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Defining and Deterring Corporate Social Irresponsibility: Embracing the Institutional Complexity of International Business

Abstract

Purpose – This paper puts forward a definition of corporate social irresponsibility (CSI) which is relevant to the study of complex organizations, and in particular, the multinational enterprise (MNE). We then offer a framework as a foundation to discuss the institutional complexity of CSI in order to aid international business (IB) scholars, practitioners and policymakers achieve a clearer understanding of the mechanisms that may penalize and subsequently deter, MNE irresponsibility.

Design/methodology/approach – In presenting the approaches taken by social regulation researchers, and IB policy scholars to understand MNE irresponsibility, we propose a definition of CSI and explicate the various mechanisms associated with deterring MNEs from behaving irresponsibly.

Originality/value – This study enriches our understanding of *what* CSI is, *why* we are likely to observe it in practice and *how* it affects MNEs. Historically, a primary hurdle to the advancement of research concerning CSI has been the lack of a precise definition tailored around what CSI is in relation to a diverse international business environment. MNEs manage complex global operations and supply chains, situated within varied institutional contexts, with often competing stakeholder perceptions, pressures, and demands. Should MNEs be identified as having engaged in CSI, they may experience pressures by formal institutional mechanisms led by government bodies, as well as by informal, social regulatory mechanisms, where deterioration in stakeholder perceptions and activist social movements can lead to damages in MNE reputational assets, financial losses and stock market underperformance. Accordingly, we offer a definition of CSI that is sufficiently nuanced to capture the complexity of the contemporary IB environment, as well as a framework that, we propose, presents a clearer understanding of the institutional mechanisms that may deter MNEs from behaving irresponsibly. By encouraging scholars to examine the institutional complexity of MNE CSI, we hope to contribute towards building a bridge which connects the IB policy and social regulation research streams.

Keywords: corporate social irresponsibility (CSI); institutional complexity; institutional theory; international business policy; social regulation; corporate reputation; corporate social responsibility; activism; non-market strategy

Introduction

While significant strides have been made in recent years to understand how multinational enterprises (MNEs hereafter) may be penalized, and subsequently, deterred from engaging in corporate social irresponsibility (CSI) (Buckley *et al.*, 2018a; Castro *et al.*, 2020; Colovic *et al.*, 2019; Giuliani, 2019; Nardella and Brammer, 2021), MNEs continue to be accused of behaving irresponsibly. Accusations of irresponsible MNE behavior include the working conditions violations at the fashion brand Boohoo in the UK, the abuse of market power by Facebook in Australia, and very recently, the opioid crisis in the United States, which has, so far, led to several large multinational pharmaceutical companies - as well as the consulting giant McKinsey - settling litigation charges in connection with business malpractice which contributed to nearly 50,000 opioid overdose fatalities in the U.S. in 2019 (drugabuse.gov, 2021).

Yet, despite the often complex, severe and urgent nature of CSI (Buckley *et al.*, 2017; Whittington and Yakis-Douglas, 2020), IB research has mainly drawn on a set of implicit assumptions about the CSI construct, rather than developing a precise definition. Such assumptions concerning CSI have been predominantly informed by an international business (IB) policy perspective, which typically focuses on how instances of CSI can be detrimental to MNE performance; as institutions, through litigation and regulatory sanctions, are expected to ‘step-in’ to penalize MNEs following their irresponsible behavior (Buckley, 2018b; Buckley and Casson, 1976; Karpoff, 2020).

In parallel, a social regulation perspective has also emerged; whereby MNEs are understood to be deterred from behaving irresponsibly because, in addition to the risks associated with government enforced business regulation, MNEs experience significant ‘informal’ pressures from a range of stakeholders (Aguilera *et al.*, 2015; Nardella *et al.*, 2020). From a social regulation perspective, CSI is penalized and deterred as a consequence of the disapproval and sanctions evoked by non-governmental stakeholders, that may ultimately lead to diffuse alterations in stakeholders’ market and non-market behavior (Barnett *et al.*, 2020; Kölbel *et al.*, 2017; Oh, 2019). Alternatively, social forms of business regulation may be enacted through organized, activist movements that are designed to reduce the negative externalities of MNE behavior (McDonnell and Werner, 2016; Oh *et al.*, 2013; Oh *et al.*, 2020). This is because stakeholder perceptions of CSI can translate into critical damages to reputation-based firm-specific advantages, followed by reduced profits and market share (Sweetin *et al.*, 2013),

declines in stock market performance (Ertimur *et al.*, 2012; Oh *et al.*, 2020), and may even result in MNE divestment from the international markets where CSI has emerged (Wang and Li, 2019). Though the social regulation literature has offered a wealth of insights, it remains under-discussed in IB.

However, both the IB policy and social regulation perspectives regarding MNE irresponsibility often assume that CSI is fundamentally ‘bad’ for businesses, and in doing so, have yet to fully appreciate that the relationship between the institutional context and MNE irresponsibility may be less straightforward (Nardella *et al.*, 2020). MNEs tend to manage numerous international operations, with complex global supply chains, in various ‘formal’ and ‘informal’ institutional environments (Fiaschi *et al.*, 2020). Hence, environmental complexity and heterogeneity may mean that MNEs experience diverging rules and norms about what constitutes ‘irresponsible’ business practice (Brammer *et al.*, 2012; Kolk, 2016). Ultimately, idiosyncratic combinations of circumstances will create ‘grey areas’ between formal and informal standards that MNEs could identify and exploit (Narula, 2019/2020).

Therefore, *how can MNEs be deterred from behaving irresponsibly?* In order to further the research agenda concerning CSI in IB, far less common are (1) a definition of CSI relevant to the complex IB context; and (2) a framework that explicates both the legal and social components of CSI, particularly as they unfold in a complex, diverse and often divergent institutional landscape. Overcoming these two primary obstacles is important because, when complexities associated with CSI emerge, researchers need to be able to ascertain and expound upon what they are observing, so that comparisons can be made, and more MNE CSI research can be accrued over time. Accordingly, this paper offers a definition of CSI relevant to the field of IB and management. We then present a broad framework that zooms-in on the institutional complexity of the IB environment in order to shed light on, and explain, the nuanced process of penalizing and deterring MNE irresponsibility.

Background: Challenges Presented by Institutions, MNEs and CSI

By now, we know that institutions – “controls on the behavior of individuals and firms” – (Cuervo-Cazurra, Mudambi and Pedersen, 2019: 152) provide a framework for how firms manage international operations (Aguilera and Grøgaard, 2019). Yet, institutions are complex and multi-dimensional

(Cuervo-Cazurra *et al.*, 2019; Fainshmidt *et al.*, 2016). Inconsistencies between multiple institutional dimensionalities may have significant and contradictory impacts on managerial decisions and MNE behaviour. MNEs are frequently exposed to institutional complexity whenever they encounter competing and/or inconsistent prescriptions from various institutional logics, generally around what constitutes legal and socially (un)expected behavior and how the firm can become successful (Greenwood *et al.*, 2011; Marano and Kostova, 2016). Institutional logics – “socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules” - offer guidelines about how to behave in a context and understand the social world (Thornton and Ocasio, 1999: 804; Waeger and Weber, 2019). For MNEs, dealing with multiple institutional logics may mean that at least some (formal and informal) pressures encountered will be competing and inconsistent over time and across different international markets (Kraatz and Block, 2008).

Practical examples of CSI illuminate the ‘real-life’ challenge of understanding institutional complexity and its outcomes. In the natural resource sector, for example, the mining giant Rio Tinto was encouraged by Australian government agencies to complete the extraction of high-grade iron ore (with an estimated value of £75million), despite appeals from numerous stakeholder groups attempting to renegotiate the agreement in order to avoid the destruction of an important historical Aboriginal site (FT, 2020). Similarly, following significant pressure and criticism from both the UK public and media, companies such as Amazon, Google and Microsoft continued to ‘legally’ exploit corporate tax havens based in the UK and Europe in order to significantly minimize (or avoid entirely) their fiscal contributions (Jones *et al.*, 2018). At the beginning of the Covid-19 pandemic, divergence between institutional logics became evident in May 2020, when the electric vehicle giant Tesla refused to comply with lockdown rules mandated by the California state government. Following signs of public sympathy, Elon Musk, CEO of Tesla, defied Alameda County officials’ warnings that working conditions at the factory were ‘unsafe’ by calling back its employees to its Fremont factory. Accordingly, the complexity that emerges in instances of CSI, raises important questions regarding the role of government institutions and non-governmental stakeholders in formally and informally deterring MNE CSI.

Definition of Corporate Social Irresponsibility

For IB scholars studying CSI, a sufficiently precise definition of CSI has been lacking. CSI has been conceptualized to encompass aspects of organizations transgressing their legal boundaries (Engelen, 2010; Giuliani, 2019), alongside more subjective moral violations (Nardella and Brammer, 2021). However, challenges have emerged in integrating the objective and subjective elements of CSI. Some descriptions of CSI have focused on its outcomes: “actions that result in (potential) disadvantages and/or harms to other actors” (Lin-Hi and Müller, 2013, p. 1932). Though this definition is sufficiently broad to capture a wealth of organizational behaviors, precision concerning which MNE behaviour qualifies as CSI is lacking. As such, almost all MNE strategy can be conceptually linked to potential disadvantages to other ‘actors’, including competitors, partners and suppliers.

Alternatively, scholars have focused on the subjective perceptual antecedents of CSI, suggesting that “corporate behavior is socially irresponsible only to the extent that observers perceive it as such” (Lange and Washburn, 2012: 301). Again, while this approach has merits from the perspective of breadth and inclusivity, greater inclusion of the objective aspects of CSI is warranted. In Strike *et al.* (2006) CSI is “the set of corporate actions that negatively affects an identifiable social stakeholder’s legitimate claims” (p. 852), although the authors do not fully recognize that some CSI accusations may hold legitimacy in a given context but may be perceived as illegitimate in others.

Further challenges have arisen concerning CSI’s definition as a consequence of the complexity of the IB environment. For example, researchers have suggested that misconduct by organizations can be defined as “behavior in or by an organization that a social-control agent judges to transgress a line separating right from wrong; where such a line can separate legal, ethical, and socially responsible behavior from their antitheses” (Greve *et al.*, 2010: 56). Whilst this definition is, arguably, significantly more precise in integrating the objective and subjective aspects of irresponsible corporate conduct, it may be difficult to apply consistently to the context of the MNE. In particular, we note that CSI behavior may be subjectively attributed to the MNE by its stakeholders, even when the social harm was enacted, objectively speaking, by a partnering organization such as a supplier or distributor of the firm. Resultantly, MNEs may be cast as the main purportator of CSI despite their distance, and (potential

lack of) knowledge of the social harm and/or legal accountability (Dewan and Jensen, 2020). These issues often arise, for instance, with public disclosures of CSI within global supply chains (Hoejmose *et al.*, 2014). Progress in this area of research requires the description of precise concepts (Blumer, 1931; Greve *et al.*, 2010), and therefore, we offer the following definition:

Corporate social irresponsibility: *claims of stakeholder impairing behavior ascribed to organizations following perceived or substantive inter/intra-organizational (in)actions which diverge from stakeholder expectations, rules of law and/or institutional logics in home or host market(s).*

Our rationale for this definition of CSI is threefold. First, we avoid focusing on CSI behavior as either identified by law or characterized merely by informal institutions via social regulation, as both may qualify the claim of CSI and are likely to interact to deter CSI. Second, our definition emphasizes the - often overlooked – process of firm ‘inaction’. By specifying the role of organizational inaction in our definition, new perspectives on the failure of MNEs to avert stakeholder impairment become available. Critically, MNE inaction may be considered irresponsible by its various publics, despite the firm’s objective distance from, and knowledge of, social harm. In practice, Apple Co.’s association with poor employment practices, labor exploitation and loss of human life at their main supplier, Foxconn Technologies illustrates that despite Apple not being legally responsible for enforcing labor standards, accusations of CSI for Apple’s *inaction* resulted in pressure to better monitor their international partners. Third, our definition also identifies that there may be diverging institutional logics which curtail(promote) CSI, but these may not be applied consistently, and differ in strength and quality between the home-host market (and naturally, between the different host markets in which the firm operates). This may, therefore, mean that a firm operating in two different locations may engage in the same activities, but in only one of these host locations, will the firm encounter local institutions and stakeholders who are more able/willing to identify, as well as formally and/or socially penalize irresponsible (in)actions. The previous example of poor working conditions at the fashion brand Boohoo, illustrates that, when CSI arises in countries where government and social forms of regulation

are strong (Leicester, UK), companies are more likely to be both accused and penalized for their transgressions. Contrastingly, in other locations, such as Bangladesh, claims of CSI, such as poor working conditions, are relatively muted, because the ability and willingness by local governments and stakeholders to hold companies accountable, is significantly more reduced (Narula, 2019).

International business policy and CSI

IB policy research emphasizes that a deeper understanding of *formal* regulatory mechanisms can facilitate nuanced policies capable of placing pressure on MNEs to behave responsibly (Buckley, 2018a; Narula, 2019/2020; Verbeke, 2020). Regulatory, political and economic institutions represent the codified and explicit rules that shape and constrain interactions amongst societal members, including organizations (North, 1990). Given their embeddedness in the “rule of law”, formal institutions are expected to offer solutions to problems in society, to ensure order, transparency, stability and to provide the authoritative guidelines for behavior which businesses need to adhere to (Henisz, 2000). For instance, regulatory institutions demand conformity to standardized practices around setting up a business and operating in a country market; enforcement of regulatory institutions is thus expected to increase transparency and reduce uncertainty. In turn, violations of formal institutional standards – including MNE irresponsibility (e.g., human rights violations, child labor, product harms, environmental disasters), are expected to be sanctioned, thus threatening the performance and even survival of the MNE (Cuervo-Cazurra, 2006; 2008). From an IB policy perspective, however, the relationship between formal institutions and CSI is often over-simplified by isolating formal institutions from all other institutional forces, which are generally considered as less influential and less salient.

Therefore, we argue, a more nuanced and granular understanding of IB policy is important because MNEs manage complex global operations, and therefore, respond most efficiently to clear and formal instruction from those bodies which are salient to their strategic objectives and economic performance (Buckley, 2018b; Buckley and Casson, 1976). In practice, scholars have found that there will be instances where the benefits of engaging in CSI outweigh the risks (Hirsch and Milner, 2016), which means that MNEs may be insufficiently motivated to consistently reinforce policy requirements. Given the many practical examples of persistent CSI behaviors, ranging from mining controversies to

poor employee practices, child labor, and consumer harm, it is apparent that, despite the adoption of stringent laws and financial penalties to curtail CSI, MNEs may expect no penalties and even positive returns from CSI (Cuervo-Cazurra and Genc, 2008; Cuervo-Cazurra, 2016; Zyglidopoulos *et al.*, 2020).

Some studies have already pointed to the limitations with formal regulatory mechanisms designed to motivate MNEs to behave responsibly (Hill *et al.*, 2019; Wälde, 2002). Notable amongst policy limitations is the lack of emphasis on the implications of limited liability, i.e., shareholders are only residually liable for the actions of managers, in that they are not legally responsible for CSI outcomes and, when penalized by law, shareholders are only at risk of losing their initial investments (c.f. Mitchell, 2001). The operational complexity of large organizations, particularly MNEs, also makes it difficult to identify liability. Parent firms may be regarded as separate legal entities from their subsidiaries, and thus incurring limited, or, indeed, no liability for subsidiary behavior (Ireland, 2010). Such policies may have contributed to institutionalizing CSI practices such as, for instance, when corporations – governing their GVCs via intra-MNE but also inter-MNE governance - take advantage of poorly enforced labour standards in transition economies, placing factory workers on temporary contracts and delaying the upgrading of the production facilities themselves (c.f. Narula, 2019; 2020).

By emphasizing the salience of formal institutions, IB scholars risk neglecting the role of social means of enforcement (Cuervo-Cazurra *et al.*, 2019). Because CSI is broadly associated with the formal institutional environment in which the firm operates, current studies do not fully consider the relevance of intra-organizational factors, such as firms and managers in avoiding or enacting CSI behaviors, in addition to the role of various intra-organizational factors among supply chains and industry sectors.

Social regulation and CSI

Contrastingly, the social regulation literature has placed greater emphasis on the links between CSI, stakeholder disapproval and unfavourable firm outcomes, such as reputation erosion and reduced (stock) market performance. Here, corporate reputation “serves as an informal enforcement mechanism” (Atanasov *et al.*, 2012: 2215), because the erosion of firm reputation may lead to loss of competitive advantage (Barney, 1991), and threaten performance (Carberry *et al.*, 2018). The threat of

social or ‘soft’ regulatory mechanisms (Fiaschi *et al.*, 2020) may deter CSI, due to non-governmental stakeholders’ capacity to erode reputation-based advantages. Here, reputations are viewed as collectively held perceptions (Ravasi *et al.*, 2018), sensitive to stakeholder contestation. Since firm behavior may not always be rationally interpreted (Surdu *et al.*, 2020), for MNEs, this may mean that stakeholder expectations of what constitutes (ir)responsible behavior may vary significantly with the institutional logics of a given international host market.

Furthermore, evidence on the association between CSI, reputation and social regulation remains mixed. Some studies report a significant decline in reputation-based FSA following CSI (Karpoff *et al.*, 2005; Karpoff *et al.*, 2008; Zyglidopoulos, 2001), whereas others illustrate a nuanced process of reputation erosion, dependent on the type of firm associated with CSI (Karpoff *et al.*, 2005). Recently, Nardella *et al.* (2020) found that, overall, CSI does not have a significantly negative impact on firm reputation, and that the social regulation process was only enacted for firms which had been known to be highly socially responsible, and thus violated stakeholder expectations. Conversely, they also found that stakeholders’ limited expectations of firms can limit their desire to sanction CSI.

Increasingly, social regulation has also been shown to be enacted through the ability of stakeholder groups to take collective action (Oh *et al.*, 2013/2020). In contrast to more diffuse social regulatory mechanisms, activist social movements may also exert significant regulatory influence on MNEs depending on stakeholders’ ability to organize and mobilize their communities (King, 2008; Oh *et al.*, 2020). Social movements and the strategic behavior of organized activist groups take place outside of the boundaries of formal, regulatory institutional structures (although they may also be required to give legitimacy to activist actions – for more, see Oh *et al.*, 2020). Non-governmental organizations (NGOs), consulting firms or expert groups with multi-stakeholder expertise have become important in the discussion about socially regulating the behaviors of firms (c.f. Brès *et al.*, 2019). In turn, organizations are expected to develop their “defensive performance repertoires” (McDonnell, 2016) to manage threats from social activist movements, which may, if managed ineffectively, result in amplifying reputational losses. In sum, from a social regulation perspective, the quality of social institutions is represented by the norms and views of the most relevant stakeholders for each given

MNE, in each given international host market. Yet, social regulation research is often limited in its appreciation of the varying and complex formal institutional landscape.

An Institutional Complexity Perspective of CSI

We developed a conceptual framework that aids our understanding of the ‘dual process’ of formal and informal deterrence mechanisms for CSI. However, formal and informal institutions may carry competing logics, which makes it difficult to understand whether and how an organization should/will adhere to both. Institutional logics may also be subject to international variation, simultaneously exposing MNEs to various institutional logics in different international host markets. Hence, a core challenge for IB scholars is to identify misalignments and craft alignments between deterrence mechanisms provoked by social institutions and those evoked from formal institutions.

The idea that business policy and social regulation – together – enact pressures on businesses is not a completely new one. In classical free market economics, the work of Adam Smith outlined how relevant legal structures, in addition to ‘natural’ social functions “approve and reward acts that benefit society and disapprove and punish acts that harm it” (“The theory of Moral Sentiments”, Part II, section I, Chapter IV). Smith identified social regulation as different from formal, regulatory institutions, with the latter considered to even collide, at times, against the interests of the broader society.

Institutions are complex, multidimensional and inter-dependent (North, 1990). Therefore, we propose that, the tensions that exist between formal and informal institutions, i.e., between policy and social regulation prescriptions (Marano and Kostova, 2016) may, however, account for some of the challenges experienced thus far in deterring and punishing MNE (CSI) behavior. This means that firms may sometimes even be rewarded by their stakeholders for ‘bad’ behavior, in the absence of formal institutions, and vice versa. Firms may also operate in countries where both formal and informal institutional pressures are low, or countries where both types of pressures are high. Yet, firms may also operate in country contexts where only formal(informal) institutions penalize CSI behavior, thus dealing with a mixture of incentivizing and deterring mechanisms. Importantly, the heterogeneity in institutional pressures is likely to influence organizational responses to this cocktail of contextual

factors, as competing demands will likely create opportunities for actors (Marano and Kostova, 2016) to enact agency (Oliver, 1991) and choose to abide by those regulatory mechanisms most convenient to their circumstances and goals at a given point in time. In some cases, as we discuss later, firms may even strategize to actively influence their institutional environments.

Combining formal (regulatory) institutions and informal (social) institutions (both of which can be strong or weak, relative to the institutions of other countries), leads to four main combinations illustrated in *Figure 1* and which can be used to identify (and deter) CSI. We discuss each combination of institutional mechanisms in more detail below.

(Insert Figure 1 about here)

Strong formal and weak informal institutional disincentives (Figure 1, Quadrant 1)

In *Quadrant 1*, institutional complexity emerges from the misalignment between strong formal CSI disincentives and weaker social CSI disincentives. Here, we propose that, whether or not firms will significantly engage in CSI depends on the enforcement of formal institutions, which means that formal mechanisms are also those primarily expected to deter MNE CSI. In this quadrant, we may observe an overreliance on formal mechanisms such as regulation and law, with stakeholder perceptions being less influential in curtailing particular CSI types which are not salient to relevant formal institutions. Pressures exerted by formal institutions may be particularly relevant for firms which invest internationally to gain access to key assets and resources located in those countries. At the same time, as illustrated with the earlier example of Rio Tinto's environmental CSI, host market formal institutions are often prone to encourage investments from large MNEs, in order to benefit from the financial rewards that these investments may bring. In turn, some MNEs engage in corporate political activities (CPA) which can often result in some form of "regulatory capture" (Hadani *et al.*, 2018), limiting the power of formal institutions to regulate CSI behavior. In the financial services sector, the Financial Services Authority (FCA) received significant public criticism for inappropriately monitoring the lending activities of the banking sector in the period leading to the 2007-2009 financial crisis. In the aviation industry, the Federal Aviation Administration (FAA) resigned its safety certification duties to

large manufacturers such as Boeing, with these companies now being able to decide for themselves, with limited oversight, whether planes are suitable for flight; a regulatory decision which was questioned when the crash in Ethiopia led to the loss of one hundred and fifty-seven lives (The New York Times, 2020). MNEs may find themselves in a context of weaker social regulation, particularly when they offer unique technologies, products and services that are difficult to substitute, and where stakeholders such as customers, employees or investors have less ability/willingness to comprehend the technical and moral aspects of corporate behavior in order to appropriately penalize CSI.

In theory, relatively strong formal institutions should be sufficient in curtailing CSI, facilitating organizations to be both ‘dynamic’ and ‘decent’. However, in order to avoid the risk of stifling innovation and growth, formal institutions cannot (or will not) outline an all-encompassing set of prescriptions for every organizational setting (Hill *et al.*, 2019; Wälde, 2002). Recognizing this tension, social institutions play an important role in identifying transgressions of normative boundaries. Here, scholars have argued that MNEs may not take advantage of the weaker social regulation in different markets, due to the spillover effects that such behavior may have globally upon their reputations (Kostova and Zaheer, 1999; Wang and Li, 2019). While corporate reputations are expected to serve as an informal mechanism of societal enforcement, particularly in settings with information asymmetries and incomplete contracts (Atanasov *et al.*, 2012), recent research highlights that, for many instances of CSI, reputational decline in one market does not necessarily lead to reputational decline in other markets (Surdu and Nardella, 2020). As attention to CSI is often limited, stakeholders may pay most attention to, and care mostly about, those CSI events which pose a direct threat to themselves or their ingroup. For example, CSI events such as environmental spills and pollution tend to threaten our ecological system overall, but the effects are mostly felt at the local level (Safford *et al.*, 2012), and hence, stakeholders may only penalize CSI when direct impacts are observed and felt. The high performance of organizations such as Primark, H&M, Nike and Gap (amongst others), despite the many instances of worker rights CSI they have been accused of in relation to their developing market global value chain activities, are examples where firms possess and exploit the location-boundness of CSI. Another notable example in the consumer electronics market is Apple Co.’s controversial activities around 2019, when both Apple and their main supplier (Foxconn) were accused of violating worker rights at their

Chinese factories; the incident revealed that the company's reputation and performance in its home market (as well as globally) remained unaffected (Carroll and Olegario, 2020). Indeed, formal institutions enforced some changes being executed in working conditions and production facilities, but informal institutions did not exert any reputation penalties of serious consequence. In practice, amongst key stakeholders, employees were weak in negotiation power, investors understood that outsourcing activities to Chinese suppliers like Foxconn led to cost reduction and higher profits, and customers attribute high reputations to Apple due to being perceived as highly competent and innovative. In these examples, without social forms of regulation, CSI may not be penalized and hence, deterred.

Weak formal and informal institutional disincentives (Figure 1, Quadrant 2)

In *Quadrant 2*, both formal and informal institutions are weak. In countries with a combination of weak formal and informal disincentives, there is likely to be a strong risk of emergent CSI behavior. The activities of firms in the developing world are amongst the most well-documented examples (Narula, 2020). In theory, when entering international markets, MNEs are expected to adhere to the norms of both the formal and social institutions of those markets, in order to act as 'decent', socially responsible actors, as well as legitimize themselves and achieve superior performance. However, some MNEs have become successful in certain international markets *precisely by* exploiting weak institutions (Giuliani, 2019; Narula, 2020). In highly under-developed markets, such as frontier markets¹, a large proportion of the population lives and operates in what is referred to as the 'informal economy' (Narula, 2020). Formal institutions are not sufficiently developed to incentivize MNEs to adhere to, for instance, environmental standards, and employee health and safety codes. Without lead MNEs being incentivized to change their organizational practices, these firms are unlikely to pass on such incentives to their suppliers and partners, who operate in local markets such as Vietnam, Cambodia, or Bangladesh to name a few. Formal institutional actors, such as local governments and policy makers, often do not have the policies and procedures in place required to protect informal economies. In recognizing the

¹ For a classification of frontier economies, please see the FTSE country classification list: https://research.ftserussell.com/products/downloads/FTSE_Equity_Country_Classification_Paper.pdf?_ga=2.76905298.673932947.1610147850-511118057.1610147850

limitations of formal institutions in some markets, global institutions such as the United Nations are increasingly trying to incentivize responsible conduct. However, without the sanctions needed to enforce compliance, deterring CSI will likely remain difficult in weak formal and informal contexts.

In markets characterized primarily as informal economies, MNEs tend to operate in a ‘grey area’ (Jackson et al., 2012). As informal institutions have little motivation or power to regulate firm behavior, there is enhanced competition in the developing world to attract investment from MNEs, further weakening the power of formal and informal institutional mechanisms to disincentivize CSI. The example of *Rana Plaza* is a good illustration of ‘grey-area’ CSI behavior and its consequences in the developing world. The Rana Plaza plant, based in Dhaka, Bangladesh – house to five garment factories – collapsed over its workers, leading to the loss of 1,132 lives and injuring more than 2,500 people. These incidents – including fire-related incidents - are commonplace in Bangladesh, where workers are constantly exposed to unsafe work environments and employees have little to no protection or compensation for work-related incidents (often because MNEs have not been formally pressured to insure themselves against liability). However, without clearly defined rules, and a lack of ability and willingness to socially regulate firm behavior, lead MNEs lack information and incentives to avoid CSI-related risks. In a context with weak formal and social institutional pressures, alternative forms of social regulation, such as market intermediaries, and more specifically, NGOs, may deem it necessary to ‘step in’ to enact regulatory influence on MNEs by enforcing compliance with alternative institutional logics.

Weak formal and strong informal institutional disincentives (Figure 1, Quadrant 3)

In the case of relatively weaker formal, yet dominant informal, institutional CSI disincentives, as illustrated in *Quadrant 3*, whether or not firms will engage in CSI depends on the strength, nuance and duration of social regulatory pressure. This means that the responsibility to disincentivize CSI behavior is, to a great extent, outsourced to the (non)market. Opportunistic behavior against stakeholders, such as customers and investors, when enforced, may lead to reputation penalties which, we argue, may be equal to, or even greater than the potential financial losses. However, in practice, CSI does not always lead to reputation and market penalties (e.g., Maiorescu, 2016; Nardella et al., 2020); these findings are supported by many examples of firms which have been associated with CSI and have even experienced

reputational enhancements, such as Facebook's share price increasing significantly beyond pre-crisis levels, just one month after the high-profile Cambridge Analytica privacy scandal (CBS News, 2018).

To understand when, and how, social mechanisms disincentivize CSI, a more nuanced understanding is needed concerning *which specific CSI events* affect certain stakeholder groups more than others. Emotions and individual interests likely bias the process of informal, social regulation (Antonetti and Maklan, 2016), leading to stakeholders often ignoring firm misconduct (Barnett, 2014). We propose that CSI events that directly impact stakeholders likely elicit stronger emotionality from a particular stakeholder group, who may then react to penalize the firm (potentially) in the absence of formal disincentivizing mechanisms. For example, corporate governance controversies such as stock-options backdating or excessive executive compensation are widely discussed in business press in association with the world's largest MNEs; although these types of CSI may often escape formal penalties, like those enacted by the law, social regulation is expected to be undertaken by shareholders to penalize such firms (Dowling, 2014; Pfarrer *et al.*, 2010). In practice, the aforementioned corporate governance controversies may be less salient to, or understood by, broader stakeholder groups, such as customers or employees, and therefore, diffuse and consistent social regulation is unlikely.

When considering other groups of stakeholders, say customers, CSI behavior such as false advertising, product recalls and, moreover, product harm, may be more likely associated with social regulation through reputation and market performance decline. In the same vein, from the perspective of employees, CSI in the form of violations of human rights and discrimination may be most relevant (Madden *et al.*, 2016). Stakeholder biases and emotions are important, because, we argue, without the perceived similarity between stakeholders (customers, investors, employees) and those harmed by CSI, we are less likely to see a negative effect of CSI on reputation and performance, and thus, less likely to conclude that social regulation can broadly deter CSI. Such relationships are nuanced, and complex, as corporate reputations are grounded in stakeholder perceptions (Antonetti and Maklan, 2016; Lange and Washburn, 2012; Love and Kraatz, 2009; Hoffmann *et al.*, 2020; Nardella *et al.*, 2020; Surdu and Nardella, 2020) rather than the objective reality of how the firm acted in a given international market.

Relatedly, we also note that the strength of social regulatory processes on curtailing CSI behavior may vary with the type of reputation-based FSAs. A company's reputational capital can allow

it to withstand potentially negative short-term consequences of CSI and manage CSI effectively (Maiorescu, 2016). This may explain, in part, why companies which are amongst the “world’s most admired” such as Apple Co. or Facebook overcome the negative effects of CSI behavior. With regards to social regulation, pressures may be more consequential for firms whose reputations are less stable over time. Hence, firms with variable reputations may be more aware of the risks associated with social regulation and avoid behavior that endangers their reputation-based FSAs.

Strong formal and informal institutional disincentives (Figure 1, Quadrant 4)

Lastly, in *Quadrant 4*, the combination of strong formal and informal CSI disincentives, is expected to decrease the likelihood of MNE CSI behavior. Enforcement of formal mechanisms can give rise to institutional upgrading in international markets and attract further market investment, including investment from socially responsible firms (Cantwell *et al.*, 2010). Operating in environments with strong CSI disincentives may represent a source of FSA, as the firm may better learn how to comply with formal and informal regulation. Strong competing demands in international markets can provide a basis to improvise and innovate with regards to how organisations respond to challenges. Firms may acquire knowledge about legitimizing themselves in the eyes of formal and informal institutional actors and use this knowledge as a source of distinct competitive advantage in other international markets.

Typically, intermediaries between the organization and its institutional environment, such as non-governmental organizations (NGOs) (Gereffi *et al.*, 2001), consulting firms (Brès & Gond, 2014), or expert groups (Ghafran & O’Sullivan 2013) can assist MNEs in adequately complying with strong institutional rules and norms (Gereffi *et al.*, 2001) or place regulatory influence on MNEs when irresponsible behaviour is disclosed (Oh *et al.*, 2020). Thus, intermediaries of different kinds, and with different roles, are understood within the broader management literature as ubiquitous to the process of strategically managing institutional complexity (Eberlein *et al.*, 2014). In resource intensive industries such as mining, firms have experienced strong pressures from stakeholders who engage in collective action. Such actions can reduce the environmental risk posed by the entry of these firms in certain regions and is particularly effective in the presence of formal institutional support (c.f. Oh *et al.*, 2020).

Alternatively, MNEs which cannot comply with both formal and informal pressures may not enter certain international markets. Walmart's experience in Germany is one such example (Tsui-Auch and Chow, 2019); whereby the company encountered formal pressures to avoid employee CSI (worker treatment and wages) and competitive CSI (selling products under production cost), resulting in litigation risks. Informal pressures from employees, customers, and the broader community of partners and suppliers led to a reduction in profits, a decrease in market share and significant reputational damage in that market, leading to market divestment and retrenchment. Therefore, strong institutions can create both barriers to irresponsible behaviour from MNEs, as well as learning opportunities for those firms which choose to understand and comply with both types of institutional pressures.

Discussion and future research

Scholars have been increasingly calling for greater attention to the problem of deterring CSI (c.f. Buckley, 2018a; Whittington and Yakis-Douglas, 2020). Some researchers have simplistically attributed CSI to MNE malevolence (Bakan, 2005), rather than emerging as a consequence of institutional complexity. We encourage IB scholars to move away from exclusively looking at formal institutional mechanisms and theories to understand CSI, because these have largely proved insufficient, on their own, to understand heterogeneous MNE (CSI) behavior. Accordingly, institutional complexity has emerged in the context of an evolving IB landscape of potential social regulators (Devinney, 2009). Pressures for firms to perform in the different markets - on the one hand - and a diverse landscape of institutional logics and pressures - on the other - requires MNEs and their managers to engage with profound challenges around environmental, social and governance concerns.

The matrix we proposed serves a number of purposes to enrich future research. To start with, *Figure 1* offers an initial framework for researchers to identify the types of pressures that exist in an international market. Firms may learn to comply with both formal and informal rules to develop institutional capabilities and thus, an institutional advantage (Oliver, 1997) or may choose to exit or avoid entering those markets altogether. Conversely, international markets may be characterized by poorly enforced formal institutions and weak informal institutions – this constitutes a problem because

these countries are attracting foreign investment but are not extracting all potential benefits from inward investment, as firms use inter-personal relationships and non-market strategies to circumvent norms and socialize negative CSI outcomes. In countries where institutional deterring mechanisms are weak, we may witness virtue signalling by firms (Brower *et al.*, 2017; Grappi *et al.*, 2013), but (most likely) without substantive actions needed to suppress irresponsible behavior. Weak deterrents can become a point of attraction for foreign firms in host markets where MNEs are able to overcome formal institutional penalties by actively engaging in political strategies.

With respect to future research concerning CSI, a core challenge for IB research is the crafting of alignments between home and host market regulatory mechanisms in their theorizing. In practice, there is a high degree of heterogeneity when it comes to institutional pressures for MNEs (Wang *et al.*, 2016). The penalties associated with CSI may be greater in some countries, and weaker in others. When firms are confronted with novel institutional logics that conflict with those which they have become accustomed to, at home or in other international markets, the question of how MNEs reconfigure how they react and adhere to institutional logics, necessitate further research. Under high levels of heterogeneity in terms of home and host formal and social regulatory pressures, firms will exercise the right to adopt those patterns of behavior which suit their goals at a given point in time. Firms can be expected to engage in a process of prioritization of institutional pressures (Durand *et al.*, 2019), since they may not be able, or have the resources to, adhere to home and host pressures simultaneously (Oliver, 1991). Hence, effort to suppress CSI among firm subsidiaries and international operations may become reduced. In turn, when the formal and informal regulatory environment is attentive to CSI and actively deterring it, there may be considerably less variation in CSI outcomes. We recognize that homogeneity will strengthen the ability of regulatory institutions to enact pressures that may curtail MNE CSI, as the cues received by the firm from different markets are consistent and more salient.

Critically, due to the emergence of social media, we have witnessed an evolution in the ability and (potential) willingness for more diffuse forms of social regulation to organize into collective actions against organizations. Enabled by new technologies and, particularly, social media platforms, stakeholders can now engage in organized forms of regulatory activities, as is evident in the LGBTQ, BLM and gender equality social activist movements. Through prominent collective actions, the impacts

of globally organized social movements may be increasingly non-location bound, placing MNE managers at the heart of new challenges and opportunities to engage with their global stakeholders. Infomediaries such as the press, have always been of historical importance, due to their role in shaping stakeholder expectations and opinions of the firm, and thus the reputation and legitimacy of that firm in the market (Zavyalova *et al.*, 2012). Yet, informediaries such as the social media are now playing a dominant role in stakeholder collective action, creating institutional spillovers which can affect formal institutions. Such processes are evident in the role played by Facebook and Twitter in shaping political debates during the Arab Spring, particularly in countries such as Egypt and Tunisia, where civil society members rebelled against, among other social concerns, low living standards (Wolfsfeld *et al.*, 2013).

As with all matrix models, we must consider how moving from one stage to the other (horizontally or vertically) will influence CSI. How dynamic are the mechanisms we have proposed? Based on the examples provided earlier, we can argue that complex institutional mechanisms are also dynamic and interdependent, as they may differ from one international market to another, and the effectiveness of CSI pressures may be further contingent on the characteristics and strategies of firms. Firms have varying degrees of power over formal institutions, which they can leverage to avoid liability, due to factors such as their size, history and potential to contribute to local economic development (moving from Q1 to Q2). Firms may also exert power over social institutions, which informally regulate their behavior and, through organisational responses, prior reputations and CSR initiatives, firms may reduce negative CSI consequences (moving from Q3 to Q2). MNEs are often simultaneously socially responsible and irresponsible – e.g., companies such as Amazon have been accused on many occasions of tax avoidance, whilst becoming the world's largest corporate acquirer of renewable energy (The Guardian, 2020). Over time, as institutional complexity changes and takes a different form, stakeholders may alter their expectations, which means new circumstances emerges, which firms must respond to.

Firms are also known to engage in institutional arbitrage (Boisot and Meyer, 2008), exploiting differences between institutional environments (rather than be deterred by them). For example, the UK supreme court made the decision to allow Nigerian farmers and fishermen to sue Royal Dutch Shell in English courts over years of oil spills and breaking environmental standards in Niger Delta, actions associated with Shell's local subsidiaries (Reuters, 2021). Institutional arbitrage could therefore

decrease the incentives of firms to exploit formal institutional underdevelopment in certain markets and enact agency. Whereas non-market strategies such as CPA may reduce pressures from formal institutions (moving from Q1 to Q2), institutional arbitrage may increase them (moving from Q2 to Q1). Institutional arbitrage - as per the example of Shell - is important to deter subsequent CSI, as it creates precedent to hold MNEs in this industry liable for their activities in global markets.

Lastly, there is a high level of heterogeneity in the motivations and modes used by MNEs to enter international markets, which likely influence efforts made by these firms to adapt to different types of formal and social institutional pressures. When firms invest significantly in a market, they have a greater economic dependence in that market and therefore, institutions have a greater opportunity to exert pressures. For instance, direct investment requires a higher level of (generally longer-term) commitment, transfer of capital, exchange of expertise and learning, meaning that firms depend much more on local authorities to perform in the market and accomplish their goals.

Conclusion

Overall, it is our hope that we have convinced the community of IB scholars that herein lies a significant opportunity to engage in CSI research. By offering a definition of CSI relevant to IB, we have drawn attention to the critical, yet often overlooked, role played by informal, social institutions in curtailing MNE CSI. We propose an institutional complexity framework which explains the multifaceted pressures MNEs face when behaving irresponsibly at home and abroad. Our hope is that this paper inspires discussion and debate at a time when MNEs are increasingly accused of behaving irresponsibly.

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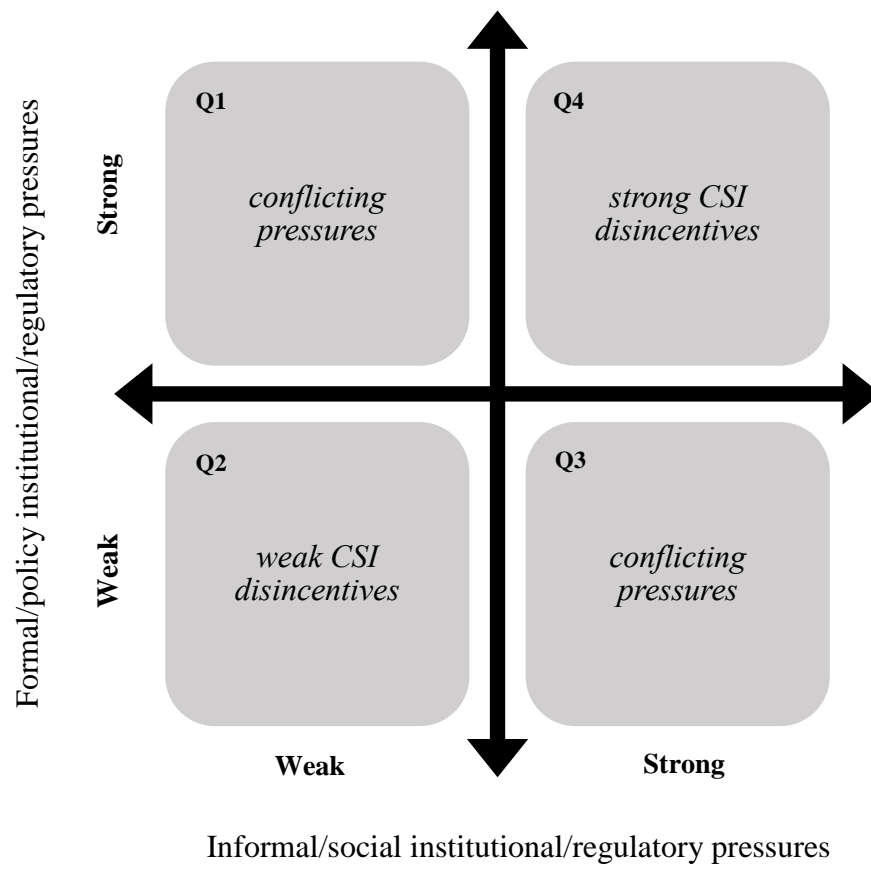


Figure 1. Formal/policy and informal/social regulatory institutions matrix