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Theorising Transnational Corporations as Social Actors: An Analysis of Corporate Motivations

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***Abstract**: An increasing number of firms are engaging in social and environmental initiatives beyond their core business activities. While much has been written on the question of why business should be spending resources on social and environmental causes, relatively few studies have systematically addressed the question of why companies actually do engage in such activities. A notable exception is literature on the 'business case' for corporate social responsibility, which argues that good social and environmental performance will positively affect a company's financial results. Empirical evidence, however, has failed to prove this. Moreover, even if there is an economic rationale, it is not clear why some companies engage in social activities while others do not. And, why do many more companies today 'see' the business case than in the past? Our paper attempts to conceptualise the motives of companies to engage or not to engage in such activities. Drawing on theories from Management Studies, Sociology, Political Science and International Relations, we suggest modifying the notion of the business case by opening the black box of the corporation's identity as a social actor.*

1. *Introduction*

Why do transnational corporations (TNCs) engage in voluntary social activities[4] and how can we theorise about this? In recent years, the number of TNCs has increased considerably and their operations have spread rapidly around the globe. This expansion lies at the heart of many debates about the social and political implications of globalisation. While some see TNCs as agents of development and progress who create jobs, technological know-how and management experience and, at times, even substitute for weak government, others argue that TNCs have skewed development in many parts of the world and weakened states' abilities to harness potential benefits of economic globalisation. It is suggested that global competition has given TNCs power to dictate the conditions under which they operate and detracted from the ability of states to tax, regulate and direct investment to areas that will be socially beneficial (Reich 2007; Held and Koenig-Archibugi 2003). TNCs are blamed for exploiting people and resources and are sometimes even held responsible for the persistent inequality across and within countries. Yet, there is significant evidence that TNCs often engage in a variety of social and environmental endeavours that aim to and often do positively impact the societies in which they operate. This paper seeks to explain the complex motivations for TNCs' social activities and proposes that understanding motivations provides important insights into the boundaries and possibilities of such activity for addressing social issues.

Our main contribution in this paper is to map the theoretical terrain and categorise the various existing explanations for corporate social engagement. In the past decade, corporate social activity has attracted growing attention in the academic literature. Besides critical-normative

[4] Voluntary social activities, as referred to in this paper, are concerned with the welfare of companies' employees, their families, the community and larger society and environment in which they operate. Such activities include the implementation of labour standards, health and safety provisions, environmental protection, upholding human rights, providing housing, healthcare and education. They can be undertaking either directly and be limited to the firm level or indirectly through participation in governance schemes. Our definition covers forms of corporate social engagement that are not required by law – either because a legal obligation does not exist or is not enforced, as in many developing countries. We explicitly do not use the term CSR, partly because it suffers from a lack of clear definition, and partly because the term 'responsibility' conveys the notion of an obligation. Our analysis does not take a normative angle but investigates companies' motivations to engage in social activities.

or descriptive-evaluative work on TNCs (Friedman 1970; Jensen 2002; Porter and Kramer 2002; Prahalad and Hammond 2003), scholars in the fields of international relations (Hauffler 2003; Ruggie 2004; Boerzle and Risse 2005; Haslam 2007), international political economy (Strange 1994; Pauly 1997; Mattli 2001; Levy and Newell 2005; May 2006), economic sociology (Gereffi 1996, 1994; Vogel 2006), international law (Leader 2001, 1999, 1995; Sanders 1982) and management studies (for reviews on the literature, see Margolis and Walsh 2003; Orlitzky et al. 2003) have contributed to a growing literature on this subject.

The different disciplines take different approaches to the study of TNCs' social activities. Scholars from management studies have taken a firm-level perspective and distinguished between 'strategic' and 'moral' drivers of corporate social engagement (Branco and Rodrigues 2006; Graafland and van de Ven 2006). In a comprehensive review of the literature on CSR, Margolis and Walsh (2003) find that factors other than financial performance have been largely ignored. Also, Lee (2008: 53) argues that "future research needs to … develop conceptual tools and theoretical mechanisms that explain changing organisational behaviour from a broader societal perspective." International relations and international political economy scholars have investigated TNCs' role in shaping international politics and the design and implementation of global governance arrangements (see Ruggie 2004; Gereffi et al. 2001). This literature conceptualises the TNC as a black box, motivated by profit maximisation and constrained by its market and regulatory environments. Campell (2007) notes the need for more theorising on corporate motivation. In doing so, we add to the existing literature on the political economy of corporate responsibility, which has given limited attention to the question of motivation in a broad perspective (Campbell 2007; Rowley and Berman 2000).

Our main contention is that the motivations of corporations to engage in social activities can be fully understood only by evaluating the internal and external environments in which firms operate, and by combining a focus on particular agents of change with an understanding of the structural factors that impact their actions and decision-making. We start by identifying variables to explain corporate social engagement along two dimensions – external versus internal factors and agent versus structure. We develop a matrix that draws upon literature on social activities of firms in multiple disciplines, including economic sociology, organisation theory, management, political science and international relations. This paper critically evaluates each set of explanations, and argues that none on its own sufficiently accounts for the timing, scope and nature of corporate social activity. Instead, we contend that a full understanding of corporate behaviour requires comparative analyses that bring together all four dimensions of motivation.

Developing an alternative approach to the study of TNCs is only meaningful if it produces new insights and guidance for future research. We argue that the approach we develop in this article enhances current debates in the field in at least three ways: First, it offers a perspective on TNCs as social actors rather than focussing solely on their economic activities. Secondly, strengthening the theoretical basis for studying the social behaviour of firms opens up new insights and opportunities for research in the field of business-government relations and public-private mixes in policy and regulatory arrangements. Finally, we argue that it is useful to more fully exploit the terrain of available theoretical approaches to explaining TNC behaviour because each approach captures different dimensions of corporate motivation. This perspective opens up new areas of research, such as the possible link between corporate motivation for social engagement and its contribution to broader social development. We suggest that our matrix can be used as a tool to further evaluate the nature of motivation, and to assess how particular motivational factors impact the depth and ultimate outcome of TNC social activity.

The remainder of the article is structured as follows: Section 2 provides an overview of various forms of corporate social engagement and outlines different forms of corporate social activities. The following section maps out various theoretical approaches to explaining firm behaviour organised along the internal/external and structure/agency dimensions described above. Here we highlight the strengths and limitations of each theoretical approach in explaining TNC behaviour and the interconnections between them. Section 4 develops our proposed approach to studying corporate motivation for social engagement. In conclusion, we speculate that different triggers for social engagement might result in different social effects and we suggest that aligning motivation and outcomes could be the basis for fruitful future research.

2. Modes of Corporate Social Engagement

The number of TNCs has increased from about 37,000 in 1990 to 63,000 in 2002 (Chandler and Mazlish 2005: 2). At the same time, their activities have spread widely across the globe, connecting with millions of smaller firms that supply to or connect with their work. A number of TNCs have been active in social initiatives. While only a small percentage of TNCs participate in large-scale social and environmental certification schemes and in multi-stakeholder initiatives (Utting 2005), more than 2,900 TNCs are members of the Global Compact (Berger, Cunningham and Drumwright 2007) and an increasing percentage of TNCs in the Fortune 500 and other indices engage in some form of social activity (KPMG 2008; Economist 2008: McKinsey 2008).

From a historical perspective, corporate social engagement is not new. In the early days of the Industrial Revolution in Europe and North America firms provided housing for their workers and contributed to financing local schools and hospitals. With the emergence of politically organised labour movements, an increasing number of firms also adopted labour standards concerning work hours, minimum wages and child labour. Similarly, some large firms operating in the colonies and later in the independent states of sub-Saharan Africa, Asia and Latin America sometimes provided housing and basic healthcare for their workers (see, for example, Ritter 1998; Fraser 1984).

With the emergence of the welfare state in Europe and North America, the provision of basic social services and the regulation of labour standards came to be seen as largely the responsibility of the state. Corporate social engagement never disappeared, but its form in most industrialised countries changed from direct responsibility for worker and community well-being to a philanthropic focus. Increasingly, philanthropy has come to be used strategically as a form of social investment (Baron 2001; Porter and Kramer 2002). For instance, firms use donations to catalyse or complement business activities either in the ways discussed above, through investments in health or education, or via strategic marketing in which a percentage of revenues are donated to a particular cause (WEF 2006).

Apart from firms' engagement in activities related to the wellbeing of their workforce, a rather new phenomenon is corporate social engagement via companies' participation in private and/or public-private governance schemes at the national and transnational levels (Falkner 2003; Mattli 2003; Gulbrandsen 2004). One example is the use of Corporate Codes of Conduct (CoCs), which many TNCs have adopted in areas ranging from labour practices to environmental standards. Some CoCs have been developed by individual TNCs that try to implement them not only across their global network of subsidiaries but also along their chain of suppliers. In other cases, CoCs have been formulated by industry associations that encourage their member companies to adhere to these principles and, in a few cases, have even made their adoption mandatory. Other sources of CoCs are international organisations (IOs) and non-governmental organisations (NGOs), which have then invited companies to join (O'Rourke 2003). A variant of CoCs are certification and labelling schemes that exist for various areas of corporate social and environmental performance. Like CoCs, certification and labelling schemes have been developed by business actors, such as industry associations, NGOs, and sometimes in a collaborative effort. Neither CoCs nor certification schemes are legally binding, but certification schemes usually require that compliance is monitored. The extent and quality of monitoring, however, varies considerably and rarely involves the state (Brown and Locke 2008; Lim and Philips 2008; Locke et al. 2006).

In addition, a growing number of firms also engage in social activities through so-called Public-Private Partnerships (PPPs) with governments and IOs (WEF 2006). Such partnerships operate on local, national, regional and global levels and have been initiated both by the private and the public sector. Usually, they are formed to address a specific problem, such as the lack of infrastructure, the HIV/AIDS pandemic or the illegal trade in diamonds from areas of civil conflict. Such initiatives are promoted as an effective way to create synergies and combine critical resources, such as financial resources, technical expertise, local knowledge and enforcement capabilities.

What all of these practices have in common is that the firm assumes a role beyond that of a purely economic actor, engaging more broadly in social and also some political activities that have significance for its stakeholders and the broader communities in which it operates. It is this role that has grown and taken new forms in the late 20th and early 21st century. Attempts to explain this phenomenon have focused largely on the 'business case' for such engagement. Definitions of the 'business case' vary, but the basic idea is that a firm's social engagements should align with and enhance its primary business activities. The roots of this argument can be found in neoclassical economic theory, with its assumption of rational action and profit-maximising motivations. The 'business case' also answers the concern of sceptics of corporate responsibility who take the position of Milton Friedman that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game" (Friedman 1962: 133). As we argue below, however, we see individuals in firms and firms themselves as being motivated by various factors in addition to profit maximisation.

The conceptualisation of the organisation inherent to the 'business case' argument is not necessarily the only one. Other theorists view corporations differently (see Brown and Fraser 2006); as quasi-public institutions with responsibilities to stakeholders. From this perspective, firms' motivations are rooted in much broader considerations than just bolstering the bottom line. If firms truly involve stakeholders and are open to addressing their concerns, it is likely that social engagement will conflict at some point with shareholder value. Indeed much of the research on the 'business case' finds that profitability and social action are not always easy to reconcile (Vogel 2005). Finally, the 'business case' itself does not account fully for the timing of the 'rise' of corporate social engagement, or the wide variation in the scope and depth of different corporations' actions. For these reasons, we need to understand more than the 'business case' to fully grasp the social behaviour of firms.

3. Theorising Social Engagement of Transnational Corporations

What then can explain TNCs' social engagement? Scholars from various disciplines have tried to answer this question; each of them presents a unique set of variables and theoretical approaches. We suggest that the different approaches to the study of corporate motivation can be classified along two dimensions: (1) whether they locate the cause of TNC behaviour inside or outside the firm, and (2) whether they trace the cause of TNC behaviour to structures or agents. Depending on which perspective one chooses, different language is used, different assumptions are made, different questions are asked and problems dealt with and different causes for TNC behaviour are emphasised. Mapping theories along these lines creates a 2-by-2 table (see Table 1 below), which summarises our categorisation of potential motivations for corporate social behaviour. Each box in the table denotes the set of variables that are emphasised by the different disciplinary 'lenses', i.e. political sciences (I), IR and governance studies (II), organisational theory/sociology (III) and management studies (IV). The table illustrates that numerous variables possibly impact corporate social behaviour. In the following paragraphs, we probe these variables further, elaborating how they explain motivations and what a narrow perspective on any one dimension overlooks.

Table 1: Four sets of explanations of Corporate Social Engagement

	Structure	*Actors*
External	Competitive Landscape National Institutions Global Institutions Public Norms **I**	Pressure from NGOs Pressure from IOs Actions of competitors and business partners **II**
Internal	**III** Organisational Structure Corporate Culture Nature of the firm's business	**IV** Managers' values/beliefs Manager's leadership abilities

3.1 The Global Economic and Normative Context

TNCs' behaviour is influenced by the economic, political and cultural contexts in which they operate. A number of recent studies have evaluated how national context impacts the depth and nature of corporate social engagement (Aguilera et al. 2006; Bondy et al. 2004; Welford 2004; Maigan and Ralston 2002). Most of these studies find a significant difference in the behaviour of firms emanating from different countries or regions. The variation is explained through differences in culture and political and legal institutions; such as the laws on corporate governance, for example (Beltratti 2005; Aguilera and Jackson 2003). Other studies have emphasised community level factors, with isomorphism as the main mechanism transferring values across to corporate leaders (Marquis et al. 2007). Campbell (2007) emphasises that corporate behaviour is not a direct response to their economic environment but mediated by institutional factors, including regulation, the presence of independent monitoring organisations, institutionalised norms and expectations about corporate behaviour, associative relations between firms, and institutionalised stakeholder dialogue.

In addition, there is evidence to suggest that increased corporate social activities may be linked to globalisation (Scherer and Palazzo 2007; Davis et al. 2006). We see three ways that globalisation may structure the social behaviour of firms. First, globalisation has contributed to the geographical expansion of TNCs to places that are characterised by severe social problems and the absence of institutions to resolve them. In some cases, corporate social engagement appears to have been a reaction to this situation. Secondly, globalisation has in many ways strengthened the power of TNCs vis-à-vis states, which has placed them in a position that they are called upon to make political and social decisions. Third, the global expansion of trade has spurred transnational social movements which pressure corporations to take on greater responsibility for the social and environmental consequences of their operations, especially in the developing world. These three phenomena have put an increasing number of corporations in a position where they need to respond socially and politically (Scherer and Palazzo 2007).

In many locations where TNCs operate today they encounter problems such as profound poverty, social instability or health epidemics such as HIV/AIDS or malaria. In addition, they are often faced with weak or unfamiliar institutional environments (Khanna and Palepu 2005). In some cases, these problems pose a direct risk to the firm, for instance if it relies on a consistent labour force, regional suppliers or local markets. Under these conditions, firms may view social action as a key component of their non-market strategy (see Porter and Kramer 2002). Sometimes, social activities may be the response to more indirect threats, including reputational risks and unsafe working conditions for ex-patriot staff. The globalized economy requires firms to balance opportunities and pressures to expand with the challenges posed by the severe social and environmental problems and institutional voids that exist in many of the places they go.

Globalisation has not only compelled the geographic expansion of the firm, but has also changed the range and extent of state activities in the economic and social sphere (see Campbell 2007). This is significant for understanding firms' social activities because it may be argued that the lesser states do to address market externalities, the greater the sphere of activity left to the firm. This is not to suggest that this is a zero-sum game; but state withdrawal opens a space where firms or other non-state actors may feel that they need to step in, substituting self-regulation for state regulation. Indeed, the growth of corporate social engagement in recent years has gone hand in hand with deregulation movements in both the developed and the developing world; and with corporate expansion of firms to areas of the world where states are characteristically weak. This is illustrated for example in the case of labour rights. Poor working conditions in developing countries have very often been seen as the responsibility of TNCs. Indeed in many known cases, governments have not even been targeted by critics to address these issues, but corporations such as Nike or the Gap have. In these cases, it has been the co-existence of weak governance and business rationale that gave rise to social initiatives. It has even been argued that history points to an ebb and flow of corporate social engagement, with corporations assuming more responsibility in the early period of industrialisation and increasingly less as the regulatory state emerged (Mathis 2005; Wilkins 2005, 1998).

The extent to which states have actually withdrawn from social and environmental activities as a result of globalisation is a contentious issue. Some argue that open capital and trade flows require states to lower taxation and regulatory impediments to investment and competition (Friedman 1999; Strange 1996; Ohmae 1995). From this perspective, the sphere of state activity is becoming inevitably smaller as internationalisation proceeds. Others argue that states have minimized their regulatory and welfare roles in economies for ideological reasons more than from compulsion. Deregulation in this perspective is a set of political choices largely made by leaderships that embrace market liberalisation as optimal policy (Standing 2002; Ferge 1999; Albert 1993). Still others argue that the decline of the state in globalisation is neither inevitable nor desirable (Chang 2003; Rodrik 1998). Evidence exists to show that states in the OECD have in fact ‘withdrawn’ from regulatory and welfare activities to different extents and selectively over time (Swank and Steinmo 2002; Garrett 1998). In the developing world, the situation is far more complex. Competition for foreign investment combined with political pressure has often compelled deregulation and, in many instances, driven down rates of taxation to below zero (Koenig-Archibugi 2004; UNCTAD 1995: 291ff .; McKenzie and Lee 1991). It does not necessarily follow from this, however, that corporations will ‘step in’ to fill in where states are no longer active. This would only occur where market externalities are problematic for the firm and to understand this we need to evaluate the business case or leadership motivations that structure corporate responsibility endeavours.

States, however, are not completely without power in the global system, and the actions and potential actions of governments can still significantly impact corporate behaviour. What states have that other actors in the international system do not have is sovereignty. Abbott and Snidal (2006) for instance try to answer the question of governments’ obsolescence with regard to TNCs. They argue that the state “continues to play a significant, though modified, role: increasingly the state operates not through coercion, but through leadership, coordination, legitimation and support; it performs these functions not in the foreground, but in the background.” (ibid.) States can enact laws on human rights, finance, trade and investment. Some countries seem to pay more attention to CSR than others; such as the UK which has a CSR public official. Moreover, the possibility that governments will employ sovereignty to regulate is often perceived as a motivation for some firms for pre-emptive initiatives (Scheinberg 1999).[5]

Globalisation has also entailed a normative shift that has at once empowered corporations and given rise to demands for corporate social engagement. TNCs are the primary drivers of and winners from globalisation. This fact not only elevates their power but also widens the domain for which corporations may be held responsible. Furthermore, as globalisation has proceeded, the negative consequences of economic opening have become apparent. Inequalities and inequities in the current order of globalisation constitute the broad focus of

[5] In the context of the neocorporatism literature, this is called the “shadow of the hierarchy” (Mayntz and Scharpf 1995).

the ‘anti-globalisation’ movement and of more moderate proponents of reform. From one perspective, the rise of social movements calling for a more just process of globalisation can be seen as a direct outcome of globalisation itself. Ruggie (2003), for example, draws on Polanyi’s notion of a ‘double movement’ to explain emerging calls for more global social justice. Polanyi argues that the attempt to increase the role of self-regulating markets impels society to seek protection specifically from national governments (Polanyi 1944/2001). Ruggie, describing the growth of the regulatory state in post-war Europe (Ruggie 1982), accepts that globalisation in the late 20th century has rendered states less able to protect society from the vicissitudes of the market. Thus society calls upon the new power holders, corporations, to address the social and environmental ills that open markets have created. However, the McKinsey Social Responsibility survey (2006) suggests that global ‘norms’ of corporate social behaviour have not yet emerged.

While these factors – the global expansion of corporate activity, the weakening of states and the growth of global social pressure – all provide motivations for firms to socially engage, they cannot alone explain the extent and nature of that engagement. In reality, firms exposed to a very similar external context differ with regard to their social activities. Shell, for example, takes a comprehensive approach to community development when it extends to a country where there is weak governance and minimal infrastructure, but other firms take a much narrower approach to engaging communities where they invest. A recent survey by the *Economist* found ‘leaders’ and ‘laggards’ on CSR, with plenty of the latter (Economist, 17 January 2008). The numerous ratings of companies on responsibility measures also show significant variation across firms in similar sectors with a like amount of global exposure; Kinder, Lydenberg, Domini Research & Analytics (KLD) is one example of a respected rating group. Explanations to why firms respond differently to similar social, environmental and political challenges may be found by focussing on firm-level factors, such as organisational routines, the nature of the business the firm operates in, corporate culture, and the personal values and beliefs of key decision makers within the firm. Another set of explanations may be found by investigating whether and how external structural conditions are taken up by stakeholders of the firm, including NGOs, investors and IOs, for instance, who use their respective positions to put pressure on the firm.

Conventional political science and IR literature looking at the role TNCs play vis-à-vis the state and in influencing global regulatory structures explains firms' motivation to engage in these processes often by drawing on structural factors, such as changes in the global economy and the distribution of power between states and corporations. However, structural conditions induce behavioural responses only if they are taken up by individuals or groups and translated into action. Studies that seek to explain the social behaviour of TNCs as a response to external conditions therefore need to combine structural approaches with theoretical lenses that illuminate the role of actors.

3.2 External Actors

Among the many external actors that influence TNCs social engagement are states, IOs, NGOs and transnational advocacy networks, and socially responsible investors. They are part of an emerging system of global governance, conceptualized as "formal and informal bundles of rules, roles, and relationships that define and regulate the social practices of state and non-state actors in international affairs" (Mattli 2001: 332). IR and governance studies attempt to understand TNC social engagement by looking at the distribution of power in the global governance system and in particular the impact NGOs and IOs have to hold TNCs accountable. Hall and Biersteker (2002) for instance argue that boundaries between the domestic and the international arenas are blurring and a growing number of non-state actors have appeared in the international system. Gereffi et al. (2001) have stressed the power of NGOs in naming and shaming TNCs for socially irresponsible behaviour. Abbot and Snidal (2006) develop the concept of a "governance triangle" of firms, NGOs and the state (including IOs).

The number of NGOs, their geographical reach and their participation in the formulation and implementation of global governance have risen significantly throughout the last decade (Boli and Thomas 1999; Fox 1998). According to Sikkink and Smith (2002), there are more than 30,000 NGOs which operate international programmes. Governments and IOs increasingly rely on NGOs to deliver humanitarian aid and development assistance. The World Bank for instance employs former NGO members and activists for their particular expertise (Vetterlein 2007; Davis 2004; Fox 1998). This has increased their capacity to affect corporate behaviour. These developments allow NGOs to actively participate in development policies. Being part of operational activities means having a certain degree of decision-making power rather than just voicing critique. Private transfers and donations to the developing world are also channelled through NGOs. For example, Lindenberg and Bryant (2001) find that in the fiscal year 1998, twelve large INGOs disposed of about $3 billion and more than 27,000 staff worldwide. As Gereffi (2001) points out, NGOs have now become increasingly pro-active in naming and shaming corporations and act as policy entrepreneurs for global social matters (Gereffi 2001). At the same time, they also collaborate with firms to address social and environmental problems, for example through the provision of consultancy services, especially in developing countries (interviews in Bangkok, September 2007).

Among the best-known public campaigns by NGOs against TNCs are Coca Cola and its HIV/AIDS initiative in Africa (Ruggie 2004), Nike and the sweatshop campaign (Locke et al. 2006; Johns and Vural 2000) or DeBeers and blood diamonds (Bone 2004). However, there is evidence that NGOs' naming and shaming campaigns have not always yielded the desired responses and can therefore not by themselves explain corporate social behaviour. In fact, public campaigns seem to be effective mainly if the targeted companies are sensitive to their public image. The reason for this is that consumers have been found to pay increasing attention to where, by whom and under what conditions the product has been produced (Heidkamp et al. 2007), which makes companies with direct consumer-facing and especially those with brands to protect particularly sensitive to NGO campaigns. While the activities of advocacy groups have been an important factor in shaping TNC social behaviour in individual cases, we have to include firm-level factors such as the nature of the business the company works in, in order to provide explanations that go beyond individual case studies and to account for variation between firms.

Similar to NGOs, IOs have an impact on corporate reputation to affect TNC social behaviour. Their position as inter-governmental organisations does not allow IOs to directly engage in naming and shaming campaigns. However, they are endowed with a certain amount of authority and legitimacy regarding policy agenda setting (Barnett and Finnemore 2004, 1999). IOs have used their authority as representatives of the international community as well as their technical expertise to shape the normative context in which TNCs operate including by developing benchmarks for appropriate social and environmental behaviour. Examples are the *International Labour Organisation's* Multinational Enterprises Programme (MULTI), the OECD's guidelines for multinational enterprises (OECD 2000) or the *United Nations'* Global Compact (United Nations 2000). In some cases, IOs are able to exercise economic leverage over firms. For example, the International Finance Corporation (IFC), the only body of the World Bank Group mandated to formally engage with the private sector, attaches conditions to its loans, including social and environmental standards (Park 2005).

However, with few exceptions, the monitoring and enforcement capacity of IOs is weak and their ability to shape corporate social behaviour dependents on their ability to frame the terms of the international debate and thereby target firms' concern about their reputation with both the public and policy makers. While such forms of soft power may not always be effective (Koenig-Archibugi 2004: 247f.) they are nevertheless important because they shape the normative environment in which TNCs are embedded. In comparison to NGOs, IOs due to their greater legitimacy may have first a greater potential to shape the normative context of TNCs by political agenda-setting, second more authority in exercising soft power through naming and shaming strategies and third at least theoretically the capacity to enforce norms.

Ruggie's latest report to the *Human Rights Council*[6] that proposes a legalization of corporate responsibility regarding human rights with IOs as the main responsible actors can be seen as a step into this direction (Ruggie 2008). In sum, there is evidence that TNCs' responses to the benchmarking initiatives of IOs have varied greatly both across industries and countries and within them. We suggest that further research in this area focuses on how firm-level factors shape TNCs' susceptibility to such forms of soft power.

A third group of external actors that have exercised significant influence on TNC behaviour is socially responsible investors, which comprise no longer only small, specialised retail funds but increasingly also large institutional investors, such as pension funds and insurance companies (Sparkes and Cowton 2004). The means available to this group to influence TNC behaviour differ from both those usually employed by NGOs and IOs. Investors, particularly the large institutional funds, can directly affect companies' financial bottom line. While there is evidence that socially responsible investors can thereby exercise considerable influence on corporate social behaviour, the relationship is far from straightforward (Collier 2004). There is evidence, for instance, that the outcome is shaped by managers' attitude and perception of socially responsible investment. Managers' attitudes are, in turn, partly shaped by the degree of institutionalisation of socially responsible investment, which differs greatly across countries.

In conclusion, while external actors can exert significant influence on TNCs social behaviour, this factor alone does not provide a sufficient explanation for corporate social engagement. Neither can it explain inter- and intra-industry variation nor the recent rise in corporate social activities. There is evidence to suggest that the outcome is shaped strongly by firm-level factors, including both the nature of the firm's business and managers' orientation and their perception of the legitimacy of socially responsible investment and shareholder activism.

[6] This report was conducted in his position as the Special Representative of the Secretary-General on the issue of human rights and TNCs.

While there is sufficient evidence to suggest that the growing attention paid to the social and environmental externalities of transnational business operations by actors outside the firm has contributed to the rise of corporate social activity in recent years, there are large gaps in our understanding of how exactly different strategies employed by external actors translate into changes in corporate behaviour and, consequentially, which factors account for variation in outcome. In order to answer those questions, a closer look inside the firm is indispensable.

3.3 The Internal Structure of the Firm

A third set of variables to explain corporate social behaviour can be derived from management studies. We hypothesize three ways in which the internal context of the firm can impact corporate social behaviour. First, the organisational structure of the firm determines the degree to which social and environmental concerns become integrated or remain tangential to the main line of business. When social activities are kept ‘siloed’ in an organisation, the effect is often a mitigated degree of engagement. This is illustrated by firms that have implemented codes of conduct requiring suppliers to adhere to labour standards even if costs are increased, but at the same time pressure their internal buyers to shop exclusively for product ‘price’. With regard to the impact of organisational structures and routines, greater attention to insights from the behavioural theory of the firm (Cyert and March 1964) might yield interesting results. Companies that have created organisational routines to deal with social, environmental and political challenges are not only more successful in dealing with them but also more prone to initiate activities. The reason for this is that internal organisational routines facilitate access to information, mitigate uncertainty and thereby facilitate individual decision making and action. As studies on corporate political activities have illustrated, companies that have created institutionalized responses of identifying and responding to political challenges tend to be more actively involved in political affairs (Rehbein and Schuler 1999). The role that internal organisational routines play in facilitating corporate social activities may therefore be a promising direction for future research.

Second, corporate behaviour is shaped by the organisational culture. The concept of corporate culture denotes the set of values, beliefs, policies and practices that shape decision making, action and social relationships between individuals in a company. Different cultures emphasise different values including those related to corporate social behaviour, such as investments in employees and adherence to environmental standards. It is easy to imagine that an organisation such as Ikea, for example, would have a high inclination to engage as a social actor where it invests because of its inherent culture; particularly its values on stake-holders and long term perspective. Arena describes these types of firms as ‘high purpose companies’ (Arena 2006). Berger et al. (2007) found that certain dimensions of corporate culture were linked to specific types of CSR. Firms with comparatively flat hierarchies and participative stakeholder engagement often pursued social activities in a broad range of areas and tried to integrate economic and non-economic rationales for social engagement in their initiatives, a type of CSR labelled ‘syncretic stewardship’ (ibid.). Bhandari and Abe (2001) also show how firms that decide to commit to responsible environmental practices find it necessary to engage in a process of deliberate cultural change. Canon and Toyota for instance (ibid.: 73-74), which provided extensive employee training and internal communications to boost environmental awareness and deliberately change organisational culture toward the ends of better environmental practice.

Third, there is evidence that the nature of the business that the TNC is in is also determinative. As mentioned above, firms that are directly consumer-facing tend to be more vulnerable to public advocacy campaigns. Furthermore, they are also more vulnerable to reputation damage from health concerns related to their products. Since many health problems arise from negligent labour and environmental practices, these firms may have a greater incentive to engage actively in these areas. Taking the lead from the ‘varieties of capitalism literature’, another firm-related factor concerns the skills required by the firm’s production. Firms that depend a great deal on skilled labour will have a greater incentive to invest in labour force retention as well as in broader community efforts focused on education, teacher training, etc. (Mares 2003). Intel in Russia for example has invested extensively in its existing employees and in building up a workforce for the future in Russia.[7] But it appears to not just be the 'business case' that inspires Intel; the support it receives from government suggests that its activities contribute to its license to operate. Moreover, Intel promotes its activities as CSR to enhance its reputation as a global organisation, and is hence clearly responding to the types of external pressures described above. Finally, the nature of the business also determines the extent of social and environmental externalities a firm creates. Extractive and chemical industries have to undertake much greater health and safety efforts in order not to expose their employees and surrounding communities to serious risks than the publishing or financial industries, for instance.

The firm level structures described here become significant explanatory variables only in combination with factors outside the firm. For instance, direct consumer facing becomes a significant driver for social engagement only if there exists some awareness among consumers about methods of production and health risks. Furthermore, the impact of such structural conditions on corporate behaviour may be significantly facilitated by external actors, such as advocacy and consumer organisations, who mobilise consumers and policy makers and therefore put pressure on TNCs to adjust their behaviour. Furthermore, firm level structures are the direct result of individual actions within the firm. Company employees and senior managers in particular influence corporate culture and the establishment of organisational routines. As will be illustrated in the next section, theoretical approaches focussing on the role of internal actors therefore shed light on another set of important variables to explain corporate social behaviour.

3.4 Internal Actors

[7] http://www.intel.com/community/russia/index.htm

The fourth set of variables is theoretically located in organisation theory and focuses on actors *within* the corporation, i.e. the company management and operational staff. These actors are important to explain corporate social behaviour since decisions regarding such activities are made by individuals within the company (Collier and Esteban 2007). Empirical studies document that formal ethics policies were ineffective if they were not supported by leaders of the organisation, both on the executive and supervisory level (Trevino et al. 1999). Yet, despite numerous anecdotes illustrating the influence of managers on corporate behaviour, little systematic research has been carried out on the relationship between characteristics of internal actors and corporate social engagement. From the studies that do exist, three aspects of agency can be identified that seem to be particularly relevant for how individuals within the firm shape corporate social engagement, managers' values/beliefs, conceptual capacity and leadership skills.

Personally held values and beliefs of managers can shape the company's social engagement in two ways. Firstly, managers' values directly inform the decisions they make for the company. McWilliams and Siegel (2001) illustrate how the business strategies of firms such as *Ben and Jerry's Ice Cream, The Bodyshop* and *Newman's Own* have been informed by both market considerations, such as how to achieve product differentiation, and the personal values and interests of senior managers in issues of social justice, animal rights and the environment. Berle and Means (1932:124) give the example of a manager who would "maintain labor standards above those required by competitive conditions" for "reasons of professional pride" (which brought him in opposition to the interests of the owners).

Secondly, personal values of managers can affect the firm's social activities through their impact on other employees and their respective values, behaviour and decision-making. Recognising that the commitment of employees is key to the ethical performance of the firm, Collier and Esteban (2007) ask which factors create the necessary employee 'buy-in'. They find that employee commitment strongly depends on the 'tone from the top' and the extent to which social activities are championed by management. Berger et al. (2007) develop the concept of the ‘internal market for virtue’ in order to capture the important role that senior managers’ ‘demand’ for social engagement plays in creating the ‘supply’ of such activities by company employees. Trevino et al. (2000) argue that the significance of senior manager’s social and ethical stance is particularly important in the current era where more employees are working off-site and in separate offices around the globe. What holds these companies together “is values and values must be infused from the leading people of the organisation” (ibid.: 128). Yet, personal values held by people below the top management can also have significant effects on the company’s social activities. Drumwright (1994) finds that it was often ‘well-respected middle managers’ who brought about change in the companies’ buying policies. Their efforts were based mainly on personal commitment “involving a complex and often difficult process of moral reasoning” (ibid.: 4).

The impact of managers on their employees has been studied through the concept of leadership. Two components of leadership can be distinguished, emotional and intellectual leadership, both of which might be important to understand corporate social behaviour. Emotional or so-called ‘charismatic leadership’, is relevant because it is based on the communication of strong messages about values and moral justifications (Shamir et al. 1993; Shamir 1991). Charismatic leadership may therefore play an important role in shaping the collective identity of the company and integrate social and ethical dimensions in this corporate culture. However, the authors find that it is the intellectual component of transformational leadership, which is more strongly associated with social activities. Rather than speaking to the emotions of the organisation’s employees, the intellectual component of transformational leadership is “geared towards the arousal and change in problem awareness and problem solving on the part of the followers” (Waldman et al. 2006: 1709).

In the same way that the effectiveness of ethical leadership depends on the moral quality of the individual manager, the effectiveness of intellectual leadership depends on the person’s conceptual capacity. Conceptual capacity, according to Waldman et al. (2006) is the “ability to integrate or process information pertinent to the environment (i.e. breadth of perspective), as well as deal with a high level of abstraction” (ibid.: 1709). This allows the manager to understand the ramifications that her company’s operations have on the natural and social environment and to conceive of ways of doing business in a way that benefits a wider group of stakeholders. In addition, the effect that managers’ conceptual capacity will have on the firms’ social activities depends on the manager’s ability to disseminate her approach and convictions throughout the organisation.

The studies discussed have illustrated that individuals within the firm can play an important role in determining companies’ ethical and social behaviour. However, individual action does not happen in a vacuum but is significantly shaped by the context within which decisions are made and activities carried out. The importance of organisational structures in shaping individual decision making and action in firms has been conceptualised by the behavioural theory of the firm (Cyert and March 1963). While most authors who focus on the role of firm internal actors in shaping corporate social behaviour at least implicitly acknowledge the significance of internal firm structures, this relationship is not often made explicit and needs to be explored more fully.

Similarly, more work is needed to illuminate the relationship between internal actors and the external environment in shaping corporate social behaviour. The stakeholder theory of the firm represents one attempt to theorise about firm responses to external actors (Freeman 1984) and has been applied to the question of corporate ethics (Phillips and Freeman 2003). From this perspective, corporate social engagement has been explained as companies’ strategic response to demands from various stakeholders (McWilliams and Siegel 2001; Menon and Menon 1997) and, in the extreme, as a form of mere strategic image management (Adkins 1999). Such approaches work with the notion of the firm as a rational, profit-maximising actor. They thereby neglect, however, insights from other research outlined above which illustrates how structures inside and outside the firm constitute and constrain individual actions. Hemingway and Maclagan's (2004) study is one of the few examples that tried to link theoretical foci on internal actors and external structures. The authors discuss the link between socially held values, such as those rooted in religion or cultural custom, and managers' values. However, much more research is needed to improve our understanding of how structural and institutional changes in society are translated into management decision making on business social activity and institutionalised in organisational structures and routines. One example of approaching such questions may be through research on CSR and executive education (Matten and Moon 2004).

In conclusion, conventional political science literature looking at the role of TNCs in the world economy largely draws on external structures to explain corporate social activities. More recently, scholars of global governance have emphasised the role of IOs and NGOs in influencing TNC social behaviour through their impact on the global discourse on corporate responsibility. Such approaches, however, remain on the outside of the firm and rarely consider firm-level variables to explain corporate decision making on whether or not and how to invest in social initiatives. Business or management studies have contributed to understanding the firm-level factors such as the 'business case' for CSR and the significance of norm entrepreneurs within corporations. However, those studies rarely take into consideration the broader political and societal context. The challenge therefore is to develop an integrated approach that seeks to connect the different disciplinary lenses and conceptualises the dynamics that connect internal and external influences in order to explain corporate motivation for social engagement.

4. An Integrated Approach to the Study of TNC Motivation for Social Engagement

An integrated approach to the study of TNCs' social behaviour starts from the ontological assumption that both sets of categories, internal/external and structure/agency, are relational rather than exclusive and these relationships can go in both directions. We propose that the dichotomy between internal and external is a false one because external factors have an impact on firm behaviour only in so far and through the way in which they are taken up by internal actors including, but not limited to, their interest in profit generation. At the same time, the external environment is created and shaped by firm practices. In other words, the tension, which leads to the need to act, is always a consequence of the *interplay* between external requirements and internal conditions.

Similarly, we propose that the categories of structure and agency are linked and overlapping rather than dichotomous (on the structure-agency debate see Wendt 1999, 1991, 1987; Carlsnaes 1992; Dessler 1989; Giddens 1984, 1979). In line with relational approaches, we argue to focus on the interaction between structure and agency, which has epistemological, and subsequently, methodological consequences. Structuration theory for instance holds to the assumptions of structuralism about structure as generating and a relational aspect while simultaneously attempting to avoid the analytical separation between generative structure and actors and their activities. In other words: the analysis of social phenomena requires both structure and agency to be seen as potential independent variables. It is NGOs for instance and IOs that shape the normative and therefore material structure for firms that then sets the context in which firms make their decisions. The same is true for firm-internal structures that impact managers and other staff inside the firm. These organisational structures encompass formal rules and regulations, hierarchies, but also informal norms and set the incentives for individual behaviour and the context in which managers for instance translate external pressure for corporate social engagement into action. Based on these considerations, what has to be investigated in an empirical analysis are the actors' dispositions as well as the political, economic and organisational context in which TNCs act. Yet, actors and context refer to within and beyond the firm.

Following this ontological assumption, the study of TNCs' behaviour can be considered to take place in two steps. In the first step, we consider TNCs to be embedded in a normative and material context that consists of their market environment, national laws and customs, international rules and regulations, and external actors. The firm then is the dependent variable influenced by its environment. This first step therefore considers the conditions of the possibility of TNC behaviour. In a second step however, the firm itself, its organisational routines, corporate culture, and the personal idiosyncrasies of key decision makers become independent variables for explaining corporate social behaviour which specifically address the conditions of TNC action and changing behaviour.

The utility of an integrated approach to understanding corporate motivation for social behaviour can be illustrated through a hypothetical example. Let us imagine a TNC with a long history of global operations, which at the start of the 21st century embarks upon a broad and substantive initiative to improve the social and environmental practices of its subsidiaries and suppliers in the developing world. There is no immediate imperative for this; the firm is profitable and has not suffered inordinately from reputation problems. Still, it is probably possible to construct a 'business case' for this endeavour, such as a realisation of potential reputation problems or a projected dearth of productive labour for its expansions. But, the business case itself only emerges in a particular context. 'Reputation' is an issue for the firm because of increased public awareness and the concomitant work of various external actors including non-governmental and international organisations. Certainly for Nike, it is the particular context of increased global activism that confronts them with the issue of corporate responsibility only in the 1990s (Zadek 2004). Nike had operated without such concerns since the early 1960s and was effectively 'blindsided' by the significance to its business of findings of labour abuses in its supplying factories. The Nike case illustrates the extent to which the external normative environment has influenced TNC s' social engagement and the particular nature of it.

Likewise, a business case for investing in workforce or community also emerges in the particular context of weak state action in this area. The most notable examples of this come from the oil industry. Shell's spectacular failures in Nigeria and the efforts required for it to achieve responsible business practice through extensive community development and sustainability initiatives is illustrative. Shell's problems in Nigeria derived directly from the unstable political environment and deep-seated poverty in the country. As it turned out, Shell was neither able to exploit or ignore these issues, but has in fact made substantial investments with a variety of non-governmental partners into healthcare, education, youth programs and business development in Nigeria (Litvak 2006[8]). British Petroleum and Statoil-Hydro, the two largest partners in the Baku-Tbilisi-Ceyhan (BTC) pipeline similarly have had to make investment in the community a key part of developing the pipeline and have worked in partnership with NGOs and IOs extensively to develop community programs[9]. The absence of such investments subjects firms to severe reputational damage, to political risks such as expropriation and social instability. TNCs involved in natural resource for many reasons are required to 'step in' where states are absent. Research that evaluated the extent of TNC initiatives in areas with different degrees of state presence would shed light on the significance of this factor. However, we would likely find that some firms behave differently from others. Statoil-Hydro, for example, has been noted as a leader in driving initiatives in the BTC pipeline (Richardson 2008). It is also a company with a strong corporate culture, commitment to and experience with community and business development projects (Egset 2007).

The motivations of any TNC to be involved in the types of social engagement described here are shaped by factors inside the firm itself. There are infinite ways that firms can go about corporate social engagement in a rational and strategic manner. The focus and depth of TNC's initiatives is likely to be influenced by the personal idiosyncrasies of those individuals who are responsible for it. Directors and managers alike will have perspectives on corporate social initiatives that reflect their personal ethics as well as the communities and cultures in

[8] See also http://www.shell.com/.
[9] See http://www.bp.com/sectiongenericarticle.do?categoryId=9013062&contentId=7025624 and http://www.statoilhydro.com/en/Pages/default.aspx.

which they practice. In turn, their reactions to the challenges they perceive in the global operation and to the myriad pressures they confront from NGOs and other global actors will be mitigated through their personal moral framework. Finally, the depth and nature of the corporate social engagement will reflect the internal dynamics of the firm itself. How such initiatives are situated in the firm is essential; are its thought leaders confined to their own division or strictly to PR end of the firm? To what extent is ethical practice institutionalised as a norm throughout the firm? For example, does the organisational culture include a deep commitment to employees that is simply being extended to operations of its subsidiaries and suppliers? Organisational culture itself is a reflection of and changes with the external environment. Finally, the programme our TNC adopts affects the environment in which it operates in the future; whether it has created a best-practice or a misguided attempt at responsible business, as a powerful player in the world, its action sets a tone for itself and others to follow in the future.

An integrative or two-step model approach has methodological consequences. We suggest that there would be value doing in-depth case studies that historically trace the evolution of social initiatives in a single firm over time. This does not mean that we are only able to achieve thick descriptions, but it allows us to hypothesize and explain how firms behave and what the causes may be for whether or not they engage socially, and to what extent. It permits a broader perspective of how and why different forms of social engagement are undertaken. Such an approach requires removing our disciplinary lenses and probing multiple domains of influence on corporate behaviour. Having a means of incorporating multiple influences into theories of TNC motivations also can align research with what corporations actually say. In a lecture at Oxford University, Marks and Spencer's Manager for Sustainability was asked what is a very common question, 'What is the real motivation for M&S' 'Plan A'?' Stafford answered as most executives do: the sustainability plan is not just about the business case, although M&S does see itself responding to real customer demands. She emphasised the significance of the CEO's values and commitment to sustainability and also mentioned the complexities of sourcing in a global economy and the need to work effectively with often critical NGOs (Katie Stafford, Said Business School, Oxford 11 May 2007).

The value of in-depth case studies becomes even more evident when combining it with cross-case comparisons which would allow us to observe variation among cases that shed light on specific patterns of TNCs' social activities. Small N studies that probe multiple influences on motivation can yield more refined understandings of the weight of various contextual and agency factors, and how they intersect in practice. *Comparing* processes and practices of TNC social engagement in different country settings in the same firm or in one contextual setting across different firms testing for corporate culture, sector or host country would allow us to derive configurations of conditions of TNC social engagement. Differently put, while the conditions for the possibility of TNC motivation (or the context) might be similar for different firms, by means of comparison we are able to detect mechanisms that operate differently according to the specific corporate practices which would allow us to detect patterns or develop a typology of TNC behaviour. This is in line with Weber's method of ideal types (Weber 1973). Such types are abstractions of thick descriptions that, by comparison, highlight variation among cases.

5. **Conclusion**

This paper has mapped out theoretical approaches that have been used to explain TNC behaviour to address the question of why TNCs engage in social activities. The paper has two main goals: to illustrate the richness of the theoretical terrain, which contrasts with the paucity of conceptual underpinnings of much of the literature on corporate social activity, and to demonstrate how this rich theoretical terrain can be used to build a framework to help theory building in this field.

The lack of theoretical clarity and depth in much of this literature is not surprising given that the object of these studies, the firm as a social actor, has only recently received broader attention in the scholarly community. Moreover, the topic falls in between disciplinary stools. Scholars traditionally concerned with the study of public policy and governance have largely focussed on business' relations with governments and state agencies. In political analysis, the firm has mostly been treated as a black box and conceptualised as a profit-maximising entity which reacts to external pressures and structural constraints. Management studies and organisation theory have extensively studied the inner workings of the firm and its interplay with the economic environment. The politico-institutional environment of the firm and its role within it, however, has received much less attention in these disciplines.

Rarely has the attempt been made to systematically bridge the disciplinary and theoretical divides. This paper seeks to point to areas where bridges may be built between theoretical approaches. For instance, political science and IR have generated considerable knowledge about how globalisation has changed the normative and institutional character of regulation and how this, in turn, has affected the political and social space within which TNCs operate. However, such approaches are unable to account for much of the variation in TNC social and political behaviour that we observe. In order to address this question, it might be useful to systematically link such approaches with insights from organisation theory and management studies into the effects of different organisational structures, operation procedures, corporate culture, decision making processes and internal advocates on firm behaviour.

The goal of this paper has not been to propose a theory that covers everything and anything but to propose a conceptual apparatus that can guide theory building about corporate social behaviour. In order to do so, we suggest the framework laid out in Table 1, which is not constrained by disciplinary foci and therefore open enough to capture potentially relevant factors and dynamics inside and outside the firm. The identification of the most potent explanatory variables through the methods discussed above may, in a next step, lead to more compact theories applicable to specific categories of firms or contexts.

Finally, the integration of a broader range of theories into the study of corporate social engagement might also open up areas for future research. For instance, much of the existing literature on corporate social activities has been concerned with the effectiveness of such initiatives in addressing social and environmental problems. Often, however, the discussion has centred on the normative question of whether or not TNCs *should* be active in this area. A better understanding of why TNCs engage in social programs and which factors determine their choice of strategy may help direct this debate towards the question of whether and under what conditions they *could* bring about social change. There is some empirical evidence to suggest that there may be a link between the determinants of corporate motivation to engage in social programs and the form and outcome of such initiatives. For instance, Berger et al. (2007) suggest that factors such as company size, the social commitment of company founders, and corporate culture have a bearing on the form and strategy of social activities. Studies on corporate initiatives to address child labour (Berlan 2005) have illustrated that in some of the cases where TNC social initiatives were triggered mainly by NGO pressure and a norm change in OECD countries, the social programs reflected the changing normative environment in the industrialised world and missed the needs of the alleged beneficiaries of the programs. Other scholars have pointed to the problem that codes of conduct and private certification schemes developed on the basis of norms and values in Northern countries have the potential to exclude many Southern producers from market access (for example, Ward and Fox 2002).

Exploring potential links between firm motivation and policy outcome presents numerous methodological problems, most importantly the difficulty of measuring social outcomes. However, a better theoretical foundation for the study of corporate social behaviour may be a significant step forward.

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