Multinational Corporations and CSR: Institutional Perspectives on Private Governance

Gregory Jackson
Department of Management
Freie Universität Berlin

Nikolas Rathert
Department of Management
Freie Universität Berlin

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Abstract: Multinational corporations (MNCs) are important drivers of global economic activity, but have an ambiguous relationship to different forms of regulation that promote labor standards. Given their global nature spanning different societies, MNCs are often associated with high adoption of private modes of governance falling under the rubric of corporate social responsibility (CSR), whereby firms engage with collective expectations of salient stakeholders regarding social standards. This paper addresses how firm adoption of CSR in relation to labor standards relates to institutional factors stemming from both the home and host countries of the multinational. Drawing on literature in institutional theory, we develop and test two conflicting hypotheses: namely, that adoption of CSR policies is undertaken as a substitute to formal institutions supporting labor power or alternatively may be adopted in response to institutional pressure of labor as a complement. We investigate these claims by studying a sample of European firms and their weighted exposure to different home country and host country environments based on their subsidiary locations. Our findings show support for both the complement and substitution hypothesis. However, these effects differ depending on whether labor power is institutionalized in home or host countries of MNCs. We also explore potential interactions between home and host country institutional effects.

Main text: 7,878 words without references or stables

1. Introduction

As organizations with diverse sets of stakeholders, multinational corporations (MNCs) have been at the forefront of corporate social responsibility (CSR) adoption. Different approaches in management, economic sociology, and political science propose a variety of reasons for the rise of CSR as a form of private regulation. One set of arguments suggests that CSR adoption is driven by strategic motives of MNCs, such as a need to manage stakeholder impressions, overcome potential "liability of foreignness," and potentially improve organizational performance. During the past decades, the focus on CSR as a strategic tool at the discretion of managers to influence stakeholder judgments and financial performance has informed a large body of literature in management research on the effects of CSR on firm performance (Aguinis & Glavas, 2012).

However, recent studies have emphasized the influence of institutional environments on CSR practices, such as a firm's home country, its industry-specific circumstances, and its relationship with key stakeholders (Barnett & King, 2008; Devinney, 2009; Jackson & Apostolakou, 2010). This research has argued that CSR strategies are also embedded within and shaped by wider sets of institutions. Institutional approaches to CSR have noted considerable differences in CSR adoption between firms from different countries and industries, suggesting that corporate agency does not fully explain the uptake of CSR. Instead, these studies draw on differences in regulatory and normative environments to explain the variety in CSR adoption. However, the question how exactly institutions affect the degree and extent of private governance are less well understood.

The institutional literature on CSR offers notable diversity in conceptual approaches and different points of emphasis in answering this question. Some authors see home country institutions of MNCs to suggest that differences in historically grown institutional domains translate into different levels of expectation for corporations to demonstrate stakeholder concern (Matten & Moon, 2008). Empirical analyses have found that CSR adoption may be negatively related to the strength of institutionalized standards, suggesting a "substitution" effect in some domains, and a complementary relationship in others (Ioannou & Serafeim, 2012; Jackson & Apostolakou, 2010). A similar logic is applied to studies of MNC host countries. When regulatory standards are seen as weakly institutionalized, either in absolute terms or comparatively, MNCs may be required to adopt CSR to signal responsibility to certain audiences (Berliner & Prakash, 2013; Brammer, Pavelin, & Porter, 2009). However, weaker institutional capacity may simultaneously impair the effective implementation of such standards (Locke, Rissing, & Pal, 2013). These opposing pressures suggest the possibility of decoupling between CSR policies and practices by MNCs (Crilly, Zollo, & Hansen, 2012). Moreover, other authors suggest important effects stemming from institutional distance, defined as the "differences in government policies, regulations and institutions between the home and host countries", whereby greater distance creates barriers for managers and is negatively related to CSR adoption (Campbell, Eden, & Miller, 2012).

In this paper, we ask the following research question: how does institutionalized stakeholder power in the home and host countries of MNCs shape their adoption of CSR? We develop this question using key concepts in institutional theory, showing that analyses of MNCs' CSR adoption remain disparate and empirically unresolved. We propose a more comprehensive institutional approach to CSR adoption by MNCs that takes into account home country, host country, and institutional distance perspectives. We distill propositions from various strands of institutional theory to explain CSR adoption, and test these by analyzing CSR adoption in one of the most contested area of corporate conduct: human and labor rights. The results provide the first comprehensive empirical analysis of CSR adoption by MNCs acting under conditions of institutional complexity.

We think that studying CSR adoption is highly instructive in bridging insights from institutional theory and the study of MNCs. CSR has become an important part of corporate strategy (Bermiss, Zajac, & King, 2014), but more than any other metric by which corporations are evaluated, stakeholder notions of what constitutes appropriate CSR vary by institutional contexts. Studies from the international business literature often focus on how MNCs overcome functional challenges of operating in multiple countries (Ghoshal, Korine, & Szulanski, 1994). However, MNCs also face difficult challenges of gaining legitimacy in multiple institutional environments, and more than any other type of organization are exposed to multiple and likely contradictory institutional environments (Kostova & Zaheer, 1999). Hence, strategic incorporation of CSR into strategy will likely be more challenging for MNCs, as different institutional environments exert influence on MNC practices (Husted & Allen, 2006). By analyzing these influences on CSR adoption, this paper shows how MNCs are subject to contestation by different stakeholders, and how CSR performs different functions under different institutional conditions.

2. International Business Perspectives on MNCs and CSR

This section reviews theoretical approaches to CSR drawn from the international business literature. These approaches share a perspective of CSR as a strategic response of firms to pressures and problems that arise from internationalization: exposure to diverse stakeholders, institutional distance, institutional voids, or expectations of conformity with global norms.

2.1 Stakeholder approaches in international business

CSR is often seen as a respond to stakeholder claims. Prior studies in management have examined instrumental aspects of CSR related to whether companies who successfully engage with stakeholders also achieve performance improvements, albeit with mixed results (Agle, Mitchell, & Sonnenfeld, 1999; Margolis & Walsh, 2001). Multinational enterprises are exposed to a particularly broad set of stakeholders from different geographical contexts. As firms internationalize, they are confronted with more diverse and potentially more extensive stakeholder claims related to, for example, human rights and environmental problems. In particular, internationalization may create salient social and environmental issues that do not arise in MNCs' domestic contexts (Brammer, Pavelin, & Porter, 2006; Kang, 2013). As internationalization increases exposure to a greater number and breadth of stakeholder-related issues, corporate management faces stronger demands to develop a coordinated response. Here CSR policies may be aimed at local audiences, such as subsidiary employees or communities in different host countries, or global audiences, such as customers in home regions or NGOs (Bondy & Starkey, 2014; Husted & Allen, 2006).

The focus on CSR therefore depends to some extent on the distinct internationalization strategies of the firm. Nonetheless, a consensus exists that MNCs tend to prefer broad and inclusive CSR strategies, as these can be standardized across subunits of their global organization (Dowell, Hart, & Yeung, 2000; Kang, 2013). In sum, the stakeholder approach to MNCs suggest that by "meeting or exceeding compliance everywhere they operate, firms will, by necessity, reach high levels of overall [CSR]" (Sharfman, Shaft, & Tihanyi, 2004), so that standardization protects MNCs from unexpected stakeholder demands (Aguilera-Caracuel, Aragón-Correa, Hurtado-Torres, & Rugman, 2011).

2.2 CSR as Impression Management

Beyond their immediate stakeholders, MNCs are members of organizational fields that transcend nation states and often emerge around issues such as sustainability or human rights (Bondy & Starkey, 2014; Crilly, 2011; Hoffman, 1999). Different actors exist within such fields, including corporations, civil society actors and national and transnational authorities. These groups continuously contest the "rules of the game" and vie for definitions of appropriate conduct, for example related to labor rights (Hassel, 2008). MNC legitimacy is not only a product of norms of diverse host country environments, but is developed in a "global meta-environment" (Kostova & Zaheer, 1999) where norms diffuse across societies through transnational processes involving contestation and negotiation (Meyer, Boli, Thomas, & Ramirez, 1997).

Prior work has focused on MNCs' trade and investment networks as channels of diffusion for voluntary standards (Guler, Guillén, & Macpherson, 2002). Akin to the "California effect" observed in relation to product standards (Vogel, 1997), companies may adopt voluntary CSR standards in response to preferences of trading partners and distant stakeholders, such as the UN Global Compact, the Global Reporting Initiative, or ISO quality standards (Greenhill, Mosley, & Prakash, 2009; Lim & Tsutsui, 2011; Prakash & Potoski, 2007). If host countries are seen as poorly governed by home country stakeholders, corporations are likely to adopt CSR to signal responsibility (Berliner & Prakash, 2013).

However, MNEs commitment to CSR may diverge from actual organizational implementation. Here decoupling can take a variety of forms in relation to CSR, and has been well documented in a variety of industries (Haigh & Hoffman, 2014; Locke, 2013). For example, although membership figures for the UN's Global Compact suggest widespread acceptance of CSR norms,[1] companies often engage in "ceremonial commitment" to these initiatives, but failing to issue required reports (Lim & Tsutsui, 2011). Superficial commitment may result from an inability of stakeholders to monitor MNC behavior (Crilly et al., 2012; Surroca, Tribó, & Zahra, 2013) and depend on local stakeholders empowered to monitor firms (Crilly, 2011; Marquis & Qian, 2014; Oetzel & Getz, 2012; Rathert, 2014). For example, "greenwashing" is often based on MNCs' claim to practice sustainability, while establishing subsidiaries in host countries that do not enforce environmental protection laws (Surroca et al., 2013), or commit to fairly general policies that do not affect specific core business operations (Ramus & Montiel, 2005). To offset such stakeholder concerns, MNC sometimes adopt unrelated CSR measures such as philanthropy (Brammer et al., 2009), or engage in forms of CSR adoption that limits stakeholder involvement (Bondy, Moon, & Matten, 2012; Rathert, 2014). From a neo-institutional perspective, CSR by MNCs remains a largely symbolic means to manage stakeholder expectations without ceasing controversial behavior.

Extant literature remains divided about whether decoupling by MNCs is intentional or not. Symbolic commitment by MNCs may result from difficulties to cater to diverse and conflicting stakeholder demands (Crilly et al., 2012). But MNCs may be unwilling to implement sustainability norms, and stakeholders remain unable to monitor or sanction these organizations. Moreover, adopting CSR as impression management may be a strategy to maintain organizational legitimacy in response to alleged controversial behavior (Elsbach

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[1] As of 2014, more than 8000 corporations have joined the UNGC. https://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html

& Sutton, 1992; McDonnell & King, 2013). CSR may be used as a tool to build up credit among stakeholders, and thereby offer "insurance" for reputation and other relational assets in the face of negative events (Godfrey, Merrill, & Hansen, 2009; Koh, Qian, & Wang, 2013).

2.3 Institutional distance, institutional voids and CSR

Unlike the stakeholder literature, institutional distance highlights how differences between the context of MNC home and host countries have implications for corporate strategy. Institutional distance has long been studied as a determinant of MNCs' ability to operate in foreign countries (Kogut & Singh, 1988). The concept of distance emphasizes the relative differences between MNC home and host countries as driving MNC strategies, suggesting that countries differ along a variety of dimensions such as language, legal systems, and culture. Drawing on insights from the comparative economics literatures and "law and economics" approach (La Porta, Lopez-de-Silanes, & Shleifer, 2008), the concept of distance has been extended to look at differences in institutional spheres such as corporate governance, regulatory systems, as well as the coordination among such spheres (Berry, Guillen, & Zhou, 2010). Institutional distance is thus the sum of differences between any specific pairs of countries.

Given institutional distance, MNCs run the danger of experiencing liability of foreignness ("LoF"), referring to costs resulting from spatial distance, unfamiliarity, and lack of legitimacy with host country stakeholders (Zaheer, 1995). In order to operate successfully in host countries, these firms must employ strategies to overcome such liability. While MNCs may use a variety of legitimation strategies to counteract negative effects of foreignness (Kostova & Zaheer, 1999), CSR is one of the central strategies. Much like brand value, CSR becomes an intangible asset that allows MNCs to overcome local stakeholder prejudice when effectively geared towards the host country environment (Gardberg & Fombrun, 2006). However, institutional distance also predicts higher costs, it also implies that a compromise between effective CSR adoption tailored towards local audiences and global standardization may be hard to achieve. Since CSR's effects on stakeholders are dependent on what local audiences understand as appropriate (Devinney, 2009; Doh & Guay, 2006), greater distance may actually decrease the ability of managers to relate and identify with local stakeholders (Campbell et al., 2012).

The distance approach has been extended by stressing that MNC host countries may lack needed institutional arrangements altogether (Khanna & Palepu, 1997). Institutional voids have most often been conceptualized as spaces with incomplete and underdeveloped market institutions, such as contract enforcement and property rights (Ahlquist & Prakash, 2009; Markus, 2012), resulting in hazardous business environments (Delios & Henisz, 2003). Put most generally, government effectiveness in these contexts is very low, sometimes resulting from "failed states" (Börzel & Risse, 2010). Here CSR can become a functional substitute for formal institutions, thereby filling in existing institutional voids. For example, Thauer (2014) studies MNC efforts to provide voluntary health services in South Africa to avoid employee turnover in the face of lacking institutional support. Similarly, the diffusion of voluntary standards such as ISO 9001 and 14001 has been explained with reference to increases in productivity, quality, and stakeholder satisfaction across varying institutional contexts, including those viewed as voids (Heras-Saizarbitoria & Boiral, 2013).

Institutional voids can also threaten the legitimacy of MNCs, particularly in the eyes of stakeholders in MNC home countries. By operating in territories with weak institutions, the legitimacy of the MNC may be called into question based on concerns that the firm may be complicit in exploiting the conditions found in institutional voids (Zhao, Tan, & Park, 2014). Here MNCs operate in a context lacking the regulatory, normative, and cognitive elements expected in global organizational fields that surround issues of sustainability and corporate responsibility (Child, Lu, & Tsai, 2007), so that stakeholders may accuse MNCs of using sweatshop labor or exploiting pollution havens (Berliner & Prakash, 2013; Lamin & Zaheer, 2012). Hence, by adopting CSR, MNCs may be able to signal responsible conduct and highlight responsible organizational identity in the absence of institutionalized rules (Amaeshi, Adegbite, & Rajwani, 2014).

Table 1 summarizes the different theoretical perspectives on CSR adoption by MNEs. While stakeholder theory and neo-institutional theory stress the growing demand for CSR by company stakeholders or global policy communities, other concepts draw specifically from the IB literature to suggest specific ways in which the institutional context of host countries may influence CSR. Specifically, institutional distance cites notable barriers to CSR adoption based on relative differences between home and host country institutions. Meanwhile, institutional voids literature sees CSR as a form of private governance that may potentially substitute for formal institutions, such as effective government regulation.

3. Comparative Institutional Perspectives: Understanding CSR as Substitute and Complement

This section extends the above discussion by introducing a comparative on how home and host country institutions shape CSR adoption. Institutional approaches view CSR adoption not exclusively as a strategic decision on behalf of the firm, but resulting from different institutional frameworks that shape firms' relations with their stakeholders (Brammer, Jackson, & Matten, 2012). However, the IB literature has retained a rather "thin" view of how institutions constrain MNCs strategic actions (Jackson & Deeg, 2008). Here we draw on comparative scholarship about how institutions enable different capacities for responding to stakeholder demands (Regner & Edman, 2014).

Empirical evidence shows differences between CSR adoption across countries (Aguilera, Williams, Conley, & Rupp, 2006; Campbell, 2007). CSR has its origins in the Anglo-Saxon world (Kinderman, 2012; Matten & Moon, 2008), but is now widely diffused globally. Matten and Moon (2008) draw on the distinction between coordinated (CME) and liberal market economies (LME) (Hall & Soskice, 2001) to suggest that CME countries engage in "implicit" CSR, while Anglo-Saxon companies practice "explicit" CSR. Firms in LME countries encounter more space for strategic action related to private responsibility, since institutional rules are relatively weak. Meanwhile, firms from CME countries are more constrained to comply with strong normative frameworks of appropriate business conduct – thus making their CSR activities "implicit." This approach thus suggests a broader research agenda to map the effects of different institutions on specific patterns of CSR adoption in greater detail.

The mechanisms and direction of institutional effects remain hotly debated. A main point of debate is whether CSR is a form of private governance that substitutes for formal regulation or complements institutionalized forms of stakeholder protection. The substitution perspective suggests that business firms must address some basic social issues to obtain legitimacy, but may do so in different ways. CSR may be functionally equivalent to institutionalized rules whereby certain social function may be fulfilled through many different types of structures (Merton, 1967).[2] By contrast, the complementarities perspective suggests that CSR and formal institutions may have a mutually enhancing relationship. Complementarities imply that the effectiveness of a particular organizational structure or practice increases in the presence of a specific other structure or practice (Aguilera, Filatotchev, Gospel, & Jackson, 2008). For example, effective rule of law may help firms to implement CSR standards in different country environments. In general terms, complementarities may generate improved effectiveness due to similarities with other elements that generate broader incentive alignment or development of transferable capabilities, but also in cases of different organizational logics, where the strengths of one practice may help compensate for the weaknesses of another. While the concept of complementarities has been highly evocative, further research is needed to better conceptualize and test how different configurations of CSR practices may co-occur in complementary ways or substitute for one another.

In linking specific institutional domains to CSR adoption, we focus on how institutions support specific kinds of stakeholder power and influence. Mitchell, Agle, and Wood (1997) define stakeholder power as the ability of stakeholders to impose their will on the company. For our purposes, we expect that differences in stakeholder power can account for the extent to which MNCs adopt CSR more or less extensively. Mitchell et al. (1997) also note that stakeholder power can vary across time and between stakeholders. We expect such power differences to be especially manifest when comparing between different home country institutions, as well as between home and host country institutions of MNCs. This makes the MNC an ideal empirical setting to study the consequences of exposure to different institutional contexts.

3.1 CSR as Institutional Substitute or Complement: The Home Country Perspective

In an analysis of Western European companies' CSR adoption, Jackson and Apostolakou (2010) introduce the notion of CSR as institutional complement or substitute. If CSR acts as a substitute to formal regulation that protects or enables stakeholders, then CSR adoption should be high among firms from countries in which laws and norms do not coordinate firm-stakeholder interactions. This perspective sees CSR as a form of private governance that may be "squeezed out" when higher behavioral standards or stronger stakeholder rights are codified in law or other regulation.[3] Conversely, more liberal market-driven institutional environments allow greater scope for competitive differentiation of firms based on CSR practices, where CSR is adopted as part of a "business case" to leverage stronger relationships with stakeholders than competitor firms. This study also argued that institutions may have different effects on the adoption of minimum standards of social responsibility relative to the adoption of best practices. Specifically, weak stakeholder protection was associated with a decreased likelihood of being among the bottom 20% of firms that fail to adopt CSR. This implies a substitution effect, whereby firms adopt CSR in the absence of institutional regulation. However, the same institutions had zero or only very

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[2] Of course, substitution does not imply that CSR and state regulation are equally effective Gresov, C., & Drazin, R. 1997. Equifinality: Functional Equivalence in Organization Design. ***The Academy of Management Review***, 22(2): 403-428..

[3] Along similar lines, Matten and Moon suggested that the degree of "codified rules and laws" (p. 413) is negatively related to measurable, explicit CSR adoption, which suggests that strong market mechanisms act as the key driver of adoption.

weak effects on the likelihood of adopting "best practices." Membership in the top 20% of firms may thus be explained by more strategic firm-specific factors.

This hypothesis of CSR acting as a substitute for more formal institutionalized relationships with stakeholders is in line with historical evidence on the establishment of CSR business associations in the UK and the US, whose origins are closely tied to an explicit mission to avoid formal regulation on the part of corporations (Kaplan, 2014; Kinderman, 2012). Here firms champion CSR as an alternative to top-down regulation by the state that would stipulate certain standards of behavior vis-à-vis stakeholders or establish stakeholder rights within the corporation. From the firm's point of view, business-led CSR offers several key advantages to regulation, since it asserts legitimacy without relinquishing managerial prerogatives (Fransen & Burgoon, 2014).

More recently, Ioannou and Serafeim (2012) find that companies from countries with leftist governments display lower levels of CSR adoption, and that market-based finance systems (compared to credit-based systems such as Germany) are more conducive to CSR adoption. Overall, this suggests that when institutions leave the solution of social problems to the market, this opens up room for corporate action in the realm of social responsibility. At the same time, conferring stakeholder responsibility to firms implies that firms may enjoy power advantages over their stakeholders, with fewer formal rights awarded to, for example, employees in liberal market economies. Other literature has distinguished further between CSR adoption versus the implementation of these measures. For example, Lim and Tsutsui (2011) find that greater liberalization leads to "ceremonial" commitment to stakeholder norms. Following this line of argument, we formulate our first proposition:

> **Proposition 1: MNCs from home countries where stakeholder power is weakly institutionalized will display higher levels of CSR adoption, since firms seek to either strengthen stakeholder relationships to leverage competitive advantage or pre-empt increases in mandatory regulation.**

Another set of studies points to a different mechanism of how institutions affect CSR. This perspective sees CSR as a *complement* to formal regulation. Here institutional arrangements with codified stakeholder engagement rules and strong norms for coordination between firms and stakeholders may lead to greater CSR adoption, grounded in explicit stakeholder power (Campbell, 2007). Using the same distinction between liberal and coordinated market economies, this perspective presents very different predictions about CSR adoption. According to Campbell (2007), CSR adoption is enabled by the embeddedness of firms in institutional settings that favor socially responsible action. Here two elements are central. First, institutions may empower stakeholders to demand adoption of more socially responsible corporate practices. Examples of such arrangements are German codetermination laws, Japanese lifetime employment norms, or Scandinavian modes of corporate governance that give stakeholders stronger voice in company decision making (Jackson & Deeg, 2008). Second, firms in more coordinated market economies may also have greater capacity for collective responses to stakeholder demands, such as adopting common standards or certification. Firms in these settings may thereby achieve higher rates of CSR adoption than in more liberal settings, while acknowledging that CSR in highly regulated contexts may take different forms. For example, CSR was an originally business-driven form of governance that may be at odds with regulating societal issues through consent and stakeholder coordination (Gjølberg, 2010). Empirically, Gjølberg (2009, 2010) finds that the embeddedness of Scandinavian firms in corporatist traditions leads to a CSR emphasis on non-domestic issues and multi-stakeholder approaches, with private regulation explicitly not seen as a substitute to existing regulation. Following this literature, we formulate:

Proposition 2: MNCs from home countries where stakeholder power is strongly institutionalized through higher coordination will display higher levels of CSR adoption, since stakeholders have greater power resources to demand CSR and firms have greater capacity to coordinated responses through CSR.

In sum, these competing hypotheses remain. One literature sees CSR associated with weak stakeholder power, whereby it diffuses as a substitute for formal regulation or is driven by competitive market-driven business strategies. Other literature sees CSR as reflecting strong stakeholder power, whereby institutional supports for stakeholders lead to greater demands for CSR. The empirical results on these questions lend some support for both perspectives. This situation suggests the need to focus less on the idea of more or less CSR adoption, and look more closely at differences in the specific profiles of adoption between countries, also including the multinational dimensions of corporate activity. The seemingly contradictory results may in part stem from the fact that past studies focus on different aspects of CSR or different approaches to measurement. Most importantly, many studies use very global aggregate measures of CSR that combine a broad sweep of different issues. Consequently, it has proven difficult to closely conceptualize and match which specific institutions are driving adoption or non-adoption of specific elements of CSR. An issue-focused, comparative institutional approach is thus better suited to examine important differences across CSR issues and implementation depth.

3.2 CSR as Institutional Substitute or Complement: The Host Country Perspective

MNCs are influenced not only be institutions in their home country of origin, but also be characteristics of institutions in their host country. Comparative institutional literature focuses on home country institutions rarely considers the fact that MNCs face multiple organizational fields in different country settings (Kostova, Roth, & Dacin, 2008). The process of maintaining legitimacy may become more difficult as MNCs seek to conform to both internal and external expectations, and suffer from liability of foreignness (Campbell et al., 2012; Crilly, 2011). Hence, operating in countries with institutions voids do not only constitute spaces of underdeveloped markets whereby MNC business processes' functionality is threatened, but may also create legitimation problems for MNCs (Zhao et al., 2014). For example, Google's entry into the Chinese market threatened the company's legitimacy back in its home country context, due to the pressures to engage in censoring within its Chinese operations (Bundy, Shropshire, & Buchholtz, 2013). Along these lines, Gjølberg (2009) suggests a dynamic relationship where MNCs are likely adopt more explicit forms of CSR as they internationalize. Going back to the arguments of Matten and Moon (2008), her argument suggests that even implicit CSR standards created by domestic institutions are made more visible and explicit by international firms in order to achieve high placements in sustainability rankings and stock indices, which now constitute important signals of legitimacy for MNCs.

A further issue is that MNCs can manipulate and even ignore certain institutional demands (Kostova et al., 2008). On the subsidiary level, the ambiguity of and experience from different institutional contexts allows MNC units to change host country institutions, leverage differences, circumvent expectations, or adapt to new contexts (Regner & Edman, 2014). Such agency may also apply to headquarter activity. For example, MNCs can relocate practices to other contexts if they are incompatible with stakeholder expectations and rules of the home country (Surroca et al., 2013; Witt & Lewin, 2007). Since leveraging such differences presupposes information asymmetries between the MNC and its home country stakeholders, this may create opportunities to adopt some form of symbolic CSR to counteract appearances of irresponsibility (Crilly et al., 2012).

Institutional theory thus also suggests that CSR substitutes for public governance in host countries with low stakeholder power. The voids literature suggests that even when MNCs choose subsidiary locations to arbitrage differences in standards and regulation, this can increase the salience of issues such as human rights and sustainability. Drawing on qualitative data from MNC executives, Crilly (2011) provides evidence that "a subsidiary's malpractice can have ramifications for other parts of the MNC. A common theme expressed by headquarter staff was the potential danger to corporate reputation from overlooking the interests of local stakeholders in countries that lacked formal sanctions. In contrast to firms' exploitation of poorly regulated territories to evade accountability at home, some MNCs face global scrutiny, and have much to lose if their subsidiaries are seen to engage in inappropriate conduct" (p. 702). We therefore formulate:

Proposition 3: MNCs operating in host countries where stakeholder power is weakly institutionalized will display higher levels of CSR adoption, since firms may use CSR as a functional substitute for regulation or adopt CSR to increase legitimacy with home country stakeholders.

Turning to the idea of institutional complements, we cannot assume institutional frameworks in host countries guarantee European-style firm-stakeholder coordination. However, host countries' institutions may also enable stakeholders to extract concessions from firms, even where firms remain more hostile to developing cooperation stakeholder relations (Mosley, 2008). Hence, we suggest that in contexts with institutionalized stakeholder power, CSR serves as a "good faith contribution" to local stakeholders (Campbell et al., 2012).

As such, CSR adoption is complementary to the strength of institutions that award rights to stakeholders, even though such rights may not be enforced by state authorities (Mosley & Uno, 2007; Teitelbaum, 2007). However, even in cases of divergence between law and organizational practices, existing formal regulation may be used as the basis to transfer rule implementation to private organizations, which leads to higher CSR adoption. For example, even though ILO core labor conventions may not be enforced in several countries (Neumayer & Soysa, 2006), evidence suggests that MNCs with increased presence in such countries tend to adopt more extensive CSR policies (Rathert, 2014). Local stakeholders may see MNCs as more susceptible to calls for private regulation when it is not enforced by state authorities, since MNCs are more likely to become targets of media coverage or care about their reputation for CSR with certain stakeholders (Lamin & Zaheer, 2012; Lim & Tsutsui, 2011). Locke (2013) provides qualitative evidence how in the Czech Republic, MNCs ensured enforcement of national laws within their facilities and included these rules in their own private governance statutes (p. 168). Based on these arguments, we formulate:

Proposition 4: MNCs operating in countries where stakeholder power is strongly institutionalized will display higher levels of CSR adoption, since host country stakeholders are more likely to create salient demands for CSR.

###Table 1 around here###

4. MNCs and CSR Adoption: The Issue Area of Labor Rights

We explore the four propositions from the comparative institutional literature drawing on CSR data from a core issue area: labor and human rights. The impact of specific elements of globalization on human rights, such as global value chains with production in developing countries, represents a key area of contention among MNCs, governments and civil society (Mosley, 2011). The rise of labor rights as a salient issue to MNCs is inextricably tied to the spread of MNC investment to developing countries, which has rapidly increased in the last two decades (UNCTAD, 2011). Starting in the early 1990s, the issue first gained prominence with the discovery of sweatshop labor used by major textile companies that outsourced production to Asian countries (Vogel, 2006). Since then, a plethora of private governance standards have proliferated in various sectors and countries as a reaction to the diminished power of nation states in regulating the global economy (Bartley, 2005). These standards are formulated and implemented in different ways including unilateral CSR measures adopted by companies or those formulated by industry-specific business associations, as well as those developed via multi-stakeholder initiatives (Fransen & Burgoon, 2014). Critics of a private governance approach to labor rights have pointed out that such regulation often falls short of tackling the most pressing problems, such as awarding enabling rights to stakeholders (Anner, 2012; Locke, 2013). Without the risk of systemic detection of violations, the current incentive structure in the field of labor rights may suggest that companies adopt minimum levels of labor rights CSR (Fransen & Burgoon, 2014)..

We explore the relative influence of different institutional contexts for European MNCs. In contrast to prior approaches, we suggest that the extent to which MNCs engage in private governance is subject to institutional constraints and opportunities that originate from both MNCs' home and host country contexts. Hence, we depart from approaches to private governance that place the ability to strategically use CSR within the domain of the company, and instead advance a more nuanced institutional perspective that envisions MNCs as being exposed to multiple and conflicting demands for such governance. Empirically, we combined data from two secondary sources. We obtained subsidiary location information from Bureau van Dijk's AMADEUS database for all available companies as of 2012 from the EU-15 countries, including Switzerland and Norway and excluding Luxembourg and Finland.[4] We excluded subsidiaries in each MNC's home country, then distinguished between subsidiaries in EU-15 and all other countries, and finally proceeded to match the parent companies with those available in ThomsonReuters ASSET4 database, which provides detailed CSR adoption and implementation data on the parent company level (Ioannou & Serafeim, 2012). This process yielded roughly 54000 subsidiaries of 672 European MNCs. Because of missing data for some variables, the sample was further reduced to 629 companies for the year 2012.

Our dependent variable is a summary indicator of MNC CSR performance in the area of human rights, derived from the ASSET4 ESG database. The human rights indicator is composed of 34 individual data points measuring the extent of CSR related to formal policy adoption, implementation, monitoring and improvement efforts in the areas of freedom of

[4] No data could be obtained for MNCs from Luxembourg. Finnish companies were excluded due to Finland's extreme values on the institutional distance variable, which created multicollinearity issues in the regression analysis.

association, child labor, forced labor, and general human rights, both within the organization and along the supply chain. This indicator ranges from 0 to 100, although actual values in our sample range from 16.5 to 95.5 in 2012, with a bimodal distribution as depicted in figure 1.

To test the relative influence of home country institutions, we use the labor power index provided by Botero et al. (2004). In contrast to other labor rights indicators that measure labor rights on a global scale, which often focus heavily on violations (Teitelbaum, 2010), this index is well suited to capture differences in firm-stakeholder coordination between European countries, as it goes beyond basic rights such as collective bargaining and freedom of association that are already established. The index ranges from zero to one and is the average of seven indicators relating to rights to unionization, collective bargaining, works councils, and codetermination, thus capturing more nuances beyond basic rights. In this index, the UK as the most liberalized country in Europe scores zero, while Germany scores 0.71.

To capture the influence of subsidiary ownership in host countries, we created host-country institutional exposure profiles by location of subsidiaries, using information from the AMADEUS database (Greenhill et al., 2009; Lim & Tsutsui, 2011; Rathert, 2014). This spatial weighting method is formalized as

$$\mathrm{EXPOSURE}_{c} = \sum_{1}^{j} \mathrm{INST}_{\mathrm{j}} \times \frac{\mathrm{SUB}_{\mathrm{cj}}}{\mathrm{TOTALSUB}_{\mathrm{c}}}$$

where c is a company, j is a host country, SUB is a subsidiary of company c, TOTALSUB is the total number of subsidiaries of a company, and INST is an indicator for a given institutional sphere in country j. The idea behind this method is to reconcile different notions about how location choice influences CSR adoption by MNCs. One line of arguments focuses on the institutional quality of host countries, and suggests that only a presence in countries that display highest levels of, for example, political oppression, will induce CSR adoption (Brammer et al., 2009). To account for this, our measure of exposure will increase when a host country scores high with a given indicator. A different argument suggests that while MNCs respond to host country institutional arrangements, they focus on strategically important host locations in customizing CSR strategies (Bondy et al., 2012). Hence, strategic importance is driven by the number of subsidiaries in a particular host country compared to the overall number of subsidiaries (Oh & Oetzel, 2011). Clearly then, exposure is highest for companies with a high number of subsidiaries in host countries with a particularly high score on a given scale.

We generated four institutional exposure measures based on subsidiary locations for each MNC to test our propositions, excluding subsidiaries in MNC home countries. First, using the Botero measure, we calculated exposure to institutionalized labor power through subsidiary ownership in the EU-15 countries. Outside the EU-15 countries, we use two different indicators of the labor stakeholder power due to the fact that former worker rights may diverge from actual labor practices in many countries (Greenhill et al., 2009). For the practice-based measure, we use the worker rights index from the Cingranelli-Richards dataset on human rights (Cingranelli & Richards, 2010). Derived from coding US State Department country reports, this indicator ranges from 0 to 2 and captures the extent of violations of labor rights in host countries, with higher values indicating fewer violations. We reverse code this variable to obtain an indicator of labor rights violations. We measure formal labor rights as the adoption of the two key ILO conventions on freedom of association and collective bargaining ability (Soleimani, Schneper, & Newburry, 2014). Finally, drawing on the institutional distance literature, we calculated an indicator on the extent of investment in institutionally distant countries, using the administrative distance measure provided by Berry et al. (2010). This measure takes into account differences in religion, language, legal systems, and the existence of colonial ties. Table 2 provides an overview of the different measures used in this study.

We also include a set of basic organizational control variables in our analysis by controlling for company size with the natural log of employee number, and using return on assets as a profitability measure (Strike, Gao, & Bansal, 2006). We also use a basic measure of internationalization by including the logged number of host countries by MNC. In all analyses, home country controls and industry controls using the Industry Classification Benchmark typology are included.

###Table 2 around here###

5. Results and Discussion: Towards an Institutional Understanding of MNC Private Governance

We first present descriptive evidence related to our sample's characteristics. Figure 1 plots the distribution of the dependent variable, revealing a bimodal distribution with many low and many high performers. Table 3 gives illustrative data on the most frequent subsidiary locations of our sample, both outside the EU and in terms of host countries' labor rights violations. Figure 2 shows the mean CSR adoption scores by MNC home country, with the Nordic countries and Spain and Portugal as leaders. Irish and Belgian companies display the lowest levels of human rights CSR adoption, on average. Perhaps more telling, Figure 3 shows these mean scores grouped by the labor power score of MNCs' home countries. This figure reveals that companies from countries with strong stakeholder power display markedly higher levels of human rights CSR adoption on average, compared to countries with weak stakeholder power, although some countries do not fit this grouping very well.

###Figures 1, 2, 3, 4 and Table 3 around here###

Table 4 provides bivariate correlations of the variables used in this study. Interestingly, these correlations appear to show distinct subsidiary location strategies by European MNCs, one focused on other EU countries (with strong stakeholders), and one focused on non-EU countries. Table 4 shows that the weighted EU labor power indicator has a strong negative correlation with the weighted non-EU labor rights violations indicators (r = -0.66). Indeed, 80 % of MNCs with a weighted EU-15 labor power score one standard deviation above the mean tend to have additional subsidiaries in only 10 non-EU host countries, compared to the mean of roughly 22 for the entire sample. Hence, these MNCs are also less active in host countries with labor rights violations. On the other side, MNCs with a particularly strong presence in countries with labor rights violations (one standard deviation above the mean) all have a below-average presence in EU-15 countries. For example, Greek industrial MNC Ellaktor maintains subsidiaries in countries such as Qatar, Belarus, Russia and Sudan, placing it in the 98th percentile of the violation score. This company has presence in the EU only through three subsidiaries in Germany. Figure 4 displays that MNCs in the lowest quantile of subsidiary ownership in countries with violations have a mean CSR score of 55, far lower than all other quantiles. While we do not analyze the role of industry in depth in this study, we think that industry membership likely plays into these findings.

###Table 4 around here###

Turning to our primary analysis, we use OLS regression to assess the association of our independent variables with the aggregated labor rights CSR score in table 5. We find strong support for the importance of both home and host country institutions in understanding MNCs' CSR adoption patterns. In line with established findings from the IB literature, we find that internationalization has a positive and statistically significant association with higher CSR adoption levels. However, we find statistically stronger associations for our various institutional variables. In particular, our findings show that CSR serves different functions in different institutional environments. First, we find that higher CSR adoption related to human and labor rights is associated with institutionalized stakeholder power in MNCs' home countries. MNCs based in European countries, where employees enjoy board-level codetermination and collective bargaining abilities, are more likely to have extensive sets of labor and human rights CSR policies and implementation processes in place. Similarly, increased subsidiary presence in other European countries with strong stakeholder rights is associated with higher adoption. Secondly, however, host country institutions outside the EU seem to affect CSR adoption quite differently. In line with some research that questions the role of CSR as an instrument to overcome liability of foreignness (Campbell et al., 2012), we find that more subsidiaries in institutionally distant countries are associated with lower levels of CSR adoption. Using an indicator of differences in administrative systems, MNCs tend to adopt fewer CSR policies as their subsidiary ownership in more distant countries increases. Most importantly, we find that overall, human and labor rights CSR adoption is not associated with increased host country stakeholder power; instead, higher CSR adoption is strongly correlated with MNC presence in countries where labor rights are not institutionalized, whereas the formal labor rights variable is marginally insignificant ($p < .101$). As subsidiary ownership in countries with known, often state-sponsored violations of stakeholder rights increases, MNCs are more likely to display higher levels of CSR adoption.

###Table 5 around here###

6. Conclusions

This paper has presented evidence showing the importance of institutions for MNCs' CSR adoption patterns. This study breaks new ground by empirically analyzing CSR adoption by MNCs in relation to their exposure to multiple institutional environments, and going beyond existing studies focused on single or few host countries (Campbell et al., 2012; Regner & Edman, 2014). Our findings call into question some of the influential assumptions of prior comparative research on CSR, while confirming others. First, in relation to home country institutions, we found support for the complement hypotheses, where stakeholder power enables higher CSR adoption. This result, conversely, casts doubt on arguments that "explicit" CSR adoption is merely a substitute for institutionalized stakeholder power, at least in some issue areas (Matten & Moon, 2008). While historical evidence does show that the rise of CSR is tied to corporate efforts to preempt legislation (Kinderman, 2012), we feel that these arguments may need to be revisited or extended to understand CSR adoption by MNCs and their internationalization dynamics. While MNCs are increasingly expected to respond to multiple stakeholders and comply with global norms of responsibility (Lim & Tsutsui, 2011), home institutions may not act just as constraints on organizations, but also enable them to adapt to new stakeholder expectations stemming specifically from the globalized institutional environment in different ways.

Meanwhile, our findings also point to the fact that CSR seems to play different roles in institutional environments of host countries outside the EU. Here higher CSR adoption is associated with subsidiary ownership in countries with labor rights violations. In this context, CSR acts as a substitute for effective regulation of labor rights in these host country environments. CSR is a substitute in the sense that it serves as a signal for distant stakeholder to emphasize MNC stewardship in social issues, even where it may not "solve" these issues as an effective functional equivalent for labor regulation. This finding does also suggest a more paradoxical observation, since strong labor rights in host countries outside the EU do not lead to the development of complementary forms of CSR. Even where these stakeholders are institutionally empowered, our findings suggest that MNCs may be responding to them in a limited or even negative fashion.

In terms of implications, our results show that conceptualizing private governance as a purely strategic exercise on behalf of the firm neglects to take into account MNC exposure to multiple and institutional environments, and potentially contradictory pressures emanating from them. Our results emphasize that CSR strategies will be more difficult to standardize, due to the different drivers and roles in home and host country environments (Geppert & Williams, 2006). If MNCs come from countries with weakly institutionalized stakeholder rights and underdeveloped CSR, they may find it challenging to adopt CSR effectively when internationalizing to countries with labor rights violations. Hence, our findings also highlight the importance of institutional contexts for a fuller understanding of the potentials and limits of CSR as a form of private governance. Even though CSR may substitute for regulation in some issue areas, we find that MNCs from countries where labor regulation is absent are less likely to have corresponding CSR in place.

Given the different roles of CSR, future research should extend our framework to investigate the institutional dynamics of CSR adoption with regard to CSR implementation and, conversely, potential decoupling of such practices under different institutional regimes. Relatedly, we suggest that important interactions may exist between these different types of institutional exposures. For example, Figure 5 shows the effect of host country labor rights violations over different degrees of MNC home country labor power. While our main analysis finds a positive effect, the figure shows that as subsidiary ownership in high violation countries increases, the change in adoption is much lower for UK MNCs than for those from countries with strongly institutionalized stakeholder power. This suggests that home country institutions may condition how companies respond to host country institutions. Finally, the validity of these propositions should be explored for other issue areas, such as environmental CSR. The relationship between private and public governance in terms of complement and substitute may differ altogether depending on the specific institutional forms for supporting stakeholder power. Similarly, industry-specific factors, such as the visibility and salience of certain issues, may complement comparative institutional approaches (Barnett & King, 2008; Hoffman, 1999).

###Figure 5 around here###

Table 1: Theoretical approaches to CSR adoption in MNCs

Approach	Driver of CSR in MNCs	Predicted CSR outcome
IB and OT approaches		
Stakeholder theory	Exposure to heterogeneous stakeholders	More CSR
Institutional distance	Liability of foreignness	More CSR
Institutional voids	Underdeveloped host institutions	More CSR
Neo-Institutional theory	Exposure to global organizational fields; need for impression management	Decoupling of policies from implementation
Comparative institutional approaches		
Institutions and CSR as substitute	Absence of institutionalized stakeholder power	More/less CSR Explicit CSR CSR as signal CSR as competitive advantage
Institutions and CSR as complement	Presence of institutionalized stakeholder power	More/less CSR Implicit CSR CSR as good faith contribution

Table 2: Institutional indicators used in this study

Variable	Operationalization	Source
Home/EU-15 labor power	Average of seven indicators relating to rights to unionization, collective bargaining, works councils, and codetermination	Botero et al. (2004)
Host labor rights violations	Labor rights violations	Cingranelli and Richards (2010)
Host labor rights	Adoption of ILO convention 87 and 98	ILO Normlex
Institutional distance	Differences in language, religion, legal system; colonial tie	Berry et al. (2010)

Table 3: Top subsidiary locations

Top 5 Non-EU15 investment locations	Number of subsidiaries	Top 5 investment locations with highest labor rights violations score	Number of subsidiaries
USA	7915	China	2349
China	2349	Russia	798
Australia	1529	Malaysia	556
Canada	1233	United Arab Emirates	360
Brazil	1230	Indonesia	298

Table 4: Correlation matrix

	Mean	S.D.	Min	Max	1.	2.	3.	4.	5.	6.	7.	8.
1. Human Rights CSR Score	67.03	30.80	16.54	95.50								
2. Size, logged	9.16	1.88	1.39	13.38	0.47*							
3. Profitability	5.96	9.61	-82.69	100.83	-0.05	-0.03						
4. Host Country Count	21.54	22.48	1	147	0.29*	0.52*	0.05					
5. Home Country Labor Power	0.38	0.29	0	0.71	0.21*	0.20*	-0.14*	0.22*				
6. Weighted EU-15 labor power	0.18	0.15	0	0.71	-0.01	-0.12*	-0.10*	-0.15*	0.01			
7. Weighted Administrative Distance	10.10	12.98	0	100.03	0.17*	0.08*	-0.03	0.14*	0.15*	-0.17*		
8. Weighted Host Country Labor Rights Violations	0.58	0.32	0	2	0.14*	0.26*	0.03	0.27*	0.00	-0.66*	0.33*	
9. Weighted Host Country Labor Rights	0.63	0.44	0	2	0.11*	0.12*	0.03	0.20*	0.01	-0.46*	0.28*	0.43*

*$p < 0.05$

Figure 1: Distribution of values of the dependent variable

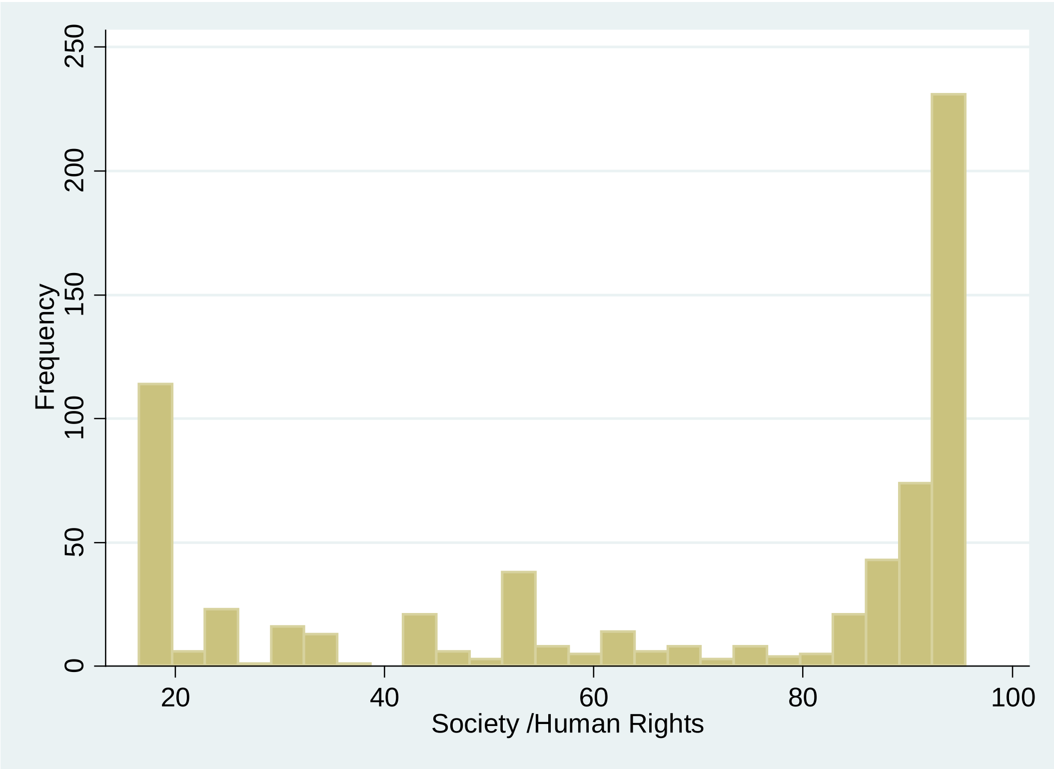


Figure 2

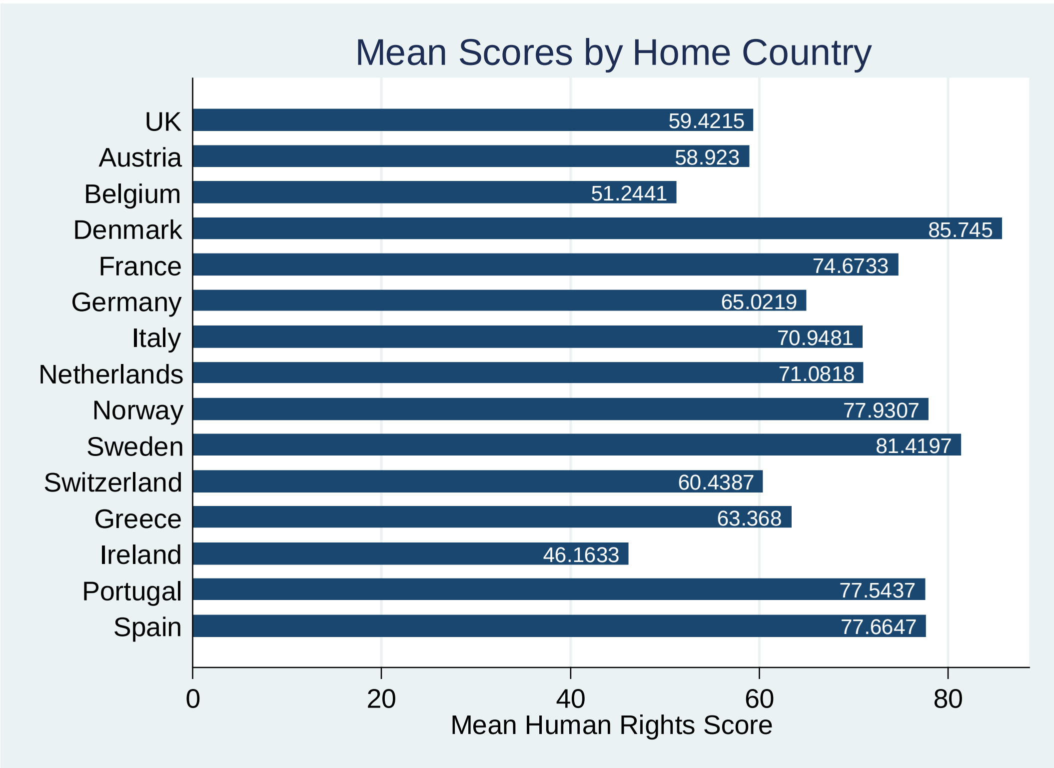


Figure 3

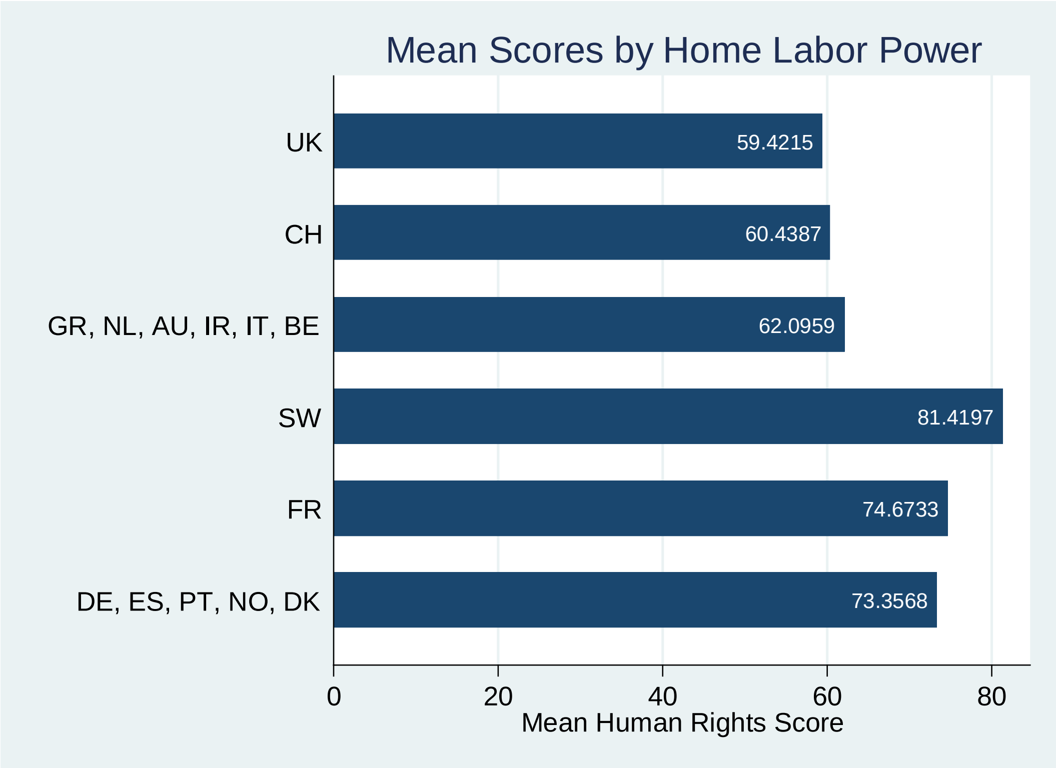


Figure 4: CSR Scores for different quantiles of weighted labor rights violations

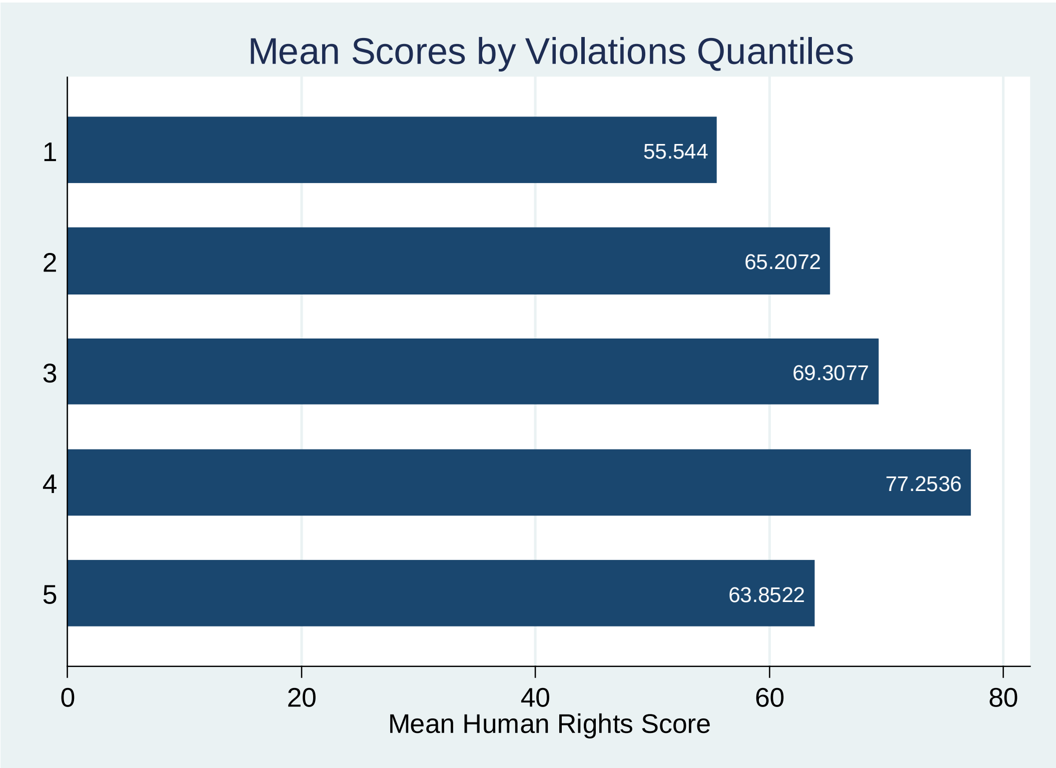
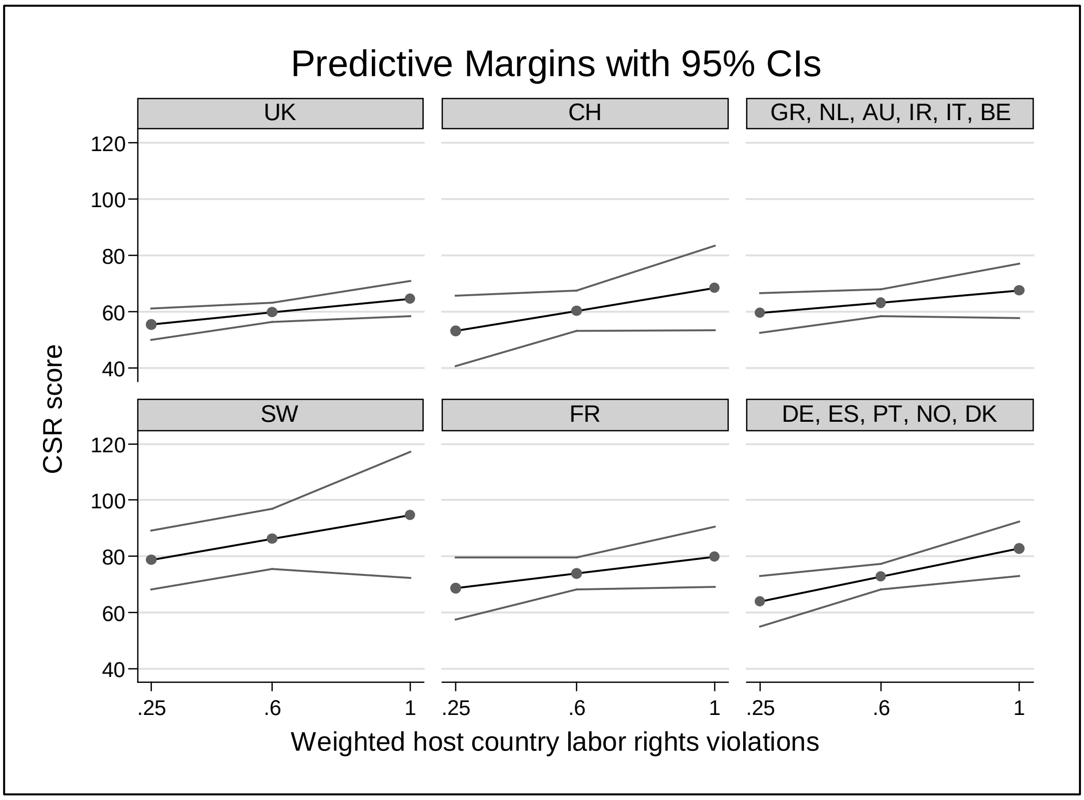


Table 5: Results of OLS regression on level of human rights score

DV: Human rights score	**Controls**	**Home country**	**Host country**	**Full model**
Size, logged	7.37***	7.37***	7.25***	7.25***
	(0.78)	(0.78)	(0.79)	(0.79)
Profitability	-0.05	-0.05	-0.05	-0.05
	(0.11)	(0.11)	(0.11)	(0.11)
Internationalization	0.11*	0.11*	0.11*	0.11*
	(0.06)	(0.06)	(0.06)	(0.06)
Home country labor power		16.13**		15.73**
		(7.16)		(7.15)
Weighted EU labor power			17.86*	17.86*
			(10.34)	(10.34)
Weighted administrative distance			-0.96**	-0.96**
			(0.40)	(0.40)
Weighted host country labor rights violations			12.82**	12.82**
			(5.90)	(5.90)
Weighted host country labor rights			5.17	5.17
			(3.15)	(3.15)
Constant	2.88	2.88	-4.87	-4.87
	(7.42)	(7.42)	(8.59)	(8.59)
Country controls	YES	YES	YES	YES
Industry controls	YES	YES	YES	YES
N	629	629	629	629
R^2	0.32	0.32	0.33	0.33

Standard errors in parentheses; * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Figure 5: Effect of weighted host country labor rights violations over different levels of home country labor power



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