Chapter 6

The Importance of Firm Size and Development Strategies for CSR Formalisation

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Abstract

Despite the relevance of firm size in the analysis of corporate social responsibility (CSR) engagement, there is still much to know about the specific impact of firm size on CSR formalisation. Moreover, in order to better understand such a relation, the interaction effects of development strategies on which companies may base its growth, namely diversification and internationalisation, will be also taken into account. Specifically, this work contributes to shed light on these issues by combining theories related to external and internal drivers of CSR. Using a sample of Spanish listed firms, the results show that firm size affects positively CSR formalisation, and that this effect is stronger in the case of adopting a diversification strategy, while no evidence was found for the moderating effect of internationalisation strategy.

Keywords: CSR formalisation; firm size; development strategies; diversification; internationalisation

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Introduction

Corporate social responsibility (CSR) implies integrating social and environmental concerns in business operations and interactions with stakeholders. This idea, which moves beyond the only consideration of shareholders' interests, gained currency in the 1960s and has been increasingly considered as an interesting research topic since then. Despite the abundant amount of works published to date, there is still much to know about the antecedents, outcomes and process of CSR decision-making or

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implementation. After their review of previous literature, Wang, Tong, Takeuchi, and George (2016) propose some possible directions for future research. In particular, they state that "the motives behind why organizations engage in CSR may well be reflected in how they go about implementing and delivering on it" and that "such mapping of motives and efforts and their contingencies become rich avenues for future research" (Wang et al., 2016, p. 540). This is essentially the context where this chapter tries to contribute to the current knowledge.

Building on the extant literature, CSR engagement can be defined as an overarching concept of how a firm combines two key components of corporate responsibilities (Porter & Kramer, 2006, 2011; Vallentin & Spence, 2017): First, *CSR formalisation*, that is, the establishment of formal structures related to CSR, and the adoption of formal procedures and guidelines to communicate CSR to external audiences (e.g. relevant departments and committees, ethical codes or CSR reports); and, second, *CSR implementation*, that is, the application of strategies, actions and practices in core business processes within the firm to facilitate CSR (e.g. changing methods of production to reduce environmental impacts or changing labour relationships both within the firm and across the firm's value chain). However, most of the previous studies do not sufficiently distinguish between both dimensions when making statements on CSR engagement.

While CSR has a tendency to be influenced by firm size (Wickert, Scherer, & Spence, 2016), not enough attention has been given to how corporate size relates to the two dimensions of CSR engagement (Ortiz-Avram, Domnanovich, Kronenberg, & Scholz, 2018). In this sense, although large firms tend to engage in CSR based on formal structures and codes of conduct rather than implicit behavioural guiding principles common in small firms (Russo & Tencati, 2009; Scherer, Rasche, Palazzo, & Spicer, 2016; Wickert, 2016), it remains unclear why these heterogeneous patterns of CSR engagement between firms of different sizes can be observed.

Our study contributes to the literature by focussing exclusively on CSR formalisation, and by examining for the first time firm size as the main explicative variable of this dimension of CSR engagement. Firm size, as one of many variables that define organisational structure, is perhaps the most pervasive in terms of the number of suggested relations with other organisational features (see Josefy, Kuban, Ireland, & Hitt, 2015, for a recent review). This general consensus in the literature about the predictive capacity of this variable explains that we focus on size effects.

Moreover, we are aware that another organisational attributes such as the product–market scope might have implications when looking at the relationship between firm size and CSR formalisation. While Wickert et al. (2016) pick this attribute up in the research agenda proposed by them, its effects have not yet been empirically explored. The current chapter seeks to make an important step in this direction by analysing the moderating role of the two essential product–market scope strategies – diversification and internationalisation – on the firm size–CSR formalisation link. Specifically, both diversification and internationalisation represent corporate directions for strategic development, being conceptualised here as the entry of firms into new business lines and new geographical markets, respectively.

An additional contribution of the chapter has to do with its theoretical framework. Frynas and Yamahaki (2016) reviewed the theories that have been utilised to explain CSR and they revealed the need for multi-theory studies in future research. Most previous works are based on a single theory and when a multi-theory approach is used, they usually combine theories related to external drivers of CSR (most commonly stakeholder theory and institutional theory or legitimacy theory). The combination of theories related to both external and internal drivers, such as resource-based view (RBV) and agency theory, is scarce and needs to be more frequent as it offers many complementary insights. This chapter turns to both kinds of theories in order to support the research hypotheses.

The rest of the chapter is structured as follows. The next section poses the hypotheses to be tested based on a review of the literature and the empirical evidence. The sample, measurement of the variables and the methodology are described in the third section, followed by the results. Finally, the last section offers the main conclusions, implications and future lines of research.

Theoretical Background and Hypotheses

Baseline Hypothesis: Firm Size and CSR Formalisation

The formalisation of CSR activities can be defined as "a logic of compliance and standardisation of CSR intended for external analysis rather than an internal tool for management" (Fassin, 2008, p. 368). More recently, Wickert et al. (2016) refer to it as the primarily externally facing documentation of corporate responsibilities. After reviewing the literature, several practices emerge regarding the CSR formalisation in a firm: (a) the existence of a department, a board committee responsible of CSR activities or a foundation (Graafland, Stoffele, & Van de Ven, 2003; Maon, Lindgreen, & Swaen, 2010); (b) the incorporation of social aspects in the firm's value and mission statement, and the adoption of codes of ethical conduct and policies that formalise the firm's values (Crane & Glozer, 2016; Perez-Batres, Doh, Miller, & Pisani, 2012); (c) the publication of a CSR report (Perrini & Minoja, 2008; Schreck & Raithel, 2018), which can be drafted accordingly to international or national standards – for example, the Global Reporting Initiative (GRI) guidelines; and (d) the voluntary adherence to certain national and international initiatives that prove the social commitment of the firm – for example, the Principles of the United Nations Global Compact (Crane & Glozer, 2016; Fowler & Hope, 2007).

Although previous research has widely examined the relationship between the size of the firm as a contingency factor and the formalisation of organisational structure, finding mostly positive effects (Baker & Cullen, 1993; Glock & Broens, 2013; Mansfield, 1973; Marsh & Mannari, 1981; Wang, 2009), to date no empirical study has been published giving evidence on the direct impact of firm size on CSR formalisation. However, taking into consideration the idiosyncrasies of large and small firms that allow to explain their different approaches to establish formal structures and procedures related to CSR, it is possible to expect that firm size also affects positively CSR formalisation (Ortiz-Avram et al., 2018; Wickert et al., 2016).

According to institutional theory, firms need to follow the social norms prevailing in a given business environment as they will only survive if they obtain a certain level of external social approval (legitimacy) (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 2001). Due to the fact that large companies are more visible and open to public scrutiny, they have greater legitimacy needs and that makes them more active in terms of CSR activities and reporting (Arvidsson, 2010). When these firms engage in socially irresponsible activities, they are more likely to suffer from negative publicity. Additionally, large firms are more likely to be targets of social movements to draw more attention from regulators, media and the general public (Bartley & Child, 2014). Specifically, CSR formalisation may play a fundamental role in gaining legitimacy by large firms as it informs that their organisational behaviour is congruent with their values, norms and expectations (Gavana, Gottardo, & Moisello, 2017). Thus, the growing pressure from stakeholders to make CSR engagement more transparent and explicit has turned CSR formalisation into a priority for large firms in order to respond properly to stakeholder demands (Chiu & Sharfman, 2011; Schreck & Raithel, 2018).

Additionally, from a more internal point of view, it can be said that as firm size increases – all else being equal – CSR formalisation will become more favourable in economic terms, which provides an incentive for large firms to invest in formal structures and procedures to communicate externally about CSR (Porter & Kramer, 2006, 2011). RBV (Barney, 1991, 1997; Penrose, 1959; Rugman & Verbeke, 2002; Wernerfelt, 1984; among others) changes the focus of analysis from adaptation to the external environment towards exploiting internal resources when it comes to know how to gain a sustainable competitive advantage. Thus, firms' performance is mainly explained by the possession of valuable, rare and inimitable resources. Several studies (e.g. Hart, 1995; McWilliams & Siegel, 2001; Russo & Fouts, 1997) have shown how investment in CSR can help develop specialised skills which lead to firm-specific economic benefits for companies. The external benefits of CSR are linked to its effect on corporate reputation (Branco & Rodrigues, 2006), which can be especially advantageous for large firms in order to gain the legitimacy they need. Among the numerous definitions of corporate reputation that can be found in the literature we rely on Waddock's (2000, p. 323), who proposes that "corporate reputation is the perceived capacity of the organisation to meet the expectations of stakeholders." Due to the fact that CSR formalisation helps to show a serious commitment to CSR actions and stakeholders' needs, it will improve corporate reputation. Furthermore, large firms have cost advantages over small firms when it comes to formalising CSR because this activity can be centrally organised (e.g. a CSR department files a CSR report) and it predominantly implies fixed costs (e.g. human and financial resources for establishing a CSR department, for publishing a report or formally joining CSR initiatives), so that economies of scale can be more easily obtained (Wickert et al., 2016).

In contrast to most large firms, small firms are not likely to see significant advantages in CSR formalisation because they have a low visibility and face both low public scrutiny and the lack of attention from external stakeholders and the media (Gray, Kouhy, & Lavers, 1995; Schreck & Raithel, 2018). Furthermore, smaller firms have relatively high costs of formalising their CSR because formal tools, such as codes, reports and social, environmental and ethical standards require, among other things, the investment of time, financial resources and competences to implement new organisational routines that they are not ready to provide (Fassin, 2008; Russo & Tencati, 2009; Wickert et al., 2016). Consequently, meeting the increasingly demanding formal reporting requirements for CSR, such as structuring a report along the extensive performance indicators of the GRI, appears to be unappealing for them. Unlike larger firms, small firms tend to use informal, personalised mechanisms to interact with a selected group of high-proximity internal stakeholders on the basis of face-to-face interaction rather than formal structures and written reports (Badulescu, Badulescu, Saveanu, & Hatos, 2018). Thus, their motivations to invest resources in largely ignored but costly formal tools are limited.

We argue thus that the relative organisational costs for CSR formalisation will tend to decrease with the size of the company whereas rewards of different nature will tend to increase, all of which will provide incentives for large firms to focus on this aspect of CSR engagement. In accordance with this reasoning, we propose the following hypothesis:

H1. Larger firms are more likely to engage in CSR formalisation.

Diversification and Internationalisation Strategies as Moderators

Since this work focusses on firm size as a determinant of CSR formalisation, it must be taken into account that the evolution of a company's size is associated with two key concepts in strategic management: growth and development. In this sense, the latter one is a broader concept than the former as it not only refers to an increase in firm size, but also to qualitative issues, such as the composition of the business portfolio, which determines the product–market scope of the firm. Specifically, a firm's scope is defined by its directions for development, which refer to strategic decisions on whether a company focusses on the activities that it has been involved in, develops other new ones or restructures the sum of its businesses (Navas-López & Guerras-Martín, 2018). Drawing upon the classical approach by Ansoff (1965), two specific directions for strategic development seem to have potential to influence on the relationship between firm size and CSR formalisation.

On the one hand, the diversification strategy can be defined as

> the entry of a firm into new lines of activity, either by processes of internal business development or acquisition, which entails changes in its administrative structure, systems, and other management processes. (Ramanujan & Varadarajan, 1989, p. 525)

This corporate strategy thus refers to the entry of a firm in new business lines by developing new products for new markets and is regarded as an effective solution for competitive advantage, growth and firm survival. In contrast to specialisation strategy, it has been traditionally argued that diversification can be driven by a range of perceived benefits associated with market power advantages (Scherer, 1980), greater efficiency of internal capital markets (Stein, 1997; Williamson, 1975, 1985), scope economies from sharing resources and capabilities across different businesses (Markides & Williamson, 1994; Tanriverdi & Venkatraman, 2005), increased debt capacity (Lewellen, 1971), tax and other financial advantages (Berger & Ofek, 1995) and risk reduction (Hasseldine, Salama, & Toms, 2005).

On the other hand, the internationalisation strategy can be understood as "the process through which a firm expands the sales of its goods or services across the borders of global regions and countries into different geographic locations or markets" (Hitt, Ireland, & Hoskisson, 2007, p. 251). Thus, it is the process of increasing involvement of firms in international markets. In this sense, this corporate strategy can be viewed as an important dimension in a company's growth (Aguilera-Caracuel & Guerrero-Villegas, 2018; Peng & Delios, 2006), representing a direction for strategic development that intends to create or reinforce a company's competitive advantage through the exploitation of new growth opportunities, the development of economies of scale and scope, as well as the access to new resources and capabilities (Attig, Boubakri, El Ghoul, & Guedhami, 2016). In general, previous empirical evidence has supported the notion of a positive association between internationalisation and companies' success (Majocchi & Zucchella, 2005; Tallman & Li, 1996; Vila & Küster, 2015). Specifically, two complementary explanations can be offered in this regard: the self-selection and the learning hypotheses (Bernard & Jensen, 1999).[1] The self-selection hypothesis implies that it is firms' competitive success that triggers them to internationalise. Therefore, it is the most productive companies that finally break into foreign markets (Haidar, 2012). Otherwise, the learning hypothesis implies that it is firms' international presence itself that increases their competitive success in two different ways: by raising the use of companies' installed capacity in order to serve a bigger market and by accelerating their learning processes, mostly due to information spillovers (Girma, Greenaway, D., & Kneller, 2004).

According to Kang (2013), diversification and internationalisation strategies may positively affect CSR engagement by increasing firms' range of business operations, which will increase the quantity and diversity of stakeholders and, in turn, stakeholder demands and social issues faced by companies. In this context, two managerial reasons to respond appropriately to such external demands may appear in both diversified and internationalised firms (Kang, 2013): First, aggravation of managerial risk aversion, which is one of the major determinants of the level of managerial attention to stakeholders' claims (Deckop, Merriman, & Gupta, 2006; McGuire, Dow, & Argheyd, 2003). In this sense, a firm's diversification and internationalisation tend to induce managers to pursue safe strategic decisions and engage in risk management, for example, by properly paying attention to stakeholders' complaints and social issues (Barnett & Salomon, 2006; Godfrey, Merrill, & Hansen, 2009). Second, lower managerial employment risk, which implies lower pressure from shareholders and a higher willingness to

[1]Traditionally, these two hypotheses have been more specifically proposed for dealing with exporting firms but the same reasoning might be extended to internationalised firms in general.

allocate more attention and firm resources to stakeholder demands and social commitment (Kacperczyk, 2009). Specifically, both corporate strategies tend to reduce the employment risk of managers by lowering the bankruptcy risk of the company (Amihud & Lev, 1981), and by increasing the management entrenchment, that is, a firm's reliance on its managers' particular skills (Shleifer & Vishny, 1989). Therefore, these two managerial reasons will increase the incentives of firms following diversification or internationalisation strategies to address adequately their relation with the different stakeholders and to engage in CSR activities.

Beyond these theoretical arguments, empirical evidence has been found. Regarding the corporate diversification–CSR relationship, a positive association may be generally accepted.[2] Some articles clearly reflect such a positive effect of diversification on social and environmental issues, such as Choi, Jo, Kim, and Kim (2018) for Korea, and Amran, Ooi, Mydin, and Devi (2015) for Malaysia. Moreover, partial support for such a positive relation is found by Kang (2013) and Dooley and Fryxell (1999) for the USA, and Xu and Liu (2017) for China, since they found that only unrelated diversification positively affects corporate social performance. Empirical evidence has also mostly supported the notion of a positive influence of the internationalisation strategy on CSR.[3] For example, Aguilera-Caracuel, Delgado-Márquez, and Vidal-Salazar (2014), Aguilera-Caracuel, Guerrero-Villegas, & García-Sánchez (2017), Kang (2013), Simerly (1997) and Strike, Gao, and Bansal (2006) for the USA; Aguilera-Caracuel, Escudero Torres, Hurtado-Torres, and Vidal Salazar (2011) for Spain; and Ma, Zeng, Shen, Lin, and Chen (2017) for China. Furthermore, it has also been suggested that the internationalisation–CSR relationship varies significantly across different components of social performance (Brammer, Pavelin, & Porter, 2006). Finally, for a large sample of firms from 44 countries, Attig et al. (2016) showed that firms with extensive foreign subsidiaries in countries with well-functioning political and legal institutions have better CSR ratings.

Once stated that both development strategies may be related to CSR actions, it seems appropriate to study if the effect of firm size on CSR formalisation might be intensified or not when such a size is accompanied by a wide range of business lines (diversification) or geographical markets (internationalisation).

Formalisation can represent a first step to deal with CSR issues within diversified firms, establishing a common framework to think, develop and/or participate in social and environmental initiatives across their business lines (Wickert et al., 2016). Considering that diversified companies have extensive influence on the welfare of many stakeholders in different business lines (Xu & Liu, 2017), it is likely that they find advantages in actively responding to external demands through formal CSR structures. Diversified firms are exposed to several stakeholders with varied demands

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[2]Nevertheless, some other papers have found a non-significant relationship between corporate diversification and CSR (Hossain & Reaz, 2007; Patrisia & Dastgir, 2017).
[3]Some negative (Cho et al., 2015; Chun, 2014) or non-significant (Amran et al., 2015) effects of internationalisation on CSR have also been found. Strike et al., (2006) showed that both socially responsible and socially irresponsible behaviours are associated with internationally diversified firms.

and with a relatively low proximity to the firms. This puts more pressure on them to externally show their commitment and contribution to society in social and environmental issues, that is, to make their CSR more visible and transparent (Chiu & Sharfman, 2011; Wickert et al., 2016). Moreover, both the positive corporate image and the valuable goodwill generated from investments in CSR formalisation can be effectively leveraged across a number of different lines of activity (Godfrey et al., 2009; Wickert et al., 2016). All these arguments would imply that the diversification strategy strengthens the positive relationship between firm size and CSR formalisation. However, it might be also considered that, from a managerial perspective, running a diverse portfolio of businesses may generate different problems and, specifically, increase companies' coordination costs (Grant, Jammine, & Thomas, 1988). This situation is potentially generated because diversifying firms may invest their excess assets in entering new business lines, which will progressively be more distant, being more difficult to manage them (Wernerfelt & Montgomery, 1988). In particular, with regard to CSR formalisation, this circumstance could imply that, in very different industries, relevant stakeholders could demand distinct logics of compliance and standardisation of CSR, with the consequent difficulties and coordination costs. Following this reasoning, if firms grew by entering new, different business lines, the positive influence of firm size over CSR formalisation could be reduced.

Overall, we can propose that a greater degree of diversification could affect the willingness for large firms to invest in formal structures and procedures to communicate externally about CSR. Consequently, the following hypothesis can be posed:

> *H2*. The diversification level moderates the relationship between firm size and CSR formalisation.

International strategy puts companies under scrutiny by many external stakeholders from different countries and exposes them to worldwide public opinion (Aguilera-Caracuel, Guerrero, Vidal, & Delgado, 2015). As a consequence, a solid corporate reputation will be especially valuable and these companies will be more willing to adopt formal CSR structures that contribute to satisfy the stakeholders' expectations and inform audiences of the whole world about it (Banerjee, 2008; Marano & Kostova, 2015). This way, internationalised firms can leverage valuable intangible assets among a number of international markets to better overcome the liability of foreignness (Wickert et al., 2016). The investments in developing social responsibility statements for external audiences generate a positive brand image, which can be transferred across subsidiaries in global markets. Obviously, this would mean that the internationalisation strategy enhances the positive impact of firm size on CSR formalisation. However, a high level of international diversification can also raise coordination costs and slow down the assimilation of new knowledge (Aguilera-Caracuel et al., 2015, Hitt, Black, & Porter, 2006) because companies handle a large volume of information and have different units located in environments with institutional unique characteristics (Kostova, Roth, & Dacin, 2008, Peng, Wang, & Jiang, 2008). Thus, interacting with different cultures and levels of differentiated economic development could make it difficult and expensive for internationalised companies to standardise their CSR practices (Aguilera-Caracuel et al., 2015). In this sense, if firms grew by entering new geographical markets, the positive relationship between firm size and CSR formalisation might be reduced.

As a result, in a positive or negative way firm internationalisation process may affect the relationship between firm size and CSR formalisation, since these companies could be affected by investments in formal structures and procedures related to social and environmental issues distinctly. Therefore, the following hypothesis is proposed:

> *H3*. The internationalisation level moderates the relationship between firm size and CSR formalisation.

Empirical Analysis

Sample and Data

The database used to test the hypotheses comprises all Spanish firms listed in the Madrid Stock Exchange General Index as of 31 December 2014 (100 companies with differences in terms of size). Finance and securities companies were excluded from the initial database due to their special characteristics, such as their specificity from an accounting point of view or the regulation or structure of these markets (15 companies). Additionally, one of the companies did not have an annual report and a corporate governance report filed in the National Securities Market Commission due to having suffered an exclusion takeover bid in February 2015. As a result, our study utilises a population of 84 publicly listed Spanish companies.

The concept of CSR is difficult to operationalise given that it is a complex and multidimensional construct (Waddock & Graves, 1997). In fact, the literature has tried to measure CSR in many different ways, being possible to distinguish four general types of measurement (Orlitzky, Schmidt, & Rynes, 2003; Van Beurden & Gössling, 2008): First, through the qualifications granted to companies by agencies specialised in social and environmental assessment, such as the KLD indicators (Arora & Dharwadkar, 2011); second, through the presence of companies in certain sustainability indexes, such as the Dow Jones Sustainability Index (Gjølberg, 2009); third, by association with measures of corporate reputation, such as the list of the most admired companies elaborated by *Fortune* magazine (Fombrun & Shanley, 1990); and fourth, from the work carried out by the researchers themselves, both through content analysis (Prado-Lorenzo, Gallego-Alvarez, García-Sánchez, & Rodríguez-Domínguez, 2008) and the collection of primary information, through surveys or interviews, with own questionnaires or scales or based on previous studies (Maignan & Ferrell, 2000). In this sense, we have followed the last proposed pattern to measure CSR formalisation. Specifically, by combining content analysis of corporate governance reports, systematic Google searches and survey research, data for 100% of companies in the population were collected between November 2015 and January 2016. The final sample therefore is composed of 84 firms. AQ3

Audited annual reports held at the National Securities Market Commission (*Comisión Nacional del Mercado de Valores* or CNMV) were consulted in order to obtain information related to the firm size and diversification strategy. Moreover, corporate websites and the Iberian Balance Sheet Analysis System (*Sociedad de Análisis de Balances Ibéricos* or SABI) were consulted for collecting data on companies' internationalisation. Finally, information about control variables was also obtained from SABI. All these independent variables (explanatory, moderating and control variables) were referred to the year 2014.

Measurement of Variables

Dependent variable. After reviewing the literature on the main practices related to the CSR formalisation in a firm (Crane & Glozer, 2016; Maon et al., 2010; Perrini & Minoja, 2008; Russo & Tencati, 2009; Schreck & Raithel, 2018, among others), a total of six items referred to the year 2015 were chosen to obtain an indicator of formal CSR structures, tools and guidelines, based on data publicly available on the sampled Spanish firms (CSR_FORMAL) (Appendix). The first three of them were related to structural issues, which intend to reflect the fact that the firm devotes financial and human resources to consider CSR issues when deciding its formal structure. The other three items were related to the adoption of different formal tools and guidelines to communicate CSR to external stakeholders. All these items could only adopt two possible values for each company: 1, if the corresponding formal CSR practice was present in the company, or 0, if it was not present. To ensure the reliability of the construct, Cronbach's alpha was calculated, resulting in a value of 0.780, which can be considered acceptable, as it exceeds the minimum of 0.6, and justifiable, given the novelty of the issue being analysed and the difficulty of quantifying it (Malhotra, 1981). As a measure of CSR formalisation by companies, the sum of the scores obtained for the six items mentioned was calculated.

Explanatory variable. We utilised as a proxy of our principal explanatory variable, firm size (SIZE), total assets, in millions of Euros, which has been widely used in previous works as a relevant determinant of CSR (Barnea & Rubin, 2010; Harjoto & Jo, 2011). This variable was included in logarithm in the statistical analyses.

Moderating variables. We used the entropy index to measure the firms' level of diversification (DIV) (Martínez-Campillo & Fernández-Gago, 2011; Palepu, 1985), which is defined as:

$$\mathrm{DIV} = \sum_{i=1}^{n} P_i \ln\left(\frac{1}{P_i}\right)$$

where n is the number of a firm's business segments according to its annual reports and P_i is i-th business segment's sales divided by the firm's total sales. The entropy increases with greater diversification and combines objectivity, content and construct validity and simplicity.

Additionally, we measured the level of internationalisation (INTERN) as the number of countries in which such a firm operates (Godos-Díez, Cabeza-García, & Fernández-González, 2018; Pla & Cobos, 2002).

Control variables. Given that CSR engagement can be conditioned by several companies' characteristics (McWilliams & Siegel, 2001; Waddock & Graves, 1997), three control variables were included. We considered economic profitability (ROA) AQ4 as an indicator of corporate financial performance, given its possible influence on the future development of CSR actions (Fabrizi, Mallin, & Michelon, 2014; Preston & O'Bannon, 1997). Additionally, companies' leverage level (LEV), measured as the ratio between borrowed funds (short-term and long-term debt) and total assets, was included (Arora & Dharwadkar, 2011; Godos-Díez, Cabeza-García, Alonso-Martínez, & Fernández-Gago, 2018). Finally, we incorporated as a control variable the sector of activity (SECTOR), measured as a dummy variable that takes value 1 if, according to the primary and secondary SIC code of the sector to which the company belonged, it could be classified as "sensitive from the environmental point of view" (mining, gas, chemicals, paper, iron, steel and other metals), and 0 otherwise (Fernández-Gago, Cabeza-García, & Nieto, 2016; Reverte, 2016).

Methodology

A hierarchical moderated regression analysis was carried out to test the three hypotheses proposed in the theoretical framework. First, in Model 1, the only independent variable included was SIZE with the control variables. In Models 2a and 2b, the main explanatory variable was introduced into the regression analysis along with the moderating variables (DIV and INTERN, respectively) and the control variables. In Models 3a and 3b, a new variable was added to the previous models, which is the product between the main explanatory variable and each of the moderating variables (SIZE × DIV and SIZE × INTERN, respectively). In Model 4, we included the two moderating and the two interaction variables together with the main explanatory variable and control variables. Robust models were estimated, thus considering the possible problem of heteroscedasticity.

To apply a moderated regression analysis, it is advisable to mean-centre the independent variables on the average before calculating the interaction term (Aiken & West, 1991). This procedure does not affect the coefficient of multiple determination, R^2, nor the probabilities of the model, F, nor the value of the regression coefficients, except for the independent term. Among the advantages found are both the reduction and/or elimination of the problem of multicollinearity between explanatory variables and interaction terms as well as obtaining more easily interpretable estimates (Cohen, Cohen, West, & Aiken, 2003; Holmbeck, 2002; Marquardt, 1980). Thus, all continuous independent variables were centred before proceeding with the rest of the analyses.

Finally, considering a potential endogeneity problem in the models proposed, explanatory and control variables were lagged by one year (Kennedy, 2008).

Results

Table 1 provides the descriptive statistics for the variables used in the regression analyses, while Table 2 shows the correlation coefficients between them. Once the non-normality condition of the explanatory, moderating and continuous control variables

Table 1. Descriptive Statistics.[a]

Variables	**Mean**	**Maximum**	**Minimum**	**Std. Dev.**
CSR_FORMAL	2.321	6.000	0.000	1.743
SIZE	8,059.216	1.22×10^5	35.832	1.91×10^4
DIV	0.472	1.370	0.000	0.379
INTERN	29.821	196	1	34.720
ROA	0.045	0.309	−0.235	0.072
LEV	0.663	1.837	0.138	0.299
Other explanatory variables		% (number of observations = 1)		
SECTOR		20.24 (17)		

[a]$n = 84$.

Table 2. Spearman's Correlation Matrix.

	1	**2**	**3**	**4**	**5**	**6**	**7**
1. CSR_FORMAL	1						
2. SIZE	0.816**	1					
3. DIV	0.233*	0.287**	1				
4. INTERN	0.250*	0.246*	0.376**	1			
5. ROA	0.137	0.090	−0.109	−0.204†	1		
6. LEV	0.296**	0.312**	0.254*	0.057	−0.359**	1	
7. SECTOR	0.156	0.093	−0.026	0.248*	0.097	−0.092	1

[a]$n = 84$.
† $p < 0.10$; * $p < 0.05$; and ** $p < 0.01$.

was confirmed, and considering that Pearson's correlation coefficient does not function correctly for the discrete variables as it is very sensitive to violations of the assumption of normality, Spearman's correlations were calculated. Although some variables were significantly correlated, following the empirical rule of Kleinbaum, Kupper, and Muller (1998), the analysis of the variance inflation factors (VIF) indicated no evidence of multicollinearity because no VIF was higher than 10. More specifically, VIF remained below five (Hair, Black, Babin, & Anderson, 2010) in all our models.

The results of the regression analysis are shown in Table 3. As can be observed in Model 1, the coefficient of the variable SIZE is positive and statistically significant ($\beta = 0.708$, $p < 0.01$). Our results therefore confirm that firm size is positively and significantly related to CSR formalisation, as proposed in *H1*. Additionally, Models 2a and 2b show that the variables DIV and INTERN per se do not have a direct, significant effect on formal structures and procedures related to CSR.

To determine the moderating effect, two interaction terms formed by the product of the explanatory variable (firm size) and each one of the variable whose influence

Table 3. Moderated Regression Analysis.[a]

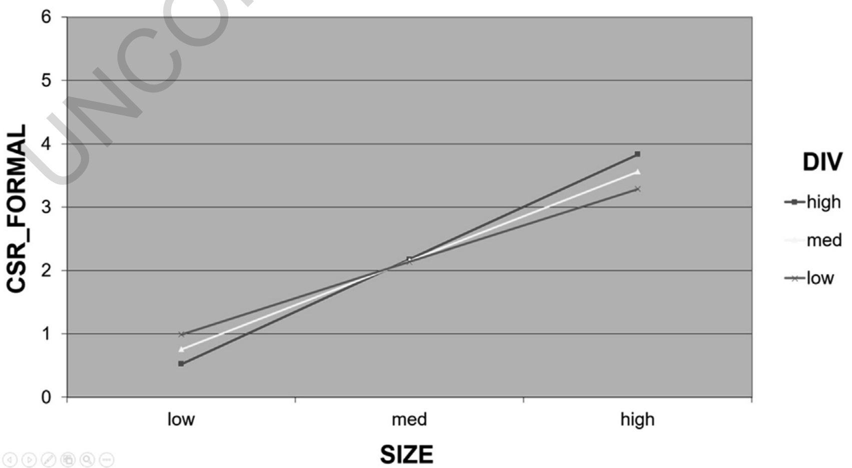
Explanatory variables	Model 1	Model 2a	Model 2b	Model 3a	Model 3b	Model 4
SIZE	0.708** (13.57)	0.700** (12.32)	0.703** (13.32)	0.707** (13.04)	0.702** (13.13)	0.705** (12.95)
DIV		0.136 (0.44)		0.053 (0.18)		0.009 (0.03)
INTERN			0.003 (1.21)		0.003 (1.22)	0.002 (0.99)
SIZE x DIV				0.338** (2.76)		0.337** (3.64)
SIZE x INTERN					0.001 (0.64)	−0.000 (−0.13)
ROA	0.497 (0.29)	0.495 (0.29)	0.660 (0.39)	0.452 (0.27)	0.533 (0.31)	0.613 (0.36)
LEV	0.233 (0.60)	0.209 (0.54)	0.267 (0.71)	0.197 (0.51)	0.264 (0.67)	0.234 (0.60)
SECTOR	0.380† (1.74)	0.386† (1.72)	0.336 (1.53)	0.436 (2.09)	0.340 (1.54)	0.396† (1.90)
R^2	0.685	0.685	0.687	0.703	0.688	0.705
F	73.26**	57.79**	60.91**	51.36**	55.56**	41.07**

[a]Dependent variable: CSR_FORMAL. $n = 84$ (t-value).
† $p < 0.10$; * $p < 0.05$; and ** $p < 0.01$.

is to be studied (the levels of diversification/internationalisation) were introduced in Models 3a and 3b, respectively. The interaction term was significant in Model 3a ($\beta = 0.338$, $p < 0.01$), providing support for the moderating role of the diversification strategy in the firm size–CSR formalisation link. In this sense, taking into account that DIV is not significant in Model 2a, our results would indicate the presence of a pure moderating effect (Sharma, Durand, & Gur-Arie, 1981). Moreover, the positive sign of the interaction coefficient would reflect an amplifying effect of the level of diversification on the initial positive relationship between SIZE and CSR_FORMAL, as established in *H2*. In contrast, the interaction term was not significant in Model 3b, which implies that the company's international presence does not appear to act as a variable that influences the firm size–CSR formalisation relationship. Therefore, we do not find empirical support for *H3*. Finally, in the saturated model (Model 4), the previously mentioned results were corroborated.

Regarding the control variables, only SECTOR was statistically significant ($p < 0.1$) in three of the models (Model 1, 2a and 4). Specifically, those sectors of activity that can be classified as environmentally sensitive can be expected to expose companies to a greater extent to public opinion, which might encourage them to formalise more their CSR.

Once found a significant interaction, creating and interpreting a graph may be useful to investigate it a bit further (Aiken & West, 1991). Therefore, a line graph (Graph 1) was developed using Modgraph (Jose, 2013), which shows three regression lines for CSR_FORMAL based on SIZE corresponding to three specific values for the moderating variable (its mean value, and plus and minus its standard deviation, respectively). According to the slopes of the lines in Graph 1 for high [0.834; $t = 12.153$ ($p < 0.01$)], medium [0.707; $t = 8.226$ ($p < 0.01$)] and low [0.579; $t = 7.836$ ($p < 0.01$)] values for the diversification (DIV) variable, it can be said that the relationship between firm size and CSR formalisation is stronger when the firms are more diversified.



Graph 1. Moderation Analysis: Diversification (DIV) as a Moderator Variable.

Complementary and Robustness Results

In addition to the moderated regression analysis, and to complete the study of the interaction effects, it is possible to carry out a subgroup analysis for the variable for which we were previously unable to test the moderation hypothesis. This procedure basically consists in comparing the regression coefficients of the independent variable over the dependent variable, or the percentage of the dependent variable explained by the model, in different subgroups of the sample that represent different states of the moderating variable (González-Benito, 2007; Venkatraman, 1989). In this case, two subgroups were distinguished, comprising the values higher and lower than the median for the INTERN variable. Regression models proposed according to the two subgroups of the moderating variable included firm size as an independent variable as well as control variables. Additionally, to test the equivalency of the models, the Chow (1960) test is proposed, such that a significant value of the statistic would support the moderation hypothesis. Once compared the models of "high level of internationalisation" and "low level of internationalisation," it can be noted that the Chow test is not significant. Thus, these new results confirm that the internationalisation strategy does not act as a moderating variable of the relationship between firm size and CSR formalization.[4]

Furthermore, we repeated the analyses employing additional measures and models to establish the robustness of our results. First, with regard to our key explanatory variable, firm size, we considered firm total sales (in logarithm) as a proxy instead of total assets, and the results corroborated those presented in Table 3. Second, we measured INTERN as the total number of countries in which companies operate expressed in logarithm, and again the results did not vary. And finally, we considered different measures for two control variables: ROE instead of ROA as a proxy of corporate financial performance, and a new measure of SECTOR that differentiated industrial and service companies according to their primary activity. Again, the results did not vary regarding our hypotheses.

Conclusions

Drawing upon a sample of Spanish listed companies, this chapter analyses the impact of firm size on the formalisation of CSR and, from there, it helps to understand how two different directions for strategic development – diversification and internationalisation – may influence such a relationship.

Regarding the first objective of the study, it has been found that larger companies seem to promote CSR formalisation. Several arguments may be made to justify this finding but, in particular, two can be remarked here. First, the greater visibility of larger companies and the growing pressure from stakeholders on their actions and decisions seem to promote CSR formalisation as a means for gaining legitimacy and responding to stakeholders' demands properly. And second, there are cost advantages, in terms of economies of scale, and reputation benefits for larger firms when formalising CSR.

[4]These results are available upon request.

About the second objective, the results indicate that the positive relationship between firm size and CSR formalisation is affected by only one of the considered directions for strategic development, which is, corporate diversification. Specifically, diversification strategy appears to amplify the positive influence of firm size on formalising CSR issues. In this sense, to the extent that diversified firms are exposed to several stakeholders in different business lines, such companies appear to feel more pressure on them to externally show their formal engagement in social and environmental issues. Moreover, since diversified firms may spread the benefits of CSR formalisation across their different business lines, they will have more economic incentives to invest in formal structures and procedures to communicate about CSR, mainly in terms of potentially improving their reputational capital and of saving costs derived from economies of scope.

Conversely, internationalisation, measured as the number of countries in which the company operates, has not been observed to be a relevant factor conditioning the relationship between firm size and CSR formalisation. One possible explanation is that reasons for a positive and a negative effect may be counteracting each other. On the one hand, larger firms operating in numerous international markets may be more appealed to CSR formalisation in order to take advantage of leveraging their reputation among the diverse countries (Marano & Kostova, 2015). On the other hand, the institutional context of the countries can be too different and require a different approach when facing CSR actions, which would make CSR formalisation less convenient (Aguilera-Caracuel & Guerrero-Villegas, 2018). Besides, maybe it is not the number of countries but other internationalisation-related concepts which effectively condition the firm size–CSR formalisation relationship. For example, some relevant factors that might be considered are the companies' entry mode in a foreign market, distinguishing among more or less risky forms, with greater or lower commitment of corporate resources; or their approach to international competition, ranging from a global strategy, where the product is standardised in order to reduce costs, to a multidomestic strategy, focussing on the particular characteristics of each country in which it is operating.

With regard to the control variables, the results partially suggest that companies' industry may affect CSR formalisation. In particular, considering the sensitivity to social and environmental issues in the industry, and the potential impact of the activities carried out by companies, in some models it has been found that firms within more CSR-sensitive industries are more willing to formalise CSR matters. This result can be explained to the extent that companies in such industries might be more likely to deal with relevant social and environmental matters. Thus, they will have a greater incentive to formalise CSR since such formalisation may help them make CSR-related decisions more consistently.

Several implications of this work can be highlighted. From a theoretical perspective, this study contributes to the literature on CSR by focussing on a novel and relevant component of CSR such as CSR formalisation. This can be particularly useful within the strategic approach to CSR (Husted & Allen, 2007; Orlitzky, Siegel, & Waldman, 2011) since such a formal framework represents a firms' long-term commitment to CSR and a deliberate decision-making. Moreover, it also contributes to the literature on strategic management by emphasising the fact that both corporate characteristics (firm size) and development strategies (diversification and internationalisation) not only affect companies' financial performance but also influence the CSR actions, and more specifically, CSR formalisation. In this context of strategic management, beyond the widely analysed effect of relevant organisational characteristics (such as firm size) on CSR issues, from our results it can be suggested that research models about their determinants ought to include corporate strategies' matters. This circumstance comes not only because of their potentially direct influence, but also because development strategies may condition the effect of companies' structural characteristics on different variables.

Furthermore, from a professional perspective, by formalising CSR issues, stakeholders could observe and understand the socially and environmentally responsible actions and initiatives carried out by large firms better. In this sense, since today's diversified firms are facing an increasing pressure from many stakeholders in different business lines, managers of large firms should have greater motivations to formalise their CSR the more diversified they are. Here, a dual purpose can be signalled: (1) to make companies' social and environmental commitment more visible and transparent, as well as (2) to leverage the positive corporate image and reputation derived from investments in CSR formalisation across their different business lines. Accordingly, a greater level of diversification should put even more emphasis for managers of large firms to invest in formal structures and procedures related to CSR.

With regard to limitations and other potential avenues for further research, first, given that this work is focussed on the Spanish context, in future research the sample studied could be broadened to incorporate companies from other countries. This circumstance could help to include the potential influence of diverse institutional environments on companies' CSR engagement and formalisation (Jamali & Neville, 2011; Matten & Moon, 2008; Sison, 2009; Xu & Yang, 2010).

Furthermore, it is necessary to acknowledge as a shortcoming of the study that the problem of endogeneity might not have been fully removed by employing lagged independent variables. Thus, similar studies using a data panel could prove the existence or absence of relationships over the medium- and long-term, which is the time horizon in which CSR decisions tend to be made, and they could help control endogeneity by employing for example the GMM estimator. AQ6

Finally, to expand on the determinants of CSR formalisation and on its relationship with firm size, it could be interesting to study the influence of other factors at the organisational level. Taking into account the different levels of strategy (Navas-López & Guerras-Martín, 2018), this work has been focussed on corporate strategies exclusively but firms' competitive strategies (Porter, 1980) may also play a relevant role in relation to CSR issues. Thus, although a cost leadership strategy is likely to be positively associated with formalisation in general, CSR practices have been commonly used as a differentiation tool so that an interesting further research question can be raised with regard to CSR formalisation.

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Appendix: Indicator of CSR Formalisation

Is there a specific CSR department at your company?
Does your company have a specific CSR committee?
Does your company have a foundation that oversees social and/or environmental projects?
Does your company have a code of ethical conduct?
Does the CSR report follow the GRI guidelines?
Is your company a signatory to UN Global Compact?

AUTHOR QUERIES

AQ1: Please provide one more keyword to meet the book style requirement.

AQ2: Please note that the year of publication for the following citation has been changed as per the list: "McWilliams & Siegel, 2001" and "Ma, Zeng, Shen, Lin, and Chen, 2017". Kindly check.

AQ3: Please spell out "KLD" at the first mention in the text.

AQ4: Please spell out "ROA" and "ROE" at the first mention in the text.

AQ5: Please cite footnote "a" in Table 2.

AQ6: Please spell out "GMM" at the first mention in the text.

AQ7: Please provide the journal title in English in refs. "Aguilera-Caracuel et al. (2011, 2014) and Vila & Küster (2015)".

AQ8: Please provide the citation for the Ref. "Mahmood & Humphrey (2013)".