

CORPORATE CITIZENSHIP: CREATING INTANGIBLE ASSETS ACROSS INSTITUTIONAL ENVIRONMENTS

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We argue that citizenship programs are strategic investments comparable to R&D and advertising. They can create intangible assets that help companies overcome nationalistic barriers, facilitate globalization, and outcompete local rivals. Program content selection reflects a balance between legitimation and differentiation, and choices are influenced both by local institutional environments that shape expectations of corporate commitment to citizenship and by the degree of customization required because of institutional distance. Citizenship profiles therefore enable the sociocognitive integration that global companies require to operate effectively across diverse local markets.

The World Economic Forum defines corporate citizenship as

the contribution a company makes to society through its core business activities, its social investment and philanthropy programmes, and its engagement in public policy. The manner in which a company manages its economic, social and environmental relationships, as well as those with different stakeholders, in particular shareholders, employees, customers, business partners, governments and communities determines its impact (World Economic Forum, 2003).

Consistent with this definition, citizenship activities therefore encompass corporate investments of time and money in pro bono work, philanthropy, support for community education and health, and protection of the environment—factors that are often described as components of the company’s “social performance” (Wood, 1991).¹

The literature on social performance tends to justify these activities either from an altruistic

standpoint—doing good for its own sake—or from an instrumental standpoint—doing good for its possible financial benefit to companies. In few studies (Maignan & Ferrell, 2000; Tichy, McGill, & St. Clair, 1997; Wokutch, 1990) have researchers examined the content of a company’s citizenship activities beyond financial commitment (Johnson & Greening, 1994; Margolis & Walsh, 2001; McWilliams & Siegel, 2000; Ullman, 1985; Waddock & Graves, 1997). In addition, in much of the previous research, scholars have relied on aggregate corporate data that obscure the distinct institutional environments in which global firms operate.

In this article we suggest that the next stage in examining corporate citizenship, whether altruistic or instrumental, should address the content of the activities companies undertake. We recognize that citizenship activities vary on numerous dimensions, including beneficiary groups, target audiences, scope, and financial commitment. We also focus here on the role that institutional environments play in amplifying or diminishing the appropriateness and benefits derived from a company’s citizenship activities. Inadvertently, companies may sometimes participate in activities that diminish rather than enhance stakeholders’ assessments (Sen & Bhattacharya, 2001; Tichy et al., 1997).

In particular, we dwell on the effects that diverse domestic and foreign contexts have on

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¹ “Organizational citizenship” describes employees’ voluntary behaviors of support and commitment to a company (Van Dyne, Graham, & Dienesch, 1994). In contrast, “corporate citizenship” describes officially sanctioned *organizational* initiatives in support of local communities. The two do not necessarily correspond, although corporate citizenship programs may encourage employees to demonstrate organizational citizenship.

inducing globalizing companies to sponsor costly citizenship programs in countries they enter by suggesting different ways that companies benefit from those programs. Specifically, we suggest that such programs are strategic investments comparable to R&D and advertising: they create intangible assets for companies that help them to overcome nationalistic barriers, facilitate globalization, and build local advantage. In our view, corporate citizenship is therefore a key component of a reinforcing cycle through which global companies create legitimacy, reputation, and competitive advantage (Fombrun, 1996), in an effort to overcome their "liability of foreignness" (Hymer, 1976; Zaheer, 1995). Ultimately, the relationship between corporate citizenship and intangible asset creation is affected by the appropriateness of the activities in which globalizing firms engage. We adopt the theory of strategic balance (Deephouse, 1999) to reveal the competing forces of isomorphism and differentiation, survival and competitive advantage that drive companies to create citizenship programs.

WHY CORPORATE CITIZENSHIP?

"Corporate citizenship" refers to the portfolio of socioeconomic activities that companies often undertake to fulfill perceived duties as members of society (Etzioni, 1988; Fombrun, 1997; Wood, 1991). When businesses are granted the legal and political rights of individual citizens through incorporation, they also are ascribed, explicitly and implicitly, a set of responsibilities. Growth creates increasingly visible roles for companies as employers and national citizens and, eventually, as global citizens. As a result, companies accrue enlarged responsibilities to their external stakeholders, particularly to the local communities in which they operate (Freeman, 1984).

Examples of corporate citizenship include pro bono activities, corporate volunteerism, charitable contributions, support for community education and health care initiatives, and environmental programs—few of which are legally mandated, but many of which have come to be expected by government hosts and local communities. In the United States, individuals, companies, and foundations give an estimated \$230 billion annually to such citizenship activities (Foundation Center, 2002). Between 1995 and 2000, U.S. charitable giving from all sources in-

creased an estimated 17.5 percent, to an annual 2 percent of the U.S. gross domestic product. Although comparable numbers are not easily identified in other countries, the U.K. Business in the Community reported that 148 companies met its PerCent Club standard in 2002 by giving around \$975 million in cash, time, and in-kind contributions (Business in the Community, 2002).

Traditional arguments for corporate social responsibility have been rooted in either a principled approach to "doing good" (Gladwin, Kennelly, & Krause, 1995; Wood, 1991) or in stakeholder responsiveness (Clarkson, 1995). To address Friedman's (1970) well-known assertion that "a corporation's social responsibility is to make a profit," various researchers have theorized a possible means-end relationship between the two—that a company's social performance acts to enhance its financial performance (Waddock & Graves, 1997). Several review articles point out that the empirical literature in this area has focused heavily on demonstrating a link between social performance and financial performance (Roman, Hayibor, & Agle, 1999; Griffin & Mahon, 1997; Ullman, 1985). Although empirical results have both supported and challenged this relationship, the majority of studies claim to have uncovered a systematic link between the two. Unfortunately, as noted by Margolis and Walsh, "Serious methodological concerns have been raised about many of the studies and about efforts to aggregate results" (2001: 13). These authors call on researchers to focus instead on "how best to manage corporate social initiatives" (Margolis & Walsh, 2001: 13).

We suggest that past explorations of the relationship between social performance and financial performance may have lacked specificity. Recently, various theorists have suggested a more inclusive notion: that strategic philanthropy produces long-term advantages for companies by enhancing the institutional contexts within which they operate and by creating intangible assets (Fombrun, 1996; Fombrun, Gardberg, & Barnett, 2000; Godfrey, 2005; Porter & Kramer, 2002). Hence, short-run financial performance may be an inappropriate measure of citizenship performance. We develop this view further here.

Fombrun et al. (2000) have proposed that citizenship activities may be viewed as real options. Citizenship activities act as a safety net when they generate intangible assets, such as

reputational capital, corporate culture, and legitimacy, which buffer and protect companies from negative actions, and they act as an opportunity platform when they generate intangible assets, such as reputational capital, commitment, loyalty, and legitimacy, which provide opportunities for future growth. In a similar vein, Godfrey (2005) models corporate philanthropy as a type of insurance policy to protect firms against downside risk. Key elements in both models are the intangible assets that citizenship activities build.

Contractor (2000) identifies three types of intangible assets: (1) registered intellectual property, such as patents, brands, and copyrights; (2) unregistered but codified intellectual property, such as drawings, software, written trade secrets, formulae, and recipes; and (3) uncodified human and organizational capital, such as corporate knowledge, "know-how," organizational culture, and customer satisfaction. To these can be added corporate reputation and reputational capital (Fombrun, 1996; Hall, 1992), personal and organizational networks (Hall, 1992), social capital (Adler & Kwon, 2002; Fukuyama, 1995), and trust and legitimacy (Rao, 1994). The contribution of intangible assets to corporate market value and competitive advantage has also fueled recent research in finance, economics, and accounting, as well as in practice. In a recent longitudinal study (1964–1998), Kothari and Libbert (2001) found that companies received a 4.3 percent increase in their mean market-to-book ratio with each 1 percent increase in R&D spending. A 1 percent increase in advertising spending produced a 1.8 percent rise in market-to-book value.

Corporate citizenship can also contribute to a firm's stock of intangible assets and, through that, to financial performance and, ultimately, survival. Fombrun (1996) documented how citizenship activities created reputational capital and personal and organizational networks for firms. Turban and Greening (1997) found that corporate social performance enhanced corporate reputations, leading to attractiveness as a potential employer. Brown and Dacin (1997) found evidence that socially responsible firms received more favorable corporate evaluations from consumers and a more favorable impression of their products. Handelman and Arnold (1999) observed that citizenship activities built

favorable institutional environments by enhancing corporate legitimacy in the eyes of shoppers.

Intangible assets can develop from citizenship for two reasons. First, like investments in R&D and advertising, investments in corporate citizenship can contribute to a differentiation strategy by helping companies to build brand equity and reputation in a local market (Fombrun, 1997; McWilliams & Siegel, 2000; Waddock & Graves, 1997). Citizenship activities help companies build valuable and scarce *reputational capital*, and so enhance the ability to negotiate more attractive contracts with host governments, to attract potential employees, to charge premium prices for their products, and to reduce their cost of capital (Fombrun, 1996). Second, a citizenship profile helps to integrate companies into the social fabric of local communities (Etzioni, 1988). It does so by strengthening the social bonds between the company, its employees, and the local community, thereby heightening trust between them and creating *social capital* (Adler & Kwon, 2002; Fukuyama, 1995). Citizenship activities therefore enable the sociocognitive integration that global companies require to operate across multiple markets.

We suggest that the next step in this area is a methodical examination of the content of the activities themselves. The extent to which citizenship activities are *appropriate* should enhance their effectiveness—a worthy goal for both altruists and instrumentalists. We propose specifically that most previous studies have failed to recognize that firms operate in diverse domestic and foreign contexts in which their citizenship activities are more or less appropriate. These contexts are distinct institutional environments that make different demands on companies and grant them varying levels of legitimacy and performance (Kostova & Zaheer, 1999; Rosenzweig & Singh, 1991). A properly specified model of corporate citizenship should therefore acknowledge the multiple contexts in which companies operate. Globalizing companies must balance the tension between the legitimacy demands of the different institutional contexts in which they operate. These institutional environments impose differing demands, thus making particular citizenship activities more or less appropriate for specific companies.

Globalization and Citizenship

Companies operating in the global arena face serious discontinuities. The liability of foreignness refers to costs incurred by foreign subsidiaries in excess of those of their domestic counterparts (Hymer, 1976; Zaheer, 1995). As Mezas (2002) notes, the liability of foreignness is actually a set of liabilities. Information asymmetries and transaction costs (Hymer, 1976), physical distance that hinders decision making (Kindleberger, 1969), local biases (Vernon, 2001), lack of awareness and familiarity with host country environment(s), lack of legitimacy, and home country restrictions (Zaheer, 1995) compose a list of liabilities that all derive from a company's foreignness.

Recently, a number of articles have described evidence of subsidiary disadvantages in the United States that derive from lower profitability because of a failure to adopt local practices (Zaheer, 1995), higher employee costs (Lipsey, 1994; Mincer & Higuchi, 1988), more labor lawsuits (Mezas, 2002), or national advantage (Miller & Parkhe, 2002). Although researchers have found instances of a positive country image enhancing consumer perceptions of firms' products or services (e.g., Roth & Romeo, 1992), firms still face additional costs owing to discontinuity in their own foreign operations. These results clearly suggest that a company's liability of foreignness increases with the institutional distance separating the parent company's home country from its foreign subsidiary's host country (Kostova, 1999).

Some researchers have demonstrated that companies can overcome their liability of foreignness by investing in intangible assets and enhancing their local embeddedness. For instance, companies that have been successful in overcoming their liability of foreignness typically own more intangible assets than unsuccessful ones (Delios & Beamish, 2001; Hennart, 1982; Kotha, Rindova, & Rothaermel, 2001). These intangible assets are available both at home and abroad. These companies have achieved superior performance by successfully exporting their unique capabilities to newly established foreign subunits. For example, globalizing companies that invest heavily in R&D and advertising create stocks of intangible assets such as innovation, know-how, patents, and brand equity that give them a relative advantage over

local rivals (Kogut & Singh, 1988; Morck & Yeung, 1991).

Kotha et al. (2001) found that corporate reputation was an important predictor of e-commerce firms' internationalization. In addition, Mitchell, Shaver, and Yeung (1992) found that successful companies expanding globally continue to invest in intangible assets. These investments in building intangible assets, they argue, create a local competitive advantage for globalizing companies: on the one hand, they transfer the company's unique know-how into its newly established operations; on the other, they generate reputational advantage vis-à-vis local rivals. Thus, intangible assets enable globalizing firms to overcome their liability of foreignness by creating competitive advantage.

As noted above, researchers have argued that citizenship activities can help a company create intangible assets and construct a competitive advantage over rivals. For one, like investments in R&D and advertising, investments in corporate citizenship can contribute to a differentiation strategy by helping companies to build such intangible assets as positive image, brand equity, legitimacy, trust, and reputation in the local market (Brown & Dacin, 1997; Fombrun, 1996; Handelman & Arnold, 1999; Turban & Greening, 1997).

At the same time, citizenship activities can help a company leapfrog nationalistic barriers by enhancing the perceived legitimacy of the company to operate in the local market (Marsden, 1997; Oliver, 1991). An underlying foundation of the liability of foreignness construct is that foreign firms face additional costs over local firms, in part because of a lack of local legitimacy (Zaheer, 1995). By reducing the costs globalizing companies face, corporate citizenship may actually mitigate the liability of foreignness—not just help a company compensate for it. Intangible assets that may reduce costs by enhancing embeddedness include those related to trust, legitimacy, and reputation. In sum, as one former BP executive put it:

The benefits to BP [of corporate citizenship] come in many different forms but they can all be categorized as reputation enhancement (including what we call license to operate), staff benefits in terms of morale and personal development and creating a healthy economy in which our business can prosper (Marsden, 1997: 69).

In the long run, the ability to meet local legitimacy demands across national institutional environments can in itself be a form of differentiation, an intangible asset and source of competitive advantage. At first glance, these advantages appear to be at odds. However, in the next section we draw on the theory of strategic balance to address their competing implications (Deephouse, 1999).

Modeling Corporate Citizenship

Figure 1 presents a model for linking corporate citizenship to competitive advantage derived from intangible assets. We use two summary variables with which to capture the principal issues related to corporate citizenship content: (1) range of acceptability and (2) citizenship customization. "Range of acceptability" refers to "the range of strategic similarity in which firms maintain their legitimacy" (Deephouse, 1999: 152). "Citizenship customization" describes the degree to which a company *adapts* its citizenship program to local conditions.

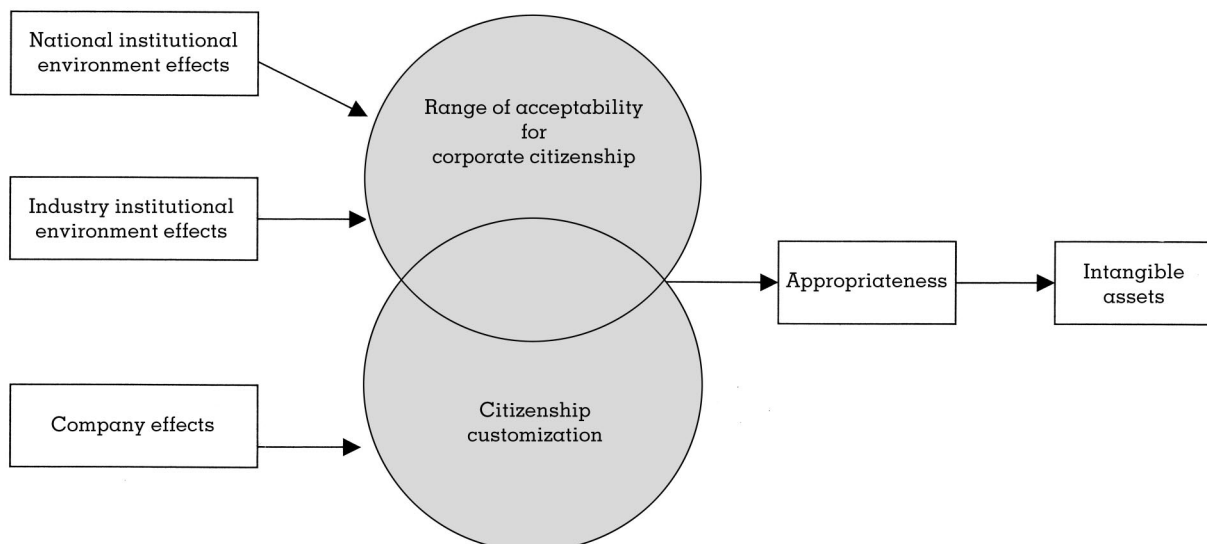
Citizenship activities are part of a company's differentiation strategy: they complement R&D and advertising activities by inducing local perceptions of the company as innovative and unique (McWilliams & Siegel, 2001; Waddock & Graves, 1997). However, varying cross-national institutional pressures imply that the appropri-

ateness of citizenship activities influences whether the activities generate intangible assets and, through them, competitive advantage. The appropriateness of a company's citizenship activities indicates its relative position on a continuum of more or less acceptable activities for the particular institutional environment. This position is itself influenced by the degree of customization required of the company to carry out its citizenship activities successfully. The area of intersection in the circles in Figure 1 represents the set of activities that a focal company customizes to the local institutional environment.

Corporate Citizenship and Differentiation

A growing number of research projects, surveys, and international initiatives are highlighting the links between the quality of a company's stakeholder relationships and its wider economic, social, and environmental performance. These include the World Economic Forum; the Global Reporting Initiative; and various national collectivities in Europe (CSR Europe, ORSE), in the United States (Business for Social Responsibility), and in Australia (Centre for Corporate Citizenship). These groups contend that citizenship programs drive real or perceived improvements in a company's risk profile and risk management, employee recruitment, motivation

FIGURE 1
Corporate Citizenship and Intangible Assets



and retention, access to capital, learning and innovation, competitiveness and market positioning, operational efficiency, and license to operate.

These initiatives create both safety nets and opportunity platforms that buffer companies from risk (Fombrun et al., 2000; Godfrey, 2005). Empirical research provides some support for the proposition that investments in citizenship activities build a competitive advantage that leads to higher performance (Dowell, Hart, & Yeung, 2000; McGuire, Sundgren, & Schneeweis, 1988; McWilliams & Siegel, 2000; Waddock & Graves, 1997). McGuire and colleagues (1988) observed that managerial perceptions of corporate social responsibility were associated with higher profitability and market returns. Waddock and Graves (1997) found that citizenship activities enhanced firm profitability. In a study of companies investing in R&D, McWilliams and Siegel (2000) found R&D intensity and philanthropic intensity were highly correlated, suggesting that these investments are complementary. When entered into their model, R&D intensity reduced the effect of philanthropic intensity on financial performance.

Similarly, Dowell et al. (2000) found that firms that adopted more stringent global environmental standards experienced superior market returns, in terms of Tobin's Q, compared to those that adopted less stringent local standards. They argued that several mechanisms may drive the improvements in market returns. First, nongovernmental agencies and interest groups may raise consumer awareness of poor corporate environmental practices, tarnish public image, reduce goodwill, and pressure firms, even if the pollution occurs in overseas locations. Second, adopting stringent environmental standards may reduce the costs of emission reduction and waste. The former argument concentrates on legitimacy issues and the latter on competitive advantage derived from standardization of superior processes that fostered cost leadership. In summary, like R&D and advertising, citizenship programs can facilitate a global company's ability to differentiate itself and build local advantage.

Corporate Citizenship and Isomorphism

An underlying cause of the liability of foreignness (as well as the liability of newness) is a company's lack of legitimacy in a new market (Zaheer, 1995). Institutional demands for isomor-

phism across the multiple local environments in which a globalizing company operates create tensions within the company (Rosenzweig & Singh, 1991). Kostova and Roth (2002) label this *institutional duality*. In emerging markets, governments often award privileged contracts to global companies because of their superior reputations (Marsden, 1997; Sidel, 1997). Often, these contracts come bundled with high expectations about the companies' anticipated contributions to the local community and to economic development—expectations that globalizing companies sometimes meet through citizenship programs (Tichy et al., 1997; United Nations, 1994). For example, foreign direct investment (FDI) exceeds official development assistance by more than 500 percent (Wolfensohn, 1997):

TNCs [transnational corporations] are especially valuable for sharing intangible assets related to business culture, derived from their broad and varied international operations The appropriateness and impact of externally-derived practices on a host society and its culture need to be evaluated prior to their introduction, recognizing at the same time that their introduction may change the host society (United Nations, 1994: 322).

The conformity of companies to local expectations is consistent with DiMaggio and Powell's (1983) conceptualization of institutional isomorphism through coercion, mimicry, or normative pressure. Conformity results from companies' attempts to gain legitimacy with their constituents. Deephouse (1996) explicitly tested the theory and found that conformity increased legitimacy. Regulations or powerful stakeholders threatening to withhold resources may coerce companies to meet their expectations of corporate citizenship behavior (DiMaggio & Powell, 1983; Pfeffer & Salancik, 1978). Companies may mimic the activities of successful companies especially in response to uncertainty (DiMaggio & Powell, 1983). Companies may also adopt specific citizenship orientations through training programs and through the interaction of their professional management and staff (DiMaggio & Powell, 1983). To that end, if expectations of corporate citizenship influence the activities performed by companies, then these expectations are, in fact, institutional forces.

Companies may be unable to reduce their physical distance from host countries, but they can reduce the knowledge gap and negative perceptions held by local customers, potential

employees, and government regulators. When global companies invest in sponsoring local community organizations or in fostering local economic development, they reduce their perceived foreignness by creating legitimacy in local markets (Zaheer, 1995).

As noted above, institutional pressures may also lead to conformity and, thus, legitimacy (Deephouse, 1996; Oliver, 1991). When companies forge ties with local stakeholders (Baum & Oliver, 1992), create employee positions to meet the demands of local constituencies (Edelman, 1992), and mimic each other's philanthropic activities (Galaskiewicz & Burt, 1991), they facilitate assimilation and enable seamless entry into the local market. These programs therefore help companies construct a local macrocultural environment that is more favorable to their activities (Abrahamson & Fombrun, 1992; Oliver, 1997).

In sum, corporate citizenship may serve both as a means of differentiation and as a means of attaining legitimacy (Deephouse, 1999). Citizenship programs contribute to a virtuous cycle of intangible asset development and enhanced competitive advantage that further fuels such intangible investments (Mitchell, Morck, Shaver, & Yeung, 1996). Therefore, it seems that a global company's citizenship can contribute to its pool of intangible assets and can thereby enhance its competitive advantage.

Empirical research offers some support for the notion that different paradigms of corporate responsibility are applied across countries (Langlois & Schlegelmilch, 1990; Lewin, Sakano, Stephens, & Victor, 1995; Tichy et al., 1997; Wokutch, 1990). Given the diversity of stakeholders that companies face in a local market, achieving legitimacy depends on a company's ability to identify, comprehend, and respond to the demands of powerful, locally relevant stakeholder groups. Complicating the efficacy of legitimization through citizenship activities are the varying demands expressed across institutional environments (Lewin et al., 1995; Tichy et al., 1997). In particular, Tichy et al. (1997) identify examples of poorly conceived or implemented corporate citizenship activities that actually diminished stakeholder perceptions and, ultimately, firm performance. We therefore suggest that the degree of appropriateness of a firm's corporate citizenship ultimately determines its effectiveness.

CORPORATE CITIZENSHIP AND LOCAL ACCEPTABILITY

Legitimacy theory suggests that the range of acceptable behaviors for a company can vary across industries and local environments. Deephouse defines the range of acceptability as "the range of strategic similarity in which firms maintain their legitimacy" (1999: 152). In his empirical study of financial service companies, Deephouse identified eleven strategic variables that were associated with bank asset allocation. These strategic variables formed the dimensions of strategic behavior. Each bank could have a different position based on its allocation of assets along the eleven dimensions. Deephouse found that those companies that could balance the competing pressures of legitimacy and competition tended to outperform others.

In a similar way, we propose that corporate citizenship activities can be specified—and that those activities that create legitimacy can be identified. For any single company, the pattern that crystallizes from its activities creates a unique citizenship profile in a multidimensional space. In the rest of this section, we discuss the attributes that can be used to describe corporate citizenship activities. We then discuss the concept of a "citizenship profile."

Citizenship Activities

A particular citizenship activity is a composite of numerous elements or attributes—it is itself multidimensional. Although researchers lack a taxonomy of citizenship activities, some evidence of the multidimensionality of activities does exist. Survey articles that link corporate citizenship to corporate performance reveal that the amount of money invested in these activities—what we describe as part of a firm's citizenship commitment—is the most frequently studied dimension. Although an actual taxonomy is beyond the scope of this paper, existing practitioner, government, and academic resources provide a foundation for identifying and operationalizing several other dimensions for any given activity.

Academic researchers (e.g., Tichy et al., 1997), social monitors (Council on Economic Priorities, 2000), and industry references/data sources (e.g., Taft Group, 2002) note that firms can and do target different audiences with different activi-

ties, including but not limited to employees, children, and the general community, in which the beneficiary and target audience need not be the same group. For instance, in Russia, candy maker Mars Incorporated developed citizenship programs that benefited children but targeted the broader community (Goldsmith, 1997a).

The Corporate Giving Directory (Taft Group, 2002) groups 215 potential beneficiaries into 9 broad categories: arts and humanities, civic and public affairs, education, environment, health, international, religion, science, and social services. The Council on Economic Priorities (2000) rates firms on seven criteria in its *Shopping for a Better World*: disclosure, environment, women's advancement, minority advancement, charitable giving, workplace issues, and family benefits. CEP's Social Accountability 8000 (SA8000) sets uniform standards for child labor, forced labor, health and safety, collective bargaining, discrimination, disciplinary practices, working hours, and compensation (www.cepaa.org).

CEP, Taft, and the U.S. government classify three forms of corporate contributions as cash, in-kind product, and in-kind service. In addition, citizenship activities vary in their scope—the degree to which they address specific problems, such as river blindness or elephantiasis, or are circumscribed to a specific activity, such as endowing a university chair. Finally, citizenship activities vary in their duration. Companies may fund activities for decades or for a single event. In summary, citizenship activities have been categorized in terms of financial commitment, beneficiary, target audience, form, duration, and scope. A systematic structure will make possible a better understanding of citizenship activities.

Citizenship Profiles

Within any given institutional environment, an individual company may be engaged in multiple citizenship activities simultaneously. The set of activities it selects makes up what we view as a "citizenship profile" in the local market. The configurations of citizenship activities may vary or converge across institutional environments. On the one hand, citizenship profiles are similar to a portfolio of financial investments—each of which presents varying amounts of potential risk and returns to the company. Some activities may provide safety nets; others act as opportunity platforms (Fombrun et

al., 2000.) On the other hand, at a corporate level of analysis, the citizenship profile can be likened to a portfolio of competences and resources (Prahalad & Hamel, 1990). A systematic framework for examining citizenship profiles of activities would facilitate the analysis of their fit within the institutional environments in which the activities occur.

Companies differ in their relative positions in that space: how much money they invest in a specific initiative, which initiatives they select, which groups they target, and how intensively they sustain their commitment to those groups. For instance, McDonald's has developed a unique position in the fast food sector based in part on benefiting sick children (through the Ronald McDonald House), on a particular level of donations, and on the consistency with which it delivers those programs over time and across countries. McDonald's focus on a specific activity at the corporate level demonstrates integration and convergence across institutional environments.

Appropriateness

In specific countries, however, the citizenship profile of a company like McDonald's will be judged more or less appropriate by the local environment. Appropriateness to local conditions will determine the effectiveness of the company's citizenship program. What then determines the "appropriateness" of a particular citizenship profile? To examine this question, we define appropriateness as the degree to which the company's citizenship profile falls within the range of acceptability defined by local institutional conditions. For example, in Deephouse's (1999) examination of bank strategy, the range of acceptability would be demarcated by the eleven asset allocation strategies. If the taxonomy of citizenship activities revealed six dimensions, these dimensions would be the parameters of the range of acceptability for corporate citizenship. We suggest that the more a company's citizenship profile can be mapped onto the acceptability space, the more appropriate it is to the host country. In Figure 1 this space is the area of intersection in the circles.

Two sets of factors influence the shape of the local range of acceptability: national factors and industry factors. We examine these factors next.

National Effects on Local Acceptability

Research suggests that dominant paradigms of corporate citizenship differ across countries (Lewin et al., 1995; Tichy et al., 1997) and thereby affect the range of acceptable programs. National and industry forces construct the range over time in a manner consistent with conceptualizations of national institutional environments (Kostova, 1999; Scott, 1995). As a result, stakeholder groups and local competitors develop varying expectations about the appropriate levels and types of citizenship activity. "Local expectations" describe the company's anticipated level of involvement in the community by local stakeholders. The particular philosophical, cultural, and economic features of the national system that the global company is entering heavily influence expectations about its role in the local community. Thus, the regulatory, cognitive, and normative components of the institutional environment are likely to vary cross-nationally (Scott, 1995). For instance, citizenship activities mandated in one institutional environment might be informally encouraged or discouraged in another. In addition, institutional profiles may vary with the focal issue (Kostova & Roth, 2002).

Regulatory effects. The regulatory component of the institutional environment refers to the existing laws and rules of a national or regional environment that promote certain types of behavior and restrict others (Scott, 1995). Tax laws, environmental laws, and labor laws vary cross-nationally, shaping the range of citizenship activities permitted, encouraged, and prohibited. Legally mandated activities in one country may be voluntary in another. For instance, the minimum age of employment in Indonesia is fourteen years, in Vietnam it is fifteen, and in the United States sixteen—laws that may or may not be enforced but that set boundaries on a company's employment practices. In the United States firms can deduct philanthropic contributions, up to 5 percent of profits. During the 1980s, the Japanese Ministry of Trade and Industry offered Japanese firms tax incentives for charitable donations overseas. In 2000, the U.K. government altered its tax laws to encourage greater U.S.-style corporate and individual philanthropy. These examples suggest that the regulatory component of the local institutional environment sets a context for the range of

acceptable citizenship profiles. Companies can elect to either match or exceed those local legal standards—they cannot underperform.

Cognitive effects. The cognitive component of the local institutional environment refers to the widely shared cognitive categories used by people in a country, geographical region, or organization (Scott, 1995). Nations are regularly classified in terms of their level of economic development, in terms of the trilogy of socialism-capitalism-communism, in terms of the level of corruption, and in terms of being either allies or foes. These cognitive categories influence local expectations about the roles foreign companies should play. So, for instance, host countries lacking an established infrastructure and facing high levels of unemployment, low levels of education, and low income per capita (nations commonly classified as "developing") are more likely to expect globalizing companies to play a catalytic role in fostering local development. In addition, reductions in U.S. and Soviet foreign aid left many of these developing countries in financial peril in the late 1990s and heavily indebted to international lenders like the World Bank and the International Monetary Fund. According to the Heritage Foundation:

Poor countries that receive World Bank loans are likely to remain poor despite repeated World Bank loans, and many are so burdened by the development loans that debt forgiveness has become a common topic at the Bank's regular meetings. Moreover, there is no shortage of projects that need funding, poor who need medicine, or children who need education; and the notion of organizations fighting for an opportunity to provide funding for these purposes would be welcomed by developing countries (Schaefer, 2001: 1).

Such local governments regularly turn to the private sector for assistance and investment, hence raising local expectations of companies from more developed nations. Japanese companies have been called on to make such infrastructure investments in a number of Southeast Asian and African nations (Sidel, 1997).

Unfortunately, these heightened demands often increase a company's liability of foreignness, because foreign firms must incur the added financial burden of citizenship activities that are not expected of local firms. When a company fails to meet local expectations, it loses reputation and so is less able to attract employees and customers. Reputation loss

threatens the company's license to operate in the host country, as well as heightens its liability of foreignness. For example, India's BJP party broke its contract with Enron, owing to accusations of misconduct and bribery. To mitigate the implicit downward spiral, such companies are motivated to polish their local image by investing in local citizenship programs, which implies that the greater the local expectations of a company, the greater the institutional pressure it faces to implement citizenship programs (Oliver, 1991).

Countries have also been categorized in terms of their level of corruption (Transparency International, 2003; World Economic Forum, 2003). Unfortunately, evidence exists that the level of national corruption may affect local expectations of citizenship activities. For instance, in the former Soviet Union, skepticism of large-scale or impersonal citizenship activities, stemming from the promises of the former Communist regime and the ease with which funds were diverted, has had negative effects on some sponsors (Goldsmith, 1997a). In Indonesia, many "charitable" foundations were associated with previous corrupt regimes. These foundations were alleged to be the means by which foreign companies could channel funds to influential government members while avoiding the Foreign Corrupt Practices Act. Former president Suharto was forced to resign because of allegations that he stole \$570 million U.S. dollars by channeling money to his family and cronies from seven charity foundations that he chaired (*Economist*, 2000).

Transparency International's Corruption Perceptions Index rates 102 countries. In 2002, Indonesia ranked among the highest, with a score of 96; Nigeria and Bangladesh were rated "most corrupt," with scores of 101 and 102, respectively. Level of corruption may shape the range of acceptability for citizenship activities by affecting perceptions of intent, as well as the ability to ensure that funds are actually directed to targeted beneficiaries.

Countries also vary in their expectations of the roles of government, business, and civil society. As we previously noted, governments are expected to supply social services and provide for the general welfare in many countries. In Italy, either the government or the Catholic Church provides these services. In Japan, firms have traditionally provided for their employees'

welfare. In the United Kingdom, the responsibilities attributed to companies actually declined with the advent of socialism after World War II. In the United States and the United Kingdom, companies are increasingly expected to be good corporate citizens in return for the opportunity to make profits. Countries vary in the roles of government, corporations, and civil society. In summary, then, the cognitive component of the local institutional environment may shape the expected size of the commitment, the beneficiaries, and the form of citizenship activities.

Normative effects. The normative component of the institutional environment describes values, beliefs, norms, and assumptions held about human nature and human behavior (Scott, 1995)—that is, the local culture (Kostova, 1999). Culture remains one of the most debated constructs in the management literature. Lytle, Brett, Barsness, Tinsley, and Janssens (1995) identified more than seventy cultural dimensions described by anthropologists, economists, political scientists, psychologists, and sociologists.

Several cultural frameworks may be applied to local expectations of citizenship behavior and to the shape of the range, including those of Kluckhohn and Strodtbeck (1961) and Hofstede (1980). These may or may not be congruent with the effect of economic development, creating a complex relationship between the elements of the institutional environment and the range of acceptability. To introduce the framework, here we examine two cultural dimensions introduced by two different research teams. We recognize that other cultural dimensions may also have intriguing and significant contributions but focus here on only these two.

Mastery of nature. Mastery, harmony, and subjugation to nature are common conceptualizations of man's relationship to the environment (Kluckhohn & Strodtbeck, 1961). A mastery-of-nature orientation is exemplified by a society that perceives that man can control nature or change the environment. A harmony-with-nature orientation stresses the perception that coexistence with nature is important. Finally, a subjugation-to-nature orientation prefers passive reactions to the environment. In cultures where congruence and harmony with the environment are stressed, social engineering is frowned on. However, in cultures where man and environment are juxtaposed, social and en-

vironmental engineering are expected (Kluckhohn & Strodtbeck, 1961). For instance, in India, where Hinduism stresses congruence and harmony with the environment, Goldsmith (1997b) observed that local firms enacted citizenship focused on circumscribed activities related to their employees' or local communities' welfare. Activities beyond this restricted space were greeted with suspicion. Hence, a society's beliefs about the relationship of humans with the environment will influence the shape of the range of acceptability.

Collectivism. Of Hofstede's (1980) five dimensions of national culture, the one most often examined is individualism-collectivism. In non-Western societies or collectivist cultures, responsibility for and obligation to others is limited to the ingroup (Bharati, 1985; Chu, 1985; DeVos, 1985; Wei-Ming, 1985). Although ingroups are defined differently among non-Western cultures, the resulting behavior is similar. In those societies, companies' social obligations are restricted to an ingroup that consists of employees and families.

In more collectivist societies, stakeholders are less likely to expect businesses to participate in creating and promoting the public good. For instance, Wokutch (1990) observed that Japanese firms and their employees share an intense loyalty. The focus of Japanese citizenship activities has therefore been its ingroup—its own employees rather than the unaffiliated members of the outgroup. In some cultures, financial contributions may lack the beneficial affect companies seek in enhancing local ties to the community (Thomson, 1990).

In contrast, in Western cultures, individuals seek primary relationships beyond the family and develop obligations to keep these acquaintances (Marsella, DeVos, & Hsu, 1985; Johnson, 1985). In the United States, for instance, a sense of obligation motivates many corporate initiatives. In such individualistic environments, companies are expected to return a portion of their gains to society. Increasingly, this has meant heightened involvement by companies in fulfilling stakeholder expectations (Fombrun, 1997). Hence, the emphasis on individualism or collectivism in a host country's institutional environment shapes the range of acceptable citizenship profiles. In summary, the normative component of the institutional environment may shape the public's expectations of the scope, beneficiary, and scale of citizenship activities.

Industry Effects on Local Acceptability

Within countries, expectations of corporate behavior vary systematically across industries. Industry context influences expectations of appropriate citizenship behavior in part because the organizational fields in which firms operate are influential in shaping expectations of legitimate behavior (Powell & DiMaggio, 1991). Suppliers and customers, as well as secondary stakeholders such as regulators and media, have expectations that vary across fields. In this section we therefore argue that industry familiarity and visibility affect the local acceptability of company's citizenship programs.

Companies operating in industries that are less familiar in the local market face greater institutional distance: local stakeholders are more likely to misunderstand the company's products and production processes. Foreign products that threaten local cultural norms also may increase the liability of foreignness. For instance, the BJP party in India used the slogan "microchips not potato chips" to reflect a general hostility toward foreign consumer goods but tolerance for valuable technology (Goldsmith, 1997b). Therefore, the degree to which a company operates in an industry whose products and processes are unfamiliar in the institutional environment shapes the range of acceptable citizenship profiles.

Companies that operate in more visible industries face more institutional pressure than those in less visible industries face. Visibility derives from two features of an industry: (1) the degree of risk (financial, environmental, or production based) that the company's operations entail and (2) whether those operations generate high levels of employment, revenues, or taxes for the local economy (Rosenzweig & Singh, 1991). Companies whose core activities involve significant financial, production, or environmental risk are expected to demonstrate higher levels of responsibility to the local communities in which they participate. In emerging markets, extractive and manufacturing industries are arguably the most likely to induce heightened expectations from local governments and other stakeholders. Utilities have national security implications. In exchange for removing nonrenewable resources, companies are often expected to compensate and perhaps even upgrade the local community. For instance, in 2003,

host country citizens filed a spate of lawsuits against ChevronTexaco, as well as other oil and gas firms, for environmental degradation and human rights abuses in Ecuador and Nigeria (Earthrights International, 2003). Faced with higher risk of expropriation, creeping expropriation such as limits on the repatriation of profits, and nationalization, companies operating in the extraction, manufacturing, and utilities industries are more likely to invest in citizenship programs (Caves, 1971).

In contrast, companies operating in industries with low visibility—for instance, investment banks—generally face lower local expectations and, thus, demonstrate a greater variety of citizenship profiles. For example, banks like Citibank are invisible in many countries but more visible in the United States and tend to have elaborate programs in the United States but not in other countries. Therefore, the visibility of an industry shapes the range of acceptable citizenship profiles.

In sum, national- and industry-level characteristics influence local expectations of corporate citizenship and, thus, shape the range of acceptability in which companies operate. In the next section we describe how company-level characteristics induce citizenship profiles that enable companies to meet local expectations.

CORPORATE CITIZENSHIP PROFILES

Although an increasing number of global companies participate in citizenship activities, they are not all alike in their citizenship profiles. In this section we discuss company-level characteristics that affect a company's citizenship commitment and the degree to which the company customizes its citizenship profile to address local conditions.

Effects of Institutional Distance

"Institutional distance" describes the relative similarity or difference between the sociocultural characteristics of a company's home country and those of the local market (Kostova, 1999). Most globalizing companies have identifiable roots in a country of origin that shape how they operate (Hofstede, 1980). The greater the disparity between the globalizing company's home culture and that of the local market, whether in terms of the economic system, social structure,

political system, or religious factors, the more difficult assimilation will prove to be (Johanson & Vahlne, 1977). Research suggests that cultural or institutional distance influences which foreign markets a company enters (Luostarinen, 1980), its mode of entry (Kogut & Singh, 1988), its adoption of organizational practices (Kostova & Roth, 2002), and its performance (Zaheer & M-sakowski, 1997).

Consequently, a company's specific home and host country characteristics will affect the likelihood that its activities will fall within the range of acceptability for corporate citizenship. A global company is more likely to engage in citizenship activities consistent with those it would pursue in its home institutional environment. Whether a company's citizenship profile falls within or outside the range of acceptability will depend on the company's institutional distance from a specific local market.

Figure 2 presents a framework for understanding a firm's position in the range of acceptability. We frame our analysis in terms of a general level of expectation about a company's citizenship profile, rather than specific citizenship activities. Here, firms are segmented by their home country's expectations of citizenship: high expectations or low expectations. Expectations influence a company's "financial commitment" or "scope of project." The four quadrants represent combinations of local institutional environments from which citizenship profiles can be constructed. The horizontal axis represents the level of citizenship activities carried out by a company in its home market, ranging from low to high. The vertical axis represents the level of citizenship activities a company is expected to carry out in a host market, ranging from low to high.

The framework describes four situations that global companies face. In Quadrant 1, companies experience low pressure from both local and host markets. Wide latitude exists for companies to adopt whatever citizenship programs they wish, and, likely as not, companies in this quadrant will be "minimalists." In Quadrant 4, companies experience high pressure from both home and host country to carry out citizenship programs. Companies here are more likely to adopt "activist" citizenship programs. These activist companies may or may not have to customize their citizenship activities locally; it depends on the institutional distance separating

FIGURE 2
Citizenship Expectations, the Range of Acceptability, and Customization

		3 Expansionists	4 Activists
Level of citizenship expectations in the host market	High	Companies adopt citizenship profiles that are greater than in their home market.	Companies adopt citizenship profiles that are active both at home and abroad.
	Low	1 Minimalists	2 Reductionists
		Low	High
		Level of citizenship expectations in the home market	

their home and host environments. Companies from countries with low institutional distance (i.e., that have similar institutional profiles) are more likely than those from less similar countries to have citizenship programs that fall within the range of acceptability.

Quadrant 2 describes conditions in which global companies carry out citizenship programs in their home markets but face low pressure to do so abroad. Here, companies are likely to adopt "reductionist" citizenship postures in host countries—to adopt citizenship profiles that are designed to meet lower levels of expectation in the host countries they enter. Apparel industries, for instance, have traditionally operated with reductionist postures and limited citizenship involvement in local communities. Quadrant 2 postures are inherently risky: home country activism can generate unexpected visibility, and a company's low level of citizenship activity in the host country can be a source of resentment to home country stakeholders. Criticisms of Nike's operations in Asia in the 1990s, for instance, forced the company to alter its citizenship profile, even though local pressures did not require it. As a result, the company has changed many of its labor contracts, environmental practices, and reporting structures and now even regularly insists on third-party inspections of local subcontractors.

Quadrant 3 describes the situation facing global firms that expand into countries with higher expectations than those in home markets. For example, when Japanese firms first invested in the United States, they met signifi-

cant local resistance. Complaints included a failure to participate in and contribute to the local communities in which they operated. Japanese companies found themselves pressured to become "expansionists" and to enlarge their citizenship activities to the United States' higher expectations in order to gain legitimacy and, thus, mitigate their liability of foreignness.

Hence, whether a company's citizenship activities fall within or outside the range of acceptability is determined by the distance between its home and host national institutional environments. The greater the institutional distance between a company's home and host institutional environments, the less likely its citizenship profile is to fall within the range of acceptability and the greater the degree to which the company has to customize its citizenship profile to the local institutional environment.

Company Effects on Citizenship Customization

Empirical research suggests that certain companies are more likely to sponsor citizenship programs than others (McWilliams & Siegel, 2000; Royal, 1998; Waddock & Graves, 1997). Industries, for example, vary in their proclivity and ability to invest in citizenship activities. Industries in which firms are rooted in one community, such as utilities, and manufacturers of consumer goods tend to contribute more than other industries do (Royal, 1998). At the firm level, age, financial performance, advertising intensity, and R&D intensity are associated with corporate giving (McWilliams & Siegel, 2000;

Waddock & Graves, 1997). Waddock and Graves (1997) hypothesize that profitability provides firms with slack resources that can then be used for philanthropy. Within the United States, companies in the Midwest tend to be more philanthropic than those on the East or West Coasts (Royal, 1998).

In the remainder of this section we discuss five factors that may affect the level of customization in which a firm engages: international experience, local market experience, local staffing levels, centrality of activity, and the role of the subsidiary. All may affect the degree to which the company will customize its citizenship profile to local conditions.

International experience. Companies with more extensive global operations and greater experience in global markets tend to have managers who are more cognizant of cross-cultural differences (Anderson & Gatignon, 1986). They are therefore more likely to have competence in developing and implementing appropriate citizenship programs that fall within the range of acceptability.

Local market experience. Global firms' liability of foreignness within a specific market may change over time as they learn more about and become increasingly embedded in local environments (Mezias, 2002). For instance, Zaheer and Mosakowski (1997) not only demonstrated the presence of a liability of foreignness in global currency trading rooms but also showed that the liability declined the longer a foreign firm resided in a particular location over the twenty-year period of the study. The longer a company has invested in the local market, the more familiar it is with local conditions and, hence, the more likely its citizenship activities will fall within the range of acceptability.

Local staffing levels. Global companies that rely on expatriates to staff operations magnify their foreignness and so heighten the local social barriers they must overcome. A company can reduce the institutional distance it experiences by staffing its operations with local employees and delegating decision making to local managers (Mezias, 2002; Prahalad & Doz, 1987). Local personnel are embedded in the local community and are more likely to initiate activities within the range of acceptability.

Centrality to company. Citizenship activities vary in their degree of relatedness to a company's core business activities and values. The

degree to which an activity is related to a company's core or peripheral activities may influence the degree to which managers are willing to customize the company's activities to the local market. For instance, the pharmaceutical and computer industries tend to make in-kind contributions of products or employee expertise, rather than cash. Chemical firms that adopted global high environmental standards outperformed others in the industry that adopted local standards (Dowell et al., 2000). The chemical processes that were adopted globally were core technologies allowing standardization and efficiency in production, training, and so forth. In addition, superior environmental standards may be welcomed cross-nationally. Therefore, we suggest that the more related a particular citizenship activity is to a company's core activities, the less likely the company is to customize that activity to the local institutional environment.

Role of subsidiary. Finally, subsidiaries vary in their purpose and role in an internationalizing company. Subsidiaries may source raw materials, source products or services, serve new customer markets, or obtain low-cost financing or taxes. As the purpose of the subsidiary varies, so may the target audience for citizenship activities and the pressure to conform to local expectations. For example, oil and apparel companies are regularly criticized by activists for their effects on local environments and on indigenous peoples in the countries from which they source products. For both industries, sourcing is an important factor in their global competitiveness, but one largely hidden from view. Companies are therefore less likely to develop extended citizenship profiles unless pushed to do so by activist groups or local governments to appease local concerns.

In contrast, subsidiaries established for marketing purposes are more likely to initiate citizenship activities in order to reach out to local publics. Thus, Shell and Nike, which were slow to initiate citizenship programs in countries like Nigeria and Brazil, have been very active in citizenship programs in more developed economies in which they actively market their products.

CONCLUSION

In this article we have developed a cross-national, institutional model of corporate citizenship and have introduced key aspects of the

content of corporate citizenship activities. In this section we suggest avenues for future research and assess our contribution to the literature on corporate citizenship, strategic balance theory, and the liability of foreignness.

The lines demarcating legally mandated behavior, expected behavior, and unexpected behavior shift from country to country and, at times, within countries. Over time, the range of acceptability companies face will change as they enact the institutional environments they choose to inhabit. In particular, when the citizenship activities of foreign companies exceed those of local companies, the shape of the range of acceptability may change. For instance, higher foreign labor standards may force local firms to improve working conditions to compete effectively in the labor market (Quadrant 2's reductionist profile). Similarly, foreign firms may introduce practices from their home country or other host countries to new host countries (Quadrant 3's expansionist profile). Global firms may introduce practices from a host country back to their home country. For instance, Japanese firms brought U.S.-style corporate citizenship practices back to Japan (Royal, 1998). Over time, these activities, such as higher standards with regard to the environment or child labor, may become legitimate and form a new standard.

We also have described the appropriateness of a firm's citizenship activities for a particular institutional environment. An initial step in testing these ideas will involve developing a taxonomy of citizenship activities that recognizes their multidimensionality. A systematic framework for examining a firm's portfolio of citizenship activities will facilitate the identification of the acceptability space and the study of fit with the institutional environment in which the activities occur.

Citizenship programs can help globalizing companies neutralize their alien features by strengthening community ties and by enhancing their reputations with potential local employees, customers, and regulators. However, poorly conceived citizenship programs may also increase the liability of foreignness. Magnifying the local content of citizenship activities mitigates perceptions of foreignness and facilitates assimilation.

We also have argued that a society's level of economic development and culture will shape local expectations and, thus, will affect the range of acceptability. National factors may explain why

many Western companies fail to anticipate the resistance they experience to Quadrant 3 expansionist citizenship programs (Tichy et al., 1997). Although consistent with the paradigms of their home countries, these citizenship programs are often too visible and ambitious for the local countries in which they are implemented; the programs fall outside the range of acceptability of the host country's institutional environment.

Incorporating considerations of national institutional environments rather than culture alone also helps explain the seeming paradox relating to U.S. and U.K. citizenship behavior. Although similar along every cultural dimension (Hofstede, 1980; Ronen & Schenkar, 1985), both personal and corporate giving rates differ greatly between the two countries. Exploring this paradox requires examining the role of local institutions in each society—government, corporations, civil society—that provide for society's needs.

In conclusion, corporate citizenship provides an appropriate application of strategic balance theory. At heart, globalizing companies are torn between exploitation of core competencies across markets and legitimacy building across institutional environments (Kostova & Zaheer, 1999). On the one hand, globalizing firms succeed by exploiting core competencies that provide them with a competitive advantage. These benefits are typically achieved through standardization of activities across markets. On the other hand, the institutional environments of host countries require local adaptation to institutional norms. Resisting these pressures requires companies to find a strategic balance between isomorphism and differentiation (Deephouse, 1999). As a result, the content and the appropriateness of the citizenship activity to the host country are as crucial as the amount of citizenship investment the company makes. In addition, an appropriate citizenship profile may enable a company to appear local while it standardizes its core competencies across markets. Future research should parse these institutional effects carefully in order to fully assess the role that corporate citizenship plays in facilitating adaptation of global firms to local conditions and achieving competitive advantage.

We hope that this manuscript motivates research that explores two questions. What should a manager developing citizenship activities for a foreign market consider and do? How can local citizens or groups better target foreign companies for assistance?

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