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Towards Transnational CSR: Corporate Social Responsibility Approaches and Governance Solutions for Multinational Corporations

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EXECUTIVE SUMMARY

The global environment in which multinational corporations (MNCs) operate dramatically increases the complexity of the governance challenges and ethical dilemmas confronting MNCs and their leaders, as well as the diversity of stakeholders whose interests must be considered. In this context, MNCs face a perennial dilemma: how to balance the need for global consistency in CSR approaches and ethical standards across the organization with the need to be sensitive to the demands and expectations of a diverse set of stakeholders spread across the globe? Building on the framework of “transnational CSR”, we provide a systematic mapping of CSR approaches in MNCs, highlight the tensions and possible trade-offs between globally integrated and locally adapted CSR strategies, and discuss the constraints that they impose on MNC activities at both headquarters and subsidiary levels. We also highlight the implications for corporate governance, stakeholder management and corporate social performance. Based on in-depth case studies of 18 MNCs, we conclude that a transnational CSR approach that attempts to strike an appropriate balance between global consistency and local adaptation seems best able to guide managerial decision making and help executives address the CSR challenges in the global arena.

Towards Transnational CSR: Corporate Social Responsibility Approaches and Governance Solutions for Multinational Corporations

Although it is still contested whether corporations and their leaders have social responsibilities that extend beyond generating profits and returns for their shareholders and financiers, in light of recent corporate scandals and growing socio-political and environmental challenges around the world, there is increasing pressure from stakeholders – among them governments, local communities, NGOs and consumers – for corporations and their leaders to self-regulate and contribute to the “triple bottom line” of social, environmental, and economic sustainability (“people, planet, profits”).

With the growing scale and scope of internationalization of business activities, the challenges facing executives in the global arena are considerably more demanding than those encountered in a domestic environment. The global context increases the diversity of stakeholders whose interests must be considered as well as the complexity of the ethical dilemmas facing MNCs and their leaders. Furthermore, companies competing in the global marketplace face a fundamental dilemma – how to balance the need for global consistency in corporate social responsibility (CSR) approaches with the need to be sensitive to the demands and expectations of local stakeholders. Finding the appropriate balance between these competing demands is not always easy, as evidenced by the recent scandal over IKEA catalogues printed for the Saudi market (Ben Quinn, *The Guardian*, Tuesday 2 October 2012), where IKEA had digitally erased images of women to please the local censors, without considering that this would set off a media storm around the world and seriously damage IKEA’s reputation as a socially responsible company and employer of choice for women and minorities.

To date, CSR research has not adequately addressed these complexities and, more specifically, their implications for corporate governance. This is worrying since firm-level

corporate governance mechanisms create an important context within which strategic decisions are made. Little is known about the factors governing the CSR choices of multinational corporations (MNCs), the way MNCs implement their CSR strategies globally, and how corporate governance, including organizational control and incentive systems, may promote and constrain CSR activities of MNCs at both headquarter and subsidiary levels. We argue that this lack of alignment between corporate governance and CSR has not only contributed to the corporate scandals of the recent past but lead to suboptimal decisions regarding CSR strategies and activities that have destroyed shareholder value and goodwill of key corporate stakeholders.

In the following sections, we provide a systematic mapping of different approaches to CSR in MNCs, highlighting the tensions and possible trade-offs between globally integrated and locally adapted CSR strategies. We discuss how these different CSR approaches are related to corporate governance factors, how these factors may affect the organization's ability to respond to multiple stakeholder demands and, based on several in-depth case studies, explore the constraints they impose on MNC activities at both headquarter and subsidiary levels.

Challenges for CSR in a Global Context: Balancing Global and Local Requirements

The need for MNCs and their executives to act in accordance with the demands and expectations of a multitude of stakeholders, both locally and globally, creates significant challenges in the areas of CSR, ethics, and corporate governance. There is increased recognition that MNCs must respond to pressures for global integration and local responsiveness with respect to CSR, just as their business strategies respond to the pressures for integration and responsiveness in product markets. Companies competing in the global marketplace thus face a perennial dilemma: how to balance the need for global consistency in CSR approaches across various countries where they operate with the need to be sensitive to local stakeholder demands. Building on the framework of “transnational CSR”, we look at

three prototypical approaches to CSR and discuss their implications for stakeholder management and CSR implementation. Table 1 illustrates the three approaches and highlights the tensions and possible trade-offs between globally integrated and locally adapted CSR strategies.

– Table 1 about here –

The Global CSR Approach

When the MNC headquarters emphasizes global CSR consistency and integration in every country where the company operates, as opposed to giving priority to the concerns of local stakeholders, they are utilizing the globally standardized approach to CSR and stakeholder management. The perceived advantages derived from the global integration of CSR activities must clearly outweigh the perceived benefits of meeting the needs of local stakeholders. MNCs that follow the global approach to CSR tend to establish universal guidelines or codes of conduct and apply them to every cultural context in which they operate. Implicit in this approach is the assumption that universal principles of responsible conduct exist which transcend values and norms of particular societies. Business ethics scholars Thomas Donaldson and Thomas W Dunfee refer to such universal principles as ‘hypernorms’, and assert that they are based on values “acceptable to all cultures and all organizations”. Examples of such universal norms and values appear in the UN Global Compact and the UN Millennium development goals.

The potential benefits of a global approach to CSR are evident. It establishes clear rules of behavior, increases trust in the firm’s leadership and control mechanisms, helps the company prevent and manage risk, fosters a culture of responsibility within the global organization, and ensures global consistency in managerial decision making and behavior. However, such global consistency comes at a price. A global CSR approach can lead to cultural arrogance and ethical imperialism, which induces executives to act everywhere in the

world in the same way as “things are done at headquarters”. A global CSR approach also makes it more likely that managers use their companies’ global policies to legitimize actions that are detrimental to the interests of local stakeholders or turn a blind eye to human rights abuses in the countries where they operate. This is illustrated by the case of Shell Nigeria where Shell’s management decided not to interfere with human rights violations by the Nigerian military government, insisting that it was a nonpolitical, private actor and that its actions were fully consistent with Shell’s policy of non-interference in the internal affairs of nations. The way Shell handled this situation created the impression that it was condoning human rights violations and it seriously damaged Shell’s reputation.

The Local CSR Approach

The locally oriented approach to CSR is in some ways the mirror opposite of the global approach. It highlights the need for responsiveness to local conditions and sensitivity to the needs and demands of stakeholders in the countries where the company operates. Executives of companies that have implemented a local CSR approach thus aim to behave in a socially desirable manner, as defined by the local majority for each country where they conduct business. The locally adapted CSR approach therefore requires that subsidiary managers work as cooperatively as possible with local stakeholders. Adopting a triple bottom line perspective requires to some extent localization of CSR practices as the needs of legitimate stakeholders in the countries where a company operates are to be addressed.

The main benefit of this approach compared with the global CSR approach is its greater responsiveness to the concerns of stakeholders in the host country. The greater flexibility and responsiveness with respect to CSR derived from a local approach is not without problems though. In practical terms, this approach makes it very difficult to create or apply any universally accepted norms or standards, or even to determine what is ethically right or acceptable. Moreover, in combination with weak institutions, inadequate regulations, and ineffective law enforcement in the countries where MNCs operate, a local CSR approach may

promote unethical practices and lead to disastrous decisions at the local level. This could be observed in the Chinese baby milk scandal, where the New Zealand dairy cooperative Fonterra, which owned a 43 percent stake in a Chinese company that had sold the contaminated milk powder, failed to issue a recall or warn customers because of the central government's directives to suppress "bad news" during the Beijing Olympics. The whistle was finally blown by the New Zealand government on September 9, 2008, six weeks after Fonterra discovered the contamination, and a recall was issued. Another example illustrating the dangers of a local approach is the more recent scandal related to GlaxoSmithKline in China where a number of local top managers have been accused of paying bribes to win local support for its drugs.

The Transnational CSR Approach

A transnational approach adopts a hybrid strategy, based on the assumption that global and local approaches to CSR are not mutually exclusive. In many cases, economic needs, political pressures, and stakeholder expectations demand that companies respond to both global issues and local concerns simultaneously, thereby acknowledging that diverse contexts and multiple stakeholder interests require complex CSR strategies. In essence, a transnational CSR approach demands that companies develop a global template for their CSR activities to guide managerial decision-making and ensure consistency across the organization, but allow executives of local subsidiaries to adapt that template according to their specific needs and circumstances. Global policies and codes of conduct may thus be enacted in different ways, depending on local cultural norms and stakeholder demands.

For example, IBM does not have gay, lesbian and transgender policies in some Asian countries where issues related to sexual orientation are not well accepted, thus making implementation of such policies difficult. However, other policies and programs related to diversity are considered "non-negotiable" and implemented worldwide with few, if any, local adaptations. Such transnational flexibility in diversity practices enables IBM to build and

leverage local talent in a way that remains consistent with local norms but still sufficiently globally standardized to avoid discrimination and ensure that all parts of the organization attract, develop, and retain diverse talent. Thus, agreement on the fundamentals (the importance of fair treatment of employees regardless of color, race, disability, sexual orientation, or other characteristics) does not preclude sensitivity to local norms and customs. Although the transnational approach is not without problems—in particular, it is often difficult to strike an appropriate balance between global consistency and local adaptation—this approach appears best able to guide managerial decision making, as well as to help executives address the CSR challenges in the global arena.

An Interface between Corporate Governance and CSR in Multinational Companies

Our discussion above indicates that MNCs have to choose between different approaches to CSR, each of them having the associated cost-benefit trade-offs. In this section we discuss how corporate governance factors may be important antecedents of these strategic choices. Corporate governance taken broadly relates to the structure of rights and responsibilities among the parties with a stake in the firm. Effective corporate governance implies mechanisms to ensure executives respect the rights and interests of company stakeholders, as well as making those stakeholders accountable for acting responsibly with regard to the protection, generation, and distribution of wealth invested in the firm.

However, much of corporate governance research is based on a universal model outlined by principal-agent theory. The central premise of this framework is that managers and shareholders have different access to firm-specific information, and managers as agents of shareholders (principals) can engage in self-serving behavior that may be detrimental to shareholders' wealth maximization. This stream of research identifies situations in which shareholders' and managers' interests are likely to diverge and proposes mechanisms that can mitigate managers' self-serving behavior. Some of the distinct types of corporate governance

mechanisms are related to monitoring and oversight, and various studies associated effective monitoring of managerial discretion with “financial controls” that may be provided by an independent board, information disclosure, internal and external audit. This type of the firm’s governance relies on a centralized, hierarchical system of accountability and reporting, and board monitoring and risk management extensively use financial performance indicators as key benchmarks. Equity-based remuneration provides another pillar of “good governance” within this type of organization. This particular constellation of corporate governance factors relies heavily on “shareholder supremacy” governance principle, and it leaves very little scope for stakeholder engagement policy or formal recognition of stakeholder demands within a set of managerial objectives. These mechanisms of financial control are effective to the extent that they reduce agency costs and are hypothesized to result in positive efficiency outcomes and better firm financial performance.

Meanwhile, studies in organization theory and strategic management suggest a number of alternative views about the nature of corporate governance. Stewardship theory relaxed some of assumptions about managerial behavior found in agency theory, arguing that managers may act as stewards for the good of the organization by making protection of shareholder interests their top priority. Likewise, stakeholder theory recognizes that the effectiveness of corporate governance practices depends on a wider set of firm-related actors and their interactions. Stakeholder theory shifts attention from efficiency arguments (e.g. narrow definitions of performance) toward a broader understanding of effectiveness in goal attainment in relation to the multiple objectives of different constituent firm stakeholders.

In the MNC context, corporate governance research suggests that the firm’s degree of internationalization is an important determinant of the complexity it faces. First, institutional differences increase both top management team specialist knowledge and the ambiguity surrounding managers’ actions. This leads to the classic principal-agency problem between investors and management of the foreign-invested firm, where outside shareholders are not

able to observe or evaluate managers' strategic decisions and their outcomes. In this environment, MNC's investors have to rely on financial controls and financial performance-based managerial incentives to make sure that managerial interests are aligned with interests of shareholders.

Second, from the information-processing perspective, the global nature of MNC operations increases the complexity of transactions and affects the ways in which managers process information when developing corporate strategy. This may lead to strategic errors even when the interests of managers and shareholders are aligned. To mitigate these problems, headquarters should rely on "strategic" rather than "financial controls" when introducing monitoring systems for subsidiary managers. These "strategic controls" are less concerned with short-term financial performance of a subsidiary but may be focused instead on issues related to its long-term sustainability and growth in market share, legitimacy and local stakeholder support. Unlike formal, highly centralized systems of accountability and reporting based on financial indicators, "strategic controls" deploy more informal system of communications between subsidiary managers and the headquarter. Therefore, if the MNC's objective is to leverage resources and capabilities of their portfolio firms across countries and create scale economies otherwise unavailable domestically, then relying on "strategic control" may become a critical success factor.

Similarly, in terms of managerial incentives, global companies increasingly recognize that new business models and changes in the marketplace necessitate the incorporation of softer, intangible, behavioral-based performance measures, within an objective setting and performance appraisal process. Companies as diverse as General Electric, KPMG, and Novartis actively promote cultures that value not only short-term financial performance but also the intangible aspects of long-term value creation. For example, the pharmaceutical firm Novartis's performance management system combines the extent of achievement of individual performance objectives (the what) and the values and behaviors required to deliver

those results in a sustainable manner (the how), including values such as trust and integrity. Many other companies similarly have come to realize that they must balance the financial success of the company with principles of fair play, sustainability, or social responsibility, within a “triple bottom line” system of performance evaluation.

These corporate governance research streams combined suggest that MNCs may use a wide spectrum of different constellations of governance mechanisms, depending on the extent of actual or perceived agency conflicts and the scope for strategic errors at the subsidiary level. Some firms may rely on financial controls and incentive systems when managing their subsidiaries, others may use strategic controls and incentives based on a “triple bottom line” approach.

In Table 2 we discuss how the three strategic approaches to CSR may be associated with financial versus strategic controls and incentive schemes focused on financial performance versus triple bottom line. Our premise is that specific combinations of monitoring and control modes (strategic, financial) and managerial incentives (financial, triple bottom line) are associated with different CSR approaches and corporate social performance. Our arguments are supported by in-depth case studies of 18 MNCs. We interviewed the heads of CSR at these companies, as well as subsidiary managers (with a particular focus on subsidiaries located in Central and Eastern Europe) to explore the constraints that the three CSR approaches impose on subsidiary-level decision-making, the degree of alignment with the company’s global CSR strategy, and the implications for corporate social performance. The sample includes large MNCs such as Procter & Gamble, Siemens, and Beiersdorf, as well as smaller and lesser-known firms such as Steelcase, Rhodia, and Erste Bank. The main findings and conclusions from our case studies are summarized below.

– Table 2 about here –

The Global CSR Approach

A corporate board and investors giving priority to the firm's financial performance and focusing on financial controls combined with financial performance-related incentive schemes limit the firm's ability to learn and respond to (often non-financial) stakeholder demands. By concentrating on financial performance the subsidiary's top management team (TMT) may not have the knowledge, abilities, or interest to appreciate or understand the changing broader stakeholder landscape or the specific challenges the firm encounters in its international environment. When the MNC's board and main investors are focused primarily on potential agency conflicts within the global corporation, they might also view their industry based on outdated mental models that fail to recognize emerging needs in a strategic approach to CSR. As a result, internal governance systems may excessively rely on uniform codes or rules of conduct and not allow a transfer of CSR best practices within the local context.

The reliance on financial controls and corresponding managerial incentives perpetuates low managerial accountability with regard to non-financial consequences of their decisions, ensuring that this situation will persist. The prevalence of financial performance-related incentives mean that subsidiary managers may be less able and less motivated to respond to local stakeholder demands. Executives may lack the incentive to learn and use this knowledge to hone their CSR strategies and create those capabilities essential to compete. Vertical and highly centralized decision-making hierarchies with managerial accountability mainly to shareholders discourage external stakeholders from providing the resources necessary for organizational growth, further handicapping CSR efforts. Financial controls and incentives geared toward financial performance also delays subsidiaries' local adaptation to their external environments, because managers are not compelled to change. Without boards that are focused on strategic controls, ask discerning questions related to sustained investments projects, managers may fail to revise their mental models of the industry

This specific combination of monitoring based on financial controls and financial incentives can lead to an over-reliance on a global CSR template at the headquarters level

and a lack of local responsiveness at the subsidiary level. In turn, this could cause rigidity that stifles CSR innovation and reduces proactiveness with regard to stakeholder expectations. We thus expect this approach to be associated with lower social performance both at the subsidiary level and the level of the overall organization, as it will likely lead to inadequate consideration of the needs and demands of both local and global stakeholders.

The example of Procter and Gamble (P&G). The global approach to CSR can be illustrated with the example of P&G. This U.S. based MNC sells its products in 180 countries. It is a listed company with over two million shareholders. The company's corporate governance emphasis is squarely on "shareholder value". Although P&G's board involves members with diverse knowledge and expertise, and five out of eleven board members belong to the Governance and Responsibility Committee, subsidiary management's performance is assessed on the basis of core earnings per share growth, before tax operating profit, and free cash flow estimates. Principal officers receive remuneration packages based predominantly on financial incentives, such as executive share options and equity grants.

P&G's CSR programs are developed at corporate headquarters and introduced globally. Adaptations are made only to comply with local legal regulations, and charity grant requests are assessed at the headquarters level according to the centrally established guidelines. Social performance of the subsidiaries is also reported centrally. This approach has been cemented after P&G decided to change from a country- to product-based organization of operations in the early 2000s. For example, from the mid-1990s P&G in Poland acted as a strategic partner of a student organization which aimed at advancing careers of young women in business. In 2003, when P&G changed its approach to global CSR, the partnership ended. Although P&G's Polish subsidiary continues to be an active corporate citizen, its activities are constrained by P&G's global corporate CSR program "Live, Learn and Thrive", which involves participation in centrally coordinated initiatives like donating

vaccinations for mothers and babies, or helping children from socially disadvantaged background.

The Local CSR Approach

MNCs' managers' incentives based on broader social factors rather than financial performance enable them to adapt to changing local conditions, notwithstanding financial controls by boards that fail to ensure a high level of CSR adoption. Managers understand the competitive terrain and have the requisite skills to address the competitive challenges threatening their subsidiaries. However, in the absence of board's strategic focus, internal control systems are underpinned by an assumption that some managers may act opportunistically to maximize their own gains at the expense of the firm or its shareholders. Therefore, the headquarters' board oversight may become increasingly disconnected from the subsidiary's executives that may pursue stakeholder rather than shareholder-oriented strategies. Limited support for CSR at the headquarter level can delay the firm's effective transition into a CSR-oriented global company that pursues growth opportunities aimed at long-term sustainability. Firms that have this specific constellation of governance characteristics may be slow or even fail to learn, innovate and adapt to global stakeholder demands without strong external pressures. There is some repetition here – see last paragraph of this section.

The example of Rhodia. Rhodia is a French global industrial chemicals manufacturer. Following a scandal which involved the company's board and politicians in France, there was a significant drop in company share price. The company's response was to introduce new control systems and saving plans. Under pressure from its shareholders, the company was forced to make substantial divestments, increase cost awareness and introduce a careful consideration of every expense. This focus on financial controls had a major impact on CSR activities in the company's foreign subsidiaries. For example, in a subsidiary in Slovakia, the

local community was hit hard by a loss of value of employee shares and concerns about the company's future since it was the main employer in the local area. Although local managers were fully aware of tightening financial controls imposed on them by the headquarters, they also considered the needs of the local community as part of their mandate. In this complex situation local management decided to keep giving traditional charity donations, such as supporting a local orphanage, but not to advertise this except in the local media. This “under the headquarters’ radar” CSR policy was possible because local managers made a donation that was below a limit that required consultations with the headquarters. Also, local managers instructed their communications department to limit news releases to the local media in order to avoid “misunderstandings” with headquarters.

Our discussion suggests that incentive schemes based on broader economic and social factors such as the “triple bottom line” can substitute for the focus on financial controls at the MNC level. However, in this scenario, the prospects for global integration and coordination of CSR activities are limited, and subsidiaries have to rely mostly on locally-adopted CSR practices. In extreme cases such as the one discussed above, this approach may lead local managers to bypass headquarters to maintain the CSR standards that they believe are necessary or appropriate at the local level. Hence, a combination of monitoring based on financial controls and managerial incentives related to broader economic and social performance will increase the firm's propensity to adopt a “Local CSR” approach. In turn, a “Local CSR” approach will enhance the firm's social performance at the local level but will make it more difficult for the firm to coordinate its worldwide CSR activities and lead to lower social performance globally.

The Transnational CSR Approach

Under this approach monitoring systems based on strategic controls ensure that issues related to the long-term sustainability of the firm feature high on the board's agenda. This will likely

lead to an emphasis on global integration and coordination of CSR activities throughout the MNC. When investors and corporate board take sustainability seriously, this will lead to clear rules of conduct on various managerial levels and an effective transfer of CSR best practices. Focus on strategic controls also fosters leveraging CSR-related capabilities and resources globally and ensures access to external pools of resources that cannot be generated internally. In addition, strategic focus ensures that executives act in stakeholders' interests by investing in building the organizational skills and capabilities that allow their firms to compete on a sustainable basis. Combined with managerial incentives based on the "triple bottom line", this can provide the context and appropriate incentives to encourage subsidiary executives to explore innovative ideas and new strategic options that foster local adaptation of global CSR policy. This approach thus seems best able to guide managerial decision making and help MNCs to strike an appropriate balance between global consistency and local adaptation with respect to CSR.

The example of Teva Pharmaceuticals. These arguments can be illustrated by the case study of Teva, an Israel-based pharmaceutical company that has production facilities in more than 70 manufacturing sites and active in 60 countries. Although Teva has moved from a family control model of governance to becoming a global publicly listed company with a dispersed ownership structure that has been paying dividends to its shareholders on a regular quarterly basis since 1986, it still retains a strong stakeholder orientation.

The company's recent strategic development has been driven by a number of mergers and acquisitions, and this growth model is based on a relatively high degree of strategic flexibility its subsidiaries have, as well as the board's reliance on strategic controls. As stated in Teva's annual report, this emphasis on strategic controls leads to a "proactive management beyond mere compliance". This focus on sustainability is supported by the company's governance characteristics. For example, Teva's board of independent directors involves not only prominent business experts but also academics and NGO leaders, which creates a pool of

expertise necessary for the board's strategic involvement. Seven independent directors sit on Teva's "Corporate Responsibility Committee" that oversees CSR-related agenda at both headquarter and subsidiary levels. Risk management embraces, in addition to operational and financial risks, also stakeholder-related factors such as environment, employee and customer loyalty. The board adopted a global whistleblower policy which provides employees and other stakeholders with an opportunity to express their concerns on an anonymous basis. Although Teva's managers are entitled to different types of financial incentives, they are also evaluated on the basis of their adherence to five core values, with specific rules for business conduct being explicitly codified. Managers are encouraged to engage in voluntary work for local non-profit organizations and to offer monetary or product donations to charities in the countries where Teva operates, but local CSR activities are guided by general principles rather than specific rules.

Teva has adopted a code of business conduct that is applicable to all managers and employees both in headquarter and subsidiaries. At the same time, it encourages a high degree of local adaptation by focusing on four broad areas: protection of natural environment, safety in the workplace, global access to healthcare, and emergency medical help to areas hit by natural disasters. Although the company has become known for its substantial contributions to the Haiti earthquake relief (a centrally-coordinated, Teva-wide CSR initiative), it also contributes to local educational institutions and relief efforts in disaster-stricken areas through foreign subsidiaries. For example, Teva's subsidiary in Poland donated a new rescue boat to a local fire brigade in a flooded area near one of Teva's production plants.

This case study illustrates that a focus on strategic controls can positively complement managerial incentives based on recognition of broader performance aspects among the MNC's senior managers, providing a strong foundation for the "Transnational CSR" approach. This approach, in turn, will lead to greater social performance at both local and global levels.

Governance, CSR and Organizational Dynamics

Executives of multinational companies are often ill prepared for the wider social, political, ecological, and ethical issues they face. In this paper, we have discussed what it means to be a “responsible” global company by considering the CSR-related challenges facing executives in the global arena and the choices they have about how to meet those challenges. We have evaluated existing approaches to promoting CSR in multinational companies by looking at the various constellations of monitoring and incentives systems as parts of the firm’s governance mechanism. By focusing on integration/coordination advantages versus localization/responsiveness advantages when analyzing CSR decisions at both headquarter and subsidiary level, our analysis shows that cost-benefit trade-offs associated with the interaction of these advantages may lead to three distinctive CSR approaches. An important insight that emerged from our analysis is that the “transnational CSR” approach seems most effective in helping MNCs to coordinate their worldwide CSR activities. This concept suggests that companies should develop a global template for their CSR activities to ensure consistency across the organization but allow executives of local subsidiaries to adapt this template according to their specific needs and circumstances. Our discussion and case evidence suggest that the “transnational CSR” approach provides an important competitive advantage for MNCs operating across different countries and markets.

Our analysis also helps to explain why different types of MNCs may co-exist even within the same industrial sector. The firm’s organizational design and business strategy depends on a constellation of monitoring and incentive mechanisms that may enhance or impede the extent of global integration and local adaptation, possibly substituting or complementing each other. This constellation is apt to vary based upon the firm’s industry, growth opportunities and salient contingencies. Our arguments indicate that governance factors may affect not only a firm’s approach to CSR but also its CSR performance, which

moves researchers away from considering a universal CSR template towards a more contextualized theory of CSR.

We argue that the MNC's choice of a specific CSR approach is not random, and it may depend on a particular constellation of corporate governance factors, such as accountability, control and incentive systems within a headquarter-subsidary dichotomy. More specifically, we show that, when headquarters deploy hierarchical monitoring and managerial incentive systems focused on financial performance, the MNC's ability to deploy the "transnational CSR" approach will be limited. On the other hand, a combination of strategic controls at the headquarter level with subsidiary management's incentives linked to the triple bottom line may provide a foundation, other things being equal, for the adoption of "transnational CSR".

Our discussion has important implications for a more contextualized analysis of organizational dynamics. Researchers have discussed the major changes in the organizational structure and control mechanisms that occur along the various phases of the organizational life-cycle (OLC). Thus, companies might experience strategic "thresholds" within the context of organizational dynamics as they move from one phase of their OLC to the next. Each of these transitions has important implications for corporate governance, including changes in ownership structure, board composition and incentive systems. MNCs' CSR strategies and approaches may develop and change over time, in response to internal and external challenges. For example, it has been observed that companies have invested in CSR in response to the public reaction to large-scale corporate scandals, in an attempt to rebuild organizational legitimacy and public trust.

These changes suggest that firms do not stay with a particular CSR template indefinitely and may adjust their CSR approaches accordingly, moving from one model to another. For example, Shell traditionally had its governance focus on financial controls and incentives, and its dual (the UK and Dutch) board structure was not conducive for making responsible leadership a top governance priority. The resulting low-responsiveness CSR approach was

one of the underlying causes of various CSR disasters, such as Brent Spar platform and events in Nigeria mentioned above. However, the recent profound changes in corporate governance such as creating an integrated board and changes in risk management and incentive systems have been followed by a shift of emphasis towards what we see as transnational CSR approach and radically improving CSR performance. Related to the previous point, more longitudinal research is needed on how MNCs' CSR strategies and approaches may develop over time, as they try to respond to changes in the environment and address the legitimate claims and expectations of both local and global stakeholders.

Managerial Implications

Our discussion suggests that, if the MNC is to adopt the transnational approach to CSR, it should also implement significant changes in its corporate governance mechanism. This may involve a number of avenues for action as we summarize them in Table 3.

– Table 3 about here –

MNC managers need to appreciate the importance of CSR for survival, profitability and growth. These companies often need to venture beyond what they have done and explore new markets. CSR activities are among critical organizational factors that make these changes possible. However, changing the management style to accommodate the challenges of doing business globally might not suffice. Instead, a shift of corporate governance emphasis from financial to strategic controls may be critical to facilitate this task. For example, companies need to revamp and restructure their boards' composition and decision-making process in ways that connect them to different stakeholder communities and create CSR capabilities. Therefore, careful recruitment of outside directors with appropriate mindsets and skills is essential. Board functional committees need to include new structures dealing with stakeholders demands, such as CSR committees in Teva and P&G discussed above. In addition, risk management processes should move from a sole emphasis on economic and

financial risks towards inclusion of a wide range of environmental and social factors. Taken together, these governance initiatives should help to change emphasis from providing value to shareholders towards accountability to a wider body of stakeholders. Investors may play an important role in this transition if they engage with their portfolio businesses on issues related to CSR.

Finally, our analysis indicates that incentive systems play an important role in terms of local adaptation/flexibility within the MNC's CSR approach. Even when the headquarter adopts a robust CSR policy, its local implementation at the subsidiary level depends on the extent and nature of managerial incentives. A system of remuneration that involves not only financial performance benchmarks but also factors associated with longer-term sustainability may help to motivate managers to search for ways of adopting headquarter-level CSR strategy to local conditions and, therefore, enhance local stakeholder support.

Conclusion

As companies become global, important changes in their approach to global integration and local adaptation often become necessary. In addition, their success also rests on fostering and sustaining CSR activities, which, in turn, requires increased managerial accountability and new incentives that enable executives to learn new skills and develop new capabilities. Various CSR approaches provide opportunities or barriers for companies to convert their resources and knowledge into products, goods and services that create wealth not only for their investors but also local communities and wider stakeholders. This paper shows that governance factors such as control systems and managerial incentives can work in concert influencing MNCs' CSR. Further, organizational dynamics associated with changes in balance between strategic and financial controls may underpin the firm's transitions from one CSR model to another.

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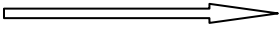
Table 1: Approaches to Corporate Social Responsibility in MNCs

	Global CSR Approach	Local CSR Approach	Transnational CSR Approach
<i>Emphasis</i>	Global integration/ standardization	Local responsiveness/ flexibility	Global integration and local responsiveness
<i>Description</i>	Headquarters' perspective and demands for consistency prevail over local concerns	Local concerns take precedence over demands for global consistency	Attempts to reconcile the tensions between global and local concerns
<i>Benefits</i>	Ensures consistency in managerial decision making and CSR activities Establishes clear rules of conduct Facilitates transfer of CSR best practices Helps to prevent and manage financial and reputational risks Helps to build trust and goodwill among global stakeholders	Ensures responsiveness to local conditions Greater flexibility in terms of CSR strategies and activities Helps to build trust and goodwill among local stakeholders	Provides a global “template” for coordinating the firm’s CSR activities to ensure consistency, but allows executives of local subsidiaries to adapt that template according to their needs and circumstances May lead to high CSR performance at both headquarter and subsidiary levels
<i>Dangers</i>	May lead to cultural arrogance and “ethical imperialism” May lead to neglect of local stakeholder interests May entice managers to blindly apply the firm’s global policies without considering local circumstances	May promote a naïve form of ethical relativism (“When in Rome, do exactly as the Romans do”) Makes it difficult to determine what is morally right May lead to neglect of global stakeholder interests Makes it difficult to create or apply universal norms and standards May promote tolerance for rogue states and corrupt regimes	Often difficult to strike an appropriate balance between global consistency and local adaptation High coordination costs and difficult to implement
<i>Examples</i>	Shell	IKEA	IBM

Table 2: Corporate Governance and Approaches to Corporate Social Responsibility in MNCs

	Global CSR Approach	Local CSR Approach	Transnational CSR Approach
<i>Corporate governance emphasis</i>	“Shareholder supremacy”	Shareholder value at the headquarter level; Local stakeholder focus in subsidiaries	Formal consideration of stakeholders’ interests within the context of long-term sustainability
<i>Board monitoring focus</i>	Financial performance of the firm	Limited support for CSR at the headquarter level; Meeting local stakeholder demands at the subsidiary level	Strategic objectives, including long-term sustainability of the firm
<i>Accountability and reporting</i>	Centralized systems of accountability; vertical communication flows between headquarters and subsidiaries	Subsidiary autonomy; Accountability to local constituencies	Non-hierarchical systems of communications; Accountability to broader groups of stakeholders
<i>Managerial incentives</i>	Executive share options; Incentive schemes linked to financial performance	Incentive schemes linked to local performance benchmarks	Incentives include, alongside financial performance, broader indicators, such as social performance; Focus on the “triple bottom line”
Examples	Procter & Gamble	Rhodia	Teva Pharmaceuticals

Table 3. Towards Transnational CSR: Corporate Governance Solutions.

Global/Local CSR 		Transnational CSR
<i>CSR characteristics</i>		
- Over-reliance on universal codes of conduct developed in the headquarters; prevalence of 'hypernorms' or - Lack of consistent CSR policy at the headquarters; too much emphasis on local adaptation		- MNCs use a global template for their CSR activities, but allow executives of local subsidiaries to adapt that template according to their specific needs and circumstances.
<i>Corporate governance solutions</i>		
• A shift from "financial" to "strategic" controls • Managerial incentives based on the "triple bottom line" • Increase in board diversity, including stakeholder representation • Risks management systems include a wide range of economic and social factors • Accountability to a wider body of stakeholders • Non-hierarchical systems of communications between headquarters and subsidiaries • Board functional structures include a stakeholder relations committee • Investors engage with the firm's board on CSR-related issues		