



Legal rights, national culture and social networks: Exploring the uneven adoption of United Nations Global Compact[☆]



Dina Abdelzaher^a, Whitney Douglas Fernandez^b, William D. Schneper^{c,*}

^a University of Houston-Clear Lake, Suite 3321, 2700 Bay Area Blvd., Houston, TX 77058, USA

^b San Diego State University, Fowler College of Business, SSE-3411, 5500 Campanile Drive, San Diego, CA 92182, USA

^c Franklin & Marshall College, Harris 131, 415 Harrisburg Ave., Lancaster, PA 17604, USA

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ABSTRACT

We develop and test a novel framework for explaining cross-country differences in corporate participation in a prominent initiative often associated with social responsibility, United Nations Global Compact (UNGC). Drawing upon neo-institutional and cross-country comparative literatures, we explore the impact of (a) stakeholder legal rights; (b) national culture, and (c) the country's social network position, as reflected by international trade patterns. Results suggest that firms from countries with strong labor rights, collectivist cultures, and long traditions of stock trading join UNGC at higher rates. Our framework can be modified for future cross-country research on the adoption of practices.

1. Introduction

For over a century, researchers have explored how new ideas and practices circulate across organizations and social systems. Within the international business realm, substantial research has focused on why some business innovations gain widespread popularity in certain countries, but not others (Brandau, Endenich, Trapp, & Hoffjan, 2013; Guillén, 2000; Park, Borde, & Choi, 2002; Stevens, Kidwell & Sprague, 2015). While hardly new, corporate social responsibility (CSR) comprises an important set of ideas and practices that has grown to become “one of the most visible management themes of the 21st century” (Moratis & Cochius, 2011, p. 1). Despite CSR's increasing global prominence, the impact of the CSR movement differs dramatically across both firms and countries. Even the types of CSR initiatives practiced by firms vary depending on the country context (Visser & Tolhurst, 2010). Researchers still possess an incomplete understanding of how various country-level factors influence a firm's attitudes and approach toward CSR (see Mattingly, 2017; Kolk, 2016; Kolk & Van Tulder, 2010). We seek to address this important topic by developing and testing a new framework in order to examine a prominent practice related to CSR. Specifically, we explore how environmental factors affect the likelihood that publicly-traded firms from various countries will join United Nations Global Compact (UNGC). Our theoretical framework represents an integration of three

differing approaches used in past research to explain cross-country variations in the adoption of practices.

UNGC is often regarded as the world's largest and most prominent voluntary corporate citizenship initiative (Cetindamar & Husoy, 2007). Voluntary initiatives refer to self-regulatory agreements that encourage participating organizations to monitor and improve their social performance (Steelman & Rivera, 2006). Established in 2000, UNGC now includes over 12,000 member organizations, each of which pledges to uphold ten “core” principles related to human rights, labor standards, environmental responsibility, and anti-corruption. The level of UNGC membership varies greatly across countries. For instance, 15.1% of the publicly-traded firms in France and 11.7% in Norway were UNGC members as of 2015, while participation rates were substantially lower in Japan, Turkey, Thailand, and the United States (3.3%, 3.3%, 1.9% and 1.7%, respectively). This uneven participation makes UNGC a compelling context to examine the country-level drivers affecting the adoption of such voluntary initiatives.

In formulating our theory, we draw inspiration from the neo-institutional perspective (see DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Neo-institutionalism proposes that organizational practices are less the result of rational choice and managerial preferences, but are instead shaped by powerful external forces. To identify the specific environmental forces to include in our model, we also rely upon the cross-country comparative literatures on CSR and the diffusion and

[☆] The order of authorship is listed alphabetically.

* Corresponding author.

E-mail addresses: abdelzaher@uhcl.edu (D. Abdelzaher), wfernandez@sdsu.edu (W.D. Fernandez), william.schneper@fandm.edu (W.D. Schneper).

adoption of practices.¹ Based on these combined perspectives, we develop and test hypotheses evaluating the impact of (a) shareholder and labor legal rights (Soleimani, Schnepfer & Newbury, 2014); (b) national cultural differences associated with individualism (Triandis & Gelfand, 2012) and financialization (Davis & Kim, 2015); and (c) the country's social network position in the global economic system, as reflected by international trade patterns (Guler, Guillén & Macpherson, 2002; Smith & White, 1992).

Laws and regulations, culture, and social networks are amongst the most important and frequently discussed external causal factors within the entire body of diffusion and adoption scholarship (see Chor, Wisdom, Olin, Hoagwood, & Horwitz, 2015; Strang & Meyer, 1993; Sturdy, 2004; Wejnert, 2002). These three types of environmental factors have most often been explored in separate studies in isolation of each other. While two of these environmental categories are sometimes included in the same study, all three are rarely researched in concert with one another. In this study, we seek to examine all three types of influences in order to construct a more comprehensive theoretical framework. Through this new model, we hope to capture a fuller understanding of the various factors influencing the uneven adoption of an organizational practice across countries.

While country-level variations in UNGC participation have previously been studied empirically on rare occasions (see Bernhagen, Mitchell, & Thissen-Smits, 2013; Lim & Tsutsui, 2012), this research developed and tested hypotheses based on all business participants (the sum of both privately-held and publicly-traded companies) rather than just publicly-traded firms. This distinction is theoretical and practically important. A large part of the theory underlying CSR research deals with potential conflicts between shareholders of publicly-traded firms and other corporate stakeholders (Campbell, 2007; Jensen, 2001). Our focus on publicly-traded firms allows us to draw upon this research in shareholder-stakeholder conflicts, and then test our hypotheses using the most appropriate sample. Since UNGC regards increasing membership amongst publicly-traded firms as an important goal (Reuters, 2016), it is also noteworthy that UNGC has traditionally experienced more difficulty in recruiting these organizations. As of October 2016, only about one out of eight of UNGC business participants was publicly-traded (authors' calculations). To our knowledge, this study is the first to develop and test a model on the country-level determinants for joining UNGC focusing specifically on publicly-traded firms.

2. Literature review

As with other concepts used across a large number of countries and disciplines, there is considerable debate about how CSR ought to be defined. Although most conceptions of CSR suggest that firms have responsibilities to constituencies (i.e. stakeholders) other than their owners, there is no consensus on what these responsibilities should be (Kolk, 2016; Kolk & Van Tulder, 2010). Many CSR experts propose that a firm's responsibilities are context-dependent, and thus vary considerably depending on the norms and beliefs of the specific society. In an important early definition, Bowen (1953, p. 6, emphasis added) described business social responsibility as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society." Within the U.S. and U.K, historians have traced principles underlying contemporary conceptions of CSR back to the early stages of the industrial revolution (see Davis, Whitman, & Zald,

2008). Observers focusing on other countries have similarly shown how beliefs congruent with CSR were present in society long before they were labeled as such. Fukukawa & Moon (2004, p. 16), for instance, suggest the notion that individuals and firms are societal members with reciprocal responsibilities is implicit in Japan's conception of commerce. Mohammed (2007) describes how the CSR principles of mutual responsibility and promoting socio-economic welfare are compatible with Islamic teachings, which stress *falah* (human well-being) and *hayat tayyibah* (good life) as primary societal goals.

Many regard voluntary initiatives, such as UNGC, as important manifestations of the contemporary CSR movement (Steelman & Rivera, 2006). Launched in 2000, UNGC was borne out of the UN's assertion that the goals of the UN and those of business could be mutually supportive, and that fostering a collaborative relationship with business, rather than an adversarial one, was essential to creating effective solutions to global governance issues (Rasche & Waddock, 2014). The issue of whether the UNGC truly leads to improved social performance remains highly contested. Proponents describe UNGC as an engine for global CSR and as 'perhaps the most far-reaching instance of a non-governmental effort to catalyze the voluntary participation of business in the corporate citizenship movement' (Arevalo & Fallon, 2008, p. 456). Critics argue that since UNGC lacks monitoring and enforcement, it could shield companies from criticism and other external pressures that may have otherwise compelled them to pursue more substantive CSR changes (see Voegtlin & Pless, 2014). Some companies could engage in CSR-associated activities in just symbolic, or superficial, ways while their core activities remain unaffected (Bruno & Karliner, 2000). In order to reduce the risk of this so-called "blue-washing", UNGC requires participants to report regularly on how they are implementing the ten principles in their business activities through an annual report known as the "Communication of Progress." Firms that fail to submit reports first become listed as "non-communicating" and eventually face expulsion. The names of expelled participants are published in press releases and listed on the UNGC website, which could damage corporate reputations. The purpose of this study, however, is not to take sides in this debate over UNGC's effectiveness. Even if a firm joins UNGC due to purely cynical motivations to enhance its image, it is still reasonable to assume that it is doing so at least partially because it is confronted by environmental factors pressuring for greater CSR. We therefore focus on the firm's decision to join UNGC to better identify and understand the specific types of environmental factors contributing to cross-country variations in participation in this influential global initiative.

In addition to such initiatives as UNGC, even the overall notion of CSR faces considerable controversy. CSR stands at the center of a longstanding ideological debate on the proper role of the business corporation in society (Soleimani et al., 2014). Within the cross-country comparative literature, scholars often frame this debate in terms of two competing models: the shareholder-centered and stakeholder-centered views (Kock & Min, 2016). The shareholder-centered view argues that the primary responsibility of the business corporation is to increase shareholder wealth. The stakeholder-centered view stresses that firms have a fundamental obligation to respond to the needs of other parties as well. This model views the firm as "an integral component of the social fabric...characterized by the intersecting interests of various stakeholders, including not only shareholders and managers but also employees, banks, and the surrounding community" (Schnepfer & Guillén, 2004, p. 263).

Comparative corporate governance scholars evaluate countries by the degree to which they resemble one of these two ideal-types. The U.S. is commonly offered as an exemplar of the shareholder-centered model, for instance, whereas Japan, Germany, and France conform more closely to the stakeholder-centered view (Aguilera & Jackson, 2010). While CSR initiatives may be expected to flourish more in stakeholder-centered countries, business ethicists and comparative researchers are quick to point out that the strength of various country-

¹ Diffusion and adoption are distinct but related concepts. Rogers (2003, p. 5) describes diffusion as the process in which an idea or practice is "communicated through certain channels over time among members of a social system." Adoption refers to the decision by a member of the social system to accept or make use of this idea or practice. While we also draw insights from diffusion research, our primary concern in this study is adoption (i.e., joining UNGC).

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