CSR VIOLATIONS AMONG DOMESTIC AND FOREIGN FIRMS: A STUDY OF ENVIRONMENTAL MISCONDUCT IN THE UNITED STATES

Abstract

The present study develops a theoretical framework to examine local media coverage of CSR violations by domestic and foreign firms. Specifically, we draw upon expectancy violation theory and the ingroup-outgroup literature to examine how foreignness influences the likelihood of local media coverage following environmental misconduct and whether foreignness moderates the effect of CSR reputation on local media coverage. Using firm-level data on environmental violations in the United States, we find support for our hypotheses, thus contributing to the corporate social responsibility and liability of foreignness literatures and providing new insights for the liability of good reputation literature.

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CSR VIOLATIONS AMONG DOMESTIC AND FOREIGN FIRMS: A STUDY OF ENVIRONMENTAL MISCONDUCT IN THE UNITED STATES

There is a growing body of research on corporate social responsibility (CSR; e.g., Ferrell et al., 2016; Matten & Moon, 2008). A well-known definition of CSR is "actions [by a firm] that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams & Siegel, 2001, p. 117). Prior studies have examined CSR with respect to global value chains (Goerzen, Iskander & Hofstetter, 2020), CSR reputation (Dau, Moore & Newburry, 2020), and CSR orientation (Liu, Jia, Jia & Koufteros, 2021). Others have sought to understand CSR performance (Gjølberg, 2009) and how CSR influences firm performance (Eden, Miller & Li, 2020; Judge & Douglas, 1998), as well as the extent to which firms "practice what they preach" with respect to their CSR activity (e.g., Wickert, Scherer & Spence, 2016).

Kölbel, Busch and Jancso (2017) asserted that CSR "earns the goodwill of stakeholders" (2017, p. 2266) and dampens the effect of stakeholder sanctions following a negative event (Godfrey, 2005). In a sense, this view contends that CSR is an insurance policy (Kölbel et al., 2017).[1] Among social stakeholders, there is an expectation that firms will engage in legitimate practices with respect to the environment, people and governance practices. Burgoon described expectancies as "an enduring patterns of anticipated behavior" (1993, p. 31). These 'expectancies' play an influential role with how firms are perceived (Park, Cho & Kim, 2021). We therefore contend that the insurance approach breaks down when the bad act pertains to *corporate social irresponsibility* (CSI, Lange & Washburn, 2012) – that is, those expectancies are violated. Strike et al. defined CSI as the "set of corporate actions that negatively affects an identifiable social stakeholder's legitimate claims" (2006, p. 852).[2]

The growing attention to the disclosure of organizational misconduct has prompted other scholars to examine the role of the media (Dong, Han, Ke & Chan, 2018; Friebel & Heinz, 2014; Kölbel, Busch & Jancso, 2017; Wiersema & Zhang, 2013). Whereas CSR is self-promoted by firms, CSI is established by external actors and often shared with the media. Indeed, social stakeholders have an incentive to disclose CSI that compromises their interests (Barnett, 2014). The media, however, has an incentive to disproportionately share CSI news in favor of CSR news, in large part, because actors perceived negativity as more intriguing that positivity – i.e., a negativity bias (Rozin & Royzman, 2001). Thus, the media plays a crucial role in identifying and disclosing misconduct. As an information intermediary, media coverage of misconduct can increase public awareness and shape public views of those organizations and their top management teams (Dyck & Zingales, 2002; Hoffman & Ocasio, 2001; Miller, 2006). Nevertheless, firms may be treated unequally by the media when it comes to coverage of CSI.

As we reflect on the possible reasons for differential media disclosure, we note that the CSR-CSI literature does not distinguish between bad acts – CSI versus non-CSI.[3] We contend that this distinction may influence whether or not a bad act is deemed a negative expectancy violation (Burgoon, 1993; Cho, Park & Kim, 2021) by social stakeholders. Second, the literature has overlooked whether or not a focal firm is an ingroup or outgroup member (e.g., Bettencourt et al., 1997). In a multinational setting, prior studies have contended that foreign firms tend to suffer from a liability of foreignness (LOF) in host countries (Eden & Miller, 2004; Zaheer, 1995). Indeed, Kostova and Zaheer (1999) asserted that foreign firms face stereotypes for being outsiders; however, the LOF literature does not address adequately local stakeholders' reactions to negative expectancy violations. Relatedly, Burgoon and Hale (1988) suggested that expectancy violations have a stronger effect on evaluations of actors than behaviors that conform with expectations. For example, Rhee and Haunschild (2006) concluded that firms with stronger reputations were punished more severely for product recalls – i.e., negative expectancy violations – or for what they referred to as the liability of good reputation. As such, firms with strong CSR reputations may be treated differently than their peers with weaker CSR reputations for a comparable CSR violation. In addition, people evaluate a focal actor more extremely when the focal actor's actions and behaviors violate expectations for their ingroups (Bettencourt et al., 1997). Therefore, local media coverage of negative expectancy violations (NEVs) may depend on the CSR violating firm's ingroup-outgroup membership (that is, local or foreign) and whether that firm has a strong or weak CSR reputation (high or low negative expectancy violation).

Due to this understudied area of the CSR-CSI literature, the objective of the present study is to answer the following two-part research question: To what extent does foreignness influence local media coverage of a firm's CSI? To what extent does foreignness moderate the relationship between CSR reputation and local media coverage of a firm's CSI? To study our research questions, we focus on corporate environmental misconduct that results from breaking environmental laws. We draw upon the expectancy violation theory (EVT) (Burgoon, 1993; Jussim, Coleman & Lerch, 1987) and ingroup-outgroup literature from social psychology (e.g., Brewer, 1979; Halabi, Statman & Dovidio, 2015) to examine how foreignness influences the likelihood of local media coverage following a CSR violations and whether foreignness moderates the effect of CSR reputation on local media coverage. To test our hypotheses, we obtain data for firm's environmental misconduct (enforcement cases) from the Enforcement and Compliance History Online (ECHO) database of the United States Environmental Protection Agency (EPA), and collected related coverage in the major domestic newspapers, along with firm-specific control variables from Compustat. We restrict the sample of our study to those federal EPA cases of publicly-traded firms with at least a US$ 500,000 financial penalty during the period 1991 to 2020. We test our hypotheses using a sample of 110 firm-level observations.

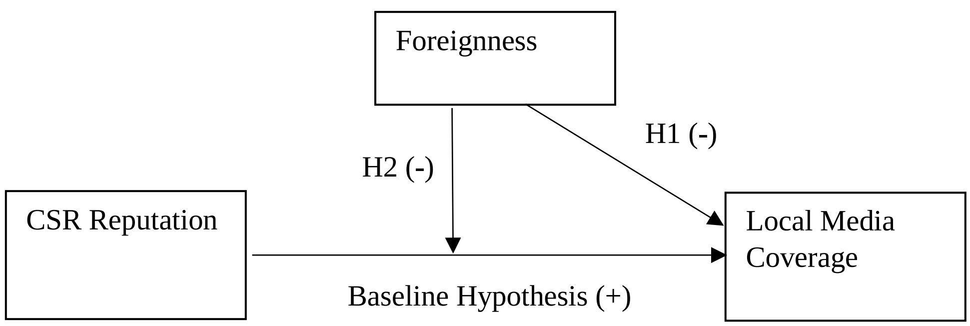
We contribute to the CSR literature by integrating ingroup-outgroup with expectancy violation theory to explain the consequences of CSR violations by foreign firms relative to local ones. Specifically, we introduce 'expectancy violations' to the LOF literature and in doing so explain how negative expectancy violations by foreign firms are disclosed by the media less often than local firms – that is, reflecting outgroup favoritism, (Bettencourt et al., 1997) or what we contend is a higher CS standard for ingroup members – thus building on work of Friebel and Heinz (2014) in particular and Campbell et al. (2012) and Kostova and Zaheer (1999) in general. Also, we theorize and show that foreignness moderates the effect of CSR reputation on media disclosure, which extends Dau, Moore and Newburry's (2020) work on CSR reputation and Rhee and Haunschild's (2006) work on the liability of good reputation.

Our study is timely because various organizations – such as Maclean's, Frontstream and Forbes – have developed lists of the most socially responsible firms.[4] Such publicly available information enables stakeholders to build an assessment of a firm's reputation in terms of its CSR-CSI activities. As a result, a firm can develop its CSR reputation with various stakeholders (Lange, Lee & Dai, 2011), yet tarnish it with violations (Lange et al., 2012).

THEORY DEVELOPMENT

Our theoretical framework is driven by expectancy violation theory, but it focuses on two key characteristics of the organizational actors – foreignness and CSR reputation as shown in Figure 1. So, we begin with a brief discussion of the reputation and EVT literatures, followed by the ingroup-outgroup literature.

Figure 1 Conceptual Framework



Reputation

There have been many studies that have examined firm reputation (Fombrun, 1996; Fombrun & Shanley 1990). Lange, Lee and Dai noted that reputation tends to be conceptualized with respect to "*being known*", "*being known from something*" and "*generalized favorability*" (2011, p. 155). The "*being known for something*" dimension, which Rindova, Williamson, Petkova and Sever defined as "degree to which stakeholders evaluate an organization positively on a specific attribute, such as ability to produce quality products" (2005, p. 1035), seems especially relevant to the present study. Firms can differentiate themselves from other firms by engaging in corporate social activities that exceed government regulations

(Miller, Eden & Li, 2020). For instance, being known as a socially responsive firm can attract more investors and enhance customer attitudes (Ellen et al., 2006).

Expectancy Violation Theory

EVT has its roots in the communication literature (Burgoon & Jones, 1976). Jones asserted that it is "a tendency to assume that a given action can be explained by reference to a corresponding disposition" (1986, p. 44). Expectancy violations can be either positive or negative. If an actor's actions violate expectations positively (negatively), then evaluations of that actor should be more extreme in a positive (negative) direction of the expectancy violation – i.e., the absolute value of the swings is larger in both directions. Thus, expectancy violations theory suggests that positive expectancy violations arise when an actor outperforms expectations, so the actor is evaluated more positively. Similarly, NEVs occur when actors engage unexpectedly in misconduct, in which case, the actors are evaluated more severely. In the context of the present study, Park, Cho and Kim (2021) asserted that consumers have high expectancies of firms with strong CSR reputations. Thus, when consumers are subjected to adverse CSR practices by high CSR reputation firms – i.e., an NEV – then they are inclined to have less favorable attitudes toward those firms.

McLaughlin and Vitak noted that according to EVT, "a violation increases alertness and attention paid to the interaction and heightens attention to the characteristics of the communicator, the relational implications, and the meaning behind the violation" (2011, p. 302). However, prior studies have contended that expectancy violations produce different reactions that depend upon the actor that violates expectations and whether the violation is negative or positive (LePoire & Burgoon, 1994). As we discuss below, we contend that the likelihood of media coverage will depend on whether a firm is local or foreign.

Similarly, expectancy violations can arise when actors have different reputations. The differentiating effect of reputation on market sanctions arise because a positive reputation accorded to a firm increases stakeholders' expectations – e.g., about the quality of a firm's products and services or in the present study, its commitment to high CSR standards. Alternatively, stakeholders tend to place low expectations on firms with low CSR reputations. Higher expectations, for example, of product/service quality or of CSR commitment, may be perceived as an "implicit promise" between a firm and its current and prospective stakeholders (Rhee & Haunschild, 2006, p. 103). As such, the stronger is a firm's reputation for high quality products and services (or CSR commitment), the stronger is the perception of a breach when that firm incurs a product defect, service mishap, or in our case, a CSR violation. Thus, negative reactions to a CSR violation are likely to be more intense for high CSR reputation firms. As such, strong CSR reputation actors who incur NEVs are inclined to be evaluated more negatively than low reputation actors, for whom we expected to rate negatively all along (Jussim et al., 1987). As we noted above, Rhee and Haunschild (2006) found that a strong reputation can be a liability when the firm suffers from a negative reputation event (such as a product recall). Thus, we contend that the higher is a firm's CSR reputation, the more likely the media will provide negative coverage of the firm's CSR misconduct. Thus, our baseline hypothesis is that *firm with stronger CSR reputations, compared to the ones with weaker CSR reputations, have a higher likelihood of receiving local media coverage for a CSR violation*.

Ingroup-Outgroup versus Foreignness

Prior research on intergroup settings revealed that categorization into groups leads to favoritism toward ingroup members and stereotyping / discriminatory treatment of outgroup members (e.g., Brewer, 1979; Brewer & Kramer, 1985). Aligning with this bias, individual actors tend to exhibit different expectations of ingroup and outgroup members (Maass et al., 1989). For instance, individual actors expect more favorable and less unfavorable actions from ingroup members than outgroup members (Howard & Rothbart, 1980).[5] Moreover, individual actors are inclined to infer negative characteristics from unfavorable behaviors by outgroup members than ingroup members. Alternatively, they are less likely to infer positive characteristics from favorable behaviors by outgroup members compared to ingroup members. These differential expectations suggest that the linkage between action and inference is considerably stronger for an action that confirms pre-existing views about an actor (Maass et al., 1989).

The bias stems from stereotypical expectations of outgroup members to display unfavorable social behavior. Outgroup members are not expected to engage in unfavorable behavior at all times; but rather exhibit a high probability of unfavorable actions and low probability of favorable ones. So outgroup members that display favorable behaviors such as CSR activities do not cause ingroup members to recalibrate their negative stereotype, because expectations allow for some favorable actions (Wilder, 1986).

Prior studies have shown that individual actors differentially explain positive and negative actions for ingroup versus outgroup members (Halabi, Statman & Dovidio, 2015; Maass, Salvi Arcuri & Semin, 1980). Halabi et al. contended that unfavorable behavior of outgroup members was described in a more abstract manner that seemingly suggested "intentionality"; whereas the same unfavorable behavior was explained in more concrete terms for ingroup members (2015, p. 105).

According to the LOF literature (Eden & Miller, 2004; Kostova & Zaheer, 1999), insufficient information about foreign firms in the host country can result in stereotyping by local stakeholders and using different standards for assessing foreign firms (outgroup members) versus local firms (ingroup members).[6] With less information about foreign firms, host country institutional actors may delay legitimation and engage in additional scrutiny of those foreign firms relative to local firms. Although there are exceptions,[7] the LOF literature tends to equate local firms with insiders and foreign firms with outsiders, which aligns with the ingroup-outgroup literature (Brewer, 1979; Halabi, Statman & Dovidio, 2015; Howard & Rothbart, 1980; Maass et al., 1989).

Foreign firms can overcome LOF through their actions and be perceived as insiders in a host country (Eden & Molot, 1993, 2002; Johanson & Vahlne, 2009). For example, Johanson and Vahlne contended that 'anything that happens, happens within the context of a relationship, and a firm that is well established in a relevant network or networks is an "insider"' (2009, p. 1415). Zaheer and Mosakowski (1997) suggested that firms can overcome LOF by becoming "sufficiently embedded" in the local information networks in the host country. Campbell, Eden and Miller (2012) argued that CSR activities could be used by foreign firms as a way to improve their embeddedness and overcome LOF in the US market.

While foreign firms can achieve legitimacy among host country institutional actors, this does not grant them full or unambiguous insider membership (see Eden & Molot, 2002; Yamin & Kurt, 2018). We note this distinction because at a minimum, transacting between foreign and domestic firms does not necessarily translate to equal access to the same information in terms of quality and timeliness (e.g., Zaheer & Mosakowski, 1997). Hence, the present study suggests that foreign firms are still stereotyped as outsiders. Specifically, foreign firms that obtain/maintain external legitimacy and thus develop extensive relationships with domestic firms (i.e., inside members) are not viewed as insiders, but rather as legitimate outsiders (Kostova & Zaheer, 1999).[8] Thus, foreign firms, in general, are stigmatized as outsiders. However, this literature has not taken into consideration whether or not an action is an expectancy violation.

Drawing upon the EVT and ingroup-outgroup literatures, we assume that insiders are considered more trustworthy than outgroup members. However, Bettencourt noted that subjects "judged a set of ingroup members more negatively than a set of outgroup members when each was described as violating norms exclusive to their respective ingroup" (1997, p. 247). So when local firms incur NEVs, the local media are more likely to draw attention to local firms compared to foreign firms for CSI. This reaction by the local media to NEVs is consistent with "outgroup favoritism" (Bettencourt et al., 1997, p. 247), or alternatively a higher standard for ingroup members. Given the propensity to negatively stereotype foreign firms, NEVs are likely to trigger a weaker negative sentiment by the local media; that is, it reinforces the stereotype, so the breach is deemed less of a surprise. Applied to the present study, we expect that foreign firms are less likely to face local media disclosure following environmental misconduct than local firms. Thus:

Hypothesis 1: Foreignness reduces the likelihood of a firm receiving local media coverage for a CSR violation.

Foreignness * CSR reputation

As we noted above, positive expectancy violations by outgroup members are, in a sense, downplayed by ingroup stakeholders because they allow for a certain number of these favorable cases by outgroup members. Ingroup stakeholders are unlikely to attribute the positive expectancy violations to characteristics of outgroup members, but rather to instances of "concrete behavior" (Maass et al., 1989, p. 983). However, a strong reputation can be a means to reducing LOF and gaining/maintaining legitimacy in the host country (Kostova & Zaheer, 1999; Campbell, Eden & Miller, 2012). This assertion is consistent with the view that an outsider can become legitimate in the eyes of local stakeholders (Kostova & Zaheer, 1999) or that there are conditions that allow for the "acceptance of overlapping ingroup-outgroup memberships" (Brewer & Pierce, 2005, p. 435).[9] We contend that foreign firms with high CSR reputations face a challenge from local customers and stakeholders because of the need for "concrete behavior". Therefore, we contend that a CSR violation (i.e., CSI) falls short of providing such concrete evidence and reaffirms the negative characteristics/ stereotypes of the foreign firms (i.e., the outsiders). Alternatively, "negative behaviors of ingroup members…may be more likely to violate category-based expectancies" such that CSI by local firms with high CSR reputations is considered an even stronger trust breach with local stakeholders and customers (Bettencourt et al., 1997, p. 247). Therefore, it warrants the most extreme response making this subset of ingroup members even more likely to be exposed by the local media. Since local actors have negative stereotypes of outsiders and their predicted behaviors, foreign firms – even with high CSR reputations – that commit CSI reinforce established expectations so media exposure of the NEV is unnecessary. Thus:

Hypothesis 2: Foreignness weakens the positive relationship between CSR reputation and the likelihood of a firm receiving local media coverage for a CSR violation.

METHODS

Data

We obtain CSR violation cases during the period 1991 to 2020 from the EPA ECHO website https://echo.epa.gov/facilities/enforcement-case-search by selecting Case Type = "Any", Case Category = "Administrative Formal, Judicial", Case Lead = "Federal EPA". We excluded cases involving 'State' or

‘City’ governments as the violating parties. We focused on those publicly-traded business firms in this Federal EPA violation database with financial penalties of at least US$500,000, which resulted in a sample of 360 firm violation cases with identifiable firm name and Global Company Key (GVKEY) that could be used to identify other company financial and operating information that serve as our control variables (described below) through Compustat. These GVKEYs are used to look up their corresponding stock tickers which allow us to extract their CSR reputation information on Bloomberg. This reduces our sample to 272 firms (violation cases) with valid tickers. Using this list of sample firms, we examined Nexis Uni to determine if news outlets adopted the Federal Information and News Dispatch report on the focal company’s environmental violation. However, due to missing values of the interested variables described below, our final sample size for this study is 110 environmental misconduct cases, so no panel structure is needed.

Dependent variable

Media coverage. Media coverage is a 0-1 dummy variable that equals one if domestic newspapers adopted the Federal Information and News Dispatch report on the focal company’s CSR violation, zero otherwise. We used this measure instead of a media salience measure (Kiousis, 2004) because CSR violations – environmental misconduct – are expected to have a negative tone, so all stories are expected to have negative *valence*.

Independent variables

Foreign. Foreign is a dichotomous variable that equals one for non-US firms, and zero for U.S. firms.

CSR reputation. We first collect each firm’s S&P Global ESG Rank (RobecoSAM Rank) which is industry-relative percentile rank (0-100) converted from its total sustainability score, based on the S&P’s RobecoSAM Corporate Sustainability Assessment on Bloomberg. To avoid some potential distribution issues associated with the percentile rank, we constructed our measure of CSR reputation as a dichotomous variable that equals one if the firm is in the top quintile based on the rank provided by Bloomberg, and zero otherwise.

Control variables

We include a set of control variables that are likely to influence the media coverage of CSR violation. First, we control for firm size (*Size*), measured by the natural log of the total asset. Firm size is likely to reflect the visibility of the firm and therefore influence the CSR violation. We also include the natural log of the amount of federal penalty (*Penalty*) since penalty reflects the intensity of CSR violation and therefore is likely to affect media coverage. Additionally, we include a dichotomous variable *Loss* that equals 1 if the firm incurs a loss during the current fiscal year. We further control for the firm lagged cash holdings (*Cash Holdings*), measured as cash and short-term investment divided by sales, as firms with deep pockets are more likely to be covered for CSR violation. Finally, to control for *firm age*, we include the natural log of the firm age at the time of the case. In addition to above controls, our regression model includes industry (Fama-French 17 industry classification) and year effects.

Analysis

Our dependent variable is dichotomous – local media coverage (or no media coverage) of a focal firm following a negative expectancy violation. Therefore, we use a Probit model with robust standard errors clustered at the firm level. All continuous variables are winsorized at 0.01 and 0.99 percent.

RESULTS

Table 1 reports the summary statistics and correlations among the study variables. Forty percent of CSR violations are covered by major news agencies. Additionally, 22 percent of firms in our sample are foreign. The correlation results show that media coverage is negatively associated with *Size* and positively associated with *Loss*.

Table 1. Descriptive statistics and correlations and the study variable (N = 110)

	Variable	Mean	*SD*	1	2	3	4	5	6	7
1	Media Coverage	0.40	0.49	1.000						
2	Size	10.12	1.48	-0.287*	1.000					
3	Federal Penalty	14.17	1.02	-0.022	0.121	1.000				
4	Loss	0.14	0.34	0.218*	-0.124	-0.028	1.000			
5	Cash Holding	0.08	0.09	0.170	0.015	-0.038	0.287*	1.000		
6	Firm Age	3.59	0.69	-0.053	0.324*	0.065	-0.045	0.065	1.000	
7	CSR Reputation	0.20	0.40	0.059	0.035	-0.127	-0.064	-0.113	0.122	1.000
8	Foreign	0.22	0.41	-0.112	0.292*	0.157	-0.016	-0.134	-0.314*	0.068

Note. Correlations significant at $p < 0.05$ are represented with an *.

Table 2 provides results of the Probit model that estimated the likelihood of local media coverage following the CSR violation. Model 1 includes only the control variables and indicates that loss-making firms are more likely to receive local media coverage for CSR violation, while firm size reduces the probability that CSR violation will be covered. In Model 2, we added our variable of foreignness (*Foreign*). The results show that foreign firms are less likely to be covered by major U.S. media outlets (β = -2.221, p <0.01). We calculate the marginal effect for *Foreign* and our results show an economically significant effect of -44 percent, thus showing support of H1. The change in predictive power of Model 2 over Model 1 is significant ($\chi^2 = 7.42$, $p < 0.01$).

In Model 3, we include *CSR Reputation * Foreign*. The results continue to show a negative and significant coefficient on *Foreign* (β = -1.839, p <0.01). In addition, the coefficient on *CSR Reputation* becomes marginally significant (β = -1.502, p <0. 10). The coefficient on *CSR Reputation * Foreign* is negative and significant (β = -2.764, p <0. 05), indicating that foreignness negatively influences the probability of local media coverage of NEVs by high CSR firms, thereby showing support for H2. The change in the predictive power of Model 3 over Model 2 is significant ($\chi^2 = 4.96$, $p < 0.05$).[10]

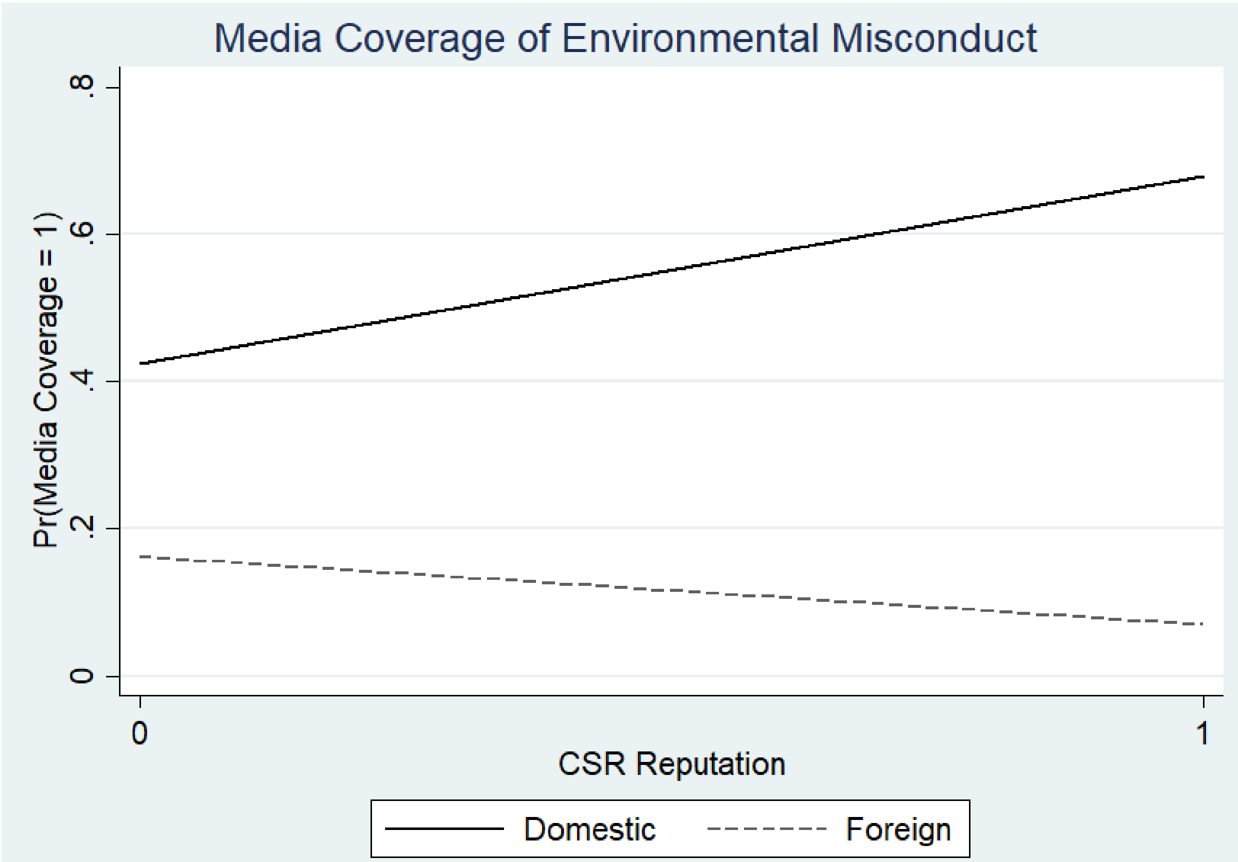
Table 2. CSR Violation, Foreignness and Media Coverage

	(1)	(2)	(3)
DV		*Media Coverage*	
Constant	2.688	3.826	4.798
	(3.09)	(3.16)	(4.02)
Size	-0.484***	-0.342*	-0.420**
	(0.14)	(0.15)	(0.15)
Federal Penalty	-0.101	-0.194	-0.249
	(0.20)	(0.21)	(0.26)
Loss	1.608**	2.333**	3.029**
	(0.61)	(0.87)	(1.16)
Cash Holding	0.969	-0.095	-1.697
	(2.29)	(2.40)	(2.80)
Firm Age	0.275	-0.186	-0.149
	(0.23)	(0.28)	(0.26)
CSR Reputation	0.047	0.492	1.502+
	(0.65)	(0.71)	(0.80)
Foreign		-2.221**	-1.839+
		(0.82)	(0.97)
CSR Reputation * Foreign			-2.764*
			(1.24)
Industry and Year dummies	Incl.	Incl.	Incl.
Observations	110	110	110
Pseudo R-squared	0.381	0.432	0.460
Prob > $\chi 2$ (p-value)		0.006	0.026
Log Pseudolikelihood	-45.571	-41.816	-39.757

Note. Industry and year dummies are included. Robust standard errors, clustered by firm, appear in parentheses; +p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.001. All p values reflect two-tailed tests.

To better understand the moderating effect of foreignness, we report the margin plots – predicted probability of media coverage following environmental misconduct in Figure 2. The results show that foreign firms, in general, are less likely to receive media coverage following environmental misconduct. A closer look shows that high CSR foreign firms have a predicted probability of media coverage following environmental misconduct of 0.07, but high CSR domestic firms have a predicted probability of 0.68 – a difference of 0.61. Low CSR reputation foreign firms have a predicted probability of 0.16, while low CSR reputation domestic firms have a predicted probability of media coverage following environmental misconduct of 0.42, which reveals a difference of 0.26. The empirical results and figure also show that in a multinational setting, the effect CSR reputation on media coverage following NEVs depends on foreignness and suggests that for NEVs there is outgroup favoritism by the local media.

Figure 2



DISCUSSION

An interesting aspect of our theory and findings pertains to how the local media reacts to NEVs. Our finding that foreign firms incur less (not more) media coverage of CSR violations (i.e., NEVs) than domestic firms suggesting that foreign firms can achieve external legitimacy but do not obtain inside group membership in countries with strong CSR orientations such as the United States.

Interestingly, our baseline hypothesis regarding CSR reputation was not well supported in the overall sample. That is, a firm's CSR reputation did not directly influence the likelihood of local media coverage following CSR violations, but rather, we showed that the effect of CSR reputation is driven by foreignness. The finding that high CSR local (foreign) firms are the most (least) likely ones to receive local media coverage provides an important boundary condition for Rhee and Haunschild's (2006) work on the liability of good reputation. We believe that these results generalize to other host countries with strong CSR orientations – especially, other developed countries.

CONCLUSION

The present study sought to understand the implications of NEVs of foreign and domestic firms. Specifically, we examined the direct and moderating effect of foreignness on the likelihood of media coverage of environmental misconduct. Although the LOF literature has argued that foreign firms get stereotyped, we focused on ingroup versus outgroup membership to explain the likelihood of local media coverage of foreign and domestic firms following environmental misconduct in a host country.

Contributions

Our study makes the following contributions to the literature. First, our paper explains the implications of CSR violations for both foreign and local firms by developing a framework that leverages both ingroup-outgroup literature and expectancy violation theory. The key aspect of our framework is that when firms incur a negative expectancy violation, such that ingroup members (local firms) are treated worse – i.e., more likely to be exposed by the media – than outgroup members (foreign firms), which builds upon the work of Friebel and Heinz (2014). Our study extends the CSR literature by shedding new light on how a foreignness affects a firm following environmental misconduct thus extending the work of Campbell et al. (2012) and Kostova and Zaheer (1999) more broadly. Also, we theorize and show that foreignness moderates the effect of CSR reputation on media disclosure of environmental misconduct, which builds upon the CSR reputation (e.g., Dau et al., 2020) and liability of good reputation (Rhee & Haunschild, 2006) literatures, respectively. This aspect of our paper also deepens our understanding of CSR violations in a multinational setting.

Limitations

Our study's findings need to be viewed with the following limitations in mind. First, we constrained the environmental misconduct threshold to above US $500,000; which does not include a large number of smaller financial penalties cases that we suspect as much less likely to receive media coverage. Second, we used a less frequently adopted measure of CSR reputation. We tried to use the KLD dataset, however, it tends to be a U.S.-centric CSR database. In doing so, a high percentage of foreign firms had missing values and thus would have been dropped from the sample. Needless to say, the new measure provided encouraging results and warrants additional testing by the IB scholarly community. Also, we used a dummy variable for foreignness. Future research may seek to examine home-country factors that may influence the reaction to foreign firms (e.g., Miller & Parkhe, 2002). Lastly, we focused on one form of CSR violation – environmental misconduct. Future research may consider CSR violations related to social issues, procurement, hiring practices, and even financial misconduct. Such opportunities may reveal whether some CSR violations are deemed more (less) severe NEVs by the local media and other local stakeholders. Another potential limitation pertains to firm-specific factors that may influence media coverage. Despite our effort to control for firm-specific factors – a firm's industry, penalty size, firm size, firm age and losses – we still acknowledge that other firm-related factors may warrant attention in future research.

One of the challenges in a CSR study is to address the problem of endogeneity, which can be related to omitted variables, reverse causality, or characteristics of the sample. Our CSR reputation measure is based on a historical long-term average and thus much less subject to reverse causality. Although we control for various firm-specific factors in our regression analysis, we cannot completely rule out endogeneity concerns.

Our study of CSR violations sought to advance our understanding of environmental misconduct in a multinational setting. We hope that it inspires further research on CSR violations – especially with respect to the roles of ingroup-outgroup membership in less CSR-oriented countries and the home-country CSR reputation of foreign firms.

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Endnotes

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[1] For instance these authors further contended that "positive moral capital acts as insurance as it protects relational wealth against loss by mitigating negative stakeholder assessments and related sanctions when bad acts occur" (2017, p. 786).

[2] In this study, we use CSR violation and corporate social irresponsibility interchangeably.

[3] A firm that layoffs off employees is not necessarily a negative expectancy violation. However, a firm that is exposed for providing poor working conditions is an example of a CSR related negative expectancy violation if safe work conditions is the societal norm.

[4] http://www.forbes.com/pictures/efkk45fdekj/the-10-companies-with-the-best-csr-reputations-2/#2dfda10377ae

[5] Previous studies have shown that individuals bond with similar others "because they believe that these partners will be trustworthy" (Jackson et al., 2017: 216). In business relationships, homophily can facilitate knowledge sharing within the firm (Mäkelä et al., 2012).

[6] These authors also asserted that MNEs' subsidiaries face different standard for legitimation – local institutions expect MNE's subsidiaries to do more than local firms in terms of support the local communities.

[7] Kostova and Zaheer (1999) noted that in countries with illegitimate local firms, foreign firms may be considered legitimate.

[8] Also, foreign firms can overcome liability of foreignness with firm-specific and home-country advantages (Miller & Parkhe, 2002). Also see Miller and Richards (2002), who distinguished between foreign firms that were members and nonmembers of the European Union.

[9] Determining if foreign firms actually become insiders in a host country is beyond the scope of the present study.

[10] In unreported regressions, we re-estimate our models after including a country-level CSR reputation. To do so, we include country-level carbon dioxide (CO2) emissions per capita. Including CO2 emissions do not alter our inferences related to our variable of interests.