The coordination and negotiation cost will be high. More barriers in the host country weaken firm's incentive to seek strategic assets in the host country.

The second incentive is to protect CSR reputation in the developed country. Similar to the first incentive, it is also weakened if a firm faces high levels of LOF in the host country. First, when the firms are not familiar with the host country's institutions and regulations, it would be difficult for them to utilize the appropriate institutional tools to protect its reputation abroad. Second, if the discrimination hazard is high, then the firm's CSR reputation are not recognized by the host country well, the incentive of protecting it in the host country will be lower. Third, when the relational LOF is high, it becomes difficult to understand, negotiate and cooperate with host country stakeholders, thus, firm's CSR reputation is at a higher risk of being damaged, the related cost of protecting it will be very high, thus reducing the incentive.

In summary, when the LOF in the host country is high, MNE incurs higher costs in seeking strategic assets and is at a riskier position of its CSR reputation from being damaged by irresponsible stakeholders. That is to say, its incentive to choose developed country over developing country as host country is weakened. Therefore, I hypothesize that:

Hypothesis 3-2: The effect of CSR performance on MNEs' propensity to invest in developed countries than developing countries is weaker for MNEs with greater levels of LOF.

3.2.4 CSR and internalization choice

3.2.4.1 Review on internalization theory

The third pillar of OLI is internalization advantage. Internalization advantage works together with ownership and location advantages in FDI. It refers to the advantage of

hierarchies over a collaborative mode when firms enter into a foreign market (Dunning & Lundan, 2008b). Hierarchy could serve as an alternative mechanism to markets in coordinating cross-border transactions and activities.

Internationalization theory suggests that firms engage in FDI when they perceive that the net benefits from owning and controlling value-added activities outside their national boundaries exceed those from external trading relationships (Buckley & Casson, 1976). When the market is unable to organize a satisfying deal between potential dealers, that is to say, the presence of market failure, firms will internalize the operations within the firm boundary (Dunning, 1998).

Dunning and Lundan (2008b) identified several occasions of market failure that makes hierarchies more favourable for MNEs. Firstly, incomplete or asymmetrical information between the buyer and seller before, during and after the transactions. This failure is particularly likely to be associated with cross-border transactions as the dealers involved are more culturally, geographically, politically, or economically distant from each other. It is more difficult for cross-border dealers to gain sufficient information to undertake market transactions. Secondly, the market is not able to precisely evaluate the benefits and costs of a single transaction. Under such circumstances, cross-border transactions engender additional advantages for a hierarchy rather than a collaborative mode. The third occasion is when the demand for a product is inadequate to enable the producing firms to fully capture advantages from economies of scale, scope and diversification.

Market failure helps to explain the organization and governance of FDI. Due to the existence of market failure, firms have incentive to internalize value-added activities under common control to maximize the benefits from firm-specific

advantages (O dimension) and reduce transaction costs and risk (Makino et al., 2002). The higher degree of market failure, such as exchange and political risk, information asymmetry, and institutional, social and environmental differences in cross border transactions, the more control a firm seeks in its foreign subsidiaries (Dunning, 1980).

Firms could either choose a full control entry mode to minimize the transaction costs associated with the inter-firm transfer of proprietary knowledge and capabilities (Buckley & Hashai, 2009), or a partial control mode to counteract or exploit political and environmental volatility in FDI (Kogut & Singh, 1988). Different control modes represent different levels of resource commitment and risk (Anderson & Gatignon, 1986). Most studies use 90% or above as threshold to distinguish between full and partial control mode (Chen, 2008, Gomes-Casseres, 1989, Lahiri et al., 2014, Nielsen & Nielsen, 2011, Pan, Teng, Supapol, Lu, Huang, & Wang, 2014).

A partial control entry mode is relatively less risky than a full control mode. Firstly, it limits the risk of each partner only to their share of the investment (Nielsen & Nielsen, 2011). Secondly, while foreign firms are unfamiliar with the local environment, they can overcome the unfamiliarity LOF through cooperating with local partners, who could work as a bridge to provide them with rich information due to their cultural ties and market experience in the local environment (Jarillo, 1988). The stronger their needs to rely on local resource, the greater the likelihood that firms choose a partial ownership model for FDI. In addition, risk and cost associated with country distance between home and host country could be mitigated through cooperation with a local firm (Nielsen & Nielsen, 2011). Comparing with the partial control mode, a full control mode involves higher irreversible investments, thus are less flexible and more vulnerable to environmental uncertainties and risk (Nielsen &

Nielsen, 2011). As environmental risks increases, firms are more likely to choose partial control mode over full control mode in order to limit the risk exposure and increase flexibility (Luo, 2001).

However, full control mode has advantages over partial control as well. While partial control mode is subject to high transaction costs, a full control mode could deal with market failure more effectively. Where there is a likelihood of property rights being dissipated or abused by foreign partners, or a possibility of supply disruption, a full control entry mode is preferred (Dunning & Lundan, 2008b). When transaction related costs are too high, firms seek to integrate their activities and take full control of their foreign operations in safeguarding their knowledge from being inappropriately used by cooperative partners (Brouthers, 2002). Anderson and Gatignon (1986) proposed that under four types of high asset specificity (proprietary content, poorly understood products, customization, and product class immaturity), a higher control mode offers more efficiency than a lower one. The higher the transaction specificity, the more likelihood a firm seeks full control rather than a partial control in the foreign market. The threat of opportunism due to shirking, free-riding or technology dissemination by partner firms encourage MNEs to seek greater control over their foreign operations (Ahsan & Musteen, 2011).

3.2.4.2 Link between CSR and a firm's internalization choice

Dunning (1980) argues that without the advantages of internalizations, FDI would be replaced by the international transaction of resources on a contractual basis between independent buyers and sellers. The importance of internalization advantages is evident; however, the extent and level of internalization varies in different firms' FDI

projects. Here, I argue that a firm's CSR performance affects its FDI internalization choice.

Firstly, CSR related resources and capabilities can be regarded as highly firm-specific and proprietary, thus are difficult to be shared with, transferred into, and implemented by a foreign co-operator through a partial control mode. For example, trust sourced from CSR reputation is not a commodity which can be bought (Arrow, 1974). Loyalty from suppliers and trust from customers must be earned and cultivated through a long-term history of honest dealings (Dierickx & Cool, 1989). A superior environmental reputation has also to be accumulated through complicated processes, including the measurement and assessment of environmental costs, the design of innovation based solutions, and a proper and efficient implementation (Porter & van der Linde, 1995b). Because of the innate proprietary characteristic, CSR performance has a real and practical economic value, but is difficult to be traded on the open market or shared with outsiders through a partial mode. Barney et al. (2011) argues that when a firm subcontracts activity to other corporations or engages in alliances, there is potential for adverse CSR behaviour by partner firms that can reduce the value of the focal firm. Now that sharing their CSR superiority with outsiders is not efficient, a full control mode enables the focal firm to maintain and continue its CSR practice abroad. In other words, it is optimal to continue and strengthen home country CSR advantages into host country by taking full control of foreign subsidiaries.

Secondly, while a partial control model exposes a focal firm to the risk of its CSR reputation being harmed by outsiders, a full control of foreign subsidiaries enables the focal firm to continue and enhance its CSR practice in the host country. Klapper and Love (2004) suggests that it is optimal for firms with large proportions of

intangible assets to adopt stricter governance mechanisms as a signaling effect to indicate investors that they are preventing the future misuse of these assets. As CSR reputation is an important intangible asset, firms are more likely to choose a higher or full control mode rather than a lower one to protect it.

Considering the above arguments, a full control mode is preferred to a partial one for MNEs who possess CSR advantages due to the reduced transaction costs and prevention of CSR related resources and capabilities being damaged by potential outsiders in a foreign country. However, an opposite argument could also be made. From the stakeholder theory, firms with superior CSR performance tend to have lower level of informational asymmetry (Cheng et al., 2014), and higher levels of external legitimacy (Kolk, 2016), which make them more approachable by host country stakeholders, thus greatly reduce its transaction costs in FDI. From this perspective, firms with superior CSR performance should choose a partial control mode rather than a full control mode due to the reduced transaction costs.

Based on the arguments above, firms with superior CSR performance have an incentive to choose either a full control or a partial control mode. Linking the ownership and internalization advantages in the OLI paradigm, I propose the following hypothesis:

Hypothesis 3-3: MNEs' CSR performance affect their FDI entry mode choice.

3.2.5 CSR, LOF, and internalization choice

As being discussed in section 3.2.4.2, the extent of LOF MNE encounters greatly affects their entry mode choice. Generally speaking, as LOF increases between the

home and host country, MNEs are more likely to choose a low ownership strategy (Eden & Miller, 2004). In this section, I examine the effect of LOF on the relation between CSR performance and firm's internalization choice. I argue that the LOF will affect the relation in three ways:

First, LOF incurs extra costs and risk for MNEs to do business abroad (Hymer, 1976). Expansion through a full control mode is perceived as riskier because of its irreversible nature, which reduces the strategic flexibility of firms, and lead to loss of potential revenue (Hashai, 2011, Johanson & Vahlne, 1977). These risks intensify even more in the case of high CSR firms as such firms are subject to the "liability of reputation". For such firms, behaviour constraints and unfamiliarity with the host country are likely to make the penetration into new foreign markets even risker (Hashai, 2011). Therefore, their likelihood of make substantial irreversible resource commitments to such markets is weakened. In contrast, a partial ownership enables MNE to access information and resources through a local partner, thus reduce the unfamiliarity LOF and minimize the investment risks (Dikova & van Witteloostuijn, 2007).

Second, LOF tend to be high under a complicated and discriminative context. In such an environment, although a firm get managerial autonomy and reputation protection from a full control mode, yet it loses the legitimacy from a local partner (Dikova & van Witteloostuijn, 2007). From a behavioural perspective, MNE managers are less able to identify potential risks of its CSR assets being damaged towards host country investment, thus are reluctant to allocate a great proportion of capital in overseas activities.

Third, the existence of LOF makes full ownership exceedingly costly or difficult. This is in line with Campbell et al. (2012) who demonstrate that MNEs are reluctant to engage in host country CSR when the LOF is high. The stakeholder theory suggests that firms with superior CSR performance tend to have lower level of informational asymmetry (Cheng et al., 2014), and higher levels of external legitimacy (Kolk, 2016), which make them more approachable by host country stakeholders. My finding in the second chapter also suggest that CSR help firms overcome the LOF. From this perspective, firms with superior CSR performance should choose a partial control mode rather than a full control mode due to the enhanced stakeholder relationship.

In summary, a full control mode ensures the greatest control over the CSR related assets abroad but incurs higher LOF; a partial control, on the other hand, incurs lower LOF and provides partial protection against CSR dissipation in the host country (Martin & Salomon, 2003). Therefore, I hypothesize that:

Hypothesis 3-4: The effect of CSR performance on MNEs' propensity to choose a full control rather than a partial control mode is weaker for MNEs with greater levels of LOF.

3.2.6 CSR, host country institutions, and internalization choice

Dunning and Lundan (2008a) claims that institutions play a major role in determining the complementarity or substitutability of different entry modes within the eclectic OLI paradigm. Previous studies have also confirmed that host country institutions influence MNEs' capabilities to get access to external resources and their willingness

to take risks in the host country (Guler & Guillén, 2010). Well-established market supporting institutions are able to provide supporting services to foreign firms (Lu, 2014). Efficient common infrastructure can reduce transactional uncertainty (McEvily & Zaheer, 1999). Institutions also enable firms to gain sufficient knowledge about the institutional environment in that country. Empirically, Delios and Beamish (1999) suggest that experience and institutional factors are the most important influences on the ownership position a MNE takes in foreign investment. Meyer et al. (2009) finds that in a weaker institutional framework, joint ventures are used to access most of the resources, but in a stronger institutional framework, acquisitions can play a more important role in accessing resources that are intangible and organizationally embedded. Dikova and van Witteloostuijn (2007) also demonstrate that the degree of host country's institutional advancement moderates the effect of technological intensity and international strategy on entry mode choice. In this section, I will examine the effect of host country institutions on the relation between CSR performance and firm's internalization choice.[23] I argue that host country institutions moderate the relation in two ways:

First, well-established institutions in the host country have mechanisms to protect intangible assets, thus reduce the MNE's risk that its CSR reputation is damaged by outsiders. Therefore, if the host country has well-established institutions, MNE's incentive to choose a full control mode to protect CSR reputation abroad is

[23] I do not examine the effect of host country institutions on the relation between CSR performance and FDI location choice. This is because in my research design, the location choice (developed vs developing countries) is highly correlated with the country institutions, i.e., developed countries tend to have well-developed institutions and developing countries tend to have under-developed institutions (Cuervo-Cazurra & Genc, 2008, Kauffmann, Kraay, & Mastruzzi, 2010). In other words, the institutional characteristics have been embedded into host country locational advantages in the OLI paradigm.

weakened. Property rights regulations constrain government expropriation of firms (Lu, 2014). Contracting institutions protect firms from infringement by private businesses (Acemoglu & Johnson, 2005). Firms face lower risk and have stronger capabilities in protecting their CSR reputation under a well-developed host country institution. Therefore, their reliance on full control method rather than partial control method to protect their CSR reputation is weakened if the host country has a well-established institutional environment. Thus I argue that well-developed institutions in host countries reduce the importance of reputation protection as firms face low political risks and uncertainty when operating in such a context. On the other hand, under-developed institutions generate hazards of expropriation and transactional uncertainty, and so foreign firms have to choose a full control entry method rather than a partial one to deal with political and operational risks in foreign locations.

Second, I build on past findings that firms with superior CSR performance have better stakeholder engagement (Cheng et al., 2014), which reduce the transaction costs in FDI. Well-developed institutions help foreign firms make links with host country stakeholders (Lu et al., 2014). MNEs operating in countries with well-established institution face lower level of information asymmetry, thus are at a lower cost when cooperating with local partners. Moreover, they can access the resource of local partners at a lower risk and cost. Thus, firms with CSR advantages are induced to choose a partial entry mode in countries with well-established institutions.

In summary, well-developed host country institutions help to boost risk-taking capabilities by reducing information asymmetry and regulatory ambiguity associated with investment projects (Lu, 2014). With regard to a firm with superior CSR advantages, such institutional context reduces the benefits of full control entry method

that are aimed at safeguarding CSR reputation. Therefore, when the host countries have well-established institutions, foreign investor on the one hand, have lower incentive to protect its CSR related assets abroad through a full control mode; on the other hand, are induced to choose a partial control mode to access local resources. Therefore, I hypothesize that:

> *Hypothesis 3-5: The effect of CSR performance on MNEs' propensity to choose a full control rather than a partial control mode is weaker for MNEs investing in host countries with well-established institutions.*

3.3 Data, sample, and method

3.3.1 Sample construction

The sample used in this chapter is based on the dataset used in the first chapter, but restricted to firms that undertook FDI only. This is because instead of investigating whether firms undertake FDI or not, I only focus on firms that did FDI and examine their location and internalization choice in each FDI transaction. The sample construction process is:

Based on the 31,437 deal that were identified in Section 2.3.1 in the second chapter,[24] I first exclude deals with host countries that have fewer than five deals in the dataset and deals with missing value for firm level and country level control variables, the resulting sample is composed of 24,109 deals. Second, I construct two samples from the 24,109 deals: location sample for FDI location choice study and internalization sample for FDI internationalization choice study. For the location

[24] I do not have data for Greenfield investment, thus this type of FDI is not included in data analysis.

sample, I exclude observations when a firm invests in both developed and developing countries in the same year. Similarly, for the internalization sample, I exclude firms that undertake both full control and partial control FDI in the same year. Finally, there are 13,338 observations in the location sample, and 12,228 observations in the internalization sample. Deals in the location sample were made by 2,503 firms from 48 home countries investing into 104 host countries for the time period 2013-2014. Deals in the internalization sample were made by 2,467 firms from 48 home countries investing into 111 host countries. The sample distribution is presented in Table 3-1. I put two samples together for comparison. The frequency and percentage numbers without bracket are for the location sample. The frequency and percentage numbers inside the bracket are for the internationalization sample.

[Insert Table 3-1 about here]

As shown from Panel A, the United States, the United Kingdom and Japan are the top three countries that make outward FDI, which take up 46.74% of the total number of deals in the location sample and 48.80% in the internalization sample.[25] This is in accord with my results from Chapter 2 as the three countries have the largest number of firms that are covered by ASSET4 database.

[25] To investigate whether my findings are driven by specific economies, I follow Cahan, De Villiers, Jeter, Naiker and Van Staden (2015) and exclude firms from the top three countries (the United States, the United Kingdom, and Japan) that have the largest number of observations in the sample one at a time. I also exclude firms from Nordic countries including Sweden, Finland, Norway, and Denmark which have the highest country governance index among all countries. The results are qualitatively similar to the results from the main regression models.

Panel B presents the deal distribution across host countries. In both samples, the top six FDI recipients are the United States, the United Kingdom, Germany, Canada, France, and Australia. The United States is the leader in both the source and the recipient of FDI and there is a sharp drop-off in FDI activities for the next most active country (the United Kingdom). China is the most active FDI recipient among all the developing economies. It is the eleventh most frequent host country in the location sample (received 255 FDIs) and the seventh in the internalization sample (received 352 FDIs). The outward FDI distribution of my sample is similar to other papers that use SDC Platinum to retrieve FDI data. For example, in Ahern et al. (2015)'s international sample when examining the effect of cultural values on cross-border mergers, the top five target nations are the United States, the United Kingdom, Canada, Australia, and Japan.

Panel C presents the sample distribution across industrial sectors. It shows that 42.38% of the location sample firms and 44.99% of the internalization sample firms are in manufacturing industries respectively. Following manufacturing, the next two most active industries is finance, insurance and real estates, and services. Agriculture, forestry and fishing industries have the least number of observations in both samples.

Panel D presents the annual number of FDI deals for the sample period. It shows that the number increases steadily from 2003 to 2006 in both samples. There is a drop of FDI deals after the financial crisis in 2009. The number rises up again from 2010 to 2011 and drops slightly in 2013 and 2014. My results are generally consistent with other FDI studies. For example, Kowalewski and Radło (2014)'s study on Polish multinational enterprises from 2003 to 2014 find a similar pattern of cross-border M&A deals and greenfield FDI projects as mine.

Overall, due to the same data source, the distribution of two samples are qualitatively similar. Both samples are dominated by manufacturing MNEs from developed countries investing into developed countries.

3.3.2 Model specification

I use two binomial logit regressions as the main models to analyze firm's two FDI choices: the location choice between developed and developing countries, and the internalization choice between full control and partial control modes. A general form of the model is expressed as:

$$\Pr(FDI_{i,j,t}) = f(\alpha + \beta * CSR_{i,t-1} + \gamma * X_{i,t-1} + \delta * Y_{j,t-1} + \varepsilon * \sum Year\ FE + \theta * \sum Sector\ FE + \varphi * \sum Region\ FE)) \quad (3\text{-}1)$$

Where FDI denotes firm's FDI choice; i indexes firms; j indexes host countries; t indexes years; CSR is the variable of interest; X denotes firm level control variables; Y denotes country level control variables. Year, sector and region fixed effects are included in the model to control for different year, sector and regional characteristics.

To test the first and second hypotheses in this chapter (i.e., location choice of MNEs), the dependent variable is a dummy variable equals one if the host country of the FDI is a developed country and zero if the host country is a developing country. The World Bank annually categorizes countries into four groups according to their economy development: high income countries, upper middle income countries, lower middle income countries and low income countries. I follow Yu et al. (2014) and Nielsen (2011) to classify high income countries as developed countries and the rest

of the countries as developing countries.[26]

To test the third, fourth, and fifth hypotheses in this chapter (i.e., internalization choice of MNEs), the dependent variable is a dummy variable that equals one if the FDI entry method results in full control of the foreign assets and zero if it is associated with partial control. Different thresholds have been used to distinguish between a full and partial mode (e.g., Chen, 2008, Gomes-Casseres, 1989, Lahiri et al., 2014, Nielsen & Nielsen, 2011, Pan et al., 2014). Here I follow Lahiri et al. (2014) and use 100% as threshold. For a full control mode, choosing 100% eliminates the influence of outside partners and guarantees firms to have absolute control of their foreign operations. In the second chapter, I classify FDI deals into four entry methods: full acquisition, partial acquisition, joint venture and strategic alliance. According to the current definition, all partial acquisitions, joint ventures, strategic alliances, and some of the full acquisition deals belong to the partial control mode, only acquisitions when the firm owns 100% of its foreign subsidiaries after acquisition are classified as full control mode. As a robustness check, other thresholds including 90%, and 50% are used to redo the test.

The sample distributions according to the above definitions of dependent variables are presented in Table 3-2. It shows that 87.41% of FDI deals are invested into developed countries, whereas only 12.59% are into developing countries. This is not consistent with the statistics reported by United Nations. According to their World Investment Report published in 2016, 55% of FDI inflows are towards developed countries, while 45% are invested into developing and transition economies. There may be two reasons for the inconsistency. First, my sample is biased towards larger

[26] The results are robust for alternative definition based on International Monetary Fund (IMF)'s classification.

countries in the developed category due to ESG and SDC Platinum data availability. Second, corporate investment is only one fraction of FDI flows picked up by the World Bank and the United Nations. Their statistics also cover government and NGO funded FDI projects. When looking into internalization choice, 77.04% of FDI deals have a full control mode and 22.96% of deals partial control mode. This is consistent with other FDI entry mode studies. For example, in Brouthers (2002)'s sample, 70% of the observations are wholly owned subsidiaries (95% or more ownership) and 30% of observations are joint ventures (5-95% ownership).

[Insert Table 3-2 about here]

3.3.3 Independent variables

3.3.3.1 CSR measures

I use both firm's overall CSR performance score, and individual pillar (environmental, social and corporate governance) CSR performance scores. CSR related measures have been discussed in the previous chapter, therefore are not repeated here.

3.3.3.2 LOF proxies

To test the moderating effects of LOF on the O-L and O-I relations, I measure expected LOF costs using two groups of proxies as outlined in section 3.2.3.1 and 3.2.3.2. The first group includes four country distance measures that describe the multi-dimensional heterogeneity between the home and host country: cultural, administrative, geographic, and economic distances. These distances have been widely used in previous studies (Campbell et al., 2012, Lu et al., 2014, Makino & Tsang,

2011). They are sourced from Berry et al. (2010) and Centre d'Études Prospectives et d'Informations Internationales (CEPII).

The second group of LOF proxies are industry level dummy variables. The first one is "resource based industry". It is coded as one if the asset acquired or allied is in one of the following two digit SIC industries: food and kindred products (SIC 20), tobacco products (SIC 21), textile mill products (SIC 22), furniture and fixtures (SIC 24), paper and allied products (26), petroleum refining and related industries (SIC 29), and primary metal industries (SIC 33) (Ang et al., 2015, Gomes-Casseres, 1989, Lu, 2002). The second one is "asset specific industry". It is set equal to one if the asset acquired or allied has an SIC codes between 3400 and 3999 and zero otherwise (Titman, 1984, Titman & Wessels, 1988).

3.3.3.3 Host country institutions

I adopt the Worldwide Governance Indicator (WGI) constructed by Kauffmann et al. (2010) as proxy for host country institutions. WGI has been widely used in recent studies on the impact of country institutions on firms' internationalization decisions (e.g., Cantwell, Dunning, & Lundan, 2010, Cuervo-Cazurra & Genc, 2008, De Beule & Duanmu, 2012, Dikova, 2009, Dikova & van Witteloostuijn, 2007, Lahiri et al., 2014, Lu et al., 2014, Nielsen & Nielsen, 2011). I use both host country's aggregate governance indicator and six dimensions of WGI: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. As described by Kauffmann et al. (2010), voice and accountability reflects "perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association,

and a free media"; political stability measures the likelihood of political instability, violence and terrorism; government effectiveness is associated with the quality of public services and civil services, "policy formulation and implementations, as well as the credibility of the government's commitment to such policies"; regulatory quality reflects "the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development"; rule of law examines the extent to which "agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts"; finally, control of corruption is to check whether "public power is exercised for private gain". An aggregate governance indicator is the average score of the six individual WGIs for a particular country and a specific year, thus provide a comprehensive and balanced view of the overall institutional quality of the country.

The score of each dimensional indicator is reported by World Bank on an annual basis and ranges between -2.5 and 2.5. The higher the indicator score, the sounder the corresponding institutions of the host country. As institutional variables are innately correlated, I will examine their effects one by one in my empirical analysis.

3.3.3.4 Other variables

I include six firm level control variables: total assets, tangible resources, cash flows, leverage ratios, R&D, and M/B in regressions. These variables have been widely used in FDI studies to control for firm characteristics (e.g., Kim & Aguilera, 2016, Lahiri et al., 2014, Nielsen et al., 2017). I have used and discussed these variables in my second chapter. As firm characteristics that affect FDI propensities are most likely to

affect FDI location and internalization choices, I also include them in this chapter. The definition and source of these variables can be referred to Appendix A.

At the country level, I control for the market size of the home country, measured as the natural logarithm of real GDP in million US dollars, because it will have a significant impact on MNE's long term market entry strategy, and therefore on the decision to where and how to invest (Aulakh, Jiang, & Li, 2013, De Beule & Duanmu, 2012, Hernández & Nieto, 2015, Lu et al., 2014, Meyer et al., 2009). Host country controls capture MNE's three FDI motivations: market seeking, natural resource seeking, and efficiency seeking, following existing literature (Boeh & Beamish, 2012). Market openness has been used in numerous studies to proxy for market potential of the host country (Alimov, 2015, De Beule & Duanmu, 2012) . It is measured as the percentage of imports and exports over GDP in this study. I control for the natural resources endowment of the host country by adding the percentage of ores and metals exports to merchandise exports (De Beule & Duanmu, 2012). The labour availability of the host country, as a proxy for efficiency, is controlled by unemployment rate (Boeh & Beamish, 2012). All of the variables above are annually reported by the World Bank in its World Development Indicators (WDI).

In the robustness section, I include additional control variables. At the firm level, I add five more variables into the propensity score matching process to create a matched sample with appropriate balancing properties as that of Chapter 2. Sales growth is defined as the growth rate of net sales or revenues in a given year. Return on asset (ROA) is a profitability measure, calculated as earnings before interest and taxes divided by the book value of assets. Cash flow risk is the standard deviation of return on assets. Foreign sales to total sales is the proportion of foreign sales in total sales.

Cross-listed is a dummy variable, set equal to one if the firm is cross-listed in foreign stock exchanges and zero otherwise. All of these variables have been widely used in previous studies as determinants of CSR (Boubakri et al., 2016, Brammer, Pavelin, & Porter, 2006, Campbell et al., 2012, Ioannou & Serafeim, 2012).

In the M&A sample analysis, I add seven deal level variables into the regression models. They describe deal related characteristics that are commonly used in M&A studies (Ahern et al., 2015, Aktas, de Bodt, & Cousin, 2011, Alexandridis, Petmezas, & Travlos, 2010, Alimov, 2015, Fuller, Netter, & Stegemoller, 2002, Golubov, Petmezas, & Travlos, 2012, Kauffmann et al., 2010, Masulis, Wang, & Xie, 2007). Relative deal size is defined as the ratio of the transaction value to the acquirer market value four weeks prior to announcement. Target status includes two dummy variables to describe whether the target is public or private. I control for method of payment by a cash only dummy variable. Friendly is a dummy variable indicating the attitude of M&A. Finally, I use relatedness to indicate whether the acquirer and the target are operating in similar industries. It equals one if the acquirer and the target have same two digit primary SIC codes and zero otherwise.

3.4 Results

3.4.1 Ownership and location advantages

I link the ownership and location advantages in this section to test the first and second hypotheses. The analysis is based on the data in the location sample.

3.4.1.1 Univariate test of FDI location choice

To do a preliminary analysis, I divide deals in the location sample into two groups

according to their location choice. “Developed country” group includes FDI deals that are invested into developed countries. “Developing country” group is comprised of FDI deals that are into developing countries. I report mean and median summary statistics for each group, and compare whether the two groups are significantly different regarding firm and country characteristics. The results are reported in Table 3-3.

[Insert Table 3-3 about here]

In the developed country group, around 75% of the FDI transactions are full control, and the other 25% are partial control. Whereas in the developing country group, around 48% of FDI transactions are full control and 52% are partial control, and the differences are significant, implying that firms that invest in developed countries are more likely to choose a full control entry method.

The mean and median values of all CSR measures in both groups are greater than 0.50 except the mean governance CSR in the developing country group, which is equal to 0.50. This is in line with the finding in the second chapter that firms with higher CSR scores have greater propensities to undertake FDI. Now that all the observations in this chapter are FDI deals, the sample firm’s mean and median values of CSR should be higher than the mean and median values of firms in ASSET4’s universe. Test of difference shows that firms that invest in developed countries have significantly better performance in all CSR measures than firms that invested into developing countries.

For the LOF proxies, the first set of LOF proxies are CAGE distances. The test

of difference in mean and median values of all CAGE distances are negative and statistically significant at the 1% level. This suggests that MNEs have significant tendency to invest in developed countries that are culturally, administratively, geographically, or economically closer to them, while investing in developing countries that are distant from them. Now that LOF partly arises from country differences (Zaheer, 1995), initially, this implies that firms encounter lower level of LOF in developed countries (i.e., smaller CAGE distance between the home and host countries) and higher level of LOF in developing countries (i.e., larger CAGE distance between the home and host countries). This is reasonable because there are fundamental differences between the developed and developing countries (Denk, Kaufmann, & Roesch, 2012). Given that my sample is biased toward firms from developed countries (as shown in section 3.3.1), the investment from developed countries into developed countries are linked with a lower level of LOF. This is also consistent with Nachum, Zaheer and Gross (2008)'s finding that the proximity of a country to the rest of the world has a positive impact on MNEs choosing that country as a location.

The second set of LOF proxies are indicators of the industries being invested by MNEs. In the developed country group, around 6% of FDI deals are targeted towards resource based industries, and 18% are targeted towards asset specific industries; while in the developing country group, around 15% of FDIs are made in resource based industries, and only 12% are invested towards asset specific industries. The differences are significant at the 1% level. They indicates that MNEs prefer developing countries rather than developed countries when investing in resource based industries, while preferring developed countries to developing countries when

investing in asset specific industries, which are consistent with previous studies (Ang et al., 2015, Titman, 1984). Intrinsically, the results show different locational advantages that are embedded within developed and developing countries.

Furthermore, MNEs that invested in developed countries are smaller in firm size when measured by book value of total assets, spend more in research and development activities, have lower level of debt risk and tangible resources, and higher market to book ratio. The differences in both mean and median values are significant at the 1% level. However, there is no significant difference with regard to cash flow. When looking into the country variables, FDI in developed countries is more likely to be sourced from larger economies (as measured by real GDP in million US dollars) into host countries with more foreign trade activities (as measured by market openness),[27] and less natural resources (as measured by ores and metals exports). The sign for the mean and median difference of unemployment rate is opposite, thus it is hard to draw a preliminary result on it. The comparison results above are generally consistent with prior literature (Demirbag & Glaister, 2010, Lucke & Eichler, 2016, Luo et al., 2010, Makino, Beamish, & Zhao, 2004, Makino et al., 2002, Nielsen et al., 2017, Yamakawa et al., 2008). A detailed discussion will be made in the later section.

I do pairwise correlation test to examine whether high correlations exist between individual variables. The results are presented in Table 3-4. As previously noted, the four CSR measures are highly correlated with each other and I therefore examine these CSR variables in separate models. Beside the high correlations mentioned above, there are no high correlations among other variables. In addition, a

[27] The mean difference test for host country market openness is significant at the 1% level. The median difference test is not significant.

preliminarily positive coefficient between CSR and dependent variable suggests a positive relation between CSR and the likelihood of undertaking FDI in developed countries relative to developing countries.

[Insert Table 3-4 about here]

3.4.1.2 CSR and FDI location choice

Table 3-5 presents the results from the main location regression model. The estimates for both the overall CSR score and three pillar scores are reported separately in Models 1 to 4. The dependent variable in all the models is firm's location choice, which equals one if the host country is a developed country and zero if it is a developing country. All regressions include region, sector, and year fixed effects. Standard errors are clustered at the firm level.

[Insert Table 3-5 about here]

The table shows that overall CSR performance, environmental CSR performance and governance CSR performance are positively related to firm's likelihood of FDI in developed countries over developing countries (significant at the 1% level). The estimates for firm's social CSR performance is positive and also marginally significant. The results confirm my first hypothesis that firms with high CSR performance are more likely to invest into developed countries rather than developing countries.

To economically interpret the results, I calculate the average FDI probability in developing country from predictions of the regression models in Table 3-5. I hold all control variables at their observed value in the sample, and change overall CSR score at the 10^{th}, 25^{th}, 50^{th}, 75^{th} and 90^{th} percentiles.[28] In Model 1, a firm's likelihood of investing in developing country decreases from 0.167 to 0.100 as overall CSR score moves from the 10^{th} to the 90^{th} percentile. When examining the individual ESG pillar scores through the other three models, the effect of CSR on FDI probability in developing country is strongest for firms with high governance CSR score, then environmental CSR score, and weakest for the social CSR score.

The eclectic OLI paradigm suggests that the capabilities and willingness of MNEs to adapt their ownership advantages to different country circumstances depends on the market size of the host country, the factor availability and price differentials of the host country, and the difference in cross-border cultures, institutions, and organisational methods (Dunning & Lundan, 2008b). Despite the continuous globalization in the last two decades, the gap between developed countries and developing countries is still significant, especially in the socioeconomic aspect (Yu et al., 2004). Comparing developed countries with developing countries, developed countries are shown to have larger market size in aggregate GDP (UNCTAD, 2016), more advanced contracting and intellectual property rights regime (Cuervo-Cazurra, 2008), higher level of education in human resources (Yu et al., 2004). All of these locational advantages contribute to their capabilities in providing the required

[28] All tests of average predicted probability, predictive margins, and marginal means in the thesis are calculated by using "margins" command in Stata. It is statistics calculated from averaging the predictions of a previously fitted model at fixed values of some covariates. The detailed results are not reported here but available on request from the author.

resources and institutions for MNEs to protect and enhance their CSR related assets abroad. Therefore, developed countries are favoured by MNEs with CSR advantages.

Turning to the control variables, the results in Table 3-5 show that firm's R&D expenditures are positively associated with FDI in developed countries. R&D activities are intangible assets that are critical to the knowledge generation of the firm (Dunning & Lundan, 2008b). The positive relation between R&D and FDI in developed countries is in line with my argument that MNEs have incentives to invest in developed countries to protect its intangible assets abroad. I find a negative relation between tangible resources and the dependent variable. Although firms have incentive to protect their intangible assets in developed countries, it is difficult to protect tangible assets, such as advanced equipment and production lines, from being observed and copied by local firms (Tian, 2007), especially in developed countries where the local competitors have stronger capabilities in doing so. By contrast, intangible assets of MNEs, such as R&D, patents, copyrights, are well protected from being 'stolen' in developed countries. I also find that firm size is negatively related to the likelihood of undertaking FDI in developed countries. Large firms face lower resource constraints (Maekelburger et al., 2012). They are not easily influenced by the environment (Cheng & Yu, 2008), and are less sensitive to institutional challenges (Schwens, Eiche, & Kabst, 2011), which reduce the attractiveness of the developed country as an investment destination. On the country level, firms from larger economies are more likely to invest in developed countries. Firms are more likely to invest in developing countries when the host country has rich ores and metal resources and high unemployment rate, which consistent with prior literature that firms invest in developing countries to seek lower production cost and natural resources (Luo et al.,

2010). Finally, firms are more likely to invest in developed countries that have a lot of import and export activities, as shown by the positive and significant coefficients on market openness across all models.

Taken together, the results in Table 3-5 support Hypothesis 3-1. In particular, I find that firms with CSR advantages are more likely to invest in developed countries than in developing countries, and this positive relation is robust to the components of CSR.

3.4.1.3 CSR, LOF, and FDI location choice

I add LOF proxies one by one into the main regression models to test their moderating effects on the relation between CSR and firm's location choice to test Hypothesis 3-2. The results are presented in Table 3-6 for overall CSR. Model 1 to 4 are results when I use the CAGE distances as LOF proxies. Model 5 and 6 present results when I use the industry indicators as LOF proxies.[29, 30]

[Insert Table 3-6 about here]

[29] In order to test the specific importance of these industries, I drop the sector fixed effects in Model 5 and 6.

[30] In further testing I separately examine the impact of individual ESG pillar scores. The results are mainly similar to the results reported for overall CSR performance in Table 3-6. The biggest difference comes from Model 1 when adding cultural distance and its interaction term with CSR performance into the baseline regression models. In untabulated results for social and environmental CSR, the social/environmental CSR is negative and significant at the 5% level, the cultural distance is negative and significant at the 1% level, the interaction term of social/environmental CSR and cultural distance is positive and significant at the 1% level. For governance CSR, the governance CSR is positive and significant at the 1% level, the cultural distance is positive and significant at the 1% level, and the interaction term of governance CSR and cultural distance is negative and significant at the 1% level. This indicates that the interplay between cultural distance and social/environmental CSR is different from the interplay between cultural distance and governance CSR on FDI location choice.

The results from Table 3-6 are similar to the results from the baseline location logit model in Table 3-5 for firm's overall CSR performance. The coefficients remain significant and positive at the 1% level across all models, which support Hypothesis 3-1.

In Models 1 to 4, cultural distance, administrative distance and economic distance are negative and significant at the 1% level, suggesting that large country heterogeneity in the aspect of culture, economy and administration leads to higher propensity of MNEs to invest in developing countries. Geographic distance is not significant, implying that it is not an important factor for MNEs when working alone as a determinant of FDI location choice. This may be because unlike other distance measures, geographic distance only reflects the physical remoteness between countries, thus can hardly restrict financial resources to flow across borders (Campbell et al., 2012). In Models 5 and 6, firms operating in resource based industries are less likely to invest in developed countries, whereas firms in high asset specific industries are more likely to invest in developed countries. This is accord with previous studies that firms tend to seek natural resources in developing countries (Huett, Baum, Schwens, & Kabst, 2014) and strategic assets such as advanced technology in developed countries (Duanmu, 2012, Rui & Yip, 2008). Overall, five out of the six LOF proxies are significant, which suggests that LOFs are important factors that affect MNE's oversea investment decisions (Luo & Mezias, 2002, Petersen & Pedersen, 2002, Zaheer, 1995).

Regarding the interaction effects, the interaction term of overall CSR and geographic distance is negative and significant at the 1% level in Model 3, the interaction term of overall CSR and resource based industry is negative and significant

at the 10% level in Model 5, and the interaction term of overall CSR and asset specific industry is negative and significant at the 5% level in Model 6. The interaction terms in other models are not significant.

To better gauge the economic implications, I use the regression model in Table 3-6 to calculate the average implied probability that an MNE chooses to invest in a developed country rather than a developing country in a given year. Using Models 1 to 6 from Table 3-6, probabilities are calculated by varying the LOF proxies at different levels and overall CSR performance scores from the 10^{th} to the 90^{th} percentile, while holding all other variables at their observed value. The results are presented in Table 3-7.

[Insert Table 3-7 about here]

Holding LOF proxies at a constant level and other variables at their observed value, nearly all of the models indicate that the likelihood of FDI in developed country increases with the increase of CSR, which is consistent with my first hypothesis in this chapter.[31] Holding overall CSR at a constant level and other variables at their observed value, Models 1, 2 and 4 suggest that the increased cultural, administrative, and economic distance between the home and host country, thus an increased level of LOF, leads to a decline of FDI likelihood. Models 5 and 6 suggest that investment in resource

[31] The only exception is in Model 6 when the asset specific industry equals one. This is because when the asset specific industry is one, the joint coefficient of overall CSR, which takes together the overall CSR coefficient and the coefficient of the interaction term of CSR and asset specific industry, becomes -0.116, a negative number.

based industry and non-asset specific industry also accompanied with a decline of FDI likelihood in developed country.

Take Model 3 as an example, when the home and host country are geographically very close to each other (on the 10th percentile geographic distance level), MNEs' likelihood of FDI in developed country increases from 0.849 to 0.965 as overall CSR score moves from the 10th to the 90th percentile, a relative increase of 13.66%. However, when the home and host country are far away (on the 90th percentile geographic distance level), their likelihood of FDI in developed country only increase from 0.824 to 0.851, a relative increase of 3.20%.

To further illustrate, Figure 3-1 plots the marginal effect of CSR on FDI location choice across the observed range of LOF proxies. For Models 1 to 4 in Table 3-6, the distance measures are continuous covariates, so the range of LOF proxies changes from low to high levels. For Models 5 and 6 in Table 3-6, the industry indicators are dummy variables, therefore LOF only takes two values: zero and one. All the marginal effects are calculated with the 95% confidence intervals.[32]

[Insert Figure 3-1 about here]

The line in the middle of the shaded area (in Figures 3-1a to 3-1d) and points B, C, D, and E (in Figures 3-1e and 3-1f) indicate how the marginal effect of CSR changes with the change of LOF proxies. 95% confidence intervals (the shaded area in Figures 3-1a to 3-1d and the line in Figures 3-1e and 3-1f) around the marginal effect allow us to determine the conditions under which CSR has a statistically

[32] I use the "marginsplot" command to plot the figures.

significant effect on FDI. It has a statistically significant effect whenever the upper and lower bounds of the confidence intervals are both above (or below) the zero line.

The confidence intervals are always above zero in Figures 3-1a, 3-1b, and 3-1d. This suggests that CSR has a strong positive effect on FDI whatever the cultural, administrative, or economic distance are. However, Figure 3-1c shows that CSR has a positive effect on FDI when the geographic distance is small (before point A). This positive effect declines as the geographic distance increases. Once the geographic distance is over point A, CSR no longer has a significant positive impact on FDI. The confidence intervals of point B and D are above zero in Figures 3-1e and 3-1f. The confidence intervals of point C and point E include zero. So I conclude that statistically significant positive effect of CSR on FDI only exists in non-resource based industries and non-asset specific industries, i.e., in industries with lower level of LOF.

Overall, Figure 3-1 confirms the Hypothesis 3-1 that CSR has a positive effect on FDI likelihood in developed rather than developing countries in most cases. However, when the geographic distance is large (as illustrated in Figure 3-1c), or when the investment is in resource based or asset specific industries (as illustrated in Figure 3-1e and 3-1f), CSR does not significantly affect FDI. The effect of CSR on FDI are weakened by LOF under those scenarios.

Three out of six LOF proxies support Hypothesis 3-2, and the other three proxies do not find a significant moderating effect. I briefly discuss all of them here.

First, it is worth noticing that the four distance measures' effect on the relation between CSR and FDI location choice is different. While the effect of CSR on FDI propensity in developed countries is weaker when the home and host country are geographically far away from each other, the other three distance measures (cultural,

administrative and economic distance) do not seem to affect the relation. This is because the four distance measures define different aspects of heterogeneity between countries. On the one hand, geographic distance measures the physical remoteness between the home and host countries. LOF that is caused by increased geographic distance can be overcome by improved transportation and communication links (Ghemawat, 2001). CSR leads to better stakeholder engagement (Cheng et al., 2014). A better stakeholder relationship helps a firm sets up more effective communication links, thus reduces the LOF caused from geographic distance. Therefore, firm's incentive to protect their CSR reputation in the developed country will be weakened in geographically distant developed countries. On the other hand, the other three distances are mainly caused by historical, social, and economic reasons. Specifically, cultural distance refers to different attitudes towards social norms, ethnicities. Administrative distance measures the difference in government policies and legal systems. Economic distance measures the difference in macroeconomic characteristics (Ghemawat, 2001). The differences across countries based on these measures are significant, continue to generate varying levels of LOF, and are difficult to overcome in the short-term for MNEs (Meyer, Mudambi, & Narula, 2011). CSR cannot fully overcome the challenges associated with cultural, administrative, or economic distance when investing in developed countries, and therefore the effect of CSR on the FDI likelihood in developed countries is not pronounced.

Second, I find that the effect of CSR on FDI propensity in developed countries is more pronounced when the target acquired or alliances formed are not in resource based industries. This may be because firms with CSR advantages have the incentive to invest into developed countries to seek strategic assets to enhance their CSR

reputation abroad. If the firms' main incentive of FDI is to seek natural resources, then their incentive to seek strategic assets in developed countries will be weaker, thus, the effect of CSR on FDI in developed countries will not be as pronounced as before.

Third, the result implies that the effect of CSR on FDI in developed countries are weaker when firms invest in asset specific industries. In asset specific industries investments (physical and human) are specialized to one or a few users or uses and only valuable in a narrow range (Anderson & Gatignon, 1986). Therefore, firm's incentive to protect its CSR reputation in a developed country becomes not so important.

In summary, LOF moderates the relation between the ownership and location advantages in the OLI paradigm. The effect of CSR on FDI location choice will be stronger if MNEs encounter lower levels of LOF.

3.4.2 Ownership and internalization advantages

I link the ownership and internalization advantages from the OLI paradigm in this section to test the third, fourth, and fifth hypotheses proposed in this chapter. The analysis is based on the internalization sample.

3.4.2.1 Univariate test of FDI internalization choice

Univariate tests for the variables in the internalization sample are reported in Table 3-8. Similar to the location sample, I provide univariate comparison of deals based on their internalization choice in this section. I divide the sample into a "Full control" group and a "Partial control" group in Table 3-8. "Full control" group includes observations if the MNE owns 100% of its foreign subsidiaries after the investment.

"Partial control" group includes deals that the ownership after investment is less than 100%. I test the mean and median differences between the two groups.

[Insert Table 3-8 about here]

In the "Full control" group, around 86% of FDI transactions are into developed countries, and the other 14% are into developing countries. Whereas in the "Partial control" group, around 65% of FDI transactions are into developed countries and 35% into developing countries. This implies that developed country is the preferred investment location in both groups. The mean and median difference tests show statistical significance between the two groups, indicating that firms that choose a full control entry method have higher propensity to invest into developed countries than firms that choose a partial control entry method.

Regarding the CSR measures, the results show that firms choosing a full control mode have higher overall CSR score and governance CSR score, but lower social and environmental CSR scores. Preliminarily, this indicates that the individual CSR measures have different impact on firm's internalization choice. While firms with superior overall CSR performance and governance CSR performance may choose a full control entry method, firms with superior social and environmental CSR performance may prefer a partial control entry method. Initially, this may be because social and environmental CSR improve relationship with outsider stakeholders (Cheng et al., 2014), thus reduce the costs associated with a partial control method. While governance CSR engagements reduce agency costs in MNEs (Singh & Davidson Iii, 2003), and thus reduce the costs associated with a full control method, or because firms

with governance CSR advantages seek full control of their foreign subsidiaries to maintain their CSR reputation abroad.

Moving to the LOF proxies, the two groups are also significantly different. The deals in the "Full control" group are made by MNEs into host countries that are culturally, administratively, geographically, and economically closer from their home country than the deals in the "Partial control" group. They are also more likely to invest in asset specific industries. However, there is no significant difference in whether the investment is in a resource based industry. Comparing the host country institutional characteristics of the two groups, it shows that deals in the "Full control" group are biased toward host countries that have higher institutional quality with regard to six dimensions: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption, as well as the aggregate country institutions.

Moreover, with regard to the other variable, MNEs in the "Full control" group are smaller, have lower leverage and asset tangibility, higher market to book ratio, and more cash flow.[33] On the country level, MNEs are more likely to choose a full control mode when the host country has a higher unemployment rate, and lower levels of market openness and natural resources. There is no significant difference in home countries' economic size.

Overall, the results from the univariate comparison between the "Full control" group and the "Partial control" group indicate significant difference in CSR measures, LOF proxies, institutional indicators, firm characteristics, and host country

[33] The median difference test for R&D expenses is significant at the 5% level. The mean difference test is not significant.

characteristics.[34] Preliminarily, the results support Hypothesis 3-3 that CSR affects firm's internalization choice. Whether LOF proxies and institutional indicators will affect the relation between CSR and firm's internalization choice in the way proposed in Hypotheses 3-4 and 3-5 needs to be further tested in later section.

3.4.2.2 CSR and FDI internalization choice

The regression results for FDI internalization choice are reported in Table 3-9. In Models 1 to 4, the dependent variable is a dummy variable, equal to one if the deal is a full control mode and zero if partial control. The estimates for firm's overall CSR performance score and three individual ESG pillar scores are reported separately in each model. Again, all regressions include region, sector, and year fixed effects. Standard errors are clustered at the firm level.

[Insert Table 3-9 about here]

The positive and statistically significant coefficient on overall CSR score in Model 1 and governance CSR score in Model 4 are in line with Hypothesis 3-3, according to which firms with stronger CSR performance are more likely to choose full control over partial control. However, the results do not hold for social and environmental pillars of CSR. As shown in Model 2 and Model 3, the coefficients for both of them are positive, but not significant, suggesting that social or environmental CSR performance does not affect firm's internalization choice.

[34] I also perform a pairwise correlation test to examine whether high correlations exist between individual variables. The results are similar to Table 4. The detailed results are available on request from the author.

To better gauge the economic significance, I further calculate the implied probability of a full control mode based on Table 3-9, holding all control variables constant at their observed value.[35] In Model 1, firms' probability of fully controlling their foreign subsidiaries increases by 5.26% (from 0.738 to 0.791) as overall CSR score moves from the 10^{th} to the 90^{th} percentile. In Model 4, firms' probability of fully controlling their foreign subsidiaries increase by 11.73% (from 0.702 to 0.819) as governance CSR score moves from the 10^{th} to the 90^{th} percentile.

Klapper and Love (2004) suggest that it is optimal for firms operating with higher proportions of intangible assets to adopt stricter governance mechanisms to prevent the future misuse of these assets as it is easier to monitor and harder to steal fixed assets than intangible assets. My finding in this section is in line with their argument. It is better for firms with CSR related assets to take full control of its foreign operations rather than jointly control it with outsiders. For one thing, foreign operations impose extra risk and uncertainty for MNEs, which increase the opportunities of its CSR assets to be misused by outsiders. Thus firms need to take a full rather than a partial control of their foreign assets to prevent the future misuse of it. For another, firms with a superior governance performance face lower monitoring and agency costs (Himmelberg, Hubbard, & Palia, 1999), which further reduce its costs relating to the sophisticated governance structure associated with a full control mode.

The results indicate different impacts from the three ESG pillar scores on FDI internalization choice. While the results for governance CSR support Hypothesis 3-3,

[35] The detailed results are not reported here but available on request from the author.

the results for environmental and social CSR performance do not hold for Hypothesis 3-3. The difference may be because the three pillars of CSR measure firm performance from different perspectives. Environmental and social CSR measures focus more on firm's management of external relationship with the environment, community, outside partners, etc. However, the governance pillar concentrates on a firm's internal control capabilities. It measures firm's systems and processes to ensure the board members and executives to act in the interests of shareholders in generating long term value. Although a superior environmental and social CSR performance could enhance stakeholder engagement (Eccles et al., 2014), and reduce transaction related costs (Maekelburger et al., 2012), firm's governance CSR performance do not directly affect its cross border transaction costs. I propose in Hypothesis 3-3 that CSR will affect firm's internalization choice. The effect can be taken in two opposite directions: on the one hand, firms have tendency to take full control of foreign subsidiaries to protect their CSR assets abroad; on the other hand, they may prefer to take partial control to take advantage of better stakeholder relationship and reduced transaction costs when dealing with outsider stakeholders. As transaction costs deal with firm's external relationships, the offsetting effect from both sides causes a neutral relation between social and environmental CSR performance and FDI control mode. However, as corporate governance deals with firm's relationship with internal stakeholders rather than outside stakeholders, it does not directly affect the transaction costs, therefore only the positive side plays a leading role in the relation between governance CSR performance and FDI full control mode.

Turning to the control variables, firms are more likely to take full control of their foreign subsidiaries when they are smaller in size, spend less in research and

development, have less tangible resources, whereas firms have a higher tendency to partially control their foreign subsidiaries when they are bigger, have stronger research and development capabilities, and have more tangible resources. At the country level, firms have a higher tendency to choose partial control over full control when the host countries engage more in international trade and have higher level of ores and metals exports, while to choose full control over partial control when the host countries have a high level of unemployment. This is generally in line with the previous literature that firms seek local partners to get access to local resources (Ang et al., 2015, Lu, 2002).

3.4.2.3 CSR, LOF and FDI internalization choice

The analysis above show that firms with CSR advantages have higher tendency to choose a full control mode rather than a partial one. In this section, I examine whether the level of LOF influences the relation between CSR and FDI internalization choice to test Hypothesis 3-4.

I again employ six different LOF proxies: four of them are distance measures between home and host country (cultural, administrative, geographic, and economic distance) and two are binary indicators of the type of assets invested (resource based industry indicator and asset specific industry indicator). In each model, I add the individual LOF proxy and its interaction term with CSR performance into the baseline internalization model.[36] The results for overall CSR performance are presented in Table 3-10.[37]

[36] I again drop the sector fixed effect from the main regression model when testing the moderating effects of resource based industry and asset specific industry. This is because explanatory variables focused on are themselves industry dummy variables.

[37] In further testing I separately examine the impact of individual ESG pillar scores. The results are unchanged in most of the cases, suggesting that Hypothesis 3-4 does not hold in general. The role LOF plays in the relation between CSR performance and FDI internalization choice is thus mixed.

[Insert Table 3-10 about here]

In Table 3-10, I consistently find a positive and significant coefficient of overall CSR on the likelihood of undertaking FDI using the full control entry method in all the models. For the moderating variables, Models 1, 2 and 4 show that cultural, administrative, and economic distance between the home and host country have a negative relation with a full control FDI. The coefficient is significant at the 5% level for administrative distance and 10% for cultural and economic distance respectively. Model 6 suggests that firms that investing in asset specific industries are more likely to choose a full control method. However, whether the home and host country are geographically distant from each other or whether the investment is in resource based industry does not seem to affect firm's internalization choice.

With regard to the interaction terms, only the interaction term of geographic distance and overall CSR has a negative and significant coefficient (an estimated coefficient of -0.203, significant at the 5% level), suggesting that the effect of CSR on FDI in full control mode is stronger when the home and host country have a closer geographic distance between each other. The other three distance measures and the two industry indicators do not strengthen or weaken the relation between firm's overall CSR performance and its FDI internalization choice. This is slightly different from the results of the location study in Section 3.4.1.3, where I find three out of six LOF proxies significantly affect the relation between overall CSR and FDI location choice.

I have hypothesized in Hypothesis 3-4 that the effect of CSR on FDI through a full control mode rather than a partial mode are weaker for firms with greater levels

of LOF. However, the results suggesting that cultural, administrative and economic distance do not play a moderating role in the relation between CSR and FDI internalization choices, neither do the industry indicators. The only exception is geographic distance, where I find the effect of CSR on FDI is stronger when the home and host country are nearer to each other, which is in line with Hypothesis 3-4.

The insignificance of most of the LOF proxies in this section may be because of two opposite arguments. On the one hand, LOF brings in uncertainties and barriers in cross-border transactions (Treviño & Mixon Jr, 2004, Zhou & Guillén, 2015). The increased costs reduce MNE's incentive to make substantial irreversible resources (both tangible and intangible) into the host country through a full control method. On the opposite hand, LOF results in higher risk during foreign investment. For firms with high CSR reputations, their incentive to protect this reputation aboard, and thus to manage this risk through a full control entry method, is stronger.

The exception of geographic distance may be because unlike other LOF proxies that are difficult to cope with by MNEs through superior CSR performance, geographic distance reflects the physical remoteness between countries (Ghemawat, 2001) and can be easily overcame by high CSR firms through improved transportation and communication links with foreign markets. When investing in geographically distant host countries, high CSR MNEs are more likely to choose a partial control entry method due to the enhanced stakeholder engagements and relationships.

3.4.2.4 CSR, host country institutions, and FDI internalization choice

In this section, I examine whether host country institutional characteristics influence the relation between CSR and FDI internalization choice, i.e., Hypothesis 3-5.

Preliminary results from section 3.4.2.1 suggest that there are notable differences in institutional quality across full and partial control FDIs. Hypothesis 3-5 proposes that the effect of CSR on FDI through a full rather than a partial entry mode should be stronger for firms that invest in countries with weaker institutions. To investigate this hypothesis, I employ the WGIs as proxies for host country institutions (Cuervo-Cazurra & Genc, 2008, Kim & Aguilera, 2016, Nielsen & Nielsen, 2011). After adding each of them and their interaction term with overall CSR performance into the baseline internalization model, the results are reported in Table 3-11.[38]

[Insert Table 3-11 about here]

The coefficients on firm's overall CSR score are positive and significant in each specification, consistent with the main results for Hypothesis 3-3. The coefficients on all the host country WGIs are positive and significant at the 1% level, suggesting that well-established host country institutions lead to higher likelihood of FDI in full control mode than partial control mode. The coefficients of the interaction terms of CSR and WGIs are all negative. Six out of seven of the interaction terms are statistically significant except for the interaction term of voice and accountability and overall CSR.

[38] In further testing I separately examine the impact of individual ESG pillar scores. The results for the individual ESG pillar performance are different from the results for the overall CSR performance. I find a negative and significant interaction term of CSR and institutional measures for social and environmental CSR performance, while the CSR measure on its own loses significance. For governance CSR performance, both CSR and institutional variables are positive and significant, but their interaction term is insignificant. The results for the overall CSR seem to be a combination of the varied results from the individual pillar CSR performance.

Similar to the section 3.4.1.3, I calculate the average FDI probability in Table 3-12 and plot the average marginal effect of overall CSR on FDI probability in Figure 3-2, based on the results from Table 3-11.

[Insert Table 3-12 about here]

Throughout all models in Table 3-12, the results consistently indicate that FDI probability increases with the increase of CSR, holding the host country institutional indicator at a constant value and other variables at their observed value, which is line with Hypothesis 3-3. It also shows that FDI probability increases with the increase of host country institutional quality, holding CSR at a specific value and other variables at their observed value, which are in accord with the view in Hernández and Nieto (2015) that investment in countries with lower levels of regulatory development is related to modes with a lower resource commitment, while entry in countries with higher levels of regulatory development is related to mode that requires a higher level of resource commitment.

[Insert Figure 3-2 about here]

Moving to the marginal effect in Figure 3-2, the impact of CSR on FDI probability in full control mode declines with the increase of host country WGIs. This suggests that, although CSR has a positive effect on FDI likelihood in choosing a full control entry method rather than a partial one, this effect becomes weaker with the improvement on host country WGIs. When the host country's institutions are weak,

CSR has a greater impact on FDI probability in choosing a full control entry method. As the strength of host country institutions increases, CSR gradually lose its significance. Take Figure 3-2b as an example, CSR has a significant positive effect on FDI when the host country's political stability is at a lower level, i.e., below point C. When the host country political stability is above point C, the effect of CSR on FDI is no longer significant. Similar patterns are also found for other institutional characteristics of the host country in Figures 3-2c to 3-2g.

The findings above support Hypothesis 3-5, implying that in host countries with weaker country institutions, firms with CSR advantages are more likely to take full control of their foreign affiliates to protect their reputation abroad and prevent this reputation from being misused by outsiders. If host country's institutions are too weak to protect a firm's CSR related advantages, MNEs are not able to trust and rely on outsiders. Under such conditions, a partial control entry mode is unattractive to the investing firms. Hence, MNEs in need of protecting CSR reputation abroad would prefer fully-controlled foreign subsidiaries. On the opposite, where strong host institutions make markets highly efficient, MNEs are able to use contracts to arrange most transactions (Meyer et al., 2009). Thus, sharing resources and working with outside partners becomes highly feasible. In this situation, a partial control entry mode will not posit substantial challenges. In a word, Hypothesis 3-5 are well-supported by the above analysis.

3.4.3 Ownership, location, and internalization advantages

MNEs do not make location or internalization decisions separately as location and internalization advantages in the OLI paradigm coexist and do not stand alone. To

jointly test the effect of CSR on both choices, I define a categorical variable "choice". It equals one if the firm enters a developed country through a full control method, two if it enters a developed country through a partial control method, three if it enters a developing country through a full control method, and four if it enters a developing country through a partial control method. I further exclude deals when a firm makes more than one choice in a given year. This results in a subsample with 9790 observations. I use a multinomial logit model to examine the effect of CSR on all of the four choices a firm can make.

The results are presented in Table 3-13 for both the overall CSR performance (Model 1) and individual ESG pillar performance (Models 2, 3, and 4).

[Insert Table 3-13 about here]

The base option for the firm is one, indicating it enters a developed country through a full control method.[39] It shows from Model 1 that firms with high overall CSR performance have higher tendency to choose the base option rather than entering a developing country through either a full or partial control method. Firms' likelihood to choose the base option is especially high if it has a high governance CSR performance, as shown in Model 4, which corroborates the previous finding that governance CSR performance is driving the main findings. As for the other two models, firms with high environmental CSR score are more likely to enter a developed country

[39] I have used other options (two, three, and four) as the base option as well. The results consistently show that the preference order of MNEs with high overall CSR performance in choosing location/internalization choices is: developed countries through a full control mode, then developed countries through a partial control mode, and lastly, developing countries through either a full or partial control mode.

through a full control mode rather than a developing country through a full control mode. The rest of the coefficient are not significant.

I further add the LOF proxy and its interaction with CSR into the multinomial logit model to test how LOF proxy affects the relation between CSR and FDI location/internalization choice. The results are presented in Panel A of Table 3-14 for the overall CSR performance.

[Insert Table 3-14 about here]

From all the six models in Panel A, I consistently find that firms with high overall CSR performance are more likely to enter into developed countries through either a full or partial control mode, which supports Hypothesis 3-1. I also find that firms are more likely to invest into developing countries when the cultural, administrative, and economic distance are large, and when the investment is in resource based industry. When the investment is in asset specific industry, they are more likely to choose a full control entry mode. Furthermore, the positive effect of overall CSR on FDI in developed countries through a full control mode are weakened with large geographic and economic distance between the home and host country (as shown in Model 3 and Model 4) and when the investment is in resource based industries and asset specific industries (as shown in Model 5 and Model 6), which support Hypotheses 3-2 and 3-4.

Among the three pillars of CSR, the results from section 3.4.2.2 suggest that governance CSR drives the relation between CSR and a full control FDI entry method. To further test the effect of LOF on the relation between CSR and multiple FDI choices,

I replace overall CSR with governance CSR and present the results in Panel B of Table 3-14.[40]

Governance CSR is negative and significant through all the six models in Panel B, consistently suggesting that firms with strong governance CSR performance are more likely to choose the base option, i.e., entering a developed country through a full control method. This is consistent with Hypotheses 3-1 and 3-3. I also find that encountering a greater cultural and geographic distance between the home and host country, firms are more likely to choose developed countries as the investment destination, while facing a greater administrative and economic distance, firms prefer developing country as the investment location. When the investment is in resource based industry, they are more likely to choose developing country through a full control mode, and less likely to choose the developed country through a partial control mode. More importantly, I find that the effect of governance CSR on FDI in developed country through a full control mode is weakened with a great cultural and geographic distance, which support Hypotheses 3-2 and 3-4.

Overall, when examining firm's location and internalization choice jointly, the results support the previous sections. To be specific, I find that there is a positive relation between overall/governance CSR performance and firm's FDI propensity into a developed country through a full control mode, and this positive relation is weakened with a high level of LOF.[41]

[40] In further testing, I have also examined the social CSR and environmental CSR respectively. As both of them do not have a clear impact on FDI internalization choice in section 3.4.2.2, their results are not presented here.

[41] I do not examine how host country institutions affect the relation between CSR and FDI choice in this section. This is because host country institutions are highly correlated with the dependent variable (i.e. developed countries have better country institutions while developing countries have worse country institutions (Cuervo-Cazurra & Genc, 2008, Kauffmann et al., 2010)).

3.5. Robustness

In this section, I perform a series of robustness checks to test whether my main findings in the previous section are sensitive to alternative definitions of the dependent variables, are exposed to endogeneity bias, or have been affected by specific subsamples.

3.5.1 Alternative definition of internalization choice

Currently I use 100% as the threshold to distinguish between a full and partial FDI entry mode as in Lahiri et al. (2014). To test whether my findings on FDI internalization choice are sensitive to different specifications of internalization level, I use two alternative thresholds that have been used by prior studies: 90% (Amoako-Adu & Smith, 1993, Pan et al., 2014), and 50% (Akhigbe et al., 2007, Choi, 1991). A comparative summary statistic of the dependent variable by different thresholders is reported in Panel A of Appendix C. It shows that the dependent variable derived from the 90% threshold is very similar to the one from the 100%. Their mean values are 0.78 and 0.77 respectively, with a correlation of 0.97. The dependent variable derived from the 50% is slightly different from the 100%, but still highly correlated with a coefficient of 0.82. By using the different thresholds, we can test how the relation between CSR and FDI internalization choice changes with various controlling power.

I use the alternative dependent variables to redo the regressions on FDI internalization choice. The results are presented in Table 3-15 for Hypothesis 3-3. For Hypothesis 3-4 and 3-5, the results are reported in Appendix C.[42]

[42] Regarding Hypothesis 3-4, the results from Panel B (using 90% as threshold) and Panel C (using 50% as threshold) in Appendix C are similar to Table 3-10. They show a positive relation between CSR and

[Insert Table 3-15 about here]

I find qualitatively similar results in Table 3-15 with the main results reported in Table 3-9. The coefficients on overall CSR score decrease from Panel A to Panel B (from 0.343 in Panel A, to 0.261 in Panel B) when the threshold declines. The same trend is also shown on the coefficient of the governance CSR score. In Panel B, the significance level of the overall CSR coefficient also declines from 5% to 10%. This is in line with my theoretical argument that firms have incentive to take high/full control of its foreign operations to protect their CSR reputation abroad. Through a high or full control entry mode, firms have a stronger capability in doing so. Therefore, the effect of CSR on high/full control mode defined by 90% or 100% are stronger than 50%.

3.5.2 Endogeneity and selection bias

The ambition of this study is to assess the extent to which firm's CSR performance has a causal impact on the FDI location and internalization choice of MNEs. As it is difficult to set up an experimental environment to test this causality, this study is exposed to potential sources of endogeneity. First, firm's CSR performance could be endogenously determined and might be related to unobservable factors that also

FDI through a full/high control entry mode. The positive relation is weakened when there is large geographic or economic distance between the home and host countries. The results from Panel D (using 90% as threshold) and Panel E (using 50% as threshold) in Appendix C are different from Table 3-11. The interaction term of CSR and host country institutional variables lose significance in all of the models. Therefore, Hypothesis 3-5 does not hold when using alternative definition of full/partial control entry mode. This indicates that the moderating role host country institution plays on the relation between CSR and FDI internalization choice is very sensitive to the definition of full/partial control entry mode.

determine FDI location and internalization choice, leading to a spurious correlation. Reserve causality poses another concern. It may be the case that firms do not take CSR performance into account when investing in developed countries; on the contrary, firms investing in developed countries are forced to engage in CSR practices due to the stricter social and environmental standards required by the host country.

In a recent study, Nielsen et al. (2017) reviewed 153 studies on FDI location choice and found that only 12 studies have addressed endogeneity biases, although the attention to endogeneity is rapidly increasing in recent years. So far, I have tried to mitigate the endogeneity concerns by lagging all explanatory variables by one year relative to the dependent variable. Doing so reduces the likelihood that the FDI transaction and CSR performance change simultaneously. In this section, I employ two approaches to address the potential endogeneity bias as that of Chapter 2.[43] Firstly, I conduct propensity score matching whereby FDI deals that are undertaken by high CSR firms are matched with those by low CSR firms, based on observable characteristics. Secondly, I employ two stage Probit estimation with instrumental variable approach.

3.5.2.1 Propensity score matching

I start with the sample for FDI location choice. First, I estimate propensity scores using a logit model, where the dependent variable is a CSR dummy variable, equals one if its CSR score is above the median for each country, year, and industrial sector, and

[43] I have used firm fixed effects estimation as a robustness test to address endogeneity concerns when examining the relation between CSR and FDI propensity in Chapter 2. I do not use firm fixed effects estimation in this chapter as the data are not panel data any more. For example, a firm may invest in China and the UK in the same year.

zero if below the median. The explanatory variables are the control variables included in the main regression model in addition to five extra variables: sales growth, return on assets, cash flow risk, foreign sales as a proportion of total sales, and cross-listed. The extra variables are added because they have been widely used in previous literature as CSR determinants (e.g., Boubakri et al., 2016, Campbell et al., 2012, Ioannou & Serafeim, 2012, Kang, 2013). I then match each FDI transaction with high CSR score with FDI transactions with low CSR scores in the same country, year and industrial sector using the nearest neighbouring method based on the predicted probabilities, or propensity scores, from the logit model. If a deal with high CSR score is matched with more than one deals with low CSR scores, only the pair for which the difference in propensity scores is the smallest is retained. To ensure two deals in the matched pair are significantly indistinguishable in all other observable characteristics except for their CSR scores, I further require the maximum difference (i.e., the caliper) of propensity score does not exceed 0.001 in absolute value. I obtain 3,574 unique pairs of matched observations.[44] Using the matched sample, I conduct the regression analysis to test Hypothesis 3-1 and present the results for FDI location choice in Model 1 of Table 3-16. Then I repeat the same matching procedure for the sample of FDI internalization choice. Regression results for Hypothesis 3-3 are presented in Model 2 of Table 3-16.[45, 46]

[44] I conduct three types of diagnostic tests as that of Chapter 2 to verify that observations in the high CSR group and low CSR group are similar in terms of observable characteristics. The results from the three diagnostic tests suggest that the propensity score matching removes observable differences other than the difference in CSR scores. It ensures that any difference in the dependent variable between the two groups is due to the difference in their CSR performance.

[45] As I use two different samples to test FDI location and internalization choice in the main regression, I get two different subsamples after the same matching procedure.

[46] I have also tested Hypothesis 3-2 based on the matched location subsample and found similar results to Table 3-6. I have tested Hypotheses 3-4 and 3-5 based on the matched internalization subsample, the results are also unchanged.

[Insert Table 3-16 about here]

It shows from Model 1 that the impact of CSR on FDI location remains significantly positive (significant at the 1% level). Thus, even when I focus on a sample of similar firms that investing into similar host countries, I continue to find that CSR is positively and significantly related to FDI likelihood in developed countries than developing countries, which confirms my first hypothesis in this chapter. In terms of FDI internalization choice, the impact of CSR on FDI internalization choice remains positive and weakly significant (at the 10% level). This confirms that, even when I focus on a sample of observations with similar observable characteristics, I continue of find a positive relation between CSR and FDI likelihood in a full control mode over a partial one.

3.5.2.2 Two stage estimation with instrumental variable

To jointly address concerns of potential unobserved heterogeneity and reverse causality, I use the instrumental variable approach. The instrumental variables that are employed in Chapter 2 are used in this section as well to capture firm's CSR performance. Results from the two step Probit estimations using instrumental variables are reported in Table 3-17. Panel A presents the results for the FDI location choice and Panel B for the internalization choice.

[Insert Table 3-17 about here]

I use two instrumental variables: the mean of CSR in the same country-sector pair (excluding the contribution from the focal firm), and the mean of CSR in the same year-sector pair (excluding the contribution from the focal firm). The first step regression shows that the country-sector mean of CSR has a positive association with the focal firm's overall CSR. The year-sector mean of CSR is not significantly related to the focal firm's overall CSR.

In the second step regression, the coefficient on the residual of CSR is positive (significant at the 1% level) in Panel A, suggesting that my finding on the relation between CSR and FDI likelihood in developed country than developing country still holds.[47] For the FDI internalization choice model in Panel B, the estimated coefficient remains significantly positive (at the 1% level). This further supports my finding that firms with better CSR performance are more likely to choose full control rather than partial control mode in FDI.[48]

Overall, the instrumental variables results are consistent with the main results.

3.5.3 M&A only sample

My current findings are based on a broad set of FDI deals, including mergers, acquisitions, joint ventures, and strategic alliances. A broad coverage of different FDI types allows me to have a whole investigation of firm's overall FDI strategy. However, this also limits the data availability. My current FDI data are sourced from two databases from SDC Platinum: The M&A database and the Joint Venture and Alliance

[47] I also test Hypothesis 3-2 using the instrumental variable approach and find similar results to Table 3-6. The results are available on request from the author.

[48] I also test the moderating effect of LOF and host country institutions on the relation between CSR and FDI internalization choice (Hypotheses 3-4 and 3-5). The results are unchanged. The results are available on request from the author.

database. To further address the concern that some important variables may be missing from the current analysis, I perform a subsample analysis in this section focusing only on M&As and add more deal level control variables to examine if my findings remain robust. In addition, results from my second chapter suggest that M&A deals seem to drive the causal relation between CSR and FDI. By examining the M&A only sample, I will check whether the findings on the effect of CSR on firm's location and internalization choice are also driven by the M&A deals as that of the Chapter 2.

Following previous M&A literature, the deal characteristics I control for include relative deal size, target ownership status, method of payment, friendly attitude, and industry relatedness of the M&A (Ahern et al., 2015, Aktas et al., 2011, Alexandridis et al., 2010, Alimov, 2015, Fuller et al., 2002, Golubov et al., 2012, Masulis et al., 2007). A detailed description of the variables is listed in Appendix A. The number of observations in the subsample greatly reduced after adding the extra controlling variables. Results are presented in Table 3-18, Panel A for FDI location choice and Panel B for FDI internalization choice.

[Insert Table 3-18 about here]

Comparing with the main regression models in Table 3-5 and Table 3-9, both panels show improvements on the estimated coefficients for overall CSR score and governance CSR score and Pseudo R squared for the whole model. Therefore, I conclude that after adding more control variables into the subsample with only M&A

deals, the positive relation of CSR on FDI in developed country and through a full control mode still holds.[49]

3.6. Conclusion

I find in Chapter 2 that CSR affects a firm's FDI decisions by increasing its overall propensity. In this chapter, I go a step further to investigate how CSR affects firm's decisions among different FDI choices. To be specific, this chapter employs the eclectic OLI paradigm to examine the impact of CSR on a firm's international location and internalization choices (Dunning, 1977).

Based on Chapter 2's dataset, I exclude firms that did not undertake any FDIs during the sample period. For the remaining firms, I collect all of their FDI transactions from SDC Platinum and construct two samples: the location sample for FDI location analysis, and the internalization sample for FDI internalization analysis. I find that, in general, firms with CSR advantages have a greater likelihood to invest into developed countries rather than developing countries, and they prefer to take full control of their foreign affiliates rather than a partial control.

Firms' FDI choice are also related to the institutions of the host country (Cuervo-Cazurra & Genc, 2008), the distance between the home and the host country (Eden & Miller, 2004), and the type of assets to be invested abroad (Ang et al., 2015). I further find that the effect of CSR on firm's choice of a full control over a partial control mode are more pronounced in host countries with poor governance and in neighborhood countries. At the same time, the effect of CSR on firm's investment into

[49] I also test Hypotheses 3-2, 3-4, and 3-5 using the M&A only sample. I do not find strong moderating effects of LOF or host country institutions on the relation between CSR and FDI likelihood.

developed countries rather than developing countries are more pronounced when investing in nearby countries and in industries that do not require specialized assets.

This study contributes to different strands of literatures. First, it is the first attempt, to the best of my knowledge, to apply CSR into the eclectic OLI paradigm and use this framework as basis to predict firm's location and internalization choices. I find that firms have CSR advantages are more likely to invest in developed countries and through a high level of internalization. I thus add to this line of literature by extending the explanatory power of the OLI paradigm under a sustainable context and compliment it with a CSR component. Moreover, I introduce LOF and host country institutions into the OLI paradigm and empirically test their moderating effects on the O-L and O-I relations.

Secondly, with respect to CSR literature, I provide support for the resource-based view of CSR by showing that CSR reputation is valuable intangible asset. Firms value their CSR reputation abroad and need to protect it from being misused overseas by choosing appropriate FDI destination and control mode. The findings move beyond the positive or negative views of CSR, thus help us have a broader understanding of CSR's role in modern economies. I further find that the various pillar of CSR works differently in firm's FDI strategies. This opens up avenues for further investigation.

Thirdly, within the study of MNEs' FDI location choice, most of the research focus on the narrower topic of firms investing from a single home county (e.g., Cui & Jiang, 2012, Cui, Meyer, & Hu, 2014, Lu et al., 2014, Ramasamy & Yeung, 2010) or investing into a single host country (e.g., Tan & Meyer, 2011) or a specific region (e.g., Galan et al., 2007, Trevino, Thomas, & Cullen, 2008). My study complements the current FDI location study by investigating a sample of international firms from a wide

scope of home countries into two broad groups of host countries: developed countries and developing countries. I show that given the large country heterogeneity, there is still a consistent pattern for high CSR firms to invest into developed countries to exploit both CSR advantages and locational advantages.

This chapter also has policy implications for developing countries. FDI flows account for more than 40% of external development finance to developing and transition economies (UNCTAD, 2015), thus are crucial to the development of those countries. The results in this chapter suggest that firm's propensity to invest in developed countries are weaker with a strong country institution. My findings indicate that an improvement in any component of the country governance will increase the likelihood of inward FDI into developing country.

This study has limitations as well. In a static model, the market imperfections and country institutions exist prior to the FDI decisions being made thus are taken to be exogenous. However, this assumption is questionable in a dynamic model. From a dynamic viewpoint, firm's FDI location choice and internalization choice are not independent of each other (Dunning & Lundan, 2008b). For example, Delios and Beamish (1999) suggest that favourable host country institutional environment are associated with higher levels of equity ownership in subsidiaries in that country. To fully explain the extent and direction of MNE activity, an integration of both location and internalization advantages are needed. This study is only a preliminary attempt in this direction. Furthermore, consistent findings are found for overall CSR performance and each pillar of CSR performance in Chapter 2. However, in this chapter, we notice the different role the CSR pillars play on FDI location and internalization choices. It seems that all CSR measures matter for FDI propensity, but governance CSR appears

especially important to FDI entry mode decisions. It raises our interests in exploring the scenarios under which social and environmental CSR performances are likely to be the most important. Further analysis with a longer time frame, a broader range of sample firms, and more comprehensive method can bring us deeper understanding on the role of CSR in firm's internationalization strategies.

Table 3-1
Sample distribution
This table reports the distribution of location sample and internalization sample by home country, host country, industrial sector, and year. Numbers without brackets are for location sample. Numbers in the brackets are for internalization sample.

Panel A: Sample distribution across home countries

Home country	Frequency		Percentage		Home country	Frequency		Percentage	
Australia	474	[434]	3.55	[3.55]	Luxembourg	12	[21]	0.09	[0.17]
Austria	165	[125]	1.24	[1.02]	Malaysia	48	[39]	0.36	[0.32]
Bahamas, The	11	[6]	0.08	[0.05]	Mexico	60	[55]	0.45	[0.45]
Belgium	197	[162]	1.48	[1.32]	Netherlands	420	[392]	3.15	[3.21]
Bermuda	70	[65]	0.52	[0.53]	New Zealand	14	[12]	0.10	[0.10]
Brazil	62	[51]	0.46	[0.42]	Norway	126	[101]	0.94	[0.83]
Canada	717	[642]	5.38	[5.25]	Philippines	20	[18]	0.15	[0.15]
Chile	33	[25]	0.25	[0.20]	Poland	14	[14]	0.10	[0.11]
China	80	[85]	0.60	[0.70]	Portugal	40	[33]	0.30	[0.27]
Colombia	25	[14]	0.19	[0.11]	Puerto Rico	12	[6]	0.09	[0.05]
Cyprus	12	[7]	0.09	[0.06]	Russian Federation	63	[61]	0.47	[0.50]
Denmark	141	[126]	1.06	[1.03]	Saudi Arabia	7	[7]	0.05	[0.06]
Egypt	6	[3]	0.04	[0.02]	Singapore	122	[107]	0.91	[0.88]
Finland	200	[217]	1.50	[1.77]	South Africa	95	[73]	0.71	[0.60]
France	882	[751]	6.61	[6.14]	Spain	235	[198]	1.76	[1.62]
Germany	710	[522]	5.32	[4.27]	Sweden	420	[396]	3.15	[3.24]
Greece	48	[42]	0.36	[0.34]	Switzerland	626	[538]	4.69	[4.40]
Hong Kong	129	[125]	0.97	[1.02]	Taiwan	58	[59]	0.43	[0.48]
India	91	[77]	0.68	[0.63]	Thailand	29	[27]	0.22	[0.22]
Indonesia	3	[3]	0.02	[0.02]	Turkey	8	[8]	0.06	[0.07]
Ireland	225	[251]	1.69	[2.05]	United Arab Emirates	4	[5]	0.03	[0.04]
Israel	53	[61]	0.40	[0.50]	United Kingdom	1,837	[1,728]	13.77	[14.13]
Italy	193	[170]	1.45	[1.39]	United States	3,185	[3,178]	23.88	[25.99]
Japan	1,213	[1,061]	9.09	[8.68]					
Korea (South)	143	[127]	1.07	[1.04]	Total	13,338	[12,228]	100.00	[100.00]

Table 3-1 continued

Panel B: Sample distribution across host countries

Home country	Frequency		Percentage		Home country	Frequency		Percentage	
Algeria	0	[1]	0.00	[0.01]	Kyrgyz Republic	0	[1]	0.00	[0.01]
Argentina	49	[69]	0.37	[0.56]	Latvia	7	[10]	0.05	[0.08]
Armenia	5	[8]	0.04	[0.07]	Lebanon	0	[2]	0.00	[0.02]
Australia	602	[531]	4.51	[4.34]	Lithuania	13	[19]	0.10	[0.16]
Austria	104	[85]	0.78	[0.70]	Luxembourg	46	[41]	0.34	[0.34]
Azerbaijan	0	[1]	0.00	[0.01]	Macau	2	[2]	0.01	[0.02]
Bahamas, The	4	[4]	0.03	[0.03]	Malaysia	61	[83]	0.46	[0.68]
Bahrain	2	[2]	0.01	[0.02]	Mali	1	[1]	0.01	[0.01]
Bangladesh	4	[3]	0.03	[0.02]	Malta	4	[5]	0.03	[0.04]
Belarus	5	[7]	0.04	[0.06]	Mauritania	1	[1]	0.01	[0.01]
Belgium	189	[155]	1.42	[1.27]	Mauritius	5	[5]	0.04	[0.04]
Bolivia	1	[2]	0.01	[0.02]	Mexico	58	[90]	0.43	[0.74]
Bosnia and Herzegovina	7	[4]	0.05	[0.03]	Moldova	1	[1]	0.01	[0.01]
Botswana	3	[2]	0.02	[0.02]	Mongolia	1	[1]	0.01	[0.01]
Brazil	219	[335]	1.64	[2.74]	Morocco	7	[8]	0.05	[0.07]
Bulgaria	18	[26]	0.13	[0.21]	Mozambique	8	[7]	0.06	[0.06]
Cambodia	6	[5]	0.04	[0.04]	Namibia	4	[5]	0.03	[0.04]
Canada	873	[774]	6.55	[6.33]	Netherlands	329	[297]	2.47	[2.43]
Chile	71	[85]	0.53	[0.70]	New Zealand	142	[137]	1.06	[1.12]
China	255	[352]	1.91	[2.88]	Nigeria	9	[6]	0.07	[0.05]
Colombia	33	[48]	0.25	[0.39]	Norway	228	[175]	1.71	[1.43]
Congo, Rep.	1	[1]	0.01	[0.01]	Oman	9	[7]	0.07	[0.06]
Costa Rica	6	[4]	0.04	[0.03]	Pakistan	5	[5]	0.04	[0.04]
Croatia	17	[17]	0.13	[0.14]	Panama	9	[7]	0.07	[0.06]
Cyprus	22	[22]	0.16	[0.18]	Paraguay	7	[7]	0.05	[0.06]
Czech Republic	83	[77]	0.62	[0.63]	Peru	34	[39]	0.25	[0.32]
Denmark	163	[141]	1.22	[1.15]	Philippines	32	[33]	0.24	[0.27]
Dominican Republic	6	[8]	0.04	[0.07]	Poland	107	[102]	0.80	[0.83]

Table 3-1 continued

Ecuador	5	[12]	0.04	[0.10]	Portugal	46	[39]	0.34	[0.32]
Egypt	18	[23]	0.13	[0.19]	Qatar	9	[7]	0.07	[0.06]
El Salvador	4	[5]	0.03	[0.04]	Romania	39	[47]	0.29	[0.38]
Estonia	22	[18]	0.16	[0.15]	Russian Federation	148	[168]	1.11	[1.37]
Fiji	2	[2]	0.01	[0.02]	Saudi Arabia	23	[19]	0.17	[0.16]
Finland	117	[92]	0.88	[0.75]	Serbia	10	[9]	0.07	[0.07]
France	607	[524]	4.55	[4.29]	Singapore	149	[139]	1.12	[1.14]
Germany	892	[741]	6.69	[6.06]	Slovak Republic	21	[18]	0.16	[0.15]
Ghana	0	[1]	0.00	[0.01]	Slovenia	11	[8]	0.08	[0.07]
Greece	24	[27]	0.18	[0.22]	South Africa	48	[95]	0.36	[0.78]
Guatemala	3	[2]	0.02	[0.02]	Spain	383	[308]	2.87	[2.52]
Guyana	1	[2]	0.01	[0.02]	Sri Lanka	5	[8]	0.04	[0.07]
Hong Kong	151	[123]	1.13	[1.01]	Sweden	303	[269]	2.27	[2.20]
Hungary	33	[39]	0.25	[0.32]	Switzerland	232	[194]	1.74	[1.59]
Iceland	8	[8]	0.06	[0.07]	Thailand	51	[68]	0.38	[0.56]
India	182	[258]	1.36	[2.11]	Trinidad and Tobago	1	[1]	0.01	[0.01]
Indonesia	69	[77]	0.52	[0.63]	Tunisia	3	[4]	0.02	[0.03]
Iraq	2	[2]	0.01	[0.02]	Turkey	63	[103]	0.47	[0.84]
Ireland	164	[138]	1.23	[1.13]	Uganda	0	[1]	0.00	[0.01]
Israel	99	[77]	0.74	[0.63]	Ukraine	25	[25]	0.19	[0.20]
Italy	351	[281]	2.63	[2.30]	United Arab Emirates	18	[18]	0.13	[0.15]
Jamaica	4	[5]	0.03	[0.04]	United Kingdom	1,393	[1,209]	10.44	[9.89]
Japan	233	[180]	1.75	[1.47]	United States	3,269	[2,774]	24.51	[22.69]
Jordan	4	[6]	0.03	[0.05]	Uruguay	17	[14]	0.13	[0.11]
Kazakhstan	13	[12]	0.10	[0.10]	Venezuela, RB	4	[3]	0.03	[0.02]
Kenya	0	[2]	0.00	[0.02]	Vietnam	42	[50]	0.31	[0.41]
Korea (South)	131	[100]	0.98	[0.82]	Zimbabwe	3	[3]	0.02	[0.02]
Kuwait	5	[4]	0.04	[0.03]	Total	13,338	[12,228]	100.00	[100.00]

Table 3-1 continued

Panel C: Sample distribution across sectors

Sector	Frequency		Percentage		Cumulative percentage	
Agriculture, forestry and fishing	37	[26]	0.28	[0.21]	0.28	[0.21]
Construction	308	[266]	2.31	[2.18]	2.59	[2.39]
Finance, insurance and real estate	2,402	[1,761]	18.01	[14.40]	20.60	[16.79]
Manufacturing	5,652	[5,501]	42.38	[44.99]	62.97	[61.78]
Mining	573	[539]	4.30	[4.41]	67.27	[66.18]
Retail trade	420	[426]	3.15	[3.48]	70.42	[69.67]
Services	1,948	[1,966]	14.60	[16.08]	85.02	[85.75]
Transportation, communications, electric, gas and sanitary service	1,356	[1,084]	10.17	[8.86]	95.19	[94.61]
Wholesale trade	642	[659]	4.81	[5.39]	100.00	[100.00]
Total	13,338	[12,228]	100.00	[100.00]		

Panel D: Sample distribution across years

Year	Frequency		Percentage		Cumulative percentage	
2003	572	[505]	4.29	[4.13]	4.29	[4.13]
2004	642	[562]	4.81	[4.60]	9.10	[8.73]
2005	1,012	[830]	7.59	[6.79]	16.69	[15.51]
2006	1,272	[1,100]	9.54	[9.00]	26.23	[24.51]
2007	1,289	[1,089]	9.66	[8.91]	35.89	[33.42]
2008	1,181	[1,135]	8.85	[9.28]	44.74	[42.70]
2009	953	[914]	7.14	[7.47]	51.89	[50.17]
2010	1,193	[1,104]	8.94	[9.03]	60.83	[59.20]
2011	1,363	[1,337]	10.22	[10.93]	71.05	[70.13]
2012	1,377	[1,304]	10.32	[10.66]	81.38	[80.80]
2013	1,232	[1,193]	9.24	[9.76]	90.61	[90.55]
2014	1,252	[1,155]	9.39	[9.45]	100.00	[100.00]
Total	13,338	[12,228]	100.00	[100.00]		

Table 3-2
Sample distribution according to FDI location and internalization choice

Location choice	Number of observations	Percentage
Developing country	1,679	12.59
Developed country	11,659	87.41
Total	13,338	100.00

Internalization choice	Number of observations	Percentage
Full control	9,420	77.04
Partial control	2,808	22.96
Total	12,228	100.00

Table 3-3

Univariate test - location sample

This table provides univariate comparisons for the main regression variables according to their FDI location choice. Test of difference in means is calculated using a two-tailed t-test. Test of difference in medians is calculated using a Wilcoxon rank sum test. All variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5% and 1% level respectively.

	Developed country			Developing country			Test of difference	
Variables	N	Mean	Median	N	Mean	Median	Mean	Median
Internalization	11,659	0.75	1.00	1,679	0.48	0.00	0.27***	1.00***
Overall CSR	11,633	0.64	0.73	1,672	0.58	0.63	0.06***	0.09***
Social CSR	11,650	0.62	0.70	1,675	0.60	0.68	0.02***	0.02***
Environmental CSR	11,655	0.61	0.72	1,677	0.58	0.67	0.03***	0.05***
Governance CSR	11,654	0.59	0.67	1,677	0.50	0.55	0.09***	0.12***
Cultural distance	11,143	11.98	11.42	1,518	15.66	15.11	-3.67***	-3.69***
Administrative distance	11,623	13.05	9.57	1,646	18.23	13.84	-5.18***	-4.28***
Log of geographic distance	11,658	8.07	8.63	1,669	8.48	8.81	-0.41***	-0.19***
Economic distance	10,434	4.15	1.36	1,482	10.49	8.03	-6.33***	-6.67***
Resource based industry	11,659	0.06	0.00	1,679	0.15	0.00	-0.09***	0.00***
Asset specific industry	11,659	0.18	0.00	1,679	0.12	0.00	0.06***	0.00***
Log of total assets	11,659	9.34	9.10	1,679	9.49	9.43	-0.15***	-0.33***
R&D	11,659	0.03	0.00	1,679	0.01	0.00	0.02***	0.00***
Leverage	11,659	0.24	0.23	1,679	0.26	0.25	-0.02***	-0.03***
M/B	11,659	2.90	2.20	1,679	2.61	1.88	0.29***	0.32***
Tangible resources	11,659	0.22	0.15	1,679	0.28	0.24	-0.07***	-0.09***
Cash flow	11,659	0.10	0.09	1,679	0.10	0.09	0.00	0.00
Log of home country GDP	11,659	14.70	14.71	1,679	14.48	14.61	0.22***	0.10***
Host country market openness	11,659	0.70	0.56	1,679	0.65	0.54	0.04***	0.02
Host country ores and metals exports	11,659	0.05	0.03	1,679	0.09	0.04	-0.04***	-0.01***
Host country unemployment rate	11,659	0.07	0.07	1,679	0.07	0.06	-0.00***	0.00***

Table 3-4

Correlation matrix – location sample

This table presents correlation matrix of the main regression variables used in the location study. All variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5%, and 1% level respectively.

	Variables	1	2	3	4	5	6	7	8	9	10	11
1	Location	1.00										
2	Overall CSR	0.06***	1.00									
3	Social CSR	0.03***	0.89***	1.00								
4	Environmental CSR	0.03***	0.82***	0.78***	1.00							
5	Governance CSR	0.11***	0.52***	0.27***	0.17***	1.00						
6	Cultural distance	-0.14***	0.01	0.08***	0.11***	-0.23***	1.00					
7	Administrative distance	-0.09***	0.05***	0.08***	0.10***	-0.10***	0.07***	1.00				
8	Log of geographic distance	-0.11***	0.01	0.00	0.03***	-0.03***	0.26***	0.03***	1.00			
9	Economic distance	-0.20***	-0.09***	-0.07***	-0.08***	-0.06***	0.21***	-0.00	0.15***	1.00		
10	Resource based industry	-0.12***	-0.00	-0.00	0.02***	-0.03***	-0.01	0.02*	0.00	0.03***	1.00	
11	Asset specific industry	0.05***	0.03***	0.02**	0.08***	-0.03***	0.05***	0.05***	0.05***	-0.02**	-0.10***	1.00
12	Log of total assets	-0.03***	0.42***	0.43***	0.44***	0.10***	0.11***	-0.01*	-0.01	0.03***	-0.02***	-0.09***
13	R&D	0.12***	0.10***	0.09***	0.12***	0.05***	0.10***	-0.00	0.09***	-0.08***	-0.10***	0.13***
14	Leverage	-0.04***	-0.03***	0.01	0.03***	-0.05***	-0.03***	-0.02***	-0.02***	-0.00	0.07***	-0.06***
15	M/B	0.04***	-0.05***	-0.07***	-0.14***	0.11***	-0.04***	-0.00	0.04***	0.00	-0.03***	-0.01
16	Tangible resources	-0.11***	0.01	0.01	0.09***	-0.08***	-0.00	-0.01	-0.00	0.03***	0.11***	-0.06***
17	Cash flow	0.01	0.05***	-0.00	-0.03***	0.06***	0.01	0.01	0.08***	-0.03***	-0.01	0.05***
18	Log of home country GDP	0.05***	0.03***	-0.04***	-0.02*	0.19***	0.07***	-0.19***	0.23***	-0.09***	-0.03***	0.05***
19	Host country market openness	0.02***	-0.04***	-0.03***	-0.03***	-0.02**	0.10***	0.01	-0.09***	0.62***	-0.01	-0.02*
20	Host country ores and metals	-0.16***	0.02**	0.00	-0.01	0.05***	-0.10***	0.01	0.23***	-0.00	0.00	-0.06***
21	Host country unemployment rate	-0.03***	0.03***	0.02**	0.02**	0.04***	0.00	0.00	-0.09***	-0.14***	0.01	-0.03***

		12	13	14	15	16	17	18	19	20	21
12	Log of total assets	1.00									
13	R&D	-0.09***	1.00								
14	Leverage	0.10***	-0.27***	1.00							
15	M/B	-0.27***	0.16***	-0.04***	1.00						
16	Tangible resources	-0.11***	-0.15***	0.27***	-0.09***	1.00					
17	Cash flow	-0.36***	0.23***	-0.20***	0.46***	0.18***	1.00				
18	Log of home country GDP	0.08***	0.14***	-0.03***	0.05***	-0.08***	0.05***	1.00			
19	Host country market openness	0.04***	-0.04***	-0.01	-0.00	-0.02**	-0.02***	0.07***	1.00		
20	Host country ores and metals	-0.01	-0.08***	0.02**	0.01	0.06***	0.02**	0.03***	-0.08***	1.00	
21	Host country unemployment rate	0.02**	-0.02***	0.01	-0.01	-0.01	-0.01*	-0.01	-0.13***	0.01	1.00

Table 3-5

Regressions of CSR on firm's FDI location choice

This table reports logit regressions of FDI location choice. The dependent variable is location dummy, equals one if the deal is invested into a developed country and zero if the investment is into a developing country. 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.

Variables	(1)	(2)	(3)	(4)
Overall CSR	0.842***			
	(0.198)			
Social CSR		0.320*		
		(0.188)		
Environmental CSR			0.648***	
			(0.193)	
Governance CSR				1.149***
				(0.213)
Log of total assets	-0.136***	-0.087**	-0.121***	-0.090***
	(0.039)	(0.039)	(0.040)	(0.034)
R&D	15.486***	15.769***	15.228***	15.687***
	(2.106)	(2.149)	(2.082)	(2.163)
M/B	-0.011	-0.007	-0.007	-0.012
	(0.021)	(0.022)	(0.022)	(0.022)
Tangible resources	-0.812***	-0.739***	-0.842***	-0.730***
	(0.251)	(0.250)	(0.252)	(0.246)
Cash flow	-1.295	-0.999	-1.037	-1.008
	(0.920)	(0.940)	(0.928)	(0.927)
Leverage	0.132	0.055	0.088	0.091
	(0.338)	(0.340)	(0.339)	(0.339)
Log of home country GDP	0.096**	0.111***	0.099**	0.100**
	(0.042)	(0.042)	(0.042)	(0.041)
Host country market openness	0.128***	0.117**	0.125***	0.122***
	(0.046)	(0.046)	(0.046)	(0.045)
Host country ores and metals exports	-3.921***	-3.814***	-3.840***	-3.882***
	(0.333)	(0.332)	(0.333)	(0.327)
Host country unemployment rate	-2.467*	-2.529*	-2.451*	-2.130
	(1.414)	(1.428)	(1.413)	(1.418)
Constant	1.815*	1.206	1.591	1.293
	(1.024)	(1.017)	(1.024)	(1.104)
Year fixed effects	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes
Log Likelihood	-4524	-4555	-4549	-4518
Wald Chi-square	412.6***	385.1***	391.8***	434.3***
Pseudo R-square	0.101	0.096	0.098	0.104
Observations	13,305	13,325	13,332	13,331

Table 3-6

Regressions of overall CSR and its interactions with LOF proxies on firm's FDI location choice

This table reports logit regressions of FDI location choice. The dependent variable is a dummy variable, equals one if the deal is invested into a developed country and zero if it is into a developing country. 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.

Variables	(1)	(2)	(3)	(4)	(5)	(6)
Overall CSR	0.632**	0.677***	5.971***	1.067***	0.818***	0.777***
	(0.299)	(0.223)	(1.092)	(0.223)	(0.208)	(0.214)
Cultural distance	-0.058***					
	(0.010)					
Administrative distance		-0.019***				
		(0.005)				
Geographic distance			0.046			
			(0.085)			
Economic distance				-0.056***		
				(0.015)		
Resource based industry					-0.589**	
					(0.280)	
Asset specific industry						0.705***
						(0.246)
Overall CSR * Cultural distance	0.003					
	(0.015)					
Overall CSR * Administrative distance		0.010				
		(0.006)				
Overall CSR * Geographic distance			-0.612***			
			(0.126)			
Overall CSR * Economic distance				-0.030		
				(0.020)		
Overall CSR * Resource based industry					-0.629*	
					(0.377)	
Overall CSR * Asset specific industry						-0.886**
						(0.363)
Log of total assets	-0.097**	-0.135***	-0.126***	-0.137***	-0.134***	-0.119***
	(0.041)	(0.040)	(0.039)	(0.041)	(0.037)	(0.037)
R&D	16.067***	15.286***	16.085***	13.672***	11.404***	11.892***
	(2.194)	(2.130)	(2.166)	(1.996)	(1.685)	(1.651)
M/B	-0.012	-0.009	-0.008	0.001	-0.003	0.002
	(0.021)	(0.022)	(0.022)	(0.023)	(0.021)	(0.022)
Tangible resources	-0.779***	-0.877***	-0.860***	-0.860***	-0.907***	-0.960***
	(0.248)	(0.250)	(0.258)	(0.275)	(0.222)	(0.218)
Cash flow	-1.046	-1.396	-1.146	-1.797*	-1.527*	-1.478*
	(0.951)	(0.940)	(0.933)	(0.918)	(0.827)	(0.816)
Leverage	-0.006	0.101	0.168	0.057	0.189	0.115
	(0.343)	(0.342)	(0.344)	(0.361)	(0.328)	(0.324)
Log of home country GDP	0.193***	0.065	0.131***	-0.061	0.100**	0.098**

Table 3-6 continued

	(0.053)	(0.044)	(0.041)	(0.076)	(0.042)	(0.043)
Host country market openness	0.258***	0.143***	0.065	0.939***	0.130***	0.128***
	(0.049)	(0.048)	(0.042)	(0.207)	(0.046)	(0.046)
Host country ores and metals exports	-4.296***	-3.936***	-2.810***	-3.928***	-3.935***	-3.808***
	(0.381)	(0.340)	(0.353)	(0.395)	(0.335)	(0.328)
Host country unemployment rate	1.901	-2.020	-2.578*	-4.256***	-2.464*	-2.497*
	(1.720)	(1.452)	(1.405)	(1.445)	(1.420)	(1.424)
Constant	2.097*	2.504**	1.230	4.048***	1.459*	1.263
	(1.163)	(1.082)	(1.188)	(1.372)	(0.761)	(0.770)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	No	No
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-4029	-4412	-4430	-3803	-4513	-4569
Wald Chi-square	446.3***	447.1***	481.8***	326.8***	460.3***	420.4***
Pseudo R-square	0.129	0.110	0.116	0.150	0.103	0.092
Observations	12,629	13,236	13,294	11,916	13,305	13,305

Table 3-7
Implied probabilities of FDI location choice
The table reports the predicted likelihood of a firm undertaking a FDI transaction in a developed country rather than a developing country 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.

	Overall CSR score				
	10th percentile	25th percentile	50th percentile	75th percentile	90th percentile
Model 1 - Cultural distance					
10th percentile	0.908	0.918	0.931	0.938	0.940
25th percentile	0.903	0.913	0.927	0.934	0.936
50th percentile	0.860	0.874	0.895	0.905	0.908
75th percentile	0.817	0.835	0.862	0.874	0.878
90th percentile	0.757	0.779	0.813	0.830	0.835
Model 2 - Administrative distance					
10th percentile	0.864	0.878	0.899	0.909	0.912
25th percentile	0.855	0.871	0.894	0.906	0.909
50th percentile	0.848	0.865	0.890	0.902	0.906
75th percentile	0.836	0.855	0.884	0.897	0.901
90th percentile	0.815	0.838	0.873	0.889	0.893
Model 3 - Geographic distance					
10th percentile	0.849	0.893	0.944	0.961	0.965
25th percentile	0.843	0.878	0.925	0.943	0.947
50th percentile	0.830	0.847	0.873	0.886	0.889
75th percentile	0.827	0.838	0.857	0.866	0.869
90th percentile	0.824	0.831	0.843	0.849	0.851
Model 4 - Economic distance					
10th percentile	0.865	0.885	0.914	0.928	0.931
25th percentile	0.862	0.882	0.912	0.925	0.929
50th percentile	0.856	0.877	0.907	0.921	0.925
75th percentile	0.836	0.857	0.889	0.094	0.908
90th percentile	0.793	0.814	0.847	0.863	0.868
Model 5 - Resource based industry					
Resource based industry = 0	0.847	0.865	0.892	0.905	0.908
Resource based industry = 1	0.745	0.751	0.762	0.767	0.769
Model 6 - Asset specific industry					
Asset specific industry = 0	0.834	0.852	0.881	0.894	0.897
Asset specific industry = 1	0.893	0.891	0.888	0.886	0.885

Table 3-8

Univariate test – internalization sample

This table provides univariate comparisons for the main regression variables according to their FDI internalization choice. Test of difference in means is calculated using a two-tailed t-test. Test of difference in medians is calculated using a Wilcoxon rank sum test. All variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5% and 1% level respectively.

	Full control			Partial control			Test of difference	
Variables	N	Mean	Median	N	Mean	Median	Mean	Median
Location	9,420	0.86	1.00	2,808	0.65	1.00	0.21***	0.00***
Overall CSR	9,396	0.63	0.70	2,803	0.61	0.70	0.02***	0.01***
Social CSR	9,410	0.60	0.66	2,805	0.63	0.74	-0.03***	-0.08***
Environmental CSR	9,415	0.59	0.66	2,807	0.64	0.77	-0.05***	-0.11***
Governance CSR	9,414	0.61	0.68	2,807	0.48	0.49	0.13***	0.19***
Cultural distance	8,979	11.77	11.01	2,659	14.77	14.29	-3.00***	-3.28***
Administrative distance	9,387	13.51	9.48	2,772	16.15	13.10	-2.64***	-3.62***
Log of geographic distance	9,415	8.13	8.63	2,803	8.37	8.71	-0.24***	-0.08***
Economic distance	8,346	4.50	1.61	2,547	8.15	3.49	-3.65***	-1.88***
Resource based industry	9,420	0.08	0.00	2,808	0.07	0.00	0.01	0.00
Asset specific industry	9,420	0.20	0.00	2,808	0.14	0.00	0.06***	0.00***
Voice and accountability	9,420	1.09	1.29	2,808	0.61	1.08	0.47***	0.21***
Political stability	9,420	0.49	0.56	2,808	0.24	0.44	0.25***	0.13***
Government effectiveness	9,420	1.38	1.57	2,808	1.01	1.49	0.37***	0.08***
Regulatory quality	9,420	1.31	1.53	2,808	0.92	1.25	0.39***	0.28***
Rule of law	9,420	1.32	1.61	2,808	0.87	1.40	0.45***	0.21***
Control of corruption	9,420	1.35	1.53	2,808	0.87	1.28	0.48***	0.24***
Aggregate governance	9,420	1.15	1.30	2,808	0.75	1.21	0.40***	0.09***
Log of total assets	9,420	8.99	8.81	2,808	9.66	9.53	-0.68***	-0.72***
R&D	9,420	0.02	0.00	2,808	0.02	0.00	0.00	0.00**
Leverage	9,420	0.24	0.23	2,808	0.25	0.24	-0.02***	-0.01***
M/B	9,420	3.09	2.40	2,808	2.57	1.84	0.52***	0.56***
Tangible resources	9,420	0.22	0.15	2,808	0.27	0.22	-0.09***	-0.07***
Cash flow	9,420	0.10	0.10	2,808	0.09	0.08	0.01***	0.01***
Log of home country GDP	9,420	14.71	14.71	2,808	14.69	14.75	0.02	-0.04
Host country market openness	9,420	0.66	0.56	2,808	0.77	0.56	-0.11***	0.00***
Host country ores and metals exports	9,420	0.06	0.04	2,808	0.06	0.04	-0.01***	0.00**
Host country unemployment rate	9,420	0.07	0.07	2,808	0.07	0.06	0.01***	0.01***

Table 3-9

Regressions of CSR on firm's FDI internalization choice

This table reports logit regressions of FDI internalization choice. The dependent variable is internalization dummy, equals one if the firm takes full control of its foreign subsidiaries after the investment and zero if it takes partial control. 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.

Variables	(1)	(2)	(3)	(4)
Overall CSR	0.447**			
	(0.182)			
Social CSR		0.049		
		(0.173)		
Environmental CSR			0.154	
			(0.176)	
Governance CSR				0.976***
				(0.195)
Log of total assets	-0.248***	-0.209***	-0.220***	-0.235***
	(0.039)	(0.038)	(0.039)	(0.035)
R&D	-3.483**	-3.382**	-3.414**	-3.592**
	(1.462)	(1.472)	(1.470)	(1.464)
M/B	-0.006	-0.006	-0.006	-0.014
	(0.021)	(0.021)	(0.021)	(0.021)
Tangible resources	-1.004***	-0.961***	-0.980***	-0.957***
	(0.250)	(0.250)	(0.253)	(0.249)
Cash flow	-0.699	-0.399	-0.427	-0.511
	(0.922)	(0.926)	(0.923)	(0.917)
Leverage	0.042	-0.016	0.005	0.013
	(0.328)	(0.330)	(0.330)	(0.324)
Log of home country GDP	-0.054	-0.049	-0.053	-0.046
	(0.043)	(0.043)	(0.043)	(0.042)
Host country market openness	-0.176***	-0.182***	-0.180***	-0.179***
	(0.041)	(0.040)	(0.040)	(0.041)
Host country ores and metals exports	-1.298***	-1.240***	-1.244***	-1.279***
	(0.333)	(0.331)	(0.331)	(0.327)
Host country unemployment rate	2.578***	2.572***	2.555***	2.716***
	(0.940)	(0.942)	(0.940)	(0.944)
Constant	1.849	1.596	1.691	1.499
	(1.168)	(1.132)	(1.131)	(1.069)
Year fixed effects	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes
Log Likelihood	-5743	-5759	-5764	-5721
Wald Chi-square	460.4***	459.2***	458.1***	474.3***
Pseudo R-square	0.127	0.125	0.125	0.131
Observations	12,199	12,215	12,222	12,221

Table 3-10
Regressions of overall CSR and its interactions with LOF proxies on firm's FDI internalization choice
This table reports logit regressions of FDI internalization choice. The dependent variable is a dummy variable, equals one if the firm takes full control of its foreign subsidiaries after FDI and zero if it takes partial control. 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.

	(1)	(2)	(3)	(4)	(5)	(6)
Overall CSR	0.472*	0.408**	2.119**	0.522***	0.591***	0.612***
	(0.262)	(0.205)	(0.831)	(0.200)	(0.182)	(0.187)
Cultural distance	-0.017*					
	(0.009)					
Administrative distance		-0.010**				
		(0.004)				
Geographic distance			0.040			
			(0.071)			
Economic distance				-0.012*		
				(0.008)		
Resource based industry					0.070	
					(0.258)	
Asset specific industry						0.701***
						(0.206)
Overall CSR * Cultural distance	-0.004					
	(0.013)					
Overall CSR * Administrative distance		0.004				
		(0.005)				
Overall CSR * Geographic distance			-0.203**			
			(0.099)			
Overall CSR * Economic distance				-0.011		
				(0.011)		
Overall CSR * Resource based industry					0.001	
					(0.370)	
Overall CSR * Asset specific industry						-0.473
						(0.310)
Log of total assets	-0.242***	-0.248***	-0.246***	-0.255***	-0.314***	-0.304***
	(0.040)	(0.039)	(0.039)	(0.040)	(0.035)	(0.035)
R&D	-3.954***	-3.783**	-3.397**	-4.371***	-2.627*	-2.953**
	(1.450)	(1.471)	(1.472)	(1.462)	(1.464)	(1.448)
M/B	-0.005	-0.005	-0.005	-0.004	-0.001	0.005
	(0.021)	(0.022)	(0.021)	(0.023)	(0.022)	(0.022)
Tangible resources	-0.989***	-1.030***	-1.024***	-1.069***	-1.576***	-1.508***
	(0.253)	(0.251)	(0.251)	(0.261)	(0.237)	(0.235)
Cash flow	-0.842	-0.763	-0.649	-0.502	-0.148	-0.229
	(0.928)	(0.927)	(0.922)	(0.949)	(0.883)	(0.878)
Leverage	-0.072	0.002	0.038	-0.083	0.251	0.243
	(0.333)	(0.330)	(0.330)	(0.347)	(0.331)	(0.330)
Log of home country GDP	0.009	-0.074*	-0.042	-0.083	-0.030	-0.037

Table 3-10 continued

	(0.049)	(0.044)	(0.044)	(0.053)	(0.043)	(0.043)
Host country market openness	-0.139***	-0.175***	-0.194***	-0.007	-0.189***	-0.184***
	(0.042)	(0.041)	(0.040)	(0.070)	(0.039)	(0.039)
Host country ores and metals exports	-1.487***	-1.210***	-1.009***	-1.227***	-1.488***	-1.406***
	(0.346)	(0.336)	(0.346)	(0.356)	(0.330)	(0.332)
Host country unemployment rate	3.863***	2.869***	2.504***	2.661***	2.608***	2.686***
	(1.033)	(0.962)	(0.938)	(0.998)	(0.948)	(0.958)
Constant	1.677	2.171*	1.439	3.208**	3.171***	3.092***
	(1.243)	(1.161)	(1.265)	(1.255)	(0.699)	(0.700)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	No	No
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-5390	-5672	-5724	-5146	-5832	-5812
Wald Chi-square	477.1***	469.1***	484.5***	442.7***	409.5***	416.0***
Pseudo R-square	0.137	0.129	0.128	0.131	0.113	0.116
Observations	11,610	12,130	12,189	10,893	12,199	12,199

Table 3-11

Regressions of overall CSR and its interactions with individual and aggregate host country WGIs on firm's FDI internalization choice

This table reports logit regressions of FDI internalization choice. The dependent variable is a dummy variable, equals one if the firm takes full control of its foreign subsidiaries after FDI and zero if it takes partial control. 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.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Overall CSR	0.411**	0.534***	0.695***	0.651***	0.607***	0.597***	0.601***
	(0.204)	(0.186)	(0.220)	(0.220)	(0.207)	(0.201)	(0.207)
Voice and accountability	0.693***						
	(0.092)						
Political stability		0.881***					
		(0.100)					
Government effectiveness			0.863***				
			(0.092)				
Regulatory quality				0.963***			
				(0.099)			
Rule of law					0.766***		
					(0.082)		
Control of corruption						0.700***	
						(0.076)	
Aggregate governance							0.902***
							(0.096)
Overall CSR * Voice and accountability	-0.052						
	(0.128)						
Overall CSR * Political stability		-0.424***					
		(0.138)					
Overall CSR * Government effectiveness			-0.297**				
			(0.131)				
Overall CSR * Regulatory quality				-0.278**			
				(0.138)			
Overall CSR * Rule of law					-0.247**		
					(0.117)		
Overall CSR * Control of corruption						-0.231**	
						(0.108)	

Table 3-11 continued

Overall CSR * Aggregate governance							-0.276**
							(0.135)
Log of total assets	-0.216***	-0.225***	-0.211***	-0.211***	-0.210***	-0.211***	-0.209***
	(0.039)	(0.039)	(0.039)	(0.038)	(0.039)	(0.039)	(0.039)
R&D	-4.475***	-3.959***	-4.694***	-4.819***	-4.693***	-4.576***	-4.672***
	(1.460)	(1.459)	(1.445)	(1.451)	(1.447)	(1.448)	(1.449)
M/B	-0.006	-0.005	-0.006	-0.007	-0.006	-0.006	-0.006
	(0.022)	(0.021)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
Tangible resources	-0.962***	-0.998***	-0.931***	-0.948***	-0.935***	-0.937***	-0.944***
	(0.254)	(0.252)	(0.255)	(0.255)	(0.255)	(0.256)	(0.255)
Cash flow	-0.612	-0.612	-0.528	-0.471	-0.502	-0.534	-0.521
	(0.946)	(0.911)	(0.933)	(0.937)	(0.935)	(0.934)	(0.935)
Leverage	0.032	0.034	0.063	0.050	0.071	0.044	0.047
	(0.328)	(0.329)	(0.328)	(0.329)	(0.328)	(0.329)	(0.329)
Log of home country GDP	-0.079*	-0.066	-0.069	-0.068	-0.073*	-0.071*	-0.073*
	(0.044)	(0.043)	(0.043)	(0.043)	(0.043)	(0.043)	(0.043)
Host country market openness	-0.091**	-0.367***	-0.297***	-0.322***	-0.244***	-0.303***	-0.283***
	(0.040)	(0.043)	(0.041)	(0.041)	(0.040)	(0.041)	(0.040)
Host country ores and metals exports	-1.647***	-1.604***	-1.103***	-1.565***	-1.158***	-1.610***	-1.461***
	(0.332)	(0.334)	(0.343)	(0.344)	(0.342)	(0.340)	(0.340)
Host country unemployment rate	1.434*	2.873***	4.043***	3.253***	3.590***	3.821***	3.245***
	(0.854)	(0.866)	(0.890)	(0.848)	(0.869)	(0.873)	(0.856)
Constant	1.289	1.501	0.617	0.716	0.927	0.817	0.869
	(1.133)	(1.218)	(1.071)	(1.052)	(1.084)	(1.093)	(1.099)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log likelihood	-5501	-5589	-5516	-5460	-5505	-5505	-5485
Chi square	773.3***	669.6***	730.2***	808.9***	755.3***	759.4***	776.2***
Pseudo R-square	0.163	0.150	0.161	0.170	0.163	0.163	0.166
Observations	12,199	12,199	12,199	12,199	12,199	12,199	12,199

Table 3-12
Implied probabilities of FDI internalization choice
The table reports the predicted likelihood of a firm undertaking a FDI transaction through a full control mode rather than a partial one based on the logit models presented in Table 11. All variables are defined in Appendix A. All explanatory variables are measured at the financial year-end prior to the FDI announcement.

	Overall CSR score				
	10th percentile	25th percentile	50th percentile	75th percentile	90th percentile
Model 1 - Voice and accountability					
-2	0.345	0.365	0.400	0.421	0.427
-1	0.489	0.508	0.541	0.559	0.565
0	0.633	0.649	0.675	0.689	0.693
1	0.757	0.768	0.786	0.796	0.798
2	0.851	0.857	0.868	0.874	0.876
Model 2 - Political stability					
-2	0.363	0.418	0.514	0.568	0.584
-1	0.531	0.570	0.634	0.668	0.678
0	0.691	0.710	0.739	0.755	0.760
1	0.817	0.819	0.824	0.827	0.827
2	0.900	0.895	0.886	0.881	0.879
Model 3 - Government effectiveness					
-2	0.239	0.281	0.363	0.412	0.428
-1	0.390	0.430	0.500	0.539	0.551
0	0.561	0.589	0.635	0.660	0.668
1	0.718	0.731	0.752	0.764	0.768
2	0.836	0.839	0.843	0.845	0.845
Model 4 - Regulatory quality					
-2	0.198	0.234	0.304	0.347	0.361
-1	0.358	0.395	0.459	0.496	0.507
0	0.550	0.576	0.620	0.644	0.651
1	0.726	0.738	0.758	0.769	0.772
2	0.854	0.856	0.859	0.861	0.861
Model 5 - Rule of law					
-2	0.299	0.340	0.414	0.458	0.471
-1	0.445	0.480	0.540	0.574	0.584
0	0.598	0.621	0.661	0.682	0.688
1	0.733	0.745	0.764	0.774	0.777
2	0.837	0.840	0.844	0.847	0.847
Model 6 - Control of Corruption					
-2	0.335	0.376	0.449	0.491	0.504
-1	0.471	0.505	0.563	0.595	0.605
0	0.610	0.633	0.671	0.691	0.697
1	0.732	0.744	0.763	0.774	0.777
2	0.829	0.832	0.837	0.840	0.841
Model 7 - Aggregate governance					
-2	0.248	0.287	0.360	0.404	0.418
-1	0.411	0.447	0.509	0.544	0.554
0	0.792	0.616	0.655	0.676	0.682
1	0.750	0.760	0.777	0.786	0.788
2	0.863	0.864	0.866	0.867	0.867

Table 3-13

Multinomial logit regressions of CSR on firm's FDI location and internalization choice

This table reports the results of multinomial logit regressions of FDI location and internalization choices. The dependent variable in Model 1 through Model 4 is a categorical variable, equals one if the FDI deal is into a developed country through a full control method, two if it is into a developed country through a partial control method, three if it is into a developing country through a full control method, and four if it is into a developing country through a partial control method, with one set as the base option. 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.

	Model 1			Model 2		
Variables	2	3	4	2	3	4
Overall CSR	-0.172	-0.670***	-0.611**			
	(0.212)	(0.234)	(0.252)			
Social CSR				0.226	-0.155	-0.040
				(0.202)	(0.232)	(0.239)
Log of total assets	0.191***	0.224***	0.232***	0.151***	0.174***	0.176***
	(0.043)	(0.050)	(0.052)	(0.043)	(0.050)	(0.053)
R&D	3.662**	-10.923***	-10.910***	3.562**	-10.962***	-11.213***
	(1.463)	(2.168)	(2.711)	(1.466)	(2.181)	(2.761)
M/B	0.023	0.019	-0.006	0.024	0.015	-0.008
	(0.023)	(0.028)	(0.029)	(0.022)	(0.029)	(0.030)
Tangible resources	1.082***	0.956***	0.975***	1.054***	0.877***	0.906***
	(0.276)	(0.317)	(0.309)	(0.274)	(0.314)	(0.307)
Cash flow	0.749	2.006**	1.387	0.470	1.714*	1.018
	(1.037)	(1.018)	(1.405)	(1.047)	(1.028)	(1.417)
Leverage	-0.169	-0.078	-0.090	-0.119	0.018	-0.012
	(0.356)	(0.455)	(0.445)	(0.356)	(0.457)	(0.448)
Log of home country GDP	0.046	-0.028	-0.026	0.038	-0.048	-0.035
	(0.047)	(0.054)	(0.054)	(0.047)	(0.054)	(0.054)
Host country market openness	0.261***	-0.194**	-0.040	0.265***	-0.186**	-0.034
	(0.047)	(0.086)	(0.058)	(0.047)	(0.086)	(0.057)
Host country ores and metals exports	1.615***	4.637***	4.189***	1.512***	4.548***	4.042***
	(0.475)	(0.431)	(0.509)	(0.473)	(0.430)	(0.508)
Host country unemployment rate	-0.918	3.095*	-1.304	-0.919	3.150*	-1.315
	(1.026)	(1.619)	(2.230)	(1.028)	(1.612)	(2.244)
Constant	-2.056	-3.205**	-2.529*	-1.827	-2.763*	-2.008
	(1.296)	(1.443)	(1.352)	(1.292)	(1.444)	(1.342)
Year fixed effects		Yes			Yes	
Sector fixed effects		Yes			Yes	
Region fixed effects		Yes			Yes	
Log Likelihood		-8086			-8107	
LR Chi-square		774.5***			776.4***	
Pseudo R-square		0.097			0.096	
Observations		9,761			9,777	

Table 3-13 continued

	Model 3			Model 4		
Variables	2	3	4	2	3	4
Overall CSR						
Social CSR						
Environmental CSR	0.051	-0.454**	-0.326			
	(0.200)	(0.228)	(0.230)			
Governance CSR				-0.826***	-1.094***	-1.393***
				(0.227)	(0.254)	(0.277)
Log of total assets	0.170***	0.206***	0.206***	0.200***	0.186***	0.211***
	(0.043)	(0.051)	(0.051)	(0.038)	(0.045)	(0.047)
R&D	3.600**	-10.630***	-10.919***	3.788***	-10.633***	-11.028***
	(1.471)	(2.130)	(2.705)	(1.454)	(2.155)	(2.790)
M/B	0.025	0.016	-0.008	0.029	0.018	0.001
	(0.022)	(0.029)	(0.030)	(0.022)	(0.029)	(0.029)
Tangible resources	1.050***	0.954***	0.961***	1.067***	0.876***	0.920***
	(0.278)	(0.317)	(0.313)	(0.272)	(0.313)	(0.302)
Cash flow	0.540	1.732*	1.095	0.663	1.740*	1.181
	(1.034)	(1.022)	(1.413)	(1.034)	(1.020)	(1.413)
Leverage	-0.142	-0.028	-0.053	-0.169	-0.021	-0.064
	(0.356)	(0.455)	(0.448)	(0.351)	(0.458)	(0.440)
Log of home country GDP	0.039	-0.040	-0.027	0.048	-0.025	-0.030
	(0.047)	(0.053)	(0.054)	(0.046)	(0.052)	(0.052)
Host country market openness	0.265***	-0.187**	-0.040	0.260***	-0.183**	-0.040
	(0.047)	(0.086)	(0.058)	(0.048)	(0.086)	(0.058)
Host country ores and metals exports	1.527***	4.565***	4.070***	1.586***	4.587***	4.145***
	(0.473)	(0.431)	(0.508)	(0.472)	(0.428)	(0.501)
Host country unemployment rate	-0.881	3.066*	-1.353	-1.006	2.889*	-1.643
	(1.026)	(1.622)	(2.239)	(1.022)	(1.625)	(2.258)
Constant	-1.895	-3.022**	-2.233*	-1.933	-2.861**	-1.911
	(1.290)	(1.456)	(1.340)	(1.242)	(1.453)	(1.286)
Year fixed effects		Yes			Yes	
Sector fixed effects		Yes			Yes	
Region fixed effects		Yes			Yes	
Log Likelihood		-8115			-8068	
LR Chi-square		775.0***			826.8***	
Pseudo R-square		0.096			0.101	
Observations		9,784			9,783	

Table 3-14

Multinomial logit regressions of CSR and its interaction with LOF proxies on firm's FDI location and internalization choice

This table reports the results of multinomial logit regressions of FDI location and internalization choices. Panel A reports the results when overall CSR is the variable of interest. Panel B reports the results when governance CSR is the variable of interest. The dependent variable in Model 1 through Model 6 in both panels is a categorical variable, equals one if the FDI deal is into a developed country through a full control method, two if it is into a developed country through a partial control method, three if it is into a developing country through a full control method, and four if it is into a developing country through a partial control method, with one set as the base option. Results for control variables are not reported for brevity. 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.

Panel A: Multinomial logit regression of overall CSR and its interaction with LOF proxies on firm's FDI location and internalization choice

	Model 1			Model 2			Model 3		
Variables	2	3	4	2	3	4	2	3	4
Overall CSR	-0.132	-0.773**	-0.674*	-0.132	-0.458*	-0.503*	-1.473	-4.314***	-6.118***
	(0.313)	(0.354)	(0.395)	(0.249)	(0.255)	(0.282)	(1.014)	(1.230)	(1.316)
Cultural distance	0.023**	0.063***	0.050***						
	(0.011)	(0.012)	(0.015)						
Administrative distance				0.010	0.023***	0.020***			
				(0.007)	(0.007)	(0.007)			
Geographic distance							-0.021	0.130	-0.055
							(0.087)	(0.107)	(0.099)
Overall CSR * Cultural distance	0.001	0.014	0.011						
	(0.017)	(0.018)	(0.021)						
Overall CSR * Administrative distance				-0.005	-0.014*	-0.006			
				(0.008)	(0.008)	(0.009)			
Overall CSR * Geographic distance							0.159	0.429***	0.656***
							(0.121)	(0.148)	(0.152)
Constant	-2.643***	-3.482***	-2.714**	-3.246***	-4.247***	-3.738***	-2.770***	-4.083***	-2.146*
	(0.885)	(1.165)	(1.190)	(0.830)	(1.054)	(1.009)	(1.042)	(1.305)	(1.234)
Control variables		Yes			Yes			Yes	
Year fixed effects		Yes			Yes			Yes	
Sector fixed effects		Yes			Yes			Yes	

Table 3-14 continued

Panel A continued			
Region fixed effects	Yes	Yes	Yes
Log Likelihood	-7450	-7948	-7998
LR Chi-square	844.4***	810.4***	861.4***
Pseudo R-square	0.117	0.102	0.105
Observations	9,292	9,702	9,753

Table 3-14 continued

Panel A continued

	Model 4			Model 5			Model 6		
Variables	2	3	4	2	3	4	2	3	4
Overall CSR	-0.328	-1.108***	-0.837***	-0.331	-0.594**	-0.663***	-0.303	-0.488*	-0.776***
	(0.236)	(0.256)	(0.283)	(0.213)	(0.252)	(0.253)	(0.218)	(0.254)	(0.262)
Economic distance	0.010	0.073***	0.057***						
	(0.012)	(0.020)	(0.018)						
Resource based industry				-0.887**	0.832**	0.576*			
				(0.362)	(0.375)	(0.346)			
Asset specific industry							-0.700***	-0.574	-1.069***
							(0.248)	(0.362)	(0.336)
Overall CSR * Economic distance	0.033**	0.065**	0.051**						
	(0.016)	(0.027)	(0.025)						
Overall CSR * Resource based industry				1.039**	0.512	0.002			
				(0.523)	(0.493)	(0.495)			
Overall CSR * Asset specific industry							0.432	0.614	1.287***
							(0.368)	(0.550)	(0.471)
Constant	-2.930***	-5.848***	-5.640***	-3.087***	-3.841***	-3.375***	-3.103***	-3.634***	-3.247***
	(0.939)	(1.486)	(1.420)	(0.795)	(0.995)	(0.989)	(0.800)	(1.001)	(0.992)
Control variables		Yes			Yes			Yes	
Year fixed effects		Yes			Yes			Yes	
Sector fixed effects		Yes			No			No	
Region fixed effects		Yes			Yes			Yes	
Log Likelihood		-6957			-8139			-8175	
LR Chi-square		664.2***			801.1***			724.8***	
Pseudo R-square		0.129			0.091			0.087	
Observations		8,688			9,761			9,761	

Table 3-14 continued

Panel B: Multinomial logit regression of governance CSR and its interaction with LOF proxies on firm's FDI location and internalization choice

	Model 1			Model 2			Model 3		
Variables	2	3	4	2	3	4	2	3	4
Governance CSR	-1.410***	-4.136***	-5.091***	-0.801***	-1.051***	-1.309***	-2.964***	-12.303***	-15.394***
	(0.312)	(0.438)	(0.424)	(0.262)	(0.271)	(0.315)	(1.106)	(1.610)	(1.708)
Cultural distance	-0.015	-0.063***	-0.092***						
	(0.010)	(0.018)	(0.014)						
Administrative distance				0.006	0.012**	0.014**			
				(0.005)	(0.006)	(0.006)			
Geographic distance							-0.080	-0.327**	-0.475***
							(0.088)	(0.128)	(0.102)
Governance CSR * Cultural distance	0.061***	0.238***	0.280***						
	(0.017)	(0.026)	(0.023)						
Governance CSR * Administrative distance				-0.001	0.001	0.002			
				(0.008)	(0.008)	(0.008)			
Governance CSR * Geographic distance							0.266**	1.335***	1.665***
							(0.134)	(0.194)	(0.199)
Constant	-2.164**	-1.887	-1.268	-3.018***	-3.743***	-3.300***	-2.089**	0.007	1.371
	(0.890)	(1.176)	(1.203)	(0.824)	(1.033)	(1.007)	(1.009)	(1.371)	(1.215)
Control variables		Yes			Yes			Yes	
Year fixed effects		Yes			Yes			Yes	
Sector fixed effects		Yes			Yes			Yes	
Region fixed effects		Yes			Yes			Yes	
Log Likelihood		-7260			-7940			-7907	
LR Chi-square		1021.4***			846.6***			955.5***	
Pseudo R-square		0.142			0.105			0.117	
Observations		9,313			9,724			9,775	

Table 3-14 continued

Panel B continued

	Model 4			Model 5			Model 6		
Variables	2	3	4	2	3	4	2	3	4
Governance CSR	-0.967***	-2.030***	-2.008***	-0.888***	-1.216***	-1.462***	-0.818***	-1.201***	-1.383***
	(0.247)	(0.290)	(0.297)	(0.244)	(0.272)	(0.288)	(0.243)	(0.277)	(0.292)
Economic distance	0.021*	0.091***	0.074***						
	(0.011)	(0.018)	(0.016)						
Resource based industry				-0.534**	0.761**	0.188			
				(0.271)	(0.342)	(0.305)			
Asset specific industry							-0.317*	-0.373	-0.272
							(0.192)	(0.305)	(0.253)
Governance CSR * Economic distance	0.011	0.037	0.024						
	(0.015)	(0.028)	(0.023)						
Governance CSR * Resource based industry				0.540	0.612	0.693			
				(0.470)	(0.503)	(0.492)			
Governance CSR * Asset specific industry							-0.226	0.298	-0.117
							(0.351)	(0.530)	(0.479)
Constant	-2.954***	-5.925***	-5.701***	-2.846***	-3.413***	-2.846***	-2.895***	-3.295***	-2.832***
	(0.930)	(1.402)	(1.410)	(0.791)	(0.978)	(0.974)	(0.793)	(0.978)	(0.977)
Control variables		Yes			Yes			Yes	
Year fixed effects		Yes			Yes			Yes	
Sector fixed effects		Yes			No			No	
Region fixed effects		Yes			Yes			Yes	
Log Likelihood		-6893			-8122			-8157	
LR Chi-square		724.8***			814.5***			747.4***	
Pseudo R-square		0.136			0.095			0.091	
Observations		8,683			9,783			9,783	

Table 3-15

Regressions of CSR on firm's FDI internalization choice using alternative definitions of dependent variable

This table reports logit regressions of FDI internalization choice. In Panel A, the dependent variable is a dummy variable, equals one if the firm owns 90% of its foreign subsidiaries after FDI and zero otherwise. In Panel B, the dependent variable equals one if the firm owns 50% of its foreign subsidiaries after FDI and zero otherwise. 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 reported in parentheses. *, **, and *** indicate statistical significance at 10%, 5% and 1% level respectively.

	Panel A (90% ownership)				Panel B (50% ownership)			
Variables	(1a)	(2a)	(3a)	(4a)	(1b)	(2b)	(3b)	(4b)
Overall CSR	0.343**				0.261*			
	(0.140)				(0.150)			
Social CSR		-0.055				-0.044		
		(0.136)				(0.144)		
Environmental CSR			0.194				0.193	
			(0.132)				(0.146)	
Governance CSR				0.688***				0.497***
				(0.146)				(0.155)
Log of total assets	-0.240***	-0.203***	-0.227***	-0.235***	-0.247***	-0.220***	-0.243***	-0.244***
	(0.028)	(0.027)	(0.028)	(0.026)	(0.033)	(0.033)	(0.034)	(0.030)
R&D	-3.356***	-3.279***	-3.354***	-3.364***	-6.809***	-6.753***	-6.840***	-6.829***
	(1.074)	(1.089)	(1.078)	(1.076)	(1.099)	(1.109)	(1.099)	(1.106)
M/B	0.020	0.022	0.021	0.015	0.025	0.027	0.027	0.022
	(0.019)	(0.019)	(0.019)	(0.019)	(0.021)	(0.022)	(0.022)	(0.021)
Tangible resources	-0.378*	-0.347*	-0.376*	-0.330	-0.287	-0.274	-0.301	-0.244
	(0.208)	(0.209)	(0.209)	(0.208)	(0.232)	(0.233)	(0.233)	(0.234)
Cash flow	-0.540	-0.291	-0.390	-0.409	-1.180	-0.983	-1.089	-1.090
	(0.742)	(0.748)	(0.744)	(0.742)	(0.909)	(0.918)	(0.912)	(0.907)
Leverage	-0.108	-0.144	-0.128	-0.121	-0.466	-0.490*	-0.482*	-0.475*
	(0.261)	(0.262)	(0.262)	(0.255)	(0.286)	(0.287)	(0.286)	(0.282)
Log of home country GDP	-0.051	-0.045	-0.051	-0.038	-0.035	-0.030	-0.036	-0.024
	(0.035)	(0.035)	(0.035)	(0.034)	(0.040)	(0.040)	(0.040)	(0.039)
Host country market openness	-0.152***	-0.155***	-0.152***	-0.154***	-0.036	-0.038	-0.036	-0.038

Table 3-15 continued

	(0.036)	(0.036)	(0.036)	(0.036)	(0.039)	(0.039)	(0.039)	(0.039)
Host country ores and metals exports	-1.314***	-1.259***	-1.267***	-1.299***	-0.577**	-0.541*	-0.552*	-0.569*
	(0.278)	(0.277)	(0.277)	(0.279)	(0.293)	(0.292)	(0.292)	(0.293)
Host country unemployment rate	2.930***	2.852***	2.862***	2.908***	5.913***	5.879***	5.907***	5.933***
	(0.774)	(0.775)	(0.773)	(0.774)	(0.958)	(0.957)	(0.959)	(0.961)
Constant	2.168***	1.963***	2.163***	2.018***	3.521***	3.320***	3.506***	3.324***
	(0.721)	(0.720)	(0.728)	(0.715)	(0.804)	(0.797)	(0.817)	(0.813)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-7531	-7543	-7544	-7518	-7478	-7485	-7485	-7473
Wald Chi-square	434.2***	432.6***	434.8***	450.9***	388.5***	388.0***	387.8***	393.6***
Pseudo R-square	0.072	0.071	0.072	0.075	0.081	0.080	0.081	0.082
Observations	13,160	13,173	13,178	13,177	14,984	14,996	15,001	15,000

Table 3-16

Propensity score matching estimates

This table reports the logit regression of FDI location choice in Model 1 and logit regression of FDI internalization choice in Model 2. The data used in both models are from matched samples after propensity score matching. Matching are based on 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 reported in parentheses. *, **, and *** indicate statistical significance at 10%, 5% and 1% level respectively. The propensity score matching

	Model 1	Model 2
Variables	Developed vs. Developing countries	Full vs. Partial control
Overall CSR	0.801***	0.376*
	(0.232)	(0.220)
Log of total assets	-0.201***	-0.343***
	(0.049)	(0.049)
R&D	19.476***	-3.769**
	(2.951)	(1.793)
M/B	-0.020	-0.024
	(0.028)	(0.028)
Tangible resources	-1.248***	-1.333***
	(0.300)	(0.310)
Cash flow	-0.790	0.206
	(1.177)	(1.143)
Leverage	0.017	0.128
	(0.375)	(0.407)
Log of home country GDP	0.054	-0.082
	(0.049)	(0.053)
Host country market openness	0.160***	-0.182***
	(0.062)	(0.054)
Host country ores and metals exports	-3.519***	-1.517***
	(0.432)	(0.437)
Host country unemployment rate	-0.901	2.712**
	(1.798)	(1.280)
Constant	3.832***	4.099***
	(1.248)	(1.014)
Year fixed effects	Yes	Yes
Sector fixed effects	Yes	Yes
Region fixed effects	Yes	Yes
Log Likelihood	-2428	-3034
Wald Chi-square	243.8***	359.1***
Pseudo R-square	0.101	0.144
Observations	7,148	6,878

Table 3-17

Two step Probit regression estimation with instrumental variables

This table reports the instrumental variable regression of FDI location choice in Panel A and FDI internalization choice in Panel B. The first step in both panels is an OLS model of the determinants of Overall CSR. The second step in Panel A is a Logit regression of FDI location choice between developed and developing countries. The second step in Panel B is a Logit regression of FDI internalization choice between full and partial control mode. Instrumental variables are: country sector mean of CSR (excluding the contribution from the focal firm), and year sector mean of CSR (excluding the contribution from the focal firm). All variables are described 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 reported in parentheses. *, **, and *** indicate statistical significance at 10%, 5% and 1% level respectively.

Variables	Panel A		Panel B	
	First step	Second step	First step	Second step
	OLS	Probit	OLS	Probit
Overall CSR		2.376***		1.808***
		(0.795)		(0.689)
Instrumental variable				
Country sector mean of CSR	1.091***		1.091***	
	(0.056)		(0.056)	
Year sector mean of CSR	0.099		0.099	
	(0.116)		(0.116)	
Control variable				
Log of total assets	0.104***	-0.295***	0.104***	-0.387***
	(0.002)	(0.084)	(0.002)	(0.077)
R&D	0.108	16.027***	0.108	-3.504**
	(0.067)	(2.147)	(0.067)	(1.463)
M/B	0.005***	-0.025	0.005***	-0.016
	(0.001)	(0.022)	(0.001)	(0.022)
Tangible resources	0.093***	-0.972***	0.093***	-1.098***
	(0.014)	(0.252)	(0.014)	(0.254)
Cash flow	0.439***	-1.746*	0.439***	-1.029
	(0.035)	(0.972)	(0.035)	(0.940)
Leverage	-0.141***	0.335	-0.141***	0.217
	(0.018)	(0.358)	(0.018)	(0.340)
Log of home country GDP	-0.017***	0.103**	-0.017***	-0.063
	(0.003)	(0.041)	(0.003)	(0.043)
Constant	-1.911***	2.039**	-1.911***	2.489**
	(0.068)	(0.975)	(0.068)	(1.088)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes
R-square/Pseudo R-square	0.417	0.079	0.417	0.123
Observations	32,839	13,501	32,839	12,381

Table 3-18

Regressions of CSR on firm's FDI location and internalization choice on M&A sample

Panel A reports logit regressions of FDI location choice. The dependent variable in models 1a-4a is a location dummy, equals one if the deal is invested into a developed country and zero if the investment is into a developing country. Panel B reports logit regressions of FDI internalization choice. The dependent variable in all models is an internalization dummy, equals one if the firm takes full control of its foreign subsidiaries and zero if it takes partial control. The sample of both panels are M&A deals. 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.

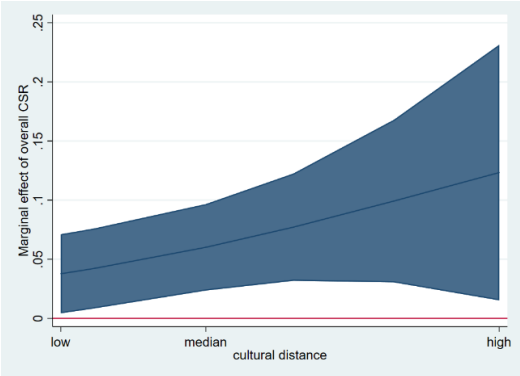
	Panel A				Panel B			
	(1a)	(2a)	(3a)	(4a)	(1b)	(2b)	(3b)	(4b)
Variables	Developed vs developing countries	Developed vs developing countries	Developed vs developing countries	Developed vs developing countries	Full vs. Partial control	Full vs. Partial control	Full vs. Partial control	Full vs. Partial control
Overall CSR	1.005***				0.588**			
	(0.287)				(0.277)			
Social CSR		0.581**				0.108		
		(0.283)				(0.273)		
Environmental CSR			0.591**				-0.041	
			(0.277)				(0.253)	
Governance CSR				1.444***				1.399***
				(0.303)				(0.289)
Log of total assets	-0.287***	-0.242***	-0.246***	-0.223***	-0.269***	-0.219***	-0.203***	-0.253***
	(0.056)	(0.056)	(0.056)	(0.050)	(0.055)	(0.054)	(0.052)	(0.047)
R&D	18.775***	19.234***	18.519***	18.204***	9.237***	9.445***	9.534***	8.988***
	(3.630)	(3.734)	(3.568)	(3.579)	(2.450)	(2.460)	(2.473)	(2.408)
M/B	0.028	0.034	0.035	0.028	0.007	0.001	0.002	-0.012
	(0.037)	(0.038)	(0.038)	(0.038)	(0.032)	(0.033)	(0.033)	(0.032)
Tangible resources	0.112	0.208	0.134	0.140	-0.362	-0.288	-0.245	-0.410
	(0.367)	(0.363)	(0.369)	(0.346)	(0.317)	(0.316)	(0.323)	(0.316)
Cash flow	-1.994*	-1.872	-1.693	-1.553	-1.671	-1.182	-1.133	-1.178
	(1.206)	(1.215)	(1.217)	(1.202)	(1.203)	(1.220)	(1.211)	(1.211)
Leverage	0.209	0.150	0.151	0.201	0.383	0.291	0.284	0.413
	(0.503)	(0.507)	(0.506)	(0.502)	(0.449)	(0.449)	(0.449)	(0.435)

Table 3-18 continued

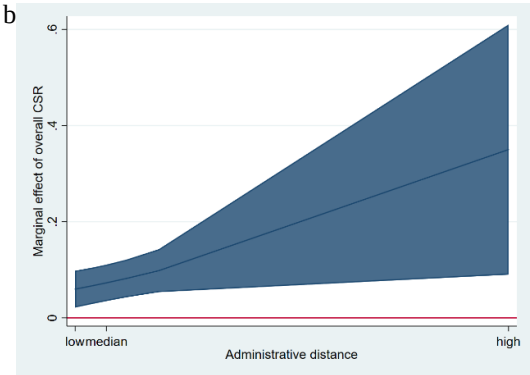
Log of home country GDP	0.075	0.090	0.080	0.087	-0.149**	-0.141**	-0.135**	-0.137**
	(0.057)	(0.057)	(0.057)	(0.055)	(0.059)	(0.059)	(0.058)	(0.056)
Host country market openness	0.215***	0.201***	0.196**	0.202***	-0.186**	-0.196**	-0.200**	-0.186**
	(0.078)	(0.078)	(0.078)	(0.075)	(0.086)	(0.085)	(0.085)	(0.085)
Host country ores and metals exports	-3.683***	-3.584***	-3.538***	-3.641***	-1.318**	-1.231**	-1.213**	-1.348**
	(0.573)	(0.575)	(0.570)	(0.571)	(0.625)	(0.617)	(0.615)	(0.621)
Host country unemployment rate	-1.355	-1.495	-1.364	-0.538	-0.017	-0.048	-0.090	0.243
	(2.402)	(2.400)	(2.400)	(2.477)	(1.740)	(1.726)	(1.719)	(1.785)
Relative deal size	0.699**	0.704**	0.706**	0.724**	3.115***	3.082***	3.062***	3.110***
	(0.321)	(0.320)	(0.322)	(0.321)	(1.068)	(1.051)	(1.045)	(1.081)
Target public (dummy)	0.304	0.309	0.324*	0.360*	-1.453***	-1.444***	-1.438***	-1.438***
	(0.193)	(0.193)	(0.192)	(0.192)	(0.166)	(0.165)	(0.164)	(0.166)
Target private (dummy)	-0.183	-0.167	-0.178	-0.202	-0.329**	-0.316**	-0.317**	-0.353***
	(0.135)	(0.135)	(0.135)	(0.137)	(0.136)	(0.136)	(0.136)	(0.137)
All cash (dummy)	0.262**	0.294**	0.289**	0.205	0.670***	0.677***	0.682***	0.593***
	(0.129)	(0.129)	(0.129)	(0.130)	(0.121)	(0.122)	(0.122)	(0.121)
Friendly (dummy)	0.981***	0.982***	0.994***	0.972***	2.002***	2.002***	2.000***	1.998***
	(0.230)	(0.228)	(0.227)	(0.231)	(0.261)	(0.262)	(0.262)	(0.257)
Relatedness (dummy)	-0.787***	-0.786***	-0.787***	-0.816***	-0.152	-0.163	-0.162	-0.183
	(0.142)	(0.141)	(0.141)	(0.140)	(0.121)	(0.120)	(0.120)	(0.120)
Constant	1.836	1.190	1.416	0.911	1.319	0.918	0.786	0.648
	(1.385)	(1.358)	(1.369)	(1.380)	(1.721)	(1.627)	(1.622)	(1.544)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-1038	-1048	-1051	-1037	-1125	-1132	-1133	-1116
Wald Chi-square	234.6***	227.6***	230.1***	246.9***	381.4***	373.5***	373.0***	402.8***
Pseudo R-square	0.173	0.169	0.168	0.179	0.257	0.254	0.254	0.266
Observations	3,164	3,171	3,174	3,174	3,001	3,005	3,008	3,008

Figure 3-1
Marginal effects of overall CSR on FDI location choice
This figure plots the average marginal effects of overall CSR performance score on FDI probability in a developed country rather than a developing country with 95% confidence intervals. The plots are based on Table 3-6. Different moderators are used in each plot: (a) cultural distance; (b) administrative distance; (c) geographic distance; (d) economic distance; (e) resource based industry; (f) asset specific industry. All variables are defined in Appendix A.

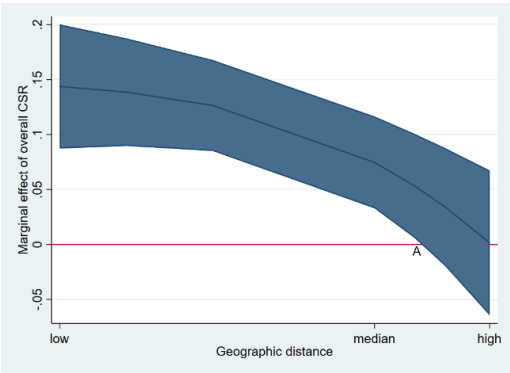
a



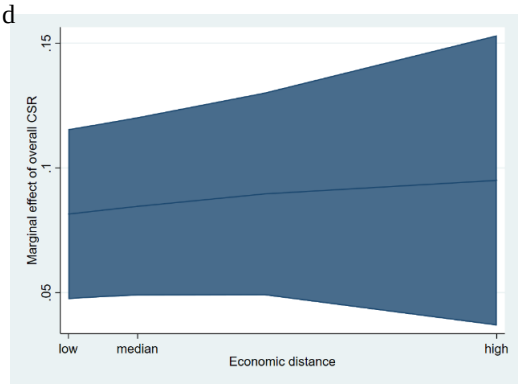
b



c



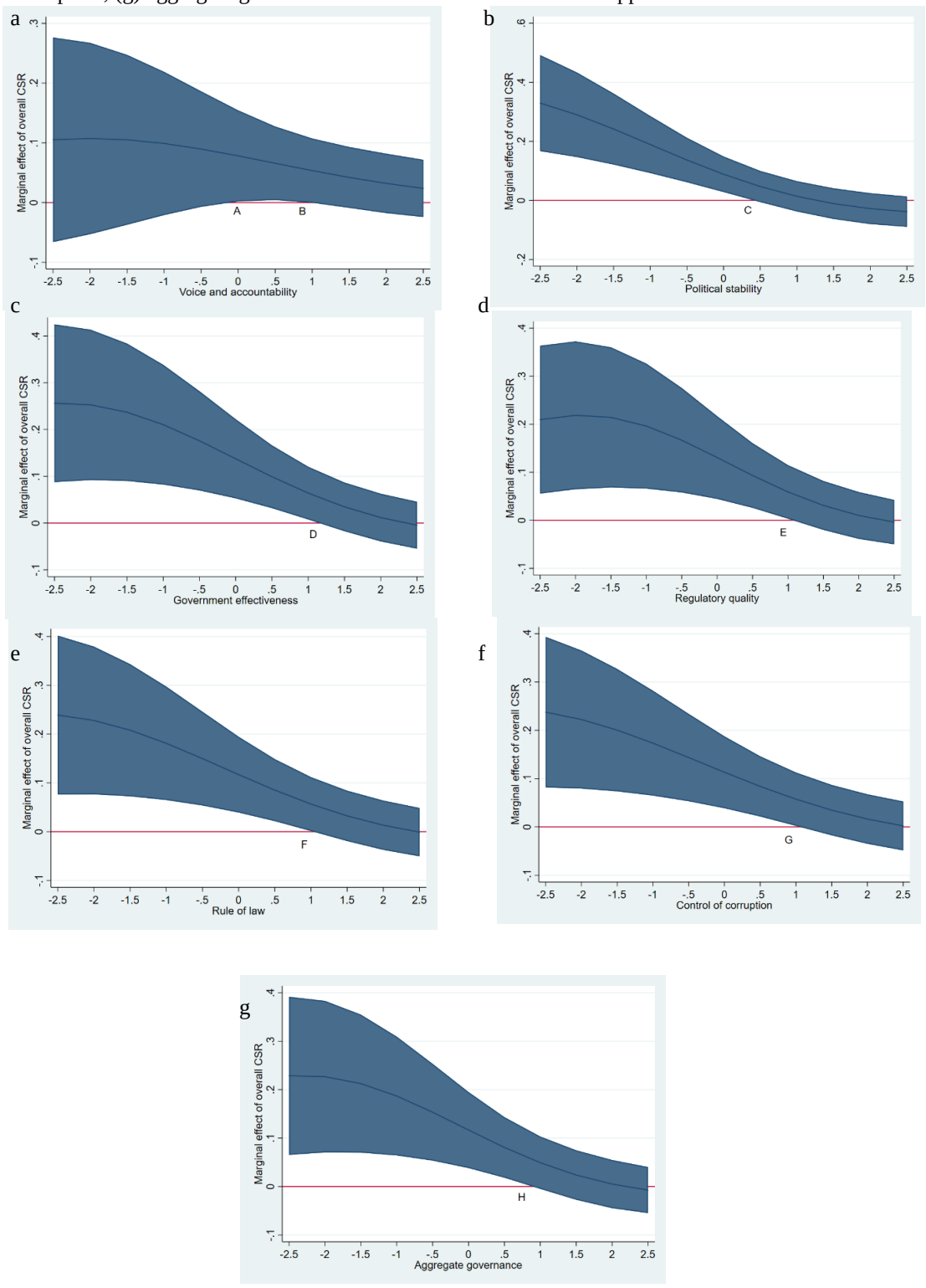
d



e

f

Figure 3-2
Marginal effects of overall CSR on FDI internalization choice
This figure plots the average marginal effects of Overall CSR performance score on FDI probability through a full control rather than a partial control mode with 95% confidence intervals. The plots are based on Table 3-11. Different moderators are used in each plot: (a) voice and accountability; (b) political stability; (c) government effectiveness; (d) regulatory quality; (e) rule of law; (f) control of corruption; (g) aggregate governance. All variables are defined in Appendix A.



Chapter 4 Corporate social responsibility, foreign direct investment, and shareholder value

4.1 Introduction

CSR has become an important asset of MNEs over the last two decades. MNEs have increased their investment in CSR either voluntarily or as a result of pressure from stakeholders (Deng et al., 2013). Despite the growing importance of CSR, researchers are still debating why MNEs invest in CSR activity. Mixed evidence has been presented on the relation between CSR and firm performance (e.g., Becchetti et al., 2012, Edmans, 2011, Flammer, 2013, Krüger, 2015). In this chapter, I use a large sample of global FDIs to examine this debate. I investigate whether and how CSR will affect shareholder value in response to FDI announcement.

I focus on CSR's role in value creation/destruction around FDI announcement for three reasons. First, FDI is one of the most important corporate investment decisions. It not only significantly affects shareholder's wealth, but also various stakeholders that are linked to the focal firm (Luo & Tung, 2007). Second, studies on the relation between CSR and FDI propensity, FDI location, and entry modes have been investigated in the previous two chapters. Unlike previous chapters that focus on firm's choice to undertake FDI, this chapter will shed light on the short-term effect of CSR on changes in shareholder value surrounding FDI. Combing with the findings from the previous chapters, a more comprehensive understanding on the role CSR plays in MNE's overseas investments can be provided. Third, FDIs are largely unanticipated events. Using an event study methodology can potentially mitigate the

endogeneity concerns that are plagued in cross-sectional studies on CSR and firm value (Jiao, 2010, McWilliams & Siegel, 2001, Waddock & Graves, 1997).

There are two opposite views of CSR in the current literature. According to the stakeholder value maximization view of CSR, firms with CSR advantage have close alignment with various stakeholders (Deng et al., 2013). They have higher willingness and stronger ability to maintain continuous relationship with key stakeholders (Cheng et al., 2014). Because the successful implementation of FDI projects requires support from various stakeholders, high CSR firms are more likely to succeed. Therefore, they are expected to get positive market reaction from the FDI announcement. On the contrary, low CSR firms will get lower abnormal returns due to their poor stakeholder relationships and engagements.

Under the shareholder expense view, CSR creates value for other stakeholders at the expense of shareholder, and thus destroy shareholder value (Deng et al., 2013). The interest conflict between shareholders and other stakeholders are even stronger for high CSR firms as such firms usually make more CSR engagements and undertake more CSR initiatives. Within the context of FDI, the conflicts between shareholders and other stakeholders will greatly affect the successful implementation of FDI strategies. Due to the lack of trust, loyalty and support from the other stakeholders, FDI projects are less likely to be successful and may be perceived pessimistically by the stock market.

Based on the opposite views of CSR, I develop two conflicting hypotheses to suggest the existence of a positive/negative relation between CSR and stock price reaction to FDI announcement. I test the above hypotheses using an event study based

on a sample of 20,275 FDIs announced by firms originated from 48 home countries during 2003-2014.

In univariate analysis, I find that on average, firms get a three day CAR of 0.16% and a five day CAR of 0.17% in response to FDI announcements. In multivariate analysis, a neutral relation is found between CSR and CARs, which do not support either hypothesis. This indicates that neither the stakeholder value maximization view nor the shareholder expense view of CSR holds around FDI announcement.

Although the base finding suggests a neutral relation between CSR and CARs in general, the relation may change under different scenarios. I further test the relation by considering various international business factors that have been used in the previous chapters. First, I test how the location and entry mode affect the relation between CSR and CARs. The results indicate a positive relation between CSR and CARs when the investment is in developing rather than developed countries, and when a partial rather than a full control entry mode is used. Second, I test how LOF affects the relation by adding LOF proxies and their interaction term with CSR into the main model. I find that CSR can create value for firms that encounter a higher level of LOF. Finally, the host country institutional characteristics do not seem to matter.

This chapter contributes to several streams of literature. First of all, to the best of my knowledge, this is the first large sample study to test the role of CSR on shareholder's value in the context of FDI. Prior studies have examined different dimensions of CSR (e.g., Edmans, 2011), or various types of corporate investment decisions (e.g., Doukas & Travlos, 1988, Merchant, 2002) . However, to the best of my knowledge, no study has tried to link CSR to a full range of FDI transactions. This study undertakes a comprehensive investigation on both CSR and the three pillars of

CSR on FDI market reaction, thus broadens our understanding. Second, although most studies propose a positive view of CSR on firm value, my finding suggests that the short-term stock market reaction to FDI announcement is neutral regarding high or low CSR firms. It reveals a strikingly important, though so far overlooked, role that CSR plays in the management of corporate risk and return. CSR reflects both the reputation protection intention of the firm and a trade-off between risk and return. The value of CSR may have already been embedded in firm's share price. This implies that most theories that apply for cross-sectional analysis are not appropriate for short-term event studies. Finally, this study further identifies the importance of CSR in overcoming LOFs that have been documented in the previous two chapters. No matter where to invest, MNEs with superior CSR performance should consider the appropriate location, entry methods and ways to mitigate LOF as they will enhance the shareholder value around FDI announcement. I find that although host country institutions are important locational advantages that attract FDI, they do not significantly facilitate high CSR firms' shareholders to gain from FDI.

The rest of the chapter is organized as follows. I present the relevant literature and develop testable hypotheses in Section 4.2. Section 4.3 is devoted to the description of data, sample and methodology. The results are displayed and discussed in Section 4.4. Further analysis is made in Section 4.5. Finally, Section 4.6 concludes the chapter.

4.2 Literature review and hypothesis development

4.2.1 Review on CSR and shareholder value

The relation between CSR and shareholder value has long been investigated by

researchers. Generally speaking, there are two opposite views on CSR: the stakeholder value maximization view and the shareholder expense view (Deng et al., 2013).

The stakeholder value maximization view suggests that CSR activities have positive effects on shareholder wealth because stakeholder engagement increases stakeholder's willingness to support a firm's operation, hence increases shareholder wealth. CSR activities can play a resource allocation role in cases of market failure caused by private and social cost differentials, thus reduce externalized costs and avoid distributional conflicts with stakeholders (Becchetti et al., 2012, Heal, 2004). As stakeholders gauge firm's relative advantage by interpreting informational signals from different sources (Fombrun & Shanley, 1990), CSR can work as firms' signaling strategy to influence stakeholder's assessments by signaling its advantages in environmental, social or governance aspects, thus gain the support from stakeholders.

Various sources and measures of CSR have been documented to create value for shareholders. For example, drawing on the risk management perspective, Godfrey et al. (2009) argue that CSR activity has an insurance-like property which will temper stakeholder's negative judgments and sanctions toward firms when suffering a negative event. Using an event study of 178 negative legal or regulatory actions against firms from 1993 to 2003, they find that CSR activities that aimed at a firm's secondary stakeholders or society provide insurance benefit, while technical CSR activities that target a firm's trading partners do not yield such benefits. Becchetti et al. (2012) examine the market reaction to firm's entry and exit from the Domini 400 Social Index, a benchmark of firm's CSR performance. Their results reveal a significant negative abnormal return (up to 4%) after an exit announcement from the social index. Flammer (2015) examine the effect of the passage of CSR proposals on shareholder value. Using

a regression discontinuity design, he finds that the adoption of close call CSR proposal significantly increases shareholder value. Specifically, on the day of shareholder meeting, a CSR proposal that passes by a narrow margin of votes yields an abnormal return of 0.95% compared with a CSR proposal that fails marginally, implying that CSR related proposals are value enhancing.

In contrast to the stakeholder value maximization view of CSR, the shareholder expense view regards CSR as an outcome of agency costs. Barnea and Rubin (2010) argue that a firm's insiders may seek to overinvest in CSR strategies to pursue private benefit and improve their reputation as good citizens and responsible managers. Using the largest 3000 US corporations, they find that insiders' ownership and leverage are negatively related to firm's CSR performance, while institutional ownership is uncorrelated with it. This supports their hypothesis that insiders induce firms to overinvest in CSR activities when they bear little of the cost of doing so.

Some studies disaggregate CSR into several dimensions and examine the impact of a specific aspect of CSR on company outcomes. For example, Edmans (2011) analyses the effect of employee satisfaction on firm stock returns. Using the "100 Best Companies to Work For in America", he finds that a value-weighted portfolio of firms exhibits significantly more positive earnings surprises and announcement returns in the short term and an annual four-factor alpha of 3.5% from 1984 to 2009, which suggest that employee satisfaction is positively related to shareholder wealth. Flammer (2013) argues that environmental CSR generates new and competitive resources for firms. He conducts an event study on US public firms from 1980 to 2009 around the announcement of corporate environmental news. He reports that firms experience an average cumulative abnormal return of 0.84% around the two-day "eco-friendly" event

window, while -0.65% around the “eco-harmful” events. Both of them are significant at the 1% level.

Overall, there are mixed evidence supporting both views of CSR. Which view plays a dominant role depends on the combination of various factors, including the country, industry, year, and firm characteristics.

4.2.2 Review on FDI and shareholder value

The literature on whether FDI creates value for shareholders are abundant and inconclusive (López-Duarte & García-Canal, 2007). Although most studies show a linear relationship, either positive or negative, a few studies find a U shape, S shape, inverted U shape relation or no relation (e.g. Contractor et al., 2003, Lu & Beamish, 2004), implying the complexity of the problem.

On the positive side, FDI can facilitate internalization of tangible and intangible resources that are difficult to trade through market transactions (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010), thus is an important strategy of value creation for firms. It enables a firm to realize economies of scale and scope (Caves, 1996). Within the OLI paradigm, firms can explore and exploit their ownership advantages in the international market and get access to the host country specific advantages (Dunning, 1998). With a larger geographic scope, firms can spread risks over different countries and reduce fluctuations (Kim, Hwang, & Burgers, 1993). Furthermore, recent studies suggest that FDI enhances a firm’s knowledge base, capabilities, and competitiveness through experiential learning (Barkema & Vermeulen, 1998, Delios & Henisz, 2000).

In line with the discussion above, a large body of empirical research shows that FDI announcements are associated with positive abnormal returns for MNEs on average. In other words, stock markets treat FDI as good news and FDI announcements as positive information. For example, Doukas and Travlos (1988) investigate US bidding firms' stock price reactions to international acquisitions. They find that bidding firms experience significant positive abnormal returns at the announcement of cross-border acquisitions, and the returns are larger when firms expand into new industries and new geographic markets. Gubbi et al. (2010) investigate emerging economy firms' stock market price reactions to international acquisitions. Using 425 cross-border acquisitions by Indian firms, they find that international acquisitions creates value for emerging economy firms, especially when the target firms are located in advanced economic and institutional environments as those markets carry stronger complementarity to the existing capabilities of emerging economy firms. Chari, Ouimet and Tesar (2010) find that developed market acquirers on average experience positive abnormal returns of 1.16% over a three day event window when acquiring the majority control of a firm in the emerging market.

On the negative side, the costs of FDI are typified by the challenges from LOF before the investment and governance costs after the investment. LOF hampers firms from investing abroad by placing foreign firms at a disadvantageous position compared to a local firm (Hymer, 1976), and reducing its competitiveness.[50] Firms face many challenges related to a new foreign operation, such as staffing, establishing internal and external networks (Lu & Beamish, 2004), and the limits of internal capital

[50] Deeper discussion and examination on LOF have been presented in the first two empirical chapters, and therefore are not repeated here.

markets (Hoskisson & Turk, 1990). The coordination difficulties, information asymmetry, and agency costs between headquarters and divisional managers in multidivisional firms can be further complicated and amplified in MNEs between headquarters and foreign subsidiaries (Denis, Denis, & Yost, 2002). To some point, the governance costs from managing several foreign subsidiaries in dissimilar countries may exceed the benefits from internalization (Hitt, Hoskisson, & Kim, 1997).

Empirically, Aybar and Ficici (2009) examine the value implications of cross border acquisitions of emerging market multinationals. Their results show that more than half of the cross-border acquisitions by emerging market multinationals leads to value destructions. Morck, Shleifer and Vishny (1990) find that managerial objectives such as growth and diversification reduce bidding firms' values. Seth, Song and Pettit (2000) show that the value reducing acquisitions are due to managerial self-interest whereby managers at the bidder firm undertake acquisition to maximize their own utility at the expense of shareholders.

Besides the positive or negative view of FDI, a few studies argue that the link between FDI and firm performance varies at different stages or internationalization levels, thus propose a two-stage or three-stage relations (e.g., Contractor et al., 2003, Lu & Beamish, 2004). For example, Lu and Beamish (2004) propose a positive relation between FDI and firm performance with a medium level of geographic diversification , and negative relation between FDI and firm performance with a high or low level of geographic diversification. They argue that at the initial stage of international expansion, a firm encounters LOF and liability of newness. The related costs outweigh the benefits of internationalization. When the international expansion continues, the firm enters into the second stage where experiential learning in the host country

reduces the costs associated with LOF. Ownership advantages can be exploited across different markets, and the growth in a firm's profitability can be expected. However, when a firm's network of foreign subsidiaries becomes more extensive, i.e., in the third stage, the governance and coordination costs can again surpass the benefits from geographic diversification, and firm performance declines.

4.2.3 Link between CSR, FDI and shareholder value

The majority of literature suggests that CSR activities create value for shareholders. For example, Deng et al. (2013) find that high CSR acquirers realize higher merger announcement returns, higher announcement returns on the value-weighted portfolio of the acquirer and the target, and larger increases in post-merger long-term operating performance. Aktas et al. (2011) examine the stock market reaction to socially responsible investments. Using Innovest's Intangible Value Assessment ratings as a measure of firm's ability to cope with social and environmental risks, they analyse the impact of targets' social and environmental performance on acquirer gains around M&A announcements. They find that an increase in target rating by one unit leads to an increase in the acquirer CAR by 0.9%, thus indicating that socially responsible investment is value creating for shareholders within the context of M&A announcements. They also find that acquirer's CSR performance increases following the acquisition of a socially responsible target.

In this section, I argue that firms with superior CSR performance enjoy positive abnormal returns around FDI announcements. First, FDIs are events that are likely to affect various stakeholders of the firm. A firm's reputation in maintaining close relations with key stakeholders and fulfilling its implicit promise to other stakeholders

are crucial to the FDI's success (Deng et al., 2013). According to the stakeholder value maximization view, the interests of shareholders and other stakeholders are in greater alignment in high CSR firms than in low CSR firms. In high CSR firms, stakeholders are more likely to make effort to contribute resources to the firm's long term profitability and efficiency (Freeman, Wicks, & Parmar, 2004). In line with this argument, within the context of FDI, high CSR firms have higher willingness and ability to maintain continuous relationship with key stakeholders and ensure the successful implementation of FDI strategies. Due to the support from stakeholders, FDI initiated by high CSR firms are more likely to succeed and lead to positive reactions from the market.

Second, I have argued in the Chapter 2 that high CSR performance reduces the LOF costs, and thus increases firm's likelihood of undertaking FDI. The costs reduced from getting familiar with the host country environment, the reversed discriminative attitude from host country stakeholders, and the establishment of efficient relationships in the host country can be regarded as positive signaling to the market, which will improve the market perception on FDI, and thus lead to a positive market reaction towards FDI announcements. This is consistent with López-Duarte and García-Canal (2007)'s argument that a positive stock market reaction to FDI only takes place when the investing firm enjoys good investment opportunities and has important intangible assets to help it overcome the LOF.

Third, I have argued in the Chapter 3 that CSR is a valuable firm resource that creates competitive ownership advantages for the focal firm in the OLI paradigm. In line with the resource based view of the firm, CSR can be viewed as a strategic asset that can enhance firm's reputation and competitiveness in the international market. As

the development of CSR related assets requires substantial engagements in capital, time, and human resources (Dierickx & Cool, 1989), the value of CSR is unlikely to depreciate significantly in different markets (Lu & Beamish, 2004). Given the resource and cost of developing such assets, the efficiency and returns to their exploitation are greater when their scope of use is greater (Teece, 1986). One way to exploit the CSR assets is through FDI. Hence, firms with high CSR performance are able to generate positive abnormal returns from FDI.

Based on the discussion above, I propose the following hypothesis:

Hypothesis 4-1a: There is a positive relation between firm's CSR performance and its stock price reaction to FDI announcement.

In contrary, the hypothesized relation above may not hold if I base the discussion on shareholder expense view of CSR. The shareholder expense view suggests that CSR activities are beneficial to other stakeholders at the expense of shareholders (Deng et al., 2013, Surroca, TribÓ, & Zahra, 2013). For example, mangers may engage in CSR activities to benefit from the positive media attention, rather than enhance shareholder's value (Borghesi et al., 2014). Stringent environmental standards may benefit the environment, but put the focal firms at a disadvantageous cost position compared to competitors who do not adopt similar levels of standards, thus reduce the focal firm's profitability and shareholder wealth (Deng et al., 2013). In both cases, the benefits obtained by other stakeholders come at the expense of shareholders. Therefore, CSR works as a channel to transfer wealth from shareholders to other stakeholders. If so, the market reaction to high CSR firms'

foreign investment decisions should be viewed as negative. Therefore, I can get exactly the opposite hypothesis. Specifically:

Hypothesis 4-1b: There is a negative relation between firm's CSR performance and its stock price reaction to FDI announcement.

4.3 Data, sample and method

4.3.1 Sample construction

The original sample is sourced from the dataset I have used in Chapter 2. It consists of all types of FDI deals (partial acquisition, full acquisition, joint venture, and strategic alliance) recorded by SDC Platinum between 2003 and 2014 and that were completed by firms covered in the ASSET4 database.[51] The frequency of each type of FDI can be referred to Table 2-1, Panel D. Initially, there are 31,437 FDIs. To eliminate the influence of confounding events, I follow Ellis, Moeller, Schlingemann and Stulz (2017) to exclude a deal from the sample if it was involved in multiple FDIs within a five-day window surrounding the announcement of the deal. This results in 25,943 deals. Over 400 deals were announced on Saturday and Sunday. As stock price on weekends are not available, I use the nearby Friday as day zero in my event study. I further exclude deals that do not have stock return data available during the event window or have zero returns for over 100 days in the estimation period.[52] 24,880 deals

[51] The data source and screening criteria of the original sample have been described in the second chapter, therefore are not repeated here.

[52] The stock return data in this study are collected from DataStream. Ince and Porter (2006) indicate that Datastream repeats the last valid data point for delisted firms. This gives zero return from that point. I therefore delete deals that have many zero returns. Similar actions were taken by Rapp, Schellong, Schmidt and Wolff (2011).

are left in the sample. Moreover, I delete deals that do not have firm or country level data available. The final sample includes 20,275 deals.

Due to the same data source, the sample distributions in this chapter are comparable to the sample distributions of the third chapter (as reported in Table 3-1 of Chapter 3), thus are not tabulated here.

4.3.2 Methodology

Event study methodology has become a standard tool in evaluating the stock price reaction to a specific event (Aybar & Ficici, 2009). It helps researchers to conclude whether an event has a positive or negative impact on shareholder wealth. In this section, I will discuss how I derive abnormal returns, and use these to examine the stock market reaction to a firm's FDI announcements.

4.3.2.1 Abnormal return

To estimate stock price reactions across countries, the traditional approach in the finance literature is to estimate the market model at the national level to obtain abnormal returns over a three day window (e.g., Aktas et al., 2011, Alexandridis et al., 2010, Campbell, Cowan, & Salotti, 2010). However, there are two challenges associated with this approach. First, the number and size of firms in each country differ distinctively. In some countries, a firm may take exceedingly large weight in that country's market portfolio (e.g., Nokia in the Finland market, and Stotoil ASA in the Norway market). If so, the firm's abnormal return will be driven to zero if the country's national market index is used as a proxy for the market index. To address this problem and make the abnormal returns comparable across countries, I follow Ellis et al. (2017)

and use the world market index rather than the individual country's market index to calculate the abnormal returns. The world market index is retrieved from DataStream with the name "WORLD – DS Market" equity indices and symbol "TOTMKWD". As a robustness check in later stage, I redo all the analysis by using individual country market indices to calculate the abnormal returns. The results are qualitatively similar to the results reported in the main text.

The second challenge is associated with the time differences in the international market. An FDI announcement may take place in the home and host countries that are far away from each other. It may also occur across countries that have different stock market disclosure regulations. Therefore, the market reaction to FDI announcements may be delayed in some countries and it may spread over several days. To account for this concern and give enough time for the market to incorporate the announcement information, I follow Ellis et al. (2017) and use a five day event window rather than the standard three day window to estimate the CAR.[53]

The process I use to derive the CAR is as follows: I use the FDI announcement date via SDC Platinum, and define this as day zero. I use the market model, which assumes a linear relation between the return of a given stock and the return of the market portfolio, to identify normal and abnormal returns as follows:

$$R_{it} = \alpha_i + \beta_i * R_{mt} + \varepsilon_{it} \quad (4\text{-}1)$$

Where R_{it} is the return of firm i on day t, R_{mt} is the stock market return on day t, α_i and β_i are the parameters to be estimated over an estimation window. ε_{it} is an

[53] Using the three day and 11 day event window, I get similar results for most of the tests.

error term for firm i on day t. Under the assumption of linearity and normality of returns, $E(\varepsilon_{it}) = 0$ and $V(\varepsilon_{it}) = \delta_i^2$. Returns are discrete, calculated by ((P(t)-P(t-1))/P(t − 1)) × 100, where P(t) is the return index at time t, P(t-1) is the index at time t-1.[54] All the analyses are based on dollar returns (Ellis et al., 2017). The total return index (codes as "RI" by Datastream) on each firm and the world market index are collected daily from Datastream. I estimate the above model using 205 trading days of return data, ending six trading days prior to the announcement and use OLS regressions to estimate the market model.

I obtain the daily abnormal returns (AR) by:

$$AR_{it} = R_{it} - (\widehat{\alpha_i} + \widehat{\beta_i} * R_{mt}) \tag{4-2}$$

Where AR_{it} is the abnormal return of firm i on day t, R_{it} is the actual return of firm i on day t, $\widehat{\alpha_i} + \widehat{\beta_i} * R_{mt}$) is the predicted normal return, conditioned on the market model. Daily abnormal returns are computed for each day t for each firm i within the event window.

Daily abnormal stock returns are cumulated to obtain the cumulative abnormal returns. For each event window (T1, T2), I calculate the cumulative abnormal return as:

$$CAR_i = \sum_{t=T_1}^{T_2} AR_{it} \tag{4-3}$$

[54] I have also calculated the continuous return, defined by log (P_t / P_{t-1}). There is not much difference between the discrete return and the continuous return.

Where T1 and T2 indicate the lower and upper bounds of the event window. I examine three event windows: three days (-1, 1), five days (-2, 2), and 11 days (-5, 5). I will focus on the five day event window but report the CARs for the three days and 11 days event as well for comparison. Finally, all CARs are winsorized at the 1% and 99% level to remove outliers (Alexandridis et al., 2010) and are expressed in percentage. The CARs derived above are utilized in the following analyses.

4.3.2.2 Univariate and multivariate analysis

As a preliminary examination, I perform a univariate analysis using a student's t-test and Wilcoxon signed-rank test to investigate the statistical significance of event study CARs. The null hypothesis of the t-test is that the mean CAR equals zero. The null hypothesis of the Wilcoxon signed-rank test is that the median CAR equals zero. I also divide the sample into a high CSR group and a low CSR group according to the sample median of CSR score, and investigate whether there is significant difference between the two groups with respect to their stock market reaction to FDI announcements.

To examine Hypotheses 4-1a and 4-1b, I perform a multivariate analysis by regressing CARs on firm CSR performance and other control variables. By doing so, I aim to test whether firms with high/low CSR performance realize higher/lower abnormal returns in FDI transactions. The main regression model is specified as:

$$\mathrm{CAR} = \alpha + \beta_0 * CSR + \beta_1 * X + \beta_2 * Y + \gamma * \sum(Year\ FE) + \theta * \sum(Sector\ FE) + \varphi * \sum(Region\ FE) + \varepsilon \quad (4\text{-}4)$$

The model is a multivariate OLS model where CAR is the dependent variable, calculated by the market model as discussed in Section 4.3.2.1. CSR is the variable of interest. I will examine both the overall CSR performance and the individual pillars of CSR. X is the set of firm level control variables, including firm size, leverage, cash flow, M/B, R&D, and tangible resources. Y denotes country level control variables, including home country GDP, host country market openness, host country ores and metals, and host country unemployment rate. These variables have been widely used in FDI valuation studies. They were discussed in more detail in the previous chapters, as well as in Appendix A. All the independent variables are measured one year prior to the announcement. Standard errors are clustered by firm identifier.

As an alternative test, I also use a logit model to examine whether CSR leads to positive or negative CAR. Other variables being the same, the dependent variable in the logit model is a binary variable, takes the value of one if CAR is positive and zero otherwise (Aybar & Ficici, 2009).

In further analysis, I introduce FDI location. entry mode, the LOFs and host country institutions that have been used in previous chapters into this study to test whether they play a moderating role in the relation between CSR and event study CARs. I add both the moderating variables and their interaction terms with CSR into the main regression model and test them one by one. The model is:

$$\text{CAR} = \alpha + \beta_0 * CSR + \beta_1 * Moderator + \beta_2 * CSR * Moderator + \beta_{3*}X + \beta_4 * Y + \gamma * \sum(Year\ FE) + \theta * \sum(Sector\ FE) + \varphi * \sum(Region\ FE) + \varepsilon \quad (4\text{-}5)$$

Mainly, I have three series of moderators: FDI location and entry mode, LOFs proxies, and host country institutional variables. LOF proxies include: experience, language, internationalization (dummy), CAGE distance, resource based industry, and asset specific industry. The host country institutional variables include the host country aggregate governance score and six dimensional scores: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. The details of these variables can be referred to Chapters 2 and 3, as well as Appendix A.

4.4 Results

4.4.1 Descriptive statistics

Summary statistics for the sample variables are presented in Panel A of Table 4-1. The average three days CAR for the full sample is 0.16%, five days CAR is 0.17%, 11 days CAR is 0.14%. All the three CAR measures have positive means, and their medians are around zero.

For CSR, the mean values of all four measures (overall CSR, social CSR, environmental CSR, governance CSR) are over 0.50. This is consistent with the finding in the Chapter 2 that firms with superior CSR performance have higher propensity to undertake FDI. Now that this chapter's sample is comprised only with FDI deals, the average CSR measures should be higher than the values reported in Chapter 2.

I also note that the sample is comprised of large firms with respect to their book value of total assets. Research and development expenses amount to 2% of the net revenues. Short and long term debts represent roughly 25% of the total assets, while

cash flow takes 9% of the assets. The average M/B is 2.70. Tangible resources are on average 20% of the net revenues. Comparing to the statistics reported by WDI on 264 countries across the world during the same period, my sample firms are biased towards large economies. They tend to invest into economies with open markets, low natural resource endowments (with respect to ores and metals), and a low unemployment rate. It is worth noticing that firms in the sample appear to be large and well-established, thus are less prone to opacity and information asymmetry problems.

[Insert Table 4-1 about here]

Previous studies suggest that positive and negative market reactions are linked with different deal, firm and country characteristics (e.g., Godlewski, 2014). In this section, I further investigate the independent variables that are associated with a positive or negative market reaction. To do so, I divide the full sample into two groups and perform t-tests on the difference of variables with respect to a positive or negative five day CARs. The results are displayed in Panel B of Table 4-1.

Regarding the CSR measures, I observe that the difference is significant for overall CSR, social CSR, and environmental CSR. Although all of them are significant at the 1% level, the absolute value of the difference is very small. I do not observe significant difference for governance CSR. Regarding the firm characteristics, I find that firms with positive CARs are smaller than those with negative CARs. This is consistent with Moeller, Schlingemann and Stulz (2004) who find that small firms have higher announcement abnormal returns than large firms. Cash flow is also significantly different between the two groups.

Regarding the country characteristics, I only observe differences in the host country unemployment rate. Positive market reaction is associated with lower unemployment rate, whereas negative market reaction is associated with higher unemployment rate. However, the significance is only shown for the mean difference, not the median difference.

To summarize, the stock markets consider the investment made by small firms that have low CSR performance with respect to the social and environmental aspects and into host countries with low unemployment rate as a positive signal. As these are just preliminary results, more comprehensive analysis will be done in the later session.[55]

4.4.2 Univariate test

To start with, I perform a univariate test of event study CARs surrounding FDI announcements and report the results in Table 4-2. Panel A is a univariate test based on the full sample. Panels B, C, D, and E report subsample tests where I divide the full sample into a high CSR group and a low CSR group according to the sample median of each CSR measure. I compare the CAR differences between the subsamples using a t-test for the mean difference and Wilcoxon rank-sum (Mann -Whitney) test for the difference in medians.

[Insert Table 4-2 about here]

[55] I have also examined the correlation matrix of all the variables. The correlation matrix shows that CARs for different event windows are correlated with each other. Overall CSR score and three ESG pillar scores are also highly correlated. As I only use one CAR and one CSR in a model, there is no concern on correlations. The results are available on request from the author.

Panel A shows that the mean and median CAR (-1, 1), CAR (-2, 2), and CAR (-5, 5) for the full sample are always positive. CAR (-1, 1) is 0.16% at the mean and 0.03% at the median. CAR (-2, 2) has a mean value of 0.17% and median 0.03%. The mean CAR (-5, 5) is 0.14%, and the median CAR (-5, 5) is 0.02%. The mean values of the three CARs are all significantly different from zero at the 1% level from the t-test. I perform two types of median test. The Wilcoxon signed-rank test shows that the median values of CAR (-1, 1) and CAR (-2, 2) are significantly different from zero at the 1% level, and the median value of CAR (-5, 5) is significantly different from zero at the 10% level. However, the sign tests report different results. The median values of all three CARs are insignificantly different from zero.[56, 57]

The positive results on the mean and median values of CARs are largely consistent with prior literature. For example, Ellis et al. (2017) report 1.50% for a sample of 8,090 cross-border acquisitions initiated from 56 home countries. However, the result is quite different from the results obtained in small samples, since researchers studying such samples typically find that shareholders gain at best zero or slightly negative returns (e.g., Aktas et al., 2011, Deng et al., 2013).

Panel B shows that comparing with high CSR firms, firms with low CSR have significantly higher mean and median CAR (-1, 1) and CAR (-2, 2), although the difference is economically small (the biggest difference is for mean CAR (-1, 1), which is only -0.22%). Panel C and D show a similar pattern to Panel B. In Panel E, there is

[56] I use "signrank" and "signtest" in Stata 14 to do the two types of median tests. In the sign test, only the p-value is available, thus are reported in Table 4-2.

[57] I get inconsistent results from the t-test, sign rank and sign test. More tests should be done to identify possible reason that causes the difference. However, due to the large sample and limited hardware computing capability, I could not undertake other types of mean/median test, such as the Patell, or the crude-dependence adjustment test, which is a limitation of the current study.

no significant CAR difference between the high governance CSR firms and low governance CSR firms. Generally speaking, the subsample results indicate that the positive returns are mostly driven by firms with low overall, social, and environmental CSR performance.

Overall, the results in Table 4-2 suggest that compared with FDIs by high CSR firms, those by low CSR firms lead to higher announcement returns for shareholders. The results provide preliminary support for the shareholder expense view as outlined in Hypothesis 4-1b that a negative relation may exist between CSR and abnormal returns. However, the relation needs to be further tested to control for other factors that will also influence the CAR.

4.4.3 Multivariate OLS regression

To better understand the stock market reaction to FDI, I present the estimates from multivariate regressions using the CAR (-2, 2) as the dependent variable. CSR is the key independent variable. I test both the overall CSR and the three pillars of CSR. I include other control variables outlined in Section 4.3.2. Standard errors are clustered at the firm level. The results are displayed in Table 4-3.

[Insert Table 4-3 about here]

Through Models 1 to 4, I find that after controlling for other determinants of the market reaction to FDI announcements, neither overall CSR performance nor the individual pillars of CSR has significant effect on announcement returns. Thus, after controlling for various firm and country characteristics, there is no much difference in

the CARs between high and low CSR firms. The results do not support either Hypothesis 4-1a or Hypothesis 4-1b.

The results I derive here are not consistent with either the stakeholder value maximization view of CSR (as demonstrated by Aktas et al. (2011) and Deng et al. (2013)), or the shareholder expense view of CSR (as suggested by Barnea and Rubin (2010)). I offer several explanations here.

First, the sample may be exposed to a selection bias. By construction, the FDIs in this sample were undertaken by firms that have high CSR performance in the second chapter. As all firms in this chapter tend to have high CSR performance, the sample is not a random sample anymore.

Second, the sample is biased towards large firms as illustrated in Section 4.4.1. Moeller et al (2004) document a size effect suggesting that large firms have lower announcement abnormal returns than small firms. The average five day CAR in my sample is only 0.17% with a standard deviation of 3.84%. This is much lower comparing with other studies (e.g. Ellis et al., 2017).[58] Comparing with the large firm size, the deal size of FDI may be relatively very small. Therefore, the FDI announcement may not have significant impact on shareholder's wealth for big firms as that for small firms.

Third, CSR reputation and resources as intangible assets are more likely to be propagated by the focal firm to improve its corporate image. Cheng et al. (2014) argue that firms with superior CSR performance face lower information asymmetry. According to the market efficiency principle, public information is reflected in the

[58] The low mean and standard deviation are not due to winsorizing. Dropping the winsorizing, the sample mean is 0.18% with a standard deviation of 4.30%, which is comparable to the mean and standard deviation without winsorizing.

firm's share price. Therefore, the value created by CSR has been embedded in the normal return of the firm, thus are less likely to affect the abnormal return.

Moreover, based on the internationalization practice of MNEs, the neutral relation may reveal CSR's role in the joint management of corporate risk and return. In the market model, I use the estimation window to estimate the systematic risk (as measured by beta), then the event window to calculate abnormal returns. The beta can only represent the systematic risk in the estimation period (Cheung, 2011), whereas the abnormal returns can pick up the idiosyncratic risk and returns that are associated with the FDI announcement event. CSR reflects both the reputation protection intention of MNEs and the trade-off between risk and return. Firms with CSR advantage are more likely to undertake FDIs, however, they may also be more cautious and conservative in selecting FDI projects, which limits the idiosyncratic risk they are willing to take in foreign investment and further returns they can derive from FDI announcement.

Finally, it is also possible that CSR does not affect FDI abnormal returns in general. However, under certain circumstances, CSR will create or harm shareholder's value. In other words, the relation between CSR and CAR will exist under given conditions.

Regarding the control variables, the total assets are negatively related to CAR across all models, indicating that large firms have lower announcement abnormal returns than small firms. This is in line with the literature that large firms are more likely to suffer the managerial hubris and offer larger premiums than small firms (Borisova & Cowan, 2014, Moeller et al., 2004). M/B are negatively associated with CAR (Uysal, 2011). This is either because overvalued firms have lower abnormal

returns (Alexandridis et al., 2010), or firms with high growth opportunities pay significantly higher premiums (Officer, 2003) and have poor post-acquisition performance (Rau & Vermaelen, 1998). Tangible resources are significantly negative across all models. This is in line with the results from my second and third chapters that firms are reluctant to make tangible resource commitment in the foreign market, whereas they intend to explore and exploit intangible assets abroad (Lu & Beamish, 2004). I do not find statistically significant effect for other control variables, such as leverage, cash flow, or country level variables (Deng et al., 2013, Masulis et al., 2007).

The R-squared obtained through all models are less than 1%. This is similar to other FDI studies that using the event study methodology (e.g., Ellis et al, 2017). Due to the high noise-to-signal ratio of daily stock returns, the average R-squared obtained from estimating the market model tend to be quite low (Bartholdy, Olson, & Peare, 2007) .

4.5 Extension tests

I have examined the relation between CSR and FDI abnormal returns in the previous section and find that in general, there is no significant impact of CSR on FDI abnormal returns. However, such relation may change when I investigate it under different scenarios. I have used a series of moderating variables in the second and third chapters. As an extension to the current analysis, I will use the moderating variables to create different scenarios and re-examine the relation between CSR and FDI abnormal returns under those scenarios.

4.5.1 Does FDI entry mode and location matter?

Numerous studies have documented that stock market reaction to FDI is dependent on the entry mode and the location of the investment (e.g., Chari et al., 2010, Doukas & Travlos, 1988, López-Duarte & García-Canal, 2007, Merchant & Schendel, 2000, Wooster, 2006). For example, Wooster (2006) examines the change in shareholder wealth from announcements of four different types of FDI entry modes by US firms into 18 transition economies. Her finding confirms the importance of FDI location and entry mode on short-term stock market returns. She finds that investment in transition economies is associated with positive wealth effect, and the positive effect is most significant for expansion through less risky entry modes. Chari et al. (2010) find that developed market acquirers on average experience positive abnormal returns of 1.16% over a three day event window when acquiring the majority control of a firm in an emerging market, while such positive returns and dollar value gains cannot be replicated when the same developed country acquirers take over firms in developed markets. In the third chapter, I find that firms with superior CSR performance are more likely to invest into developed countries and through a full control mode. As an extension test, I will examine whether a superior CSR performance can create value for FDIs that are invested into developed countries, and for FDIs that are undertaken through a full control mode.

First, I have argued in Chapter 3 that a firm has incentive to protect and maintain its CSR competitiveness abroad, so it has a higher likelihood to choose developed rather than developing countries as investment destination. In line with this argument, investing into developing countries may be regarded as taking higher risk than investing into developed countries. Comparing high CSR firms with low CSR

firms, high CSR firms are more likely to succeed in FDI in developing countries due to their enhanced relationship with the stakeholders and their ability to overcome LOF. Therefore, the market reaction to FDI in developing countries by high CSR firm should be more positive than low CSR firms. On the contrary, the role of CSR in maintaining a harmonious relationship with stakeholders and to overcome LOF may not be as pronounced in developed country as that in developing countries. Therefore, I expect the effect of CSR on CARs to be stronger for investments in developing countries.

Second, I have argued in the third chapter that firms with CSR advantages have intention to choose either a full or a partial control mode. On the one hand, firms can protect its CSR related proprietary assets through a full control entry mode in foreign countries; on the other hand, firms can alleviate information uncertainties associated with investing in an unfamiliar host country through a partial control entry mode (Caves, 1996). With regard to CSR performance, high CSR firms are endowed with better stakeholder engagement (Cheng et al., 2014). For such firms, if they choose a partial control entry method, then they are able to take full advantages of their CSR superiority, thus are more likely to succeed in FDI. Therefore, I expect a positive relation between CSR and CARs if firms enter a foreign market through a partial control entry method. On the contrary, when high CSR firms enter a foreign market through a full control entry method, in order to protect their CSR reputation abroad, they need longer time to get familiar with the local environment and establish effective links with local stakeholders, and also, incurs higher costs than low CSR firms. Therefore, the FDI by high CSR firms through a full control entry mode should be less favoured by the market than FDI through a partial control entry mode.

To test my expectations, I define two dummy variables "developed host" and "full control". "Developed host" is set equal to one if the FDI destination is a developed country and zero if it is a developing country. "Full control" is set equal to one if the firm owns 100% of its foreign subsidiaries after FDI and zero otherwise. I add both the dummy variables and their interaction term with overall CSR into the main regression model.[59] The results are presented in Table 4-4.[60]

[Insert Table 4-4 about here]

In Model 1, overall CSR is positive and significant at the 5% level, suggesting a positive effect of CSR on CARs. The location dummy variable is positive and significant at the 5% level, implying that investment in developed country rather than developing country is associated with a positive market reaction. More importantly, the interaction term of overall CSR and location dummy variable is negative and significant at the 1% level. This indicates that the positive effect of CSR on CARs is weakened if the investment is in developed countries.

To economically interpret the results, I further calculate the average five day CARs by holding other variables at their observed value and changing the CSR scores. For the investment in developing countries, firm's average CAR increases from -0.09%

[59] Besides the results presented in the main text, I have also done separate regressions for the individual subsamples by the location choice and entry method. For the location choice, I construct subsamples with investments in developed countries only, developing countries only, developed countries to developing countries, developing countries to developed countries, developed countries to developed countries, and developing countries to developing countries. For the entry method, I have subsamples that focus on full controls, partial controls, full acquisitions, partial acquisitions, joint ventures, and strategic alliances respectively. I find neutral relation between CSR and CARs in almost all of the subsample regressions.

[60] The results for individual ESG pillars are not reported for brevity, but are available on request from the author. The results for social CSR is similar to the results for overall CSR in the main text. No strong evidence is found for either environmental or governance CSR.

to 0.31% when its overall CSR score increases from the 10th to the 90th percentile, showing an increase of CAR with an increase of CSR. However, when the investment destination is in developed countries, firm's average five day CAR drops from 0.22% to 0.15% when its overall CSR score increases from the 10th to the 90th percentile, suggesting a reversed movement of CAR with respect to CSR.

The changes of CARs due to the changes of CSR show different patterns between developed host countries and developing host countries. This suggests that FDI destinations greatly affect the relation between CSR and CARs. Specifically, the positive relation between CSR and CARs seems to exist when investing in developing countries, and it is weakened when the investment is in developed countries.

The result above is consistent with my expectation. It indicates that stock market value high CSR firms to invest in developing rather than developed countries. On the one hand, the role of CSR as implicit contracts to maintain stakeholder relationships are overlapped with the legal and economic environments in developed countries; on the other hand, CSR can compensate the disadvantages that are endowed with developing countries, therefore, we notice that the effect of CSR on positive CARs are more pronounced in developing countries.

Moving to FDI entry mode, it is noticed in Model 2 that after adding "full control" and its interaction term with CSR into the main regression model, both CSR and full control are positive and significant at the 5% level, whereas their interaction term is negative and significant at the 5% level. I calculate the average five day CARs based on Model 2 by holding other variables at their observed value and change firm's CSR score under different entry mode. Focusing on the partial control deals, the average five day CAR increases from -0.07% to 0.23% when firm's overall CSR score

increases from the 10th to the 90th percentile; while for full control deals, the average CAR drops from 0.26% to 0.16%.

Model 2 shows that positive abnormal returns are associated with a high CSR firms to choose a partial entry mode rather than a full control mode. This is consistent with my previous expectation. In order to take full advantages of CSR, firms with superior CSR performance can choose a partial mode as superior CSR firms have been documented to have better stakeholder relationships, i.e., have the ability to work better with co-operators and outsiders (Eccles et al., 2014), thus they are more likely to succeed in the implementation of FDI projects. On the contrary, full control entry mode makes high CSR firms in a risker position in FDI due to the huge resource commitment, both tangible and intangible, as well as the high agency costs of decentralization (Wooster, 2006), thus are not favoured by the stock market.

4.5.2 Does LOF matter?

Previous studies have documented the important role LOF plays in affecting abnormal returns to FDI announcements (e.g., Aybar & Ficici, 2009, Chari et al., 2010, Merchant & Schendel, 2000). In addition to the moderating role LOF plays in a firm's FDI overall propensity (as examined in Chapter 2), and FDI location/internalization choice (as examined in Chapter 3), I now examine how it affects the relation between CSR and shareholder value from FDI in this section.

Initially, I would expect a positively moderating role LOF plays in the relation between CSR and CARs. LOF put a foreign firms at a disadvantageous position compared to local firms (Zaheer, 1995). Due to the existence of LOF, MNE encounter extra barriers when investing abroad, thus their FDI projects are not regarded as

favourable to the stock market compared with similar projects initiated by domestic firms. However, a superior CSR performance and reputation can reduce the LOF costs. The costs reduced from getting familiar with the host country environment, the reversed discriminative attitude from host country stakeholders, and the establishment of efficient relationships in the host country can be regarded as positive signaling to the market, which will improve the market perception on FDI. When the LOF is on a higher level, the role of CSR in overcoming LOF is stronger, thus the market perception will be more positive and more pronounced. I will test this expectation as below.

All LOF proxies that have been employed in the previous two chapters will be examined in the current analysis. Overall, there are five groups of LOF proxies. A detailed discussion and description of them have been provided in the previous chapters. I add those LOF proxies one by one into the main regression model. Their interaction term with overall CSR performance is also included in each model.[61] The results are displayed in Table 4-5.[62] The results indicate that CSR is generally not significant except in Model 4, where it is weakly significant at the 10% level.

[Insert Table 4-5 about here]

With regard to the LOF proxies, two experience variables are all negative, and the historical FDI experience is significant at the 5% level. This suggest that stock

[61] The results for individual ESG pillars are available on request from the author. Their results are similar to the results of the overall CSR.

[62] It is worth noting that although all of the LOF proxies are put together within one table, the interpretation of Model 1-5 and Model 6-11 regarding the LOF proxies should be opposite. In Models 1 to 5, the higher value of the LOF proxies, the lower level of LOF. In Models 6 to 11, the higher value of the LOF proxies, the higher level of LOF.

markets negatively value MNEs' repetitive FDIs in the same host country. My finding on experience is in line with Billett and Qian (2008) and Fuller et al. (2002), but is contrary to Aktas et al. (2013) and Hashai (2011). Firm's own internationalization level (as measured by foreign sales/total sales) do not seem to affect its CARs. However, its home country's internationalization level (as measured by exports/GDP) has a positive impact on CARs. This may be because a heavy export country has better knowledge about and connection with other foreign countries, thus FDI initiated from these countries are likely to face smaller unfamiliarity costs (Baik et al., 2013). Language and cultural factors also significantly affect the abnormal returns. Firms from English speaking home country gain positively through FDI, as shown in Model 5, while firms gain negatively around FDI announcements when investing in host countries that are culturally distant from their home country (Aybar & Ficici, 2009), as indicated by Model 6. Although prior literature has documented the significant influence of other LOFs on the magnitude of stock reaction (e.g., Chari et al., 2010), I do not find any statistically significant results for them in the current analysis.

Moving to the interaction term of overall CSR and LOF proxies, it shows from Models 4, 5, and 6 that high CSR firms that encounter lower level of LOF (from a home country with English as the first/official language, with heavy export activities, or when the home country and host country are culturally similar) enjoy lower abnormal returns to FDI announcement, while high CSR firms that encounter higher level of LOF (from non-English speaking home country, with light export activities, or when investing in culturally distant host country) get higher abnormal returns.

To economically gauge the impact, I hold other variables at their observed value and calculate the average five day CARs by varying the overall CSR and LOF

proxies at different levels. It shows that for a firm that is from a home country with lower level of internationalization, i.e., home country exports/GDP is below the sample median, its average five day CAR increases from 0.02% to 0.23% when its overall CSR score moves from the 10th to the 90th percentile. However, when the firm's home country exports/GDP is above the sample median, its average five day CAR decrease from 0.28% to 0.15% when its overall CSR score moves from the 10th to the 90th percentile. A reversed movement of CSR and CARs is observed for firms from high and low export/GDP home countries. It suggests that, when using home country exports/GDP as a proxy for LOF, there is a positive relation between CSR and CAR when firms encounter a high level of LOF, while there is a negative relation between CSR and CAR when firms encounter lower level of LOF.

The same pattern is observed when using the English speaking home country as a proxy for LOF as well. Holding other variables at their observed value, when the firm is from a country whose first language is not English, its five day CAR increases from -0.01% to 0.13% when its overall CSR score moves from the 10th to the 90th percentile. While when the firm is from an English speaking home country, its CAR drops from 0.40% to 0.22% when its overall CSR score moves from the 10th to the 90th percentile. I also test the change of CARs with CSR for different levels of cultural distance and find similar results as the above two LOF proxies.

The results above are in accordance with the view that LOF as costs of doing business abroad, put foreign firms at a disadvantageous position in the host country (Eden & Miller, 2004, Hymer, 1976, Wöcke & Moodley, 2015). Therefore, firms are more likely to gain from FDI if the LOF they face is lower. Based on this argument, if

CSR can overcome LOF,[63] the negative impact of LOF on abnormal returns is weakened for high CSR firms. In other words, firms with better CSR performance gains more to FDI announcement when they encounter a higher level of LOF. In an environment plagued by greater uncertainty and thus information asymmetry, CSR engagement can be interpreted as a signal regarding the contribution of the focal firm to the host country. The stock market perceives CSR reputation as a signal of reinforced social, environmental, and governance standards and practice of the focal firm, and reward such firms for doing FDI in the host country.

I find different results for various LOF proxies in this section. While some LOF proxies significantly moderate the relation between CSR and CAR, other proxies do not impact either the CAR, or the relation between CSR and CAR. This illustrates the complexity of the LOF. Although LOF is commonly recognized as the unfamiliarity, discrimination, and relational barriers and prevents firms from doing business abroad (Eden & Miller, 2004), it is context specific. The characteristics of the focal firm, the location of the home and host country, the industries being invested, the uniqueness of the deal, etc. will all affect the extent of LOF a focal firm will encounter in a foreign market. In addition, some of the LOF proxies may be more appropriate for specific hypothesis tested. In this section, I have tested all available LOF proxies. It seems that the language, culture, and the international trade of the home country are the most important LOFs that affect the relation between CSR and shareholder value.

To summarize, CSR can create economic value and provide benefits for firms that encounter higher levels of LOF, even if, on average, there is no significant effect

[63] The role of CSR in overcoming LOF has been thoroughly examined in Chapter 2.

of CSR on FDI abnormal return. Without LOF, the role CSR can play on FDI may be very weak.

4.5.3 Do host country institutions matter?

My third chapter results imply that high CSR firm's likelihood to choose a full rather than a partial control entry method are greatly weakened by well-established host country institutions. Previous studies suggest that host country institution may affect abnormal returns for cross-border acquisitions (Ellis et al., 2017, Gubbi et al., 2010). For instance, Gubbi et al. (2010) examine 425 cross-border acquisitions by Indian firms and find that international acquisitions create value for emerging economy firms, especially when the target firms are located in advanced institutional environments. This stems from emerging economy firms' motivation to seek strategic assets in advanced economies to complement their existing capabilities. In this section, I examine whether host country institutions affect the relation between CSR and CARs.

I have argued in Section 4.2 that CSR would affect the market reaction to FDI announcements through their influence on stakeholders. In a host country with well-established institutions, the influence CSR on stakeholders, thus on CARs will not be as pronounced as investments in host country with poor institutions. This is because well-established host country institutions can provide required resources and regulatory mechanism to ensure the successful implementation of FDI strategies (Guler & Guillén, 2010, Lu et al., 2014). On the contrary, in host countries with poor institutions, firms need to rely more on implicit contract to deal with stakeholders that are involved in FDI projects (Cornell & Shapiro, 1987). Therefore, the influence of CSR on CARs will be stronger.

I use seven institutional variables to test the above expectation. A detailed description of the variables is provided in Chapter 3 as well as in Appendix A. I add the institutional variable and its interaction term with overall CSR performance one by one into the main regression model.[64] The results are reported in Table 4-6.

[Insert Table 4-6 about here]

A consistent positive and insignificant overall CSR is observed across all models, suggesting a neutral relation between CSR and CARs as documented in Section 4.4.3. The institutional variables through all the models are positive (Aybar & Ficici, 2009). Government effectiveness is significant at the 5% level in Model 3. Control of corruption is significant at the 10% level in Model 6. For the interaction term of overall CSR and institutional environment characteristics, the sign is always negative. However, only the interaction term in Models 3 and 4 are weakly significant at the 10% level. Overall, the results from Table 4-6 imply that the host country institutions do not significantly affect the relation between CSR and FDI announcement return.

4.6 Robustness

In this section, I do a series of robustness check to examine whether the neutral relation between CSR and abnormal returns to FDI announcements still hold.

[64] The results for the individual ESG pillars are similar to the results for overall CSR. They are available on request from the author.

4.6.1 Binary logit regression

I find in Section 4.4.2 that the mean and median CARs in my sample is small and nearly indistinguishable from zero economically, thus making the analysis of the determinants of shareholder value creation/destruction more challenging. To address this concern, I follow Merchant and Schendel (2000) and Aybar and Ficici (2009) and use a bivariate logit regression to examine the dispersion of CARs. I define a binary variable that takes value of one if the CAR is positive and zero otherwise. I use the same control variables in the logit model as that of the OLS model. I control for year, sector, and region fixed effects and robust standard errors are clustered by firm identifier. The results from the logit model are presented in Table 4-7.

[Insert Table 4-7 about here]

For CSR measures, it shows from all four models that they are insignificant, indicating again the lack of relation between CSR and firm value creation around FDI announcements. Regarding the control variables, the book value of total assets is still significantly negative as that of the OLS model, indicating that smaller firms are rewarded more by the market for their international expansion (Borisova & Cowan, 2014, Moeller et al., 2004). M/B is negatively associated with CAR, suggesting that overvalued firms pay higher premiums (Alexandridis et al., 2010). The significant and negative coefficient of host country unemployment rate indicates that in more recessionary host countries, profit margins are smaller, and thus the gains from FDI is lower (Cassou, 1997). Other control variables are not significant.

4.6.2 Subsample analysis

My results in Section 4.4.3 may be driven by specific countries, time periods, or type of transactions. In this section, I do a series of subsample analysis.[65]

First, Ellis et al. (2017) argue that M&As around the credit crisis may have unique attributes. Lins, Servaes and Tamayo (2017) find that high CSR firms had higher stock returns than low CSR firms during the 2008-2009 financial crisis, and the positive impact only exist during the crisis period. To alleviate the concern that firms behave differently during the financial crisis, I define a binary variable "crisis" that equals one if the FDI announcement year is between 2007 and 2009, and zero otherwise. I add the variable into the main OLS regression model, drop the year fixed effects and redo the test. The estimates on the CSR variables retain the same signs and statistical insignificance in all empirical models as that of Table 4-3.[66]

Second, Merchant and Schendel (2000) claim that joint venture based value creation is often statistically indistinguishable from zero.[67] My current analysis is based on a broad set of FDI deals, including mergers, acquisitions, joint ventures, and strategic alliances. The insignificance of CSR may be due to the small abnormal returns for joint venture and strategic alliance deals. In addition, results from my previous two chapter suggest that M&A deals seem to drive the causal relation between CSR and FDI. It is probable that the relation between CSR and CAR exists

[65] Besides the subsample analysis outlined in the main text, prior studies suggest that firms from different locations gain differently from FDI (e.g., Alexandridis et al., 2010, Aybar & Ficici, 2009, Rossi & Volpin, 2004). The United States and the United Kingdom are the two most populous home countries in my sample. Firms in these countries behave differently from other countries due to the law and regulation differences (Rossi & Volpin, 2004). To eliminate the influence from particular countries, I exclude observations from those two countries and redo the multivariate OLS regression. The results are qualitatively similar to the main results.

[66] The results are available on request from the author.

[67] Based on a review of joint venture related studies, Merchant (2002) find that JV-based value creation is on average less than 1% in absolute terms, and often statistically indistinguishable from zero. They report a mean value of -0.2% in their own study.

among the M&A sample, but not for joint ventures and strategic alliances. Therefore, I perform an M&A subsample analysis. Following previous M&A literature, I add the deal characteristics as control variables into the main regression model. I control for relative deal size, target ownership status, method of payment, whether the M&As is friendly, and industry relatedness of the M&A (Ahern et al., 2015, Aktas et al., 2011, Alexandridis et al., 2010, Alimov, 2015, Fuller et al., 2002, Golubov et al., 2012, Masulis et al., 2007). A detailed description of each variable is listed in Appendix A. Consistent with Table 4-3, all of the CSR measures are positive, but not significant. Therefore, I conclude that after focusing only on M&A deals, CSR still does not affect FDI announcement returns.[68]

4.7 Conclusion

The stakeholder value maximization view of CSR suggests that CSR creates value for a firm's shareholders through better alignment of interests between shareholders and other stakeholders, while the shareholder expense view argues that CSR engagement benefits other stakeholder at the expense of shareholder value (Deng et al., 2013). I test both views of CSR in an FDI setting through an event study in this chapter.

I construct a global sample of 20,275 FDIs undertaken by 2,488 MNEs from 48 home countries into 121 host countries for the period 2003-2014. The deal types include M&As, joint ventures, and strategic alliances. I examine whether there is a relation between a firm's CSR performance (both overall CSR and the ESG pillar of CSR) and the stock market reactions to FDI announcements.

[68] The results are not reported, but available on request from the author.

Preliminarily, I find that firms on average get a three day CAR of 0.16%, five day CAR of 0.17%, and 11 day CAR of 0.14% in response to FDI announcements. All of them are positive and significantly different from zero. Using the three CARs as the dependent variable and controlling for other firm and country level characteristics, a neutral relation is found between CSR and CARs in the multivariate OLS regressions. The results thus do not support either view of CSR. The neutral relation does not change when I employ a binary logit model, or examine a series of subsamples in the robustness section.

By further investigation, I find that a positive relation between CSR and CAR exists when the investment is in developing rather than developed countries, or FDI is undertaken through a partial rather than a full control entry method, or when the firm encounters a higher level of LOF during FDI, suggesting that CSR can create value for shareholders under those scenarios. I do not find the influence of host country institutions on the relation between CSR and CAR.

Further investigation is needed to gain a better understanding of these results and verify whether some features of CSR play a significant role in shaping the stock market return. An investigation on CSR and long-term stock market abnormal returns will also be interesting and intriguing as the value of CSR might not be fully incorporated into the stock price around the announcement date, but is reflected in improved firm performance over time (Deng et al., 2013, Edmans, 2011).

Table 4-1

Summary statistics and univariate comparison

Panel A reports the summary statistics for the full sample. Panel B reports the univariate comparison of firm and country characteristics by stock market reaction. The comparison is between subsamples with positive and negative CAR for the (-2, 2) surrounding FDI announcements. Tests of differences in mean and median values are calculated using a two-tailed t-test and a Wilcoxon rank sum test respectively. CARs are expressed in percentage. All variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5% and 1% level respectively.

Panel A: Summary statistics

Variables	N	Mean	Median	Std. dev	Min	Max
Dependent variable						
CAR (-1, 1)	20,275	0.16	0.03	3.08	-9.44	11.48
CAR (-2, 2)	20,275	0.17	0.03	3.84	-11.58	14.05
CAR (-5, 5)	20,275	0.14	0.02	5.48	-16.65	18.33
Variable of interest						
Overall CSR	20,275	0.68	0.78	0.28	0.03	0.99
Social CSR	20,269	0.67	0.77	0.28	0.04	0.99
Environmental CSR	20,269	0.66	0.80	0.31	0.08	0.97
Governance CSR	20,269	0.59	0.67	0.27	0.01	0.98
Control variable						
Log of total assets	20,275	9.96	9.74	2.01	4.74	14.61
R&D	20,275	0.02	0.00	0.04	0.00	0.21
Leverage	20,275	0.25	0.23	0.15	0.00	0.65
M/B	20,275	2.70	2.07	2.25	0.27	14.60
Tangible resources	20,275	0.20	0.14	0.20	0.00	0.86
Cash flow	20,275	0.09	0.08	0.06	-0.04	0.32
Log of home country GDP	20,275	14.70	14.73	1.37	8.55	16.57
Host country market openness	20,275	0.69	0.56	0.61	0.00	4.55
Host country ores and metals exports	20,275	5.63	3.49	8.06	0.00	75.01
Host country unemployment rate	20,275	6.97	6.30	3.44	0.00	31.80

Table 4-1 continued

Panel B: Univariate comparison of subsamples by positive and negative CAR (-2, 2)

Variables	Positive CAR(-2, 2)			Negative CAR (-2, 2)			Test of difference	
	Count	Mean	Median	Count	Mean	Median	Mean	Median
Overall CSR	10,243	0.67	0.77	10,032	0.68	0.79	-0.01***	-0.02***
Social CSR	10,238	0.66	0.77	10,031	0.68	0.78	-0.01***	-0.02***
Environmental CSR	10,238	0.65	0.79	10,031	0.66	0.81	-0.01***	-0.02***
Governance CSR	10,238	0.59	0.67	10,031	0.60	0.67	-0.00	-0.00
Log of total assets	10,243	9.88	9.64	10,032	10.05	9.82	-0.18***	-0.18***
R&D	10,243	0.02	0.00	10,032	0.02	0.00	0.00	0.00
Leverage	10,243	0.24	0.23	10,032	0.25	0.23	-0.00	-0.00
M/B	10,243	2.71	2.10	10,032	2.69	2.03	0.02	0.06
Tangible resources	10,243	0.20	0.14	10,032	0.20	0.14	-0.00	-0.00
Cash flow	10,243	0.09	0.08	10,032	0.09	0.08	0.00***	0.00***
Log of home country GDP	10,243	14.70	14.73	10,032	14.70	14.74	0.00	-0.01
Host country market openness	10,243	0.70	0.56	10,032	0.69	0.56	0.01	0.00
Host country ores and metals exports	10,243	5.65	3.53	10,032	5.61	3.45	0.04	0.08
Host country unemployment rate	10,243	6.92	6.20	10,032	7.02	6.30	-0.10**	-0.10

Table 4-2

Stock market reactions to FDI announcements

Panel A displays the mean and median CAR for the full sample over three event windows and test whether they are significantly different from zero. Tests of mean differences are calculated using a two-tailed t-test. Tests of median difference are based on a Wilcoxon signed-rank test and a sign test. P-values are reported for the Sign test. Panel B compares the mean and median CARs between high and low overall CSR firms. Panel C compares the mean and median CARs between high and low social CSR firms. Panel D compares mean and median CARs between high and low environmental CSR firms. Panel E compares mean and median CARs between high and low governance CSR firms. The high or low CSR firm is defined by whether CSR score is above or below sample median. Test of median differences are based on a Wilcoxon rank sum test. All variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5% and 1% level respectively.

Panel A: Univariate tests of the full sample

CARs	Full sample (N=20,275)				
	Mean	Median	t-test	Sign rank test	Sign test
CAR(-1,1)	0.155	0.030	7.172***	4.272***	0.103
CAR(-2,2)	0.172	0.034	6.368***	3.855***	0.140
CAR(-5,5)	0.137	0.015	3.57***	1.938*	0.768

Panel B: Univariate comparison of subsamples by overall CSR

CARs	Subsample A of firms with above median overall CSR (N=10,136)		Subsample B of firms with below median overall CSR (N=10,139)		Test of difference (A-B)			
	Mean	Median	Mean	Median	Mean diff	t-test	Median diff	Rank sum test
CAR(-1,1)	0.047	-0.024	0.263	0.086	-0.216	-4.993***	-0.110	-3.848***
CAR(-2,2)	0.087	-0.027	0.256	0.096	-0.169	-3.130***	-0.123	-2.865***
CAR(-5,5)	0.102	-0.034	0.172	0.079	-0.070	-0.915	-0.113	-1.349

Panel C: Univariate comparison of subsamples by social CSR

CARs	Subsample A of firms with above median social CSR (N=10,137)		Subsample B of firms with below median social CSR (N=10,138)		Test of difference (A-B)			
	Mean	Median	Mean	Median	Mean diff	t-test	Median diff	Rank sum test
CAR(-1,1)	0.076	-0.016	0.234	0.073	-0.158	-3.656***	-0.089	-2.702***
CAR(-2,2)	0.099	-0.034	0.244	0.107	-0.145	-2.691***	-0.141	-2.769***

Table 4-2 continued

Panel C continued

CAR(-5,5)	0.075	-0.045	0.199	0.084	-0.124	-1.612	-0.129	-1.921*

Panel D: Univariate comparison of firms by environmental CSR

CARs	Subsample A of firms with above median environmental CSR (N=10,139)		Subsample B of firms with below median environmental CSR (N=10,136)		Test of difference (A-B)			
	Mean	Median	Mean	Median	Mean diff	t-test	Median diff	Rank sum test
CAR(-1,1)	0.046	-0.042	0.264	0.098	-0.219	-5.058***	-0.14	-4.187***
CAR(-2,2)	0.058	-0.039	0.285	0.105	-0.226	-4.202***	-0.144	-3.942***
CAR(-5,5)	0.036	-0.070	0.239	0.107	-0.203	-2.646***	-0.177	-2.898***

Panel E: Univariate comparison of firms by governance CSR

CARs	Subsample A of firms with above median governance CSR (N=10,130)		Subsample B of firms with below median governance CSR (N=10,145)		Test of difference (A-B)			
	Mean	Median	Mean	Median	Mean diff	t-test	Median diff	Rank sum test
CAR(-1,1)	0.154	0.057	0.156	0.005	-0.002	-0.047	0.052	0.722
CAR(-2,2)	0.174	0.026	0.17	0.038	0.004	0.076	-0.012	0.258
CAR(-5,5)	0.151	0.041	0.123	-0.025	0.028	0.366	0.066	0.660

Table 4-3
Regressions of CSR on CARs surrounding FDI announcements
The table presents multivariate OLS regressions of event study CARs where the dependent variable is CAR (-2, 2). 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	0.043			
	(0.132)			
Social CSR		0.048		
		(0.129)		
Environmental CSR			0.016	
			(0.123)	
Governance CSR				0.134
				(0.126)
Log of total assets	-0.126***	-0.125***	-0.122***	-0.125***
	(0.021)	(0.021)	(0.021)	(0.018)
R&D	-0.723	-0.814	-0.812	-0.815
	(0.803)	(0.801)	(0.803)	(0.801)
Leverage	-0.002	-0.012	-0.016	-0.008
	(0.209)	(0.209)	(0.209)	(0.210)
M/B	-0.057***	-0.058***	-0.058***	-0.059***
	(0.016)	(0.016)	(0.016)	(0.016)
Tangible resources	-0.441**	-0.446**	-0.447**	-0.438**
	(0.187)	(0.187)	(0.188)	(0.188)
Cash flow	1.071	1.082	1.101*	1.085
	(0.672)	(0.668)	(0.667)	(0.664)
Log of home country GDP	-0.029	-0.029	-0.028	-0.027
	(0.027)	(0.027)	(0.027)	(0.027)
Host country market openness	0.057	0.058	0.057	0.057
	(0.046)	(0.046)	(0.046)	(0.046)
Host country ores and metals exports	0.000	0.000	0.000	0.000
	(0.004)	(0.004)	(0.004)	(0.004)
Host country unemployment rate	-0.008	-0.007	-0.007	-0.007
	(0.008)	(0.008)	(0.008)	(0.008)
Constant	1.779***	1.768***	1.749***	1.716***
	(0.453)	(0.452)	(0.456)	(0.452)
Year fixed effects	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes
R-squared	0.006	0.006	0.006	0.007
F	3.268***	3.236***	3.225***	3.343***
Observations	20,275	20,292	20,296	20,295

Table 4-4
Regressions of CSR and its interactions with location and internalization choices on CARs surrounding FDI announcements
The table presents multivariate OLS regressions of event study CARs where the dependent variable is CAR (-2, 2). 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)
Overall CSR	0.551**	0.409**
	(0.232)	(0.203)
Developed host (dummy)	0.453**	
	(0.188)	
Full control (dummy)		0.446**
		(0.177)
Overall CSR * Developed host (dummy)	-0.650***	
	(0.242)	
Overall CSR * Full control (dummy)		-0.537**
		(0.224)
Log of total assets	-0.125***	-0.124***
	(0.021)	(0.021)
R&D	-0.740	-0.718
	(0.806)	(0.803)
Leverage	-0.010	0.002
	(0.209)	(0.208)
M/B	-0.057***	-0.057***
	(0.016)	(0.016)
Tangible resources	-0.442**	-0.447**
	(0.187)	(0.187)
Cash flow	1.099	1.094
	(0.671)	(0.670)
Log of home country GDP	-0.032	-0.028
	(0.027)	(0.027)
Host country market openness	0.056	0.062
	(0.046)	(0.046)
Host country ores and metals exports	0.000	0.001
	(0.004)	(0.004)
Host country unemployment rate	-0.008	-0.009
	(0.008)	(0.008)
Constant	1.451***	1.445***
	(0.472)	(0.470)
Region fixed effects	Yes	Yes
Sector fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
R-squared	0.007	0.007
F	3.222***	3.223***
Observations	20,275	20,275

Table 4-5

Regressions of CSR and its interactions with LOF proxies on CARs surrounding FDI announcements

The table presents multivariate OLS regressions of event study CARs where the dependent variable is CAR (-2, 2). 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)	(9)	(10)	(11)
Overall CSR	0.022	-0.168	0.185	0.288*	0.196	-0.274	0.155	-0.055	0.054	0.081	0.144
	(0.139)	(0.201)	(0.168)	(0.167)	(0.167)	(0.209)	(0.152)	(0.717)	(0.153)	(0.129)	(0.135)
Previous year FDI experience (dummy)	-0.186										
	(0.222)										
Historical FDI experience (dummy)		-0.332**									
		(0.162)									
Above median foreign sales/total sales (dummy)			0.263								
			(0.175)								
Above median exports/GDP (dummy)				0.363**							
				(0.184)							
English speaking home country (dummy)					0.502***						
					(0.194)						
Cultural distance						-0.018**					
						(0.009)					
Administrative distance							0.006				
							(0.005)				
Log of geographic distance								-0.001			
								(0.068)			
Economic distance									-0.003		
									(0.007)		
Resource based industry (dummy)										0.409	
										(0.293)	
Asset specific industry (dummy)											0.269

Table 4-5 continued

											(0.223)
Overall CSR * Previous year FDI experience	0.196										
	(0.284)										
Overall CSR * Historical FDI experience		0.364*									
		(0.219)									
Overall CSR * Above median foreign sales/total sales			-0.374*								
			(0.223)								
Overall CSR * Above median exports/GDP				-0.463**							
				(0.215)							
Overall CSR * English speaking home country					-0.437**						
					(0.218)						
Overall CSR * Cultural distance						0.026**					
						(0.012)					
Overall CSR * Administrative distance							-0.007				
							(0.006)				
Overall CSR * Log of geographic distance								0.012			
								(0.087)			
Overall CSR * Economic distance									0.006		
									(0.010)		
Overall CSR * Resource based industry (dummy)										-0.257	
										(0.400)	
Overall CSR * Asset specific industry (dummy)											-0.454
											(0.287)
Log of total assets	-0.126***	-0.124***	-0.130***	-0.123***	-0.112***	-0.125***	-0.128***	-0.125***	-0.130***	-0.129***	-0.132***
	(0.021)	(0.021)	(0.022)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.023)	(0.019)	(0.019)
R&D	-0.723	-0.686	-0.527	-0.608	-0.661	-1.030	-0.692	-0.732	-0.572	-0.325	-0.373
	(0.803)	(0.804)	(0.806)	(0.815)	(0.814)	(0.826)	(0.808)	(0.803)	(0.853)	(0.772)	(0.774)

Table 4-5 continued

Leverage	0.004	0.017	-0.022	-0.025	0.011	-0.079	0.048	-0.002	0.044	0.014	0.032
	(0.209)	(0.208)	(0.214)	(0.212)	(0.209)	(0.217)	(0.211)	(0.209)	(0.222)	(0.208)	(0.208)
M/B	-0.057***	-0.058***	-0.041**	-0.055***	-0.058***	-0.053***	-0.057***	-0.057***	-0.055***	-0.055***	-0.056***
	(0.016)	(0.016)	(0.017)	(0.017)	(0.017)	(0.017)	(0.016)	(0.017)	(0.018)	(0.016)	(0.016)
Tangible resources	-0.441**	-0.449**	-0.480**	-0.450**	-0.430**	-0.443**	-0.428**	-0.436**	-0.480**	-0.567***	-0.547***
	(0.188)	(0.187)	(0.198)	(0.188)	(0.187)	(0.194)	(0.188)	(0.187)	(0.200)	(0.172)	(0.173)
Cash flow	1.064	1.001	0.806	0.936	1.142*	1.047	1.000	1.061	0.937	1.034	1.034
	(0.672)	(0.670)	(0.687)	(0.681)	(0.673)	(0.681)	(0.679)	(0.672)	(0.709)	(0.648)	(0.648)
Log of home country GDP	-0.030	-0.033	-0.024	-0.030	-0.043	-0.050	-0.024	-0.030	-0.063**	-0.027	-0.031
	(0.027)	(0.027)	(0.028)	(0.034)	(0.028)	(0.031)	(0.027)	(0.027)	(0.032)	(0.027)	(0.027)
Host country market openness	0.053	0.042	0.034	0.058	0.061	0.064	0.048	0.056	0.034	0.060	0.059
	(0.047)	(0.047)	(0.046)	(0.047)	(0.046)	(0.047)	(0.046)	(0.046)	(0.062)	(0.046)	(0.046)
Host country ores and metals exports	0.000	0.000	0.001	0.001	0.000	0.000	0.000	0.000	0.000	-0.000	-0.001
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Host country unemployment rate	-0.008	-0.009	-0.005	-0.008	-0.008	-0.013	-0.010	-0.010	-0.008	-0.008	-0.008
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.009)	(0.008)	(0.008)	(0.009)	(0.008)	(0.008)
Constant	1.821***	2.044***	1.667***	1.574***	1.687***	2.348***	1.623***	1.805***	2.295***	1.709***	1.781***
	(0.456)	(0.477)	(0.470)	(0.573)	(0.464)	(0.510)	(0.468)	(0.675)	(0.514)	(0.455)	(0.454)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.006	0.006
F	3.111***	3.130***	3.013***	3.103***	3.355***	3.360***	3.097***	3.106***	2.973***	3.848***	3.725***
Observations	20,275	20,275	18,984	19,959	20,275	19,202	20,049	20,224	18,309	20,275	20,275

Table 4-6

Regressions of CSR and its interaction with host country institutional variables on CARs surrounding FDI announcements

The table presents multivariate OLS regressions of event study CARs where the dependent variable is CAR (-2, 2). 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)
Overall CSR	0.141	0.106	0.341	0.307	0.224	0.235	0.244
	(0.176)	(0.141)	(0.211)	(0.209)	(0.190)	(0.179)	(0.188)
Voice and accountability	0.071						
	(0.098)						
Political stability		0.112					
		(0.110)					
Government effectiveness			0.214**				
			(0.105)				
Regulatory quality				0.177			
				(0.109)			
Rule of law					0.122		
					(0.094)		
Control of corruption						0.144*	
						(0.082)	
Aggregate governance							0.160
							(0.105)
Overall CSR * Voice and accountability	-0.106						
	(0.125)						
Overall CSR * Political stability		-0.153					
		(0.138)					
Overall CSR * Government effectiveness			-0.245*				
			(0.133)				
Overall CSR * Regulatory quality				-0.228*			

Table 4-6 continued

				(0.138)			
Overall CSR * Rule of law					-0.159		
					(0.119)		
Overall CSR * Control of corruption						-0.168	
						(0.104)	
Overall CSR * Aggregate governance							-0.202
							(0.133)
Log of total assets	-0.126***	-0.126***	-0.123***	-0.125***	-0.125***	-0.124***	-0.124***
	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)
R&D	-0.725	-0.732	-0.790	-0.753	-0.747	-0.773	-0.757
	(0.805)	(0.804)	(0.806)	(0.804)	(0.805)	(0.805)	(0.805)
Leverage	-0.002	-0.001	-0.002	-0.004	-0.003	-0.001	-0.002
	(0.209)	(0.209)	(0.209)	(0.209)	(0.209)	(0.209)	(0.209)
M/B	-0.057***	-0.057***	-0.057***	-0.057***	-0.057***	-0.057***	-0.057***
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Tangible resources	-0.442**	-0.444**	-0.434**	-0.439**	-0.440**	-0.436**	-0.440**
	(0.187)	(0.187)	(0.187)	(0.187)	(0.187)	(0.187)	(0.187)
Cash flow	1.082	1.080	1.097	1.088	1.086	1.092	1.093
	(0.672)	(0.672)	(0.671)	(0.671)	(0.672)	(0.672)	(0.672)
Log of home country GDP	-0.030	-0.030	-0.031	-0.031	-0.031	-0.032	-0.031
	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)
Host country market openness	0.058	0.053	0.048	0.052	0.055	0.049	0.053
	(0.046)	(0.048)	(0.046)	(0.046)	(0.046)	(0.046)	(0.046)
Host country ores and metals exports	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Host country unemployment rate	-0.008	-0.008	-0.007	-0.008	-0.008	-0.008	-0.008
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)

Table 4-6 continued

Constant	1.726***	1.745***	1.510***	1.588***	1.650***	1.616***	1.630***
	(0.459)	(0.453)	(0.467)	(0.463)	(0.462)	(0.461)	(0.461)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.007	0.007	0.007	0.007	0.007	0.007	0.007
F	3.090***	3.100***	3.160***	3.116***	3.109***	3.139***	3.113***
Observations	20,275	20,275	20,275	20,275	20,275	20,270	20,270

Table 4-7

Logit regressions of CSR on CARs surrounding FDI announcements

The table presents logit regressions of CAR where the dependent variable is a dummy variable, equal to one if CAR (-2, 2) is positive and zero otherwise. 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	-0.020			
	(0.066)			
Social CSR		-0.004		
		(0.065)		
Environmental CSR			-0.053	
			(0.064)	
Governance CSR				-0.044
				(0.063)
Log of total assets	-0.045***	-0.046***	-0.041***	-0.045***
	(0.011)	(0.011)	(0.012)	(0.009)
R&D	-0.393	-0.422	-0.407	-0.423
	(0.359)	(0.358)	(0.359)	(0.358)
Leverage	-0.033	-0.034	-0.039	-0.036
	(0.110)	(0.109)	(0.109)	(0.109)
M/B	-0.016**	-0.017**	-0.017**	-0.017**
	(0.008)	(0.008)	(0.008)	(0.008)
Tangible resources	-0.103	-0.106	-0.095	-0.107
	(0.094)	(0.093)	(0.094)	(0.094)
Cash flow	0.357	0.349	0.364	0.354
	(0.311)	(0.311)	(0.310)	(0.311)
Log of home country GDP	-0.000	-0.001	0.000	-0.001
	(0.013)	(0.013)	(0.013)	(0.013)
Host country market openness	0.028	0.029	0.028	0.029
	(0.023)	(0.023)	(0.023)	(0.023)
Host country ores and metals exports	0.001	0.001	0.001	0.001
	(0.002)	(0.002)	(0.002)	(0.002)
Host country unemployment rate	-0.009**	-0.009**	-0.008**	-0.008**
	(0.004)	(0.004)	(0.004)	(0.004)
Constant	0.472**	0.482**	0.449**	0.490**
	(0.218)	(0.219)	(0.220)	(0.220)
Year fixed effects	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes
Log Likelihood	-14006	-14018	-14021	-14020
Wald Chi-square	108.9***	108.1***	109.1***	107.9***
Pseudo R-square	0.003	0.003	0.003	0.003
Observations	20,275	20,292	20,296	20,295

Chapter 5 Summary and Contributions

5.1 Summary of the main findings

CSR has become one of the standard business practices of our time. CSR reputation is a crucial component of firm's competitiveness. It not only affects firm's financial performance (Barnett & Salomon, 2012, Edmans, 2011, Flammer, 2015, Surroca et al., 2010), but also other areas, such as consumers (Sen & Bhattacharya, 2001), access to finance (Cheng et al., 2014, Goss & Roberts, 2011), and sell-side analysts (Ioannou & Serafeim, 2015). FDI is one of the most important corporate investment decisions. However, whether, and if so, how CSR reputation can change the firm's perception and behavior in its FDI process has not yet been fully investigated. Focusing on the relation between CSR performance and FDI decisions, I examine three research questions in this thesis.

First, does CSR affect a firm's overall FDI propensity? And if so, what is the mechanism behind it? To answer this question, I use a global sample of 4,764 firms with available CSR data during 2003-2014. Previous literature suggests that LOF puts foreign firms at a disadvantageous position as compared to local firms (Eden & Miller, 2004). I find in Chapter 2 that CSR reputation can help firms to overcome the unfamiliarity, discriminative, and relational hazards that are related to LOF. Firms with superior CSR performance (either the overall CSR or individual ESG pillars of CSR) have higher propensity to undertake FDI. I further find that the effect of CSR on FDI propensity is stronger for firms that encounter a higher level of LOF.

If CSR affects firm's overall FDI propensity, it raises my interests on how CSR would affect MNE's choice among different FDI strategies. Based on Dunning's eclectic paradigm, I focus on two main FDI strategies: location, and internalization.

My second research question is: Does CSR affect firm's FDI location choice and entry mode choice? If so, how? To investigate this question, I build on a sample of global FDIs. I divide the host countries into developed and developing countries and entry mode into full control and partial control entry mode and examine whether CSR affects MNE's choice among the two types of locations, and the two types of entry methods.

I find in Chapter 3 that CSR advantage is associated with FDI in developed countries and through a full control entry method. I also find that, LOF weakens the effect of CSR on FDI location choice and host country institutions weakens the effect of CSR on FDI entry method choice. I also find that the individual ESG pillars affect FDI entry method choices differently. While governance CSR has a positive effect on the likelihood of choosing the full control entry method, the social and environmental CSR have no effect on FDI entry method choices.

Now that CSR affects firm's FDI propensity (as documented in Chapter 2) and strategy (as documented in Chapter 3), my third research question is: What is the relation between CSR and the stock market reaction to FDI announcements? Do a high CSR firm's shareholders gain more from FDI? I investigate this question in Chapter 4. I find that, in general, the effect of CSR (both the overall CSR and the ESG pillar of CSR) on FDI announcement abnormal returns is neutral. However, when the investment is in developing rather than developed countries, or through a partial rather than a full control entry method, or when the firm encounters high level of LOF, there is a positive relation between CSR and stock price response.

I perform a series of robustness tests after each empirical chapter to verify that the main results are not caused by specific models, countries, time periods, or endowed with endogeneity concerns. The main findings in general do not change.

The three empirical chapters are linked with each other. Focusing on firm's FDI decisions, it starts from whether CSR affects FDI propensity. After getting a positive result, the thesis further examines how CSR affects specific location and entry mode choice during the FDI process. Finally, it investigates whether CSR can create value for shareholders around FDI announcements.

5.2 Contribution to knowledge and implications to practice

This thesis contributes to several streams of literature.

First, it contributes to both the CSR and FDI areas by showing that in a global economy, where FDI is strategically critical for firm's long-term development and where the public increasingly appreciates CSR engagements, that CSR advantage is a valuable intangible asset. Firms with CSR advantage have strong stakeholder relations, high legitimacy, renowned reputation, and comprehensive staff training and development experience. Successful CSR strategies could provide MNEs with significant external reputation and allow them to engage cooperatively with stakeholders during the FDI process.

Second, it complements the CSR literature by providing evidence to support the resource based view of CSR (Hart, 1995). Unlike tangible resources that are difficult to transfer into foreign countries, CSR as MNE's important intangible resource and competitive advantage, can be explored and exploited in the international market. It can overcome LOF, create competitive advantages for MNEs, and create shareholder value under certain circumstances.

Third, it provides an application of Dunning's eclectic OLI framework by introducing CSR and other IB factors into it, and empirically examines their effect on

the other two dimensions within the paradigm. The findings in Chapter 3 will help to explain how CSR as firm's ownership advantages affects the other two advantages and suggest where firms with superior CSR performance should locate their foreign investment and how they should manage and control their foreign operations.

Fourthly, it contributes to FDI location research by investigating the investments of firms from a wide scope of home countries into wide scope of host countries. It shows that even with the large country heterogeneity, there is still a consistent pattern for high CSR firms to invest in developed countries to take full advantages of CSR asset.

Fifthly, it suggests that LOF and host country institutions are very important factors that affect MNE's overseas location decisions and entry mode choice. Firms have an incentive to protect their CSR reputation in a developed country and through the full control mode, but the incentive is weakened when LOF is high, or the host country has well-established institutions.

Finally, with respect to shareholder's short-term response to FDI announcement, this thesis suggests that MNEs with superior CSR performance should consider the appropriate location, entry methods and ways to mitigate LOF as they will enhance the shareholder value around FDI announcement. Although host country institutions are important locational advantages that attract FDI, they do not significantly facilitate high CSR firms' shareholders to gain from FDI.

5.3 Limitations

This thesis is due to some limitations as well. I briefly discuss two of them in this section.

First of all, a lot of academics and practitioners have concerns about the consistency and reliability of CSR rating data (e.g., Chatterji, Levine, & Toffel, 2009, Dorfleitner et al., 2015, Montiel & Delgado-Ceballos, 2014). Constructing an appropriate CSR measure is challenging for two reasons. On the one hand, measurements of a single aspect of CSR (e.g., emission reduction) provide limited perspective on a firm's overall performance in the more general social and environmental sense (Wolfe & Aupperle, 1991). On the other hand, a multi-dimensional performance measure of CSR is difficult to be theoretically constructed (Rowley & Berman, 2000).

Various CSR measures have been used by previous studies: Community Reinvestment Act (e.g., Campbell et al., 2012), forced-choice survey instruments (e.g., Aupperle, Carroll, & Hatfield, 1985), Fortune magazine's annual survey of corporate reputation ratings (e.g., McGuire, Sundgren, & Schneeweis, 1988, Preston & O'Bannon, 1997), content analysis of corporate documents (e.g., Wolfe & Aupperle, 1991), thematic indices such as the Global Challenges Index, Johannesburg Stock Exchange's Socially Responsible Investment Index, the Corporate Sustainability Index and National Corporate Responsibility Index (e.g., Peng & Beamish, 2008), and datasets provided by large professional data providers such as MSCI ESG STATS of the former Kinder, Lydenberg, and Domini (KLD) Research & Analytics, Inc (e.g., Goss & Roberts, 2011), and Bloomberg.

I use a global ESG database developed by Thomson Reuters ASSET4 in this thesis. Thomson Reuters begins to collect data and score firms on their ESG dimensions since 2002 (Thomson Reuters, 2013), which is also the year of my sample starts with. The ASSET4 dataset are validated and widely used by recent scholars in

CSR related research (e.g., Aouadi & Marsat, 2017, Cheng et al., 2014, Dorfleitner et al., 2015, Hawn & Ioannou, 2016, Ioannou & Serafeim, 2012, Luo et al., 2015, Qiu et al., 2016, Stellner et al., 2015). In order to reduce the data bias, I test both firm's overall CSR score and the individual ESG pillar scores throughout the thesis and to ensure that the results are robust to alternative measures of CSR.

However, the concern on the CSR measures is still ongoing. Montiel and Delgado-Ceballos (2014: 132) states that "to date, academic research has failed to effectively inform management practice about sustainable development". This limitation is unsolvable at the moment, especially for my thesis where a large sample of international company's FDI decisions and choices are examined and analyzed.

Another limitation is that I lack data on greenfield investment in the thesis. In the data description in Section 2.3.1, my main source of FDI transactions is from SDC Platinum, where only M&As, joint ventures, and strategic alliance data are available.

The lack of greenfield investment will not significantly affect the main findings. On the one hand, my finding in Chapter 2 suggest a positive relation between CSR performance and FDI propensity. The FDI propensity is based on M&As, joint ventures, and strategic alliances. If adding the greenfield investment in the analysis, the effect will be even stronger. On the other hand, according to the latest world investment report published by the United Nations, "only a minority (executives) indicated non-equity partnerships and greenfield investments as preferred modes to access foreign markets. In turn, cross-border M&As are set to gain yet more prominence" (UNCTAD, 2017: 6). Now that greenfield investment only makes a small portion of FDI, I therefore argue that, the lack of greenfield investment will not greatly affect the main findings.

5.4 Potential avenues for future research

This thesis only provides a preliminary investigation on the relation between CSR and FDI. Based on the current findings, more research could be undertaken to help us better understand the relation. I briefly discuss some of the potential avenues for future research in this section.

All models in the three empirical chapters could be redone when another source of CSR data, or greenfield investment data is available.

I classify all the countries into developed and developing groups in Chapter 3. In reality, there is big heterogeneity within each groups (Cuervo-Cazurra & Genc, 2008). For examples, the developing countries in Asia, Latin America, and Africa have their own peculiarities, which needs further investigation.

I have investigated the short-term market reaction to FDI announcement in Chapter 4 and find a neutral relation between CSR and CAR. It will be intriguing to examine the long-term stock reaction to FDI announcements.

Finally, I have examined firm's overall CSR and the ESG pillars of CSR throughout the thesis. In the future research, some categorical CSR measures, such as health and safety, diversity and opportunity, emission reduction, product innovation, etc. will also provide insights and deeper understanding on the topic.

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Appendix A

Variable descriptions and data source

Variables	Description	Data Source
Variables used in Chapter 2		
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
English speaking home country	A dummy variable set equal to one if English is the primary/official language of the home country, and zero otherwise.	The World Factbook
Exports/GDP	A country's exports of goods and services as a percentage of GDP	The World Bank
Above median exports/GDP	A dummy variable set equal to one if the home country's ratio of exports divided by GDP is above the sample median in a given year, and zero otherwise.	Own calculation
Foreign sales to total sales	Foreign sales as a percentage of total sales (WC08731)	Worldscope
Above median foreign sales	A dummy variable set equal to one if the firm's ratio of foreign sales divided by total sales is above the sample median in that country, industry and year group, and zero otherwise.	Own calculation
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

Appendix A continued

	(WC04201/WC02999)	
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
Cross-listed	A dummy variable set equal to one if the firm cross-listed in foreign stock exchange(s), and zero otherwise (WC05427)	Worldscope
Additional variables used in Chapter 3		
Location	A dummy variable set equal to one if the firm invested in developed country, and zero otherwise	SDC Platinum
Internalization	A dummy variable set equal to one if the firm owns 100% of its foreign subsidiaries after FDI, and zero if a firm owns less than 100% of its foreign subsidiaries after FDI.	SDC Platinum
Cultural distance	The cultural distance between the home and the host country. Details can be accessed through online Appendix 2 of Berry et al. (2010) at http://lauder.wharton.upenn.edu/ciber/faculty_research.asp	Berry et al. (2010)
Administrative distance	The administrative distance between the home and the host country. Details can be accessed through online Appendix 2 of Berry et al. (2010) at http://lauder.wharton.upenn.edu/ciber/faculty_research.asp	Berry et al. (2010)
Geographic distance	The geographic distance between the home and host countries' most important cities/agglomerations (in terms of population), calculated following the great circle formula.	CEPII
Economic distance	The economic distance between the home and the host country. Details can be accessed through online Appendix 2 of Berry et al. (2010) at http://lauder.wharton.upenn.edu/ciber/faculty_research.asp	Berry et al. (2010)
Resource based industry	A dummy variable set equal to one if the asset acquired or allied is in one of the following two digit SIC industries: food and kindred products (SIC 20), tobacco products (SIC 21), textile mill products (SIC 22), furniture and fixtures (SIC 24), paper and allied products (26), petroleum refining and related industries (SIC 29), and primary metal industries (SIC 33), and zero otherwise	SDC Platinum
Asset specific industry	A dummy variable set equal to one if the asset acquired or allied has a SIC code between 3400 and 3999.	SDC Platinum
Voice and accountability	Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.	WGI

Appendix A continued

Political stability	Reflects perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism.	WGI
Government effectiveness	Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	WGI
Regulatory quality	Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	WGI
Rule of law	Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.	WGI
Control of corruption	Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.	WGI
Aggregate governance	The aggregate indicators of six broad dimensions of governance: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption.	WGI
Log of home country GDP	The natural logarithm of country's real GDP in million US $	WDI
Host country market openness	Country's imports and exports divided by GDP	WDI
Host country ores and metals exports	Country's ores and metals exports divided by merchandise exports	WDI
Host country unemployment rate	The unemployment rate of the country	WDI
Relative deal size	Acquirer market value four weeks prior to announcement (in million US dollars) divided by the value of transaction (in million US dollars)	SDC Platinum
Target public	A dummy variable set equal to one for public target, and zero otherwise	SDC Platinum
Target private	A dummy variable set equal to one for private target, and zero otherwise	SDC Platinum
All cash	A dummy variable set equal to one for a purely cash financed deal, and zero otherwise	SDC Platinum
Friendly	A dummy variable set equal to one for a friendly deal, and zero otherwise	SDC Platinum
Relatedness	A dummy variable set equal to one when the acquirer and the target are from the same industry (two-digit SIC code), and zero otherwise	SDC Platinum
Additional variables used in Chapter 4		
CAR (-1, 1)	Three day cumulative abnormal return, expressed in percentage	Own calculation
CAR (-2, 2)	Five day cumulative abnormal return, expressed in percentage	Own calculation
CAR (-5, 5)	Eleven day cumulative abnormal return, expressed in percentage	Own calculation

Appendix A continued

Crisis	A dummy variable set equal to one if the FDI announcement year is 2007, 2008, or 2009, and zero otherwise	SDC Platinum
Developed host	A dummy variable set equal to one if the FDI destination is a developed country, and zero otherwise	SDC Platinum
Full control	A dummy variable set equal to one if the firm owns 100% of its foreign subsidiary after the FDI, and zero otherwise	SDC Platinum

Appendix B

Propensity Score Matching (PSM) equations

This appendix presents results from three diagnostic tests for the PSM procedure employed in Section 2.5.1. Panel A reports results of logit regressions of high CSR scores. The dependent variable is set equal to one if the firm-level CSR score is above the median for all firms in the same country, year, and industry sector, and zero otherwise. All variables are identified in Appendix A. Standard errors are clustered at the firm level and are reported in parentheses. *, ** and *** indicate statistical significance at 10%, 5% and 1% level respectively. Panel B reports the mean difference tests in explanatory variables between the treatment and control groups. Panel C presents results from covariate balance tests for each of the matching variables.

Panel A: Pre-match propensity score regression and post-match diagnostic regression

	Dependent variable: Dummy variable equals one if CSR is above the country, year, and industry median, and zero otherwise	
	Pre-match	Post-match
Variables	(1)	(2)
Log total assets	0.841***	-0.003
	(0.028)	(0.031)
R&D	0.924	0.345
	(0.666)	(0.758)
Leverage	-1.049***	-0.133
	(0.184)	(0.191)
M/B	0.027***	0.001
	(0.008)	(0.009)
Tangible resources	0.783***	0.045
	(0.147)	(0.152)
Cash flow	2.800***	0.122
	(0.504)	(0.545)
Sales growth	-0.543***	-0.000
	(0.054)	(0.068)
ROA	0.762**	0.111
	(0.334)	(0.378)
Cash flow risk	-1.294***	-0.114
	(0.421)	(0.451)
Foreign sales to total sales	0.569***	0.022
	(0.102)	(0.109)
Cross-listed	0.413***	-0.028
	(0.073)	(0.080)
Constant	-18.217***	-0.341
	(0.789)	(0.896)
Country fixed effects	Yes	Yes
Industry fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Log Likelihood	-14,332	-8,581
Pseudo R-square	0.182	0.002
Observations	25,324	12,402

Appendix B continued

Panel B: Mean differences in firm characteristics

Variables	Firm-year observations with CSR above median (N=6245)	Firm-year observations with CSR below median (N=6245)	Difference	t-statistics
Log total assets	16.13	16.93	0.80	(0.99)
R&D	0.02	0.02	0.00	(-0.95)
Leverage	0.25	0.25	0.00	(1.02)
M/B	2.77	2.75	-0.03	(-0.51)
Tangible resources	0.30	0.30	0.00	(0.51)
Cash flow	0.10	0.10	0.00	(-0.94)
Sales growth	0.10	0.10	0.00	(-0.09)
ROA	0.08	0.08	0.00	(-1.01)
Cash flow risk	0.07	0.07	0.00	(0.55)
Foreign sales to total sales	0.37	0.37	0.00	(-0.37)
Cross-listed	0.46	0.46	0.01	(0.61)

Panel C: Covariate balance

Variables	Sample	Mean		%bias	% reduction bias	t-test
		Treated	Control			
Log total assets	Unmatched	23.20	22.01	76.2		67.63***
	Matched	22.47	22.47	-0.1	99.8	-0.08
R&D	Unmatched	0.02	0.02	-2.2		-1.97**
	Matched	0.02	0.02	1.7	24.9	0.95
Leverage	Unmatched	0.24	0.25	-3.4		-3.04***
	Matched	0.25	0.25	-1.8	48.0	-1.02
M/B	Unmatched	2.67	2.82	-4.8		-4.24***
	Matched	2.77	2.75	0.9	80.9	0.51
Tangible resources	Unmatched	0.31	0.30	1.0		0.90
	Matched	0.30	0.30	-0.9	12.6	-0.51
Cash flow	Unmatched	0.10	0.09	7.1		6.29***
	Matched	0.10	0.10	1.5	78.3	0.94
Sales growth	Unmatched	0.09	0.15	-15.5		-13.75***
	Matched	0.10	0.10	0.1	99.2	0.09
ROA	Unmatched	0.08	0.07	8.2		7.23***
	Matched	0.08	0.08	1.7	79.8	1.01
Cash flow risk	Unmatched	0.06	0.08	-29.3		-25.78***
	Matched	0.07	0.07	-0.8	97.1	-0.55
Foreign sales to total sales	Unmatched	0.40	0.34	17.8		14.42***
	Matched	0.37	0.36	0.7	96.3	0.37
Cross-listed	Unmatched	0.52	0.38	29.0		25.66***
	Matched	0.45	0.46	-1.1	96.2	-0.61

Appendix C

Summary statistics and regressions using alternative definitions of FDI internalization choice

This appendix presents results that are discussed in Section 3.5.1. Panel A reports the mean and standard deviation of dependent variable when using three different thresholds to define internalization choice. "Full ownership" is set equal to one if the firm owns 100% of its foreign subsidiaries after FDI, and zero otherwise. "90% ownership" is defined equal to one if the firm owns over 90% of its foreign subsidiaries after FDI, and zero otherwise. "50% ownership" is set equal to one if the firm owns 50% of its foreign subsidiaries after FDI transaction. Panel B reports logit regression of overall CSR and its interaction with LOF proxies on FDI internalization choice using 90% ownership as dependent variable. Panel C reports logit regression of overall CSR and its interaction with LOF proxies on FDI internalization choice using 50% ownership as dependent variable. Panel D reports logit regression of overall CSR and its interaction with host country institutions on FDI internalization choice using 90% ownership as dependent variable. Panel E reports logit regression of overall CSR and its interaction with host country institution on FDI internalization choice using 50% ownership as dependent variable. 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.

Panel A: Mean, standard deviation, and correlation matrix of internalization choice using three different thresholds

Variables	Name	Frequency	Mean	Std. Dev.	1	2	3
1	Full ownership	12,228	0.77	0.42	1.00		
2	90% ownership	12,228	0.78	0.41	0.97***	1.00	
3	50% ownership	12,228	0.83	0.37	0.82***	0.85***	1.00

Appendix C continued

Panel B: Logit regression of overall CSR and its interactions with LOF proxies on FDI internalization choice (defined by 90% ownership)

Variables	(1b)	(2b)	(3b)	(4b)	(5b)	(6b)
Overall CSR	0.498**	0.359**	2.489***	0.448***	0.444***	0.408***
	(0.212)	(0.162)	(0.633)	(0.159)	(0.141)	(0.140)
Cultural distance	-0.009					
	(0.009)					
Administrative distance		-0.006*				
		(0.004)				
Geographic distance			0.007			
			(0.059)			
Economic distance				-0.016***		
				(0.006)		
Resource based industry					0.208	
					(0.216)	
Asset specific industry						0.524***
						(0.198)
Overall CSR * Cultural distance	-0.016					
	(0.011)					
Overall CSR * Administrative distance		-0.000				
		(0.005)				
Overall CSR * Geographic distance			-0.258***			
			(0.076)			
Overall CSR * Economic distance				-0.021**		
				(0.008)		
Overall CSR * Resource based industry					-0.317	
					(0.292)	
Overall CSR * Asset specific industry						-0.262
						(0.265)
Log of total assets	-0.229***	-0.241***	-0.237***	-0.227***	-0.272***	-0.261***
	(0.029)	(0.028)	(0.028)	(0.029)	(0.024)	(0.024)
R&D	-3.499***	-3.445***	-3.277***	-4.122***	-2.833***	-3.050***
	(1.083)	(1.092)	(1.096)	(1.089)	(1.027)	(1.018)
M/B	0.019	0.019	0.020	0.022	0.024	0.029
	(0.019)	(0.019)	(0.019)	(0.020)	(0.019)	(0.019)
Tangible resources	-0.335	-0.421**	-0.419**	-0.474**	-0.749***	-0.697***
	(0.217)	(0.206)	(0.210)	(0.211)	(0.195)	(0.193)
Cash flow	-0.612	-0.429	-0.346	-0.550	-0.643	-0.708
	(0.768)	(0.738)	(0.746)	(0.771)	(0.714)	(0.713)
Leverage	-0.172	-0.120	-0.042	-0.146	-0.019	-0.029
	(0.260)	(0.259)	(0.257)	(0.265)	(0.268)	(0.266)
Log of home country GDP	-0.038	-0.073**	-0.031	-0.124***	-0.050	-0.055
	(0.039)	(0.036)	(0.035)	(0.044)	(0.035)	(0.034)
Host country market openness	-0.127***	-0.146***	-0.189***	0.135**	-0.153***	-0.148***
	(0.036)	(0.036)	(0.036)	(0.065)	(0.036)	(0.036)

Appendix C continued

Panel B continued						
Host country ores and metals exports	-1.490***	-1.240***	-0.721**	-1.284***	-1.485***	-1.408***
	(0.277)	(0.279)	(0.303)	(0.302)	(0.279)	(0.281)
Host country unemployment rate	3.857***	3.145***	2.423***	2.705***	2.939***	3.018***
	(0.836)	(0.776)	(0.735)	(0.826)	(0.772)	(0.774)
Constant	3.559***	4.181***	3.353***	4.563***	3.989***	3.909***
	(0.601)	(0.554)	(0.670)	(0.652)	(0.538)	(0.534)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	No	No
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-7097	-7471	-7470	-6857	-7567	-7550
Wald Chi-square	488.3***	456.3***	521.1***	436.5***	405.9***	414.5***
Pseudo R-square	0.080	0.075	0.078	0.079	0.068	0.070
Observations	12,528	13,105	13,143	11,990	13,160	13,160

Appendix C continued

Panel C: Logit regression of overall CSR and its interactions with LOF proxies on FDI internalization choice (defined by 50% ownership)

Variables	(1c)	(2c)	(3c)	(4c)	(5c)	(6c)
Overall CSR	0.449**	0.369**	1.267*	0.334*	0.413***	0.342**
	(0.229)	(0.183)	(0.736)	(0.171)	(0.154)	(0.154)
Cultural distance	-0.013					
	(0.009)					
Administrative distance		0.001				
		(0.005)				
Geographic distance			-0.111			
			(0.069)			
Economic distance				-0.013**		
				(0.006)		
Resource based industry					0.798***	
					(0.262)	
Asset specific industry						0.459**
						(0.201)
Overall CSR * Cultural distance	-0.013					
	(0.011)					
Overall CSR * Administrative distance		-0.007				
		(0.007)				
Overall CSR * Geographic distance			-0.116			
			(0.088)			
Overall CSR * Economic distance				-0.018**		
				(0.008)		
Overall CSR * Resource based industry					-0.815**	
					(0.346)	
Overall CSR * Asset specific industry						-0.156
						(0.267)
Log of total assets	-0.237***	-0.245***	-0.244***	-0.232***	-0.295***	-0.285***
	(0.034)	(0.033)	(0.033)	(0.034)	(0.029)	(0.028)
R&D	-6.871***	-6.845***	-6.762***	-7.484***	-5.972***	-6.277***
	(1.096)	(1.106)	(1.110)	(1.117)	(1.064)	(1.061)
M/B	0.027	0.025	0.027	0.028	0.031	0.034
	(0.022)	(0.021)	(0.022)	(0.023)	(0.022)	(0.022)
Tangible resources	-0.317	-0.310	-0.340	-0.384	-0.572**	-0.503**
	(0.242)	(0.229)	(0.235)	(0.240)	(0.224)	(0.221)
Cash flow	-1.155	-1.088	-1.012	-1.143	-0.956	-0.995
	(0.942)	(0.898)	(0.913)	(0.945)	(0.879)	(0.881)
Leverage	-0.481*	-0.481*	-0.408	-0.511*	-0.358	-0.355
	(0.286)	(0.283)	(0.282)	(0.287)	(0.308)	(0.303)
Log of home country GDP	-0.013	-0.052	-0.010	-0.107**	-0.028	-0.037
	(0.044)	(0.039)	(0.040)	(0.053)	(0.040)	(0.040)
Host country market openness	-0.020	-0.034	-0.082**	0.213***	-0.037	-0.031
	(0.039)	(0.040)	(0.038)	(0.072)	(0.039)	(0.039)

Appendix C continued

Panel C continued						
Host country ores and metals exports	-0.832***	-0.525*	0.038	-0.469	-0.735**	-0.652**
	(0.292)	(0.293)	(0.312)	(0.324)	(0.292)	(0.291)
Host country unemployment rate	6.327***	5.787***	4.985***	5.937***	5.873***	5.956***
	(1.015)	(0.970)	(0.909)	(1.016)	(0.966)	(0.967)
Constant	3.723***	4.279***	4.518***	4.829***	4.198***	4.224***
	(0.702)	(0.629)	(0.771)	(0.781)	(0.646)	(0.644)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	No	No
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-7091	-7433	-7428	-6870	-7513	-7503
Wald Chi-square	436.1***	398.1***	453.2***	390.1***	338.8***	337.8***
Pseudo R-square	0.088	0.082	0.086	0.086	0.077	0.078
Observations	14,287	14,917	14,962	13,740	14,984	14,984

Appendix C continued

Panel D: Logit regression of overall CSR and its interactions with host country institutional variables on FDI internalization choice (defined by 90% ownership)

Variables	(1d)	(2d)	(3d)	(4d)	(5d)	(6d)	(7d)
Overall CSR	0.228	0.348**	0.419**	0.326*	0.373**	0.329**	0.330*
	(0.167)	(0.145)	(0.183)	(0.186)	(0.167)	(0.162)	(0.170)
Voice and accountability	0.618***						
	(0.089)						
Political stability		0.716***					
		(0.094)					
Government effectiveness			0.764***				
			(0.089)				
Regulatory quality				0.818***			
				(0.095)			
Rule of law					0.674***		
					(0.079)		
Control of corruption						0.605***	
						(0.072)	
Aggregate governance							0.779***
							(0.092)
Overall CSR * Voice and accountability	0.061						
	(0.120)						
Overall CSR * Political stability		-0.133					
		(0.126)					
Overall CSR * Government effectiveness			-0.160				
			(0.119)				
Overall CSR * Regulatory quality				-0.086			
				(0.129)			
Overall CSR * Rule of law					-0.130		
					(0.107)		
Overall CSR * Control of corruption						-0.083	
						(0.098)	
Overall CSR * Aggregate governance							-0.095
							(0.125)
Log of total assets	-0.208***	-0.216***	-0.199***	-0.198***	-0.198***	-0.198***	-0.198***
	(0.028)	(0.028)	(0.028)	(0.028)	(0.028)	(0.029)	(0.028)
R&D	-4.591***	-3.994***	-4.839***	-4.951***	-4.837***	-4.803***	-4.848***
	(1.112)	(1.100)	(1.099)	(1.112)	(1.100)	(1.109)	(1.110)
M/B	0.024	0.024	0.024	0.024	0.024	0.025	0.025
	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)
Tangible resources	-0.266	-0.304	-0.230	-0.249	-0.233	-0.230	-0.234
	(0.207)	(0.208)	(0.209)	(0.209)	(0.209)	(0.210)	(0.209)
Cash flow	-0.695	-0.644	-0.650	-0.619	-0.651	-0.683	-0.672
	(0.757)	(0.742)	(0.752)	(0.758)	(0.756)	(0.754)	(0.755)
Leverage	-0.167	-0.143	-0.180	-0.185	-0.184	-0.183	-0.184
	(0.256)	(0.261)	(0.262)	(0.260)	(0.261)	(0.261)	(0.260)
Log of home country GDP	-0.075**	-0.064*	-0.072**	-0.074**	-0.075**	-0.070**	-0.074**
	(0.034)	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)

Appendix C continued

Panel D continued							
Host country market openness	-0.070*	-0.352***	-0.269***	-0.290***	-0.217***	-0.272***	-0.257***
	(0.036)	(0.038)	(0.037)	(0.037)	(0.036)	(0.037)	(0.036)
Host country ores and metals exports	-1.703***	-1.624***	-1.175***	-1.594***	-1.233***	-1.672***	-1.519***
	(0.278)	(0.287)	(0.285)	(0.285)	(0.284)	(0.285)	(0.286)
Host country unemployment rate	1.974***	3.415***	4.715***	3.826***	4.294***	4.426***	3.897***
	(0.700)	(0.719)	(0.744)	(0.711)	(0.725)	(0.721)	(0.712)
Constant	2.228***	2.498***	1.699***	1.811***	1.954***	1.874***	1.933***
	(0.570)	(0.568)	(0.580)	(0.587)	(0.578)	(0.582)	(0.580)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-7208	-7316	-7239	-7174	-7237	-7213	-7194
Wald Chi-square	852.7***	781.6***	826.2***	915.2***	848.9***	882.6***	895.3***
Pseudo R-square	0.112	0.099	0.108	0.116	0.108	0.111	0.114
Observations	13,160	13,160	13,160	13,160	13,160	13,160	13,160

Appendix C continued

Panel E: Logit regression of overall CSR and its interactions with host country institutional variables on FDI internalization choice (defined by 50% ownership)

Variable	(1e)	(2e)	(3e)	(4e)	(5e)	(6e)	(7e)
Overall CSR	0.065	0.219	0.191	0.100	0.173	0.155	0.130
	(0.168)	(0.154)	(0.191)	(0.187)	(0.173)	(0.172)	(0.175)
Voice and accountability	0.370***						
	(0.080)						
Political stability		0.464***					
		(0.096)					
Government effectiveness			0.413***				
			(0.090)				
Regulatory quality				0.460***			
				(0.094)			
Rule of law					0.372***		
					(0.078)		
Control of corruption						0.348***	
						(0.073)	
Aggregate governance							0.447***
							(0.091)
Overall CSR * Voice and accountability	0.174						
	(0.109)						
Overall CSR * Political stability		0.025					
		(0.126)					
Overall CSR * Government effectiveness			0.001				
			(0.118)				
Overall CSR * Regulatory quality				0.082			
				(0.124)			
Overall CSR * Rule of law					0.019		
					(0.103)		
Overall CSR * Control of corruption						0.033	
						(0.097)	
Overall CSR * Aggregate governance							0.066
							(0.121)
Log of total assets	-0.224***	-0.230***	-0.222***	-0.219***	-0.221***	-0.220***	-0.219***
	(0.033)	(0.033)	(0.033)	(0.033)	(0.033)	(0.033)	(0.033)
R&D	-7.761***	-7.362***	-7.731***	-7.900***	-7.767***	-7.791***	-7.847***
	(1.108)	(1.106)	(1.103)	(1.109)	(1.106)	(1.110)	(1.108)
M/B	0.028	0.029	0.028	0.028	0.028	0.029	0.029
	(0.021)	(0.021)	(0.021)	(0.022)	(0.021)	(0.021)	(0.021)
Tangible resources	-0.213	-0.237	-0.207	-0.212	-0.202	-0.198	-0.200
	(0.230)	(0.230)	(0.231)	(0.231)	(0.231)	(0.231)	(0.231)
Cash flow	-1.345	-1.320	-1.301	-1.291	-1.302	-1.343	-1.335
	(0.915)	(0.903)	(0.907)	(0.913)	(0.910)	(0.909)	(0.909)
Leverage	-0.503*	-0.500*	-0.505*	-0.509*	-0.504*	-0.511*	-0.511*
	(0.276)	(0.280)	(0.282)	(0.280)	(0.281)	(0.280)	(0.279)
Log of home country GDP	-0.052	-0.042	-0.045	-0.047	-0.048	-0.045	-0.048
	(0.040)	(0.040)	(0.040)	(0.040)	(0.040)	(0.040)	(0.040)

Appendix C continued

Panel E continued

Host country market openness	0.024	-0.189***	-0.107***	-0.127***	-0.077*	-0.116***	-0.108***
	(0.040)	(0.040)	(0.040)	(0.041)	(0.040)	(0.040)	(0.040)
Host country ores and metals exports	-0.944***	-0.837***	-0.501*	-0.808***	-0.547*	-0.854***	-0.754**
	(0.287)	(0.297)	(0.297)	(0.296)	(0.296)	(0.295)	(0.296)
Host country unemployment rate	4.725***	5.980***	6.856***	6.172***	6.550***	6.636***	6.242***
	(0.842)	(0.886)	(0.927)	(0.874)	(0.898)	(0.891)	(0.878)
Constant	3.407***	3.530***	3.057***	3.126***	3.214***	3.135***	3.194***
	(0.660)	(0.659)	(0.666)	(0.668)	(0.664)	(0.665)	(0.663)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log Likelihood	-7287	-7349	-7360	-7307	-7350	-7331	-7314
Wald Chi-square	674.0***	611.3***	566.0***	645.1***	596.8***	613.9***	641.4***
Pseudo R-square	0.104	0.097	0.095	0.102	0.097	0.099	0.101
Observations	14,984	14,984	14,984	14,984	14,984	14,984	14,984