Challenge # 19

INTERNATIONAL (CSR) TRANSITION TRAJECTORIES:

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1. Introduction: the complexities of change[1]

There is no one best approach towards internationalisation, corporate responsibility or to any type of business model. Context determines the feasibility and appropriateness of particular strategies. Neither is it possible to distinguish universally applicable transition trajectories from one business model to another. The role that corporations can (or should) in issue areas critically depends on the roles taken by other actors (stakeholders) in society, in particular governments and non-governmental organisation. The move from an inactive towards an active or pro-active corporate strategy is thereby far from obvious nor smooth: internal as well as external barriers have to be overcome. Here, the strategic management as well as the transition management literature is helpful.

The strategic management literature shows that strategic intent (going for an active attitude towards corporate responsibility for instance) is often difficult to match with strategic reality and concrete operational measures (Cf. Meyer, 2007). Moreover, co-evolution of firm strategy and institutional environment are required to create strategic 'fit' between what firms want and what they can feasibly do.

Transition management literature, on the other hand, represents a process of learning-by-doing and doing-by-learning (Loorbach, 2007:12). It consists of properly addressing the complexity of process of change and the new governance approaches needed to manage the type of **uncertainty** that is related to the network society (ibid:14) or the 'bargaining society' (Van Tulder, 2007). Shifts are often not linear but chaotic (so called 'punctuated equilibria') which are triggered by multi-level interaction processes. The source of change can be twofold: "internal changes that pull parts and actions out of alignment with

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[1] This dossier is 'work in progress". It is written by Rob van Tulder as an addition to chapters 8, 9 and 13 of the book 'international business-society management'. This dossier deals with the question how firms and/or managers can move from one position or business model to another. It is intended to help identify the barriers towards a more pro-active CSR strategy.

each other or the environment' and systemic change (Loorbach, 2007: 18). Internationalization processes and the road towards CSR basically represent multi-level, multi-dimensional processes which cannot be translated into a blueprint or a defined end state from which criteria can be derived (ibid: 23).

2. Internationalisation and business models

A **generic business model** should in principle be 'a concise representation of how an interrelated set of decision variables […] are addressed to create sustainable competitive advantage in defined markets" (Morris et al. 2005:727). A generic business model describes how the *components* of the firm's strategy address the creation of competitive advantage. A specific international business model – that includes both the international strategic as well as the CSR dimension - consequently, should describe how the relevant components of a firm CSR strategy are aligned both internally and externally and what this implies for the competitive position of the company across borders. The model chosen can be either effective or ineffective both strategically as well as for the corporate CSR orientation. The literature on the qualities of business models focus on rather static situations (cf. Zott and Amit, 2007), while the literature on CSR business models adds a considerable amount of conceptual unclarity to that state-of-affairs. Most of the CSR literature is still focused on assessing whether there is a correlation between corporate social and corporate financial performance as the definition of the most successful business model, just like most of the international business literature is preoccupied with finding the stylised relationship between internationalization and performance.

'CSR' or 'ICR" in practice proofs a catch-all and often rather static concept. This confuses the discussion on the issue because everybody is referring to something else. As a catch-all category it become meaningless and often confuses strategic intent – the strategies proclaimed - with strategic reality – the actual strategies developed – making it extremely difficult to distinguish Public Relations (or window dressing) language from real strategies. In addition, the static nature of models make it difficult to assess the particular stage a company is in along a transition trajectory as well as understand the dynamics that this particular stage involves. A hampered description of the actual dynamism of transition trajectories, makes it also impossible to move from solid description to prediction and even prescription. CSR/ICR Business-models of companies should include strategies and intentions in order to understand the facilitating and hampering factors for implementing advanced CSR strategies. So it is vital to delineate the various dimensions of internationalization and the related ICR **before** doing research on the intended as well as the realised strategies

Complementary requirement of the business models of multinational enterprises, is that they always have to address the management of distance or cross-border management since this is the distinctive feature of the more than 70,000 Multinational Corporations that exist in the world vis-à-vis 'normal' firms (UNCTAD, 2009). Geographical distance plays a traditionally important role for multinationals, but a less and less decisive role than in the past. Other dimensions of distance are also important: cultural, ethical, development, institutional and stakeholder distance.

Table 1 Four typical ICR approaches

	Inactive	**Re-active**	**Active**	**Pro/inter-active**
	Indifferent Corporate Responsibility	International Corporate *Responsiveness*	International Corporate *Responsibility*	International *Community* Responsibility
Prime orientation	**RISK/LIABILITY**		**RESPONSIBILITY**	
Prime distance dimension	*Geographical distance*	*Cultural distance*	*Normative distance*	*Institutional/stakeholder distance*
Prime Home – Host dimension	Corporate culture and home country oriented	Home country as precondition; host country as risk;	Home and host country norms conflict;	Integrated home and host country approach
Prime responsibility for shape of globalisation	Leave it to the market (minimum state involvement to create efficiently operating markets)	Each actor's own responsibility; if actors do not take up their responsibility, nobody is to blame for taking advantage	Search for ethical minimum standards of globalisation and 'best of class' examples as benchmark and inspiration	Globalisation as a discourse process towards defining joint responsibili-ties; active search for partnerships
Dominant internationa-lisation model	Export orientation	Globalizaton	Multi-domestic or regional	Glocalisation or transnational

Most multinationals have to manage all dimensions of distance simultaneously, but by choosing for one business model they can limit the influence of other dimensions of distance. For instance an export oriented strategy – provided the product is not barred because of regulatory hindrance – has primarily to deal with geographic distance. A global strategy is intended to search for standardisation across borders and markets, which makes it less susceptible for institutional and stakeholder differences (which it treats as homogeneous), but the more for cultural distance since this defines the acceptance of the products sold.

It is difficult to make a straightforward and attractive business case for any specific ICR approach. The international arena contains all varieties of ICR strategies and their performance depends on the competitive position and internationalisation strategy adopted by firms. The scattered and often anecdotal evidence presented in this chapter, nevertheless, suggests that Multinational Enterprises can gain substantial competitive advantage in managing these dimensions in a sophisticated manner.

Four basic types of International Corporate Responsibility (ICR) can be distinguished: in-active, re-active, active and pro-active. Table 1 summarizes the characteristics of each approach. Each approach tends to favour a particular definition of relevant stakeholders, emphasises a particular dimension of distance, propagates a particular view on globalisation and is likely to utilise a distinctive set of management tools.

An *In-active ICR* **approach** is likely to be followed by managers that primarily focus on responsible action within the firm and take a risk-aversive approach towards outside stakeholders The decision to invest abroad (either through off-shoring or outsourcing) is largely based on the costs associated with transportation and wages. The ethical orientation – if any - is dominated by company-internal (corporate culture) or domestic considerations. An in-active approach to ICR favours a liberal global trade and investment regime that takes care of a 'level playing' field – which is through efficiency-enhancing international trade expected to lead to greater prosperity for the world. Interestingly, it is suggested elsewhere that a true 'globalisation' regime is bound to render the MNE superfluous and obsolete (Ghemawat, 2003). An in-active strategy is therefore probably favoured by those firms that have not yet become dominant multinationals or hope to internationalise primarily through exports. The issue orientation is relatively narrow, which makes this type of ICR an example of relative indifference towards international corporate responsibilities.

Re-active ICR focuses on not making any mistakes in the international arena, hence its much stronger emphasis on **political risk** management and cultural distance. The concept of 'context-focused philanthropy' seems particular well suited to multinationals with re-active ICR ambitions. The greater the cultural distance, the greater the risks firms face and thus the greater the potential negative impacts on their performance. When the concept of 'global corporate citizen' is introduced by this type of firm, it seems re-active at best; or it might imply unspoken 'ethical imperialism' at worst. Re-active ICR stresses especially International Corporate *Responsiveness*. The issue orientation is primarily oriented towards checking the responsibilities of other actors (governments, civil society).

An *active ICR* **approach** is required especially when the norms of important home and host country conflict. In that case a more integrative approach is helpful. The ethical approach to international business focuses on moral distance and tries to adopt a number of hypernorms that create a minimum level of morality in its international operations. Political risk analyses are less important than ethical and social risk analyses. ICR becomes focused on International Corporate *Responsibilities.*

A *Pro-active ICR* **strategy** is particularly appropriate should external factors exist that could decisively affect the international performance of the firm, for instance because of changing transfer pricing regimes and increased bargaining power of local stakeholders. The challenge for ICR managers thus is to interactively link home and host countries norms and values through various interactions with home and host stakeholders. Pro-active ICR thus also strives towards an active synthesis of all motivations for internationalisation (intrinsic, extrinsic and mixed motives). Only on the basis of multi-

level stakeholder dialogues with a large number of (host/home) stakeholders spread over local communities can an appropriate strategy be developed. In this way, ICR becomes International *Community* Responsibility. A pro-active ICR approach is particularly appropriate to address international interface issues, which requires a broad issue approach and the use of broad ICR tools (such as broad instead of strict codes of conduct).

The brief characterization of these four ICR types shows that the 'business case' for ICR is more complex than the general business case for CSR. The performance of firms operating across borders can benefit from responsible as well as irresponsible behaviour. In the international arena, it is easier to 'get away' with irresponsible behaviour than in any national arena. The opportunities for tax evasion, and transfer price, wage and cost manipulation and the like are abundant and arguably bigger than within the legal environment of a single country. But at the same time, working across borders entails an increasing number of business risks that fall beyond the scope of political risk analyses. Increasingly powerful and unpredictable stakeholders require ethical and social risk analyses as well, which in turn necessitate a more active attitude towards society.

Several authors have expressed their discontent with the limited relevance and sophistication of the traditional approaches to international business and international management. In international business, the societal interface always demands close attention. In the international arena, multinational companies tend to have more discretionary power over their own operations and strategies. This requires them to reflect about their ICR approach in more detail and adopt a more active approach than the one followed domestically: for instance by setting down rules on Human Resource Management across borders or by managing cultural and political differences between the home and host countries they operate in. An interactive and bargaining oriented perspective on ICR recognises that various constellations of home and host stakeholders should be taken into account.

3. From Typology to Trade-off

Table 1 portrayed various ICR strategies as a typology. In practice many readers have read this as a continuum, in which the suggestion is that firms develop from an in-active to a pro-active approach. The idea of a continuum thus also suggests a straightforward 'evolutionary' path in which the latter (pro-active) strategy is more advanced than the former (in-active) strategy. This idea is only partly true. It underestimates the fact that various combinations of strategies can be chosen, that the four ICR types reveal different interaction principles and occasions and, consequently, that the transition process is far from being a smooth uni-dimensional trajectory. Rather than a continuum, which would lead to relatively smooth transition trajectories, ICR in practice primarily boils down to a trade-off between 'risk' or 'liability' and 'responsibility'. Table 2a represents another manner of showing the trade-offs that are involved in the formulation and adoption of ICR strategies. Firms face basically two choices or strategic tensions:

(1) in their **intrinsic** moral attitude between 'liability/risk' and 'responsibility' and
(2) in their **extrinsic** responsiveness towards outside stakeholders between an 'inward looking' and an 'outward looking' perspective (Cf. Van Wijk et al. 2008: 16).

Table 2a – ICR approaches as choice or trade-off matrix

		Moral attitude	
		Liability/Risk	**Responsibility**
Respon-siveness	**Inward-looking**	Inactive (INSIDE-IN)	Active (INSIDE-OUT)
	Outward-looking	Reactive (OUTSIDE-IN)	Pro-active (IN/OUTSIDE – IN/OUT)

The information of Table 1 and Table 2a can also be combined. This leads to Table 2b.

Table 2b - ICR orientation as trade-offs

IN-ACTIVE ←---------------------------------------→ ACTIVE	
	RE-ACTIVE ←-------------------------------→ PRO-ACTIVE

The intrinsic tension a corporation faces, is between an in-active and an active approach towards ICR. This represents a continuum of increasing involvement in ICR of the whole corporation. The second extrinsic tension face is in their external interactions with stakeholders between a re-active and a pro-active attitude. The first stance represents a strongly tactical dimension towards ICR (only do what is required, and only then when the environment triggers that position), whereas the second stance represents a very strategic dimension towards ICR in which the own priorities are defined and operationalized in interaction with external (primary and secondary) stakeholders.

The intrinsic motivation depends on the own efforts, ideas, goals and inputs from the management and employees of a company (Table 3). One of the main techniques used to measure 'progress' within a company are so called 'Key Performance Indicators' (KPI). They measure the absolute scores on such dimensions as environmental emissions, labour conditions, wages and the like. Here, the liability dimension represents the minimum requirement on these indicators. One of the biggest barriers firms face in their internal dynamism towards CSR is that the internal stakeholders (different employees spread over various functional departments) do not change their attitude easily. So even in case the CEO wants to move from an inactive to an active attitude, this might be seriously hampered by internal opposition to this attitude change (and vice-versa). This stresses the problem of **internal alignment**.

Table 3 – Inward versus Outward Looking

		Moral attitude	
		Liability	Responsibility
Respon-siveness	**Inward-looking: intrinsic tensions/ internal alignment**	• Depends on own input/effort • Technique**:** Key Performance Indicators (KPIs) • Problem: Attitude is not easy to change (*internal barriers*)	
	Outward looking: extrinsic tensions/ external alignment	• Depends on action 'partners' • Technique: Benchmarks/indices/ best-worst in class; stakeholder dialogue • Problem: Attitude of stakeholders (including customers) is not easy to change (*external barriers*)	

The extrinsic motivation of an organisation depends on the efforts, ideas, goals and inputs from external stakeholders in interaction with the firm and its business model. Foremost external stakeholders include primary stakeholders like suppliers, trade-unions, customer organisations, shareholders, governments, competitors. The interaction with these stakeholders takes up a more strategic dimension and is more or less permanent.

Secondary stakeholders (NGOs in particular on environment, health, human/labour rights and development) create a more indirect bargaining challenge to the organisation. However, since these organisations are usually single issue movements and action oriented, they create often a more direct challenge to the CSR orientation of the corporation. The techniques used by these action groups are usually relative scores to put the maximum pressure on them: benchmarks, indices, best-worst in class. The minimum effectiveness of the strategy of stakeholders depends on their legal position and possibilities (liability). The problem for the targeted organisation is that, even if they change their attitude towards the issues and stakeholders, the stakeholders might find it difficult to change their attitude towards them. NGOs are often 'stuck' in a particular role: their constituency expects them to behave in a certain manner. Frontrunning companies, thus, have been found to be attacked by NGOs that were expected to sustain their watchdog attitude, even if the firm had substantially changed its strategy and a more cooperative attitude of the NGO would have been appropriate. There are considerable external barriers to change as well and the change trajectory of organisations towards a more (pro)active attitude requires a co-evolution or **external alignment** of critical stakeholders as well and the development and implementation of participatory techniques such as stakeholder-dialogues (Cf. van Tulder with Van der Zwart, 2006: ch.20).

3.1 The Multinational dimension: international alignment
The biggest challenge for multinationally operating corporation is how to align strategies internationally. In the first place, multinationals have a bigger international **coordination problem** than national firms (Cf. Muller, 2006; Husted and Alan, 2006; see box 1).

Box 1

MNEs and Local Versus Global CSR Strategies

When exploring the CSR practices of MNE subsidiaries in host countries, the question arises whether subsidiaries tend to adopt CSR practices of the home country of their parent firm (embedded in a 'global' corporate CSR strategy), or tailor their CSR responsiveness to the host-country context in which they are located ('local' CSR strategy). If companies follow such a global CSR strategy and are able to effectively transmit these practices to their foreign subsidiaries, MNEs have the potential to function as mechanisms for 'upward harmonization' of CSR standards internationally (cf. Tsai and Child, 1997; OECD, 1999). If, on the other hand, companies value endogenous CSR development at the subsidiary level through dialogue with local stakeholders and responsiveness to local institutions, the potential exists for a truly 'responsive' CSR strategy, yet one that could also be classified as 'reactive' and potentially aimed at the minimum level required by law (cf. Meyer, 2004; OECD, 1999). The risk of such a local strategy is that MNEs might, in case of multiple local strategies, be subject to internal tensions and criticized for a lack of consistency. Moreover, it increases the complexities of managing this whole set of divergent approaches from the range of subsidiaries, which even in mainstream business and operations is an issue that requires a considerable degree of coordination and control (Cray, 1984; Martinez and Jarillo, 1991; Porter, 1986).

Issues of local responsiveness versus global integration and the accompanying organizational processes and structures (decentralized versus centralized) have received considerable attention in the international management literature (Bartlett and Ghoshal 1989; Prahalad and Doz, 1987). This is, however, not the case in relation to CSR, despite growing recognition that CSR is gaining importance as a dimension of strategic decision-making (Paton and Siegel, 2005). Traditionally the broader CSR debate has been conducted within the frame of stakeholder theory, which positions CSR strategies in iterative dialogue with a firm's stakeholders (Burke and Logsdon, 1996; Waddock and Boyle 1995). Developing a mutually beneficial relationship with stakeholders at the local level seems to require local engagement, which means that CSR should be contextual and locally responsive. For MNEs, such an argument would suggest that the most effective CSR practices are likely to emerge in decentralized organizations, where subsidiaries in host countries are characterized by a considerable degree of autonomy and develop CSR strategies that are responsive to the local context.

[box 1 continued]

Box 1 (continued)
MNEs and Local Versus Global CSR Strategies (continued)

At the same time, increasing internationalization means that firms are faced with a wider range of potentially conflicting stakeholders and are thus subject to divergent pressures across home- and host countries, especially when development levels differ (Van Tulder and Kolk, 2001). This greatly increases complexities for MNEs, also because one and the same stakeholder category can be very different from one country to another. This means that a truly locally responsive CSR approach based on extensive subsidiary autonomy in host countries entails a considerable number of risks. The company's CSR strategy may be fragmented and inconsistent, leading to tensions within the organization, a lack of clear responsibility and to approaches that only live up to minimum host country requirement levels (Christmann, 2004). The result may be pure compliance-based strategies that are tailored to 'end-of-pipe' controls instead of truly proactive 'eco-efficiency' (Foster Knight 1995). Consequently there has been a shift towards an 'integrated' perspective, particularly in the literature on environmental management, by which a firm characterized by a high degree of headquarter control over its foreign subsidiaries would have more ease in disseminating strategy to those subsidiaries (Christmann, 2004). Since corporate strategy is very much defined by the home-country context (Levy and Kolk, 2002; Murtha and Lenway, 1994), this implies that for example the diffusion of 'European' CSR practices through MNEs would be more likely if MNEs were relatively centralized.
Some have extended this centralized approach to include internal integration between departments in the firm. Hoffman (2000), for example, mentions that lack of integration between departments can be a major obstacle to effective management of corporate environmental issues, which he attributes in part to communication failure between environmental managers and general 'business' managers. The implication
is that environmental managers, lacking the backing of a clear corporate vision and mandate, will be faced with higher agency costs in embedding CSR practices at the subsidiary level amidst the complexity of an international operating environment (Watson and Weaver, 2003).

Thus far, however, there is not much clear evidence, even in the case of more mainstream organizational issues. Watson and Weaver (2003) were unable to support their contention that the agency costs associated
with (international) environmental complexity were linked to more formalized structures for managing business ethics. Kostova and Roth (2002), who hypothesized that a subsidiary's dependence on headquarters would be positively related to the implementation of corporate-level organizational practices more generally, found a negative relationship in their study of quality control systems. On the other hand, Christmann (2004) found strong evidence that MNE subsidiary dependence on the rest of the company for resources was positively related to the MNE's global standardization of environmental policies. Firms with a relatively centralized organization, she argued, are more likely to engage in self-regulation through corporate-wide environmental policy standardization and thus have the potential to exceed local government regulation in countries with a lower level of environmental regulation. Yet, contrary to expectations, Christmann (2004) found that a globally standardized environmental policy was not linked to a significantly higher minimum level of environmental standards.

Source: courtesy Alan Muller (2006) [including reference to sources]

How much autonomy should one give to subsidiaries? How much coordination is sensible? In the literature five 'generic internationalization strategies' can be distinguished each with its specific coordination problems:

- export orientation
- multi-domestic strategy
- globalisation
- glocalisation or 'transnational' strategy
- regionalism

Chapter three of the IB-SM book and the background articles explains the intricacies of these strategies: their advantages and disadvantages and the status of international business research on the effectiveness of particular strategies (basic message: not very advances and seriously lacking detailed case studies!).

In the second place are multinationals confronted with more diffuse issues. Operating in a wide variety of regulatory environments, the nature of issues is not only influenced by the particular characteristics of the issue, the nature of the responsibilities related to the issue (primary/interface/growth), but also by the type of regulatory regime companies are operating in. The bigger the distance between these regimes are, the bigger the dilemmas can be, the more dispersed NGOs/stakeholders are, but also the bigger the 'room of manoeuvre' in particular for multinational enterprises can become. Chapters 12 and 13 of the IB-SM book provide an elaboration of the basic model that can be applied to the study of multinational corporations, which also takes into account the 'institutional environment' of the corporation. Institutional environments can thereby **converge or diverge**. The book uses a matrix to identify the possible outcome for companies of that process (Tabel 4).
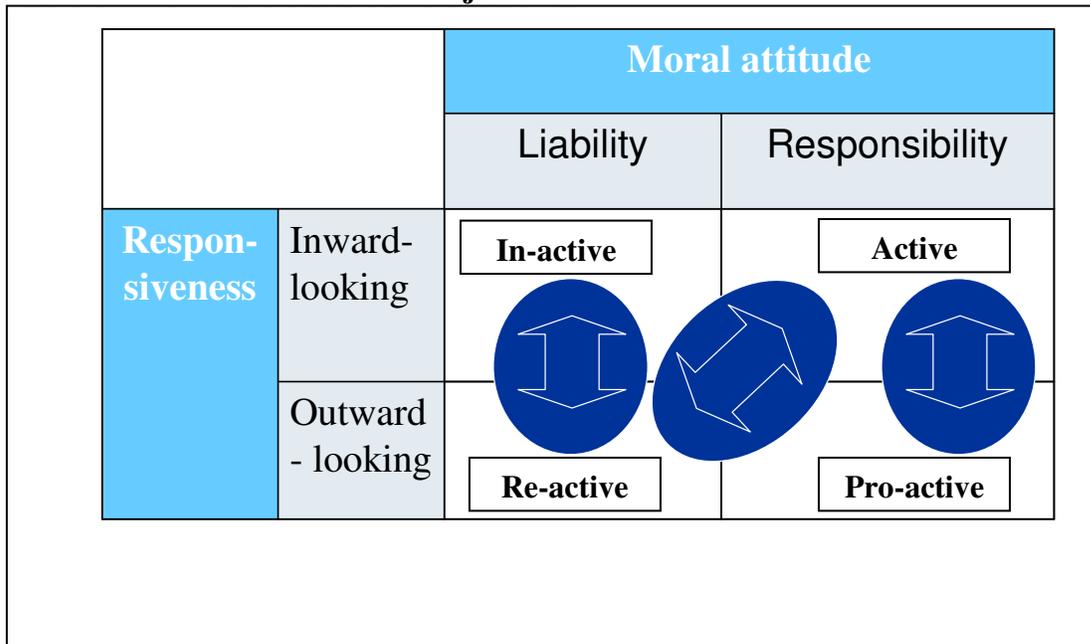
Tabel 4 Institutional rivalry

		PROCESS: RIVALRY	
		high	low
OUTCOME:	CONVERGENCE	RACE	CO-ALLIGNMENT
	DIVERGENCE	CONTEST	CO-HABITATION

4 From Trade-offs to Transition trajectories

The move towards an active or pro-active ISR strategy is far from smooth: internal as well as external barriers have to be overcome. The literature shows that strategic intent (going for an active attitude towards CSR for instance) is often difficult to match with strategic reality and concrete operational measures (Cf. Meyer, 2007). Transition management represents a process of learning-by-doing and doing-by-learning (Loorbach, 2007:12). It consists of properly addressing the complexity of process of change and the new governance approaches needed to manage the type of uncertainty that is related to the network society (ibid:14) or the 'bargaining society' (Van Tulder, 2007). Shifts are often not linear but chaotic (so called 'punctuated equilibria') which are triggered by multi-level interaction processes. The source of change can be twofold: "internal changes that pull parts and actions out of alignment with each other or the environment' and systemic change (Loorbach, 2007: 18). Sustainable development and the road towards CSR basically represents a multi-level, multi-dimensional process which cannot be translated into a blueprint or a defined end state from which criteria can be derived (ibid: 23). Table 5 portrays the most likely transition trajectory that organisations tend to undergo. It shows that an internal transition from an in-active to a more active attitude and mind-set is likely to be mediated by external stakeholders (from re-active to pro-active) and their attitudes and mind-sets.

Table 5 – Dominant transition trajectories

		Moral attitude	
		Liability	Responsibility
Respon-siveness	Inward-looking	In-active	Active
	Outward - looking	Re-active	Pro-active

Dominant transition trajectories

Table 5 portrays the four basic ISR/CSR positions that companies can adopt as a flow diagram between two types of trade-offs: (1) intrinsic between an in-active and an active attitude towards the *principles* of CSR and (2) extrinsic between a re-active and pro-active attitude towards the *practice* of CSR. Intrinsic dynamics relate to the mental mapping of managers and their strategy formulation in firms, extrinsic dynamics depends on the managerial skills and implementation of strategies.

These trade-offs also explain the most likely transition trajectory that organisations as a whole tend to undergo. Is it not very likely that a whole organisation can change its attitude towards CSR overnight from in-active to active (1→3). Why? This transition requires not only that the CEO changes his/her mind, but also that the majority of workers in the organisation do the same – and that without any external pressure. This is not very likely to happen. Research has shown that there are considerable expectational gaps between what an organisation is doing and what its workers around the world want it to do (Krauthammer, 2009). Hardly any research has been done on these internal alignment strategies between headquarters and subsidiaries, let alone with reference to the problem of managing distance.

Likewise, it is not very likely that external stakeholders would change their attitude easily and coherently towards corporations, which would facilitate a direct transition from a re-active to a pro-active stance (2→4). Why not? This transition requires that stakeholders overcome their scepticism towards the company's CSR efforts and believe wholeheartedly in the good intentions of the corporate leadership.

So, an internal transition from an in-active to a more active attitude and mind-set is much more likely to be mediated by external stakeholders (from re-active to pro-active) and their attitudes and mind-sets. Stalemate can be the consequence: everybody waits for everybody else. Transition trajectories, therefore, are always accompanied by sizable barriers to change. Their origin and explanation – but also their resolution – lies in a correct understanding of the internal and external dynamics of three phases of transition: [1] activation, [2] internal alignment, [3] external alignment. Often these phases run parallel to the phases in which an issue develops (the Issue Life Cycle, see issue dossier #17).

4.1 Activation: From inactive to reactive

Firms and their senior managers first become activated towards more explicit CSR strategies because they are stimulated by critical consumers, outspoken NGOs or the threat of regulation by governments. This leads firms to move from an inactive to a more re-active approach towards CSR. Even in case a CEO of a company would like to adopt an intrinsically more active approach to CSR, the pressure of external stakeholders is likely to speed-up the transition process. However, the latter is often fraught with defensive reasoning, ad-hoc tactical reactions and external conflicts. In the literature this has been called the 'correction' phase of CSR (Van Tulder with Van der Zwart, chapter 11), in which organisations are primarily stimulated through the operation of the 'reputation effect' to take up Corporate Social Responsiveness, i.e. "not to do things wrong".

A re-active approach towards CSR contains the **risk** of:
- Strong tendency towards Window-dressing
- Meaningless KPIs and tactically induced industry benchmarks
- Going for the lowest common denominator (for which sector initiatives are used)
- Strong plea for self-regulation that is rather marginally operationalized in practice
- Developing only partial solutions to most of the issues that are introduced and thus the perseverance of these issues
- Lack of internal alignment: the Public Affairs department does not represent the corporation; mixed signals from the board reach the middle-management
- Lack of international alignment: the reaction towards one stakeholder in one country is not consistent with the reaction towards another stakeholder in another country, which increases the international (internal) transaction costs
- Precedent accelerator: an ad-hoc settlement in a dispute with one stakeholder can be used as an example for other disputes around the world, certainly in case the stakeholder is an international NGO.

Many have observed that CSR/ICR strategies are often used as a PR tool both towards external as towards internal stakeholders. A survey by the Economist Intelligence Unit (2007) amongst more than 1,000 executives, who were asked about the sustainability policies of their employers, found that between one-quarter and one-third of the respondents felt that there was 'more talk than action' from upper management. In other research, it was found that upper management was giving mixed messages to lower management, by on the one hand stressing the importance of CSR and on the other hand going for a business model that clearly favoured efficiency over equity, or short term profits (or lower purchase prices with suppliers) over societal relevance. Other research, however, has shown that sometimes lower management wants to proceed faster than upper management, which leaves them frustrated and creates substantial HRM problems. Internal alignment, thus, refers to the change process within the firm in the direction of a more active attitude towards CSR in which all the functional department interact to create a cohesive and coherent approach. The greater complexity (and greater risk) of creating cohesion across borders has already been addressed.

Reputation as incentive or barrier?
A number of government, amongst whom were for instance the Dutch, expected the so-called '**reputation effect**' to be the most important trigger for companies to becomie more active in CSR. The mechanism works as follows: in case the company does not live up to its CSR promises, it will be blamed for this by critical NGOs; this will negatively affect the companies' reputation. The reputation effect acts as a correction mechanism for companies that are not serious about their stated ambition. This was a particularly popular idea in the early 21st century (SER, 2001). One of the consequences of this statement was that governments did not need to intervene and the CSR agenda could be largely left to the 'self-disciplining' behaviour of corporations. The practice of the years following these expectations proved less ideal. The reputation effect did only apply to public corporation and then only relatively modestly (cf. Van Tulder, Vander Zwart, 2004, 2006). Most important areas of transition in CSR were left untouched by the reputation mechanism. On the contrary, instead of a reputation effect, a **reputation trap** appeared**:**
[1] *Firms became overly defensive* in their approach towards CSR for fear of getting 'named and shamed' by critical stake-holders; this led to CSR strategies that are primarily 'risk-aversive'.
[2] *Governments became overly passive and bureaucratic* in their approach towards CSR/ICR for fear of getting accused of repeating past mistakes; in the past this led to over-regulation and an 'interventionist' state (with all the related problems)
[3] *NGOs became overly aggressive and simplistic* in their approach towards CSR; forced by the reputation effect, NGOs – with often limited budgets – had to find easy cases and easy targets (focal firms) to make their point in the most efficient way. Leader firms, which tried to experiment with new approaches towards CSR – a necessary condition for moving from towards a more active stance - also became the first candidates for name/shame campaigns.

Once the reputation trap is fully effective, CSR is not making as much progress as it could; this does prevent firm and organisations from introducing a booming number of CSR-related brochures and initiatives, on the contrary. The effect on the issues for which these initiatives are meant, however, is likely to remain limited. A defensive attitude is also closely related to what in the psychology is called a state of 'denial', which hampers progress towards higher stages of awareness which in turn is important for bringing CSR at a higher level of sophistication.

4.2 Internal alignment: from reactive to active
Arguably the biggest challenge firms face is to move from a reactive to an active attitude in the area of CSR. This process is not only hampered by the problems surrounding issues – and for instance the lack of realistic management tools and key performance indicators - that are particularly tangent at the stage from 'growth' to 'development'. In transition theory these problems are also referred to as 'systemic' problems. The transition process is also hampered by internal managerial problems. Most firms that are continuously faced with the need to respond to external pressure, at a certain moment, seek to become less defensive. Such transition trajectories are often initiated by the corporate CEO, who is

tired of being overly defensive. Wal-Mart's changing stance is illustrative in this respect (box 1).

Box 1

Lee Scott's predicament

An example of a corporate leader who moved from an in-active (transactional) to a more re-active (charismatic) leadership style is provided by Lee Scott, the charismatic CEO of Wal-Mart (#1 in the Fortune Global 500 list and the biggest private employer in the world). In the 21st century he tried to become more receptive to the criticism – by two leading trade unions and other NGOs claiming that Wal-Mart is creating 'working poor'. In 2004, Scott launched a drive to reposition the company 'to eliminate this constant barrage of negatives that causes people to wonder if Wal-Mart is going to be allowed to grow" (Quoted in the Financial Times, April 7 2008). Traditionally the retailer ignored its critics, and used to have a tiny public relations department, arguing that it answered only to its customers. Scott changed the way the company dealt with the outside world to become 'more sophisticated' and now has one of the largest media departments of any US company (ibid). As a charismatic leader that is known for his "low-key style and apparent sincerity" (ibid). "I actually have a childhood that's given me a great capacity to accept criticism"(…) so I wasn't overly sensitive to that. But it was clear that three or four years of going out each week and talking to another group that doesn't like you takes its toll."

An active approach towards CSR **contains the risk** of:
- Group think: internal process of alignment alienates the corporation from society
- Ethical imperialism: going for the highest possible denominator for which no sectoral support exists
- Changing KPIs that create internal confusion; the actual effect of this depends on the firms internationalization business model: in multi-domestic and glocal companies, change is less costly and more common than in globally integrated companies.
- Internal alignment as a centralized imposition of norms and values of board
- Imposition of disciplining measures also on primary stakeholders
- Easy prey for critical NGOs around the world (good intentions are always difficult to implement)
- Issue orientation: relatively narrow (only what is achievable according to mission definition)

4.3 External co-alignment: from active to pro-active

Arguably the biggest challenge in the latter phase of CSR transition is how NGOs and other external stakeholders can manage the role change required for a more collaborative and pro-active CSR approach. Only when firms have been able to reach some degree of external alignment can alliances with external stakeholders become embedded in positive forms of strategic dialogue and co-alignment. Together with primary and secondary

stakeholders can organizations work on the effective solution of specific issues. This requires, however, also that the external stakeholders are able to cooperate with the firm. In the literature we can find reference to this activity as 'co-creation' (Prahalad and Krishan) or co-evolution (Witt and Lewin, 2007), co-production or co-consumption (Cf. Van Mil, 2007). Basically, the idea refers to the fact that a firm cannot develop advanced CSR strategies without a process of education and feedback between itself and its prime stakeholders. In innovation literature, the idea of involving external stakeholders in the actual design and production process is starting to get popularity under the heading of 'open innovation' (Chesbrough, 2004). The effectiveness of the strategy of frontrunner firms thus increasingly depends on the involvement of external stakeholders. Sometimes these are primary stakeholders, but this process is then basically the same as the 'internal alignment' process – although with substantially more external involvement. What makes a strategy the most pro-active is in case secondary (single issue) stakeholders such as environmental or human rights NGOs, or even 'fringe stakeholders' such as 'the poor', 'the weak', or the 'illiterate' (Hart and Sharma, 2004) get involved. Hart and Sharma (ibid) refer to this process as the move from simple 'transparancy' to 'radical transactiveness'. The technique that is particularly appropriate for getting relatively loose groups of stakeholders with divergent interest around the table in a productive manner is the so-called strategic stakeholder dialogue (Van Tulder et al. 2004; Van Tulder with Van der Zwart, 2006: chapter 20).

A pro-active approach towards **contains the risk** of:
- External misalignment: company loses its identity and has difficulty in deciphering between important and unimportant stakeholders and between important and unimportant claims.
- NGOs are not able or willing to engage in cooperation with the company
- Benchmarks and KPIs are overly used as bargaining tool instead of 'objective' indicators to measure progress
- Issue orientation is too broad; firm takes up too many responsibilities which deprive other actors (governments/NGOs) to take up their own responsibility

5. Context: common influencing factors

Individual firm migration paths do not operate in isolation. They are strongly influenced by at least four types of factors that are partly overlapping:

1. **Country specific factors**: regulatory practices, culture, perceptions of stakeholders; elsewhere I have refered to this as the "CSR Regime" (cf. Van Tulder with van der Zwart, 2006). It was found that due to various reasons, Asian firms tend to adopt relatively inactive CSR approaches, US companies relative re-active approaches, whereas European companies pioneer in the more active approaches. Hardly any firm has yet adopted pro-active strategies. The basic reasons for the latter has been that in particular external alignment has proven extremely difficult to achieve: all relevant stakeholders have to taken into account (Cf. Frankental, 2001). The level of development of a country influences the CSR trajectory of a company and organisation. Even in case of international standards, it was found that the 'country-of-origin' effect is the strongest (as opposed to host-country effects), whereas international regulation was primarily embraced as a means to enter foreign markets. The issues that are addressed by companies are often also contingent upon the country of origin.

2. **Industry specific factors**: industries that have been faced with more criticism tend to be more eager to engage in CSR activities, but also tend to act rather defensively and reactively. This is in particular the case with highly visible firms from oil, mining and other polluting industries for which their responsibility is directly obvious. The same is true for the pharmaceutical industry as regards their pricing strategies towards live-saving medicines or the food industry as regards general health issues. Moving out of a re-active attitude requires internal alignment which is often difficult to achieve because the whole organisation is geared towards 'defending itself' against societal allegations. It was found (KPMG research for instance) that these industries face a considerable 'bandwagon' effect: reputational damage to one firm affects the others; the efforts of single firms are often directly emulated by their direct competitors. This might trigger a 'race to the top', but also a 'race to the bottom' in which adverse selection leads to firms searching for the lowest common denominator, which in turn triggers the suspicion of 'window-dressing'. As regards the retail industry, however, the reactive pressure seems less obvious, making it easier to move from an inactive to an active attitude, but this depends critically on the general business model (strategy) chosen. We can also see that there is a growing need for firms in general to increase their legitimacy also towards their critical consumers that expect from them a more active stance as regards CSR.

3. **Issue specific factors**: a more active stance vis-à-vis an issue that is of direct interest of a firm seems obvious. This is the area of 'crisis' management that traditional Public Relations models have taken into account. Reclaim action, direct responses to food crises like mad-cow disease or BSE are all reactive approaches to CSR in order to limit damages. The role of the retailer is often relatively modest, since they can portray themselves as the 'neutral' intermediary organisation between the sector (their prime suppliers) and the customer. In more generic strategic areas, retailers have the

possibility to show a more autonomous active stance without depending on their suppliers. For instance in the case of assortment choice, ecologically sound organization of the actual shops, payment of workers and the like. A retailer – like C1000 - that searches for a Unique Selling Point in for instance bulk-meat, is particularly vulnerable to disturbances and scandals in the meat chain. A retailer that portrays itself as health-responsible – like Albert Heijn – is vulnerable to claims of customers on unhealthy ingredients or overdue products that are still available in the stores.

4. **Media factor**: whether or not a company has become a 'focal company' is influenced by its coverage in the media. Companies draw media attention either due to their exemplary or their 'bad' behaviour. The 'mediacracy' favours negative news over positive news, so one generally finds a bias in the media for scandals and problems. In particular a 're-active' approach of companies towards specific issues can be explained for by negative media coverage. A **media analysis** should therefore be performed to figure out whether the firm for instance moved from an –in-active to a re-active stance due to external triggers. Relevant media for firms differ per country or sector. A systematic coverage over time will give further indication of the nature of the change trajectories. Coverage of important 'events' can be found by systematically looking for the company's name as a keyword combined with keywords like 'scandal' or 'internationalisation' or 'criticism' or 'best practice'. The following sources should be considered:
   - Leading financial journals, such as the Financial Times, The Economist,Wall Street Journal
   - Specialized journals for the particular sector these companies are operating in
   - Company websites and press releases; For systematic search for hits in the media: use 'LexisNexis' or other databases (see Skill Sheet A13); for historical accounts of events and the company's reaction use www.archive.org (see Skill Sheets A15)

Media coverage is particularly helpful in finding out how '**secondary stakeholders**' relate to the company and thus should help in documenting external alignment trajectories. The media scan also focuses on the question whether different (secondary) stakeholders where linked to different functional parts of the company's business model.
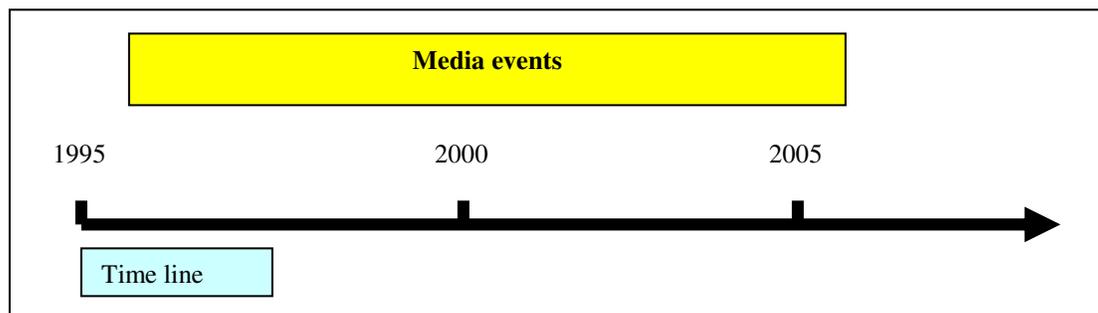
5. **International specific factor**: the degree of internationalisation seems to influence the performance of firms in general and for CSR in specific. More internationally operating firms are in any case confronted with more and bigger dilemmas, which create substantial coordination problems (the so called 'liability of foreigness'). But also opportunities ('the normative space'). There is evidence (see chapter 13 of the IB-SM book) that the 'home' country strongly affects not only the generic internationalisation strategy, but also the ICR strategy and the extent to which it is harmonized within the same firm, for instance as regards reporting, codes of conduct and environmental strategy. International reporting regimes such as GRI help in lowering international transaction costs, which explains why so many of the multinational enterprises have adopted the GRI reporting standard for their non-financial report. The transition strategies of multinationals is further influenced by the degree of internationalisation of a number of specific functional areas which all portray a different dimension of 'distance' for the company:
   - International human resources managements: measured by FE/TE (foreign employment as a percentage of Total employment); list of indicators: Annex A
   - International marketing: measured as FS/TS (foreign sales as percentage of total sales): list of indicators: Annex B
   - International production: measured as FA/TA (foreign assets as percentage of total assets) also referred to as 'off-shoring'
   - International logistics: measured as degree of outsourcing (vertical integration) and the degree of internationalisation of outsourcing (global/regional outsourcing); list of indicators refer to approach towards suppliers: Annex C
   - International finance: measured as the degree to which the firm gets its shares and other financial inputs from markets around the world beyond its home market
   - International partnering: the degree to which the firm tries to strike alliances with global/regional and/or local NGOs.; list of indicators refers to the approach towards four dominant types of NGOs: Annex D

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Annex A – Orientation and strategy of International HRM department

| | | IN-ACTIVE ←-----------------------------→ ACTIVE | | | |
			RE-ACTIVE ←---------------------→ PRO-ACTIVE		
	General	**HRM policies:** Hierarchical; employees as cost/production factor → low wages → no unions (or loyal unions	**HRM policies:** Responsive; employees as potential 'risk factor' (ethics/whistle-blowing); competitive HRM practices → competitive wages → union-bashing	**HRM policies:** responsible; employees as possible followers of philosophy → union information → good wages	**HRM policies:** Developmental; employees as greatest asset (continuous improvement; learning) → 'fair' wages → union involvement (also as monitor of codes for instance)
Force	*Child labour* [Conventions on right of child, art 32; ILO C138, art 2, 3 and 7]	No statement	Child/forced labour is forbidden. Compliance to law and/or codes	Child/forced labour is a bad thing, embrace codes and develop own standards	Actively prevent/fight child/forced labour in collaboration with other parties
	Forced Labour [UNDHR, art 4; ILO C29 art 2.2, 12, 13; C98 art 1, 2]	Idem	idem	idem	idem
	Disciplinary practices	Strict control. Immediately fire employees	Practices in accordance with law	More flexible then law	Trust in employees, practices in collaboration with other employees
Industrial relations	*Freedom of association* [ILO C87 art 2, 11]	No statement / Try to minimize association	Implementation of ILO codes	Association is good, embrace ILO codes and own standards	Actively stimulate association
	Collective bargaining [ILO C98 art 1, 2]	Idem	idem	idem	idem
	Position of whistleblower	Not specified	According to law guaranteed	Own policy (in addition to laws)	Encouraged and respected
Company Internal Working conditions	*Wages and benefits* [UNDHR art 25; ILO C131, art 3]	Low wages	Competitive wages, check codes	Good wages	Fair wages; In consultation with several parties.
	Top Salaries	No statement	Rationalisation to society: benchmarking with rest of industry;	Considers relationship with internal wage formation; no 'bonus' on mismanagement	Joint governance initiatives to deal with top salaries and income inequality in society

Conditions of work and life / all workers standard of living sufficient to meet basic needs (FF) [UNHDR art 25]	Only (low) wages	Wages are good enough (UNHDR, art.25)	Support for housing / medical care	Investigate what employees need besides wages
Working times [UNDHR art 24; ILO C1 art 2; C14 art 2]	No statement	In accordance with law and/or ILO convenants	prevention of overtime at any cost	Together with employees look for fair working schedules
Safety and health [ILO C155 art 1, 4, 16]	"look after yourself"/own responsibility/minimum responsibility for firm	'obey the rules'	'health and safety come first"; set up of internal sports/diet programmes to stimulate workers to live healthier	Stimulate coalitions with societal groups (WHO, other NGOs) to stimulate general safety and health awareness
Sickness absence rate *Inflow into disability* *Efforts to prevent disability* *Effort to prevent abuse on work floor*	own responsibility, own cost; No efforts	Minimal effort; Only when required according to law	Good internal plans and internal rules are important for employee satisfaction	External coalitions to prevent disability and abuse from happening; active in societal awareness building
Research to work satisfaction	No research published	Results published	Results published with internal codes how to improve	Results + measurements developed in collaboration with several parties how to further improve
Child care provisions	own responsibility	If asked for by stakeholders and governments	Actively pursued (as basic right) as positive HRM policy to attract new employees	Working together with external NGOs on more fundamental solutions
Preferential treatment of women	No	Minimalistic (no quota)	Actively pursued to stimulate 'diversity' as performance enhancing measure	Support quota for women in politics, business, NGOs
% female topmanagers	No	Idem (no quota)	Actively pursued internally (some quota)	Actively pursued together with associations and NGOs
Preferential treatment of foreign minorities	No	Idem (no quota)	Idem (with some quota)	Idem
% top managers of foreign minority	No	Idem (no quota)	Idem (with some quota)	Idem
% of disabled people hired	No	Idem (no quota)	idem	Idem

*(Row group label on left side: **Employment**)*

Security of employment	No	Idem	Idem	idem
Employment promotion	No	Idem	idem	Idem

Annex B General Consumer Relations: overcoming information asymmetries

IN-ACTIVE ←-------------------------------→ACTIVE			
	RE-ACTIVE ←-------------------------------→ PRO-ACTIVE		
"Corporate *Self* Responsibility"	"Corporate Social *Responsiveness"*	"Corporate Social *Responsibility*	"Corporate *Societal* Responsibility"
Inside-in	Outside-in	Inside-out	In/outside-in/out
Customer as cost minimiser	Customer as buyer (including higher quality if needed)	Customer as 'CSR interested buyer'	Customer as co-producer
Consumer labels: No Policy	Minimalistic and reactive for specific niche product; no relation with general vision	Search for labels that also represent the general vision/mission of the organisation; active information strategy towards customers	Interactive labelling: overcoming information asymmetries and improving co-consumption
Reporting aim: Consumer communication; Only what is legally required	Consumer accountability; only what is required towards shareholders	Consumer appeal; identification and development of own goals;	Consumer engagement; development of goals; stakeholder orientation
Advertisements: Prices only, no issue campaigns	Low prices and some CSR issues; 'no misleading advertisement'	Some low prices, but many CSR issues; Value and vision oriented (explanation of the core values of the organisation); offensive issue advertisements	Higher prices but make shopping an experience with interaction on CSR issues. Participative issue advertisement campaigns (see PA)
Efficiency		**E**quity/**E**thics	**E**ffectiveness

Annex C - General supplier relationships and ICR strategies

IN-ACTIVE ←-----------------------------------→ACTIVE			
	RE-ACTIVE ←-------------------------------→PRO-ACTIVE		
"Corporate *Self* Responsibility"	"Corporate Social *Responsiveness"*	"Corporate Social *Responsibility*	"Corporate *Societal* Responsibility"
Chains on the basis of prices only; strong competition for customers; active use of power position in chain; no systematic attention for e.g. labour conditions (prime responsibility of supplier)	Chains on the basis of prices and quality; suppliers are responsible for e.g. labour conditions	Chains on the basis of fair prices and high quality; suppliers are selected on the basis of their approach towards e.g. labour conditions	Chains on the basis of joint responsibilities; quality and prices are set together; definition of fair wages and labour conditions are based on consultation and strategic dialogues
Cost, control, risk aversion	Cost, control, quality	Control and quality	Co-development and quality
Only CSR that does not cost much (and does not result in higher purchasing prices)	Only CSR if needed and/or available (and does not resulting higher purchasing prices)	Upgrading according to own standards (cf. Van Wijk et al, 2008)	Upgrading according to joint and/or open standards (cf. Van Wijk et al. 2008)
Probably below 5% of purchases	Below 25% of CSR of purchases (maximum customers want)	Between 25-60% CSR of all purchases as aim	60-100% CSR as aim
'buy'	'make or buy'	'make'	'cooperate'
'global'	'global'	'regional'	'local'
Supplier's codes of conduct strategy:			
Internal codes	Specific supplier codes	General supplier codes	Joint codification initiatives: dialogues
Specificity: low	Specificity: high	Specificity: low	Specificity: high
Compliance: low	Compliance: low	Compliance: high	Compliance: low
Labels/trade-marks Labels initiated by governments or to specify product qualities; instrumental approach to labels	Labelling to prevent liability suits; no coordination of labels needed; identification of 'worst-practice"	Ethical labels: only the best labels are relevant; no coordination needed; identification of 'best-practice'	Interactive labels: joint development of 'appropriate practice' approach towards products and information assymetries
Chain Liability		*Chain Responsibility*	

Annex D – Relationships with four major groups of Secondary stakeholders

	IN-ACTIVE ←-------------------------→ ACTIVE			
		RE-ACTIVE ←--------------------→ PRO-ACTIVE		
[1] Ecology NGOS (see also suppliers)	No influential NGOs or company is not targeted	Donations / raising funds. Beauty products free from animal testing; environmental care: CO2 emissions Clashes – response from retailer	Very few / no clashes.	Develop with NGO's products with labels. Join roundtables (e.g. for Responsible Palm Oil / Soy / Cocoa etc.) Support establishments of independent platforms; environmental care
[2] Human Rights NGOs (see also HRM and suppliers)	No influential NGOs or company is not targeted	Donations / raising funds/ clashes on human rights in the supply chain; working conditions in shops	Very few / no clashes.	Active dialogue concerning ILO norms
[3] Health NGOS (see also HRM and suppliers)	No influential NGOs or company is not targeted	Clashes on food safety, worker conditions, etc.	Very few / no clashes.	Collaborating in informing consumers about health issues etc
[4] Development (economy) NGOs (see also finance, marketing and suppliers)	No influential NGOs or company is not targeted	Donations / raising funds. Partnerships aimed at securing consistent supply of products??	Very few / no clashes.	Partnership: upgrading of supply chains, etc.