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The Political Roots of Corporate Social Responsibility

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ABSTRACT. This article argues that whether and how a firm chooses to adopt Corporate Social Responsibility (CSR) initiatives is conditional in part upon the domestic political institutional structures present in its home market. It demonstrates that economic globalization has increased the pressure applied to companies to develop CSR policies that might help overcome specific governance gaps associated with the globalization phenomenon. Drawing upon an examination of domestic institutions and overall political structure, it argues that the political conditions and expectations present in a company's home market will condition whether a firm might pursue CSR activity. For home markets, it is posited that perceived electoral salience will be filtered through government type and ideology, and state/societal structures will influence if and how firms will use CSR. Specific arguments are developed from these categorizations. The article concludes with a discussion of how researchers might further explore links between CSR, domestic political structures, and corporate political activity.

KEY WORDS: Corporate Social Responsibility (CSR), activism, political strategy, institutions, governance, state/societal complex

Introduction

Few management topics have received as much recent popular and academic attention as has Corporate Social Responsibility (CSR). Fortunately, this surge in interest builds upon a well-established body of scholarly work devoted to both defining what CSR is and explaining why companies might or might not do it (McGuire et al., 2003; Mitchell et al., 1997; Tuzzolino and Armandi, 1981; Wartick and Cochrane, 1985). CSR can be conceived broadly as the practice of incorporating stakeholder and shareholder interests in firm decision making, with an eye to increasing societal and shareholder value. The CSR story is regularly told from a micro perspective that details the internal costs and benefits to a firm such measures may bring. However, the sheer increase in the size and activity of multinational corporations (MNCs) over the past decade guarantees that their CSR efforts – or lack thereof – will significantly impact on the external, social, and political environment in which they operate. Put bluntly, a company's decision whether and how to pursue CSR efforts matters greatly to the workers, communities, and nations, in which they invest.

This fact has not gone unnoticed, becoming especially pertinent to the large and growing number of activist non-governmental organizations (NGOs) devoted to tracking the international operations that MNCs undertake in developing markets. Companies not investing significantly in CSR, often incur the wrath of activist groups who claim that they should: such groups' core competency is in marshaling public opprobrium in an effort to motivate significant change in a company's operating practices. Public disapproval hurts firms in at least two ways. First, customers may choose a competitor's products due to the socially responsible manner in which they have been produced. Second, citizens may also call for more regulation to halt or change production practices, of which they disapprove. In short, a firm's CSR decisions can engender regulatory and political, as well as competitive effects that companies need to understand and respond to.

This article extends the domain of CSR research into the realm of the politics, theorizing that the nature of the domestic political institutions in a company's home market might be a useful potential explanatory variable in determining whether and how that company might pursue CSR. Several theoretical ideas are offered. First, at the tactical

level, the structure of domestic political institutions might influence whether NGO efforts are likely to engender formal government intervention. Second, domestic political institutions can also establish or discourage the requisite legitimacy managers need to pursue such strategies. This in turn might condition how strong managers' commitment to CSR will be. In sum, the article argues that the political conditions and legacies that condition a company's home market will influence what its overall commitment to CSR will be. These theoretical arguments can suggest empirical directions other researchers might choose to pursue.

The article proceeds as follows. The first section describes how globalization and changes in global production practices have both increased the demand that firms engage in CSR and expanded the arenas in which they might choose to do so. The second section places these developments within the established international business and CPA literatures to understand how companies have historically resolved such demands. The third section then illustrates how host government structure and ideology impact how a company might approach CSR. The fourth and final section summarizes the argument offered here and makes some tentative suggestions for future research.

Globalization and corporate social responsibility

Much of the existing – and extensive – literature examining the globalization of business practice is positive. The falling trade, investment, and technological barriers that characterize globalization have allowed MNCs to rationalize their operations, enter new markets, lower production costs, and dramatically increase foreign investment, resulting in a statistical explosion in both the amount of international business being done and the number of countries significantly involved in it (U.N., 2002–2005). Moreover, MNCs have also emphasized depth and breadth in their production practices: local production facilities now surpass trade as the preferred MNC mechanism for accessing local markets, and these facilities in turn often rely on a dense network of local suppliers, distributors, and technical personnel that further embed the MNC into the working of local economies. Indeed, this MNC "embeddedness" is the primary characteristic distinguishing contemporary globalization from its historical predecessors (Bordo et al., 1999). Today, the internal production networks of MNCs have increased global productive capacity, greatly improved income levels, and are capable of distributing products to eager customers throughout the globe, and have embedded themselves deeply into the national economic fabric of local economies.

This process has, however, not gone entirely unopposed (Greider, 1997; Hertz, 2001; Klein, 2001). In an age, in which the economic size of the largest MNCs exceeds that of many countries[1], there has emerged critical, theoretical, and empirical work outlining what Eden and Lenway (2001) have termed the "dark side" of globalization. This literature criticizes the economic imperative driving globalization, arguing that it inflicts severe damage on local cultures, the environment, and political autonomy. Risking simplification, its proponents claim the following. First, MNCs have become adept at exploiting the "governance gaps" that exist between weakening state and fledgling international regulatory frameworks, allowing them to operate essentially free of regulatory oversight. Second, because relentless market logic drives companies to continuously lower costs, they consequently seek production sites where operating costs are low and the regulatory burden light. Investment-hungry states are thereby forced to lower their regulatory costs if they wish to attract MNCs: creating a mutually reinforcing "race to the bottom" in regulatory standards. Third is the problem of sovereignty infringement: national governments that desire economic development have few options other than to allow MNCs to adopt whatever production strategies they prefer, despite the damage such strategies might inflict on local industries, cultural norms, and religious values. To summarize, critics argue that the drive to globalize markets can overwhelm existing governance mechanisms to manage it (Greider, 1997; Korten, 1996; Moran, 2002; Murphy, 2004; Ohmae, 1995; Wolf, 2004; Yergin and Stanislaw, 1998).

That conclusion has motivated civil society and NGO groups to invest great effort in drawing attention to the impact that MNC decisions can have on the external environment (Keck and

Sikkink, 1998; O'Brien et al., 2000; Risse et al., 1999). The motives of these groups are diverse. Some oppose the increasingly independent decision making capacity of MNCs and wish to erect further regulatory constraints to corral that freedom. Others want to make MNCs more accountable for the negative economic externalities associated with their production, especially those related to environmental and human rights concerns. A third motivation is normative: some argue that MNCs, having benefited enormously from a globalized economy, should therefore shoulder more of the burden of healing the damage their production processes have helped create. Their strategies, however, have been broadly similar: draw public attention to unappealing MNC activity and hope that such negative publicity will be the catalyst that both stops such activity and prevents its recurrence.

Empirical examples of effective activist activity include Greenpeace's success at convincing Royal Dutch Shell to reverse its original plan to halt the deep-sea disposal of the Brent Spar oil platform in favor of towing it to land and disposing of it onshore. A second example includes the vociferous criticism of Nike over its subcontractor production arrangements that resulted in "sweatshop" working environments for those assembling its popular footwear and apparel. More recent examples include the ongoing activist demands that pharmaceutical companies help developing countries combat the AIDS epidemic by relaxing patent restrictions for anti-retroviral drugs, and efforts to hold resource extraction of companies accountable for their implicit support of the dictatorial or abusive domestic regimes that govern the areas in which they drill or mine.

Several features unite these examples. First and most obvious is that these campaigns are waged primarily in the court of public opinion. While governmental or regulatory activity may emerge from them, they are secondary to the primary goal of creating immediate public awareness that influences consumption patterns. Second, the intended audience of such activities is the consumers of products, who reside primarily in developed markets. It is believed that only changes in their consumptive behavior will compel changes in production practice. Third, such efforts are normally highly focused on one company and/or issue, to get the best "bang for the buck" use of an NGO's often limited resources. Therefore, the company response is also often highly localized and situation specific, designed to remove the immediate cause of negative public attention and defuse the issue at hand. Once an incident fades from the headlines, it is difficult to ensure that adequate follow up work is done that confirms that company practices have really been significantly altered.

This dynamic – protests leading to public awareness, change in consumer behavior and attitude, and finally change in corporate practice – occurs in the realm of private politics. Private politics differs from public politics by not relying upon law or the legislative process to resolve disputes. Instead, private politics entails attempts to change corporate behavior via the mechanisms of public protest and consumer choice, rather than through legislation (Baron, 2001, 2005). Private politics "involves strategic competition over entitlements in the *status quo*, direct competition for support from the public, bargaining over the resolution of the conflict, and maintenance of the agreed-to private ordering (Baron, 2003, p. 33)." Mechanisms of private politics include arranging consumer boycotts, waging aggressive anti-corporate media campaigns, and allying with like-minded organizations in an attempt to bring cumulative weight to bear on a single company or issue. Private politics allows activists to focus their limited resources, attract like-minded allies, and to bypass the public policy process that is viewed as being both slow and prohibitively expensive to materially affect.

While activists have achieved notable successes, a review of company CSR activity in response to private politics raises unanswered questions about the company's long-term commitment to those practices. First, it is difficult to generalize a company's normative commitment to CSR by observing its reaction to localized pressures: a company's motivation in acquiescing to activist demands may simply be to eliminate said pressure and little else. Second, the combination of factors necessary to effectively execute private politics – a highly salient issue with high media cache – is relatively rare, and leaves vast areas of corporate activity unaffected. Finally, examination of individualized responses to local issues offers little guidance to companies in understanding how their CSR strategy can be better integrated into their overall corporate strategy. CSR in such circumstances is reactive and crises-driven rather than

proactive and strategically designed for competitive advantage.

Tracing the process by which CSR strategies can move from reactive to proactive, and from private to public politics, requires not only an understanding of CSR, but also a detailed understanding of how a company manages its external relations with stakeholders on an ongoing, rather than a periodic and crises-driven, basis. Some of these stakeholders are political; consequently, we argue that the political environment in which a firm operates has specific implications for a firm's choice of whether and how to pursue CSR. The next section makes this link in detail.

Corporate social responsibility, politics, and legitimacy

Established definitions and typologies of CSR often start with Wood (1991, p. 693) whose widely accepted definition of CSR reads as follows: ''[CSR is] the configuration of the principles of social responsibility, processes of social responsiveness, policies, programs, and observable outcomes as they relate to the firm's societal relationships.'' As developed by Maignan and Ralston (2002, p. 498), principles represent the motivational inputs driving a firm's commitment to CSR, while policies and processes engender measurable CSR outcomes that bring that commitment to life. Motivation, process, and outcome matter.

Motivation is particularly important. In some cases, companies practice CSR because they fear negative repercussions if they do not: in such cases CSR activity is a purely reactive strategy. In other cases, firms practice CSR because they believe it gives them a tactical advantage in the marketplace, such as building reputation capital that eases employee recruitment and retention, while also building customer loyalty. In these cases, CSR is part of the day-to-day wealth-creation efforts of the firm (Burke and Logsdon, 1996; Jensen, 2000; Keim, 1978; Swanson, 1995; Windsor, 2001; Wood, 1991). This literature also notes that the strategic use of CSR – such as deliberate efforts to incorporate external non-market practices in firm decision-making – is a potential source of long-term competitive advantage (Hillman and Keim, 2001; Scherer and Smid, 2000).

Another category of literature explains CSR by moral and/or normative arguments about the role of the firm in society, employing stakeholder responsibility as a core construct in a research agenda positing that ''corporate efforts to reduce social ills are a means of accommodating a new construal of companies as social institutions, while raising fundamental questions about the firm's purpose'' (Margolis and Walsh, 2003, p. 288). Duane Windsor (2001) notes that stakeholder expectations now establish that ''a corporate citizen be subject to the same, but not any greater, duties relative to the individual citizen,'' prescribing limited but mandatory CSR activity as necessary to maintaining a company's social charter to operate (American Law Institute, 1994). Strategic, competitive, and normative concerns continue to condition the CSR efforts of large MNCs who employ CSR efforts to create and maintain the organizational legitimacy and societal acceptance in both home and host markets (Dowling and Pfeffer, 1975; Kostova and Zaheer, 1999; Selznick, 1957).

How MNCs manage their relationship with the external environment is, therefore, a key component in creating and maintaining overall legitimacy. Legitimacy, in Kostova's (1996) typology, has three levels: regulatory, cognitive, and normative. Regulatory legitimacy is fulfilled by meeting local legal standards, but that alone does not establish within a local population either a rational understanding of the MNCs presence or a moral endorsement of its activity. More is needed. CSR activities – particularly those related to social development measures such as labor standards, wage rates, and contributions to infrastructure – help develop positive social reputation gains that enhance the legitimacy of the firm among its local stakeholders (Handelman and Arnold, 1999; Sen and Bhattacharya, 2001). Moreover, in many host markets, the central government lacks funds or administrative capacity to deliver basic social services: CSR efforts can help bridge the governance gap between what local regulations require, what local governments can deliver, and what cognitive and normative legitimacy demands. Moreover, the social demands that firms do this, are likely only to increase (Hart, 2005; Sethi, 2003).

Increased legitimacy provides additional benefits. For example, legitimacy lessens the likelihood that political authority will intervene in company operations. Governments are the primary institutions through which the external environment is filtered: as expressions of a local populace's will, democratic governments establish the behavior standards MNCs must meet. Meeting those expectations is a particularly onerous challenge for MNCs who may operate within and across dozens of countries, each exacting individual political demands that evolve continuously as investment conditions change and bargaining power shifts (Bergsten et al., 1978; Kobrin, 1987). Such demands may include ever greater concessions in terms of royalty revenue, increased employment of indigenous personnel, or recurring demands for the transfer of technology. MNCs require differentiated political strategies to manage these political risks and to develop contingencies on the basis of an evaluation of those risks (Brewer, 1983, 1985; Kobrin, 1979, 1982; Robock, 1971). While adopting consistent corporate policies relating to political engagement may be strategically appealing (Blumentritt and Nigh, 2002; Mahini, 1988), the sheer number and variety of political demands confronting the modern MNC makes such consistency tactically impractical, necessitating that companies adopt a national responsive strategy designed to achieve local legitimacy in a variety of markets (Bartlett and Ghoshal, 1989; Behrman and Grosse, 1990; Dunning, 1993; Doz, 1986; Lecraw, 1984; Prahalad and Doz, 1987; Vernon, 1971). Politically speaking, CSR efforts aid MNCs in building local legitimacy and strong local relationships with host governments.

Clearly, what an MNC does or does not do in terms of CSR activity has competitive and political implications. Understanding what MNCs are likely to do is of interest to firms and researchers alike. Where to start? We argue that the institutional characteristics of the home political environment holds potential in determining whether and how MNCs might pursue CSR. They matter in two specific ways. First, managers consider whether home political institutions accord them the legitimacy, even expectation, to pursue CSR behavior. We argue that societal norms, legal characterizations of the firm, and ideological predispositions present in the home market condition how managers think about CSR, which will in turn influence what CSR actions they take. Second, a home country's political structure influences whether a specific incident may generate political outcomes in the public, and private, sphere. When this is likely, we propose that firms may use CSR to prevent unwanted domestic policy change. In judging whether that policy change is likely, managers turn an eye to the structure and ideological composition of government for clues as to whether it will likely pass legislation detrimental to their interests. We address these contentions in the next section.

State/societal relations and CSR

Corporate Social Responsibility becomes politically important, or salient, when elected officials begin paying attention to it (Bonardi, 2005). In democracies, importance is measured by electoral impact. Drawing heavily on theories of public choice; we posit that an issue becomes salient when enough voters not only become aware of it, but also use it as criterion in their voting decisions (Downs, 1957; Olson, 1965). Political pressure engendered via the ballot box drives public policy; and elected officials design and/or support particular policies because they believe those policies will maximize positive electoral gains and ensure continued tenure, or access to, elected office.

To be sure, the casual mechanism linking voter preference and policy outcome is considerably more complicated than this simple model suggests. Engaging voter attention at all is no small feat: to become salient, an issue must overcome both rational ignorance and voter apathy (Downs, 1957). Second, the currents of voter pressure are filtered through domestic political institutions that condition the type of public policy that pressure engenders. In unlocking the puzzle of how voter pressure shapes policy outcome, one key intervening variable is the institutional structure of the home market. Following Gourevitch and Shinn (2005, p. 72), we argue that the content of government decisions, and who ultimately makes them, is contingent on both the domestic institutional structure and the political values such structures are meant to protect. Rather than adopting the unitary rational actor model of government – which assumes that voter pressure constitutes the input into the "black box" of government, with wanted regulation the output, with

little modification in between – we adopt a model of government in which policy is a product of conflict and bargaining between governing institutions.

Domestic political institutions can condition a firm's CSR efforts in the following two ways: the state/societal complex that promotes key values in business government relations, and the formal structure of government that conditions how those values get expressed. Domestic political institutions can provide incentives or disincentives for firm managers to pursue CSR by conditioning whether CSR activity is viewed as within or outside management's legitimate prerogative. Put more simply, domestic institutions influence whether a firm's owners will tolerate, or even encourage, managers to undertake CSR activities, while also providing them the managerial discretion to do so.

An established method of grouping and differentiating state institutional structures is the state/societal complex. Drawing on historical institutional analysis, it contends that each country's sense of internal cohesiveness conditions the degree of centralized power its citizens are willing to grant their national government. Advanced democracies often develop one of two institutional models, termed ''societal'' or ''statist'' (Katzenstein, 1978, 1984; Spencer et al., 2005). In societal countries, consent of the governed is guarded and only grudgingly granted. Its citizens are suspicious of concentrated power or authority, granting just enough of each to centralized political institutions to complete defined and limited tasks. Moreover, such countries constrain and diffuse that power by dividing it among various branches of government whose jurisdictions may overlap. While granting central governments power to overcome national emergencies, these systems limit the circumstances and time frames of that extension, clawing back those powers when the emergency has receded. Skepticism, division of responsibility, and powerful checks and balances typify this system.

Such systems – of which the United States is the prime example – also have specific conceptions of the role of the firm that directly reflect the concern with dividing power and limiting organizational scope. Market activity is interpreted primarily in terms of economic contraction disciplined by the rigorous drafting and enforcement of arms-length contracts. The purpose of the firm is to provide a ''nexus'' of these contracts that can overcome the inefficiencies associated with pure spot market transactions (Coase, 1937; Williamson, 1985, 1996). Legal doctrine further reflects the contractual theory of the corporation, in which diffused shareholders delegate control of their investments to professional managers, whose mandate is to provide shareholder return. Instead of exerting oversight directly, shareholders rely on market incentives and strong regulatory oversight to ensure management decisions conform to shareholders' interests. These include tying management remuneration to (preferably long-term) stock performance, maintenance of a deep and liquid capital market that can contest the corporate control of underperforming firms, and an attentive board of directors, who scrutinize management decision-making with an eye to protecting shareholder interest (Butler, 1988).

Under the contractual theory of the firm, government's role is to facilitate the market by providing rigorous contract enforcement, exerting regulatory oversight to prevent abuse, and providing the necessary public goods that market activity alone cannot and will not provide. Government is also expected to act as a guardian against the concentration of economic power. Regulatory mechanisms include strong anti-trust regulation for preventing monopolies, strong securities regulation that provides high level of minority shareholder protection (MSP) via mandated disclosure of corporate information for potential investors, and strong civil, tort, and even criminal capacities for shareholders and regulators to seek redress. Government's role here is to review and regulate, but not participate in, the market.

Such systems provide benefits to investors of a stable investing environment, in which government policy credibility is high. Capital markets tend to be broad, deep, and active; providing venture capital for start-ups and disciplining poorly performing firms. Companies exist to produce returns and increase value to shareholders. A large percentage of the economy remains in private hands, property rights are strongly protected, and the market, not the state, directs the productive effort of the economy (Murtha and Lenway, 1994). For their part, companies work to maximize their strategic freedom within the bounds set by government: they can be expected to resist government intrusion on that freedom via a variety of political and competitive activities. The

role of the firm is separate from that of government, and the relationship between the two is often contentious and adversarial. These elements are meant to foster rigorous domestic competition, enhance national competitiveness, raise national income, and maximize return on capital.

Statist countries, by contrast, differ from societal countries across all these dimensions. Citizens in statist countries – of which France, Japan, and Germany are prominent examples – are comfortable with and endorse the exertion of centralized state power to guide economic development. Such states evince localized versions of ''democratic corporatism,'' defined by Katzenstein as follows:

> … ''democratic corporatism'' has three defining characteristics: an ideology of social partnership expressed at the national level; a relatively centralized and concentrated system of interest groups; and a voluntary and informal coordination of conflicting objectives through continuous political bargaining among interest groups, state bureaucracies, and political parties (Katzenstein, 1984: 27).

In statist countries, the institutional separation between business and government is not as stark; indeed it may hardly exist at all. Firms, governments, and wider societal elements collectively shape market regulation and conduct through consultation and accommodation, resulting in incremental and ongoing, rather than episodic and radical, policy change. Contracting in such systems is often ''relational'' rather than ''arms length''; economic contracts are expressions of underlying social relationships among the actors' involved; such relationships often subordinate immediate economic interest in favor of protecting and enhancing core societal values such as wealth distribution, equity, and stability. Statist countries emphasis collective rights and duties, and public policy mechanisms are designed to enhance planning, order, and rationality (Spencer et al., 2005).

Statist countries typically feature a high level of government involvement in the economy, often via the mechanisms of mixed ownership of firms or indeed complete national ownership of companies operating in industries deemed strategies. Property rights are recognized and protected, but do not necessarily enjoy primacy over a broader array of societal interests. Here the firm plays an important role in maintaining social cohesion and encouraging economic growth.

Patterns of corporate financing and corporate governance in statist countries differ significantly from those in societal countries. Statist countries do not, as a rule, have as high a public participation in capital markets, and typically rely more upon debt rather than equity financing. Large debt positions may be consolidated in central financial institutions that consequently play a central role in company governance. Rather than being a narrow instrument of shareholder representation and protection, corporate governance systems in statist countries reflect a broader consideration of interests. The impetus for MSP is not as strong in statist countries: the ''corporatist compromise'' reached by business, government, and labor lessens the emphasis placed on shareholder return as the metric of management performance (Branson, 2001; Coffee, 1999; Fort and Schipani, 2000; O'Sullivan, 2000).

These differences in national systems of corporate governance in turn have had a clear impact on the objectives managers seek (La Porta et al., 1997; Roe, 1994, 2003; Shleifer and Vishny, 1997). Statist countries allocate to managers, freedom to take stakeholder representation into account in making management decisions. Indeed, such managers may be legally obligated to do so. As opposed to the contractual model of the firm outlined earlier – in which economic efficiency through market contracts provides the foundation for the firm's existence – statist countries may adopt the real entity or concession model in which the firm is endowed with legal rights and responsibilities over and above those allocated to individual persons. In this interpretation, the corporation occupies an intermediate position between the State and the individual, and comprises a system of private government in which those affected by a company's decisions have a right and expectation to be involved in the company's decision making process (Mahoney, 1999). The concession model of the firm allocates to it a broader set of political rights and responsibilities.

Clearly statist and societal countries differ. We argue that these differences may affect how companies emanating from these political systems may choose to practice CSR. Companies emanating from societal countries, for example, may view CSR as falling outside the legal scope and managerial

competence of its managers, and/or as an unnecessary business expense that detracts from profit maximization. They will likely defer to and expect national governments to independently provide public goods. Companies emanating from statist countries, by contrast, are likely to have already incorporated stakeholder views as part of their corporate strategy process. That domestic governance tradition may have inculcated in its managers the capacity to respond to societal interests as a normal process of business decision-making. In this view, we posit that managers in statist countries will have greater expectation that they participate in CSR, and greater freedom to do so, than will managers in societal countries.

Moving beyond the general overview of the political institutional structure endemic in a given society, we now turn attention to the second fundamental proposal outlined earlier: whether individual political systems are more or less likely to enact policy change in response to powerful outside stimuli. Building on the state-society argument, we next examine the stability of individual political systems – of whether such systems pursue a consistent course, or whether they are subject to rapid policy alteration in the case of crises. Mark Roe (1994, 2003) offers a political theory of corporate governance that is helpful here. He argues that a nation's corporate governance structures, ownership patterns, regulatory constraints, and general expectations of management are outcomes of a political process, in which host governments normally prize social stability above pure economic efficiency and return. The flexibility of a nation's economic institutions and regulatory patterns reflects the amount of social turmoil the country will tolerate in the pursuit of greater economic efficiency and gain.

Not surprisingly, this tolerance is best revealed when domestic economic systems are subject to significant external shock. The American example, Roe notes, is reluctant to constrain via strident regulation managers' freedom in pursuing shareholder return. Regulation is especially hard to implement when those managers are successful, and the economy appears to be running smoothly. Historically, however, such freedom has led to managerial exuberance and excess, which in turn has generated corporate crises that provide the requisite political will to enact significant reform. As examples, Roe notes how speculative excess led to corporate disaster in 1929, which resulted in the Depression and consequent banking and securities acts of 1934. More recent examples of accounting scandals and financial fraud revealed at Enron, WorldCom, Tyco, and others in the early twenty-first century engendered the rapidly written and implemented Sarbanes-Oxley bill of 2002. The cycle of crises and regulatory response is well known to students of American business history.

A second example Roe employs is the post-war German system of codetermination, which reflected a social bargain between German management and labor. In this model, labor enjoys significant protection in term of wages and job security, and plays a prominent role in firm governance via legislated presence on company supervisory boards. In return, labor offers German capital providers the promise of a loyal and highly competent workforce (Gourevitch and Shinn 2005; Roe, 1994). The purposes of this bargain are to provide for economic growth and prosperity within the broader context of corporate decision making that emphasizes cohesion, relative income equality, and social stability. In contrast to the U.S., the German system handles stresses to its domestic system via an ongoing and constantly negotiated basis, which adjusts continuously, and avoids crises.

Both systems have absorbed the tremendous shocks inflicted by the processes of economic globalization described earlier. Individual domestic political institutions have responded differently to globalization's stresses. This, in turn might affect how companies from contrasting systems might use CSR either to encourage favorable – or prevent unfavorable – globalization by-products that might impact on the political conditions that they face. In evaluating their CSR activity from a political perspective, firms keep an eye toward the policy preferences of their host governments to see whether, and in what direction, policy decisions might be taken.

One important variable firms use in making this judgment is the ideological predisposition of its governing party. Ideology – ''the collection of ideas that a community uses to make values explicit in some relevant context (Lodge and Vogel 1987, pp. 2–3)'' – is evinced in the political sphere through the mechanism of political parties. The ideological spectrum ranges broadly across the economic,

security, and social concerns of a given state. In the economic arena, ideology can range from essentially laissez-faire policies that believe free markets best encourage domestic growth and investment, to ideologies emphasizing state control of economic activity to help redistribute wealth and reduce income equality. The influence each ideology will have on the governing agenda depends on the electoral strength of the party endorsing it.

Ideology is often broadly grouped into two categories: conservative parties tend to value individualism, free market mechanisms, and a limited role for government, and are usually labeled right-of-center. These parties are likely to value private property highly, proclaim a limited role for the state, and place a premium on protecting individual liberty in the pursuit of economic gain. Left-leaning parties, by contrast, tend to be more suspicious of and want to exert more control over the market, are more concerned about group equity and social justice, and place less of a premium on individual liberty than they do on these other values (Lodge and Vogel, 1987; Murtha and Lenway, 1994; Roe, 2003). Countries whose political parties demonstrate the latter characteristics are often categorized as social democracies, where communal values of collective good are evinced by generous social programs funded by high tax rates.

Globalization has brought the differences of these ideological outlooks into stark relief. National patterns of ideology matter in promoting, or dismantling, the policies foundational to the maintenance of globalization: the continual lowering of national barriers to trade, the endorsement of the process of outsourcing, and the toleration of relatively free movements of international capital. These measures have allowed globalization to proceed, yet the re-invigoration of political impediments to them – clearly possible if globalization's "dark side" is not contained – remain a potential threat, one which companies need to monitor.

MNCs have clearly benefitted from the process of globalization. Globalization has allowed companies to access a foreign country's competitive cost advantages; such as production capacity in semi-skilled labor, lower input costs, and specialized intellectual capital. Companies accessing these strengths by re-configured production structures have an interest in keeping the global economy open and in continuing to maximize investment and trade freedom. They are likely to find significant domestic government allies in right-leaning officials who advocate for limited government, a free trade agenda, and flexible production mechanisms. Not surprisingly, these companies fear the political erection of barriers to trade and investment, particularly unilateral ones imposed by their government whose costs will fall disproportionately on them. They will likely enact political strategies to prevent that from happening.

By contrast, left-leaning governments might find the processes of globalization to significantly threaten the established state/societal relationship. While recognizing the potential aggregate benefits created by free trade and investment, they might be concerned that the scope of domestic adjustment required to completely embrace globalization might be too disruptive to established domestic political norms. Left-leaning governments might be more concerned with preserving stated principles of equity over efficiency and an activist role for the state in the functioning of the domestic economy. Such governments, therefore, may advocate and implement policies of formal and informal protectionism designed to maintain social stability.

Left-leaning governments might also enact such measures to draw continued political support from their typical base of voters, often drawn from labor and environmental groups that might support greater regulation of MNCs. For example, in many social democracies, labor plays a significant role in politics via direct representation by a political party. In countries, in which labor wields significant direct political power via official party status, companies may elect to use different CSR policies than in those countries, in which labor is only one of many domestic interests group only. Similar comments could be made about other stakeholders, particularly concerned with CSR, such as environmental groups, human rights advocates, and others. Governments that are ideologically left-of-center whose support draws heavily from these groups may be more likely to pass restrictive legislation; hence companies working in these environments may pay greater attention to CSR activity.

In short, it is possible to consider political conditions as a potential factor in interpreting an MNCs decision to engage in CSR. A company based in a societal country will be less fearful of overt

government intervention, than it would if based in a statist country. Moreover, if that societal country is governed by a right-leaning political party, it is even less likely that significant regulation will be erected that materially impedes a firm's freedom to act. Therefore, a company that observes these political conditions in its home state will consequently give little weight to political motivations in its CSR strategy. However, if an MNC is domiciled in a country which is highly statist, regulation to curb globalization's excesses might be more expected, particularly so if that country is governed by a left leaning political party.

To summarize, this section has offered ideas that interpret CSR activity as part of a company's broader political strategy. It has argued that the ideological proclivities of governments and the overall state/ societal complex will influence whether and for what purpose firms pursue CSR in their international operations. Clearly, more empirical work can follow this line of inquiry. More pursuit by interested readers might lead researchers to develop additional streams of inquiry, outlined in the next section.

Discussion and conclusion

The goals of a firm's political strategy are to preserve societal legitimacy, to maintain flexibility in dealing with the demands of host governments, and to prevent the erection of protectionist barriers that will harm a company's capacity to compete. We have argued that firms will be more or less likely use CSR as a political tool to achieve these objectives depending on the political conditions they confront. The state/societal institutional environment has been heavily emphasized because it reflects fundamental conceptions of the role of the firm endemic in the society in question. Moreover, ideological dispositions of the governing party also matter. Such political calculations, we have argued, impact what if any CSR measures a firm undertakes.

Interested researchers may extend or challenge these arguments in different ways. For example, researchers may investigate how specific governing structures enact policy responses to similar outside stimuli. Trade policy is one such avenue for investigation, but there are others. Whether countries mandate content and labeling requirements, or enact special taxes and environmental regulations on goods produced under what are interpreted as poor working conditions, are two additional possibilities. What instruments a government chooses to employ will vary according to ideology and government capacity, bureaucratic tradition and capacity, political motivation, and other variables that are worth further exploration. Investigations into these topics might shed light on what areas of CSR are particularly important for companies operating in specific industries.

Another potential avenue for further research is to examine the locus of political activity that governs CSR activity. There are several reasons why firms may elect to have industry or umbrella organizations take on the responsibility of formulating CSR guidelines for the entire industry, rather than making the effort to formulate and enforce an individual company stance. This strategy might hold substantial benefits for the company. First, it might allow the company to legitimately deflect activist criticism by deferring to industry guidelines to explain their CSR conduct. Second, there may be little competitive advantage in formulating an independent CSR strategy in an industry in which differentiating that strategy from those of competitors is difficult. Third, highly coordinated industries may use industry groups to coordinate their CSR efforts, and prevent the divide and conquer strategies favored by activists. In all these cases, investigating how companies decide between industry and company CSR efforts remains a ripe field for inquiry.

Researchers may also wish to expand the research agenda to political systems other than those described here. This article has focused on advanced democracies with developed economies. Other countries that are rapidly industrializing will almost certainly have different takes on the concept, purposes, and efficacy of CSR. The potential relationships between a country's economic development and institutional structure to the proclivities of its firms to practice CSR need empirical exploration. Such links deserve greater attention.

To conclude, the growth in MNC activity and corresponding influence in the global political economy makes them increasingly important actors in the global economy. Their operations promote the interdependence of the global economy, and can pose challenges to existing domestic and

international governance institutions. Outside observers now demand that companies pay greater attention to the social and political impact of their activity, a demand many firms have answered by making public commitments to enhance their CSR performance and to contribute to a more sustainable operating environment. These efforts matter in the political – and overall corporate – strategies of MNCs. MNCs must interact with domestic governments that vary significantly in ideological outlook and electoral demand. These political variables and political goals will condition whether and how a firm chooses to engage in CSR. Political objectives will influence the type of CSR activity an MNC does, and the avenues through which it does it.

For the foreseeable future, the relationship between MNCs and domestic governments will have significant implications on the functioning of the international economy. This article has attempted to provide a first step in the examination of CSR as a political, and a strategic, tool for MNCs. Drawing upon an interdisciplinary literature, it has developed arguments that others might explore from a variety of perspectives and backgrounds. The amount of attention paid to CSR by large MNCs today indicates its strategic and practical importance from a business perspective: the examination of the political impact of CSR activity holds potential to improve our understanding of both the theoretical and practical aspects of the business-government interface.

Note

[1] There is some controversy about the proper measurement of the economic size of the modern multinational corporation. Measured simply in terms of sales or revenues, such companies can indeed seem formidable. However, when measured in terms of value-added activity – akin to those measures used to calculate Gross Domestic Product in nation-states – their size drops significantly, though they still remain formidable economic actors.

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