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# CSR, Sustainability and the Meaning of Global Reporting for Latin American Corporations

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ABSTRACT. We seek to add to the Corporate Social Responsibility (CSR) and Sustainable Development (SD) literature through the empirical study of Latin American firm membership in the United Nations Global Compact (GC) and Global Report Initiative (GRI). Within an institutional-based framework, we explore through three filters – commercial, state-signaling, and distinguished peers – the impact of normative and mimetic pressures associated with GC/GRI membership. Our sample includes 207 public firms from six Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico, and Peru). Our results suggest Latin American firms from countries with a greater European influence (normative pressure) are twice as likely to be enrolled in the GC/GRI. Additionally, we find that Latin American firms listed on the NYSE (mimetic pressure) are also twice as likely to sign up under the GC/GRI. Hence, the normative and mimetic pillars of institutional theory are found to be significant factors for Latin American firms adopting sustainability initiatives.

KEY WORDS: Corporate Social Responsibility, Sustainable Development, Latin America, institutional theory, punctuated equilibrium, United Nations Global Compact, Global Report Initiative

## Introduction

Recently, the topic of Corporate Social Responsibility (CSR) has regained the interest of firm executives and business researchers alike (Brammer and Millington, 2008; Cheney, 2004; Lopez et al., 2007; Maignan and Ralston, 2002; Torres-Baumgarten and Yucetepen, 2008). In particular, two influential initiatives have been developed to aid corporations to conform to a global CSR standard. By combining normative principles, networks for learning, and transparency, the United Nations Global Compact (GC),[1] with its almost 5000 business members, has been identified by several researchers as an influential CSR guideline (Cetindamar and Husoy, 2007; Kell, 2005; Runhaar and Lafferty, 2009; Vormedal, 2005). Likewise, other researchers acknowledge the Global Reporting Initiative (GRI)[2] as a leading guideline for use by corporations to meet CSR standards (Hess, 2009; Lopez et al., 2007; White, 2006).

Hess (2009) and others (e.g., Chatterji and Listokin, 2007; Reich, 2007) believe these types of CSR standards are counterproductive because they may shield the organization from further scrutiny, thus enabling rather than constraining the types of activities the standards were designed to discourage. Unfortunately, they do not offer any direct empirical evidence to support these claims. In fact, empirical studies about how these standards contribute to the overall firm-CSR strategy are scarce.[3] Therefore, whether corporate participation at the GC or GRI helps the firm to achieve its CSR goals remains an empirical question.

Using a case-study approach in the telecommunication industry, Runhaar and Lafferty (2009), one of the few studies trying to shed light on the impact of the GC on firm CSR strategies, find that the GC plays only a modest role. While we believe research efforts of this nature are warranted, we also suggest it is as important (if not more) to understand why some firms become members of the GC or the GRI (i.e., engage actively in CSR efforts) while others do not. Thus, instead of adding to the *argumentative speculation* about the corporation's ''dark'' motives for following CSR guidelines (Hess, 2009), our article aims to fill both the empirical and theoretical gaps that exist about the corporation's motives to follow the alluded two standards. To achieve this end, our study complements Runhaar and Lafferty's (2009) exploratory survey study (about the firms' motives to follow the GC standard). In so doing, our article explores why corporations engage in contemporary CSR through public sustainability efforts – by following the United Nations GC and the GRI. In short, we seek to answer what makes a corporation more likely to follow SD initiatives[4] or CSR guidelines.

We interpret firm SD initiatives as the firms' responses to an abrupt change in the ''rules of the game'' imposed (on them) by their institutional environment. Because abrupt institutional changes have been commonplace in emerging markets (Hitt et al., 1998; Hoskisson et al., 2000), exploring emerging market firms' responses to the new sustainability challenge should illustrate how institutional pressures affect a firm's likelihood to follow SD initiatives. To present this thesis logically, we offer a brief review of the CSR and Sustainable Development (SD) literature. Next, we present a brief account of the Latin American experience of the last few decades; particularly about the region's abrupt transformation of its business environment (Perez-Batres and Eden, 2008). We then support our theoretical argument by utilizing the punctuated equilibrium model (PEM) and institutional theory framework to develop our hypotheses. Our findings, based on a sample of 207 large public firms from Argentina, Brazil, Chile, Colombia, Mexico, and Peru, reveal that institutional pressures *do* explain corporate decisions to follow SD initiatives. Finally, we conclude the article by noting this article's contribution and suggesting avenues for future research on the CSR and SD topic.

## SD and CSR

Now a century after the passage of the Lacey Act, signed by American president McKinley (1900) to preserve game and wild birds such as ''the Great Egret,'' dozens of organizations have shown their concern about the future of not only wildlife, but also of human life. To this end, they have undertaken substantial conservation efforts. Most visible is the work of Nobel laureate Al Gore (and the Inter-Governmental Panel on Climate Control) as displayed in the 2006 film *An Inconvenient Truth*.[5] Before that, several scholars identified the introduction of the *Sustainable Development* concept by the World Commission on Environment and Development through the *Brundtland Report* (1987) as the global landmark of the human conservation effort (Castro, 2004; Common, 1995; Jensen, 2007; Porter and Kramer, 2006; Tisdell, 2001).

The Brundtland Report (1987, 8) defines SD as the one ''meeting the needs of the present (generation) without compromising the ability of future generations to meet theirs.'' To further clarify how to achieve this goal, The United Nations 2005 World Summit Outcome Document identifies three main elements in which SD rests. These integrated elements are: economic development, social development, and environmental protection. Each needs to be considered of equal importance as they are ''interdependent and mutually reinforcing.'' For Jensen (2007), the SD initiative has established itself as a ''must'' policy and on par with democracy and freedom as an indispensable tool to pursue economic development for all the United Nations country-members.

In contrast to the more recent SD concept, the concept of CSR gained popular acceptance after Bowen's (1953) landmark book *Social Responsibilities of the Businessman* (Carroll, 1999). Besides, while there is no ''official'' CSR definition (Runhaar and Lafferty, 2009), we posit that *socially responsible* firms are those that incorporate in their operations activities that address social, ethical, and environmental concerns (beyond what is only required by law), and whose outcomes should result in an improved quality of life for most of the corporation's stakeholders (Carroll, 1991, 1999; Garriga and Mele, 2004; Maignan and Ralston, 2002)

From this perspective, the CSR concept includes the more specific case of SD. In that sense, all the SD initiatives can also be labeled as CSR initiatives. In contrast, there might be some CSR initiatives (e.g., an endowment to the local symphony) that do not directly relate to sustainability. Therefore, we acknowledge that while similar, CSR and SD are not identical, both are voluntary corporate acts, which can have different purposes and different expected outcomes. In fact, many scholars have written extensively about one without mentioning the other, while others have integrated both concepts as we do here (Barnett, 2004; Castro, 2004; Jensen, 2007; Jose and Lee, 2007; Luna Sotorrío and Fernández Sánchez, 2008; Moon, 2007; Porter and Kramer, 2006; Simpson and Kohers, 2002). Thus, for the remainder of this article, we use the terms CSR and SD interchangeably when we refer to the GC and GRI guidelines, which were devised to aid corporations to become more socially responsible through stated commitments to sustainability principles and reporting.

The GC and GRI databases consist of companies that indicated their commitment to align their CSR strategies with better human rights, labor, environmental, and anti-corruption practices. We feel it is beyond the scope of this article to further elaborate on the specifics of the principles and practices set forth by these two CSR–SD guidelines. This is because many authors have already covered these matters extensively. For instance, Runhaar and Lafferty (2009) dedicate several pages within the *Journal of Business Ethics* (JBE) to explain the particulars of the GC. Likewise, Cetindamar and Husoy (2007) give a detailed explanation on the GC (also in the JBE).

For the GRI, Garz, and Volk (2007)[6] provide ample detail about its dimensions. Although with an overt negative slant, Hess (2009) also provides a discussion of the actual GRI guidelines. Knudsen (2005) reflects on the Danish experience about the GRI guidelines and provides both criticisms and a review. Besides, White (2006) makes the case for the need for global standards, while giving a fitting description about the GRI. Furthermore, both the GC and GRI offer detailed information about their CSR–SD guidelines online (see endnotes 1 and 2). In light of these arguments, we make the educated assumption that the two organizations provide corporations with reliable information for addressing their sustainability goals. By explicitly addressing those goals, the participating companies are then better prepared to join the human conservation effort (i.e., CSR–SD).

## The Latin American experience

Throughout the twentieth century, Latin American economies endured radical transformations of their business landscape or organizational domain (Emery and Trist, 1965; Trist, 1983). The advent of import substitution industrialization (ISI), the debt crisis, the massive waves of trade liberalization[7] and other drastic policy changes forced Latin American firms to adapt to ever changing ''rules of the game''[8] (Dornbusch, 1992, Haggard, 1990; Hitt et al., 1998; Hoskisson et al., 2000; Perez-Batres and Eden, 2008; Ranis, 1995). Thus, to better understand the Latin American (firm) experience, we believe it is important to elaborate on the context in which firms from this region conducted their affairs within the past few decades. To this end, we recognize several regulatory punctuations in the Latin American business landscape. Following Haveman et al. (2001, 254) regulatory punctuations are defined as ''sudden and extensive shifts in state constraints on business operations.''

### *Environmental punctuations*

The world depression of the 1930s cracked the foundation of the primary export model and drove Latin American economies toward ISI (Ranis, 1995; Sheahan, 1987). Under the new ISI rules, promulgated by the United Nations Commission for Latin America (ECLA), industrialization (firm growth) would come through the implementation of protectionist policies (Diamond, 1978). According to Weaver (2000), Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay were ardent supporters of the policy. In fact, Brazil and Mexico nationalized their electrical and oil industries as ISI policies were implemented (Haggard, 1990).

Unfortunately, ISI policies not only decreased the role of Latin American firms in the world's economy due to their inward/protectionist orientation (Abreu, 2006; Ranis, 1995), but increased their exposure to foreign exchange supply. For Edwards (1995), Latin America's (early 1980s) debt crisis materialized after the oil shocks of the 1970s consumed its foreign exchange reserves. As a result both the IMF and the World Bank mandated ''structural adjustments'' in five areas: liberalization policies, exchange-rates, tax reform, financial reform, and public enterprise reform and privatization (Edwards, 1995; Williamson, 1990). During these turbulent years (Trist, 1980), from ISI to liberalization/privatization, Latin American economies (and firms) had to adjust to a new set of economic rules. Nonetheless, the new economic paradigm, following the debt crisis, appeared to be successful for the first few years (Pisani and Pagán, 2004). That was true until several Latin American economies hit spectacular crises during the 1990s (Sheahan, 1987). To this end, several authors have already noted the negative effects of liberalization policies in emerging economies (e.g., Park, 1996; Pisani, 2003).

In sum, Latin America selected ISI as its new set of ''rules of the game'' to withstand the adverse effects of the world's depression. This shift in economic policy forced Latin American firms to have an inward (protectionist) orientation. As the ISI policies proved unreliable to withstand the adverse effects of the world's economy, Latin American economies (and firms) were forced to operate in crisis ''mode'' (e.g., debt crisis, hyperinflation, etc.). Shortly after, a transition to liberalization policies emerged and economic actors adapted, yet again, to a new set of rules (i.e., open market conditions). As explained below, Latin American firms now face a new type of punctuation or abrupt constraint in their business operations – that of adhering to SD principles.

### *A new challenge: a true environmental punctuation*

Although not the result of a drastic government policy change, institutional pressures to incorporate SD initiatives (GC–GRI guidelines) can also represent a new operational constraint for the Latin American corporation. This is because the adoption of SD guidelines present regional firms with a new challenge for which there is no precedent (Haslam, 2004). Furthermore, because laws in emerging economies are more pliant than those in developed economies, emerging market firms adopting the GC–GRI guidelines do not do so as a result of a sudden change in public policy. Rather, we argue these emerging markets firms are reacting to a (relatively) sudden change in the perception of what global institutions (and firm stakeholders) believe the firm ought to do as part of its social responsibility. Therefore, exploring how emerging market firms respond to the new challenge of adopting CSR guidelines, without the coercive function of local governments and corollary laws, seems highly appropriate at this time. Such an exploration lends itself quite well to test both the normative and the cognitive institutional pressures in emerging market firms.

## Theory development

### *Institutional pressures*

For DiMaggio and Powell (1991), institutions reduce uncertainty by providing dependable and efficient frameworks for economic exchange. In turn, organizations adapt to the institutional provided framework by creating formal structures conforming to it (Meyer and Rowan, 1977). These institutional frameworks may simply be taken for granted, supported by public opinion, or enforced by the law (Zucker, 1987). Building on this and the writings of many others, Scott (1995) posits that organizational legitimacy[9] rests on one or more of three institutional pillars – regulative, normative, and cognitive. For this article, though, we focus on Scott's normative and cognitive pillars.

The normative pillar is a moral base for assessing legitimacy. It specifies the roles, rights, and responsibilities of individuals in a society. In turn, these norms, values, or cultures can be imposed by influential others (e.g., the Church, the State,[10] Universities, NGOs) as morally governed behavior creates stability in the social order in so far as actors comply with their roles. In contrast, the cognitive pillar refers to the shared conceptions or social reality through which organizational meaning is made (Scott, 2001). In turn, this social reality is enacted through mimetic isomorphism (DiMaggio and Powell, 1983). For instance, Haunschild and Miner (1997) suggest that corporations model themselves on other organizations which they perceive as successful (legitimate) as they seek to enhance their own legitimacy status, especially under environmental uncertainty conditions.

Supporting our ideas about the appropriateness of institutional theory to explain our research, Ingram and Silverman (2002), from a strategic management perspective, suggest that institutional theories have gained prominence in explaining environmental influences on organizational strategic choices or responses. Further, Delmas and Toffel (2008), using institutional theories as their framework, recently investigated the effects of environmental pressures on firm's adoption of environmental management practices and find that firms adopt different management practices to appease different external constituents. Those authors also note that several studies, where organizations responded to institutional pressures, derived from radical changes in the external environment (Fligstein, 1987; Greenwood and Hinings, 1996; Thornton and Occasio, 1999).

*Punctuated equilibrium*

Gersick's (1991, 1994) influential writings on radical change, the PEM, were among the firsts ''translations'' from the biological sciences (Eldredge and Gould, 1972) to the business arena. The PEM implicitly uses institutional theory in its arguments as it explains the demise of obsolete habitats (institutions) and the rise of new ones (Peng and Heath, 1996; Sabherwal et al., 2001; Wollin, 1999). Essentially, the model favors evolutionary change as concentrated in speciation events (Eldredge and Gould, 1972; Gould, 1982).

For Gersick (1991), the PEM has three main elements: deep structure, equilibrium, and revolutionary periods. The first element, deep structure, is the organizations' identity, values, and interpretative scheme (Ranson et al., 1980). The other two are the overarching ''tracks'' on which organizations can change. As long as organizations (institutions as a whole) retain their deep structure, the system is in equilibrium and changes within this track are only incremental. On the contrary, if organizations suddenly lose their legitimacy, they would move away from their original archetype, and a revolutionary stage or second-order changes[11] are bound to occur (Amis et al., 2004; Fox-Wolfgramm et al., 1998; Greenwood and Hinings, 1988, 1993). During revolutionary or turbulent periods (Trist, 1980), such as the ones brought by punctuations (e.g., abrupt changes in the perception toward environmental causes), following old institutional rules could become useless as these rules rapidly lose legitimacy (Peng and Heath, 1996). Apparently, under these conditions, recognizing how institutions evolve should allow organizations to better adapt to the new environmental rules.

*A new world order: global institutional pressures in the Latin American enterprise*

As already noted, the present realities of the SD effort are forcing the Latin American corporation to, yet again, adapt to a new environment. Under these new rules of the game, firms need to comply with the sustainability demands imposed by a global society. For instance, in her thought-provoking analysis, *A New World Order*, Slaughter (2004) identifies the GC as a transnational influence able to permeate regulatory agencies and create morally governed behavior (e.g., CSR–SD). While agreeing with Slaughter's (2004) notion, where transnational influences can wield important influence in organizational decisions, we believe that these influences are likely conducted through specific institutional filters. To this end, we identify three such institutional filters (Commercial, State-signaling, and Distinguished Peers).

The commercial *normative* filter is predicated on the notion that norms and values, as they pertain to the firms' new roles and responsibilities, can be spread through commercial exchange. From this perspective, organizations from countries with high trade volume (with each other) are likely to accept the codes of conduct recommended by an influential other. We also recognize the state as a powerful conduit to influence behavior. Scott (1995) argues that when an institution such as a state signals a ''right'' way to behave, particularly in the absence of legal or other sanctions, organizations and individuals are influenced through a *normative* process (e.g., a nation's signing of the Kyoto Protocol). Finally, we also identify visible and distinguished corporations, regarded as legitimate, as an influential *cognitive* filter. The cognitive institutional filter emphasizes organizations' generally shared perceptions of what is typical or taken for granted (Busenitz et al., 2000; Trevino et al. 2008).

## Hypotheses

*Commercial filter (normative pressure)*

Rangan and Drummond (2004) find support for the notion that firms from institutionally closer host nations outperform their competition (i.e., international firms whose home nation has stronger ties to a focal host nation outperform international firms whose home nation has weaker ties to that focal host nation). For instance, exploring European and American influences in Brazil, where Europe has greater ties, Rangan and Drummond (2004) confirm that European firms are more likely to outperform American firms. Therefore, Rangan and Drummond's findings can be interpreted as validation that European firms (along with their practices, norms, and values) are more likely to influence indigenous Brazilian firms than American firms are. Further, as legal requirements vary around the world, the EU presents an example of a region with more stringent SD laws than those found in the US. To this end, Shapiro (2007) comments that the EU is strengthening its guidelines on governing the toxicity of chemicals in consumer products, cosmetics, and automobiles, while the US oversight on environmental and health concerns has weakened (Kanter, 2009).

In sum, the preceding paragraph provides two main points: (1) that firms from countries with stronger ties (to a focal country) have more influence than firms from countries with weaker ties; and (2) that the EU has more stringent regulations and environmental laws than the US does. Following this logic, it can be inferred that firms from Europe or America, would have more or less of an influence on Latin American firms, depending upon their country's ties to that focal Latin American country market. In other words, Latin American firms would be more likely to follow SD initiatives if their own country has closer ties to Europe than to the US and vice versa. In light of these arguments, we posit the following:

*Hypothesis 1*: Latin American firms from countries with higher European influence (relative to that from the US) will be more likely to follow CSR–SD guidelines.

*State-signaling filter (normative pressure)*

According to Powell and Smith-Doerr (1994), social capital is both the glue of the network and the lubricant that enables network interaction. From this perspective, emerging market firms seek to gain a competitive advantage through non-market capabilities (Wan, 2005) by filling structural holes. That is, by developing their social capital. For Burt (1997), structural holes are the disconnection between individuals (or organizations) in a given market (i.e., institutional environment). Because this disconnection leaves individuals unaware of the benefits they could offer one another, filling the disconnection (i.e., the structural hole) creates information benefits (e.g., access, timing, referrals, etc.). Thus, social capital is a function of brokerage opportunities in a network within certain "rules of the game" (Burt, 1997; North, 1990). In this sense, because domestic firms attempting to develop their social capital can gain or broker advantages as a member of a tight network (Kogut and Zander, 1996), they are also able to influence and interpret the local environment efficiently. In other words, local firms high in social capital (such as large public ones) are able to connect the structural holes that exist in their local institutions and gain information benefits such as access, timing, or government referrals.

However, abrupt changes in the business landscape (e.g., regulatory punctuations) may diminish the value of social capital as they can lessen the value of understanding how local institutions work (Uzzi, 1997). On the other hand, it might be that firms especially placed in high networks know in advance about their government plans on particular regulations. In this sense, under emerging market arrangements, local powerful firms might obtain a competitive advantage (e.g., Guillen, 2000; Khanna and Palepu, 1997).

For most Latin American firms, abrupt changes in the business landscape came in the form of supranational institutions pressuring their governments to adopt certain policies. In the 1980s and 1990s, Latin American governments were forced to lift their commercial barriers, which forced its firms to devise new strategies (Perez-Batres and Eden, 2008; Ramamurti, 1992, 2000). Similarly, the environmental race to standardize large organizations around the globe might also force emerging market firms to change their operational policies, yet again. In light of these issues, perhaps emerging market firms now realize the power of supranational entities to shape their country environment. However, evidence suggests that supranational "authorities" such as the UN usually act through the filter of a country's government. If this is the case, would large corporations follow supranational cues from international initiatives filtered through their government?

An example of national government trying to do the right thing for the environment, but also imposed upon the corporations of the world, is reflected in their signing of the Kyoto Protocol. In fact, all Latin American countries signed the treaty and sent the ''first step'' documents to the Secretariat of the United Nations Framework Convention on Climate Change. However, only two Latin American nations submitted subsequent reports. Assuming both that most large public corporations in Latin America belong to an influential firm network and that indeed their government is the adequate filter from which to receive institutional (environmental) cues, then influential (large domestic public) firms are likely to follow suit by revamping their environmental practices (or at least pretend to). We hypothesize the following:

*Hypothesis 2*: Latin American firms from countries with a higher commitment to the Kyoto Protocol will be more likely to follow CSR–SD guidelines.

*Distinguished-peer filter (cognitive pressure)*

The New York Stock Exchange (NYSE) labels itself as the premier listing venue for the world's leading companies.[12] Their website also claims they meet and adhere to the overall highest listing standards and that the NYSE is the largest and most liquid cash equities exchange in the world. Perhaps this is one of the reasons why Pagano et al. (2002) find that American stock exchanges outlisted[13] their European counterparts from 1986 to 1997.

For Latin American public firms, the NYSE is their premier listing destination as about a hundred of them are listed in this exchange, while only one Latin American firm lists in Europe.[14] Because of the prestigious nature of the NYSE, it is highly unlikely that smaller less successful firms from developing countries list there. Therefore, Latin American firms listed on the NYSE should find themselves among a ''de facto'' successful group, worthy of imitation. In fact, while studying exchange listing tendencies of large public European Firms, Pagano et al. (2002) find that public European firms listed on American Exchanges[15] (i.e., NYSE, NASDAQ, and AMEX) differed sharply from those public European firms not listing there. The ones listing on American exchanges had a higher proportion of international revenues (i.e., international diversification) and had more aggressive expansion plans (in both instances before and after the listing).

The positive relationship between international diversification and firm survival, a major concern for institutional theorists, has been clearly established by many authors (e.g., Li, 1995; Mitchell et al., 1995; Perez-Batres and Eden, 2008; Shaver et al., 1997; Thomas et al. 2007). Therefore, if globalization trends and commercial treaties keep expanding (Friedman, 2005), it would be understandable that firms with higher international diversification to be regarded as worthy of imitation (by other firms). Nonetheless, our argument is not about directly relating international diversification to CSR activities. Rather, our argument is about reinforcing the notion that firms listed on the NYSE are deemed successful by other firms.

From this logic, it follows that firms listed on the NYSE present an ideal target to imitate by Latin American firms that are also listed on this exchange. This is especially true during a revolutionary period when outcomes are much more difficult to assess. Thus, if following CSR guidelines do not seem to bring obvious benefits for Latin American public firms, then, they are likely to imitate what visible and distinguished firms do (e.g., firms listed on the NYSE). By imitating them, Latin American firms (listed on the NYSE) seek to enhance their own legitimacy status (and survival). In other words, if NYSE firms are more likely to follow CSR guidelines than those listed there, then, Latin American firms should be expected to imitate this behavior. Table I presents a six-country comparison (from stock indexes at most influential Western European stock indexes) of companies listed on the NYSE against those not listed. It can be observed that public international companies listed on the NYSE have a higher proportion of GC–GRI registrations (CSR guidelines commitment) than their country peers not listed on the NYSE. Thus, it is likely that Latin American firms imitate this behavior (GC–GRI registration) from their international NYSE-listed counterparts (an elite target group). Congruent with these arguments and related evidence, we hypothesize the following:

*Hypothesis 3*: Latin American firms listed on the NYSE are more likely to follow CSR–SD guidelines than Latin American firms not listed on that exchange.

TABLE I

Six-country comparison from influential stock indexes in Western Europe

| Firm country of origin | Index name | Country firms listed at NYSE % Firms registered at GC or GRI | Country firms NOT listed at NYSE % Firms registered at GC or GRI |
|---|---|---|---|
| Belgium | BEL | 100.00 | 26.32 |
| France | CAC | 100.00 | 84.85 |
| Germany | DAX | 87.85 | 45.45 |
| Italy | MIB | 66.67 | 19.44 |
| The Netherlands | AEX | 83.33 | 50.00 |
| Spain | IBEX | 100.00 | 73.33 |
| % Total | | 89.66 | 51.27 |
| Number total | | 26/29 | 81/158 |

*Source*: Country stock index website.

## The research study

### *Sample*

We selected 207 large public corporations from six Latin-American countries as our study sample. Our goal was to compare and contrast large public corporations from a particular emerging market region under a similar stage of economic development. Further, the country selection was limited to countries with a GDP of more than 100 billion dollars given that several researchers have noted the data challenges posed by emerging markets (e.g., Perez-Batres and Eden, 2008; Thomas et al., 2007). Complying with this limitation, we selected the following Latin American countries: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Next, to avoid sample bias, the large firm selection was determined by firms included in each country's stock market index[16] (i.e., Argentina's Merval, Brazil's Bovespa, Chile's IPSA, Colombia's IGBC, Mexico's IPC, and Peru's BVL).

### *Dependent variables*

As explained earlier, we equate following CSR guidelines to GC/GRI firm registration. In turn, our first option for CSR guidelines variable is a dichotomous variable where 1 means that the corporation is registered either at the GC or GRI (the variable is labeled accordingly). However, because we counted several instances in which one corporation registered in both the GC and the GRI, we decided to consider this to measure CSR guidelines accordingly. In this second option, the dependent variable is an ordinal variable with the following outcomes: no registration in either standard = 0; registration in either standard = 1; registration in both standards = 2. Thus, we labeled this dependent variable GC + GRI. The breakdown of the 207 Latin American firms is as follows: the number of firms registered at the GC database is 45. The GRI has18 firms registered. We find that 12 of the 207 firms registered in both databases (see Table II for the descriptive statistics of our sample).

### *Independent variables*

#### *(Commercial filter, H1) European influence*

This factor considers the European influence relative to the American influence. Perez-Batres et al. (2009) suggest that the strength of a country's tightness (or influence) to another country can be measured through trade flows. With this in mind, we calculated European influence relative to American influence by dividing the total trade with Europe relative to that of the US (by country and according to its GDP). For instance, Brazil's total trade with Europe (exports and imports) represents 47.4% of its GDP, while its total trade with the US represents 31.5% of its GDP. From

TABLE II

Descriptive statistics and correlations

| Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. GC or GRI | 0.25 | 0.43 | 1 | | | | | | | |
| 2. GC + GRI | 0.30 | 0.57 | 0.93* | 1 | | | | | | |
| 3. European influence | 1.00 | 0.57 | 0.20* | 0.23* | 1 | | | | | |
| 4. Kyoto protocol | 1.46 | 0.77 | −0.07 | −0.10 | −0.51* | 1 | | | | |
| 5. NYSE | 0.23 | 0.42 | 0.24* | 0.25* | 0.17* | 0.03 | 1 | | | |
| 6. Size | 7.24 | 1.84 | 0.21* | 0.25* | 0.11 | 0.13 | 0.40* | 1 | | |
| 7. Reputation index | 0.08 | 0.27 | 0.04 | 0.07 | 0.10 | −0.03 | 0.14* | 0.31* | 1 | |
| 8. GDPp/c | 10.75 | 2.66 | 0.04 | −0.01 | 0.25* | 0.41* | 0.15* | 0.20* | 0.05 | 1 |

*Note*: $N = 207$, $^{\star}p < 0.05$.

these numbers, we assigned Brazil a factor of = 1.50 (47.4/31.5). The advantage of this calculation is that it implicitly assigns a proportion. For instance, Mexico's factor is 0.13. This would mean that Europe has roughly (1.5/0.13) 11.5 times more influence in Brazilian businesses than in Mexican businesses.

*(State-signaling filter, H2) Kyoto protocol*

This is an ordinal variable (range 1–3) that measures the number of reports submitted into the treaty. Brazil, Chile, Colombia, and Peru only submitted the first report. Argentina submitted a subsequent report and Mexico submitted a third report.

*(Distinguished-peers filter, H3) NYSE*

This is a dichotomous variable (0, 1), which indicates whether the firm is listed on the NYSE.

## Control variables

*Size*

Consistent with standard academic research in management, we used the natural logarithm of assets to control for the possible positive effect of firm size. This is also consistent with recent findings by Garz and Volk (2007) where they identify firm size to be related to GRI registration.

*Reputation index*

This is a dummy variable (0, 1), which indicates whether the firm is included in the top 200 most reputable firms list developed by the Reputation Institute.[17]

In so doing, we control for reputation effects as some authors suggest that this might be a motivation for why firms engage in CSR guidelines (Luna Sotorrío and Fernández Sánchez, 2008). Also Weigelt and Camerer (1988) suggest that reputation needs to be treated as a firm asset and as part of its corporate strategy.

*Country's wealth (GDPp/c)*

This control variable was included to control for country (wealth) effects.

## Statistical methods

In many situations in the social sciences, we have a dependent variable that is dichotomous rather than continuous (e.g., whether or not a firm registered in the GC standard). Under this condition, the OLS regression cannot appropriately calculate the relationships due to heteroskedasticity and normality problems (Long, 1997). Thus, to properly calculate a dichotomous dependent variable, researchers should use logistic regression models. For instance, Davis et al. (2007) used logistic regression to analyze the factors influencing the occurrence of illegal trading at mutual funds. As a result, we use logistic regression to determine the institutional pressures influencing the decision to join the GC or GRI (*Model 1*). Further, the logistic model is not limited to the binary dependent variables. Our second dependent variable illustrates this as it has three categories: no registration; one registration; and two registrations. To account for dependent variable GC + GRI we use ordered logistic regression in Model 2 (Davis et al. 2007; Long, 1997).

## Results

As shown in Table III (and explained in the ''Methods'' section), we used two models to test our hypotheses. Model 1 includes the CSR standard as it pertains to either the GC or the GRI listing. Model 2 includes both the GC plus (+) the GRI. We narrate the results for Models 1 and 2, respectively. Hypothesis 1 predicts that Latin American firms from countries with higher European influence, vis-à-vis the US, would be more likely to follow CSR guidelines (i.e., register in the GC or GRI). The results show statistical significance for the ''European influence'' variable with an odds ratio of 2.40 and 2.68 ($p < 0.04$ and $p < 0.02$), respectively. These results strongly support Hypothesis 1.

Hypotheses 2 suggest that state-signaling, through its commitment to the Kyoto Protocol, would positively relate to firm's registration. The results indicate that the ''Kyoto Protocol'' variable is not related to GC or GC nor GC + GRI firm registrations ($p < 0.74$; $p < 0.70$). Thus, hypothesis 2 is rejected. Hypothesis 3 predicts a positive relationship between NYSE affiliation and CSR standards. The results show statistical significance for the NYSE variable with and odds ratio of 2.22 and 2.00 ($p < 0.05$; $p < 0.05$), respectively. These results fully support Hypotheses 3.

From these results, we can conclude that global institutional pressures, filtered by commercial and distinguished-peer groups, do explain corporate motivation to engage in CSR guidelines, but state-signaling does not.

## Discussion and conclusions

CSR guidelines should encourage managerial change in firms and in turn create the basis for SD (Cetindamar and Husoy, 2007). However, because most CSR guidelines are largely voluntary, not all organizations follow (or at least try to follow) them. In this article, we sought to investigate why some firms are more likely (than other firms) to register into the GC or GRI database (hence follow CSR guidelines). To answer this research question, we used insights from institutional theory and the PEM. In so doing, we identify three specific institutional filters: commercial, state-signaling, and distinguished peers.

Our findings suggest that firms are indeed influenced by institutional (normative and mimetic) pressures. To this end, the commercial and distinguished peers filters significantly explained the firms' decision to engage in SD initiatives (i.e., join the GC or GRI). For Scott (1995), institutions provide pragmatic solutions to past conflicts. However, when institutional arrangements change abruptly, firms can lose their legitimacy as the old rules become useless (Peng and Heath, 1996). According to Gersick (1991), when abrupt change occurs, firms enter into a revolutionary period and need to quickly recognize the new ''rules of the game.'' Particular to the commercial filter, Latin American firms with higher commercial dealings with the EU (compared to those with the US) were more likely to follow SD initiatives (register into the GC/GRI). Thus, we interpret that Latin American firms ''believe'' that to maintain their legitimacy, they would need to follow what the EU institutional environment dictates. In contrast, firms from countries with lesser EU commercial influence (and higher American commercial influence) did not ''believe'' their legitimacy was compromised by not following SD initiatives (registering into the GC/GRI).

For the distinguished peers filter, we identify the NYSE as an exclusive club. Furthermore we argued that in order to maintain their (legitimate) club status, Latin American firms listed there needed to imitate other NYSE members (with respect to CSR initiatives). Indeed, belonging to the NYSE explained the Latin American firms' decision to join the GC/GRI. The finding suggests that Latin American firms, which are NYSE members, ''believe'' their legitimacy could be comprised by not imitating what other international NYSE members were doing with respect to SD initiatives. As expected, Latin American firms, which are *not* NYSE members, did not ''feel'' the need to join the GC/GRI as their legitimacy was not threatened. In fact, this finding can be also understood as the non-NYSE members exerting mimetic pressure to other non-members for not joining the GC/GRI.

In contrast, we find the state-signaling filter to be a non-factor for the Latin American firms' decision

TABLE III

Logistic and ordered logistic regression

| | Logistic regression<br>Dependent variable = GC or GRI<br>Model 1 | | | | | | Ordered logistic regression<br>Dependent variable = GC + GRI<br>Model 2 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | OR | SE | Coeff. | SE | $z$ | $p \geq z$ | OR | SE | Coeff. | SE | $z$ | $p \geq z$ |
| Control variables | | | | | | | | | | | | |
| Size | 1.24 | 0.14 | 0.22 | 0.11 | 1.88 | 0.06† | 1.30 | 1.84 | 0.27 | 0.11 | 2.33 | 0.02* |
| Reputation index | 0.68 | 0.43 | −0.38 | 0.63 | −0.60 | 0.55 | 0.72 | 0.27 | −0.33 | 0.62 | −0.54 | 0.60 |
| GDPp/c | 0.94 | 0.08 | −0.06 | 0.08 | −0.72 | 0.48 | 0.91 | 2.66 | −0.10 | 0.08 | −1.14 | 0.25 |
| Independent variables | | | | | | | | | | | | |
| European influence | 2.40 | 1.01 | 0.88 | 0.42 | 2.08 | 0.04* | 2.68 | 0.56 | 0.99 | 0.42 | 2.38 | 0.02* |
| Kyoto protocol | 1.12 | 0.37 | 0.11 | 0.33 | 0.33 | 0.74 | 1.14 | 0.77 | 0.13 | 0.33 | 0.39 | 0.70 |
| NYSE | 2.23 | 0.88 | 0.80 | 0.40 | 2.02 | 0.04* | 2.17 | 0.42 | 0.77 | 0.39 | 2.00 | 0.05* |
| $N$ | 207 | | | | | | $N$ | 207 | | | | |
| LR $\chi^2$ | 21.56 | | | | | | LR $\chi^2$ | 25.73 | | | | |
| Prob > $\chi^2$ | 0.01** | | | | | | Prob > $\chi^2$ | 0.001*** | | | | |
| | | | | | | | /cut 1 | | 3.48 | 1.12 | | |
| | | | | | | | /cut 2 | | 5.32 | 1.16 | | |

*Notes*: Two-tailed $z$-statistics where: $^{\dagger}p < 0.10$; $^{\star}p < 0.05$; $^{\star\star}p < 0.01$; $^{\star\star\star}p < 0.001$.

to follow SD initiatives. Perhaps, they interpret that if their government does not require them (by law) to engage in sustainability initiates, there is no legitimacy downside. In other words, large influential local firms do not believe their legitimacy status is comprised even if they do not comply with what their government deems important (e.g., Kyoto Protocol). Moreover, given the lack of national and even regional exemplars of good governance and governmental transparency in much of Latin America, firms might not be inspired to adopt behaviors directed by state mandate.

### *Contributions*

Our study complements Cetindamar and Husoy (2007) and Runhaar and Lafferty's (2009), as one of the few empirical studies, which sheds light on the corporate motivations to engage in SD initiatives. While these earlier studies are survey and case based, thus directly represent the firms perspective about CSR–SD guidelines, our study focuses on the environmental pressures faced by the firm. We find these environmental pressures do explain the firms' decision to join the GC/GRI. To this end, our study further supports the notion that to preserve their SD legitimacy, firms take cues from different stakeholders (e.g., transnational influences, peer-firms). Furthermore, our study overcomes the limitations (acknowledged by the authors) of the previous studies because it derives from a large sample. Thus, the results can be interpreted as more robust. Also, while the PEM provides an explanation regarding a firm's need to regain their legitimacy, after a radical change, the model does not provide an explanation about how a firm should do it. To this end, we believe that our study fills this theoretical gap by expanding the implications of the PEM by identifying how firms adapt to radical changes. In our study, Latin American firms were able to react to the new legitimacy impositions from their environment by using particular cues (or filters).

### *Limitations*

As already acknowledged, some critics allege that corporate alignment with the CSR standards (GC/GRI) does not represent real CSR; instead, it is an act of impression management. Such a motive may be true for some corporations, but we reject that allegation for now on practical grounds. In the first instance, the United Nations established the GC in 2000 as a private-sector learning network *that would eventually* lead to better governance in line with the Ten Principles (Slaughter, 2004). Thus, the idea that the GC after eight short years could cause reversals in corporate behavior seems impractical. For now, the act of registering for the GC (or GRI) and signaling an acceptance of these Principes should be viewed, we believe, as a socially responsible act. Nevertheless, we allowed for the possible effect of impression management in the research design by including a reputation variable into each of the models in case impression management was indeed a significant factor. It was not. However, as predicted by institutional theory, normative and mimetic pressures did exert a significant influence upon the corporate commitments to the GC and the GRI.

### *Future research*

CSR–SD compliance is a worthy organizational goal and there appears to be a foundation in these research findings for asserting that some corporations aspire to such a goal. As a result of this, avenues for future research exist for important firm undertakings. In the empirical terrain, opportunities exist as comparative approaches with the Middle East, Africa, or Asia may uncover significant similarities and differences of firm-based CSR/SD actions. Furthermore, and based on the important influences from transnational entities (i.e., *EU* commercial influence and *NYSE*-peer influence), firm internationalization (e.g., international sales, number of countries in which firms operate) might prove to be an important explanatory variable for determining firm pursuit of SD initiatives. Likewise, as time passes from the (year 2000) initiation of the GC, longitudinal studies should follow.

From a theoretical perspective, and derived from this study's contribution, we believe future studies should use a combination of institutional and contingency theories to explain sustainability and firm performance. As previous research suggests, the relationship between sustainability and firm performance has been difficult to demonstrate. A probable explanation for the lack of this relationship is that not all firms need to follow CSR–SD initiatives to increase their performance. Perhaps, those firms that are required (pressured) by their institutional environment are the ones that truly benefit from adopting such policies. In contrast, it might be that firms not pressured by their institutional environment (to do so) stand little to gain from adopting such policies. In other words, the sustainability–performance link might be contingent upon the type of firm and the particular demands of its institutional environment.

## Notes

[1] The GC website provides ample information about its CSR/Sustainability principles. It also provides the list of registered members (and their country of origin), http://www.unglobalcompact.org/AboutTheGC/index.html.

[2] The GRI website provides ample information about its CSR/Sustainability principles. It also provides the list of registered members (and their country of origin), http://www.globalreporting.org/Home.

[3] Pava (2008) warns in his abstract that books like *Reich's Supercapitalism*, which dismiss CSR in such a facile way, are dangerous and risky in ways that perhaps even the authors themselves are unaware.''

[4] As is explained in the text, we use the SD and CSR terms interchangeably. This includes the SD initiatives and CSR guidelines concepts.

[5] In this documentary film, former American Vice President Al Gore presents his perspective about the state of global warming and its likely catastrophic consequences, http://www.climatecrisis.net/aboutthefilm/.

[6] http://www.siran.org/pdfs/WestLB_GRI_reporting.pdf.

[7] We refer to trade liberalization as the policies that were devised to allow the free flow of goods and services among countries.

[8] We define ''rules of the game'' as the institutional structures that shape firm behavior within a country market (Perez-Batres and Eden, 2008).

[9] Both Scott (1995) and Meyer and Rowan (1977) refer to legitimacy as the degree of social support for the organization by significant other (institutional actors).

[10] Here we refer to the State's ability to promote the ''correct'' way of behavior in the absence of legal or other means of coercion (Trevino et al., 2008).

[11] Second-order change implies a fundamental or significant break with past and current practices.

[12] www.nyse.com.

[13] Pagano et al. (2002) studied the cross-listing phenomenon. This term applies to public companies (from a given home market) listing their stock in an international stock market (e.g., a Brazilian public firm also listing its stock in Spain would be a firm that cross-lists).

[14] We calculated these figures from the NYSE/Euronext firm listing by region. The NYSE exchange lists 98 (net) Latina American firms (we did not double count different series of the same stock). The NYSE/Euronext exchange lists only one firm, http://www.nyse.com/about/listed/lc_ny_region.html. However, Pagano et al. (2002) count about 50 Latin American firms listed in European markets, other than the NYSE/Euronext.

[15] Pagano et al. (2002) find that in 1997 there were more than 200 European firms listed in the NYSE, the NASDAQ, and the AMEX. On our own research, we found more than one-hundred Western European firms listing at the NYSE (see endnote above for the internet link).

[16] Stock market index composition, for all LA countries indexes, as of November 2008. *Source*: Country's stock market website. We excluded two firms from the Peruvian stock exchange, which are currently not reporting financial information due to legal disputes. Also, we did not count firms twice. This possibility arises because sometimes two series of the same stock are included in a country's index.

[17] http://www.reputationinstitute.com/about/index.php. The Reputation Institute annually interviews more than 30,000 consumers in 29 countries using a standardized measurement system to rate the overall health of the world's largest companies.

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