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In search of competitiveness through innovation-driven CSR initiatives in Multinational Enterprise subsidiaries in developing-countries

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Abstract

Purpose – The objective of the present study is to investigate opportunities for integrating innovation and CSR in the context of firms' activities. This is explored by investigating the extent to which innovation may complement CSR activities of MNE subsidiaries in developing-countries.

Method/approach – This paper employs literature study to describe how innovation complements CSR in the search for competitiveness at the level of the firm. In doing so, the competitiveness of firms, which is often driven by the demands for responsible behaviour and innovativeness, is derived from studying the extant literature. By drawing from multiple theoretical lenses (i.e., legitimacy theory, stakeholder theory, CSR literature, firms' reputation, and innovativeness), we aim at evaluating their collective impact on firms' competitiveness.

Findings - The model suggests that firm's contextual capabilities (e.g. legitimacy, innovation, and stakeholders) can define its CSR activities (e.g. CSR ethical, CSR social, and CSR environmental). The cumulative effects of these, define firm's reputation, which eventually, produces firm's own competitiveness. The study has argued that there is more to firms' stakeholders than ordinary resources required in furtherance of firms' economic objectives. It therefore follows that stakeholders' potential to constitute a pool of resources and capabilities that the firm can blend with to realize its strategic objectives ought to be stressed. Consequently, markets and for that matter firms, are subject to CSR and innovation demands through, for example, more socially responsible productive behaviour. This requires that MNE subsidiaries in developing-countries connect different strategies towards improving their own competitiveness. This may be accomplished through, re-packaging CSR into bundles of interrelated activities, collaborating with stakeholders to jointly create and deliver social and economic values, and integrating CSR into productive activities that may lead to bundles of products to suit local market conditions.
Keywords: CSR; innovation; MNE subsidiaries; MNEs; reputation; developing-countries

1. Introduction

Since the second half of the 20th century, there has been heightened interest among academics and practitioners on the phenomenon of corporate social responsibility (CSR) of businesses (see Carroll, 1999). Interest in CSR has thus given rise to a burgeoning, multi-disciplinary literature that has sought, among others, to investigate the role of firms, and the support of their stakeholders, in defining CSR expectations, meanings and practices (Basu and Palazzo, 2008). Firms are economic agent, and for that reason, their strategy construction and execution are made according to competitive forces. Nonetheless, firms essentially remain actors in society, necessitating that, their activities have impacts on social and environmental conditions. Also, society may expect firms to comply, to a certain extent, with prevailing values and social norms, which, in the words of Marquis *et al*. (2007, p. 934) define "what is right to do around here".

Theoretical advances on CSR strategy construction and execution are analyzed through what is necessarily a dual perspective (Quairel-Lanoizelee, 2011). This requires that both the economic and the social impacts are taken into consideration when it comes to assessing the overall effects of firms' operations. It is therefore quite uncharacteristic of CSR that the mainstream scholars (Carroll, 1979; Donaldson and Preston, 1995; Wood, 1991) pay little attention to the all-important notion of competition (Quairel-Lanoizelee, 2011). The only exception here is instances where the competitive advantage that CSR offers for firms and locations, is highlighted (Zadek, 2006). Scant attention is paid to the strengths and opportunities posed by the interface between CSR and competition. As Quairel-Lanoizelee (2011, p. 78) noted, "Most literature is in line with the liberal paradigm which understands economic activities and society as disembedded". However, in the present study, we concur with the claim that "a social contract may ensure a convergence between economic gains and the meeting of stakeholders' expectations or the production of public goods" (Quairel-Lanoizelee, 2011, p. 78).

Moreover, Gallego-Alvarez *et al*. (2011, p. 1709) point out that "Innovation of processes, products and services is taken into consideration in the definition of competitiveness, together with performance, quality, productivity and image". Following the literature, recent empirical evidence points to the potential of CSR to create value for shareholder, through strategies such as innovation (see Husted and Allen, 2007). It is therefore satisfying to note that Bansal (2005) noted correlation between CSR and R&D innovation, suggesting that the application of socially responsible strategies, is not out of context in building firms' competitiveness. Also, evidence shows that stakeholders such as consumers prefer to associate with firms that are committed to socially responsible behaviours (Maignan, *et al*., 1999). However, MNEs may pay less attention to socially responsible behaviour, and act not in compliance with prevailing norms and values, that are consistent with CSR, "while they prevent competition, a key factor for efficient CSR implementation" (Quairel-Lanoizelee, 2011, p. 78). From the perspective of MNEs, prior studies (e.g. Jamali and Mishak, 2007) have pointed out that CSR would impact on socially responsible strategies and management at the level of foreign subsidiaries. In most developing-countries, MNE subsidiaries are expected to provide social infrastructure to their host-communities (Dahan *et al*., 2010). Consequently, there are suggestions that in developing-countries, there is often no indigenous sense of socially responsible behaviour. This implies that, in some instances, resources are expected to be invested by MNE subsidiaries to fill gaps in community development expectations.

Altogether, we propose that markets and for that matter firms, are subject to CSR and innovation demands through, for example, more socially responsible productive behaviour. As a consequence, there appears to be opportunities to integrate innovations and CSR activities that will benefit firm's own competitiveness as well as the larger society. Moreover, adopting integrative perspective to innovation and CSR research represents attempts at responding to calls for new theoretical insights that may justify the need for MNEs in developing-countries to rethink their socially responsible strategies. That said, the objective of the present study is to investigate opportunities to integrate innovation and CSR activities. This is explored by investigating the extent to which innovation may complement CSR activities of MNE subsidiaries in developing-countries, to benefit society and firm's own competitiveness. As such, our research question is as follows:

1. How does a firm's approach to innovation complement its CSR initiatives in the search for competitiveness?

The remainder of the paper is structured as follows: In the next section, the extant literature on innovation and CSR are reviewed. Next, we explain the methodology adopted by the present study. Thereafter, we present the theoretical framework that guides our discussions. This is followed by discussions and development of propositions. Finally, we conclude our paper by discussing the implications of the present study.

2.0 Literature Review

2.1 *Defining CSR*

It is widely acknowledged that companies that are responsible engage with their stakeholders on socially responsible issues relating to their product and processes, and also, at regular intervals, communicate such behaviours and their impacts to stakeholders (Du *et al*., 2010). However, despite the popularity of CSR, that has given rise to a burgeoning multi-disciplinary literature, no consensus has been reached on a commonly accepted definition of CSR (see Garriga and Mele, 2004; McWilliams, and Siegel, 2001; McWilliams *et al*., 2006; Votaw, 1972). As we know it, this worrying situation, inspite of theoretical advances, is presumably attributable to academics and practitioners, who adopt, promote and defend different terminologies and interpretations. For example, the proliferation of terms ranges from Corporate Social Responsibility to Sustainable Development, from Business Ethics to Corporate Social Contract, from Corporate Citizenship to Corporate Accountability and so on. The variety of terms testifies to the wider dimensions of the concept as well as the implied critical nature of this body of research (see Carroll, 1999; Garriga and Mele, 2004, McWilliams *et al*., 2006).

Moreover, the lack of consensus on the boundaries of CSR (and its synonyms), had long been envisaged. It was over 40 years ago that Votaw wrote: "corporate social responsibility means something, but not always the same thing to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behaviour in the ethical sense; to still others, the meaning transmitted is that of 'responsible for' in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for legitimacy in the context of belonging or being proper or valid; a few see a sort of fiduciary duty imposing higher standards of behaviour on businessmen than on citizens at large" (Votaw, 1972, p. 25).

However, for the purpose of this paper, and consistent with McWilliams, and Siegel (2001) and McWilliams *et al*. (2006), we define CSR as instances where the firm goes beyond compliance and engages in actions that appear to further stakeholders' expectations and/or production of some social good, "beyond the interests of the firm and that which is required by law". Essentially, the concept of CSR is primarily driven by the notion that business and society are intertwined This implies that the profit-maximization (economic) objective of the firm should be purposefully pursued alongside the fulfilment of implied responsibilities to the society (social) in which the firm operates. In effect, the pursuit of economic value and social value can be achieved concurrently and can be mutually reinforcing.

2.2 *CSR in the context of developing-countries*

The motivation for companies to adopt socially responsible strategies in different country and/or regional contexts has been the subject of debate by 'business and society' scholars for decades (see Campbell, 2007; Matten and Moon, 2008). There is by now, little doubt, if any, that CSR has assumed a key feature in international business discussions (Matten and Moon, 2008), and that the orientations, meaning, applicability and relevance of CSR vary across specific regional and/or country contexts, has equally not been in doubt (Matten and Moon, 2008). This, perhaps, explains why companies, at the global business level, adopt varying CSR principles, practices and policies (Baughn *et al*., 2007), together with varying levels of manifestation and direction (Welford, 2005; Maignan and Ralston, 2002). However, the question that remains unresolved is: what explains companies' and society's priorities when it comes to CSR practices in developing-countries?

Notwithstanding the context-specific orientation of CSR (Matten and Moon, 2008), the extant literature is populated by studies focused on advanced-economies (e.g. North America, Europe, Australia), together with pockets of research on emerging market economies such as Brazil, India, China and South Africa (Dobers and Halme, 2009). Surprisingly, few studies have investigated CSR in the context of developing-countries (see Amaeshi *et al*., 2006; Dobers and Halmn, 2009; Jamali, 2010; Jamali and Mirshak, 2007; Muthuri and Gilbert, 2011; Muthuri *et al*., 2009). The need for CSR research in developing-countries is given impetus by the claim that government with the support of "civil society that institutionalizes and articulates social values and preferences", to which firms respond (Matten and Moon, 2008, p. 406), are often reluctant to act in this direction, in order not to jeopardize their attractiveness to foreign investment (Campbell, 2007).

Characteristically, developing-countries do not share similar normative (social) and cognitive (cultural) priorities and practices that define CSR in the context of advanced economies (Jamali, 2010; Jamali and Mirshak, 2007). This has given rise to "a strong possibility that CSR will legitimize and reproduce values and perspectives that are not in the interests of developing economies or the poor and marginalized" (Blowfield and Frynas, 2005, p. 510). Nonetheless, the way out for MNEs operating in developing-countries, as suggested by Gugler and Shi (2009), is to prioritize their CSR by balancing the desire to satisfy local expectations whilst also reflecting on global standards (Gugler and Shi, 2009). The remedy must thus not lie with instrumental perspective of CSR alone, but that other motivations for CSR, for the reason that, to "ensure the linkage between CSR and competitiveness needs to be established from an expanded view on the linkage between CSR initiatives and the assessment of their actual impact on social and environmental issues" (Gugler and Shi, 2009, p. 18).

2.3 *MNE subsidiaries and CSR in the context of developing-countries*

The advent of globalization has given rise to both negative and positive consequences. These include, soaring disparities in income, social inequalities, escalating social and environmental problems. Other fallouts include MNEs' strategy of outsourcing relatively skilled operations to developing-countries, with its attendant demands for protection against unregulated market forces (Levy and Kaplan, 2008). These consequences, among others, require companies to adopt responsible behaviour towards their impacts on society (Moon and Vogel, 2008). Matten and Moon (2008) questions the capacity of industry associations and government of developing-countries, on account of "weak institutions and poor governance mechanisms", to monitor companies' behaviour and enforce compliance with regulations, if ever they do exist, as these institutions are noted to falter in enforcing regulations effectively.

Similarly, Campbell (2007) raises scepticism about the capacity of governments of developing-countries to enforce CSR-related regulations; as such attempts may be detrimental to their inward foreign direct investment ambitions. Also, Matten and Moon (2008, p. 418) note that "as many developing-country government initiatives to improve living conditions falter […] companies can assume this role [and seek] to take greater responsibility for social empowerment". This view is not surprising, given that for most developing-countries, MNE subsidiaries have 'commanding' presence in prominent sectors such as mining, oil and gas, manufacturing, and services. Hence, as Gugler and Shi noted, "while adherence to various internationally adopted CSR standards may entail costs for the companies concerned, it can also generate important advantages, not only for the host country but also for the investing firms and their home economies" Gugler and Shi (2009, p.17-18). We thus argue that a perspective on CSR practices of MNE subsidiaries in developing-countries is critical as it provides insights into opportunities for exploring CSR activities into win-win situation, that is, firm and society, benefit from socially responsible behaviour of firms.

The need for focused CSR research on MNE subsidiaries in developing-countries has attracted increased attention from scholars in recent times (see Blowfield and Frynas, 2005, Muthuri and Gilbert, 2011). For example, it is argued that MNEs as 'citizens' should bring benefits to society and the environment, and at the same time improve their context of competitiveness (Porter and Kramer, 2002; Husted and Allen, 2007), whilst adopting differentiation strategies to achieve results (McWilliams and Siegel, 2001). For this to happen, it is important that MNEs, "as agents of global change", act as both economic and moral agents. In fulfilling those roles, it is expected that MNEs "make a commitment to a core ethical principle that can underpin the future sustainability and prosperity of the global economy" (Collier and Wanderley, 2005, p. 176/7).

The fact is, developing-countries tend to have social development deficits (despite pockets of excellence in specific cases) as a result of weak economies, characterized by, among others, high inflation, low incomes and weak currencies (see Blowfield and Frynas, 2005; Cuervo-Cazurra, 2012; Eweje, 2006, 2007; Frynas, 2005). It is argued in these situations that, economic priorities should not be the only concern of companies. Instead, there are suggestions that (see Eweje, 2006, 2007; Dahan et al, 2010; Frynas, 2005), on account of lower levels of social and economic development, in most developing-countries, there is an 'implied' social responsibility obligation on companies to accelerate social and economic transformation. Following this suggestion, for example, Eweje notes that whilst multinational oil companies in Nigeria use CSR "to demonstrate that they are socially responsible". The host-communities, on the other hand, "want social development projects that provide hope of a stable and prosperous future" (Eweje, 2007, p. 231). Similarly, Frynas notes that "oil companies have initiated, funded and implemented significant community development schemes". He indicates further that "[…] global spending by oil, gas and mining companies on community development programmes in 2001 was over US$500 million" (Frynas, 2005, p. 581). Admittedly, the picture above is not one of MNEs' core business, nonetheless, in developing-countries, as argued earlier, it represents additional roles expected of them (Eweje, 2007). The situation here conforms to the work of Dahan *et al*. (2010) that MNEs function in a role of 'citizens' necessary to accelerate social and environmental developments in the communities in which they operate.

3.0 Method

In the present study, we adopt a literature study, which is descriptive in nature, to answer the research question. In doing so, we aim at describing the phenomena (i.e. how innovation complements CSR in the firm's search for competitiveness) as practically as possible. Following this approach (see Martins and Terblanche, 2003), literature in the management sciences is used to describe CSR, innovation and competiveness in firms. The competitiveness of firms, that the demands for CSR and innovation, give rise to, is derived from the literature study. The motivation for drawing on the extant literature for the present study includes the following: First, by drawing from multiple theoretical insights (legitimacy, stakeholder, CSR, innovation and reputation), we aim at evaluating their collective impact on firm's competitiveness. Second, this approach also answers, for example, calls that researchers investigating CSR agenda in developing-countries need to "adopt an integrative research focus [emphasizing on] a composite frame of reference, [to probe] the realities and priorities of developing countries" (Idemudia, 2011, p. 14). Third, within the body of CSR research, studies that are anchored on multiple theoretical perspectives are not uncommon (see Maignan and Ferrell, 2004; Sen and Bhattacharya, 2001). The strength of such studies is the inherent quality of connecting different theoretical inspirations to enrich our discussions and to derive synergies from the cumulative assumptions embedded in the different theoretical foundations. Fourth, conceptualizing the impact of CSR in the manner described above, nonetheless, allows the present study to engage with a broad-based extant literature, to allow for more logical discussions and conclusions.

4.0 Theoretical Framework

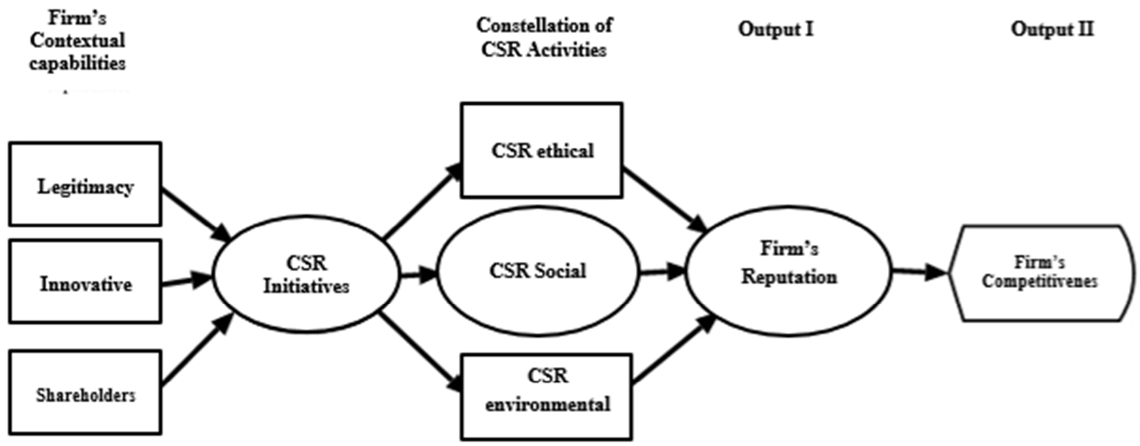

Figure 1: A model of the impact of firm's level innovation-driven CSR initiatives.

According to **F**igure **1**, a firm's contextual capabilities with respect to the search for legitimacy, its approach to innovation, and stakeholder relationships, can influence its CSR initiatives. Further, constellation of CSR activities, results in building firm's reputation, out of which, it derives its competitiveness.

4.1 *Legitimacy.* It is imperative that companies, as social arrangement, obtain 'approval' for the purpose of maintaining long-term relationships with the communities that their activities impact. Davis's (1973) iron law of responsibility, state that companies as social institutions must use their power responsibly, to avert the possibility of society revoking it, in the event that businesses do not meet society's expectations. Davis (1973, p. 314) notes that, Society grants power and legitimacy to business to exist. However, "in the long run, those who do not use power in a manner which society considers responsible will tend to lose it". Similarly, Dowling and Pfeffer (1975, p. 123) state that, legitimate companies are those that are judged to be "just and worthy of support". Also, Suchman notes that, a company that is legitimate is more likely to be perceived as "more worthy, […] more meaningful, more predictable, and more trustworthy" than a firm that is illegitimate (Suchman, 1995, p. 575). Following these, companies that lose their legitimacy are bound to encounter varying difficulties including, withdrawal of resources and punitive sanctions. Hence, the benefits accruing from legitimacy coupled with social pressures to conformity, generally, re-direct managers of illegitimate companies to work towards improving their legitimacy (Dowling and Pfeffer, 1975).

It is instructive to note that society judges the legitimacy of companies on the basis of the latter's image. The implications of these are that, the perceptions of, and the expectations of society, for companies could change over time, with further consequences for the legitimacy of the company, irrespective of changes in the actual activities of the company. What this means is that, the image of a company, that is, how it is perceived, together with the expectations of society, comprise the pointers that must be managed, as far as the legitimacy of a company is concerned (see Dowling and Pfeffer, 1975; Suchman, 1995; Sethi, 1979). Sethi, for example, argues that, failure on the part of companies to pay attention to social expectations, could result in difficulties when it comes to internal decision-making and managing issues, external to the company.

Moreover, Sethi notes that "at any given time, there is likely to be a gap between business performance and societal expectations caused by certain business actions or changing expectations. A continuously widening gap will cause business to lose its legitimacy and will threaten its survival. Business must therefore strive to narrow this "legitimacy" gap to claim its share of society's physical and human resources and to maintain maximum discretionary control over its internal decision making and external dealings" (Sethi, 1979,p. 65). Following a similar line, Rindova, *et al*. (2006) point out that, legitimacy and reputation are key intangible assets that companies depend upon, to improve their performance. Also, Fombrun and Riel (1997) suggest that, the reputation of companies are likely indicators of legitimacy and may reflect the aggregate assessment of firm's performance, relative to society's expectations and the norms of the institutional contexts in which they operate. Hence, a company's concern for its impacts on society, shown through its CSR commitments, can facilitate its ability to draw resources from and also build mutually beneficial exchange relationships with society. This leads us to propose the following:

Proposition 1: The more legitimate a company, the better the prospects for obtaining favourable reputation from its significant stakeholders. As a consequently, the favourable reputation obtained will strengthen the company's own competitiveness.

4.2 *Innovation*. As Edquist (1997) noted, innovation enables companies to adapt, refine, and enhance their existing products, production, and delivery systems. Innovation therefore allows companies to introduce changes to their activities that may eventually represent major departure from existing practices (Damanpour, 1996). This is important because these products and services are embedded in systems of activities and relationships with actors, including, those stakeholders external to the company. Elmquist and colleagues wrote that: "in an open innovation process, projects can be launched from internal and external sources, [due to] the transformation of the previously solid boundaries of the company to a semi-permeable membrane that enables innovation to move easily between the external environment and the internal R&D processes" (Elmquist *et al*., 2009, p. 327). This view is further supported by Cohen and Lavinthal (1990), who note that the ability of companies to extract external knowledge comprises a major component of a company's innovative performance. By building their capability to partner with actors, external to the company, MNE subsidiaries' potential to develop bundles of products and services to suit the local market, may serve to improve their own competitiveness. This permits us to propose that:

P2. Across companies, the extent of innovativeness inherent in products and services delivered to local customers, to a large extent, is a reflection of the company's stakeholder engagement strategies and open innovation interaction strategies.

4.3 *Stakeholders.* The tenets of the stakeholder theory are that effective management requires balancing attention and consideration for the legitimate interests of all groups of stakeholders (Freeman, 1984). Freeman (1984) defined stakeholders as "those groups without whose support the organization would cease to exist" (Donaldson and Preston, 1995, p. 72). The implication of this, in the language of Donaldson and Preston, is that "corporate managers must induce constructive contributions from their stakeholders to accomplish their own desired results" (Donaldson and Preston, 1995, p. 72). This is further consistent with the view of Jones and Wicks that, four main issues characterize stakeholder management: (1) the firm "has relationships with many constituent groups ("stakeholders") that affect and are affected by its decisions", (2) the "processes and outcomes" of these relationships are of interest, (3) "the interests of *all* (legitimate) stakeholders have intrinsic value", and (4) the focus of stakeholder relationships is "on managerial decision-making" (Jones and Wicks, 1999, p. 207).

Jones and Wicks argue further that companies that "create and maintain mutually trusting and cooperative relationships" [with stakeholders] will achieve competitive advantage over those whose managers do not" (ibid, p. 218). The question then is: Who are those described as "all (legitimate) stakeholders? Following this line, Mitchell and colleagues, whilst commenting on stakeholder classes, wrote that "managers who want to achieve certain ends pay particular kinds of attention to various classes of stakeholders; second, that managers' perceptions dictate stakeholder salience; and third, that the various classes of stakeholders might be identified based upon the possession, or the attributed possession, of one, two, or all three of the attributes: power, legitimacy, and urgency" Mitchell *et al*., 1997, p. 872). This underscores the overlap between stakeholder and legitimacy theories, which is often mentioned in the literature (see Islam and Deegan, 2008). However, unlike stakeholder theory, legitimacy theory does not rely heavily on the assumption of identifiable and discrete groups of stakeholders. For example, in the words of Suchman, legitimacy reflects a state in an organization where its actions appear "desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions (Suchman, 1995, p. 574).

Also, it is perhaps, appropriate to reflect on the words of Donaldson and Preston, when they wrote that "managers care strongly about people who have stake in the business – customers, employees, stockholders, suppliers, etc." (Donaldson and Preston, 1995, p. 71). Thus, stakeholder theory argues that the success of businesses can best be achieved, if managers pay attention to the interests of groups of stakeholders by adopting policies and practices that could produce "benefits for legitimate stakeholders", inspite of their varying stakes (Donaldson and Preston, 1995). Consequently, as Welcomer *et al*. noted, when "firms and stakeholders actively work together in hopes of mutual gain", there might be a shared understanding "to resolve" problems and to "innovate solutions" to issues that remain unresolved (Welcomer *et al*., 2003, p. 44). In doing so, both firm and stakeholders share valuable information that "contribute to firm learning" and to mutual learning". In effect, firms, through their interaction with stakeholders, learn by acquiring complementary resources. Such resources, once properly harnessed, can sharpen firms' innovativeness and propel them to improve their own competitiveness. This leads us to suggest the following:

P3: Firms interaction with, and response to stakeholders' demands, through their CSR practices, can progressively lead to the adoption of incremental innovative practices. Consequently, those innovative practices may enhance firm's image, which in turn, unleashes a new wave of competitiveness to the firm.

4.4 *Constellation of CSR activities.* Equally important in a firm's quest to improve its own competitiveness is to reflect on its ability to package CSR activities to suit the expectations of different groups of stakeholders. As Ite (2004) and Eweje (2007) noted, firms operate in society and for that matter, it is reasonable that they work towards achieving societal goals, without compromising their own competitiveness. Indeed, it has long been noted that "government, civil society and business all to some extent see CSR as a bridge connecting the arenas of business and development, and increasingly discuss CSR programmes in terms of their contribution to development" (Blowfield and Frynas, 2005, p. 499). This appears to be appropriate in most developing-countries context, where, for instance, governments are unable to provide for "some of the wider societal good", thus, necessitating businesses to assume those responsibilities (Matten and Moon, 2008). The circumstances of developing-countries, such as, the presence of "weak institutions and poor governance mechanisms", have meant that "opportunities for irresponsibility increase" on the part of companies (Matten and Moon, 2008). As MNEs and large national business organizations constitute the major practitioners of CSR in developing-countries (Ite, 2004), it can be expected that "business activity that minimizes environmental and/or social costs and impacts, while at the same time maintaining or maximizing economic gains" (Ite, 2004, p. 8), will be pursued by these companies.

Increasingly, societal development, commitment on the part of companies, and regulatory capacity, among others, (Jamali and Mirshak, 2006), potentially offer avenues for firms to leverage on their CSR practices to improve their competitiveness. In conformity with this view, it is argued that CSR activities of companies should be broad enough to "reflect society's desire to see businesses participate actively in the betterment of society beyond the minimum standards set by the economic, legal, and ethical responsibilities" (Maignan & Ferrell, 2004, p. 459). Consequently, the literature has emphasized on ethical responsibility of firms (e.g. treating employees fairly), through social responsibility (e.g. supporting the under-privileged in society), and environmental responsibility (e.g. acting responsibly towards the environment) (see Egri and Ralston, 2008; Lockett *et al*., 2006). In doing so, firms may be able to demonstrate their larger commitments to stakeholders and thereby enhance their reputation (David *et al*., 2005). This leads us to propose that:

P4. The CSR issues and management activities of companies will be driven by the parameters of existing contextual realities. Management will adopt CSR strategies, depending on which issue (e.g. social, ethics, environmental) has the highest perceived possibility of making an impact on societal transformation.

4.5 *Firm's reputation*. Organizations such as firms draw their reputation from the institutional settings in which they operate, and for that matter, economic motives alone, are insufficient to explain CSR behaviours (Marquis *et al*., 2007). This implies that pressures and/or public expectations of companies may be driven, in part, by the need to conform to regulations, normative and cultural-cognitive systems (DiMaggio and Powell, 1983). It follows that businesses that are judged to be socially responsible, tend to be branded as legitimate (Marquis *et al*., 2007). Also, a firm's performance, and by extension, its reputation may arise from its capabilities to draw on the complementarities inherent in stakeholder relationships, through which, for example, innovative solution to existing problems may be accomplished (Welcomer *et al*., 2003). Similarly, Rhee and Haunschild (2006) also note that, a firm's favourable reputation provides numerous benefits, such as, access to inputs at lower costs, and the ability to demand premium prices for its products, among others. These, in effect, may facilitate a more positive firm performance (Roberts and Dowling, 2002), compared to competitors, whose reputation is somewhat questionable. Furthermore, some studies point out that, the possession of favourable reputation can have an impact on the willingness of suppliers and buyers, for instance, to transact with the firm (Fombrun and Shanley, 1990). These then imply that, by adopting differentiation strategies, such as, packaging CSR activities in bundles, to account for diverse groups of stakeholders, a firm may potentially succeed in enhancing its reputation in the face of stakeholders. We thus, suggest the following:

P5: Across firms, the ability to package CSR activities in bundles (e.g. social, ethical, and environmental aspects of CSR), to account for diverse groups of stakeholders, to a large extent, will render firms 'legitimate', and thereby, improve their reputation, compared to competitors.

4.6 *Firm's competitiveness*. A firm's exchange relationships with stakeholders (e.g. suppliers, customers, and the community) can facilitate its ability to draw on complementary resources that may have the potential to enhance its competitiveness. Through these collaborative efforts, firms, create and sustain relations of trust with their stakeholders. Going forward, on account of firm's expertise and commitment to socially responsible behaviour, it may be deemed as 'legitimate', and hence be in a position to deepen relationships with stakeholders (Dahan *et al*., 2010). It follows further that the institutional settings in which firms operate (e.g. developing-countries) is crucial in defining the sort of relationships they may build with stakeholders. For instance, Dahan *et al*. note the complexities of doing business abroad and argues that "consumer, producer and even NGO behaviour may differ substantially between developed and developing countries [and that] it is only through experience can managers begin to understand the complexity of doing business in these environments" (Dahan *et al*., 2010, p. 339). Following this view, it is argued that the collaborative strategies firms develop are essential to overcome challenges in their institutional settings. Hence, it is argued that successful collaboration "may itself constitute a capability that can lead to competitive advantage for the firm" (Dahan *et al*., 2010, p. 339). In sum, a firm's institutional setting, such as those found in developing-countries, may create the incentive to partner with stakeholders (e.g. NGOs, the local community). Through such partnerships, MNE subsidiaries may strive to attain their competitiveness objective by profiting from the "combinative capabilities" that may enable them to deliver innovative solutions to evolving social challenges (Dahan *et al*., 2010).

5.0 Conclusion

The present study attempts to explore opportunities to integrate innovation and CSR activities that will benefit firm's own competitiveness as well as societal expectations. In doing so, the present study adopts an integrative perspective to innovation and CSR that reflects attempts at responding to calls for new theoretical insights that may justify the need for MNE subsidiaries in developing-countries to rethink their socially responsible strategies. It has been argued that there is more to firms' stakeholders than ordinary resources required in furtherance of firms' economic objectives. The potential of stakeholders to constitute a pool of resources and capabilities that the firm can blend with to realize its strategic objectives has been emphasized. Consequently, markets and for that matter firms, are subject to CSR and innovation demands through, for example, more socially responsible productive behaviour. This requires that MNE subsidiaries in developing-countries connect different strategies towards improving their own competitiveness. This may be accomplished through: re-packaging CSR in bundles of interrelated activities that may be unique to the firm and to the local market; collaborating with stakeholders, such as, the local community and non-profit organizations to jointly create and deliver social and economic values; and integrating CSR into productive activities that leads to bundles of products to suit local market conditions.

6.0 Implications from the study

6.1 *Managerial implications*

In the design and implementation of CSR strategies, MNEs managers should take into consideration the environmental settings in which their subsidiaries operate. The mere adoption of corporate headquarters' CSR policies and practices may not necessarily suit local market conditions. Instead, the pursuit of CSR differentiation strategy, crafted with the involvement of and/or input from local stakeholders, might appear to hold the key towards firm's 'legitimate' status, and eventually, its competitiveness.

6.2 *Societal implications*

There is the need for society to co-exist (collaborate) with business, and together forge a partnership by bringing on board different resources and capabilities. Through the pursuit of "combinative capabilities", both business and society can co-imagine and co-create value social and economic values to their mutual benefit.

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