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

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

Introduction

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

This article extends the domain of CSR research into the realm of the politics, theorizing that the nature of the domestic political institutions in a company’s home market might be a useful potential explanatory variable in determining whether and how that company might pursue CSR. Several theoretical ideas are offered. First, at the tactical
level, the structure of domestic political institutions might influence whether NGO efforts are likely to engender formal government intervention. Second, domestic political institutions can also establish or discourage the requisite legitimacy managers need to pursue such strategies. This in turn might condition how strong managers’ commitment to CSR will be. In sum, the article argues that the political conditions and legacies that condition a company’s home market will influence what its overall commitment to CSR will be. These theoretical arguments can suggest empirical directions other researchers might choose to pursue.

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

Globalization and corporate social responsibility

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

This process has, however, not gone entirely unopposed (Greider, 1997; Hertz, 2001; Klein, 2001). In an age, in which the economic size of the largest MNCs exceeds that of many countries1, there has emerged critical, theoretical, and empirical work outlining what Eden and Lenway (2001) have termed the “dark side” of globalization. This literature criticizes the economic imperative driving globalization, arguing that it inflicts severe damage on local cultures, the environment, and political autonomy. Risking simplification, its proponents claim the following. First, MNCs have become adept at exploiting the “governance gaps” that exist between weakening state and fledgling international regulatory frameworks, allowing them to operate essentially free of regulatory oversight. Second, because relentless market logic drives companies to continuously lower costs, they consequently seek production sites where operating costs are low and the regulatory burden light. Investment-hungry states are thereby forced to lower their regulatory costs if they wish to attract MNCs: creating a mutually reinforcing “race to the bottom” in regulatory standards. Third is the problem of sovereignty infringement: national governments that desire economic development have few options other than to allow MNCs to adopt whatever production strategies they prefer, despite the damage such strategies might inflict on local industries, cultural norms, and religious values. To summarize, critics argue that the drive to globalize markets can overwhelm existing governance mechanisms to manage it (Greider, 1997; Korten, 1996; Moran, 2002; Murphy, 2004; Ohmae, 1995; Wolf, 2004; Yergin and Stanislaw, 1998).

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