Three Lenses on the Multinational Enterprise:

Politics, Corruption and Corporate Social Responsibility †

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Abstract

Scholars who study multinational enterprises (MNEs) recognize the complex relationship between international business and society. However, compared to other international business topics, research on politics, corruption and corporate social responsibility (CSR) -- three ‘lenses’ on the MNE -- remains somewhat embryonic, with critical unresolved issues regarding frameworks, measurement, methods and theory. This creates rich opportunities for integration and extension of disciplinary perspectives, which we explore in this article. Building on the three lenses framework, we identify common concepts and tools, outline an agenda for additional theoretical and empirical research, and review the papers in this Focused Issue of the *Journal of International Business Studies*.

Keywords: politics, corruption, corporate social responsibility (CSR), corporate political strategies, business-government relations

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Introduction

Scholarly interest on the relationship between international business and society is growing among researchers who study multinational enterprises (MNEs). History is largely responsible for this surge in research, specifically, the political-economic history of last quarter-century. From the late 1970s to the present, the global commercial landscape has so profoundly changed that it is difficult to recall the setting of international business prior to Deng Xiaoping's dramatic economic reforms in the late 1970s, the neo-liberal wave that swept into Latin America in the eighties, and the decade of opening and reform that followed the collapse of the Soviet Union in 1989. Since 1990, the number of countries, markets and institutional settings open to the vast majority of the world has risen at an unprecedented pace. The ensuing and rapid integration of world financial and goods markets brought forth a renewed appreciation of the diversity in social and economic institutions that govern the behaviors of firms.

The rapid pace of globalization and the concomitant increase in the volume of international trade and investment, coupled with recent corporate scandals, have heightened the importance of issues relating to politics, corruption and corporate social responsibility (CSR). Each of these three topics provides a unique 'lens' through which to understand how MNEs influence and react to dimensions of their global economic and political environments.

Research on each of these 'three lenses' on the multinational enterprise is somewhat embryonic, however, when compared to other international business topics. Critical issues regarding theoretical frameworks, measurement and methods remain unresolved. From a scientific standpoint, an even more troubling trend has been the development of three parallel literatures on these topics. This is problematic because it is clear that the issues are related. Therefore, there are substantial benefits associated with integrating these streams of research in terms of enhancing the quality of research on each topic. At the same time, the nascent and fragmented nature of these literatures suggests that such an integration requires consideration of these issues across numerous business disciplines (e.g., strategy, finance, accounting, marketing) and social science disciplines (e.g., economics, political science, sociology, psychology, geography). Moreover, these topics are germane to countries at all levels of economic development, and may be pursued via theoretical and empirical (quantitative or qualitative) efforts. Thus, it appears that work clarifying and integrating these "three lenses" is fertile ground for interdisciplinary theory development and empirical analysis such as takes place in the *Journal of International Business Studies.*

The remainder of this article is organized as follows. In Section II, we discuss the most important common theme in the literatures on the three lenses: the analysis of antecedents and outcomes. A second theme running through our literatures review is the importance of the unit of analysis and level of aggregation. In the context of MNE political strategies, this leads to a consideration of subsidiary, firm, industry and institutional (home and host) level variables. In the context of corruption and MNEs, this leads to an examination of the effects of MNEs on the environment of corruption, the determinants of the experience of and involvement with corruption, and MNE strategies for coping with public corruption. In the context of CSR and MNEs, this leads to a consideration of the roles of strategy and asymmetric information/transparency in determining the extent to which firms engage in CSR and the returns to this activity. Section III outlines an agenda for theoretical and empirical research on the strategic implications for international business of politics, corruption and CSR. Section IV provides brief reviews of the articles in the Focused Issue and discusses their relevance to our proposed research agenda. Section V concludes.

Antecedents and outcomes

<u>Politics and the multinational enterprise</u>

The interactions between business and government is perhaps the lens with the longest standing tradition of research within international business, yet this stream suffers from relative neglect compared to the market environment of business (Baron, 1995), despite the acknowledged importance of government to MNEs (Brewer, 1992; Murtha and Lenway, 1994; Ring, Lenway and Govekar, 1990). Because MNEs are subject to the authorities of multiple sources of sovereignty, Sundaram and Black (1992) suggest politics is an essential area for international business. Vernon's (1971) early work in the area suggests MNEs have strong incentives to influence host country government policies on an on-going basis to safeguard their often substantial investments, particularly given the threat of repatriation of earnings, immigration laws, trade laws and investment laws. Grosse and Behrman argue that theories that fail to incorporate the political activities of MNEs take the "national" out of "inter-national" and leave the analysis "as a simple extension of firm and market theories" (1992: 97). Similarly, Dunning (1993) asserts that any theory of MNE activity that does not seek to understand and explain the role of governments, not just as another variable, but like the market as an organizational entity is bound to be deficient. Thus, the role of politics for MNEs and more specifically corporate political strategies, defined as proactive actions to affect the public policy environment in a way favorable to the firm (Baysinger, 1984), is indisputably an important aspect of international business.

Much of the research on international business and politics has focused on MNE-host government negotiations at the time of initial entry into a country (e.g. Dunning, 1992; Fagre & Wells, 1982; Grosse, 1996; Kim, 1988; Vernon, 1971). This is perhaps not surprising given the attention paid to entry modes within the international business literature. Jean Boddewyn's work served as a catalyst for further understanding of MNE political strategies beyond entry negotiations. While much of IB literature categorizes political environments as 'risks' to factor into planning, Boddewyn and Brewer (1994) argue that governments represent opportunities for MNEs as well. This perspective helped shape the focus of current research on the strategies used by MNEs to affect opportunities in host and home governments. For example, a large body of research has focused on protectionism from foreign competition and the gains to domestic firms (e.g. Boddewyn, 1975, 1993; Rugman & Verbeke, 1993; Moran, 1985; Eden & Molot, 2002).

Recently, Hillman, Keim and Schuler (2004) reviewed the literature in corporate political strategies and identified four levels of antecedents: firm level (including firm size, dependence on government, risk, slack, diversification, internal structures and management support, and foreign versus domestic ownership), industry level (including industry concentration, number of firms and level of competition), issue specific (including salience of the issue and level of competition to affect the issue) and institutional level (including formal and informal institutions). Of particular interest to IB scholars was the relative lack of development regarding the institutional antecedents of corporate political strategies.

Although a great deal of recent literature in the area is preoccupied with the domestic context in the United States, or a single regional context such as the European Union (e.g. Coen, 1997; Cowles, 2001), a few notable papers do examine MNE strategies across countries and/or how institutional differences affect business-government relations. For example, Hillman and Keim (1995) model how institutional differences create different public policy outcomes and competitive situations for firms. Blumentritt (2003) examines how the bargaining power of MNE subsidiaries along with host country characteristics affect the choice of political strategies; whereas Hillman and Hitt (1999) model how a country's degree of corporatism versus pluralism, along with firm, industry and issue variables, affect the choice of MNE strategy. Finally, Hillman (2003) and Hillman and Wan (2004) seek to understand the relative effects of firm/subsidiary antecedents and institutional antecedents of political strategies, finding that both exhibit a strong influence on the actions taken by MNE subsidiaries to influence host governments. Thus, scholars are beginning to provide for an understanding of how institutional differences affect MNE-government interactions.

Scholars interested in corporate political strategies have adopted a variety of theoretical frameworks. Table 1 reflects these trends within the literature and points to the variety of applicable perspectives and insights within the field. As portrayed, the theoretical bases for work in this area run the gamut from Industrial Organization Economics to the Resource-Based View, to Resource-Dependence, to Institutional Theory to Political Economy to Cooperative Strategies. In some cases the application of specific theoretical lenses (e.g. Resource-Based View and Cooperative Strategies) reflects the emergence of these views within related disciplines near the same time, yet other theories seem to be "mainstays" of work in the area.

Insert Table 1 here

Corruption and the multinational enterprise

Prior to the pronounced changes that accompanied the globalization of business in the 1980s and 1990s, research on corruption and its relationship to firms' activities was almost non-existent. As foreign firms expanded into, and new firms were born within, developing and transition economies governments, managers and scholars grew more aware of the magnitude of corruption and the need to understand and address it. Fortunately, researchers from many social science disciplines have begun to fill this deficit. Research on corruption has grown quickly over the past decade, answering some fundamental questions and highlighting the importance of many more. Now, many fundamental questions about corruption have been thoughtfully addressed, including the most basic question, 'what is corruption?' Corruption is most commonly defined as *the misuse of public power for private gain*, but more general definitions substitute the word 'authority' for public power to include corruption that arises strictly between private parties (Svensson, 2005).

Scholars interested in corruption and international business have pursued questions on these subjects through a variety of theoretical frameworks including industrial economics views, resource-dependence, and institutional theory. Table 2 notes selected works that span these trends within the literature, highlight the variety of applicable perspectives on corruption and point the way for future contributions. The literature on corruption has drawn from many of the social sciences. Generally, scholars within each of these disciplines have tried to integrate or address the views and objectives of different academic fields. Nevertheless, each field has tended to center its questions on a few key questions about corruption with little attention to some of the more intriguing interrelationships among MNEs, policymakers and local populations. Consequently, IB research on corruption retains a healthy agenda of questions to be addressed based on the strong, extant works from sister disciplines but targeting the richer, cross-disciplinary issues that speak directly to MNEs.

Insert Table 2 here

Owing to the circumstances that prompted interest in corruption, most scholars focused exclusively on government corruption and issues directly related to economic opening. Early on, researchers established corruption's deterrent effects on growth (Mauro, 1995) and foreign direct investment (Habib and Zurawicki, 2001; Wei 2000), in most circumstances, and had raised the question of when corruption mattered and whether it might attract investment flows (Henisz, 2000). Related efforts focused on identifying the root causes, or at least root correlates, of corruption. In most of these studies, (see Husted (1999), Treisman (2000) and Robertson and Watson (2004)), measures of corruption are best predicted by GDP per capita, measures of regulatory barriers and cultural characteristics, such as high power distance. More generally, scholars have found that the government regulation of entry into new markets, whether by foreign or domestic firms, is associated with higher levels of bribery and corrupt exchanges (Djankov et al. 2003). Such a finding -- that regulation can lead to circumvention by bureaucrats and firms -- comports with the view that corruption is principally a feature of mismanaged and obtrusive governments (Mauro, 1998). This same view bolstered support for the Washington Consensus, the well-known recommended set of policy reforms for newly open economies, and suggested that corruption would fade with increased market liberalization. To the contrary, corruption has endured despite increased openness, prompting interest in questions that centered on how to respond to corruption rather than what caused it.

More recently, research on corruption has centered on firms' engagement with and responses to corruption. Indeed this is an area that distinguishes IB and management scholarship on corruption since the other social sciences have not sought to answer such questions. Doh et al. (2003) describe various channels through which corruption affects firms and offer a set of prescriptions for managing in corrupt environments. For all that has been learned about corruption in recent years, the question of how firms should manage in the face of it continues to be among the most important and elusive. Rodriguez et al.

(2005) addresses part of this question by deriving a two-dimensional framework for describing corrupt environments. In accentuating the differences among corrupt environments, the authors draw attention to the variable nature of corruption and the need to address corruption with different strategies in different markets.

Earlier Campos et al. (1999) and Wei (2000) had found that aggregate investment flows were slowed by the variability in the demand for bribes so the nature of corruption had already been established as a meaningful issue. Still, it was not yet clear that firms adapted to corruption other than through market avoidance. While it seems reasonable that firms would implement strategies to deal with corruption, this has not been easy to establish. Nevertheless, Smarzynska and Wei (2000) did find that higher levels of corruption in Eastern European countries increased the likelihood of entry via joint venture. Similarly Uhlenbruck et al. (2006) show that firms engage in short-term management contracts and joint ventures in response to high levels and high arbitrariness of corruption. Little else has been established regarding firm strategies for dealing with corruption or how firm's actions may influence the corrupt environment, but this remains a fruitful area for future research.

Corporate social responsibility and the multinational enterprise

Of the three lenses on the multinational enterprise, the literature on multinationals and CSR is the most embryonic. In part, this is because CSR is difficult to define, especially in the context of MNEs. Such firms operate in diverse environments and cultures, and thus, are more likely to encounter numerous stakeholder groups and NGOs.

Consistent with McWilliams and Siegel (2001), we define CSR as instances where the company goes beyond compliance and engages in actions that appear to advance a social cause. Such actions might include adding social features or characteristics to products or modifying production processes to signify that the firm is seeking to advance a social objective (e.g., selling cosmetics with ingredients that are not tested on animals or adopting environmentally-friendly technologies) or working closely with community organizations to ameliorate homelessness and indigence (e.g., the Society of St. Vincent De

Paul). In an international context, CSR may also involve avoiding operations in countries that commit human rights violations.

Indeed, the most commonly studied CSR 'event' was divestment from South Africa, an issue that was exclusively encountered by MNEs. This issue provides a useful illustration of the difficulty in defining CSR. Most observers assumed that, for MNEs, divestment from South Africa was a socially responsible action. However, Wright and Ferris (1997) challenged this notion, by pointing out that black workers and other stakeholders may have suffered when American firms withdrew from South Africa, because the firms that divested had been especially supportive of these employees (especially, relative to other domestic companies).

Most CSR studies assess the relationship between a firm's social performance and its financial performance. Once again, this question is most relevant to MNEs, since these enterprises are more likely to be publicly traded, highly visible to 'activists' and non-governmental organizations (NGOs), and therefore, vulnerable to pressure to enhance social performance. These results have been mixed, with some authors reporting no relationship (McWilliams & Siegel, 2000), a positive relationship (Waddock & Graves, 1997), and a negative relationship (Wright & Ferris, 1997). Although authors of recent meta analyses (Margolis and Walsh, 2001; Orlitzky, Schmidt, and Rynes, 2003) claim that there is strong empirical evidence supporting the existence of a positive link between social and financial performance, these studies do not address the severe methodological flaws unearthed in critiques of event studies of CSR (McWilliams and Siegel, 1997; McWilliams, Siegel, and Teoh, 1999) and regression analyses of CSR (McWilliams and Siegel, 2000).

A study by Hillman and Keim (2001) provided a novel twist to this debate. The authors suggested that when assessing the 'returns' to CSR it was critical to discriminate between 'stakeholder management' CSR and 'social' CSR. This is consistent with Baron's (2001) distinction between 'altruistic' and 'strategic' CSR. More specifically, the authors concluded that while stakeholder-oriented CSR was positively correlated with financial performance, social CSR was not.

A recent positive development in the CSR literature has been the attempt to relate CSR to more conventional theories of strategy and industrial organization. These papers are summarized in Table 3. Similarly, there is growing interest among managers in the antecedents and outcomes of CSR, especially for executives at multi-national, multi-divisional companies. These corporate leaders are mindful of the fact that business norms and standards, regulatory frameworks and political systems, corruption, and stakeholder demand for CSR can vary substantially across nations, regions, and lines of business. They are also aware that their divisional managers are under constant pressure from employees, suppliers, community groups, NGOs, and government to increase their involvement in CSR.

Insert Table 3 about here

Hart (1995) and Russo and Fouts (1997) were the first to apply strategic theories to social responsibility. Hart conjectured that environmental social responsibility could result in the creation of a resource or capability that leads to sustained competitive advantage. Russo and Fouts (1997) provided empirical support for this hypothesis by reporting that there was a positive correlation at the firm level between environmental performance and financial performance.

Building on this RBV framework, McWilliams and Siegel (2001) outlined a formal theory-of-the-firm model of ‘profit-maximizing’ CSR. These authors conjectured that the provision of CSR can best be understood from a supply and demand perspective. They assumed that firms weighed the costs and benefits of engaging in this activity. Some of these benefits included a greater ability to differentiate products, reputation/image enhancement, the use of CSR to recruit and retain high quality workers, and maintaining good relations with key stakeholders (e.g., employees, government, and investors).

A crucial implication of a theory of the firm perspective on CSR is that there should be a positive correlation between CSR and proxies for product differentiation, such as research and development and advertising (McWilliams and Siegel, 2000). Such an assertion highlights the importance of information asymmetry in the context of CSR. It is important to note that consumers and other stakeholders often find it difficult to determine if a firm’s internal operations meet their moral and political standards for socially responsibility. The level of asymmetric information regarding internal operations can be mediated by the firm itself or by activists. For instance, companies such as McDonalds, Motorola, and Nike publish annual reports on social responsibility. One can view this activity as a form of advertising, especially for more general types of CSR. While such reports may be useful, some consumers perceive this information as biased, since it is filtered through senior management. Fedderson & Gilligan (2001) asserted, for example, that activists can play an important role in addressing this concern, by supplying consumers with information they can rely on to choose socially responsible firms.

In order to achieve and sustain a competitive advantage, firms can use CSR in conjunction with a political strategy that harms its competitors. For example, companies can use government regulation and CSR to raise rivals' costs. Howard Marvel (1977) provided an excellent illustration of such a strategy: the case of the British textile industry in the early nineteenth century. The first child labor law was passed in Great Britain after the mill owners who employed modern technology banded together and lobbied for restrictions on child labor, which was used more by the older, smaller mills. In a similar vein, McWilliams, Van Fleet, and Cory (2002) showed how U.S. firms can use CSR-based political strategies to heighten regulatory entry barriers that prevent foreign competitors from employing an alternative, lower-cost, production process.

Research agenda

Politics and the multinational enterprise

In their recent review of literature on corporate political strategies, Hillman, Keim and Schuler (2004) provided insight into the 'state of the field' regarding antecedents of, typologies of, methods of organizing for, and outcomes of corporate political strategies. Although their review was internationally focused, the paucity of relevant work regarding MNEs represents an opportunity for IB scholars. While research interested in antecedents of political strategies within any single country can ignore institutional effects, to have a more complete view we need far more research on the dimensions of institutional variation relevant to the choice and effectiveness of corporate political strategies. In addition, when shifting focus to MNEs, the trend begun by Blumentritt and colleagues (Blumentritt, 2003; Blumentritt &

Nigh, 2002) and Hillman and colleagues (Hillman, 2003; Hillman & Wan, 2004) to examine the subsidiary level of analysis must continue if we are to have a more complete understanding of MNE-political action. That is, it is no longer sufficient to examine antecedents at the firm, industry, issue and institutional level without consideration of the unique characteristics of each subsidiary that engages in political action.

IB scholars may also find opportunity in questioning or testing for the applicability of existing typologies of corporate political strategies across countries. Is it the case that the same actions are considered no matter what the context? How do local norms regarding political behavior, corruption and social responsibility affect these choices and action types? Are the methods for organizing political efforts within domestic firms transferable to MNEs or does this unique organization form require its own models of organization? Finally, how do the outcomes of political strategies differ based on context?

In terms of integrating these opportunities with those within the CSR and corruption areas, how do the three interact to affect firms' strategic use of CSR, the effects of corruption on MNE operations, and corporate political strategies? By integrating across these three lenses, we may uncover richer opportunities for advancement than by continuing to operate in relative silos.

<u>Corruption and the multinational enterprise</u>

In a recent article, Svennson (2005) surveyed the economic literature to address eight questions[1] on corruption. The eight questions cover some of the most important areas of research on corruption, but they leave open many relevant and substantive issues. Among the most basic questions that remain to be addressed are issues that have hidden behind the macro-level data typical of extant research. A particularly important issue is the incidence of corruption. Svensson (2003) takes on this question squarely but far more is needed to learn whether the need to pay bribes is most influenced by the firm, individual, or industry characteristics, by geographic region, or management practices. Similarly, scholars have not had much to say regarding strategies for avoiding or managing corruption or regarding which managers are disposed to engagement with corruption and why. One of the most discouraging facets of corruption is its persistence and the limited successes of anticorruption campaigns. Understanding corruption at the individual level - who engages in corruption, why they do so and how their social networks foster corruption, is vital to any effort to understand and limit corruption. Surprisingly, most of what we know about corruption has almost nothing directly to do with the individuals who engage in it.

As with other literatures, scholarship on corruption would benefit from more attention to definitions. Corruption is still most commonly defined to preclude private corruption though it is clear that both government corruption and private corruption often go hand in hand and stem from the same underlying institutions. Moreover, an understanding of private corruption is vital to any assessment of the role of business in society and of the effects of firms on the environment of corruption. Concepts like self-dealing (Djankov et al. 2005) and tunneling - the transfer of assets and profits out of firms for the benefit of those who control them, (La Porta et al. 2000) deserve a more central place in the IB research agenda on corruption. Finally, most studies of corruption consider transactions that are plainly illegal and which are most conspicuous in low-income, developing economies. Yet, it is not clear when corruption coincides with, or differs from, influence over policies, which is considered lobbying and is considered a political strategy in high-income nations. Some guideposts exist, such as the difference between changing rules for all firms (i.e. lobbying) and breaking/bending them a la carte (i.e. corruption), but in many cases, there is no bright line between political influence that is considered lobbying in one context and exchanges that qualify as corruption in another. These are fruitful areas for IB scholarship.

Corporate social responsibility and the multinational enterprise

There are numerous unresolved theoretical and empirical issues relating to the strategic implications of CSR for MNEs. These include defining CSR, identifying institutional differences in CSR across countries, determining the motivations for CSR, describing CSR domestic and multi-national strategies, modeling the effects of CSR on the firm and stakeholder groups, determining the effects of leadership and corporate culture on CSR activity, assessing the effect of CSR on the firm and stakeholder groups, measuring the demand for CSR, measuring the costs of CSR and assessing the current knowledge base.

Theoretical issues to be resolved

There is no strong consensus on a definition for CSR. CSR has been used as a synonym for business ethics, defined as tantamount to corporate philanthropy, and considered strictly as relating to environmental policy. CSR has also been confused with corporate social performance and corporate citizenship. This lack of consistency makes it difficult to compare results across CSR studies and hampers our ability to understand the implications of CSR. Having a good definition of CSR, with a common terminology, would aid in modeling the role of organizational culture and leadership in explaining the antecedents and consequences of this activity.

Researchers could analyze how changes in corporate control, particularly through merger or acquisition, affect the type and level of CSR activity within firms. Alternatively, changes in top management (CEO or team) might be examined to determine whether leadership style and characteristics are more important than corporate control/culture for predicting CSR activity. Understanding the role of leadership could be extended to understanding the decision making process and how decisions about CSR activity are affected by demands from multiple stakeholders.

Asymmetric information makes it difficult to study the antecedents and consequences of CSR. Managers may perceive that many external stakeholders view CSR activity more favorably if it is divorced from any discussion of the bottom line. With this in mind, managers may not reveal the more practical motivations (such as product promotion, labor cost control and reputation building) behind their CSR activities, especially in corporate publications such as annual reports. This lack of candid information has made it difficult to distinguish and discuss the different motivations for CSR, which may be private or social.

The use of CSR to capture value is referred to as strategic CSR by Baron (2001) who points out that "it is the motivation for the action that identifies socially, as opposed to privately, responsible action." That is, if the motivation is to serve society, at the cost of profits, the action is socially responsible, but if the motivation is to serve the ‘bottom line’, then the action is privately responsible. For privately responsible actions, there may well be social benefits that exceed the cost of the action to the firm. However, this does not change the motivation, unless these social benefits are of value to managers. For example, providing day care may lower the number of juvenile crimes in a community, but the firm might provide the day care only because it increases the availability of workers and lowers the cost of absenteeism.

In addition to understanding the motivation for the provision of social benefits, we need to understand how the provision of these goods, through strategic CSR, affects society. An example of strategic CSR is when a firm links the provision of a public good to the sale of their (private) products (e.g., eco-labeling). Analysis of the provision of public goods by private firms is a welcome addition to the management literature on CSR, which has been primarily focused on the following question: “Do firms ‘do well by doing good’?” Showing that a firm does well by doing good is often referred to as “making the business case for CSR”. While understanding the relation between firm performance and social performance is of primary importance in the management literature, a more thorough understanding of the CSR phenomenon requires that we take account of other stakeholders as well. These stakeholders include: customers, employees, governments, suppliers, taxpayers, community groups, and underrepresented groups.

Assessment of the strategic implications of CSR is hampered by cross-country/cultural differences in the institutions that regulate market activity, including business, labor and social agencies. Institutional differences lead to different expectations and different returns to activity. For firms operating in multiple countries/cultures this complicates the process of determining which activities to engage in and how much to invest. As the knowledge base of CSR develops world-wide, we will be better able to analyze and advise on CSR. We now turn out attention to empirical research.

Empirical issues to be resolved

Problems with measurement of the costs and benefits of CSR activities continue to cloud our understanding of the strategic implications of CSR. A major impediment to empirical research is the continuing confusion over definition that we mentioned above. It is impossible to measure what we cannot define and, as long as we use different definitions, we will get empirical results that cannot reliably be compared.

As noted earlier, most papers focus on the relation between CSR and firm performance. Early studies used either the event study methodology (which is based on analysis of short-run changes in stock prices as a proxy for firm performance in the aftermath of a CSR-related event) or regression analysis (which uses an accounting measure of profitability, such as return on assets, as the dependent variable in a regression model that "explains" firm performance). These studies usually attempted to answer the question: do firms do well by doing good? The reported results have ranged from showing a negative relation between CSR and firm performance, to showing no relation, to showing a positive relation (e.g. the results of divesting from South Africa shown in Table 3). There is little consistency in these findings. This may be a result of inconsistency in defining CSR, inconsistency in defining firm performance, inconsistency in samples, imprecision and inconsistency in research design, misspecification of models, changes over time, or some more fundamental variance in the samples that are being analyzed.

McWilliams and Siegel (2001) provide a framework for analyzing CSR within the context of the theory of the firm. Based on this framework, they developed hypotheses regarding the provision of CSR attributes across industries and market structures. They hypothesized that "the provision of CSR will depend on R&D spending, advertising intensity, the extent of product differentiation, the percentage of government sales, consumer income, the tightness of the labor market, and the stage of the industry life cycle" (2001, p. 125). All of these should be tested empirically to see if the results support the hypotheses.

Overview of the Focused Issue

The theoretical and empirical issues discussed above provide an important foundation for understanding the contributions of the articles in this special issue. These papers shed light on the definitional issues that plague this research, and demonstrate, both theoretically and empirically, how making clear, specific definitions can result in deeper understanding and guide more rigorous research on CSR, corruption, and corporate political strategies.

We turn now to reviewing the papers in the Focused Issue. We followed the process established by Editor-in-Chief Arie Lewin for JIBS Focused Issues, whereby one JIBS departmental editor (Lorraine Eden) works with a team of guest editors (Amy Hillman, Peter Rodriguez and Donald Siegel). After issuing an open Call for Papers, we received 70 manuscripts. These papers were peer reviewed according to standard JIBS editorial practices. The authors of 12 papers that received first-round revise-and-resubmit decisions were invited to present their papers at a JIBS Focused Issue Workshop, which was held at the School of Global Management and Leadership at Arizona State University in January 2006. Nine papers were presented and critiqued by assigned discussants at the workshop; the other papers continued through the regular JIBS review process. Jean Boddewyn and John Dunning were excellent rapporteurs, providing useful insights that spanned across the papers. Afterwards, a second round of decision letters were set to the workshop authors, either conditionally accepting the papers, requesting further revisions, or rejecting the manuscripts. Following additional revisions, the editors selected the final papers that appear in this Focused Issue.

Politics and the multinational enterprise

The paper by **Yadong Luo** seeks to integrate corporate political strategies and interactions within the context of corporate social responsibility and corruption. This is perhaps the most ambitious study within the Focused Issue for it truly crosses over and combines all three lenses on the MNE using a structuration approach. Adopting the differentiation between cooperative and assertive approaches to MNE-host government interactions, he models how each choice is related to elements of the firm's CSR and perceived corruption in the environment. He proposes that an MNE's propensity to cooperate with a host government is related to its philanthropic contribution and resource accommodation; while its propensity to be assertive with the host government is associated with its emphasis on ethics and organizational credibility. Similarly, when MNEs perceive corruption in the environment, Luo argues that the MNE's propensity to cooperate and be assertive decreases, its focus on ethics heightens, and its philanthropic contribution diminishes. Finally, Luo models and tests three-way interactions between politics, CSR and perceived corruption to show the complex inter-relationships among these aspects of the business-society relationship.

Luo's analysis of sample MNEs in China generally supports these propositions. He finds an MNE's propensity to cooperate with a host government is negatively associated with perceived corruption, and that adherence to codes of ethics is positive and philanthropy negatively related to perceived corruption. Politics and CSR are also interrelated such that MNEs that are more assertive with governments tend to emphasize ethical codes, while MNEs that are more cooperative with governments tend to be more committed to philanthropic and resource contributions. He also uncovers interesting relationships between political strategies, corruption and CSR activities within his sample. While an initial step into the complexity of interaction between politics, CSR and corruption, Luo's paper provides evidence of how fruitful integration across the lenses can be for future research.

<u>Corruption and the multinational enterprise</u>

Chuck Kwok and Solomon Tadesse take a fresh look at the relationship between firms and corruption focusing on the effects of firms and their investments on the environment of corruption. Tackling this question is no easy task given data constraints and confounding effects, but Kwok and Tadesse conduct of wide variety of tests to establish the robustness of their results. They find that current corruption levels are significantly lower in countries with high FDI flows in the past. This central result holds for FDI flows lagged by as much as thirty years.

Additionally, the authors find that the harmful effects of culture on corruption are lower and the beneficial effects of education on corruption are higher in countries with higher FDI in the past. Their results are robust to omitted variables bias, controls for host-country characteristics, including the level of economic development, political tradition, education, culture, legal system, religious orientation and institutional development. The general findings, which support the idea that FDI influences the host country environment of corruption, speak to fundamental questions in IB and support related research efforts regarding the specific channels of influence through which firms influence society.

Utz Weitzel and Sjors Berns consider a previously untested effect of corruption on cross-border and domestic takeover premia. In addition to the value of the paper's direct message, the authors' findings shed light on the nature of corruption's effect on FDI flows. It is well known that corruption is associated with reduced flows of FDI, but Weitzel and Berns show that the effects do not just prevent entry by some firms, but also lower valuations for acquired ownership shares. More directly, Weitzel and Berns examine 4,979 cross-border and domestic takeovers and find that, after correcting for governance and related factors, corruption markedly reduces target premiums. Extrapolating from their findings, the authors estimate that a one point deterioration in a country's ranking on the Transparency International Corruption Perceptions Index is, on average, associated with a reduction of 21% for local target premia. Moreover, the result holds for both foreign and domestic acquirers, suggesting that local corruption is not just a barrier for foreign firms, but rather a source of lost value for all firms.

Alvaro Cuervo-Cazurra refines our understanding of effects of corruption on the composition of investment flows and highlights important new questions regarding the long-term effects of corruption. Among the first important questions about corruption was whether it deterred or fostered FDI, principally from multinational enterprises. While it is well understood that corruption has many effects on investment flows and that it almost always deters them, the literature has not clearly shown whether corruption's effects on FDI differ across nations, whether anti-corruption norms or laws seem effective, and how the composition of investment flows may matter.

Cuervo-Cazurra examines bilateral FDI flows from 183 home economies to 106 host economies and finds that corruption deters FDI from some countries but fails to deter, or even attracts FDI flows from others. Whether the source of the variation in the effects of corruption of the origin of FDI flows stems from cultural distance, experience with corruption or from anti-corruption laws or norms, the outcome and the implications for firms and nations are significant. Cuervo-Cazurra's results show that the proportion of FDI flows from countries with low levels of corruption and anti-corruption laws is decreasing in a host country's level of corruption. Thus, host countries with high levels of corruption must contend with reduced flows of FDI and any effects that result from the increased proportion of FDI flows from home countries with high corruption. An appreciation how corruption matters for investment and for which firms and nations is a valuable contribution to the literature and accentuates the challenges of reducing corruption in environments where it is relatively high.

Corporate social responsibility and the multinational enterprise

David Waldman, Mary Sully de Luque, Nathan Washburn and Robert House pose an interesting research question, especially in light of our previous discussion of the strategic implications of CSR for MNEs. The authors examine whether country-specific cultural factors and CEO leadership characteristics are associated with the CSR values of top management team members. They focus their attention on two cultural dimensions: institutional collectivism and power distance. Institutional collectivism is defined as the extent to which a society rewards and emphasizes collective action and resource distribution, as well as group performance and rewards. Power distance refers to the degree to which individuals in a given country believe in an unequal distribution of power. A high power distance culture is one in which the hierarchy between superiors and subordinates is extensive, customary, and legitimate.

Their empirical analysis is based on data from the Global Leadership and Organizational Behavior Effectiveness or GLOBE project (House, Hanges, Javidan, Dorfman, & Gupta, 2004). The GLOBE data contain information on cultural variables and CSR values for 561 firms located in 15 countries on five continents. The authors find that institutional collectivism and power distance, as well as CEO visionary leadership and integrity, are strong predictors of CSR values.

Bryan Husted and David Allen assess the relationship between global CSR and local or country-specific CSR and international organizational strategy. This is another useful extension of theoretical and empirical research on the strategic aspects of CSR to MNEs. A novel twist of the paper is that it applies the strategic logic of the Bartlett and Ghoshal (1989) to the domain of CSR. Bartlett and

Ghoshal (1989) developed a typology of MNEs (multidomestic, transnational, and global), which implies that MNEs should respond to the competing pressures for global integration and local responsiveness to key stakeholders. On the other hand, institutional theory implies that MNEs will adopt the same product-market organizational strategy (multidomestic, transnational, global) for their CSR activities. Thus, Husted and Allen essentially provide a test of whether institutional theory or a specific type of strategic theory of CSR has more explanatory power with respect to MNE behavior.

Their empirical analysis is based on a firm-level dataset of MNEs operating in Mexico. In contrast to some of the empirical work cited earlier, they find that institutional pressures, rather than strategic factors, have greater explanatory power with respect to MNE Another key finding of their study is that each type of MNE appears to perceive <u>global</u> CSR issues (e.g., environmental social responsibility) as being important. However, multi-domestic and transnational MNEs emphasize <u>country-specific</u> CSR more than global MNEs do. Thus, consistent with institutional theory, it appears that CSR may conform to MNE organization strategies adopted for product market activities.

Vanessa Strike, Jijun Gao and Pratima Bansal suggest that firms can simultaneously be socially responsible and socially irresponsible. A good example of this phenomenon is Philip Morris, which is actively involved in social responsibility, while also producing a product (tobacco products) that most individuals perceive to be socially irresponsible. Based on the RBV framework, the authors also assess whether international diversification affects the propensity of firms to be socially responsible and socially irresponsible. Specifically, they assert that firms diversifying internationally create value by acting responsibly and destroy value by acting irresponsibly. Their empirical evidence, which is based on data from 222 U.S. firms, is consistent with each of these assertions.

Petra Christmann and Glen Taylor assess the factors that influence firm-level decisions by MNEs to be environmentally socially responsible and the extent of "investment" in this activity. The specific type of environmental social responsibility that is analyzed is ISO 9000, a set of international certifiable management standards. An interesting aspect of this activity is that it constitutes a governance mechanism for environmental self-regulation and therefore, can be a means of forestalling additional environmental regulation. This, of course, raises the specter that firms may engage in this activity for strategic reasons.

The authors conjecture that adopters strategically choose their level of compliance depending on customer preferences, customer monitoring, and expected sanctions by customers. Their empirical analysis, which is based on data from ISO certified firms in China, is consistent with view. These data also allow the authors to distinguish between substantive implementation and symbolic implementation. The key results are that suppliers are more likely to choose substantive implementation, as opposed to symbolic implementation, if customers place high importance on an issue, monitor their suppliers directly, possess monitoring capabilities, and do not rely on third-party certification in selecting their suppliers. They also report that the likelihood and cost of sanctions contributes to substantive standard implementation by suppliers.

Conclusions: Lessons and new directions

Multinational enterprises operate locally in multiple countries around the world and globally as an international organization. As local residents, they must respond to each country's rules and institutions, adapt to diverse socioeconomic conditions, and respond to multiple stakeholders. Not surprisingly, from time to time, the goals and activities of MNEs come into conflict with local or national requirements or expectations. Relations between international business and local society, by definition, are multi-layered and complex, fraught with potential pitfalls and tensions (Eden and Lenway, 2001). At the same time, international institutions such as the OECD and United Nations are pressuring MNEs to adopt harmonized or common standards of conduct in areas such as anti-bribery, taxation, environment, and corporate social responsibility. The purpose of this Focused Issue was to explore the commonalities and differences in MNE-societal relations through the three lenses of politics, corruption and corporate social responsibility. We hope that this project contributes to and stimulates further work by international business scholars in the years ahead.

Table 1

Selected Theoretical and Empirical Papers on Politics

Author(s)	**Nature of Theoretical Perspective(s)**	**Key Argument/Result**
Boddewyn (1993) Boddewyn & Brewer (1994)	Resource-Based View of the Firm	Political competencies such as better intelligence about, access to, bargaining skills, and coalition building, important to competitive advantage.
Boddewyn (1988) Rugman & Verbeke (1990)	Industrial Organization Economics	The government should be added as a “sixth force” within Porter’s Five Forces model and political strategy a new “generic”
Hillman & Keim (1995)	Institutional theory/political economy	Differences in institutional arrangements (both formal and informal institutions) affect nature of business-government interactions.
Mahon & McGowan (1998) Bonardi, Hillman & Keim (2005)	Industrial Organization Economics	The “attractiveness” of political markets can be modeled using similar tools to Porter’s Five Forces.
Hillman & Keim (1995) Bonardi, Hillman & Keim (2005)	Political economy	Public policy arenas in non-totalitarian regimes can be conceived of as a market with demanders and suppliers
Luo (2001)	Cooperative Strategies	MNE-host government relations as cooperation.
McWilliams, Van Fleet & Cory (2002)	Resource-Based View	Raising rivals’ cost through political strategy can affect competitive advantage in the market.
Hillman (2003) Hillman & Wan (2004)	Resource-based view and Institutional Theory	Both firm level (RBV) and institutional level (institutional theory) affect the choice of MNE political strategies.
Blumentritt (2003)	Resource-dependence theory	Dependence of MNE subsidiary on host country government and other factors will affect choice of political strategies.

Table 2

Selected Theoretical and Empirical Papers on Corruption

Author(s)	**Nature of Theoretical Perspective(s)**	**Key Argument/Result**
Habib & Zurawicki (2002)	OLI Paradigm	FDI flows into a country are reduced by the difference in measured levels of corruption between home and host country.
Wei (2000)	Theory of the Firm	Variations in measured levels of corruption reduce FDI levels by as much or more than variations in corporate tax rates.
Henisz (2000)	Transaction Cost Economics	Both entry decisions and the level of ownership are influenced by the ‘unexpected’ level of corruption, which may increase foreign entry.
Husted (1999)	Theory of the Firm and Institutional Theory	Cultural characteristics and level of development explain variations in country-level measures of corruption
Djankov et al. (2002)	Theory of the Firm	Corruption results from the burdens of state regulation of the entry/creation of new firms and coincides with the existence and growth of the informal economy
Doh et al. (2003)	Institutional Theory and Transaction Cost Economics	Firms employ a variety of strategies, from market avoidance and adaptation of entry mode to social contributions and political strategies, to cope with the level and nature of local corruption.
Rodriguez et al. (2005) Uhlenbruck et al. (2006)	Institutional Theory	The nature of corruption determines firms’ strategic choices. The entry mode choice is influenced by local corruption’s pervasiveness (i.e. the likelihood of likelihood of encountering corruption) and arbitrariness (i.e. the inherent degree of ambiguity associated with corrupt transactions).
Smarzynska and Wei (2000)	Theory of the Firm	Corruption both lowers the flow of FDI and shifts the ownership structure towards joint ventures.
Svensson (2003)	Theory of the Firm, Rational Choice Theory	Cross sectional variation in the incidence of bribery depends positively on its ability to pay (i.e. it’s current and expected profitability) and negatively on it’s ability to refuse payment (i.e. relocate operations)
Robertson & Watson (2004)	Theory of the Firm	The more rapid the change in the level of FDI the higher the level of corruption. Characteristics of national culture associated with higher levels of corruption.

Table 3

Selected Theoretical and Empirical Papers on Corporate Social Responsibility

Author(s)	Nature of Theoretical Perspective(s)	Key Argument/Result
Hart (1995)	Resource-Based View of the Firm	For certain companies, environmental social responsibility can constitute a resource or capability that leads to a sustained competitive advantage.
Russo and Fouts (1997)	Resource-Based View of the Firm	For certain companies, environmental social responsibility can constitute a resource or capability that leads to a sustained competitive advantage. There is a positive relation between environmental performance and financial performance.
McWilliams and Siegel (2000)	Theory of the Firm	CSR is matrixed into business and corporate-level strategies. There is a neutral relation between CSR and profitability
Hillman and Keim (2001)	Resource-Based View of the Firm	"Stakeholder Management" CSR is positively correlated with shareholder wealth creation (market value added); "Social Issues" CSR is not
Baron (2001)	Theory of the Firm	The use of CSR to attract socially responsible consumers is referred to as strategic CSR, in the sense that firms provide a public good in conjunction with their marketing/business strategy
Feddersen and Gilligan (2001)	Theory of the Firm	Activists and NGOs can play an important role in reducing information asymmetry with respect to CSR on the part of consumers.
McWilliams and Siegel (2001)	Theory of the Firm	Presents a supply/demand perspective on CSR, which implies that the firm's ideal level of CSR can be determined by cost-benefit analysis.
McWilliams, Van Fleet and Cory (2002)	Resource-Based View of the Firm	CSR strategies, when supported by political strategies, can be used to create sustainable competitive advantage.
Waldman, Siegel, and Javidan (2006)	Theory of the Firm/ Strategic Leadership Theory	Certain aspects of CEO leadership can affect the propensity of firms to engage in CSR. Companies run by intellectually stimulating CEOs do more strategic CSR than comparable firms
Siegel and Vitaliano (2006)	Theory of the Firm	Firms selling experience goods are more likely than firms selling search goods to be socially responsible; Firms selling credence services are the most likely to be socially responsible

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Endnotes

[1] The eight questions are: 1) What is corruption? 2)Which countries are the most corrupt? 3) What are the characteristics of countries with high corruption? 4) What is the magnitude of corruption? 5) Do higher wages for bureaucrats reduce corruption? 6) Can competition reduce corruption?   7) Why have there been so few (recent) successful attempts to fight corruption? 8) Does corruption adversely affect growth?