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The scope of corporate social responsibility in networked multinational enterprises

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ABSTRACT

The extent of corporate social responsibility of a multinational enterprise along a global production system or chain is contested. Legal approaches highlight ownership, causation, and awareness. The stakeholder approach broadens responsibility but fails to address the directness of linkages. Adopting a social network perspective to examine international production within modern global factory systems, we argue that the extent of responsibility of the lead firm is impacted by all activities and participants in the chain. The full extent of responsibility is likely to be determined by whether indirect partners are exclusive or non-exclusive. Global factory systems, while contributing to geographical, ownership, and task fragmentation, significantly amplify linkages, interactions, and awareness implying a concomitant increase in corporate social responsibility when viewed from a social network perspective.

1. Introduction

The subject of corporate social responsibility (CSR) within international business has been one of growing importance for both business managers and academic researchers (Aguinis & Glavas, 2012; Egri & Ralston, 2008; Scherer & Palazzo, 2011). CSR can be defined as “a company’s commitment to minimizing or eliminating any harmful effects and maximising its long-run beneficial impact on society” (Mohr, Webb, & Harris, 2001, p47). International businesses find themselves under increasing scrutiny in a number of areas which go beyond the narrow conception of business as a generator of profits for shareholders (Friedman, 1970). Research shows that the range of social issues that businesses are required to address has widened to encompass ethical and moral considerations, social and working conditions, environmental concerns, and sustainable development issues (Kolk, 2016). While this body of research has helped to clarify the meanings of CSR (Schrempf, 2012) and has offered a variety of conceptual frameworks for exploring such concerns (Chen, 2016; Frynas & Yamahaki, 2016; Lund-Thomsen & Lindgreen, 2014), one area of continuing puzzlement is defining the scope of CSR, particularly within multinational enterprises (Ameshi et al., 2007; Danzer, 2011; Mares, 2010; Phillips and Caldwell, 2005). Scope of CSR refers to the extent to which responsibility can be attributed across a production system, and in particular, the degree to which responsibility can be attributed to a lead firm.

If we consider the economic activity of a business as a series of steps or stages of value added, a production system or value chain describes

the variety of activities required to bring a product from conception to completion through the different phases of design, production, marketing and delivery to users. The various activities comprising the process can be contained within a single enterprise, or divided between different enterprises and can be located in a specific economy, or dispersed internationally to a number of different locations.

A feature of much of the work on international production systems is its focus on governance (Gereffi, Humphrey, & Sturgeon, 2005). The governance of international production systems describes the form of relationships between partner organisations that oversee the activities required to preserve a value adding process from inception to completion. Within such relationships governance control is exercised through factors such as product specifications, required quality levels, and delivery targets.

While an understanding of governance is insightful in appreciating the power relationships, attribution of value, and opportunities for upgrading along a production system, it fails to fully address the dynamics of such processes. Decisions on sourcing, whether in-house or externalised, as well as upgrading of partner organisations, are assumed to be driven by lead firms who focus primarily on cost considerations (Giuliani, Pietrobelli, & Rabellotte, 2005; Humphrey & Schmitz, 2002; Kawakami & Sturgeon, 2011).

This paper argues that a number of key developments in recent years have altered the structure and operations of multinational enterprises and the decisions they make with regard to the organisation of their international production systems with important implications for understanding the attribution of social responsibility.

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Four major developments are noteworthy. The first is the increased geographical dispersion of value adding. The opening of emerging economies such as India and China has provided significant new locational opportunities. Multinational enterprises have taken advantage of these opportunities, increasing their offshoring (Contractor, Kumar, Kundu, & Pedersen, 2010), both regionally (Baldwin & Lopez-Gonzalez, 2015) and globally (Gereffi 2014; Los, Timmer, & de Vries, 2015). The increasing geographical dispersion of activities has added to both the length and complexity of production systems.

A second, and related development, is the growing fragmentation of production activities. In the early stages of the current period of globalisation of international production it was entire functions such as production, assembly or R & D that were offshored, often necessitating co-location of related undertakings for efficiency reasons. The subsequent spatial separation of functions, with design in one part of the world and marketing in another for example, has now given way to the fragmentation of tasks, where constituent elements of a function can be geographically separated, processed, and subsequently reintegrated (Ali-Yrkkö & Rouvinen, 2015; Timmer, Erumban, Los, Stehrer, & de Vries, 2014). This 'fine slicing' of tasks (Linares-Navarro, Pedersen, & Pla-Barber, 2014) is made possible by the rising sophistication of ICT which facilitates integration and control (Jean, Sinkovics, & Kim, 2008), the growing availability of competent suppliers (Liesch, Buckley, Simonin, & Knight, 2012), and the extension of knowledge codification and product modularity (Cohendet & Steinmueller, 2000; Howard & Squire, 2007).

The third trend is the growing outsourcing or externalisation of value added. A range of tasks that were previously internalised under hierarchical governance are now being outsourced to partner organisations (Buckley & Hashai, 2004; Grossman & Helpman, 2005). Externalisation is encouraged by the opportunities for cost saving (Lonsdale & Cox, 1997), to access specialist skills (Jabbow & Zuniga, 2016), or to enable the firm to focus on critical tasks, outsourcing non-core activities (Leavy, 2004). Widespread externalisation of activities is in marked contrast to traditional explanations of the multinational enterprise emphasising the internalisation of transactions to minimise risk and transaction costs (Buckley & Casson, 1976; Dunning, 2000).

The final trend is the growth of society's expectations regarding the transparency and accountability of multinational enterprises for activities within their production systems (Dawkins & Lewis, 2003; Waddock, Bodwell, & Graves, 2002). Rising expectations are apparent in the case of consumers, ethical investors, and a wide range of non-governmental organisations (NGOs) and development agencies (Dawkins & Lewis, 2003).

In combination these shifts have brought fundamental changes in MNE strategy and structure. The key change has been the emergence of networked MNEs (Ghoshal & Bartlett, 1990), combining internalisation of core processes with externalisation of peripheral activities within dense networks of globally dispersed subsidiaries and partner networks.

These developments have coincided with an improved understanding of how networked multinational enterprises interact with partner organisations across value chains. The most incisive analysis is provided by the global factory approach (Buckley, 2011) which models the modern MNE as a differentiated network of value creating activities utilising networks to exploit firm- and location-specific advantages. The conjunction of changes in the nature of international production and new insights into the strategic development of global factory systems provides a foundation for more clearly articulating the extent to which multinational enterprises might be held accountable for events occurring within their production systems.

The intention of this paper is to use these developments in thinking about the networked MNE to examine arguments regarding the extent to which lead firms in such systems carry responsibility across fragmented production systems. The argument is built on two key fundamentals. The first is the concept of social networking that offers a basis for understanding the nature of interactions with partner organisations

and provides a starting point for assessing the level of responsibility that might be attributable to lead firms within their production systems (Chen, 2009, 2016). The second is the idea of the global factory system as a model of networked international production that analyses the extent and forms of interaction between lead firms and their partner organisations (Buckley, 2011). The junction of these two, which implies the continuous and close interaction between lead firms and partner organisations, helps to clarify the degree of responsibility that the lead firm might be expected to assume.

We offer a contribution to current thinking in two key areas. First, we utilise social networking (Chen, 2009) as a basis for elucidating the extent of CSR within the modern MNE. A social networking approach allows us to move beyond traditional legal conceptions of responsibility based on ownership relations. Social networking highlights the importance of both direct links and indirect impacts of activities, extending the scope of understanding beyond that of stakeholder and similar approaches to CSR (Freeman, 1984). Second, we utilise the global factory framework to describe the nature and form of interactions across production systems. This framework contributes to the analysis by providing insights into the role of lead or focal firms, the use of non-equity modes of operation, and the types of interaction between network members. The global factory framework illustrates that associations between lead and partner firms extend beyond governance of chain relations and reveals a competitive dynamic where participant organisations increasingly interact through co-creative processes with the aim of upgrading the competitiveness of international production systems. It is the interactions between participant organisations that form the core of social networking approaches and that provide an alternative to ownership as a basis for the attribution of responsibility.

The discussion is organised around five sections. Following this introduction, we examine conceptual perspectives on CSR within international production systems, considering legalistic, stakeholder and social network approaches and their strengths and limitations. This is followed by an overview of the network MNE and the ways in which international production is developed, maintained and upgraded within a network model. Section four examines arguments for the attribution of CSR to lead firms within a particular form of networked MNE, the global factory. Section five offers concluding thoughts and suggestions for further research.

2. Conceptualising CSR within international production systems

Debate on the extent to which multinational enterprises should assume responsibility for CSR within their international production systems presents a confusing picture. While the traditional views of Friedman (1970) now attract far less support (Carson, 1993), there is little agreement on how an acceptable scope could be determined. For some the position is clear: responsibility should be limited by the degree of cause and effect. If it cannot be shown that the actions of a lead firm directly impact on an independent partner, there should be no assumption of responsibility (Amaeshi, Osuji, & Nnodim, 2008). However, an increasing number of authors argue that lead firms should accept some indirect responsibility, that is responsibility for autonomous members of the chain, but the extent of this and the reasoning underlying different positions, are disputed (Bhandarkar & Alvarez-Rivero, 2007; Blowfield & Frynas, 2005; Emmelhainz & Adams, 1999; Svensson & Baath, 2009; Wood, 2002). For example, Wood argues that responsibility follows from a commitment to stakeholders, similarly, both Bhandarkar and Alvarez-Rivero (2007) and Emmelhainz and Adams (1999) see the pressure for extended social responsibility as a reflection of consumer and NGO influence. For Svensson and Baath (2009) assuming responsibility for indirect business relationships is a prerequisite for ensuring the necessary transparency to implement an effective CSR programme. Other writers identify the business case for implementing a chain-wide CSR policy (Bhandarkar & Alvarez-Rivero, 2007). Either way, companies assuming responsibility for independent

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