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Creators	Avloniti, Anthi, Anaxagorou, Christiana, Stylianou, Ioanna, Nguyen, Duc Khuong and Janovská, Kamila

RESEARCH ARTICLE

Global Footprint, Local Imprint: How Institutions and Distance Influence the Corporate Social Performance of Foreign Subsidiaries Across Service Industries

Anthi Avloniti[1] · Christiana Anaxagorou[1] · Ioanna Stylianou[1,4] ·
Duc Khuong Nguyen[2] · Kamila Janovská[3]

Abstract

Responding to the scarcity of research on the corporate social responsibility of multinational companies in service industries and the need to enhance our understanding of the dimensions affecting this, we contribute to this special issue in two ways. First, we indicate that the efficiency of host-country institutions positively influences the ESG performance of foreign subsidiaries. Secondly, we determine the CAGE dimensions that are relevant to services and examine the impact of CAGE distance between the home and host countries on the ESG performance of people-processing, possession-processing, and information-based services subsidiaries. By using a sample of 1331 subsidiaries in 54 different countries and applying the Bayesian Model Averaging methodology, we provide evidence and significant insights into the institutions influencing the ESG performance of foreign subsidiaries in service industries, the importance of resource commitment, and the home-host distance dimensions which create challenges for subsidiaries in enhancing their ESG performance.

Keywords Corporate social performance · ESG · Institutions · CAGE · Foreign subsidiary · Multinational enterprises · Resource commitment · Service firms · People-processing · Possession-processing · Information-based services · Theory uncertainty · Bayesian model averaging

1 Introduction

Multinational Enterprises (MNEs) increasingly engage in Corporate Social Responsibility (CSR) to create positive societal impact (Barnett et al., 2020; Skarmeas et al., 2014), but face complexity when operating across diverse institutional environments and stakeholder expectations (Napier et al., 2023). Service MNEs encounter unique cross-border CSR challenges (Rodgers et al., 2019), as their intangible

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offerings must align with diverse institutional and cultural norms (Li & Guisinger, 1992) and deal with greater media scrutiny than local firms (Strike et al., 2006). CSR is crucial for establishing legitimacy in host countries (Campbell, 2007; Rathert, 2016), especially where institutional efficiency is weak or institutional distance is high. In such settings, MNEs are often criticised for cherry-picking CSR strategies (Basu et al., 2023; Geppert & Matten, 2006; Slager & Gond, 2022) that serve selective stakeholders rather than broader sustainability goals. The complexity and measurability of CSR (Aksoy et al., 2022), coupled with scandals (Ball et al., 2000) and growing demands for disclosure (Li & Wu, 2020), have driven the rise of Corporate Social Performance (CSP) reporting, which includes responsibility standards, engagement mechanisms, internal policies, and measurable outcomes (Wood, 1991). CSP is widely assessed using ESG (Environmental, Social, and Governance) criteria (Andrew & Baker, 2020), with 75% of investors now considering ESG performance for its value in risk evaluation and forecasting (Gillan et al., 2021; Pricewaterhouse-Coopers (PwC) 2014) and increasingly mandated by global stock exchanges (Bernardi & Stark, 2018).

Despite emerging evidence indicating that services play a vital role in addressing global sustainability issues and that CSR may yield greater performance benefits for services MNEs than for manufacturers (Ghanbarpour & Gustafsson, 2022; Wirtz et al., 2015), research on the CSP or ESG performance of foreign subsidiaries across service industries is limited. Chidlow et al. (2019) note that over the past 40 years, only 0.4% of the published articles in Management research involve service and as several researchers argue, the International Business (IB) literature has not kept pace with the rapid expansion of service industries (Jaklič et al., 2012; Rodgers et al., 2019) and the heterogeneity of service MNEs (Bai et al., 2019; Kundu & Merchant, 2008). Similarly, "*our knowledge of CSR performance in this sector is scant*" (Ghanbarpour et al., 2023, p.2), despite the exponential increase in CSR research in the past decades (Zhu et al., 2023). Aksoy et al. (2022) explain that factors behind the limited research on CSR in service MNEs can be attributed to the intangible and heterogeneous nature of services, which complicates ESG communication and makes it difficult for customers to pinpoint negative ESG impacts or accurately gauge social innovativeness. As a result, services may face an "industry liability" (Peloza et al., 2012) that undermines their ability to be recognised and rewarded for socially innovative practices, thus further restricting broader scholarly exploration of service-based CSP outcomes.

Gaining comprehensive insights into the role of institutions is crucial for understanding the nuances of CSR practices for MNEs in the services sector. CSP is shaped by to the efficiency of host-country formal and informal institutions, affecting transaction costs, resource access, and competitive advantage (El Ghoul et al., 2017; Ioannou & Serafeim, 2012; Luo, 2006;). The characteristics of services—intangibility, heterogeneity, perishability, and inseparability (Bai et al., 2019; Clark & Rajaratnam, 1999)—makes service MNEs more sensitive to host-country cultural factors and institutional quality (De Villa et al., 2018). As Hutzschenreuter et al. (2014) explain, weak regulatory environments increase risk and demand greater MNE investment in capabilities to achieve local embeddedness. Conversely, institutional robustness facilitates and encourages local responsiveness, which enhances

subsidiaries' commitment to CSP. Furthermore, as services are highly influenced by market demand unpredictability and asset specificity (Blagoeva et al., 2020)—which MNEs commonly avoid mitigating the liability of foreignness (Lu et al., 2022)—they are more susceptible to host-country institutions and the cultural, political, economic and geographical distance from their home country (Campbell et al., 2012).

Considering the critical role of home-host distance and host-country institutional effectiveness on foreign subsidiaries (Zaheer 1995), particularly in service industries, it is crucial to enhance our understanding of how these factors shape ESG performance (Napier et al., 2023). We address these research gap through an extensive empirical examination of the ESG performance of foreign subsidiaries across different service industries. Recognising that greater local responsiveness can lead to more CSP engagement (Napier et al., 2023), this research illustrates the role of efficient institutions by exploring the impact of institutional efficiency on CSP and incorporating foreign subsidiaries' resource commitment in the host country as a moderator. This provides new and essential insights into how institutional effectiveness and MNEs' host-country commitment jointly influence the sustainability practices of foreign subsidiaries, enhancing their ability to make a positive impact on the host-country's sustainable development goals. Furthermore, we identify the home-host institutional distance as a critical determinant of balancing pressures for global integration and local responsiveness in CSP (Napier et al., 2023) by examining the Cultural, Administrative, Geographical, and Economic (CAGE) distance (Ghemawat, 2001). We distinguish between people-processing, possession-processing, and information-based services (Lovelock & Yip, 1996), providing new evidence on the ESG performance across service types and the distinct influence of CAGE distance.

Our study offers several novel aspects by refining and tailoring core theoretical and methodological frameworks to service MNEs. We present a multilevel perspective that bridges institutional effectiveness, home-host distance, local embeddedness, service classification, and advanced analytical methods in a single integrated approach focusing on the ESG performance of foreign subsidiaries. First, our research is distinct in providing a large-scale examination of services foreign subsidiaries across 54 host countries capturing their institutional quality and effectiveness, as well as their CAGE distance from the home country. According to Buitrago and Camargo (2021), few studies examine how institutional contexts vary across industries or affect firms differently, and even fewer address ESG performance—making our research a valuable contribution to this overlooked area. Our findings highlight the significance of institutional quality through targeted reforms for MNEs to align CSR with global and local standards. Further than adopting Ghemawat's (2001) CAGE framework, we introduce a novel approach by tailoring its dimensions to capture the institutional distance dimensions unique to service industries, as well as its impact across the three service classifications. This offers practical implications for service MNEs, including strategies to build local capabilities, deepen stakeholder engagement, and promote sustainable growth. Lastly, we address the issue of theory uncertainty and identify robust ESG determinants by employing Bayesian Model Averaging (BMA), initially introduced by Leamer (1978), which ensures reliable results despite the multiplicity of dimensions embedded in our research.

2 Theoretical Background and Hypotheses Development

With rising concerns over climate change, sustainability disruptions, the COVID-19 pandemic, global mental health crises, and geopolitical conflict, the urgency for sustainable development is escalating worldwide (Wildemeersch et al., 2023). CSR reflects how firms interpret and enact sustainability, evolving from a "philanthropic" concept (Cochran, 2007), to a framework of principles, processes, and outcomes (Wood, 1991), to today's managerial ideology of the triple bottom line approach integrating social, environmental, and economic imperatives (Napier et al., 2023). CSR is now considered a means for MNEs to strengthen their legitimate positions across foreign markets (Chidlow et al., 2019). Napier et al. (2023) propose applying the Integration-Responsiveness (I-R) framework to capture the tension between globally integrated and locally responsive approaches. Standardised CSP strategies can be cost-effective and reputation-enhancing for headquarters (Muller, 2006), while localised projects foster responsiveness, legitimacy, and alignment with host-country needs (Bansal & Roth, 2000; Yang & Rivers, 2009). Global and local are not inherently conflicting; MNEs can achieve embeddedness through local responsiveness when host-country institutions are efficient (Hutzschenreuter et al., 2014). Services MNEs differ significantly in their CSP practices, partly due to the diversified characteristics of the service industries (Chidlow et al., 2019). As there are substantial research gaps in the exploration of the links between CSP and service firms (Ghanbarpour et al., 2023), we explore the ESG performance of service subsidiaries by considering the role of efficient host-country institutions and the impact of CAGE distance dimensions across different service types.

2.1 Host-Country Institutions and Resource Commitment

The impact of the institutional environment on the behaviour and outcomes of MNEs and their subsidiaries has been a key theme in IB (Kostova et al., 2008; Svystunova et al., 2023; Xu et al., 2021). Host-country institutions influence both opportunities and challenges for MNEs, affecting their strategy and performance (Gaur et al., 2007; Ingram & Silverman, 2002; Pattnaik et al., 2015; Peng et al., 2008). According to the institutional theory, institutions can be conceptualized as human-made constraints that provide the basic framework to facilitate economic transactions (Davis & North, 1991; North, 1990). North (1990) distinguishes institutions into informal (sanctions, customs traditions, code of conduct) and formal constraints (laws, property rights, constitutions), which provide the basis for production and economic exchange. North (1990) emphasizes that efficient institutions support firms in decreasing transaction costs related to economic activities by reducing the "costliness of information". Therefore, countries will be institutionally heterogeneous in terms of information availability, which first determines the search and measurement costs of goods to be exchanged and, second, the enforcement mechanisms constraining opportunistic behaviour and monitoring transaction costs (North, 1990).

As a result, countries characterised by efficient institutions provide the appropriate environment for firms to organise their business and subsequently improve their performance (Buitrago & Camargo, 2021; Khanna et al., 2005). Further, according to North (1990) and Wan and Hoskisson (2003), the legal, social, and political context of a country facilitates firms to interact in a market that defines the coordination and transaction costs of production. The legal and political systems of a country, along with regulations regarding property rights, judicial contract enforcement mechanisms, and disclosure of credible information, comprise the foundation of business transactions, and therefore, institutions secure the effective functioning of markets by significantly decreasing transaction costs, risks, and uncertainty. In contrast, institutional inefficiency in host markets—such as weak transparency, poor information dissemination, inadequate IP regulations, and weak contract enforcement—hinders MNEs' ability to find credible partners, safeguard resources, and protect brands, ultimately raising operational costs (Foss & Foss, 2005; Luo, 2001; Oxley, 1999).

Within this context, recent research has focused on the importance of non-market strategies associated with the role and performance of firms in institutional and social contexts (Frynas et al., 2017), with CSP playing a key role by addressing both firm interests and broader social welfare beyond compliance (Ghanbarpour & Gustafsson, 2022; McWilliams & Siegel, 2001; Mellahi et al., 2016; Rodriguez et al., 2006). CSP strategies may vary considerably across organisations and countries due to heterogeneous institutions in the host markets (Yang & Rivers, 2009). To address uncertainties, subsidiaries adopt CSP practices that seem appropriate to their overseas environment (Reimann et al., 2012). According to Suchman (1995, pp.574) legitimacy is "*a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions*" and hence, by acquiring legitimacy, MNE subsidiaries reduce discrimination risks and uncertainty in local environment, thereby increasing their competitiveness. A subsidiary that embraces local culture (informal institutions) and is aligned (i.e., institutional isomorphism) to local laws (formal institutions), can pursue social embeddedness, acquire legitimacy, and effectively implement localised CSP policies. Therefore, efficient institutional environments, including laws and rules, shared values, and social norms (Beddewela & Fairbrass, 2016; Campbell et al., 2012; Park et al., 2014; Tan & Wang, 2011) can enhance CSP practices.

Existing literature has broadly examined CSP and its determinants, but there is a need for a more nuanced understanding of how different institutional environments influence CSP in the context of services, where direct community interaction, variability of service delivery, employee expertise and customer relationships are critical factors (King & Garey, 2014). Research has mostly focused on the product-based industries which are easier to assess (Sen et al., 2006); however, since services are more complex to evaluate than product firms, investors place higher value on their CSP to mitigate perceived risks (Aksoy et al., 2022; Casado-Díaz et al., 2014). CSP subsidiary practices become particularly significant when focusing on services because this industry involves providing intangible expertise, a sphere in which efficient host informal and formal institutional factors play a greater role, than in

industries where business transactions rely mainly on tangible outputs (Bai et al., 2019; Dikova et al., 2010). In service industries, CSP is closely tied to the firm's operating environment, employee behaviour, and the delivery of intangible value (Turban & Greening, 1997). Alignment with local institutions strengthens legitimacy, making efficient host-country institutions key to effective CSP. Therefore, we hypothesize:

Hypothesis 1 (H1) *The ESG performance of foreign subsidiaries in service industries is higher in the presence of efficient host-country institutions.*

Responding to the institutional environment in foreign markets is a key determinant of MNEs' strategic commitment in the host country (Doh et al., 2017), and in turn, the volume of resources committed plays a vital role in success (Liedong et al., 2020) and CSP performance (Tashman et al., 2019). The theoretical foundation of resource commitment is rooted in the Resource Based View, which emphasises the pivotal role of organisational resources and the effective allocation and use of these resources in generating capabilities, which ultimately drive performance (Barney et al., 2001; Battisti et al., 2022). Resource commitment involves the allocation of a firm's physical and non-physical resources for productivity and efficiency in delivering value to customer segments (Hunt, 1999). It is defined as the compilation of tangible and intangible assets, that cannot be repurposed or transferred in other contexts without bearing a significant financial burden (Hill et al., 1990; Johanson & Vahlne, 1977). Therefore, when the volume of resources deployed is extensive, it creates a significant exit barrier for the MNE due to the risk of substantial entrenched costs, thereby reducing flexibility (Harrigan, 1985).

Resource commitment is not a one-time decision, but a dynamic strategic process. In their systematic literature review, Liedong et al. (2020) highlight its importance, especially in institutionally weak host countries, and note that its fragmented treatment in research often stems from viewing it "*as a one-off decision or activity*" (p. 9). It is typically measured using single indicators, such as entry mode type (e.g. Chang et al., 2012), ownership (e.g. Delios & Beamish, 1999), and technology or R&D transfers (e.g. Cui et al., 2006) and is primarily assessed at the point of entry. This is particularly relevant to subsidiaries' CSP in the host country since "*corporate social responsibility and constituency building are rarely made at the time of entry*" (Liedong et al., 2020, p. 17). Beyond entry, MNEs may gradually increase their host-country commitment (Bai & Liesch, 2022), for example by internalising activities (Forsgren, 1989), raising ownership stakes (Brouthers & Bamossy, 2006), or investing in local assets and staff (Pedersen & Petersen, 1998). In services, such investment is particularly crucial due to the reliance on human interaction and expertise (Petersen & Pedersen, 1999). Higher capital intensity per employee reflects commitment to infrastructure and technology, enabling efficient service delivery and responsiveness to local needs (Chidlow et al., 2019). In risky institutional contexts, service MNEs often favour high-commitment modes, such as wholly owned subsidiaries, to maintain control and manage the integrated nature of service provision (Carman & Langeard, 1980; Contractor & Kundu, 1998).

While CSP strategic commitment—defined as the extent to which subsidiaries clarify strategic CSP plans to guide organisational members (Pirsch et al.,

2007)—has been widely researched and comprehensively analysed, MNEs' resource commitment in host countries and how it affects foreign subsidiaries' CSP and the relationship between CSP and local institutional dimensions remain underexplored. Responding to this gap, we adopt Pedersen and Petersen's (1998) approach, building on Forsgren (1989), demonstrating that, since entry, MNEs can incrementally increase capital and personnel investments to strengthen subsidiary embeddedness. We, therefore, focus on the capital intensity of foreign subsidiaries relative to their employee volume over time to determine the degree to which higher resource commitment positively moderates the relationship between local responsiveness to host-country institutions and the enhanced ESG performance of the foreign subsidiaries. We expect that the positive impact of efficient host-country institutions on CSP performance will be strengthened when resource commitment is high. As such, we hypothesize:

> **Hypothesis 2 (H2)** *The impact of efficient host-country institutions on the ESG performance of foreign subsidiaries in service industries is moderated by the level of resource commitment.*

2.2 Home-Host Distance and Service Types

Through the lens of the Institutional theory, the concept of distance between home and host countries emerges and is shaped by differences in formal and informal institutions across nations (Lu et al., 2022). These differences can amplify uncertainty, reinforce pressures for local adherence and responsiveness, and increase costs (Delios & Henisz, 2003). As Zaheer et al., (2012, p.19) state, "*essentially international management is the management of distance*", yet distance in IB research has been conceptualised and operationalised in various ways (Shenkar, 2001), making it amongst the most widely debated and strongly disputed fields (Avloniti & Filippaios, 2014; Sousa & Bradley, 2006). Such approaches include Institutional Distance (Eden & Miller, 2004; Xu & Shenkar, 2002), Geographic Distance (Egger & Pfaffermayr, 2004), Cultural Distance defined by Hofstede (2001, p.9) as "*the collective programming of the mind that distinguishes the members of one group or category of people to another*", and Psychic Distance, defined as "*factors preventing or disturbing the flow of information between firms and the market*" (Johanson & Wiedersheim-Paul, 1975, p.308).

Brewer and Venaik (2011) note that researchers often choose specific measures arbitrarily without adequate reasoning. Similarly, Maseland et al. (2018) argue that the field has become overly reliant on established distance measures, such as Kogut and Singh's (1988) index, which hinders further development and innovation. Following the work of Campbell et al. (2012), who argue that distance should not be perceived as a unidimensional concept, we employ the CAGE framework. We focus on Ghemawat's (2001) CAGE framework, which is increasingly used in the literature (for example, see Campbell et al., 2012; Berry et al., 2010), as a tool for assessing Cultural, Administrative, Geographic, and Economic differences between countries. Like all distance measures, the CAGE framework is not without limitations or constraints and, if not operationalised appropriately, provides only a

partial representation of the nuances and intricacies of the distance between countries. However, Ricart et al. (2004), in their perspective paper on new frontiers in international strategy, note that the CAGE model is a significant step towards building "*integrative frameworks that go beyond unilateral measures of difference, pay implicit attention to industry content, and draw out implications for firm strategy*" (, p.196). This industry emphasis aligns well with our focus on services MNEs. In the following subsections, we discuss the CAGE dimensions, distinguish between service types, and develop our hypotheses.

2.2.1 Cultural Distance

Cultural distance relates to "*how people interact with one another and with companies and institutions*" (Ghemawat, 2001, p.140). Thus, it is particularly significant for services that have high cultural or linguistic content. Ghemawat identifies language and religious distance as important dimensions of cultural distance, along with other cultural dimensions, such as social norms. We follow the work of Ghemawat (2001) by focusing on language and religious distance, along with differences in secular and emancipative values as suggested by Dinner et al. (2019), to conceptualise and operationalise cultural distance. The dimensions of cultural distance, as well as its negative impact on MNEs, are documented in several meta-analysis papers (e.g., Avloniti & Filippaios, 2017; Magnusson et al., 2008; Reus & Rottig, 2009; Tihanyi et al., 2005). For services, these challenges intensify due to their intangible nature, necessitating adaptation to local cultural values (Dahringer, 1991; Stauss & Mang, 1999; Zhu et al., 2018). High cultural distance complicates the I-R balance of MNEs, by potentially restricting opportunities for global integration, increasing the pressures for local adaptation, and thereby the need for local CSP strategies. However, a significant risk of adopting multiple local CSP strategies for MNEs' foreign subsidiaries is that it can lead to internal conflict, and the headquarters may be accused of favouritism or a lack of consistency across host countries (Muller, 2006). Therefore, although the strategic incentives for higher CSP efforts as a means of gaining legitimacy increase when a foreign subsidiary operates in a culturally distant location, greater cultural distance often inhibits subsidiaries' willingness to engage in CSP projects or enhance ESG performance in the host country (Campbell, et al., 2012). As such, we hypothesize:

Hypothesis 3a (H3a) *Home-Host Cultural distance negatively affects the ESG performance of foreign subsidiaries in service industries.*

2.2.2 Administrative Distance

Administrative (or political) distance, which involves "*government policies*", "*political hostility*" and "*institutional weaknesses*" (Ghemawat, 2001, p.140), tends to be highly influential across service industries where government involvement is substantial and political connections are significant (Bai et al., 2019). To capture and construct administrative distance, we focus on political influences (e.g., corruption, tensions, and foreign pressures), regulatory aspects (e.g., bureaucracy, legislative

strength, and contract viability), along with dimensions that are particularly important for services, such as data protection and patents. Distance across such administrative dimensions can amplify the unpredictability and costs associated with communication between the MNE and the government (Dow & Karunaratna, 2006), as well as the complexity of managing relationships with customers and local firms (Hutzschenreuter et al., 2014). Mezias (2002) note that adherence to local regulations and policies can be complex and problematic for foreign subsidiaries, as evidenced by the higher number of lawsuits and legal challenges they face compared to their native rivals. Furthermore, Eden and Miller (2010) note that the expenditure related to adjusting to local regulations is considerably higher for foreign subsidiaries when there is a substantial administrative disparity between the country of origin and the host country. Conversely, lower administrative distance enables MNEs to utilise their existing knowledge to adhere to local regulations, which in turn enables them to actively pursue social legitimacy and higher engagement with CSP (Campbell et al., 2012). As such, a similar I-R paradox emerges for administrative distance as it does for cultural distance: while CSP can act as a vehicle for mitigating the liability of foreignness across administrative dimensions, the complexity and cost associated with high administrative distance make it less likely that firms will incur the added costs of tailoring their CSP practices and/or investing in local CSR. As such, we hypothesize:

Hypothesis 3b (H3b) *Home-Host Administrative distance negatively affects the ESG performance of foreign subsidiaries in service industries.*

2.2.3 Geographic Distance

Geographic distance impacts transport or communications costs, making it particularly important for companies "*whose operations require a high degree of coordination among highly dispersed people or activities*" (Ghemawat, 2001, p. 140), especially when local supervision and operational requirements are considerable. Geographic distance has been found to negatively influence FDI (Nocke & Yeaple, 2008) by increasing monitoring costs (Carr et al., 2001) and creating information asymmetry which restricts personal, physical, and social interactions (El Ghoul et al., 2013). However, Hutzschenreuter et al. (2014) explain that, unlike other forms of distance, awareness of geographic distance can be proactively managed. Awareness of this distance allows MNEs to implement countermeasures to mitigate its impact, especially as the means and/or costs of shipping, transport, and communication costs have dramatically changed over time. While "*a three-minute telephone call from New York City to London costs $717.70 in 1927 and 84 cents in 1999*" (Kuemmerle, 2005, p.48), today, the cost can be virtually $0 through internet-based interactive communication apps. Lovelock and Yip (1996) explain that when reliable global telecommunication infrastructures are available and adequate in the host country, they solve several geographic distance challenges for service companies. Thus, in contrast to products—which require physical transport that inherently increases cost, risk of damage, delays, as well as logistical issues and trade regulation challenges (Kimura & Lee, 2006)—service types that require less transportation

can implement preventive actions by leveraging technology and digitalisation. As such, we hypothesize:

Hypothesis 3c (H3c) *Home-Host Geographic distance has a weak impact on the ESG performance of foreign subsidiaries in service industries.*

2.2.4 Economic Distance

Economic distance refers to differences in cost/quality of financial and human resources, infrastructure, and consumer incomes, and thus, companies "*that rely on economics of experience, scale, and standardization should focus more on countries that have similar economic profiles*" (Ghemawat, 2001, pp.145). Following Ghemawat's original work, we capture economic distance by aspects relevant to incomes (e.g., GDP per capita and inflation), infrastructure for services (e.g., human resources availability for services, technology, and the internet), as well as general economic distance dimensions (e.g., capital investment, exchange rate risk, and economic risk). While economic distance may demonstrate market opportunities (Evans & Mavondo, 2002), it also reflects variations in consumer preferences and purchasing power (Hutzschenreuter et al., 2014) and complexities in transferring business models (Mitra & Golder, 2002). The economic distance can provide opportunities related to cost efficiencies or first-mover advantages (Evans & Mavondo, 2002), particularly when the home country shows higher levels of economic development than the host. However, in cases where the country of origin is considerably poorer than the host, the foreign subsidiary tends to be strategically oriented toward competitive parity (Miller et al., 2008). This, in turn, translates to low probabilities of available resources, capacity, and willingness to fund CSP initiatives in the host country (Campbell et al., 2012). Furthermore, home-host economic equivalence manifests in the similarity of consumer lifestyle and approach towards socially responsible services, which, by extension, serve as indicators of stakeholder expectations of CSP activities (McWilliams & Siegel, 2001). Therefore, economic distance across these dimensions may further complicate efforts for local responsiveness and efficient CSP for subsidiaries. As such, we hypothesize:

Hypothesis 3d (H3d) *Home-Host Economic distance negatively impacts the ESG performance of foreign subsidiaries in service industries.*

2.2.5 Service Types

Apart from the disparities between products and services and their respective susceptibilities to CAGE dimensions, it is critical to explore the impact of distance by distinguishing between service types. In the literature, service industries are distinguished or grouped into various categories. For example, Schmenner (1986) classified service companies into a matrix of four categories based on labour intensity and degree of interaction and customisation in service delivery: service factories (e.g., airlines and hotels); service shops (e.g., hospitals and repair services); mass services (e.g., schools, wholesalers, and retailers); and professional services (e.g., legal and accounting services). Vandermerwe and Chadwick (1989) focused on the degree of

service provider-consumer interaction and the nature of service delivery, whether integrated or delivered through goods. Although the above classifications are widely accepted, we follow Lovelock and Yip (1996) because their work extends previous classifications and offers a comprehensive framework. They categorise services into three types—people-processing, possession-processing, and information-based service industries – with direct links to MNEs' international strategies and the challenges and opportunities encountered across borders.

People-processing services entail "*tangible actions to customers in person*" (Lovelock & Yip, 1996, p.68). In people-processing service industries, services MNEs maintain a local physical presence by establishing the necessary workforce, facilities, buildings, equipment, and materials accessible to intended buyers. In such industries, service production occurs simultaneously with consumption; thus, customers are integrated into and play an active role in the production process. Examples of people-processing services include hotels, restaurants, and hospitals as "service factories" that provide healthcare, food service, and lodging. *Possession-processing* services encompass "*tangible actions to physical objects to improve their value to customers*" (Lovelock & Yip, 1996, p.68). Typically, the physical objects are involved in the service production process while the consumer is not, given that consumption takes place after service production. The service "factory" may be mobile or non-mobile, depending on whether the supplier must be located at a specific site on a recurring basis, for example, in freight transport, warehousing, maintenance, repairs, disposals, and component installation. *Information-based* services "*depend on collecting, manipulating, interpreting, and transmitting data to create value*" (Lovelock & Yip, 1996, p.68). Depending on the nature of the information-based service, customer involvement in the process is frequently small-scale, for example, in banking, consulting, insurance, legal, accounting, education, and news.

Lovelock (1983) highlights the value of classifying services based on how inputs are transformed into outputs. Given the distinct input–output processes across the three service types, we expect the CAGE dimensions to impact ESG performance differently—except for *Cultural Distance*. As services involve "people as part of the experience" (Lovelock & Yip, 1996), cultural factors such as language, religion, and values strongly influence all service types. High cultural distance can undermine trust and shared understanding, which are essential for service delivery (Harms & Shuvalova, 2020). *Geographic Distance* is expected to affect possession-processing services—like transport and warehousing—more than information-based services, where digital technologies enable global interaction (Chen, 2006; Harms & Shuvalova, 2020). We also anticipate varied effects of *Economic* and *Administrative Distance* across service types. Information-based firms (e.g., banking, accounting) are more sensitive to economic factors like capital investment, indicating host-country risk. Possession-processing firms may be especially impacted by administrative elements such as data protection laws, given their handling of sensitive consumer data (Liu et al., 2022). People-processing services, which depend heavily on human capital (Lovelock & Yip, 1996), are influenced by labour-related economic factors like availability and productivity. Overall, local integration, operational embeddedness, and ESG performance in service subsidiaries are shaped by the distinct CAGE dimensions. As such we hypothesize:

Hypothesis 4 (H4) *CAGE dimensions exhibit diverse effects on the ESG performance of foreign subsidiaries across people-processing, possession-processing, and information-based service industries.*

The hypotheses of this research are visually summarised in the conceptual framework presented in Fig. 1.

3 Methodology

For the empirical analysis and following the literature, we assess the factors affecting the foreign subsidiary CSP using a typical panel Fixed Effects model over the period 2000–2022:

$$y_{it} = \mu_i + \beta' x_{it} + u_{it} \tag{1}$$

where the dependent variable y_{it} is a scalar and measures the foreign subsidiary CSP proxied by the firm's environmental, social, and governance (ESG) activities, x_{it} is a $k \times 1$ vector of ESG determinants, β is a $k \times 1$ vector of unknown parameters, and u_{it} is an idiosyncratic error term for foreign subsidiary $i = 1, 2,..., N$ and time $t = 1, 2,...,T.$
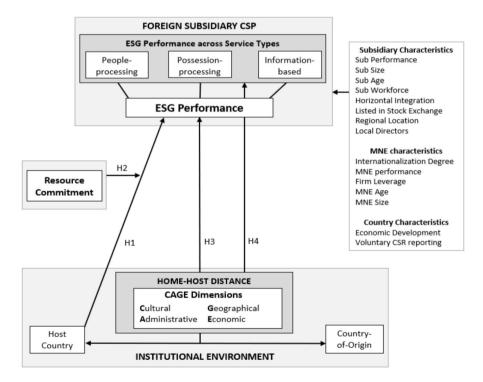

Fig. 1 Conceptual model

For Hypothesis 1, the ESG determinants include political and economic institutional indicators from the International Country Risk Guide (ICRG, 2022)—such as Bureaucracy Quality, Civil Disorder, Civil War, Consumer Confidence, Contract Viability, Corruption, Economic Risk, Ethnic Tensions, Financial Risk, Foreign Pressures, Investment Profile, Law and Order, Legislative Strength, and Risk for Exchange Rate Stability—controlling for subsidiary, MNE, and country characteristics. For Hypothesis 2, which examines the moderating role of resource commitment, we include capital intensity from Orbis (2023). For Hypotheses 3 and 4, based on the CAGE model, we use data from multiple sources to proxy Cultural (Language, Religion, Secular, Emancipative), Administrative (political institutions, data protection, innovation), Geographic, and Economic (e.g., Economic and Exchange Rate Risk, FDI, Foreign Debt, Capital Investment, GDP per Capita, Inflation, Services Employment/Value Added, Resource Rent, and Infrastructure) distances between home and host countries.

The sample includes all active international subsidiaries worldwide, both listed and unlisted, with parent MNE data available in Orbis. ESG scores at the company level are obtained from Datastream (2023). While ESG reporting in Datastream began around 2000, it has not been mandatory in all countries. The Global Compact (2004) report brought ESG reporting to global attention, encouraging firms to disclose CSR practices. Company-level data from Orbis and Datastream were matched using the Legal Entity Identifier (LEI) and company names for unlisted firms. Subsidiaries without ESG scores or unmatched records were excluded. We focus on services sector companies, classified using the North American Industry Classification System (NAICS) of Service-Providing Industries, resulting in a final dataset of 1,331 subsidiaries across 54 countries [1]. Data were sourced at the country, subsidiary, and MNE levels. Appendix A provides a detailed description of the variables and their source, while Appendix B presents summary statistics for the pooled data.

A significant assumption of the model in (3.1) is that the variables are stationary otherwise leading to spurious regression (Granger & Newbold, 1974) affecting coefficients, standard errors and the estimated R^2. We follow Hadri (2000), Levin et al. (2002), and lm et al. (2003) and utilize three alternative panel unit root tests. According to the results, most of the variables in (1) are difference stationary. Further, to address any endogeneity concerns related to reverse causality/simultaneity bias and omitted variables (Wooldridge, 1997), which would have led to incorrect inferences (Abdallah et al., 2015), the model is estimated using Two-Stage Least Squares (2SLS) where the variables are instrumented using their lag-values. The statistical adequacy of our model was also ensured by implementing further misspecification tests for cross-sectional dependence/contemporaneous correlation, heteroscedasticity, serial correlation, and functional form.[2]

Finally, to address the issue of theory uncertainty, we employ Bayesian model averaging (BMA) since the effect of a particular ESG determinant may vary across different model specifications, especially when the number of the regressors considered is relatively large. BMA was introduced and developed by different scholars,

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[1] Data available upon request

[2] The test results are available upon request.

including Leamer (1978), Draper (1995), Kass and Raftery (1995), Brock and Durlauf (2001), among others. The BMA technique computes a weighted average of the estimates obtained from all the different estimated models of the different specifications and variables included. Model averaging forms estimates for every determinant using information from all candidate models, and it forms a weighted average of model-specific estimates where the weights are given by the posterior model probabilities. Based on model (3.1), the BMA estimator takes the form of a weighted average of model-specific coefficient estimates,

$$\widehat{\beta}_{\mathrm{BMA}} = \sum_{m=1}^{M} w_m \widehat{\beta}_m \tag{2}$$

where $M = \{M_1, \ldots, M_M\}$ denotes the model space, and the weights $W = \{w_1, \ldots, w_M\}$ reflect the evidentiary support for each model given the data. The relative weights W are given by the posterior model probabilities computed using the Bayes' rule, such that each weight is the product of the integrated likelihood of the data given a model and the prior probability for a model. In this paper, we assume a uniform model prior such that the prior probability that any regressor is included in the true model is 0.5. The corresponding model averaging variance estimator is given by,

$$\widehat{V}_{\mathrm{BMA}} = \sum_{m=1}^{M} w_m \widehat{V}_m^{\beta} + \sum_{m=1}^{M} w_m \left(\widehat{\beta}_m - \widehat{\beta}_{\mathrm{BMA}} \right)^2 \tag{3}$$

Using the posterior mean and variance $\widehat{\beta}_{\mathrm{BMA}}$ and $\widehat{V}_{\mathrm{BMA}}$, we compute posterior t-statistics and explain them in the classical sense. Further, we also report the posterior probability of inclusion (PIP) for each determinant, which is computed as the sum of the posterior probabilities of the models that contain that variable. Following Kass and Raftery (1995), we interpret the values of PIP as follows: PIP < 50% indicates no evidence for an effect, 50% < PIP < 75% indicates weak evidence for an effect, 75% < PIP < 95% indicates positive evidence for an effect, 95% < PIP < 99% indicates strong evidence for an effect, and 99% < PIP < 100% indicates decisive evidence for a determinant effect.

4 Results and Discussion

Overall, our findings support most of our hypotheses. First, host-country institutional efficiency positively affects the ESG performance of foreign subsidiaries in service industries, and this effect is amplified by greater resource commitment from parent firms. We also find that Cultural, Administrative, and Economic distances between home and host countries negatively impact ESG performance. Additionally, the CAGE dimensions exert distinct effects across different service industry types. Table 1 presents the regression coefficients and robust standard errors for both the BMA and Classical 2SLS models. Institutional strength—reflected in legal and

bureaucratic quality, low risks of conflict, corruption, and foreign pressure—along with economic and investment stability, significantly enhances ESG performance. All determinants are statistically significant at the 1% level, with Posterior Inclusion Probability (PIP) equal to 1, confirming H1. These results align with prior literature, emphasizing the role of efficient institutions in enabling firms to coordinate operations within stable legal, political, and economic contexts (Buitrago & Camargo, 2021; Khanna et al., 2005; Luo, 2001).

Results in Table 2 establish the moderating impact of resource commitment for both the BMA and the Classical 2SLS model. Resource commitment reinforces the positive impact of efficient host-country institutions on subsidiaries' ESG performance, thereby supporting H2. Higher resource commitment implies greater investments in the host country and, by extension, an increased need for local responsiveness in CSP (Battisti et al., 2022). As a robustness exercise, we have also examined the effect of "shared equity" as a proxy for resource commitment, and the results remain robust.[3]

Tables 3 - 6 illustrate our findings for the impact of the *CAGE* distance dimensions. As expected, the indicators of cultural, administrative, and economic distance between home and host countries negatively affect the ESG performance of foreign subsidiaries, thus providing support for H3a, H3b, and H3d. All *cultural distance* factors are statistically significant at the 1% level of significance (PIP equals 1). The strong and negative influence of cultural factors, as demonstrated in both the BMA and Classical 2SLS results, reflects the service industries' sensitivity to cultural differences. *Language* diversity can cause barriers in communication and training (Dow & Karunaratna, 2006), *religion* diversity can cause challenges in relation to ethical standards and preferences (Dow et al., 2016), while distance in *secular* and *emancipative* values can cause issues in employee and customer engagement (Dinner et al., 2019). The impact of the cultural distance dimensions on ESG performance is negative and strong across the three service types: people-processing (Table 4), possession-processing (Table 5) and information-based subsidiaries (Table 6).

The *administrative distance* factors significantly influencing ESG performance (PIP = 1) include corruption, law and order, consumer confidence, bureaucracy quality, legislative strength, data protection, and patent applications (Table 3). While some dimensions—such as patent protection and contract viability—are influential across all service types, others are industry-specific, supporting H4. Foreign pressures negatively affect the ESG in information-based services (PIP equals 1), while law and order and data protection are particularly important for possession-processing services (1% significance, PIP equals 1). Corruption, bureaucratic quality and legislative strength are significant for possession-processing and information-based companies, but not people-processing. In contrast, law and order, civil war, and the investment profile are significant for people-processing services (1% significance; PIP equals 1). These findings further underscore the importance of highly efficient political and legal institutions in creating an environment where service companies are protected in their transactions

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[3] Available upon request.

Table 1 The effect of host institutions on the subsidiary's ESG performance

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Institutions					
Bureaucracy quality	7.4729**	3.6425	1.000	3.9853***	0.6569
Civil disorder	4.2331***	0.6061	1.000	3.9110***	0.5403
Civil war	13.5634****	3.7273	1.000	9.9940***	1.0576
Consumer confidence	1.1589**	0.5409	0.010	-0.0017	0.0518
Contract viability/expropriation	2.0520**	0.8914	0.560	0.9227	0.9196
Corruption	1.1551***	0.3491	1.000	1.7965***	0.3846
Economic risk	0.3831***	0.0764	1.000	0.0895***	0.0151
Ethnic tensions	0.6134*	0.3138	0.040	0.0192	0.1120
Financial risk	0.0564	0.0671	0.010	0.0000	0.0059
Foreign pressures	1.7378***	0.5162	1.000	3.3808***	0.4778
Investment profile	0.4544	0.3602	1.000	0.0464***	0.0139
Law and order	1.1197***	0.4286	0.070	0.0617	0.0243
Legislative strength	5.8859***	0.5030	1.000	4.0025***	0.4205
Risk for exchange rate stability	-0.7203***	0.2648	0.010	-0.0028	0.0374
Subsidiary characteristics					
Performance	0.0000***	0.0000	0.110	0.0000	0.0000
Size	5.0789***	0.1686	1.000	4.8018***	0.1252
Workforce	-0.1198	0.1367	0.130	0.0358	0.1008
Horizontal integration	2.1441***	0.4266	1.000	2.1714***	0.3666
Listed in stock exchange	8.5478***	0.7536	1.000	8.4993***	0.6418

Table 1 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Regional location	−1.0739***	0.1944	1.000	−0.9043***	0.1208
Same regional location with parent	0.6673*	0.3716	0.040	0.0217	0.1248
Age	0.0523***	0.0040	1.000	0.0533***	0.0036
Number of local directors	0.1234***	0.0306	1.000	0.1134***	0.0254
MNE characteristics					
Internationalization intensity	2.2648***	0.7969	0.010	0.0054	0.0922
MNE performance	0.0000***	0.0000	0.140	0.0000	0.0000
Firm leverage	4.7145	5.1252	0.860	5.9257*	3.5518
MNE age	−1.1327**	0.4565	0.060	−0.0423	0.1902
MNE size	−5.7685***	1.4774	0.880	3.3563**	1.5902
Country characteristics					
Economic development dummy (advanced)	6.7018***	1.1282	1.000	4.3892***	0.4425
Compulsory CSR reporting	1.1309**	0.5302	1.000	4.6547***	0.3700
Constant	1.4872	2.4952	0.0349	2.3552	3.5623
Observations	10,124		10,124		
Company and time fixed effects	Yes		Yes		
R-squared	0.7622		–		

Asterisks denote statistical significance at the 1% (***), 5% (**), and 10% (*) level

Table 2 The effect of host institutions on the subsidiary's ESG performance and the role of the host country commitment

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Institutions					
Bureaucracy quality	9.9657***	2.2797	1.000	3.1507***	0.5679
Civil disorder	1.5162**	0.6656	1.000	4.3052***	0.5159
Civil war	6.2947**	2.9823	1.000	10.8986**	1.1183
Consumer confidence	−0.3015	1.7011	0.360	−0.4770	0.6935
Contract viability/expropriation	3.4107	2.9909	0.140	0.1756	0.4731
Corruption	0.5706	1.3129	0.980	1.3873***	0.4071
Economic risk	0.6199***	0.2084	0.090	−0.0119	0.0408
Ethnic tensions	0.4836	0.9440	0.010	0.0035	0.0449
Financial risk	0.3932*	0.2031	0.450	−0.0645	0.0784
Foreign pressures	−0.0637	1.7419	1.000	3.0359***	0.5050
Investment profile	2.5722**	1.2252	0.150	−0.0444	0.1168
Law and order	1.2784	1.3268	0.010	−0.0011	0.0337
Legislative strength	1.4908	1.5372	1.000	6.0983***	0.4198
Risk for exchange rate stability	−0.9506	0.8994	1.000	1.2642***	0.2411
Level of commitment					
Capital intensity (CI)	2.6236***	1.0193	1.000	0.2975***	0.0911
Bureaucracy quality*CI	0.9941***	0.2988	1.000	0.6234***	0.1056
Civil disorder*CI	0.6567**	0.2656	0.970	0.3654***	0.1070
Civil war *CI	0.0398	0.6586	1.000	1.5372***	0.0983
Consumer confidence*CI	0.8406***	0.2276	0.010	−0.0006	0.0097

Table 2 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Contract viability/expropriation*CI	−0.6036	0.4019	1.000	0.7060***	0.0488
Corruption *CI	0.3325*	0.1779	0.520	0.0780	0.0833
Economic risk*CI	0.2192***	0.0273	1.000	0.0371***	0.0072
Ethnic tensions*CI	−0.1033	0.1226	0.030	0.0024	0.0152
Financial risk*CI	0.2475***	0.0569	1.000	0.0248***	0.0020
Foreign pressures*CI	−0.3199	0.2349	1.000	0.3445***	0.0770
Investment profile*CI	0.4742***	0.1632	0.920	0.1132**	0.0471
Law and order*CI	−0.2056	0.1769	0.110	0.0155	0.0476
Legislative strength*CI	0.7267***	0.2047	1.000	0.5610***	0.0617
Risk for exchange rate stability*CI	0.0388	0.1199	1.000	0.1432***	0.0502
Subsidiary characteristics					
Performance	−0.0000***	0.0000	0.520	0.0000	0.0000
Size	2.3528***	0.1914	1.000	5.2235***	0.8147
Workforce	3.7604***	0.1960	0.020	0.0032	0.0295
Horizontal integration	−1.8945***	0.4315	1.000	2.2342***	0.4246
Listed in stock exchange	8.2342***	0.7211	1.000	7.6099***	0.7672
Regional location	−0.8300***	0.1921	1.000	−1.1603***	0.1569
Same regional location with parent	−0.0773	0.3605	0.320	0.3319	0.5282
Age	0.0357***	0.0039	1.000	0.1108***	0.0044
Number of local directors	0.2867***	0.0306	0.050	0.0031	0.0152

Table 2 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
MNE characteristics					
Internationalization intensity	0.8936	0.7538	0.080	−0.1162	0.4392
MNE performance	0.0000	0.0000	0.050	0.0000	0.0000
Firm leverage	9.3340	7.1579	0.260	4.9934	8.1411
MNE age	−1.0184**	0.4348	0.010	−0.0034	0.0528
MNE size	−3.5336**	1.3919	0.920	3.6115***	1.3734
Country characteristics					
Economic development dummy (advanced)	7.9463***	1.1624	1.000	4.9404***	0.4171
Compulsory CSR reporting	0.9233*	0.5102	1.000	2.3405***	0.3731
Constant	0.35820	0.5284	0.001	0.5839	0.5991
Observations	10,124		10,124		
Company and time fixed effects	Yes		Yes		
R-squared	0.7241		–		

Asterisks denote statistical significance at the 1% (***), 5% (**), and 10% (*) level

Table 3 The effect of cage distances on the subsidiary's ESG performance

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Cultural					
Language distance	−1.0382***	0.1814	1.000	−0.0741***	0.0139
Religion distance	−0.9354***	0.2467	1.000	−0.4688****	0.0674
Secular values	−4.9365***	1.8851	1.000	−1.2308**	0.6170
Emancipative values	−4.3606***	1.6354	1.000	−2.4274***	0.5599
Administrative					
Corruption	−1.0606	0.8200	1.000	−0.0386***	0.0148
Law and order	−0.7081***	0.0783	1.000	−0.1583****	0.0577
Civil disorder	0.4010	1.0832	0.030	−0.0266	0.2013
Civil war	1.1570	2.1515	0.720	3.1814	2.2818
Ethnic tensions	−0.6231	0.6868	0.010	0.0016	0.0523
Foreign pressures	−1.8473	1.1405	0.380	−0.7368	1.0400
Consumer confidence	−1.7269***	0.6371	1.000	−0.4823***	0.0977
Bureaucracy quality	−2.7271**	1.1779	1.000	−1.8108****	0.2860
Legislative strength	−1.8221*	0.9390	0.990	−2.1303***	0.5342
Contract viability	−0.7024***	0.0909	0.010	0.0024	0.0486
Investment profile	−0.2977	0.7240	0.010	−0.0014	0.0238
Data protection	−3.6905***	1.3133	1.000	−2.5415***	0.5731
Innovation (patent applications)	−0.0016***	0.0004	1.000	−0.0009***	0.0002
Geographic					
Distance	0.0004**	0.0002	0.920	0.0002**	0.0001

Table 3 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Economic					
Economic risk	−0.3719**	0.1796	0.948	−0.3556**	0.1521
Exchange rate risk	−0.8052*	0.4914	0.967	−0.0863**	0.0368
FDI	−0.0052	0.0052	0.010	0.0000	0.0003
Foreign debt	−0.0315	0.0209	1.000	−0.0658***	0.0106
Capital investment	−0.0014**	0.0007	1.000	−0.0010***	0.0001
GDP per capita	−0.0012***	0.0004	1.000	−0.0001***	0.0000
Inflation	0.3980	0.3011	1.000	−0.6516***	0.1477
Services employment	−0.7055***	0.1119	1.000	−0.1286***	0.0494
Services value added	−0.0008**	0.0004	0.110	0.0000	0.0000
Resources rent	−0.1187	0.3672	1.000	−0.7107***	0.1158
Infrastructure- Individuals using the internet (% of population)	−0.1333**	0.0648	0.936	−0.0804**	0.0389
Infrastructure- Fixed telephone subscriptions (per 100 people)	−0.3120	0.2554	0.010	0.0012	0.0179
Infrastructure- Mobile cellular subscriptions (per 100 people)	−0.3583*	0.1875	1.000	−0.2925***	0.0477
Subsidiary characteristics					
Performance	0.0046	0.0097	0.050	0.0000	0.0000
Size	2.9993***	0.2983	1.000	4.7745***	0.8284
Workforce	−0.3233	0.2348	0.150	0.0411	0.1078
Horizontal integration	2.5558***	0.7742	1.000	1.6537***	0.3776
Listed in stock exchange	11.7575***	1.1606	1.000	8.2408***	0.6484
Regional location	−2.8131***	0.3997	1.000	−1.5350***	0.1167

Table 3 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Same regional location with parent	5.3721***	1.7900	0.160	0.1237	0.3142
Age	0.0330***	0.0066	1.000	0.0588***	0.0036
Number of local directors	0.4408***	0.0592	1.000	0.1668***	0.0245
MNE characteristics					
Internationalization intensity	−1.2172	1.7423	0.020	0.0207	0.1755
MNE performance	0.0000	0.0000	0.670	0.0000	0.0000
Firm leverage	3.2683***	0.8500	1.000	4.5246***	1.4743
MNE age	0.9862	1.0003	0.200	−0.1924	0.4216
MNE size	1.5517	3.8636	0.210	0.4636	1.0016
Country characteristics					
Economic development dummy (advanced)	3.9884*	2.3044	1.000	7.4764***	1.4646
Compulsory CSR reporting	1.5659	1.0156	1.000	−3.9939***	0.7883
Constant	1.4962	1.3356	0.002	1.4730	1.3742
Observations	8,796		8,796		
Company and time fixed effects	Yes		Yes		
R-squared	0.6739		–		

Asterisks denote statistical significance at the 1% (***), 5% (**), and 10% (*) level

Table 4 The effect of cage distances on the subsidiary's ESG performance for people processing services

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Cultural					
Language distance	−1.6686***	0.4048	1.000	−2.2535***	0.4616
Religion distance	−2.6530	2.4364	1.000	−0.3577***	0.0863
Secular values	−0.9535***	0.3451	1.000	−1.2769***	0.2856
Emancipative values	−1.2786***	0.3922	0.060	−0.9303	9.0239
Administrative					
Corruption	−5.3153	5.8748	0.060	−0.0608	0.5648
Law and order	−1.0211	7.8725	1.000	−2.9449***	0.9753
Civil disorder	−5.0216	5.2232	0.050	−0.0690	0.6627
Civil war	−0.4384*	0.2323	1.000	−8.0848***	2.6539
Ethnic tensions	−7.2143***	2.3624	0.440	−2.1975	2.8321
Foreign pressures	−3.4458	6.4513	0.060	−0.1186	0.7999
Consumer confidence	−4.7333	4.5560	0.050	−0.0219	0.4986
Bureaucracy quality	0.4993	0.6045	0.120	−0.9279	3.4536
Legislative strength	−0.6321	5.1987	0.110	−0.3566	1.2740
Contract viability	3.0974	7.8439	1.000	−0.4760***	0.0757
Investment profile	0.3320	3.1713	1.000	−0.0518***	0.0103
Data protection	−0.8448**	0.3503	0.100	−0.6057	2.3216
Innovation (patent applications)	−0.0001	0.0001	1.000	−0.0141***	0.0026
Geographic					
Distance	0.0032**	0.0015	0.980	0.0006***	0.0002

Table 4 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Economic					
Economic risk	−0.7133***	0.0895	1.000	−0.0585****	0.0061
Exchange rate risk	−0.6889***	0.2409	1.000	−0.0785****	0.0180
FDI	0.0085	0.0236	0.090	0.0011	0.0063
Foreign debt	−0.0945	0.1055	0.370	0.0414	0.0616
Capital investment	0.0105	0.0075	0.520	−0.0013	0.0015
GDP per capita	−0.0001	0.0003	0.090	0.0000	0.0001
Inflation	0.4993	1.9210	0.070	−0.0829	0.4614
Services employment	0.6153	0.4845	1.000	−1.5578***	0.3583
Services value added	0.0003	0.0002	1.000	−0.0622****	0.0097
Resources rent	−5.8920**	2.9595	1.000	−4.5941****	0.7502
Infrastructure- individuals using the Internet (% of population)	0.8363	2.6232	0.932	−0.5713**	0.2480
Infrastructure- fixed telephone subscriptions (per 100 people)	−0.1030	1.2714	0.160	0.1489	0.4180
Infrastructure- mobile cellular subscriptions (per 100 people)	−0.1345	0.7793	0.630	0.3771	0.3390
Subsidiary characteristics					
Performance	0.0006***	0.0002	0.300	0.0000	0.0000
Size	2.5269	2.2459	1.000	4.0147***	1.0778
Workforce	0.8664	1.4773	0.970	2.4259***	0.7784
Horizontal integration	−1.9361	3.6607	0.050	−0.1354	0.9876
Listed in stock exchange	1.5079	5.2516	0.040	−0.0060	0.4827
Regional location	1.9233***	0.2426	0.040	0.0046	0.1493

Table 4 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Same regional location with parent	1.1466	0.8046	0.990	5.3007***	1.4288
Age	0.0751***	0.0165	1.000	0.0839***	0.0125
Number of local directors	0.9008***	0.2599	0.360	0.0722	0.1096
MNE characteristics					
Internationalization intensity	6.4225	5.8242	0.040	−0.0004	0.5453
MNE performance	0.0000	0.0000	0.050	0.0000	0.0000
Firm leverage	0.5812***	0.1647	0.930	5.6608**	2.6950
MNE age	−5.1474	3.8919	0.050	−0.0650	0.4193
MNE size	1.6218	1.1117	0.330	1.9454	3.1421
Country characteristics					
Economic development dummy (advanced)	0.4832**	0.2045	0.290	−1.5227	2.7107
Compulsory CSR reporting	1.5878**	0.7944	0.710	3.3474	2.5582
Constant					
Observations	1,820		1,820		
Company and time fixed effects	Yes		Yes		
R-squared	0.7232		–		

Asterisks denote statistical significance at the 1% (***), 5% (**), and 10% (*) level

Table 5 The effect of cage distances on the subsidiary's ESG performance for possessions processing services

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Cultural					
Language distance	−1.2538***	0.2898	1.000	−0.4679***	0.0658
Religion distance	−1.1642***	0.3945	0.870	−0.8830*	0.4566
Secular values	−0.2993	0.7396	1.000	−4.6654***	1.3568
Emancipative values	−0.3690**	0.1734	1.000	−0.1567***	0.0423
Administrative					
Corruption	−0.5901	1.2629	1.000	−0.0262***	0.0022
Law and order	0.2943	1.1736	1.000	−0.1843***	0.0614
Civil disorder	0.3608	1.6129	0.090	−0.1962	0.7497
Civil war	−9.5877***	3.7653	0.850	−8.9118*	4.6916
Ethnic tensions	−3.0211**	1.3435	0.350	0.7187	1.0830
Foreign pressures	−0.0041	1.6342	0.230	−0.7015	1.4307
Consumer confidence	0.2752	1.4943	0.030	−0.0249	0.2309
Bureaucracy quality	−1.2161	3.8832	0.810	−5.0482*	3.0648
Legislative strength	−2.4388*	1.3777	0.950	−3.5829***	1.2850
Contract viability	−1.5202	2.5043	1.000	−0.0219***	0.0052
Investment profile	0.5231	1.0936	0.080	0.0632	0.2631
Data protection	−8.7880***	2.0476	1.000	−2.1750***	0.7120
Innovation (patent applications)	−0.0092***	0.0018	1.000	−0.0008***	0.0001
Geographic					
Distance	−0.0037	0.0314	0.040	0.0000	0.0000

Table 5 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Economic					
Economic risk	−0.9059***	0.2686	1.000	−0.0448***	0.0122
Exchange rate risk	0.6630	0.7301	0.020	−0.0085	0.0970
FDI	−0.0101	0.0079	0.070	−0.0004	0.0019
Foreign debt	−0.1223***	0.0336	0.020	0.0001	0.0024
Capital investment	−0.0021**	0.0011	0.130	−0.0001	0.0003
GDP per capita	0.0000	0.0001	1.000	−0.0002***	0.0000
Inflation	−0.5891	0.5386	1.000	−1.5854***	0.3037
Services employment	−0.4767**	0.2092	0.020	0.0004	0.0095
Services value added	−0.0001	0.0001	0.120	0.0000	0.0000
Resources rent	−2.0679***	0.6662	0.940	−0.5555***	0.2116
Infrastructure- individuals using the internet (% of population)	−0.1376	0.6763	0.080	−0.0488	0.1890
Infrastructure- fixed telephone subscriptions (per 100 people)	−0.2402	0.3764	0.030	0.0054	0.0498
Infrastructure- mobile cellular subscriptions (per 100 people)	0.4388	0.2785	0.990	−0.3359***	0.0840
Subsidiary characteristics					
Performance	0.0002***	0.0000	1.000	0.0007***	0.0001
Size	2.1053***	0.5001	1.000	5.3295***	1.2176
Workforce	−1.9863***	0.3442	1.000	−1.1552***	0.1664
Horizontal integration	8.8669***	2.2888	0.270	0.5658	1.0323
Listed in stock exchange	4.3378**	2.0965	1.000	11.2978***	1.1260
Regional location	−1.8361***	0.6358	0.900	−0.6277**	0.2782

Table 5 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Same regional location with parent	3.8216	3.2621	0.050	0.0383	0.2059
Age	−0.02898**	0.0137	1.000	0.0512***	0.0066
Number of local directors	0.4588***	0.0909	1.000	0.1977***	0.0400
MNE characteristics					
Internationalization intensity	−1.1728	2.5747	0.020	−0.0132	0.1657
MNE performance	0.0000	0.0000	0.080	0.0000	0.0000
Firm leverage	0.1992**	0.0905	1.000	4.4654***	0.6142
MNE age	1.5481	1.4914	0.030	−0.0165	0.1378
MNE size	1.0359	5.9226	0.760	3.7695	2.4548
Country characteristics					
Economic development dummy (advanced)	7.9365*	4.1766	1.000	3.3586***	0.7647
Compulsory CSR reporting	0.9123	1.5693	1.000	4.6880***	0.6100
Constant					
Observations	3,736		3,736		
Company and time fixed effects	Yes		Yes		
R-squared	0.6932		–		

Asterisks denote statistical significance at the 1% (***), 5% (**), and 10% (*) level

Table 6 The effect of cage distances on the subsidiary's ESG performance for information-based services

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Cultural					
Language distance	−0.1141	0.2571	1.000	−0.0782***	0.0205
Religion distance	−0.4517	0.3450	1.000	−0.1051***	0.0320
Secular values	−5.6975***	2.1910	0.924	−1.5926**	0.8049
Emancipative values	−1.6129***	0.1744	1.000	−4.9961***	1.6019
Administrative					
Corruption	−1.5346	1.1344	1.000	−1.3631***	0.1802
Law and order	0.5799	1.2081	0.150	0.2562	0.7008
Civil disorder	1.0975	1.4844	0.020	−0.0029	0.1555
Civil war	−5.7475**	2.8081	0.040	0.0877	0.5688
Ethnic tensions	−1.8765*	0.9989	0.090	−0.0990	0.3664
Foreign pressures	−3.7373**	1.6672	0.970	−3.7526***	1.2441
Consumer confidence	1.8572	1.3116	0.050	0.0636	0.3590
Bureaucracy quality	3.2762	3.4978	0.927	−1.4068**	0.5897
Legislative strength	−1.0132	1.2908	1.000	−0.1580***	0.0585
Contract viability	−2.1557	2.1830	1.000	−0.8389***	0.1279
Investment profile	−0.0489	1.0139	0.020	0.0002	0.0667
Data protection	−0.8396	1.7065	0.020	0.0244	0.2637
Innovation (patent applications)	−0.0205***	0.0055	1.000	−0.0069***	0.0006
Geographic					
Distance	0.0008**	0.0003	1.000	0.0003***	0.0001

Table 6 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Economic					
Economic risk	−0.3128***	0.0550	1.000	−0.2279***	0.0235
Exchange rate risk	0.2694	0.6667	0.020	0.0006	0.0590
FDI	0.0027	0.0069	0.020	0.0000	0.0006
Foreign debt	−0.0018	0.0282	1.000	−0.1003***	0.0135
Capital investment	0.0009	0.0009	1.000	−0.0016***	0.0002
GDP per capita	−0.0002*	0.0001	0.680	0.0001	0.0001
Inflation	−0.6916*	0.3676	0.360	0.1421	0.2080
Services employment	−0.7366***	0.1477	0.980	−0.1602***	0.0490
Services value added	−0.0001**	0.0001	0.030	0.0000	0.0000
Resources rent	−0.8424	0.6274	0.980	−0.6459***	0.1832
Infrastructure- individuals using the internet (% of population)	−0.1595	0.6314	0.030	−0.0100	0.0744
Infrastructure- fixed telephone subscriptions (per 100 people)	−0.2476	0.3448	0.020	0.0005	0.0246
Infrastructure- mobile cellular subscriptions (per 100 people)	0.2292	0.2509	0.970	−0.2378***	0.0739
Subsidiary characteristics					
Performance	0.0003***	0.0001	0.010	−0.0003	0.0060
Size	3.9461***	0.4352	1.000	3.1156***	0.1952
Workforce	2.6185***	0.3890	1.000	2.2189***	0.1871
Horizontal integration	4.1702***	0.8881	1.000	3.3031***	0.4298
Listed in stock exchange	10.1958***	1.4541	1.000	6.8346***	0.8164
Regional location	−4.7138***	0.5445	1.000	−1.1103***	0.1545

Table 6 (continued)

Variable	Classical 2SLS		Bayesian model averaging		
	Coefficient	Std. error	Posterior inclusion probability	Posterior mean	Posterior std. error
	(1)	(2)	(3)	(4)	(5)
Same regional location with parent	9.2646***	2.4007	0.010	0.0031	0.0557
Age	0.0277***	0.0081	1.000	0.0458***	0.0044
Number of local directors	0.2920***	0.0810	0.040	0.0020	0.0119
MNE characteristics					
Internationalization intensity	−0.0103	2.3749	0.020	0.0166	0.1806
MNE performance	0.0000	0.0000	0.090	0.0000	0.0000
Firm leverage	7.0192	76.9165	0.900	1.5953**	0.6887
MNE age	0.4400	1.3214	0.040	−0.0303	0.1802
MNE size	2.9485	5.0180	0.880	4.2221**	1.8022
Country characteristics					
Economic development dummy (advanced)	7.5722**	3.7935	1.000	6.2421***	0.5562
Compulsory CSR reporting	0.2275	1.3502	1.000	4.3011***	0.4889
Constant					
Observations	3,240		3,240		
Company and time fixed effects	Yes		Yes		
R-squared	0.7392		–		

Asterisks denote statistical significance at the 1% (***), 5% (**), and 10% (*) level

and demonstrate that a similar administrative or political environment between the home-host countries improves ESG performance, possibly by reducing uncertainty and costs (Delios & Henisz, 2003).

Similarly, the *economic distance* dimensions vary across the three industries, except for economic risk and resource rent, which consistently show significant influence (PIP equals 1). Distance in services employment is significant for people-processing and information-based services, while infrastructure (mobile cellular subscriptions) is significant for possession-processing and information-based services (1% significance, PIP equals 1). Unique to people-processing services are the distances in exchange rate risk, infrastructure (internet), and service value added, all of which significantly affect ESG performance. For possession-processing services, GDP per capita and inflation are statistically significant (PIP equals 1), while for information-based companies, the distances in foreign debt and capital (PIP equals 1); all of which negatively influence ESG performance. These findings suggest that differences in the economic environment between MNEs and their subsidiaries negatively affect ESG performance. Economic distance—such as in risk levels—may reflect instability, investment uncertainty, infrastructure and transport challenges, differing economic cycles, or contrasting profiles, all of which can influence consumer behaviour, income levels, and firm performance (Campbell et al., 2012; Hutzschenreuter et al., 2014).

Interestingly, *Geographic Distance* has a statistically significant and positive effect on ESG performance (5% significance level; PIP = 1), except in information-based companies, where it is not significant. Due to these mixed results, H3c is not supported. Unlike other distance dimensions, the positive impact of geographic distance may reflect firms' ability to effectively assess and manage it—unlike *Cultural Distance*, which is typically the hardest to evaluate, followed by regulatory/political and economic factors (Hutzschenreuter et al., 2014). MNEs can often mitigate geographic distance through tools like communication technologies. However, this is less feasible for possession-processing services, such as transportation and warehousing, where physical proximity remains critical and mitigation is more limited.

Throughout our models, we also observe notable results from the control variables. *Subsidiary Size* and *Age* are statistically significant throughout all models, reflecting greater local familiarity and ESG engagement (Miller & Eden, 2006). *Listed in the Stock Exchange* is significant in all models except for people-processing subsidiaries, suggesting that public listing enhances scrutiny and ESG compliance (Singhania & Saini, 2023). *Regional location* influences the effect of institutional efficiency, while *Same regional location as parent* is generally insignificant—except for CAGE impacts in people-processing services, highlighting the relevance of cultural proximity. *Subsidiary Performance* is significant only for possession-processing subsidiaries illustrating the importance of operational efficiency on ESG performance, and *Horizontal Integration* is significant in information-based service subsidiaries, indicating the importance of leveraging shared knowledge, experience, and optimizations in service delivery across countries.

Interesting results are also presented for local directors (Table 1). The number of local directors significantly affects ESG performance, but not when resource commitment is implemented as a moderator since both contribute towards cultural embeddedness—supporting the findings of the empirical literature (Firoozi &
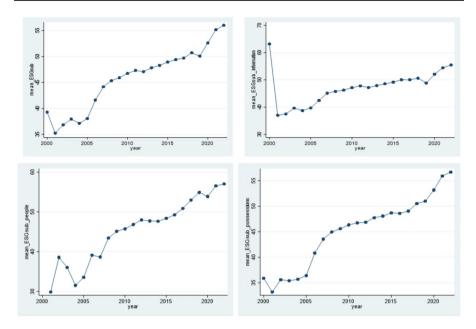
Fig. 2 ESG performance over time across service types

Keddie, 2022). The presence of local directors is also important when dealing with CAGE challenges in people-processing and possession-processing service subsidiaries. Among parent-level variables, *MNE Size* has a positive effect when testing host-country institutions, while *Leverage* is significant when testing CAGE. At the host-country level, *Economic Development* correlates with stronger ESG performance in advanced economies, and *Compulsory CSR Reporting* is positively associated with ESG outcomes, reflecting the role of disclosure expectations.

To conclude our results section, we note that the ESG performance across all service types has increased over time (Fig. 2), demonstrating that MNEs' and foreign subsidiaries' commitment towards ESG is growing. Particularly, we have noticed a steady increase since 2015, with the only exception of around 2019, due to the COVID-19 pandemic causing an interim reallocation of resources away from ESG performance and towards survival, risk, and crisis management. However, the quick turnaround reflects recent research evidence (e.g., by Magrizos & Lloyd, 2023) suggesting that the pandemic has boosted innovation and triggered changes and adaptations in CSR initiatives and performance.

5 Conclusion

Our research offers valuable insights into the impact of institutions and their quality affect the ESG performance of foreign subsidiaries in service industries around the world. The existence of a stable and transparent institutional environment in the host country directly influences subsidiaries' corporate strategy and sustainability

investments while also encouraging them to move beyond compliance and enhance their performance against the high standards of ESG. Furthermore, subsidiaries with higher resource commitments—with parent companies infusing more capital and human resources in the host country—are typically more influenced by and attuned to host-country institutions. Transparent legislative environments, reduced ethnic tensions, mitigated foreign pressures, lower levels of corruption, and economic stability encourage the MNE and its foreign subsidiaries to invest and allocate resources in long-longstanding sustainability approaches due to the lower threat of social, political, or economic volatility.

Therefore, policymakers should implement policies that strengthen political, legal, and economic institutions to support ESG performance for both local firms and foreign subsidiaries. Host governments should prioritise institutional investment, particularly in legal systems that enforce regulations and protect data —boosting business confidence (Khanna et al., 2005; Luo, 2001; Newton & Norris, 2000). Rules and regulations concerning data protection and patent protection should also be central to the legal system to support innovation and entrepreneurship (Atun et al., 2007). Governments could also promote the diversification of the economy and of companies that are susceptible to economic and foreign exchange risk to mitigate the negative consequences of any looming external economic crisis (Ansoff, 1957). Furthermore, governments could also promote certain programs and schemes to subsidise the training and development of the working population and of employees in particular industries, which could enhance the overall productivity of companies and the economic performance of countries, particularly in the cases of developing economies (Robertson, 2003).

However, the above also requires that globally agreed ESG reporting standards are adopted. Daugaard and Ding (2022) argue that coordinated global participation from civil, public, and private sectors is necessary to ensure uniform implementation of ESG disclosure, whereas Krueger et al. (2021) showed that when ESG disclosure is regulated and enforced by governments, then company liquidity improves threefold more rather than when mandated by the Stock Exchange or other professional bodies. Thus, it follows that ESG disclosure should be globally regulated and promoted with appropriate rules and regulations to enhance the presence of efficient institutions, such as bureaucratic quality, the rule of law, contract viability and enforceability, legislative strength, and the extent of corruption, to name a few.

The negative effect of cultural, administrative, and economic distance on ESG performance highlights the dual pressure faced by foreign subsidiaries: aligning with parent firms' CSP while adapting to local needs to gain legitimacy, enhance CSR impact, and build lasting stakeholder relationships (Napier et al., 2023). High distance compels MNEs to allocate resources to bridge institutional gaps (Delios & Henisz, 2003), often diverting attention from ESG compliance and performance. This underscores that institutional efficiency affects not just ESG adoption but also subsidiaries' ability to localise CSR without weakening global standards. Subsidiaries should proactively leverage and integrate their parents' CSP expertise to strengthen local partnerships, build local capacity, and regularly monitor local CSR initiatives, thereby ensuring a wider and more targeted impact within the host country—not only supporting ESG initiatives and performance, but enhancing existing infrastructure and knowledge.

Beyond improving institutional quality—particularly at the administrative level—we offer service-type-specific recommendations based on distinct CAGE indicators. For *people-processing services*, the negative impact of distance in labour productivity (services value added) can be addressed through local employee training and development. Investing in long-term employee development leads to higher productivity, and improvements in service quality, which enhance local reputation and stakeholder relations (Tao et al., 2018) and, in turn, contribute to advancing subsidiaries' performance in the social aspects of ESG. Subsidiaries should also prioritise utilizing local markets' resource availability to reduce their dependence on external resources from the MNE (Pfeffer, 1987). Furthermore, for companies in the accommodation and food industries, local sourcing can help subsidiaries mitigate the negative impact of exchange risk on ESG performance. The case of Costco, for example, demonstrates how investments in CSR and ESG practices create value and a competitive advantage (Hanson, 2013). Investing in human capital improves efficiency and customer experience, reinforcing both subsidiary and overall MNE performance.

For *possession-processing services*, the negative impact of the home-host distance on inflation and GDP per capita can be addressed by enhancing foreign subsidiaries' organizational resilience. For example, subsidiaries operating in the transportation and warehousing sector can strengthen local partnerships and implement flexible and adaptive logistics strategies, which are important aspects of good governance in accordance with the ESG criteria. In addition, the negative impact of home-host distance in data protection legislation calls for targeted awareness and training initiatives to build trust and reputation, thereby enhancing corporate governance. In this context, MNEs and foreign subsidiaries could benefit from industry-wide collaborations to establish best practices for mitigating administrative and regulatory risks, particularly in politically unstable regions. For *information-based services*, the negative impact of economic distance—such as foreign debt and capital investment—can be mitigated through strategic capital allocation and financial education initiatives. Firms in sectors like accounting, banking, and consulting could offer programs to improve local financial literacy, especially in countries facing economic instability. These CSR efforts strengthen local reputation and enhance social ESG performance. Additionally, service MNEs should adopt data-driven ESG monitoring systems to adapt strategies to changing institutional conditions, supporting long-term sustainability in host markets.

Furthermore, companies should pursue excellence across all ESG dimensions rather than opting for selective engagement. A 2015 PwC survey found that only 1% of companies assessed their impact on all 17 UN SDGs, while 34% focused only on those deemed relevant to their business (PricewaterhouseCoopers. (PwC) 2015), suggesting limited awareness of sustainability's interconnected nature. While industry- and capability-specific ESG strategies can improve efficiency and relevance, meaningful impact requires a holistic approach. MNEs can achieve both tailored and broad contributions through a balanced I-R approach to CSR (Napier et al., 2023). Global integration supports consistent ESG performance aligned with international standards, while local responsiveness ensures subsidiaries address host-country CSR needs. Thus, balancing I-R is vital not only for ESG outcomes but also for MNEs' resilience, longevity, and sustainable global growth.

In addition to the above insights and implications derived from our research, we contribute by addressing the limitations and extending existing research for more generalisable findings. For instance, Campbell et al. (2012) relied on single-country (US) and single-industry (banking) data, using stakeholder engagement as a CSR proxy to assess CAGE effects. In contrast, our study employs ESG performance—a more comprehensive measure of CSP—across 54 countries at varying development stages and includes service-specific CAGE indicators. Furthermore, we make some novel contributions. For the first time, the issue of theory uncertainty regarding the possible determinants affecting the ESG performance of foreign subsidiaries is addressed by employing an advanced econometric technique, the BMA, recognising that the effect of a particular ESG determinant may vary across different model specifications—especially in models with a large number of regressors. The theoretical literature suggests that the range of possible theories affecting the ESG performance of foreign subsidiaries is extensive, and the empirical findings have been contradictory. By accounting for model uncertainty, the implementation of BMA identifies robust determinants that influence the ESG performance of foreign subsidiaries in the services sector.

We use a large dataset by combining data from several different sources, which however comes with certain limitations. First, due to voluntary reporting, some firms lack ESG scores and are excluded. Second, data matching relies on LEI numbers (often missing) or company names (which may vary across databases), further narrowing the sample. Our research examines the ESG framework, focusing on developing globally consistent and reliable metrics for CSP. While this approach addresses global needs, it may not always prioritize the most critical local issues. We therefore suggest complementing ESG metrics with country-specific indicators to better capture foreign subsidiaries' local performance.

Future research could extend our work by examine how ESG performance shapes subsidiaries' reputation and overall outcomes, with closer attention to institutional efficiency and stakeholder alignment (e.g., communities, employees, governments). Studies could also explore the role of country-of-origin effects and investigate how structural changes—such as political shocks or regulatory reforms—affect ESG outcomes. Furthermore, as we focus on aggregate ESG scores, future studies could disaggregate Environmental, Social, and Governance dimensions to assess their individual drivers and impacts. For instance, recent research shows greater emphasis on Environmental factors, with less attention to Social and Governance—raising questions about how institutions and CAGE distance influence each ESG pillar in services. Finally, further research could link service MNEs' international strategies (global, transnational, international, multi-domestic) to institutional efficiency, home-host distance, and CSP. Building on Napier et al. (2023), we encourage deeper exploration of local responsiveness and institutional navigation in achieving CSR goals. In conclusion, further investigations can build and expand upon our research in understanding the ESG performance of foreign subsidiaries across different institutional contexts and service industries, an overlooked research area that, due to its magnitude and value in global sustainability efforts, requires immediate attention.

Appendix A

See Table 7.

Table 7 Variable description and source

Variable	Description and source
ESG	ESG overall company score based on the environmental, social, and corporate governance pillars, Datastream (2023)
Institutions	*International Country Risk Guide (ICRG)—Higher values denote less risk*
Bureaucracy quality	Institutional strength and quality of the bureaucracy in a country, ICRG (2022)
Civil disorder	An assessment of political violence caused by civil disorder in a country (higher values, ICRG (2022)
Civil war	An assessment of political violence caused by civil war or coup threat in a country, ICRG (2022)
Consumer confidence	An assessment of the socioeconomic pressures in a society based on consumer confidence, ICRG (2022)
Contract viability/expropriation	An assessment of contract viability as a risk to investment in a country, ICRG (2022)
Corruption	Corruption within a political system, ICRG (2022)
Economic risk	Assessing a country's current economic strengths and weaknesses, ICRG (2022)
Ethnic tensions	An assessment of the degree of tension within a country attributable to racial, nationality, or language divisions, ICRG (2022)
Financial risk	Assessing a country's ability to finance its official, commercial, and trade obligations, ICRG (2022)
Foreign pressures	An assessment to the incumbent government from foreign pressures, ICRG (2022)
Investment profile	An assessment of factors assessing the risk to investment that are not covered by other political, economic, or financial risk components, ICRG (2022)
Law and order	An assessment of the strength and impartiality of the legal system, and of the popular observance of the law, ICRG (2022)
Legislative strength	An assessment of the stability of the government to carry out its declared programs, ICRG (2022)
Risk for exchange rate stability	Risk points assigned based on the appreciation/depreciation of a currency against the US dollar, ICRG (2022)
Level of commitment	
Capital intensity	Total assets per employee (ln) for the subsidiary company, Orbis (2023)
Cultural	
Language distance	Differences in language, Dow et al. (2016)
Religion distance	Differences in religion, Dow et al. (2016)
Secular values	Welzel overall secular values (these societies place less emphasis on religion, traditional family values and authority), Haerpfer et al. (2022)

Table 7 (continued)

Variable	Description and source
Emancipative values	Welzel emancipative values (a subset of self-expression values with emphasis on freedom of choice and equality opportunities), Haerpfer et al. (2022)
Administrative	
Corruption	Corruption within a political system, ICRG (2022)
Law and order	An assessment of the strength and impartiality of the legal system, and of the popular observance of the law, ICRG (2022)
Civil disorder	An assessment of political violence caused by civil disorder in a country (higher values, ICRG (2022)
Civil war	An assessment of political violence caused by civil war or coup threat in a country, ICRG (2022)
Ethnic tensions	An assessment of the degree of tension within a country attributable to racial, nationality, or language divisions, ICRG (2022)
Foreign pressures	An assessment to the incumbent government from foreign pressures, ICRG (2022)
Consumer confidence	An assessment of the socioeconomic pressures in a society based on consumer confidence, ICRG (2022)
Bureaucracy quality	Institutional strength and quality of the bureaucracy in a country, ICRG (2022)
Legislative strength	An assessment of the stability of the government to carry out its declared programs, ICRG (2022)
Contract viability/expropriation	An assessment of contract viability as a risk to investment in a country, ICRG (2022)
Investment profile	An assessment of factors assessing the risk to investment that are not covered by other political, economic, or financial risk components, ICRG (2022)
Data protection	Dummy variable if a country has in place any legislation regarding data protection and privacy, UNCTAD (2021)
Innovation (log patent applications)	Patent applications by residents of a country (ln), World Bank (2023)
Geographic	
Distance	Geographical distance between capitals in km, Mayer and Zignago (2011)
Economic	
Economic risk	Assessing a country's current economic strengths and weaknesses, ICRG (2022)
Risk for exchange rate stability	Risk points assigned based on the appreciation/depreciation of a currency against the US dollar, ICRG (2022)
FDI	Foreign direct investment in bn USD, ICRG (2022)
Foreign debt	Foreign debt as a % to GDP, ICRG (2022)
Capital investment	Capital investment in bn USD, ICRG

Table 7 (continued)

Variable	Description and source
GDP per capita	GDP per capita in USD, ICRG (2022)
Inflation	Annual inflation rate, ICRG (2022)
Services employment	Employment in services as a % of total employment, World Bank (2023)
Services value added	Services value added per worker in USD, World Bank (2023)
Resources rent	Total natural resources rent as a % of GDP, World Bank (2023)
Infrastructure- individuals using the Internet (% of population)	Number of individuals using the internet from any location as a % of the total population of a country, World Bank (2023)
Infrastructure- fixed telephone subscriptions (per 100 people)	Number of fixed telephone subscriptions per 100 people in a country, World Bank (2023)
Infrastructure- mobile cellular subscriptions (per 100 people)	Number of mobile cellular subscriptions per 100 people in a country, World Bank (2023)
Subsidiary characteristics	
Performance	Profitability (net income in 000 s USD), Orbis (2023)
Size	Total sales in 000 s USD (ln), Orbis (2023)
Workforce	Number of employees (ln), Orbis (2023)
Horizontal integration	Dummy variable if the subsidiary company has the same industry classification code with the parent company based on the NAICS classification
Listed in stock exchange	Dummy variable if the company is listed on the Stock Exchange, Orbis (2023)
Regional location	Regional categories based on World Bank classification
Same regional location with parent	Dummy variable based on regional classification, World Bank (2023)
Age	Age based on the year of incorporation of the subsidiary company, Orbis (2023)
Number of local directors	The number of local directors, local being defined when the director has a country of residence or country of origin the country of the subsidiary company, Orbis (2023)

Table 7 (continued)

Variable	Description and source
Types of services	Three categories of services are defined: People-processing, Possession-processing, and Information-based services. People-processing services include health, leisure, and hospitality services that involve physical interactions with people. Possession-processing services include transportation and warehousing, wholesale trade, retail trade, utilities, real estate and rental and leasing services that involve the dealing of physical and tangible objects. Information-based services include education, information, finance and insurance, professional and business services, and other services except public administration, which are services involving the processing and management of information. This distinction of services uses the NAICS industry classifications and is based on Lovelock (1983)
MNE characteristics	
Internationalization intensity	The number of foreign subsidiaries of the parent company divided by the number of foreign countries the company has presence in, Orbis (2023)
MNE performance	Profitability (net income in 000 s USD), Orbis (2023)
Firm leverage	Total debt divided by total assets (in 000 s USD), Orbis (2023)
MNE age	Age based on year of incorporation of the parent company, Orbis (2023)
MNE size	Total sales in 000 s USD (ln), Orbis (2023)
Country characteristics	
Economic development Dummy (advanced economies)	Categories of high income, emerging, and developing countries based on the classification of the International Monetary Fund, IMF (2023)
Compulsory CSR reporting	Dummy variable if companies in the country have to report CSR by law, Krueger et al. (2023)

Appendix B

See Table 8.

Table 8 Descriptive statistics

Variable	Mean	Std. dev	Min	Max
ESG	48.848	20.365	0.572	95.740
Institutions				
Bureaucracy quality	3.654	0.667	0.000	4.000
Civil disorder	3.197	0.527	0.708	4.000
Civil war	3.940	0.243	0.500	4.000
Consumer confidence	2.404	0.455	0.542	3.500
Contract viability/expropriation	3.619	0.518	0.917	4.000
Corruption	4.119	1.009	1.000	6.000
Economic risk	38.830	3.868	18.250	49.250
Ethnic tensions	4.294	0.889	1.000	6.000
Financial risk	37.813	4.304	11.500	49.042
Foreign pressures	3.065	0.414	0.542	4.000
Investment profile	10.834	1.537	2.417	12.000
Law and order	5.026	0.889	1.000	6.000
Legislative strength	2.620	0.590	1.458	4.000
Risk for exchange rate stability	9.360	0.823	0.833	10.000
Level of commitment				
Capital intensity	7.014	2.047	0.422	16.483
Cultural				
Language distance	6.102	3.336	0.000	10.000
Religion distance	3.560	2.267	0.000	10.000
Secular values	0.040	0.038	0.000	0.306
Emancipative values	0.081	0.054	0.009	0.406
Administrative				
Corruption	0.935	0.789	0.000	4.917
Law and order	0.706	0.762	0.000	5.000
Civil disorder	0.506	0.436	0.000	2.708
Civil war	0.067	0.257	0.000	3.500
Ethnic tensions	1.101	0.759	0.000	5.000
Foreign pressures	0.463	0.411	0.000	2.917
Consumer confidence	0.479	0.382	0.000	2.500
Bureaucracy quality	0.348	0.647	0.000	4.000
Legislative strength	0.481	0.427	0.000	2.500
Contract viability	0.427	0.472	0.000	2.708
Investment profile	1.151	1.303	0.000	8.583
Data protection	0.307	0.461	0.000	1.000
Innovation (log patent applications)	11.874	11.908	0.000	14.170

Table 8 (continued)

Variable	Mean	Std. dev	Min	Max
Geographic				
Distance	6584.34	5018.14	173.03	19,263.88
Economic				
Economic risk	3.127	2.563	0.000	20.917
Exchange rate risk	0.591	0.724	0.000	8.875
FDI	138.565	108.993	0.000	434.190
Foreign debt	26.862	20.116	0.000	225.500
Capital investment	1665.101	1302.171	0.100	7893.580
GDP per capita	14,519.980	12,753.110	13.000	86,967.000
Inflation	1.300	2.098	0.000	66.000
Services employment	7.911	12.167	0.000	54.557
Services value added	38,724.170	31,544.410	2.882	205,468.000
Resources rent	2.049	3.567	0.000	57.994
Infrastructure- Individuals using the Internet (% of population)	16.599	3.640	5.982	21.315
Infrastructure- Fixed telephone subscriptions (per 100 people)	22.047	1.859	19.538	27.226
Infrastructure- Mobile cellular subscriptions (per 100 people)	26.105	6.708	15.774	34.948
Subsidiary characteristics				
Performance	12.009	1.987	1.098	16.197
Size	13.951	2.221	6.862	18.383
Workforce	8.216	2.378	2.079	12.864
Horizontal integration	0.238	0.425	0.000	1.000
Listed in stock exchange	1.906	0.334	1.000	3.000
Regional location	2.982	1.645	1.000	7.000
Same regional location with parent	0.319	0.466	0.000	1.000
Age	32.624	32.841	1.000	121.000
Number of local directors	4.031	5.500	1.000	22.000
MNE characteristics				
Internationalization intensity	11.179	0.276	10.756	12.205
MNE performance	14.920	0.313	14.168	15.450
Firm leverage	0.2431	0.021	0.2107	0.2814
MNE age	42.146	38.350	5.000	184.000
MNE size	15.520	0.2585	15.152	16.069
Country characteristics				
Economic development dummy (advanced economies)	0.793	0.405	0.000	1.000
Compulsory CSR reporting	0.290	0.454	0.000	1.000

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Authors and Affiliations

Anthi Avloniti[1] · Christiana Anaxagorou[1] · Ioanna Stylianou[1,4] · Duc Khuong Nguyen[2] · Kamila Janovská[3]

✉ Anthi Avloniti
aavloniti@uclan.ac.uk

Christiana Anaxagorou
canaxagorou@uclan.ac.uk

Ioanna Stylianou
istylianou@uclan.ac.uk

Duc Khuong Nguyen
duc.nguyen@devinci.fr

Kamila Janovská
kamila.janovska@vsb.cz

[1] School of Business and Management, University of Central Lancashire Cyprus, Larnaca, Cyprus

[2] EMLV Business School, Courbevoie, France

[3] Department of Industrial Systems Management, Technical University of Ostrava, Ostrava, Czech Republic

[4] Department of Economics and Finance, School of Business and Economics, State University of NY (SUNY), Plattsburgh, USA