Why and How Firms Address Stakeholder Issues: Institutional and Organizational Determinants of Corporate Social Responsibility Adoption

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Diese kumulative Dissertation basiert auf drei wissenschaftlichen Aufsätzen sowie einem Einleitungskapitel, in dem der wissenschaftliche Beitrag der Dissertation zusammengefasst dargestellt wird. Die Arbeit wurde gemäß der Promotionsordnung des Fachbereichs Wirtschaftswissenschaft der Freien Universität Berlin angefertigt. Zwei der drei Aufsätze sind in Zusammenarbeit mit Koautoren entstanden, wobei der eigene Beitrag an diesen Arbeiten auf der folgenden Seite im Detail beschrieben wird.

Hiermit erkläre ich, dass ich für die Erstellung der Dissertation außer den angegebenen Quellen keine weiteren Hilfsmittel verwendet habe und auf dieser Grundlage die Arbeit selbstständig verfasst habe.

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List of Articles in this Dissertation and Declaration of Co-Authorships

- "Multinational Corporations and CSR: Toward an Institutional Theory of Private Governance"
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1. Main Findings, Relevance and Contribution

Private governance, whereby firms devise and implement rules that govern the social issues that arise from their economic operations, has become increasingly relevant for modern corporations. Private governance pertains to stakeholder issues as diverse as human rights, consumer safety, and environmental pollution. However, our knowledge about the conditions under which firms adopt programs and policies by which they declare responsibility for such issues, known as corporate social responsibility (CSR), is still underdeveloped.

The societal impact of the corporation is evident in many facets of life. Large corporations are central actors in processes of societal change and sites of contestation for social activists, who see firms as capable of fulfilling societal demands (Chuang, Church, & Ophir, 2010; King, 2008; Walker, Martin, & McCarthy, 2008). Given the importance of corporations beyond their internal constituencies, it is not surprising that CSR has become a ubiquitous subject in the public and academic discourse (Margolis & Walsh, 2003). Generally speaking, the adoption of CSR, whether unilaterally or through membership in multi-stakeholder organizations, has seen a massive surge in the last two decades (Lim & Tsutsui, 2012; Wijen, 2014). For example, the UN Global Compact now counts over 10.000 corporate members.[1] The organization Ecolabel tracks 459 private environmental certification schemes as of 2015.[2] Most large corporations, it seems, communicate to some extent about their social responsibilities. There is, however, no consensus as to whether CSR can help to alleviate some of societies' most pressing problems, such as environmental pollution or inhumane working conditions, or whether it constitutes a cynical distraction by corporations to carry on profit-seeking "business-as-usual", even displacing traditional regulation.

In this dissertation, I aim to provide a clearer view on the conditions under which CSR emerges as a distinct *mode of governance* that is different from state regulation. Understanding the drivers of CSR will also provide implications for the potential benefits of CSR to stakeholder welfare. Specifically, I focus on two drivers of CSR: the institutional contexts of a firm and its internal capacities to focus on stakeholder issues. The first main contribution is the finding that CSR can serve as both a substitute for and complement to regulatory institutions. This

[1] http://www.unglobalcompact.org/howtoparticipate/business_participation/index.html
[2] http://www.ecolabelindex.com/

potentially paradoxical finding stands in contrast to prior studies that saw CSR as either replacing or complementing other forms of regulation (Campbell, 2007; Matten & Moon, 2008). A second contribution is the finding that the quality of CSR can differ depending on the organizational characteristics of the firm. In this regard, I show that companies with CSR-oriented organizational features, such as a board-level CSR committee and employee sustainability training, are more likely to engage in substantive private governance. The following questions have guided the research process:

- How and why do institutions shape CSR adoption? What is the relationship between different kinds of institutions and private governance?
- What is the role of agency in CSR adoption? What are the institutional and organizational characteristics that lead to symbolic or substantive CSR adoption?

To answer these questions, I draw on quantitative evidence from samples of European and American corporations. For the first two papers, I constructed a detailed dataset of subsidiary ownership of multinational corporations (MNCs) to go beyond studies of MNC home countries that have been prominent in institutional scholarship on CSR. Based on this data, I applied methods to take into account distinct kinds of stakeholder expectations that originate in companies' home and host country institutions, and test how these affect CSR adoption. In the third paper, I constructed a longitudinal dataset of symbolic and substantive changes in CSR adoption in US corporations and tested how stakeholder challenges and CSR-related organizational characteristics affect the uptake of different forms of CSR. I used issue-specific and detailed CSR adoption data, instead of popular global measurements of CSR adoption across different issue areas that potentially obscure differences in adoption (e.g. Mattingly and Berman (2006)). This allowed me to test hypotheses about the quality of private governance, such as differences between formal adoption and implementation.

1.1. Basic Assumptions and Detailed Findings

This thesis draws from the existing institutionally informed literature on CSR to develop a better understanding of CSR as a form of private governance. Underlying this literature is the notion that firms seek to appear legitimate in the eyes of their institutional environment, the "durable social structures" (Scott, 2008, p. 48) that organizations are embedded in. Legitimacy, the "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p.574), is constructed through the firm's stakeholders and their expectations. When firms are seen as legitimate, it grants them stability and improves survival prospects (Meyer & Rowan, 1977). Put differently, private governance emerges because firms respond to an institutionalized belief that they should provide certain social services. And yet, because most stakeholders have limited information about how exactly firms engage in such governance, firms must make explicit their social responsibility to appear legitimate. In this sense, I conceptualize CSR as a *signal* of legitimacy. A signal is an observable piece of information sent by the firm to outside stakeholders about an organizational characteristics associated with some cost to the firm (Connelly, Certo, Ireland, & Reutzel, 2011). In the first two papers, I develop hypotheses about why firms adopt specific CSR signals in different institutional contexts. In the third paper, I study the capacities of firms to draw on different kinds of CSR signals, such as symbolic or substantive forms of CSR.

Existing literature has explored CSR adoption in a variety of institutional contexts, yet lacks a comprehensive theory of adoption under different institutional conditions. For example, corporations might engage in CSR adoption in contexts where governments are unwilling or unable to provide social services (Berliner & Prakash, 2013; Pattberg, 2005; Vogel, 2006), or in liberalized market economies where stakeholders have shifted expectations of social service provision from states to markets (Matten & Moon, 2008). They may also adopt CSR as a response to regulation that enables stakeholders to demand such policies (Campbell, 2007). In general, different stakeholder groups will hold different expectations of the social responsibility of business (Brammer, Jackson, & Matten, 2012), as reflected in the findings of comparative (home country) studies on CSR (Ioannou & Serafeim, 2012; Jackson & Apostolakou, 2010). The child worker in a factory in Bangladesh might see corporate compliance with the country's ratified ILO convention on the prohibition of child labor as a responsible business practice. The works council member in Germany expects her company to grant the right of freedom of association to all employees. While these two examples hint at a more complex relationship between institutions and CSR, no comparative institutional theory of CSR has been developed. The core contribution of the first two papers of this dissertation is the development and testing of such a theory. I extend institutional theory on CSR adoption to the realm of multinational corporations by considering firms' exposure to multiple and diverse stakeholders from different institutional environments (Kostova & Zaheer, 1999).

The first paper, titled "Multinational Corporations and CSR: Toward an Institutional Theory of Private Governance" and co-written with Gregory Jackson, proposes a comparative institutional theory of CSR adoption by multinational corporations, which are central actors in private governance of issues such as human and labor rights (Hassel, 2008). In this paper, we provide the first systematic elaboration of the relationships between institutions and CSR in a multinational context beyond the study of firms' home countries or individual host countries (Campbell, Eden, & Miller, 2012). We draw on the concept of stakeholder salience – the extent to which managers prioritize stakeholder claims (Mitchell, Agle, & Wood, 1997) – but suggest that such salience is derived from how institutions institutionalize stakeholder rights. We propose that one pathway to salience is explicit stakeholder rights based on regulation. As such, CSR may emerge as a complement to empowered stakeholders able to influence corporate decision-making. Another pathway to salience is contexts where stakeholder rights are not institutionalized, either because governments are politically unwilling or even unable to guarantee such rights. In these contexts, salience is based on the legitimacy of stakeholders, not their power, as stakeholders have a legitimate claim to private governance when other regulation is failing them. Seemingly paradoxical, we provide evidence of CSR as both a substitute and complement to institutionalized stakeholder rights by going beyond firms' home countries as the institutional contexts of reference.

We draw on detailed subsidiary data to calculate indicators of the presence in different kinds of host environments for a sample of Western European MNCs. Using a summary indicator of human and labor rights CSR adoption, our results show higher degrees of adoption for MNCs present in *host countries with labor rights violations*, such as China. Yet, we also find that MNCs adopt more CSR when they hail from *home countries with institutionalized* *stakeholder rights*, such as Germany. Based on these findings, we conclude that institutions can create stakeholder salience in different ways: by creating formal stakeholder power based on home country regulation and by creating legitimacy concerns for MNCs when widely agreed-upon norms are absent in host countries.

The second paper, "Strategies of Legitimation: MNCs and CSR Adoption in Response to Host Country Institutions", takes a more in-depth look at the role of host country institutions and the adoption of specific types of labor rights CSR policies by European MNCs. In this paper, I use a similar empirical approach to the first paper to investigate how exposure to two distinct kinds of host country institutions affects the adoption of specific types of CSR policies. I draw on a distinction between host countries that create issue salience for managers by exhibiting human rights violations and host countries that empower stakeholders through regulation. I hypothesize that both kinds of institutional contexts lead MNCs to signal responsibility through CSR, but that these signals are qualitatively different. Thus, the contribution of this paper is to consider how the content of the signal varies in relation to the kind of institutional context. I find that MNC are more likely to adopt CSR aimed at minimum standards in response to issue salience, while they are more likely to adopt CSR aimed at stakeholder rights in response to stakeholder power. These results show how MNCs strategically respond to different types of stakeholder salience, implying that private governance is subject to managerial considerations. These findings cast doubt on the potentials of private governance to achieve improvements in stakeholder welfare, because as in the case of minimum standards, such policies may not alleviate more fundamental problems in countries with rampant labor rights violations (Anner, 2012; Wijen, 2014).

The third paper "Impression Management Capacity: How Stakeholder Awareness Affects the Substance of Corporate Social Responsibility" continues the inquiry into differences in CSR quality, but focuses on the organizational factors that influence differences in CSR implementation depth. In this paper, my co-author Brayden King and I propose that firms differ in their ability to shape stakeholder impressions through CSR. In other words, they send different kinds of CSR signals because their awareness of the stakeholder environment varies. We argue that firms have different capacities to engage in "impression management" (Elsbach & Sutton, 1992). Although impression management is often associated with organizations legitimizing themselves by adopting symbolic formal structures that lack implementation

(Meyer & Rowan, 1977), this paper explicitly conceptualizes impression management to range from symbolic adoption to substantive implementation of CSR (Bundy, Shropshire, & Buchholtz, 2013).

The paper's main theoretical argument is grounded in the nascent literature in CSR research on cognitive factors influencing the kinds of CSR signals firms draw on (Crilly & Sloan, 2012, 2014). We conceptualize a set of factors, which we term "impression management capacity", that allow firms to implement more substantive CSR. Given the many and diverse challenges modern corporations face from civil society, shareholders, and regulators, we propose that impression management capacity constitutes a distinct resource that firms can possess to filter CSR-related issues. To elaborate on this point, we draw on the attention-based view of the firm, which emphasizes the scarcity and selectiveness of managerial and organizational attention to the firm's environment (Ocasio, 2011). We show how differences in structural attention to stakeholder issues affect the quality of CSR, after controlling for a variety of external stakeholder challenges. Much like the ability to notice and react to technological changes (Cohen & Levinthal, 1990), some corporations may be in a better (worse) position to become aware of their stakeholder environment and adopt specific forms of CSR. We hypothesize that lack of stakeholder awareness is reflected in a lower likelihood of substantive adoption. In turn, companies with impression management capacity, such as a board-level CSR committee and employee sustainability training, are more likely to adopt substantive CSR due to higher awareness and implementation capacities.

To test these hypotheses, we construct a multi-year panel of US firms, gathering comprehensive data on stakeholder challenges and changes in CSR strategies in the issue area of customer health and safety over seven years. Customer health and safety is particularly suited for our inquiry because it is an issue area where the advantages of private governance over government regulation are intensely debated (Asch, 1988). This debate is visible in issues such as product safety or health effects of food ingredients, so that CSR is widely used by companies to signal legitimacy because of an absence of clearly defined standards of behavior. At the same time, while customer health and safety is a high-salience issue for almost all companies, firms routinely come under attack for adopting merely symbolic health and safety CSR policies. We show that impression management capacity can assist companies in focusing attention on salient stakeholder issues and increase the likelihood of substantive CSR adoption. Table 1 presents a concise overview of the papers and their contributions.

Table 1. Contributions of the individual papers

Paper	Main theoretical approach	Outcome explained	Contribution
"Multinational Corporations and CSR: Toward an Institutional Theory of Private Governance"	• Institutional theory • Comparative capitalism	Degree of CSR adoption related to labor and human rights	• CSR as a signal of legitimacy in different institutional environments • Comparative institutional theory of CSR adoption by MNCs
"Strategies of Legitimation: MNCs and CSR Adoption in Response to Host Country Institutions"	• Institutional theory	Type of CSR adoption focused on minimum labor standards or stakeholder rights	• Strategic adoption of CSR in different institutional environments • Qualitative differences in private governance
"Impression Management Capacity: How Stakeholder Awareness Affects the Substance of Corporate Social Responsibility"	• Attention-based view of the firm	Changes in adoption of CSR toward a "symbolic" or "substantive" strategy	• Qualitative differences in private governance as the result of differences in organizational stakeholder awareness

1.2. Implications

Does CSR constitute an alternative mode of governance, compared to state regulation? If so, what does such private governance look like? The findings in this dissertation offer a number of theoretical implications for the study of CSR. In relation to institutional theory, the papers advance a better understanding of the heterogeneity of CSR adoption across countries. I show that beyond the notion that "institutions matter" (Ioannou & Serafeim, 2012), different kinds of institutions influence CSR adoption through a variety of coercive and normative mechanisms, such as stakeholder power and legitimacy. As such, private governance does not necessarily displace regulative rules, but instead can become a more explicit statement of such rules on the firm level. This implies the possibility of a potentially synergistic relationship between regulation and CSR adoption.

At the same time, the papers contribute to the literature on strategic responses to institutional pressures (Oliver, 1991; Regner & Edman, 2014). A key implication of the findings is that prior CSR research has potentially overlooked differences in response strategies by relying on aggregate forms of measurement. I present evidence that firms draw on different signals of social responsibility under different institutional and organizational conditions. The second paper suggests that when stakeholder salience is based on legitimacy instead of formal power, firms tend to adopt less demanding types of CSR policies. These strategic adoptions may be viewed as a form of "social skill" (Fligstein, 2001) on the part of corporations to gain stakeholder cooperation without relinquishing managerial control. However, the third paper in particular offers a less cynical view on corporate agency by showing that organizational stakeholder orientation can induce more substantive forms of private governance. Hence, future research should focus on the interactions of field-level dynamics (e.g. King and Walker (2014)) and organizational propensity towards stakeholder issues (e.g. Eccles, Ioannou, and Serafeim (2014)) to further flesh out a theory of the quality of private governance. Perhaps speculatively, these findings may point to combinations of institutional environments and organizational characteristics under which private governance can generate beneficial outcomes for both stakeholders and companies.

The findings from the investigation of CSR strategies in customer health and safety also show that firms respond in a largely symbolic manner even to highly salient stakeholder issues. By conceptualizing CSR as a signal of legitimacy, symbolic forms of private governance can imply negative consequences for firms if stakeholders categorize such CSR as "false signaling" (Connelly et al., 2011). Symbolic CSR strategies may result in reputational and financial losses if CSR does not change underlying behavior widely deemed questionable, particularly in an age in which customers and civil society are more strongly sensitized for corporate misconduct.

Based on these findings, managers must come to realize the heightened expectations for substantive CSR, even in contexts without local stakeholders to formulate such expectations.

Lastly, the dissertation also challenges an instrumental view of CSR adoption that has informed much of strategic management research (Orlitzky, Schmidt, & Rynes, 2003). Conceptualized as a discretionary firm strategy, this strand of research sees CSR as the result of a functionalist choice by managers to become "more" responsible, in order to increase efficiency and financial performance. Implicit in this view is the assumption that CSR is another item in the corporate strategy toolbox, to be applied by managers "using the same frameworks that guide their core business choices" (Porter & Kramer, 2006). In contrast, this dissertation argues for a conceptualization of CSR that is contingent on stakeholder expectations. Because the meaning of CSR rests on an understanding of stakeholders of the role of private governance, it will necessarily be more difficult for firms to devise comprehensive, standardized CSR strategies that are perfectly aligned with economic goals. Additionally, any instrumental conception of CSR may require further investments into organizational structures that grant the firm a more appropriate understanding of stakeholder issues.

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2. Multinational Corporations and CSR: Toward an Institutional Theory of Private Governance

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ABSTRACT: Although multinational corporations (MNCs) are central actors in the governance of the global economy, our knowledge of the institutional conditions under which private governance emerges is limited. Given their global nature spanning different countries, MNCs are often associated with high adoption of private modes of governance falling under the rubric of corporate social responsibility (CSR), whereby firms engage with multiple and diverse expectations of salient stakeholders regarding social standards. In this paper, we develop a comparative institutional theory of CSR adoption to provide a more nuanced and comprehensive understanding why private governance emerges. Drawing on the concept of stakeholder salience, this paper develops propositions how salience emerges in different institutional contexts and affects the CSR adoption by MNCs. Using data on labor rights CSR adoption by 629 European MNCs, we find that CSR complements home country institutions that grant formal stakeholder rights. At the same time, results show that CSR substitutes for the absence of such institutions in host countries. Hence, our findings point to a potential paradox whereby CSR legitimates MNC behavior in both the presence and absence of institutionalized stakeholder rights.

Introduction

As organizations with diverse sets of stakeholders, multinational corporations (MNCs) have been at the forefront of the debate about corporate social responsibility (CSR) (Vogel, 2006). Different approaches in management, economic sociology, and political science propose a variety of reasons for the rise of CSR. One set of arguments suggests that CSR adoption is driven by strategic motives of MNCs, such as a need to manage stakeholder impressions, overcome potential "liability of foreignness", and potentially improve organizational performance. During the past decades, the focus on CSR as a strategic tool at the discretion of managers to influence stakeholder judgments and financial performance has informed a large body of literature in management research on the effects of CSR on firm performance (Aguinis & Glavas, 2012).

Beyond such an instrumental view, CSR has increasingly been studied as a distinct mode of private governance, embedded in diverse institutional environments (Brammer, Jackson, & Matten, 2012). In contrast to state regulation, private governance is understood as the ability of private actors to devise and implement behavioral norms that regulate their activities. CSR, encompassing both unilateral corporate policies and multilateral agreements between firms and stakeholders in relation to different social and environmental issues, has become an important aspect of the governance of the global economy, particularly for MNCs (Toffel, Short, & Ouellet, 2015; Wijen, 2014).

At the same time, an institutional view suggests that different stakeholders assess companies' CSR adoption in light of what they consider legitimate actions. Legitimacy, defined as the "perception or assumption that the actions of an entity are desirable, proper, or appropriate" (Suchman, 1995, p.574), may be obtained by adopting specific CSR practices in line with stakeholders' expectations. For example, US companies may portray employee health insurance as a form of CSR, whereas in Continental Europe such social services are provided by nationalized forms of insurance, such that firms do not adopt CSR policies in this area (Matten & Moon, 2008). Recent studies have therefore emphasized the influence of institutional environments on CSR practices, such as a firm's home country, its industry-specific circumstances, and its relationship with key stakeholders (Barnett & King, 2008; Devinney, 2009; Jackson & Apostolakou, 2010). Empirical studies have found considerable differences in CSR adoption between firms from different countries and industries, suggesting that corporate agency does not fully explain the uptake of CSR (Ioannou & Serafeim, 2012). However, the question how exactly institutions affect the degree and extent of CSR adoption is less well understood, in particular because of a notable absence of comparative research on CSR (Aguinis & Glavas, 2012).

In the institutional literature on CSR, there is a notable diversity in conceptual approaches. Most authors have studied the role of home country institutions of MNCs and argued that differences in historically grown institutional domains translate into different levels of expectation for corporations to demonstrate stakeholder concern (Campbell, 2007; Matten & Moon, 2008). In this literature, it is particularly unclear whether CSR substitutes for certain institutional arrangements, such as the influence of employees on corporate decision-making, or whether it complements such arrangements (Gjølberg, 2010; Jackson & Apostolakou, 2010). In addition, these findings have yet to be reconciled with studies of MNC host countries, as the mere presence of companies in many regions of the world often generates calls for corporate responsibility for their stakeholders (Wijen, 2014). When host country regulatory standards are seen as weakly institutionalized by any of the firm's stakeholders, either in absolute or comparative terms, MNCs may be required to adopt CSR to signal responsibility or prevent market failures (Berliner & Prakash, 2013; Brammer, Pavelin, & Porter, 2009). Alternatively, MNCs may need to adopt CSR to acquire the goodwill of salient local stakeholders (Young & Makhija, 2014).

The ambiguous state of the literature suggests the need to focus less on the idea of more or less CSR adoption, and look more closely at differences in the CSR adoption between MNCs from different countries, while taking into account the multinational dimensions of corporate activity. The contradictory results may in part stem from the fact that past studies focus on different aspects of CSR or different approaches to measurement. Most importantly, many studies use very global aggregate measures of CSR that combine a broad sweep of different issues. Consequently, it has proven difficult to closely conceptualize and match which specific institutions are driving adoption or non-adoption of specific elements of CSR. An issue-focused, comparative institutional approach is thus better suited to examine important differences across CSR issues and implementation depth.

In this paper, we develop a comparative institutional explanation of the adoption of CSR by MNCs to reconcile and advance existing institutional scholarship on CSR adoption.

Conceptualizing CSR as *observable actions of firms that legitimate behavior in relation to social issues and stakeholder expectations*, we ask the following research question: how does institutionalized stakeholder salience in MNCs' home and host countries shape the adoption of CSR? We propose that stakeholder salience, the "degree to which managers give priority to competing stakeholder claims" (Mitchell, Agle, & Wood, 1997, p.854), is derived from the way in which institutions shape the power and legitimacy of different stakeholders.

From the disparate institutional literature, we distill four propositions on how CSR either complements or substitutes for institutionalized forms of stakeholder rights in home and host countries. We compiled a dataset of 629 MNCs from Western Europe with information on their subsidiary locations and labor rights CSR adoption on the headquarter level to test these propositions. The results provide the first comprehensive empirical analysis of CSR adoption by MNCs, given multiple and diverse institutional environments. We find that stakeholder salience, manifested both through regulation in the home country and absence thereof in the host country, is associated with higher levels of CSR adoption. Our findings thus point to the potential paradox of CSR as both a substitute and complement to institutions.

MNCs and CSR – International Business Perspectives

CSR as strategy

By definition, multinational enterprises are exposed to a particularly broad set of stakeholders from different geographical contexts (Kostova & Zaheer, 1999). As firms internationalize, they are confronted with more diverse and potentially more extensive stakeholder claims related to, for example, human rights, corruption, and environmental pollution. In particular, internationalization may create salient social and environmental issues that do not arise in MNCs' domestic contexts (Brammer, Pavelin, & Porter, 2006; Kang, 2013; Oetzel & Getz, 2012). CSR policies may therefore be aimed at local audiences, such as subsidiary employees or communities in different host countries, or global audiences, such as customers in home regions or NGOs (Bondy & Starkey, 2014; Husted & Allen, 2006). Strategy research in international business has argued that as internationalization increases exposure to a greater number and breadth of stakeholder-related issues, corporate management faces stronger demands to develop a coordinated response (Strike, Gao, & Bansal, 2006). Hence, this research has focused on instrumental motives of CSR adoption as stakeholder demands increase in number, suggesting that MNCs tend to prefer broad and inclusive CSR strategies, as these can be standardized across subunits of their global organization (Dowell, Hart, & Yeung, 2000; Kang, 2013; Sharfman, Shaft, & Tihanyi, 2004).

CSR and Institutions

In contrast to the instrumental view of CSR adoption by MNCs, a growing strand of literature in international business identified institutions as affecting MNCs' CSR adoption (Brammer et al., 2012). Institutions are "durable social structures" (Scott, 2008, p. 48) within which organizations are embedded. Such institutions, whether established formally through regulation or informally through norms and understandings, may affect the extent and shape of CSR as a distinct mode of governance (Brammer et al., 2012).

One influential strand in the IB literature concerned with explaining MNC behavior has been the *institutional distance* perspective. Institutional distance has long been studied as a determinant of MNCs' ability to operate in foreign countries (Gaur, Delios, & Singh, 2007; Kogut & Singh, 1988). The concept of distance emphasizes the relative differences between MNC home and host countries as driving MNC strategies, suggesting that countries differ along a variety of dimensions such as language, legal systems, and culture. Drawing on insights from the comparative economics literatures and "law and economics" approach (La Porta, Lopez-de-Silanes, & Shleifer, 2008), the concept of distance has been extended to look at differences in institutional spheres such as corporate governance, regulatory systems, as well as the coordination among such spheres (Berry, Guillen, & Zhou, 2010). Institutional distance is thus the sum of differences between any specific pairs of countries.

Given institutional distance, MNCs run the risk of experiencing liability of foreignness, referring to costs resulting from spatial distance, unfamiliarity, and lack of legitimacy with host country stakeholders that negatively affect firm performance (Zaheer, 1995). In order to operate successfully in distant host countries, these firms must employ strategies to overcome such liability (Kostova & Zaheer, 1999), for example by obtaining legitimacy through CSR. At the same time, the literature remains divided on the effects of distance on CSR. Much like brand value, CSR might be an asset that allows MNCs to overcome local stakeholder prejudice when effectively geared towards the host country environment (Gardberg & Fombrun, 2006).

However, institutional distance also predicts higher costs of adjustment to local environments. This further implies that a compromise between effective CSR adoption tailored towards local audiences and global standardization may be hard to achieve. Since CSR's effects on stakeholders are dependent on what local audiences understand as appropriate, greater distance may actually decrease the ability of managers to relate and identify with local stakeholders (Campbell, Eden, & Miller, 2012).

The distance approach has been extended by stressing that MNC host countries may lack essential institutional arrangements altogether, resulting in "institutional voids" (Khanna & Palepu, 1997). Institutional voids have most often been conceptualized as spaces with incomplete and underdeveloped market institutions, such as contract enforcement and property rights (Ahlquist & Prakash, 2009; Markus, 2012). Although voids entail different consequences for firms and stakeholders (Mair, Martí, & Ventresca, 2012), IB scholars have primarily studied voids in terms of their effects on MNC ability to operate efficiently (Delios & Henisz, 2003; Oh & Oetzel, 2011). As government effectiveness in these contexts tends to be very low (Börzel & Risse, 2010), CSR may be a functional substitute for formal institutions, thereby filling existing institutional voids. For example, Thauer (2014) studies MNC efforts to provide voluntary health services in South Africa to avoid employee turnover in the face of lacking institutional support. Similarly, the diffusion of voluntary standards such as ISO 9001 and 14001 has been explained with reference to increases in productivity, quality, and stakeholder satisfaction across varying institutional contexts, including those viewed as voids (Heras-Saizarbitoria & Boiral, 2013).

Beyond operative consequences, neoinstitutional scholars have studied how institutional voids can threaten the legitimacy of MNCs with "global" stakeholders such as NGOs, international organizations, and an MNC's home country stakeholders (Child, Lu, & Tsai, 2007; Lim & Tsutsui, 2012). MNCs active in host countries might be exposed involuntarily to issues such as corruption or human rights violations (Bondy & Starkey, 2014; Crilly, 2011; Hoffman, 1999). By operating in territories with weak institutions, the legitimacy of the MNC may be called into question based on concerns that the firm may be complicit in exploiting the conditions found in institutional voids (Zhao, Tan, & Park, 2014), so that stakeholders may accuse MNCs of using sweatshop labor or exploiting pollution havens (Berliner & Prakash, 2013; Lamin & Zaheer, 2012). Hence, by adopting CSR, MNCs may be able to signal responsible conduct in the absence of institutionalized rules, although commitment to CSR may diverge from actual organizational implementation (Crilly, Zollo, & Hansen, 2012; Surroca, Tribó, & Zahra, 2013)

In sum, existing literature in IB and organization studies paints an increasingly nuanced picture of the drivers of CSR adoption by MNCs. Beyond a simplified notion in strategy research of higher stakeholder diversity as driving CSR, distance and voids perspective offer different pathways for the emergence of CSR. These approaches are summarized in table 1. While stakeholder theory and neo-institutional theory stress the growing demand for CSR by company stakeholders or global policy communities, other approaches draw specifically on the IB literature to suggest ways in which the institutional context of host countries may influence CSR. Specifically, institutional distance cites both opportunities for and notable barriers to CSR adoption based on relative differences between home and host country institutions. Meanwhile, institutional voids literature sees CSR as a form of private governance that may potentially substitute for formal institutions, such as effective government regulation. In the following section, we develop a comprehensive set of propositions on the emergence of CSR in different kinds of institutional contexts.

####Table 1 here####

A Comparative Institutional Approach to MNC CSR Adoption

In developing a comparative institutional approach, we draw on a more qualitative conception of institutions with different pathways to CSR adoption (Jackson & Deeg, 2008) by suggesting that institutions create specific kinds of stakeholder salience (Mitchell et al., 1997). While Mitchell and colleagues developed their conception of salience from a managerial viewpoint, we suggest that stakeholder salience results from differences in how institutions shape both stakeholder power and legitimacy. Following Scott's typology of institutional pressures (2008), we suggest that stakeholder power is a more coercive type of pressure often "legally sanctioned", as it is grounded in formal regulation. Stakeholder legitimacy, on the other hand, is "morally governed" (p.51) based on normative beliefs about appropriate consideration of stakeholders into business concerns.

These arguments suggest an underlying dichotomy of CSR as either a substitute for formal regulation or a complement to institutionalized forms of stakeholder rights. The *substitution perspective* suggests that firms use CSR to address some basic social issues in the absence of state action. From such a perspective, CSR is a response to stakeholder claims who look to the firm to provide governance, such that stakeholder legitimacy becomes the driver of CSR adoption. In this sense, CSR may be functionally equivalent to institutionalized rules whereby certain social function may be fulfilled through many different types of structures (Merton, 1967). Of course, substitution does not imply that CSR and state regulation are equally effective (Gresov & Drazin, 1997), because an absence of regulation allows firms to adopt CSR in strategic ways. In contrast, the *complementarities perspective* suggests that CSR and formal institutions with underlying "regulative rules" (Scott, 2008, p.51) may have a mutually enhancing relationship. Complementarities imply that the effectiveness of a particular organizational structure or practice increases in the presence of a specific other structure or practice (Aguilera, Filatotchev, Gospel, & Jackson, 2008). For example, legally mandated employee representation may help firms to develop effective labor rights CSR policies. Generally speaking, complementarities improve effectiveness due to similarities, generating broader incentive alignment or development of transferable capabilities.

CSR as Institutional Substitute or Complement: The Home Country Perspective

If CSR acts as a substitute to formal regulation of stakeholder rights, then CSR adoption should be high among firms from countries in which stakeholders look to private organizations to provide social goods. This perspective sees CSR as a form of private governance that may be "squeezed out" when higher behavioral standards or stronger stakeholder rights are codified in law or other regulation. Conversely, more liberal market-driven institutional environments allow greater scope for competitive differentiation of firms based on CSR practices, where CSR is adopted as part of a "business case" to leverage stronger relationships with stakeholders than competitor firms (Matten & Moon, 2008). Following our notion of stakeholder salience, the adoption of CSR is grounded in a normative expectation to signal responsibility towards certain stakeholder issues.

This substitute hypothesis of CSR is in line with historical evidence documenting the establishment of CSR business associations in the UK and the US, whose origins are closely tied to an explicit mission to avoid formal regulation on the part of corporations (Kaplan, 2015; Kinderman, 2012). Here, firms champion CSR as an alternative to top-down regulation by the state that would stipulate certain standards of behavior vis-à-vis stakeholders or establish stakeholder rights within the corporation. From the firm's point of view, business-led CSR offers several key advantages to regulation, since it asserts legitimacy without relinquishing managerial prerogatives (Fransen & Burgoon, 2014).

In an analysis of Western European companies' CSR adoption, Jackson and Apostolakou (2010) test the hypotheses of CSR as institutional complement or substitute. Using data from four pillars of CSR engagement, they find that firms from home countries with high reliance on formal regulation of stakeholder relations, such as Germany, have significantly lower CSR adoption across all four areas of CSR. More recently, Ioannou and Serafeim (2012) draw on a larger sample of firms from 42 countries and report that companies from countries with leftist governments display lower levels of CSR adoption. Overall, this suggests that when institutions leave the solution of social problems to the market, this opens up room for corporate action in the realm of social responsibility. At the same time, conferring stakeholder responsibility to firms implies that firms may enjoy power advantages over their stakeholders, with fewer formal rights awarded to, for example, employees in liberal market economies. Instead, stakeholders rely on normative mechanisms to influence firms in their CSR adoption, with corporations as the providers of social services. Other literature has distinguished further between CSR adoption and the implementation of these policies. For example, Lim and Tsutsui (2012) find that greater liberalization leads to "ceremonial" commitment to stakeholder norms. In line with these arguments, we formulate our first proposition:

Proposition 1: Following the logic of institutional substitution, MNCs from home countries with lower degrees of institutionalized stakeholder rights will display higher levels of CSR adoption.

Another set of studies points to a different mechanism of how institutions affect CSR. This perspective sees CSR as a *complement* to formal regulation. Institutional arrangements with codified stakeholder engagement rules and strong norms for coordination between firms and stakeholders form the basis for CSR adoption, grounded in explicit and regulated stakeholder power (Campbell, 2007). This perspective presents very different predictions about CSR adoption. According to Campbell (2007), CSR adoption is enabled by the embeddedness of firms in institutional settings that favor socially responsible action. Here, two elements are central. First, institutions may empower stakeholders to demand adoption of more socially responsible corporate practices. Examples of such arrangements are German codetermination laws, Japanese lifetime employment norms, or Scandinavian modes of corporate governance that give stakeholders stronger voice in company decision making (Jackson & Deeg, 2008). Second, firms in more coordinated market economies may also have greater capacity for collective responses to stakeholder demands, such as adopting common standards or certification. Firms in these settings may thereby achieve higher rates of CSR adoption than in more liberal settings, even though CSR in highly regulated contexts may take different forms (Matten & Moon, 2008). Institutionally empowered stakeholders create higher societal standards related to firms' social conduct, for example in the treatment of employees, as several econometric studies report (Ioannou & Serafeim, 2012; Soleimani, Schneper, & Newburry, 2014; Young & Makhija, 2014). Using qualitative evidence, Gjølberg (2009, 2010) finds that the embeddedness of Scandinavian firms in corporatist traditions leads to a CSR emphasis on non-domestic issues and multi-stakeholder approaches, with private regulation explicitly seen as a complement and extension to existing regulation. Following this literature, we formulate:

> **Proposition 2:** Following the logic of institutional complement, MNCs from home countries with higher degrees of institutionalized stakeholder rights will display higher levels of CSR adoption.

CSR as Institutional Substitute or Complement: The Host Country Perspective

We have argued that a comparative institutional perspective on CSR adoption is incomplete without considering the complex nature of the relationship between MNCs and institutions. A core argument of the comparative institutional perspective on CSR is that MNCs are influenced not only by institutions in their home country of origin, but also by characteristics of institutions in their host country. However, the existing literature has rarely considered the fact that MNCs face multiple institutional pressures in different host country settings

(Kostova, Roth, & Dacin, 2008). We suggest that CSR can act either as substitute or complement to institutionalized forms of stakeholder rights in MNC host countries.

Broadly speaking, authors have suggested that substitution of state services through private governance by MNCs may occur against the backdrop of deregulation and privatization that has informed the competition among countries to attract foreign investment (Levy & Kaplan, 2008). This competition has particularly affected developing countries' regulation pertaining to issues such as labor rights and welfare spending (Rudra, 2003). Local stakeholders may then look to MNCs as highly visible business organizations to provide social services (Mosley & Uno, 2007). The substitution of private governance is therefore most pertinent for MNCs active in institutional voids. This is because institutional voids do not just create potential local stakeholder salience, but also draw attention of home country and transnational stakeholders who care about issues such as human rights abuse and pollution (Greenhill, Mosley, & Prakash, 2009; Husted & Allen, 2006). Hence, voids do not only constitute spaces of underdeveloped markets where business functionality is threatened, but also create legitimation problems for MNCs (Zhao et al., 2014). For example, Google's entry into the Chinese market threatened the company's legitimacy back in its home country context, due to the pressures to engage in censoring within its Chinese operations (Bundy, Shropshire, & Buchholtz, 2013).

In line with our conception of stakeholder salience as a driver of CSR, these arguments suggest that stakeholders in institutional voids affect the MNC through the legitimacy of their claims. Yet, because they lack formal power, they rely on other stakeholder groups to pressure the MNC. Hence, even when MNCs choose subsidiary locations to arbitrage differences in standards and regulation (Surroca et al., 2013), mere presence can increase the salience of issues such as human rights and sustainability. In line with this logic, Crilly (2011) reports that a "common theme expressed by headquarter staff was the potential danger to corporate reputation from overlooking the interests of local stakeholders in countries that lacked formal sanctions. In contrast to firms' exploitation of poorly regulated territories to evade accountability at home, some MNCs face global scrutiny, and have much to lose if their subsidiaries are seen to engage in inappropriate conduct" (p. 702). We therefore formulate our third proposition:

Proposition 3: Following the logic of institutional substitution, MNCs operating in host countries with lower degrees of institutionalized stakeholder rights will display higher levels of CSR adoption.

Much like the complement perspective that has been developed in studies on MNC home country institutions, host country institutions may also enable stakeholders to demand CSR adoption from firms, even where firms remain more hostile to developing cooperative stakeholder relations (Mosley, 2008). As such, CSR adoption is complementary to the existence of institutions that award rights to stakeholders. We assume that this is the case even when such rights are not systematically enforced by state authorities, as many studies report (Mosley & Uno, 2007; Teitelbaum, 2007). In cases of a divergence between law and practices, existing formal regulation may be used as the basis to transfer rule implementation to private organizations, which leads to higher CSR adoption. Locke (2013) and Amengual (2010) provide qualitative evidence for cases where flawed state regulation is complemented by private regulation. In the Czech Republic, MNCs ensured enforcement of national laws within their facilities and included these rules in their own private governance statutes (Locke, 2013, p. 168). In the Dominican Republic, "private regulation relieves pressure on scarce state resources and complements state action within the factories" (Amengual, 2010, p. 406). Local stakeholders may see MNCs as more susceptible to enact regulation that is not enforced by state authorities, since MNCs are more likely to become targets of media coverage or care about their reputation for CSR (Lamin & Zaheer, 2012; Lim & Tsutsui, 2012). Based on these arguments, we formulate our fourth proposition:

Proposition 4: Following the logic of institutional complement, MNCs operating in host countries with higher degrees of institutionalized stakeholder rights will display higher levels of CSR adoption.

Data and Methods

We test these four propositions drawing on CSR data from a core issue area in the debate on private governance: labor and human rights (Hassel, 2008). The effect of global value chains with production in developing countries on the state of labor rights represents a key topic of contention among MNCs, governments and civil society (Mosley, 2011). The rise of labor rights as a salient issue to MNCs is therefore closely tied to the rise of MNC investment to developing countries, which has rapidly increased in the last two decades (UNCTAD, 2011). Starting in the early 1990s, the issue first gained prominence with the discovery of sweatshop labor used by major textile companies that outsourced production to Asian countries (Vogel, 2006). Since then, a plethora of private governance standards have proliferated in various sectors and countries as a reaction to the diminished power of nation states in regulating the global economy (Bartley, 2005; Wijen, 2014). Critics of a private governance approach to labor rights have pointed out that such regulation often falls short of tackling the most pressing problems, such as awarding enabling rights to stakeholders (Anner, 2012; Locke, 2013). Labor rights private governance is formulated and implemented in different ways, including unilateral CSR measures adopted by companies or those formulated by industry-specific business associations, as well as those developed via multi-stakeholder initiatives with the inclusion of organized labor and civil society actors (Fransen & Burgoon, 2014; Helfen & Sydow, 2013).

Sample

In contrast to prior approaches, we suggest that the extent to which MNCs engage in private governance is subject to institutional influences that originate from both MNCs' home and host country contexts. We obtained subsidiary location information from Bureau van Dijk's AMADEUS database for all available companies as of 2012 from the EU-15 countries, including Switzerland and Norway and excluding Luxembourg and Finland.[3] We excluded subsidiaries in each MNC's home country and proceeded to match the parent companies with those available in the ThomsonReuters ASSET4 ESG database, which provides detailed CSR adoption and implementation data on the parent company level (Ioannou & Serafeim, 2012). Because of missing data for some variables, the final sample consists of 629 companies with roughly 50000 subsidiaries in total. Tables 2 and 3 show the sample's distribution in terms of MNC home countries and important host countries.

[3] No data could be obtained for MNCs from Luxembourg. Finnish companies were excluded due to Finland's extreme values on the institutional distance variable, which created multicollinearity issues in the regression analysis.

####Tables 2 and 3 here####

Dependent variable

Our dependent variable is a summary indicator of MNC CSR adoption on the headquarter level related to human and labor rights, derived from the ASSET4 ESG database. Although we concede that such global policies may be subject to adaptation on the subsidiary level (Regner & Edman, 2014), due to a lack of CSR data on the subsidiary level we assume that such policies apply to subsidiary operations globally. The CSR indicator is composed of 34 individual data points measuring the extent of CSR related to formal policy adoption, implementation, monitoring and improvement efforts in the areas of freedom of association, child labor, forced labor, and general human rights, both within the organization and along the supply chain. The data points focus primarily on unilateral CSR adoption, although they include information on a number of multi-stakeholder initiatives, such as the Ethical Trading Initiative. The indicator ranges from 0 to 100, but actual values in our sample range from 16.5 to 95.5 in 2012, with a bimodal distribution as depicted in figure 1.

Independent variables

To test the influence of home country institutions, we use the labor power index provided by Botero et al. (2004). In contrast to other labor rights indicators that measure labor rights on a global scale, which often focus heavily on violations (Teitelbaum, 2010), this index is well suited to capture differences in the institutionalization of stakeholder rights between European countries, as it goes beyond basic rights such as collective bargaining and freedom of association. The index ranges from zero to 0.71 and is the average of seven indicators relating to rights to unionization, collective bargaining, works councils, and codetermination, thus capturing more nuances beyond basic rights. In this index, the UK as the most liberalized country in Europe scores zero, while Germany scores 0.71. Hence, countries on the lower end of the scale, such as the UK, are those where stakeholder salience is based on legitimacy as formulated in proposition 1. Countries with high labor power scores, such as Germany, Spain, and Norway, represent MNC home countries in which stakeholder salience is based on institutionalized stakeholder power through regulation, related to proposition 2.

To capture the influence of host country institutions on MNCs' CSR adoption, we employed a spatial weighting method using subsidiary information from the AMADEUS database (Greenhill et al., 2009; Lim & Tsutsui, 2012). This spatial weighting method is formalized as

$$\text{EXPOSURE}_c = \sum_{1}^{j} \text{INST}_j \times \frac{\text{SUB}_{cj}}{\text{TOTALSUB}_c}$$

where c is a company, j is a host country, SUB is a subsidiary of company c, TOTALSUB is the total number of subsidiaries of a company, and INST is an indicator of institutionalized stakeholder salience in country j. The idea behind this method is to reconcile different notions about how location choice influences CSR adoption by MNCs. One line of arguments focuses on the institutional quality of host countries, and suggests that only a presence in countries that display highest levels of, for example, political oppression, will induce CSR adoption (Brammer et al., 2009). To account for this, our measure of exposure will increase when a host country scores high with a given indicator of stakeholder salience. A different argument suggests that while MNCs respond to host country institutional arrangements, they focus on strategically important host locations in customizing CSR strategies (Bondy, Moon, & Matten, 2012). Hence, strategic importance is driven by the number of subsidiaries in a particular host country compared to the overall number of subsidiaries (Oh & Oetzel, 2011). Clearly then, exposure is highest for companies with a high number of subsidiaries in host countries with a particularly high score on a given scale.

We generated four institutional exposure measures based on subsidiary locations for each MNC to test our propositions. In the calculation of each variable, we excluded any subsidiaries in an MNC's home country. First, using the Botero measure, we calculated the weighted presence of each MNC in other EU-15 countries (including Switzerland and Norway). We did this to distinguish between the effects of institutions within the socio-economically homogeneous context of Western Europe and those outside of Europe. Outside the EU-15 countries, we use two different indicators of stakeholder salience to operationalize our concepts of stakeholder power and legitimacy. To capture an absence of institutionalized stakeholder rights, which generates legitimacy of stakeholder claims, we use a reverse-coded version of the worker rights index from the Cingranelli-Richards dataset on human rights (Cingranelli & Richards, 2010). Derived from coding US State Department country reports, this indicator ranges from 0 to 2 and captures the extent of violations of labor rights in host countries, with higher values indicating more systemic violations. In countries that score high on this indicator, we assume that stakeholder legitimacy – not formal power – affects CSR adoption by MNCs.

We measure stakeholder power through the adoption of the two key ILO conventions on freedom of association and collective bargaining ability (Soleimani et al., 2014). Notwithstanding enforcement issues, we assume that host countries with ratification of these conventions have created formal stakeholder rights that may lead MNCs to adopt labor rights CSR in a complementary fashion.

Control variables

We also include a set of organizational control variables in our analysis. Using the spatial weighting method, we calculated an indicator on the extent of investment in institutionally distant countries, using the administrative distance measure provided by Berry et al. (2010). Each home country-host country dyad was assigned a distance value, which was then weighted by the number of subsidiaries in that host country. This measure takes into account differences in religion, language, legal systems, and the existence of colonial ties. In correspondence to the strategy literature on internationalization, we include the logged number of host countries by MNC. We control for company size with the natural log of employee number, and use return on assets as a profitability measure (Strike et al., 2006). In all analyses, home country controls and industry controls using the Industry Classification Benchmark typology are included. Table 4 provides an overview of the different institutional measures used in this study.

###Table 4 here###

Results

Figure 1 plots the distribution of the dependent variable, revealing a bimodal distribution with many low and high performers. Figure 2 shows the mean CSR adoption scores by MNC home country, with the Nordic countries as well as Spain and Portugal as leaders. Irish and Belgian companies display the lowest levels of human rights CSR adoption, on average. Perhaps more telling, Figure 3 shows these mean scores grouped by the labor power score of MNCs' home countries. This figure reveals that companies from countries with strong stakeholder power display markedly higher levels of human rights CSR adoption on average, compared to countries with weak stakeholder power, although some countries do not fit this grouping very well.

###Figures 1-4 and Table 5 here###

Table 5 provides bivariate correlations of the variables used in this study. The VIF values for the independent variables range between 1.8 and 4. Interestingly, the bivariate correlations show distinct subsidiary location strategies by European MNCs, one focused on other EU countries (with strong stakeholders), and one focused on non-EU countries. Table 5 shows that the weighted EU labor power indicator has a strong negative correlation with the weighted (non-EU) labor rights violations indicators ($r = -0.66$). Further examination revealed that 80 % of MNCs with a weighted EU-15 labor power score one standard deviation above the mean tend to have less than half as many subsidiaries in non-EU host countries, compared to the entire sample. On the other side, MNCs with a strong presence in countries with labor rights violations (one standard deviation above the mean) all have a below-average presence in EU-15 countries. For example, Greek industrial MNC Ellaktor maintains subsidiaries in countries such as Qatar, Belarus, Russia and Sudan, placing it in the 98th percentile of the violation score. This company has presence in the EU only through three subsidiaries in Germany. Figure 4 displays that MNCs in the lowest quantile of subsidiary ownership in countries with violations have a mean CSR score of 55, far lower than all other quantiles. While we do not analyze the role of industry in depth in this study, we think that industry membership likely plays into these findings, which suggest that MNCs follow distinct internationalization strategies.

Turning to our analysis of the institutional determinants of CSR adoption in MNCs, in table 6 we show the results from an OLS regression assessing the association of our independent variables with the aggregated human rights CSR score. The first model only uses the control variables, after which we successively add the home and host country variables.

###Table 6 here###

In the full model, we find that higher CSR adoption is positively associated with institutionalized stakeholder power in MNCs' home countries ("home country labor power", $p < 0.05$). Similarly, increased subsidiary presence in other European countries with strong stakeholder rights is also associated with higher adoption ("weighted EU labor power", $p < 0.1$). MNCs home countries where employees enjoy board-level codetermination and collective bargaining abilities are more likely to have labor and human rights CSR policies and implementation processes in place. Using standardized variables, a one standard deviation increase in home country labor power increases the labor rights CSR score by 4.5 points (2.7 for EU labor power). These results lend support for proposition 2 on CSR as a complement, wherein institutionalized stakeholder power is associated with higher adoption of CSR.

We also find support for the influence of host country institutions on the CSR adoption of MNCs. In line with proposition 3, we find that an increase CSR adoption is associated with an absence of institutionalized stakeholder power in non-EU host countries. MNCs with a higher presence in countries with labor rights violations tend to have higher CSR scores ("weighted host country labor rights violations", $p < 0.05$). Assuming that violations indicate an absence of institutionalized stakeholder power, these results are in clear contrast to the complementary role of CSR in MNC home countries. Specifically, a one standard deviation increase in the weighted host country violations is associated with a 4.1-point increase in the CSR score. We find no support for proposition 4, with formal stakeholder power in host countries marginally statistically insignificant.

With regard to the control variables, we consistently find that larger MNCs (measured by the number of employees, $p < 0.01$) with a greater number of host countries ($p < 0.1$) display higher CSR adoption. Although some researchers have suggested that CSR can overcome of MNC liability of foreignness (Gardberg & Fombrun, 2006), our results question this assumption by showing that greater institutional distance is associated with lower CSR adoption ("weighted administrative distance", $p < 0.05$). Hence, our results strengthen a view of foreignness as an obstacle to CSR adoption (Campbell et al., 2012), as a one standard deviation increase of the institutional distance score decreases adoption by 12.5 points.

Conclusions

As socially embedded organizations, MNCs are strongly affected by the institutional contexts within which they operate. Institutions create notions of legitimacy through rules and normative expectations of stakeholders, leading to differences in CSR adoption. In this paper, we develop a comparative institutional approach to MNC CSR adoption and show how different kinds of institutions at home and abroad affect the adoption of labor rights CSR. Our findings thus contribute to a number of debates in institutional theory, CSR research, and international business.

We argue that institutions create stakeholder salience in at least two different ways that appear somewhat paradoxical: by granting formal rights to stakeholders, and through the absence of such rights, which in turn gives local stakeholders legitimacy when widely agreed-upon norms such as human rights are violated. These institutional processes, whereby MNC adopt CSR to appear legitimate in the eyes of different stakeholder groups, are distinct in a number of dimensions. When CSR complements institutionalized stakeholder rights, it is adopted on the basis of formal rules that allow employees to take part in corporate decision-making. When CSR substitutes for such institutions, it is a corporate response to normative expectations governed by understandings of appropriateness.

Our findings call into question some of the influential assumptions of prior comparative research on CSR, while confirming others. First, in relation to home country institutions, we found support for the complement hypotheses, where stakeholder power enables higher CSR adoption. This result, conversely, casts doubt on arguments that CSR adoption is merely a substitute for institutionalized stakeholder power, at least in some issue areas (Matten & Moon, 2008). While historical evidence does show that the rise of CSR is tied to corporate efforts to preempt legislation (Kinderman, 2012), these arguments may need to be revisited or extended to understand current CSR adoption by MNCs. In this regard, since MNCs are increasingly expected to respond to multiple stakeholders and comply with global norms of responsibility (Lim & Tsutsui, 2012), home institutions may not act just as constraints on organizations, but also enable them to adapt to new stakeholder expectations stemming specifically from the emergence of global organizational fields around issues like labor rights. Further research may look into the specifics of how such complementary relationships materialize.

Meanwhile, our findings also point to the fact that CSR takes on a different role in institutional environments outside the EU, since higher CSR adoption is associated with subsidiary ownership in countries with labor rights *violations*. In this context, CSR acts as a substitute for effective regulation of labor rights. CSR is a substitute in the sense that it serves as a signal for distant stakeholder to emphasize MNC stewardship in social issues, even where it may not "solve" these issues as an effective functional equivalent for labor regulation. In sum, we suggest that at least in the case of MNCs, CSR adoption is not just "nationally contingent" (Matten & Moon, 2008, p. 405), but subject to multinational institutional processes.

Our results show that conceptualizing private governance as a purely strategic exercise on behalf of the firm neglects to take into account MNC exposure to multiple and institutional environments, and potentially contradictory pressures emanating from them. One implication of these findings is that CSR strategies will be more difficult to standardize, due to the different drivers in home and host country environments (Geppert & Williams, 2006). The strongly negative association of institutional distance and CSR adoption adds further complexity to our findings. If MNCs come from countries with weakly institutionalized stakeholder rights, they may find it challenging to adopt CSR effectively when internationalizing to countries with labor rights violations. Hence, our findings also highlight the importance of institutional contexts for a fuller understanding of the potentials and limits of CSR as a form of private governance. Even though CSR may substitute for regulation in some issue areas, we find that MNCs from countries without institutionalized stakeholder rights are less likely to increase the level of CSR adoption as they internationalize to countries without regulatory institutions. Figure 5 shows the effect of an increase in exposure to countries without institutionalized stakeholder rights. The different graphs, which are grouped by home country labor power, show how this effect differs as home country labor power varies. Notably, the effect strength is much weaker for MNC from the UK, the home country with the lowest degree of institutionalized stakeholder rights. Given that MNCs are shaped by national institutions in developing CSR approaches (Gjølberg, 2009), granting stakeholder rights without an institutionalized understanding of appropriate organizational stakeholder orientation may prove difficult for MNCs (Crilly & Sloan, 2012), particularly in non-technical issue areas such as labor rights.

###Figure 5 here###

Since we rely on an aggregate measure of labor rights CSR that includes adoption of somewhat diverse CSR policies and processes, we note that our results may obscure how different kinds of stakeholder salience affect the adoptions of specific CSR elements. For example, future work may differentiate between qualitatively different types of labor rights CSR, such as policies that focus on minimum standards instead of enabling rights (Anner, 2012). Similarly, there is a growing interest in the institutional drivers of decoupling by MNCs (Crilly, 2011; Lim & Tsutsui, 2012; Marquis & Qian, 2014; Oetzel & Getz, 2012), because MNCs may only commit to fairly general policies that do not affect core business operations (Ramus & Montiel, 2005). To offset stakeholder concerns, MNC can also adopt unrelated CSR measures such as philanthropy (Brammer et al., 2009), or engage in forms of CSR adoption that limits stakeholder involvement (Bondy et al., 2012). A disaggregation of CSR measures in terms of implementation depth will likely be insightful to gain a deeper understanding of the institutional conditions that further decoupling. Finally, the validity of these propositions should be explored for other issue areas, such as environmental CSR. The relationship between private and public governance in terms of complement and substitute may differ altogether depending on the specific institutional arrangements for stakeholder rights. At the same time, we think that the comparative approach laid out in this paper can inform a more comprehensive and parsimonious understanding of the dynamics of CSR adoption by MNCs.

Tables and Figures

Table 1: Theoretical approaches to CSR adoption in MNCs

Approach	Driver of CSR in MNCs
CSR as strategy	Exposure to heterogeneous stakeholders
Institutional distance	Liability of foreignness
Institutional voids	Underdeveloped host institutions Legitimacy concerns by global stakeholders
Institutions and CSR as substitute	Stakeholder salience based on stakeholder legitimacy
Institutions and CSR as complement	Stakeholder salience based on stakeholder power

Table 2: Sample distribution by home country

Home country	Frequency	Relative share
Austria	10	1.59
Belgium	22	3.5
Denmark	17	2.7
France	81	12.88
Germany	59	9.38
Greece	10	1.59
Ireland	17	2.7
Italy	27	4.29
Netherlands	34	5.41
Norway	13	2.07
Portugal	7	1.11
Spain	31	4.93
Sweden	36	5.72
Switzerland	52	8.27
United Kingdom	213	33.86
Total	629	100

Table 3: Subsidiary locations in sample by relative share

Top 5 Non-EU15 investment locations	Number of subsidiaries	Top 5 investment locations with highest labor rights violations score	Number of subsidiaries
USA	7915	China	2349
China	2349	Russia	798
Australia	1529	Malaysia	556
Canada	1233	United Arab Emirates	360
Brazil	1230	Indonesia	298

Table 4: Institutional indicators used in this study

Variable	Operationalization	Source
Home/EU-15 labor power	Average of seven indicators relating to rights to unionization, collective bargaining, works councils, and codetermination	Botero et al. (2004)
Host labor rights violations	Labor rights violations	Cingranelli and Richards (2010)
Host labor rights	Adoption of ILO convention 87 and 98	ILO Normlex
Institutional distance	Differences in language, religion, legal system; colonial tie	Berry et al. (2010)

Table 5: Correlation matrix

	Mean	S.D.	Min	Max	1.	2.	3.	4.	5.	6.	7.	8.
1. Human Rights CSR Score	67.03	30.80	16.54	95.50								
2. Size, logged	9.16	1.88	1.39	13.38	0.47*							
3. Profitability	5.96	9.61	-82.69	100.83	-0.05	-0.03						
4. Host Country Count	21.54	22.48	1	147	0.29*	0.52*	0.05					
5. Home Country Labor Power	0.38	0.29	0	0.71	0.21*	0.20*	-0.14*	0.22*				
6. Weighted EU-15 labor power	0.18	0.15	0	0.71	-0.01	-0.12*	-0.10*	-0.15*	0.01			
7. Weighted Administrative Distance	10.10	12.98	0	100.03	0.17*	0.08*	-0.03	0.14*	0.15*	-0.17*		
8. Weighted Host Country Labor Rights Violations	0.58	0.32	0	2	0.14*	0.26*	0.03	0.27*	0.00	-0.66*	0.33*	
9. Weighted Host Country Labor Rights	0.63	0.44	0	2	0.11*	0.12*	0.03	0.20*	0.01	-0.46*	0.28*	0.43*

*$p < 0.05$

Figure 1: Distribution of human rights CSR adoption scores; N=629 MNCs

Figure 2: Mean human rights CSR adoption, grouped by MNC home country

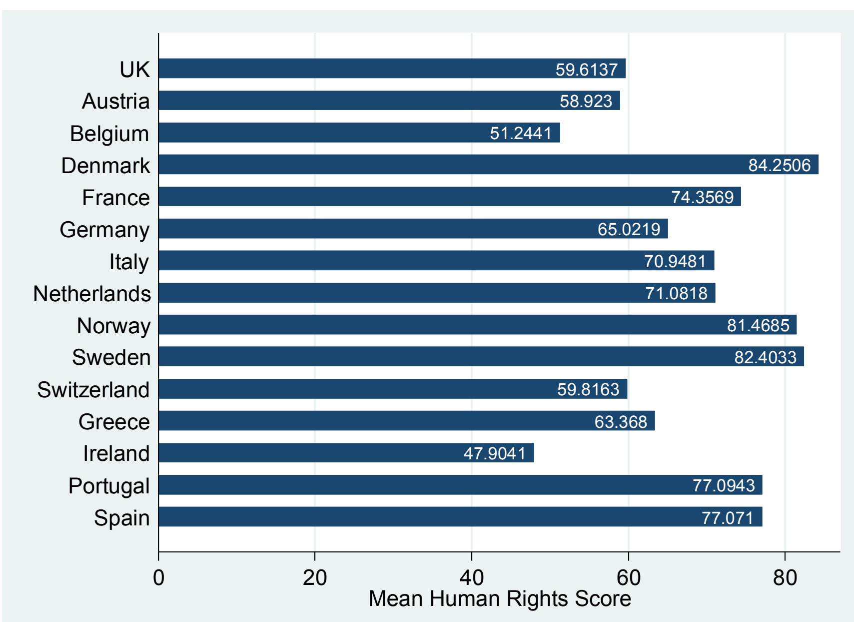


Figure 3: Mean human rights CSR adoption, grouped by MNC home country labor power scores

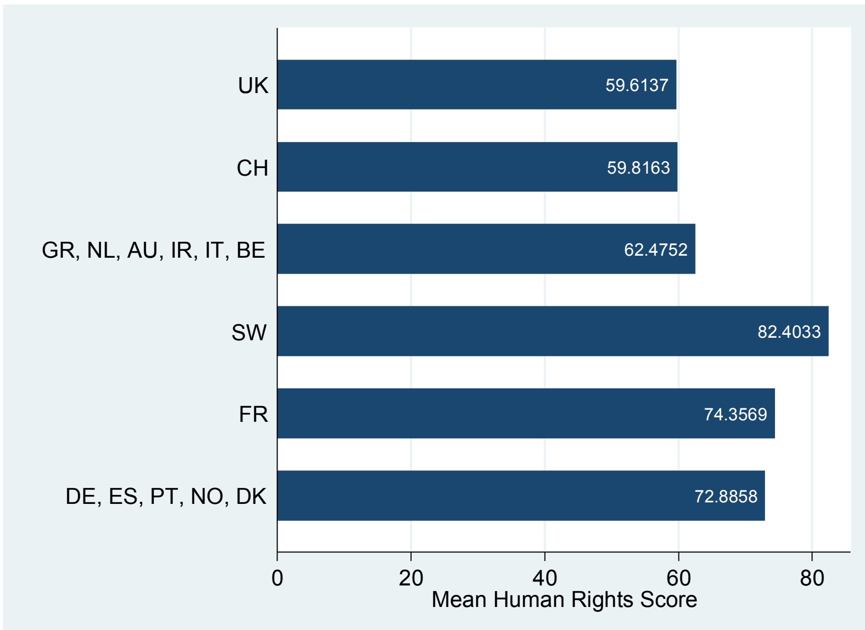


Figure 4: Mean human rights CSR adoption, grouped by quantiles of labor rights violation score

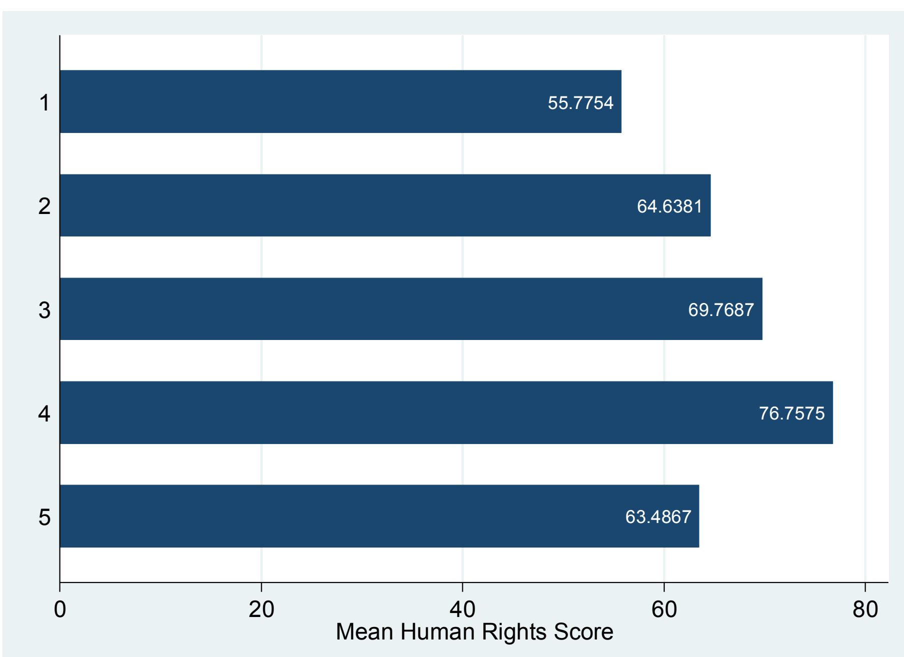
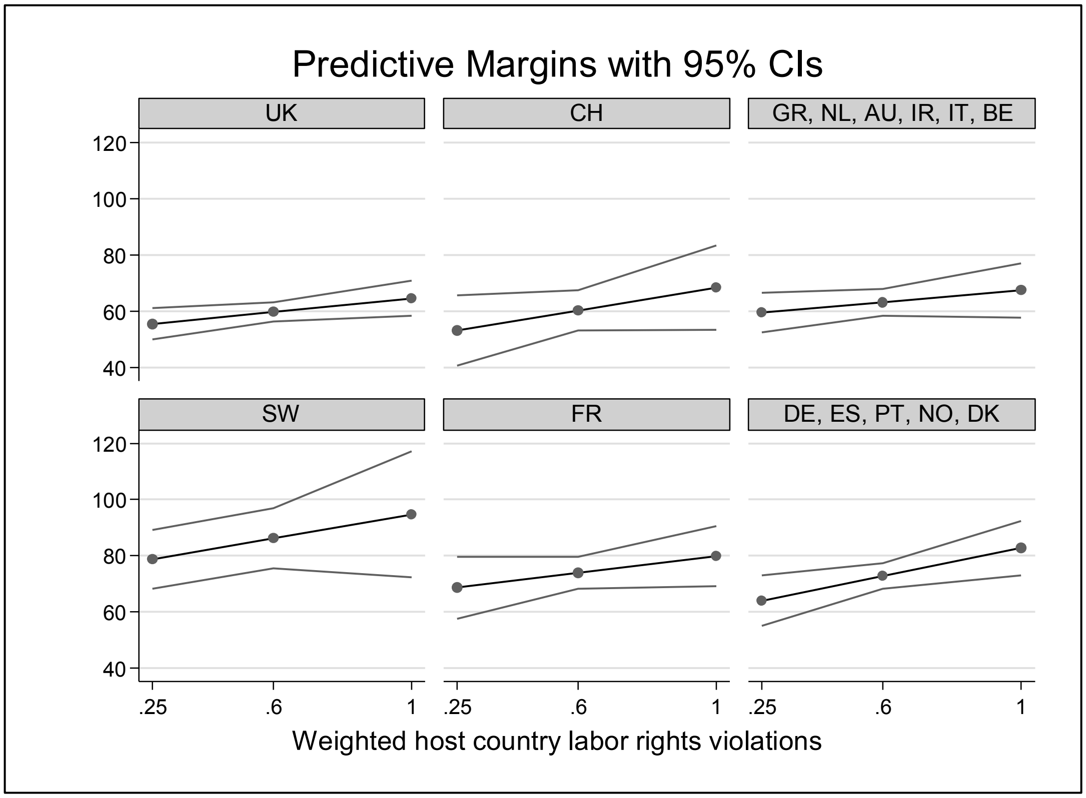


Table 6: Results of OLS regression

DV: Human rights score	Controls	Home country	Host country	Full model
Size, logged	7.37***	7.37***	7.25***	7.25***
	(0.78)	(0.78)	(0.79)	(0.79)
Profitability	-0.05	-0.05	-0.05	-0.05
	(0.11)	(0.11)	(0.11)	(0.11)
Internationalization	0.11*	0.11*	0.11*	0.11*
	(0.06)	(0.06)	(0.06)	(0.06)
Weighted EU labor power			17.86*	17.86*
			(10.34)	(10.34)
Weighted administrative distance			-0.96**	-0.96**
			(0.40)	(0.40)
Proposition 1 & 2:				
Home country labor power		16.13**		15.73**
		(7.16)		(7.15)
Proposition 3:				
Weighted host country labor rights violations			12.82**	12.82**
			(5.90)	(5.90)
Proposition 4:				
Weighted host country labor rights			5.17	5.17
			(3.15)	(3.15)
Constant	2.88	2.88	-4.87	-4.87
	(7.42)	(7.42)	(8.59)	(8.59)
Country controls	YES	YES	YES	YES
Industry controls	YES	YES	YES	YES
N	629	629	629	629

Standard errors in parentheses; $^{*}\ p < 0.1$, $^{**}\ p < 0.05$, $^{***}\ p < 0.01$

Figure 5: Effect of weighted host country labor rights violations on CSR adoption over different levels of home country labor power



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3. Strategies of Legitimation: MNCs and CSR Adoption in Response to Host Country Institutions

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ABSTRACT: Drawing on institutional theory, this study examines the question of how host country institutions affect corporate social responsibility (CSR) adoption by multinational enterprises (MNCs). The article proposes that CSR constitutes a signal of legitimacy related to subsidiary presence in host countries and identifies two distinctive ways in which MNCs adopt CSR in response to pressures originating from host country institutions: *standards-based* CSR in response to issue salience and *rights-based* CSR in response to stakeholder power. To test these hypotheses, I use subsidiary and firm-level data from a sample of 540 Western European MNCs in the issue field of labor rights. Results show that MNCs strategically adopt different CSR signals associated with exposure to specific kinds of host country institutions. The study offers implications for how MNCs manage the legitimacy of their global operations in different ways and how CSR, as a form of private governance, is both a substitute and complement to regulatory institutions.

Introduction

Many observers assert that private governance of social and environmental issues provided by multinational enterprises (henceforth MNCs) represents a defining feature of the current era of globalization (Doh, Husted, Matten, & Santoro, 2010). In this study, private governance refers to the ability of private organizations such as MNCs to devise and implement behavioral norms that regulate processes and outcomes of their economic operations (Barnett & King, 2008; Hassel, 2008). One of the most widespread forms of private governance is organizational policies and processes through which a firm describes its responsibilities in relation to social and environmental issues (Toffel, Short, & Ouellet, 2015; Wijen, 2014), known as corporate social responsibility (henceforth CSR). As a form of private governance, CSR is relevant to MNC managers and stakeholders because of high levels of corporate investment in countries marked by an absence of effective regulation related to issues such as labor rights and environmental standards (Greenhill, Mosley, & Prakash, 2009; Prakash & Potoski, 2007).

In such institutional contexts, known as "institutional voids" (Khanna & Palepu, 1997), MNCs may adopt CSR as a substitute for absent regulatory institutions. Not surprisingly, CSR adoption by MNCs has become a central question in the international business and stakeholder literature (Oetzel & Getz, 2012; Vogel, 2006). At the same time, comparative institutional perspectives in international business (Jackson & Deeg, 2008) suggest that CSR may also emerge as a complement to strong regulatory institutions, since these institutional arrangements empower stakeholders to demand responsible behavior from the firm (Campbell, 2007; Gjølberg, 2010).

Hence, there is much ambiguity about the institutional conditions under which CSR emerges as a form of private governance, in particular whether and how CSR may substitute for or complement regulatory institutions (Jackson & Apostolakou, 2010; Matten & Moon, 2008). Additionally, the effect of institutions on CSR adoption has primarily been studied in the context of companies' home countries (Ioannou & Serafeim, 2012; Jackson & Apostolakou, 2010; Matten & Moon, 2008). This is surprising since past studies have repeatedly found that internationalization affects CSR adoption (Kang, 2013; Strike, Gao, & Bansal, 2006). Drawing on institutional theory, this study therefore seeks to provide a better understanding of how host country institutions shape MNCs' CSR adoption. Specifically, I examine how unilateral adoption of distinct CSR policies by MNCs is associated with the institutional characteristics of MNCs' host countries. Using data on CSR policies related to labor rights in European MNCs, this study asks: How does exposure to different kinds of host country institutions affect the adoption of CSR by MNCs?

This paper makes two principal contributions, the first of which relates to a better understanding of the institutional influences on CSR adoption in MNCs. Business scholars have increasingly turned to the role of nation-level institutions to account for variation in MNC CSR adoption (Brammer, Jackson, & Matten, 2012; Campbell, Eden, & Miller, 2012; Ioannou & Serafeim, 2012; Jackson & Apostolakou, 2010). An institutional theory of CSR posits that perceptions of "responsible" business practices are ambiguous and socially constructed across different contexts (Campbell, 2007; Devinney, 2009). Essentially, institutions create different notions of organizational legitimacy, the "perception or assumption that the actions of an entity are desirable, proper, or appropriate" (Suchman, 1995). However, we still know little about how institutions influence the adoption of distinct CSR policies, particularly in the context of MNCs, which encounter more institutional contexts than domestic firms (Kostova & Zaheer, 1999).

To advance an institutional theory of why MNCs adopt CSR, I propose that MNCs employ different CSR strategies as signals of legitimacy depending on how host country institutions shape the salience of stakeholders in the context of labor rights. Specifically, I distinguish between host country institutions that increase the salience of labor rights as a social issue and host country institutions that empower employees to take part in corporate decision-making. While both kinds of host country institutions require MNCs to signal legitimacy, I hypothesize that issue salience is associated with what I term *standards-based* CSR adoption (such as child labor prohibition policies), while stakeholder power is associated with *rights-based* CSR (such as freedom of association policies). These different kinds of CSR adoption constitute distinct strategies of legitimation by MNCs and imply that, as a form of private governance, CSR can be both a substitute for and complement to regulatory institutions.

Secondly, the study examines qualitative differences in the CSR policies adopted by MNCs to conceptualize CSR as a practice that is both discretionary and embedded in institutionalized expectations (Young & Makhija, 2014). Although no agreed-upon definition of CSR exists (Aguinis & Glavas, 2012), it has prominently been defined as "voluntary corporate practices aimed at furthering social goods, beyond the interest of the firm and that which is required by law" (McWilliams & Siegel, 2001). In contrast, this study defines CSR as *a set of legitimation strategies that MNCs employ to justify their actions toward specific stakeholder groups and in relation to social issues.* As such, CSR is understood to legitimize MNC activity and thus serves the firm's interest for legitimacy in different institutional contexts, whereby CSR policies can focus on both compliance to existing regulation and on extending responsibilities beyond regulation.

I test my hypotheses with data on CSR adoption in the issue area of labor rights, using CSR and foreign subsidiary ownership data from a sample of 540 European MNCs, where I find empirical support for the hypotheses. This paper thus responds to calls in the international business literature to examine the impact of host country institutions on MNC CSR adoption (Ioannou & Serafeim, 2012). To do so, I develop testable propositions of MNC behavior as a response to distinct institutional environments, thereby offering insights into how MNCs manage legitimacy across different host country contexts. Understanding under which institutional conditions MNC engage in CSR adoption related to contested issues such as labor and human rights also carries important policy implications, since many companies operate subsidiaries in countries where effective public regulation is lacking and where private regulation may be most needed (Locke, 2013). Since a number of studies suggest that MNCs adopt CSR to "offset" illegitimate actions taking place in host countries without institutionalized labor protection (Brammer, Pavelin, & Porter, 2009; Surroca, Tribó, & Zahra, 2013), questions regarding the degree and scope of CSR adoption by MNCs are of both theoretical and practical relevance.

Institutional Perspectives on CSR as Private Governance

The rise of CSR as a form of private governance is a ubiquitous feature of the globalized economy (Pattberg, 2005; Wijen, 2014). The label "CSR" has been used to describe a variety of private governance measures, such as firm-specific unilateral policies and codes of conduct, as well as multilateral initiatives such as the UN Global Compact, where different stakeholder groups negotiate CSR policies (Toffel et al., 2015). While the occurrence of private governance may be the result of intentional delegation of authority by states to private organizations in highly technical areas such as accounting (Büthe & Mattli, 2013), in many CSR-related issue areas it is tied to governments' inability or unwillingness to regulate the global operations of MNCs. As a consequence, CSR has been characterized as a signal sent by MNCs to stakeholders in fields marked by high opacity, in which MNC behavior may not be observable by all stakeholders, and issues at hand have complex causes (Wijen, 2014).

Given this opacity, CSR policies adopted by MNCs entail qualitative differences with regard to scope and content. CSR may be unilaterally instituted by an MNC or constitute the outcome of negotiations with external stakeholders of the firm (Fransen & Burgoon, 2014). For example, MNCs may unilaterally increase their philanthropic efforts in response to presence in politically unfree countries (Brammer et al., 2009). While such action may constitute a signal of corporate responsibility, it also remains a fairly symbolic action unrelated to the issue of political oppression in host countries. Multilateral initiatives such as the UN Global Compact may only set forth broad values for their members (Gilbert, Rasche, & Waddock, 2011), while others, such as the Global Reporting Initiative, require MNCs to report on the implementation of CSR (Lim & Tsutsui, 2012).

In the institutional literature, scholars have focused on the conditions under which CSR adoption occurs. Institutions are understood to be "rules of the game" (North, 1990) manifested through regulation, norms, and cognitive taken-for-granted understandings (Scott, 2008). Institutional theory further holds that organizations adopt policies and practices to appear in line with these institutions and maintain legitimacy in the eyes of stakeholders (Meyer & Rowan, 1977). Stakeholders play a crucial role in institutional processes of legitimation, because they interpret organizations' actions in relation to institutionalized norms and challenge legitimacy accordingly (Lamin & Zaheer, 2012). At the same time, institutions also determine the extent to which stakeholders become salient to firms, as they grant legitimacy to these stakeholders (Mitchell, Agle, & Wood, 1997;

Young & Makhija, 2014). Therefore, from an institutional viewpoint, CSR adoption is a product of social expectations.

In this sense, scholars have studied how CSR is adopted when activists such as social movements and NGOs explicitly call the legitimacy of a firm into question (Doh & Guay, 2006; Fransen & Burgoon, 2014; McDonnell & King, 2013; Oetzel & Getz, 2012; Zhao, Tan, & Park, 2014). Beyond such explicit targeting, however, existing literature in international business and management suggests that home country nation-level institutions, such as rule of law and corporate governance, shape the extent of CSR adoption by firms (Brammer et al., 2012; Ioannou & Serafeim, 2012; Young & Makhija, 2014). Influenced by the comparative capitalism literature, which holds that distinct configurations of formal and informal institutions shape how firms are embedded in society and how stakeholders are empowered to affect managerial decision-making (Hall & Soskice, 2001a; Jackson & Deeg, 2008), this research has framed institutions and CSR as either *substitutes* or *complements* (Campbell, 2007; Ioannou & Serafeim, 2012; Jackson & Apostolakou, 2010; Matten & Moon, 2008).

The substitute view sees CSR and other market-based modes of governance as functional equivalents to formal regulation that governs firm-stakeholder relations (Matten & Moon, 2008). Historical evidence points to the fact that CSR was conceptualized as a substitute to regulation, as liberalized countries such as the US and the UK left greater incentives for companies to adopt CSR (Kaplan, 2015; Kinderman, 2012; Matten & Moon, 2008). At the same time, the substitute argument has been called into question (Brammer et al., 2012). Conceptualizing CSR as a complement to institutionalized firm-stakeholder relations, authors suggest that institutions can enable stakeholders to demand corporate commitments to responsibilities by institutionalizing stakeholder rights (Campbell, 2007; Gjølberg, 2009; Young & Makhija, 2014). Put differently, institutions that enable stakeholders such as employees to participate in managerial decision-making, as in the case of Continental Europe through board codetermination (Aguilera & Jackson, 2003; Hall & Soskice, 2001b) or by means of legal empowerment through ILO core labor standard conventions (Soleimani, Schneper, & Newburry, 2014), may have a positive effect on CSR adoption.

Existing literature offers ambiguous empirical findings related to the substitute-complement hypotheses in the home country context. Jackson and Apostolakou (2010) use a cross-section of 274 Western European companies to examine the strength of different institutional domains in European countries and find that "contemporary CSR practices act largely as a substitute rather than as a mirror of existing institutionalized forms of coordination and stakeholder involvement" (p.387). Drawing on a larger sample of firms from 42 countries over seven years, Ioannou and Serafeim (2012) find that firms from countries with leftist governments display lower levels of CSR adoption.

On the other hand, Ioannou and Serafeim (2012) also find that more powerful organized labor *increases* CSR adoption. Similarly, Gjølberg (2010) presents qualitative evidence which suggests that norms of corporatism and collectivism inform the adoption of CSR in MNCs from these countries. In an econometric study of Fair Labor Association member firms from 38 different countries, Young and Makhija (2014) find a positive effect of home country rule of law and labor regulation on CSR adoption. However, authors from both sides of the argument have contended that complementary CSR may take an "implicit" form not measurable by CSR ratings (Matten & Moon, 2008). In this sense, CSR may be expressed not as formal corporate policies, but through the avoidance of stakeholder harm (Campbell, 2007).

In sum, these empirical ambiguities point to theoretical questions and shortcomings in the existing institutional literature on CSR. For one, existing research presents two potentially paradoxical pathways to CSR adoption in relation to institutions. Yet, empirical research mostly falls short of considering issue-specific kinds of CSR adoption beyond aggregate measurements that may resolve the substitute-complement tension (Ioannou & Serafeim, 2012; Jackson & Apostolakou, 2010; Kang, 2013). Secondly, with many CSR initiatives aimed at increasing the legitimacy of MNC operations in foreign countries (Wijen, 2014), I argue that explanations of CSR adoption grounded in the characteristics of home country institutions need to be complemented by explicitly considering the role of host country institutions. To accomplish these goals, I first present the empirical context of this study. Then, I develop hypotheses on how MNCs adopt different CSR signals in response to host country institutions. These hypotheses posit that CSR can serve as either a complement or substitute to nation-level institutions, but that complementary CSR is different from CSR that acts as a substitute for host country institutions.

MNCs and the Private Governance of Labor Rights

I examine the relationship between institutions and CSR adoption by MNCs within the issue field of labor rights. In the early 1990s, the state of labor rights in the production networks of MNCs was brought to the fore when child labor practices at MNC supplier facilities were uncovered by activists (Vogel, 2006). Since then, labor rights violations have become a salient issue for a number of industries, since many MNCs rely on global supply chains with access to cheap labor forces in countries such as China and Indonesia (Lamin & Zaheer, 2012; Locke, 2013; Young & Makhija, 2014). Accordingly, labor rights constitute an issue-based organizational field (Hoffman, 1999) within which MNCs and a variety of stakeholders, such as employees, activists, and international organizations interact to determine appropriate forms of governance (Hassel, 2008).

I focus on labor rights as the field illustrates qualitative differences in MNCs' CSR strategies and highlights the role of host country institutions in driving these strategies. For one, private governance is most relevant for employees in institutional contexts where labor rights are not institutionalized through regulation, either because countries are unwilling or unable to enforce such regulation (Greenhill et al., 2009). As such, the issue of absent labor rights is related to MNC presence *mostly* in developing and emerging economies. Secondly, the field is characterized as highly opaque (Wijen, 2014), in the sense that many stakeholders may not be able to directly observe MNC activity in host countries (Surroca et al., 2013).

This information asymmetry suggests that MNCs have some strategic leeway in how they signal responsibility related to labor rights. In this regard, the literature distinguishes between CSR policies that set minimum protective standards, such as child labor prohibition, and those that guarantee enabling rights, such as freedom of association (Anner, 2012; Locke, Qin, & Brause, 2007). This distinction marks a clear difference in the quality of private labor rights governance, since standards guarantee outcomes set by management, while rights enable employees to participate in decision-making in the company. In other words, CSR policies differ in their effects on managerial power and autonomy. In this regard, many MNCs frame standards violations as "zero-tolerance" issues, but apply no such stringent criteria to rights violations (Anner, 2012). These differences are also reflected in how violations of standards and rights are detected. According to Anner (2012), issue detection within the Fair Labor Association (FLA) members' factories, for example, overwhelmingly focuses on standards violations (95 %), even in countries with other known violations. In the case of the FLA, types of detection do not correlate with country-level data on specific types of violations. Figure 1 uses data from the ASSET4 CSR database (Ioannou & Serafeim, 2012) for a sample of roughly 2400 global firms over five years on differences in total adoption counts of standards and rights-based CSR (exemplified by formal policy adoption related to child labor and freedom of association). In the following section, I develop hypotheses which institutional pressures are associated with which kind of adoption.

###Figure 1 here###

CSR and Host Country Institutions

Although extant management literature has long recognized host country institutions as relevant for many aspects of corporate strategy (Kostova & Roth, 2002), CSR research has largely sidestepped the potential influence of multiple and diverse host country institutions, the hallmark of MNCs (Kostova & Zaheer, 1999). Existing studies use a single institutional host country context as the research setting (Campbell et al., 2012; Marquis & Qian, 2014; Zhang & Luo, 2013), or look at the degree of internationalization without taking into account the institutional characteristics of host countries (Kang, 2013; Strike et al., 2006). As an exception, Brammer et al. (2009) study how corporate activity in countries with a lack of political rights affects the adoption of issue-unrelated CSR as a means to offset legitimacy concerns. A host country perspective on CSR adoption implies that to some extent, CSR has signal-like qualities by conveying information about the firm not observable to stakeholders (Wijen, 2014). However, insights from institutional theory laid out in previous sections suggest that how MNCs signal legitimacy – whether they adopt CSR as a complement or substitute to institutions – depends on how institutions shape the salience of stakeholders such as employees, leading to the adoption of different kinds of signals. Table 1 summarizes these notions, including the hypotheses developed in the following section.

####Table 1 here####

The first pathway to CSR adoption by MNCs is based on presence in host countries that lack either formal legislation or means to enforce codified law, i.e. institutional voids where labor and human rights violations occur frequently (Greenhill et al., 2009; Mair, Martí, & Ventresca, 2012). Although institutional voids can occur at different societal levels and entail different consequences for market participants (Mair et al., 2012), in this study I conceptualize voids on the national level and focus on the effects of voids on the legitimacy of MNCs. I focus on the national level because nation-level attributes are likely to be most visible to MNC stakeholders and thus most relevant for managers that seek to legitimize presence in a given country (Berliner & Prakash, 2013). In particular, I suggest that presence in voids creates issue salience for MNCs, defined as "the degree to which a stakeholder issue resonates with and is prioritized by management" (Bundy, Shropshire, & Buchholtz, 2013, p. 353). In the context of labor rights, salience is mainly, though not exclusively, driven by MNC presence in developing countries, since it is less likely that such violations occur in industrialized countries.

When presence in host countries increases the salience of labor rights, for example when Apple's electronics production in China highlights the lack of institutionalized worker representation and frequent labor rights violations (Duhigg & Barboza, 2012), MNCs may need to signal responsibility to any of the firm's stakeholders able to threaten an MNC's legitimacy. Notably, this perspective does not presume the presence of salient stakeholders in a given host country. Hence, I suggest that MNC legitimacy is "morally governed" (Scott, 2008, p.51) by home or transnational stakeholders through normative mechanisms. Stakeholders often draw on naming and shaming practices in relation to countries with rampant human rights violations (Hafner-Burton, 2008; Soule, Swaminathan, & Tihanyi, 2014). In the presence of issue salience, MNCs are thus likely to adopt voluntary CSR measures regardless of whether affected stakeholders demand such actions, suggesting that CSR acts as a substitute to regulatory institutions in these instances.

However, the relationship between an MNC and its stakeholders may be marked by high information asymmetries, such that stakeholders cannot fully observe actual firm behavior related to host country issues (Crilly, Zollo, & Hansen, 2012; Surroca et al., 2013). Institutional theory suggests that information asymmetries can lead to CSR adoption that is "superficial and [does] not impact the central operating principles of the organization" (Bondy, Moon, & Matten, 2012, p. 294). In the area of labor rights, standards-based CSR represents a way to signal legitimacy without relinquishing managerial control. In contrast to rights-based policies, such standards-based CSR policies have less uncertain performance implications, because management controls their application (Anner, 2012). As host locations increase the salience of labor rights, MNC managers may prefer to adopt kinds of CSR that focus on unilaterally determined minimum standards that grant legitimacy without relinquishing managerial power. I therefore formulate:

Hypothesis 1 (H1): Exposure to issue-salient host country environments is positively associated with the adoption of standards-based CSR.

A second view on host country institutions and CSR adoption paints a different picture of MNC behavior by highlighting stakeholder power in MNC host countries. In this view, MNCs must constructively engage with stakeholders of multiple institutional environments to sustain legitimacy, particularly when such stakeholders are able to scrutinize the firm (Crilly et al., 2012; Marquis & Qian, 2014). Recent literature suggests that MNCs employ cooperative tactics such as negotiation and compromise with multiple stakeholders in response to a set of diverse institutional expectations (Regner & Edman, 2014). Institutional theory suggests that institutions can create opportunities to participate in managerial decision-making and engage in grievance procedures (Aguilera & Jackson, 2003). When present in such institutional environments, MNCs may adopt CSR not as a substitute, but as a complement to such institutions (Campbell, 2007). However, I suggest that in contrast to normative mechanisms underlying the adoption of standards-based

CSR, “legally sanctioned” (Scott, 2008, p. 51) stakeholder legitimacy should lead to CSR adoption that is qualitatively different.

There are good reasons to expect that CSR legitimation strategies by MNCs go beyond standards-based policies in host countries with institutionalized stakeholder power. In such a scenario, labor rights institutions not only increase stakeholder expectations related to the quality of labor rights CSR beyond standards (Young & Makhija, 2014), but also turn employees into more salient stakeholders. Research shows that employee participation in governance processes is associated with the adoption of CSR measures focused on enabling rights such as freedom of association (Anner, 2012; Bartley, 2005; Egels-Zandén, 2009). From a managerial viewpoint, such CSR policies relate to procedures that decrease managerial autonomy and contain less predictable managerial and financial outcomes.

Hence, I hypothesize that rights-based CSR adoption occurs in a complementary fashion to the strength of host country institutions, assuming that such institutions possess some degree of effectiveness. This assumption is important because formal regulation related to labor rights diverges from actual practices in many places (Greenhill et al., 2009; Neumayer & Soysa, 2006). However, qualitative evidence (Amengual, 2010; Locke, 2013) has shown that regulation, even when frequently unenforced, legitimates private governance initiatives by enabling stakeholders to hold MNCs accountable to existing regulation. I therefore propose a complementary relationship between private governance and host country institutions and formulate:

Hypothesis 2 (H2): Exposure to host country environments characterized by stakeholder power is positively associated with the adoption of rights-based CSR.

The previous section hypothesizes about two MNC strategies of obtaining legitimacy through CSR adoption. However, exposure to different kinds of host country institutions does not occur in isolation. Instead, MNCs conceivably face both issue salience and stakeholder power in different degrees, implying an interaction of these institutional influences. The institutional literature has considered how multiple institutional influences relate to each other and affect the behavior of organizations (Seo & Creed, 2002). Such influences can be in conflict (Chuang, Church, & Ophir, 2010), as in the case of MNCs responding to issue salience with standards-based CSR, even though other stakeholders prefer rights-based CSR. Chuang et al. (2010) suggest that firms exposed to contradictory institutional influences must decide to which institution to conform. This suggests that the decision to adopt is dependent on the levels of both issue salience and stakeholder power. For example, an MNC may operate exclusively in institutional voids without salient stakeholders that contest the firm's CSR adoption. In this case, I expect information asymmetries to be particularly high and therefore formulate more generally:

Hypothesis 3 (H3): The positive association between issue salience and standards-based CSR adoption will be stronger for MNCs as stakeholder power decreases.

On the other hand, one can envision a scenario of high issue salience and stakeholder power. The MNC operates in void-like conditions, yet faces salient stakeholders empowered to hold management accountable. To resolve this situation of conflicting pressures, MNCs are conceivably more likely to adopt rights-based CSR, thereby "pacifying" (Oliver, 1991) salient stakeholders with a rights-based legitimation strategy. Appeasing specific stakeholders groups by granting certain rights to all of the firm's employees allows MNCs to continue operations in countries without widespread respect for labor rights. I therefore formulate:

Hypothesis 4 (H4): The positive association between stakeholder power and rights-based CSR adoption will be stronger for MNCs as issue salience increases.

Data and Methods

Sample

To test the hypotheses, I constructed a sample from two secondary data sources: Bureau van Dijk's AMADEUS database, which covers European companies, and ThomsonReuters' ASSET4 ESG database, a global CSR dataset (Ioannou & Serafeim, 2012). All financial data used in this study was obtained from ThomsonReuters Datastream. Setting 2012 as the reference year, I first obtained subsidiary information on all available companies from Western Europe (this includes all EU-15 countries, as well as Switzerland and Norway) from the AMADEUS database. I chose MNCs from Western Europe because although there are important institutional differences between these countries (Jackson & Apostolakou, 2010), Western Europe presents a fairly homogeneous setting in terms of socio-economic status and rule of law, in contrast to emerging and developing economies (Meyer, Estrin, Bhaumik, & Peng, 2009). MNCs from emerging economies such as Eastern Europe may altogether not use CSR as a signal in the way hypothesized in this study, due to radically different stakeholder notions of legitimacy. Parent companies were then matched with companies in ThomsonReuters' ASSET4 ESG database to obtain CSR data, excluding companies in the financial sector. I could not obtain subsidiary information for companies from Luxembourg. This yielded a final sample of 540 MNCs from 16 countries with 48644 subsidiaries in total, excluding subsidiaries in an MNC's home country. Tables 2-5 provide a detailed overview of the sample distribution along a number of dimensions, such as home country, industry, as well as most common host country destinations.

####Tables 2-5 here####

Dependent Variable

The dependent variables are dummy variables measuring whether an MNC has adopted labor rights CSR focused on standards or rights. I use data on formal CSR policy adoption related to child labor prohibition (as a standard) and freedom of association (as a right) from the ASSET4 ESG database. ASSET4 draws upon publicly available information to capture the extent of CSR adoption in companies in four overarching issue areas (social, environment, economic, corporate governance). I use the dichotomous "policy" indicators from the subarea of human rights, which "reflect a company's capacity to maintain its license to operate by guaranteeing the freedom of association and excluding child, forced or compulsory labor" (ThomsonReuters, 2012). Table 6 provides definitions of each CSR policy, including two further policy indicators used in a robustness check.

####Table 6 here####

Independent Variables

Issue salience. In the context of labor rights, issue salience relates to MNC subsidiary presence in host countries characterized by an absence of institutionalized rules and norms related to labor rights. To test hypotheses 1, 3, and 4, I draw upon the CIRI Human Rights Dataset (Cingranelli & Richards, 2010), a widely used dataset that examines a range of human rights practices in over 200 countries. Specifically, I use the indicator on physical integrity rights for 2011, the most recent year available. The indicator measures occurrences of politically motivated disappearances, imprisonments, and killings on a scale from 0 to 8. I use an inverse of this measure, so that 8 signals no respect for physical integrity rights in a host country.

Given a divergence of labor laws and practices in many developing countries (Greenhill et al., 2009), I draw on an indicator that reflects human rights practices, instead of formal rights. I also use a broader violations indicator instead of a more narrow labor rights violations indicator because it is well established that labor rights indicators suffer from several problems, such as reliance on reporting by unions (Teitelbaum, 2010) and a higher likelihood of detection of only certain types of violations (Anner, 2012). Therefore, the physical integrity indicator captures the absence of regulatory institutions for human and labor rights even when union movements do not exist to report violations, as it may occur when an industrial sector is underdeveloped.

Stakeholder power. In hypotheses 2, 3, and 4, I analyze the abilities of employees to exercise influence on MNCs' labor rights policies. I measure employee power as the sum of adoptions of ILO conventions 87 and 98 for a given host country, which grant employees the right to freedom of association and collective bargaining abilities (Soleimani et al., 2014). Although there are other ILO conventions, these two core conventions are conceptually closest to the idea of stakeholder power related to labor rights. I calculate stakeholder power separately for Western European (EU-15/Norway/Switzerland) host locations and non-EU locations, using the EU indicator as a control variable. There is no variation in the stakeholder power indicator among the EU countries, with all countries having ratified both conventions.

Spatial weighting procedure

In order to test the hypotheses, I require a method to estimate the presence of an MNC in different host countries to derive measures of issue salience and stakeholder power. While there is no consensus in the literature on how to measure MNC presence in foreign countries (see e.g. Oh and Oetzel (2011)), Bondy et al. (2012) present qualitative evidence suggesting that host environments become salient to MNCs when they hold strategic importance in the organization's investment portfolio. However, others have argued that host countries must exhibit sufficiently controversial practices to trigger CSR responses, pointing to the institutional characteristics of the host country as an important factor (Brammer et al., 2009). Drawing on both notions, I suggest that an increase in issue salience or stakeholder power may be driven by the institutional features of the host country, as wells as a host country's importance in the MNC's overall foreign investment portfolio. I adopt an established spatial weighting procedure (Greenhill et al., 2009; Lim & Tsutsui, 2012) to calculate the influences of different host locations on an MNC's CSR adoption. To determine the relevance of any host country location for the company, I first calculate a weighting quotient by dividing the number of subsidiaries in each country by the total number of subsidiaries a company owns on the first level of ownership. This quotient is used as a weighting variable for the indicators that measure institutional characteristics of each host country and allows me to calculate an indicator of exposure to issue salience and stakeholder power for each company:

$$\mathrm{EXPOSURE}_c = \sum_{1}^{j} \mathrm{INST}_j \times \frac{\mathrm{SUB}_{cj}}{\mathrm{TOTALSUB}_c}$$

where c is a company, j is a host country, SUB is a subsidiary of company c, TOTALSUB is the total number of subsidiaries of a company, and INST is either a country's physical integrity score or the sum of its ratified ILO conventions.

Control Variables

I include various organization and country-level controls in the analysis known to affect CSR adoption. Drawing from the strategy literature on internationalization, I include a count of host countries for each MNC, taken as the natural log. A higher number of host countries indicates exposure to more diverse stakeholders (Kang, 2013). To gain an understanding of appropriate CSR adoption, MNC managers have to overcome increased cultural, economic, administrative, and geographical differences between the home and host environment, potentially making CSR adoption more difficult (Campbell et al., 2012). Therefore, it may be that the decision to adopt standards or rights-based CSR is associated with a general increase in the number host countries.

An alternative explanation of CSR adoption by MNCs may be the occurrence of explicit reputational challenges by activist groups related to labor and human rights. In contrast to a mere presence in a host country, such targeting constitutes a subversive tactic and draws attention to an MNC (King, 2008). It has been shown that stakeholder tactics such as campaigns and boycotts increase the likelihood of corporate responses to stakeholders (King, 2008; Zhang & Luo, 2013), and that media attention to business practices in violation of field norms serves as "threat amplification" (McDonnell & King, 2013), increasing the urgency with which management responds to issues. I use media data gathered by ASSET4 to examine the influence of firm-level controversies on CSR adoption. ASSET4 conducts manual systematic media analyses to track reports of firm-specific controversies in various issue areas. Specifically, I constructed a dichotomous variable that measures whether an MNC experienced one or more media controversies related to human rights, child and forced labor, undemocratic countries, and freedom of association in the four years prior to my base year, from 2008 to 2011.

Research on CSR and financial performance has suggested that companies whose competitive advantage lies in exploiting intangible assets may be more likely to adopt CSR measures (Godfrey, Merrill, & Hansen, 2009). Accordingly, MNCs deriving a considerable part of their value creation from intangible assets such as human resources or research and development may see labor rights CSR as an essential part of their strategy (Surroca, Tribó, & Waddock, 2010). McWilliams and Siegel (2000) suggest that CSR helps firms with intangible resources to ensure product and process differentiation, or, as in the case of labor rights, circumvent market failures (Thauer, 2014). Therefore, MNCs with a high level of intangible assets may see labor rights as a salient issue and seek to engage in private governance related to the issue. I measure intangible assets as the sum of all non-physical assets, taken as the natural log. I also control for size, slack resources, and profitability, all known to affect CSR adoption (Strike et al., 2006). The number of employees, taken as the natural log, is used as an indicator for size. I use free cash flow per share as an indicator of slack resource availability and return on assets as a measure of profitability.

As described above, I also calculate a measure of exposure to EU stakeholder power using the spatial weighting measure, which is applied only to subsidiaries in the 16 home countries used in this study. Lastly, I also include industry and home country dummies to account for any other significant differences in CSR adoption levels due to long-standing institutional differences (Jackson & Apostolakou, 2010; Matten & Moon, 2008; Shropshire & Hillman, 2007).

Estimation

To model the influence of the independent variables on the likelihood of the adoption of labor rights-related CSR policies, I employ a probit estimation, appropriate for the dichotomous nature of the dependent variables, with robust standard errors to address heteroskedasticity. I run separate analyses for hypotheses 1 and 2 as well as additional analyses when the interaction term of issue salience and stakeholder power is included. To increase the interpretability of coefficients and interactions in a non-linear estimation such as probit, I use STATA's *margins* command to estimate average marginal effects (Long & Freese, 2001) with graphical interpretation of interaction effects (Wiersema & Bowen, 2009).

Results

####Table 7 here####

Table 7 shows the descriptive statistics and correlations among the independent variables. The VIF values in all analyses were below 3, suggesting that multicollinearity is not an issue. The average MNC in the sample operates subsidiaries in 22 countries, with a high standard deviation of 23 countries. Similarly, the mean subsidiary count is 84 with a standard deviation of 143. There is a modest positive correlation between issue salience and stakeholder power.

Table 8 presents results from a probit model estimating the likelihood of adoption for standards- and rights-based CSR in models 1 and 2, respectively. Hypothesis 1 suggested that issue salience is positively associated with the adoption of standards-based CSR. I find support for this hypothesis with a positive and significant ($p<0.1$) effect of issue salience on the likelihood of adopting a child labor policy. In line with hypothesis 2, I also find a positive and significant ($p<0.1$) effect of stakeholder power on the adoption of a freedom of association policy. European MNCs with a greater presence in countries with labor and human rights violations are more likely to adopt a CSR policy that sets minimum standards, such as child labor prohibition. On the other hand, a greater presence in countries with institutionalized labor power increases the likelihood of adopting a CSR policy that awards rights to stakeholders, such as freedom of association. Computing average marginal effects, a unit increase in issue salience increases the likelihood of standard-based CSR adoption by 3.3 %. Similarly, a unit increase in stakeholder power increases the likelihood of rights-based CSR adoption by 10.1 %. These findings offer strong support for the influence of host country institutions on MNCs' CSR adoption and demonstrate that CSR can act as both a substitute and complement to regulatory institutions. Interestingly, model 2 also shows a significant ($p<0.05$) and positive association between issue salience and rights-based CSR adoption. I discuss this finding below.

####Table 8 here####

With regard to the control variables, I find that prior reputational challenges ($p<0.1$) and the number of host countries ($p<0.01$) are positively and significantly related to standards-based adoption, but not to rights-based adoption. Firms that were singled out in the media at least once in the four years prior to 2012 are 10.5 % more likely to have a child labor CSR policy in place. They are also 4.5 % more likely to adopt such a policy for each unit increase in the logged number of host countries. As both of these variables are insignificant for rights-based CSR adoption, companies likely seek to offset negative press coverage about their operations abroad with a CSR response that limits loss of managerial autonomy. Managers may also be hesitant to adopt more far-reaching rights-based measures as institutional distance increases (Campbell et al., 2012). Presence in other European countries, as measured by the EU stakeholder power variable, has a significant positive association with both kinds of adoption. The magnitude of a unit increase for these coefficients is 10.6 % for standards-based CSR and 8.9 % for rights-based CSR. Size, measured as the number of employees, affects the likelihood of both kinds of adoption by a margin of 7-9 % for a unit increase ($p<0.01$). Overall, these findings emphasize the importance of different kinds of host country institutions for MNCs' CSR adoption. In relation to home country differences, I find that MNCs from Scandinavian and Mediterranean countries are particularly more likely to have adopted rights-based CSR policies.

Hypotheses 3 and 4 formulated the assumption that these institutional influences interact with each other. Specifically, the positive association of issue salience and standards-based CSR should be strongest when stakeholder power is low. Conversely, the association between stakeholder power and rights-based CSR is strongest when salience is high. Analyses with an interaction term of issue salience and stakeholder power are shown in models 3 and 4, using mean-centered versions of these variables to reduce collinearity. To interpret these interactions, I graphically analyze the marginal effects of the variables over all or important sample values (Brambor, Clark, & Golder, 2006; Wiersema & Bowen, 2009).

In figure 2, I examine the marginal effect of salience on adoption over three levels of stakeholder power: low (one standard deviation below the mean), medium (mean) and high (one standard deviation above the mean). In hypothesis 3, I suggested that MNCs are most likely to adopt standards-based CSR when issue salience is high, yet stakeholder power is low. Figure 2 shows that the marginal effects of issue salience on adoption likelihood are consistently stronger when stakeholder power is low. From a value of issue salience of about 1.7 upwards (in the 95^{th} percentile), MNCs with low stakeholder power also have a higher absolute likelihood to adopt standards-based CSR than MNCs with high stakeholder power.

Related to hypothesis 4, figure 3 depicts the marginal effect of stakeholder power on rights-based CSR. This effect was hypothesized to be strongest when issue salience is high, since MNCs seek legitimacy by pacifying empowered stakeholders when also operating in institutional voids. In line with hypothesis 4, the marginal effect of stakeholder power is consistently stronger for MNCs with high salience. As stakeholder power increases from its minimum to its maximum level, the likelihood of adoption increases by only 7 % for low-salience MNCs and by 14 % for high-salience MNCs. High-salience MNCs are also more likely in absolute terms to adopt rights-based CSR.

####Figures 2-4 here####

Lastly, examining the interaction of issue salience and stakeholder power may also shed light on the positive and significant ($p<0.05$) effect of issue salience on rights-based CSR policy adoption in the main model, which was not predicted by the theory. In the main model, the effect is calculated with a mean value of stakeholder power. However, issue salience may only positively affect the likelihood of rights-based CSR adoption given a certain level of stakeholder power. This argument should be most apparent when analyzing the marginal effects of issue salience over the minimum and maximum values of stakeholder power.[4] Figure 4 shows the effect of issue salience in the range of one standard deviation below the mean to one above the mean over the two levels of stakeholder power. While salience does have an unexpected positive association with the likelihood of rights-based CSR adoption, even when stakeholder power is at its lowest level, the marginal effects of salience on the likelihood of adoption are consistently stronger for MNCs with high stakeholder power. The absolute likelihood of rights-based adoption is consistently lower for MNCs with low stakeholder power, so that at the mean level of issue salience, MNCs with stakeholder power have a likelihood of rights-based CSR adoption of just around 50 %. On the other hand, their counterparts with high stakeholder power are about 20 % more likely to have adopted such a policy.

[4] 14 % of MNEs in the sample have the minimum value of stakeholder power, while 2% have the maximum value.

Robustness of findings

####Table 9 here####

I conducted two robustness checks to further examine the scope conditions of the theory. First, I re-ran the analysis with two additional dichotomous indicators of CSR policy adoption that reflect the standards-rights distinction: employment benefits[5] and trade union recognition policies. Results are presented in models 5 and 6 of table 9 and offer strong validation of the findings related to hypotheses 1 and 2. Salience is only positively and significantly associated with standards-based CSR ($p<0.1$), whereas stakeholder power is positively and significantly associated with rights-based CSR ($p<0.05$). Hence, the theory is robust to different measurements of standards- and rights-based CSR policies. Secondly, I used a continuous measure of home country labor power in the original two models to ensure that my findings were not the result of different home country institutions related to the scope of employee power. I used a measure of organized labor power developed by Botero and colleagues (2004), which represents an average of seven variables measuring right to unionization and bargaining, the reach of collective contracts, as well as the existence of board codetermination and works councils. To obtain reliable results, I had to drop the home country dummies from this analysis, as the inclusion of the dummies and the labor power variable created very high VIF. In the analyses shown in models 7 and 8 in table 9, the effects of the key independent variables remain substantively unchanged. The labor power variable itself is positively and significantly related only to the adoption of the rights-based CSR policy. Although beyond the scope of this study, this finding suggests that at least in some CSR areas, home and host country institutions can complement each other.

Discussions and Implications

Based on the premise of the relevance of stakeholder issues for MNCs' business operations, this study examined how MNCs implement CSR strategies in association with exposure to

[5] Finnish companies were dropped from this analysis because of perfect collinearity.

different kinds of host country institutions. Drawing on data from 540 multinational enterprises from Western Europe and host country-specific information on the locations of foreign subsidiaries, I provide new evidence on the institutional influences on MNCs outside a firm's home country, which have largely been neglected in CSR research.

For the institutional literature, the study highlights the importance of host country institutions for the management of legitimacy in MNCs and conceptualizes CSR as a set of legitimation strategies that MNCs adopt towards different stakeholder groups. The core contribution is a more accurate understanding of how CSR relates to multiple host country institutions, building on existing international business research on the role of institutions (Jackson & Deeg, 2008; Kostova, Roth, & Dacin, 2008). My findings complement and expand this growing research on how social expectations affect firm strategies (Berry, Guillen, & Zhou, 2010; Campbell et al., 2012). For one, MNCs encounter different kinds of host country environments that have distinctive effects on the legitimacy of the firm. Some host countries lead MNCs to distance themselves from institutional environments that are deemed normatively questionable, corrupt, or dangerous in the eyes of stakeholders. Such host countries create issue salience, associated with the adoption of standards-based CSR. Other host countries institutionalize stakeholder power and enable employees to take part in the governance of the firm, to which MNCs respond with rights-based private governance. Hence, by conceptualizing CSR to encompass a variety of different legitimation strategies in response to diverse institutional pressures, this study suggests that institutional and instrumental approaches are complements in a better understanding of MNC CSR adoption.

The findings also contribute to the CSR literature by resolving some of the contradictory results from comparative institutional studies on CSR adoption based on home country institutions (Ioannou & Serafeim, 2012; Jackson & Apostolakou, 2010). Whereas these studies have stressed that CSR acts as either a complement *or* substitute to home country institutions (Campbell, 2007; Matten & Moon, 2008), MNCs adopt CSR as both a substitute and complement to regulatory institutions. Specific institutional characteristics are therefore associated not only with more or less CSR, but also with qualitatively different kinds of private governance initiatives. These differences have implications for stakeholders and the prospects of private governance, by showing how MNCs strategically (and potentially selectively) regulate parts of their economic operations.

For managers, these findings point to the rising importance of non-market strategies for MNCs (Doh, Lawton, & Rajwani, 2012). The main findings show that as MNCs expand to foreign countries, the likelihood of CSR adoption due to institutional pressures increases. While many MNCs signal legitimacy through the adoption of standards-based CSR (see figure 1), a simultaneous presence in countries where stakeholder power is institutionalized can lead to conflicting institutional pressures. As both kinds of institutional pressures increase, MNCs are more likely to adopt CSR policies that award rights to stakeholders. Such policies limit managerial autonomy and imply potential changes to organizational procedures, even as MNCs favor global standardization of CSR policies (Christmann, 2004). In addition, adoption of any kind of CSR policy may lead to higher visibility in the eyes of stakeholders (King & McDonnell, 2015). With any kind of CSR adoption, MNCs may become likelier targets of stakeholder campaigns, so that foreign subsidiary ownership in certain institutional environments can become a liability to the MNC's legitimacy. Hence, MNC managers must be aware of institutional pressures stemming from different stakeholder groups.

This paper also has a number of limitations. I investigate a cross-section of European companies that does not allow me to examine temporal variation both in terms of institutional change and changes in investment distributions. However, neither host country institutions nor the structure of foreign ownership should display radical change from year to year. Still, one future avenue of research could be related to changes in CSR adoption, or even dis-adoption when investment contexts change. Future work should also delve deeper into interactions of home and host country institutions to work towards a more parsimonious theory of private governance.

While measuring CSR as formal policy adoption has the advantage of being objective, considering other measurements in future studies may shed light on the implementation of such policies with regard to stakeholder and firm outcomes. In particular, firms may signal responsibility through other avenues, for example by joining multi-stakeholder initiatives such as the Global Compact. Although an analysis of the determinants of joining multi-stakeholder initiatives is beyond the scope of this study (Fransen & Burgoon, 2014), future work should compare unilateral adoption and multi-stakeholder CSR initiatives. One indication of the effectiveness of unilateral adoption as private governance would be to study the effects of policy adoption on the occurrence of firm-specific controversies. Depending on the availability of CSR indicators, future work should also look at the depth of implementation related to standards and rights. While this is not a study of CSR decoupling, there are apparent overlaps to other work that examines why MNCs vary in their implementation of CSR (Christmann, 2004; Crilly et al., 2012; Wijen, 2014). In this regard, a differentiation between how CSR policies set standards or rights can potentially contribute to the study of private governance effectiveness by expanding the range of legitimation practices that MNCs draw on.

This study focuses on company-wide CSR policies within one issue area, while not considering initiatives by subsidiaries in different host countries, or comparisons to other issues areas beyond labor rights (Brammer et al., 2009; Campbell et al., 2012). The proposed institutional mechanisms should, however, lend themselves to more in-depth examinations on the host country level (Regner & Edman, 2014). In this regard, studies may focus on how issue salience and stakeholder power manifest themselves for managers. In addition, a distinction between rights- and standards-based private governance is not limited to human rights issues. For example, prior work has studied the adoption of environmental CSR in response to host country corruption (Berliner & Prakash, 2013). Companies may respond to the absence of environmental regulation with the adoption of ISO standards, but this would not bind them to any performance targets. On the other hand, companies may join multi-stakeholder initiatives that are similar to rights-based CSR policies, since they limit autonomous managerial decision-making. Similarly, this paper proposes a more widely applicable distinction between different host country institutions. In this regard, one may study how such institutions increase the salience of environmental issues, for example when corruption is high (Berliner & Prakash, 2013), or increase stakeholder power, such as when the strength of advocacy groups differs from host country to country. In conclusion, this study provides new evidence how MNCs are affected by and manage multiple institutional contexts.

Tables and Figures

Table 1. Summary of different relationships between host country environments and CSR adoption

Relationship between institution and CSR	Host country institutional pressure	Type of CSR response
Substitute	Issue salience	Standards-based
Complement	Stakeholder power	Rights-based

Table 2. Sample distribution by home country and sector

Home country	**Observations**	**Relative share**
Austria	10	1.9
Belgium	15	2.8
Denmark	17	3.1
Finland	24	4.4
France	73	13.5
Germany	52	9.6
Greece	10	1.9
Ireland	10	1.9
Italy	24	4.4
Netherlands	20	3.7
Norway	14	2.6
Portugal	8	1.5
Spain	28	5.2
Sweden	30	5.6
Switzerland	41	7.6
United Kingdom	164	30.5
Sector		
Oil And Gas	39	7.4
Basic Materials	50	9.2
Industrials	164	30.3
Consumer Goods	68	12.6
Health Care	41	7.6

Consumer Services	96	17.7
Telecommunications	16	3.0
Utilities	31	5.7
Technology	35	6.5
Total	**540**	**100**

Table 3. Top-10 non-OECD host countries by number of subsidiaries

Host country	Number of subsidiaries	Relative share	Issue salience	ILO conventions
China	2131	4.381%	8	0
Brazil	1098	2.257%	5	1
India	787	1.618%	8	0
Singapore	743	1.527%	0	1
Russia	723	1.486%	7	2
South Africa	619	1.273%	6	2
Malaysia	488	1.003%	3	1
Argentina	396	0.814%	3	2
Thailand	350	0.720%	5	0
Romania	338	0.695%	3	2

Table 4. Top-10 overall host countries by number of subsidiaries

Host country	Number of subsidiaries	Relative share	Issue salience	ILO conventions
United States of America	6920	14.226%	3	0
United Kingdom	3292	6.768%	2	2
Germany	2431	4.998%	0	2
Netherlands	2242	4.609%	1	2
China	2131	4.381%	8	0
France	1550	3.186%	1	2
Australia	1365	2.806%	2	2
Spain	1236	2.541%	2	2
Italy	1147	2.358%	3	2
Brazil	1098	2.257%	5	1

Table 5. Relative shares of subsidiaries by region

Host region	**Relative share**
EU-15 + 2	37.7 %
USA	14.2 %
Countries with issue salience of 6 or higher*	12.8 %
Others	35.3 %

*A score of 6 or higher denotes that violations occur at least partially (or systemically) in all of the categories of the scale (Cingranelli & Richards, 1999)

Table 6. Labor rights CSR measures

CSR policy	**Type of CSR**	**Description**
Child Labor	Standard	Does the company have a policy to avoid child labour? The company strives to avoid child labor or the employment of children under fifteen years of age that is physically or mentally harmful, and interrupts their education and social developments, in all its operations.
Freedom of Association	Right	Does the company have a policy to ensure the freedom of association of its employees? The company strives to provide its employee with freedom of association or the right of workers' to organize and collectively bargain.
Robustness checks		
Employment benefits	Standard	Does the company have a competitive employee benefits policy? The company strives to maintain employee loyalty through adequate, rewarding or fair employment benefits or packages for the employees.
Trade Union Relations	Right	Does the company have a trade union relations policy? The company strives to maintain employee loyalty through the contacts it upholds with the general trade-unions

Table 7. Descriptive statistics and correlations

	Mean	SD	1	2	3	4	5	6	7	8
1. Spatial weighting: Issue salience	2.29	1.05								
2. Spatial weighting: Non-EU Stakeholder power	0.61	0.42	0.25*							
3. Labor rights controversies 2008-2011	0.14	0.35	0.12*	0.09*						
4.Host country count[a]	2.49	1.24	0.29*	0.26*	0.18*					
5. Intangible assets[a]	13.21	3.18	0.23*	0.11*	0.18*	0.48*				
6. Slack resources	12.16	115.29	0.01	0.05	0.06	0.08*	0.02			
7. Profitability	5.64	9.38	0.01	0.07	0.02	0.06	0.01	0.02		
8. Size[a]	9.26	1.83	0.27*	0.16*	0.36*	0.55*	0.69*	0.04	-0.02	
9. Spatial weighting: EU stakeholder power	0.86	0.54	-0.61*	-0.59*	-0.11*	-0.23*	-0.15*	-0.02	-0.10*	-0.19*

[a] Natural logarithm; *=p<0.05

Table 8. Results of probit regression, main models

	Model 1: Child Labor Policy	Model 2: Freedom of Association Policy	Model 3: Child Labor Policy	Model 4: Freedom of Association Policy
H1: Weighted Issue Salience	0.152*	0.167**	0.167*	0.160**
	(0.091)	(0.081)	(0.094)	(0.081)
H2: Weighted Non-EU Stakeholder Power	0.235	0.352*	0.282	0.332
	(0.221)	(0.200)	(0.207)	(0.206)
H3/H4: Issue Salience* Stakeholder Power			-0.133	0.079
			(0.123)	(0.120)
Media Controversy	0.484*	0.069	0.475*	0.068
	(0.252)	(0.201)	(0.251)	(0.201)
Host Country Count[a]	0.207***	0.106	0.211***	0.105
	(0.079)	(0.074)	(0.078)	(0.074)
Intangible Assets[a]	0.036	0.000	0.034	0.000
	(0.038)	(0.035)	(0.039)	(0.035)
Slack Resources	0.006	0.000	0.006	0.000
	(0.005)	(0.000)	(0.005)	(0.000)
Profitability	0.007	-0.005	0.006	-0.004
	(0.008)	(0.008)	(0.008)	(0.008)
Size[a]	0.367***	0.325***	0.374***	0.323***
	(0.070)	(0.065)	(0.070)	(0.065)

EU Stakeholder Power	0.488**	0.314*	0.583***	0.267
	(0.192)	(0.180)	(0.205)	(0.191)
Belgium	0.184	0.683	0.259	0.646
	(0.600)	(0.523)	(0.602)	(0.525)
Denmark	1.356**	2.314***	1.422**	2.283***
	(0.646)	(0.642)	(0.653)	(0.643)
Finland	1.657**	1.343**	1.683**	1.328**
	(0.687)	(0.527)	(0.693)	(0.528)
France	0.752	0.506	0.801	0.484
	(0.536)	(0.463)	(0.536)	(0.466)
Germany	0.0678	0.139	0.091	0.125
	(0.513)	(0.456)	(0.511)	(0.458)
Greece	0.867	1.165**	0.849	1.179**
	(0.650)	(0.564)	(0.640)	(0.570)
Ireland	-1.016*	-0.372	-0.989	-0.384
	(0.609)	(0.584)	(0.609)	(0.585)
Italy	0.424	0.631	0.517	0.586
	(0.554)	(0.504)	(0.554)	(0.508)
Netherlands	0.979	0.487	1.035*	0.459
	(0.626)	(0.518)	(0.627)	(0.520)
Norway	0.801	1.658***	0.843	1.636***
	(0.670)	(0.599)	(0.671)	(0.600)
Portugal	1.096	0.328	1.157*	0.304
	(0.694)	(0.598)	(0.695)	(0.598)
Spain	1.450**	1.687***	1.561**	1.641***
	(0.608)	(0.550)	(0.619)	(0.555)
Sweden	1.229**	1.904***	1.269**	1.881***
	(0.586)	(0.541)	(0.587)	(0.542)
Switzerland	0.380	0.393	0.422	0.372
	(0.576)	(0.483)	(0.576)	(0.486)
United Kingdom	0.593	0.647	0.658	0.619
	(0.487)	(0.436)	(0.485)	(0.440)
Oil and gas	1.110***	0.473	1.117***	0.472
	(0.328)	(0.299)	(0.327)	(0.300)
Basic materials	0.222	0.310	0.283	0.292
	(0.256)	(0.236)	(0.255)	(0.236)

Consumer goods	0.230	0.402*	0.247	0.393*
	(0.255)	(0.225)	(0.258)	(0.225)
Health care	-0.418	-0.411	-0.412	-0.412
	(0.284)	(0.257)	(0.284)	(0.257)
Consumer services	-0.008	-0.253	-0.010	-0.249
	(0.202)	(0.184)	(0.204)	(0.183)
Telecommunications	0.615	0.554	0.651*	0.545
	(0.397)	(0.500)	(0.393)	(0.499)
Utilities	0.798*	0.203	0.796*	0.206
	(0.435)	(0.301)	(0.439)	(0.300)
Technology	-0.053	0.187	-0.043	0.187
	(0.280)	(0.259)	(0.279)	(0.260)
Constant	-5.459***	-4.681***	-5.145***	-4.009***
	(0.843)	(0.756)	(0.770)	(0.693)
Observations	540	540	540	540
Pseudo R^2	0.322	0.243	0.324	0.244
Log-likelihood	-210.4	-272.7	-209.7	-272.5

a = Natural logarithm
Robust standard errors in parentheses
Two-tailed t-test; * p<0.1, ** p<0.05, *** p<0.01
Reference category for home country: Austria
Reference category for industry: Industrials
Mean-centered issue salience and stakeholder power variables in models 3 and 4

Table 9. Robustness checks

	Model 5: Employment Benefits Policy	Model 6: Trade Union Relations Policy	Model 7: Child Labor Policy	Model 8: Freedom of Association Policy
H1: Issue Salience	0.188*	0.069	0.150*	0.125*
	(0.111)	(0.088)	(0.087)	(0.076)
H2: Weighted Non- EU Stakeholder Power	0.332	0.464**	0.296	0.358*
	(0.231)	(0.195)	(0.210)	(0.187)
Home country labor power			0.216	0.388*
			(0.261)	(0.237)
Media Controversy	0.601**	-0.103	0.551**	0.185
	(0.294)	(0.197)	(0.242)	(0.191)
Host Country Count[a]	0.0451	-0.176**	0.176**	0.060
	(0.0797)	(0.0706)	(0.074)	(0.067)
Intangible Assets[a]	-0.0497	0.0342	0.059	0.032
	(0.0349)	(0.0387)	(0.038)	(0.036)
Slack Resources	0.000	0.002	0.006	0.001
	(0.000)	(0.005)	(0.004)	(0.001)
Profitability	0.011	-0.009	0.006	-0.004
	(0.008)	(0.007)	(0.008)	(0.007)
Size[a]	0.207***	0.405***	0.306***	0.213***
	(0.066)	(0.065)	(0.064)	(0.059)
EU Stakeholder Power	0.105	0.240	0.384**	0.196
	(0.207)	(0.196)	(0.192)	(0.175)
Constant	-1.575**	-4.746***	-4.553***	-3.203***
	(0.771)	(0.807)	(0.634)	(0.561)
Home country controls	YES	YES	NO	NO
Industry controls	YES	YES	YES	YES
Observations	514	540	540	540
Pseudo R^2	0.155	0.255	0.258	0.157
Log-likelihood	-212.9	-278.5	-230.0	-303.8

[a] = Natural logarithm
Robust standard errors in parentheses;
Two-tailed t-test; * p<0.1, ** p<0.05, *** p<0.01;

Figure 1. Total adoption of CSR policies, global sample

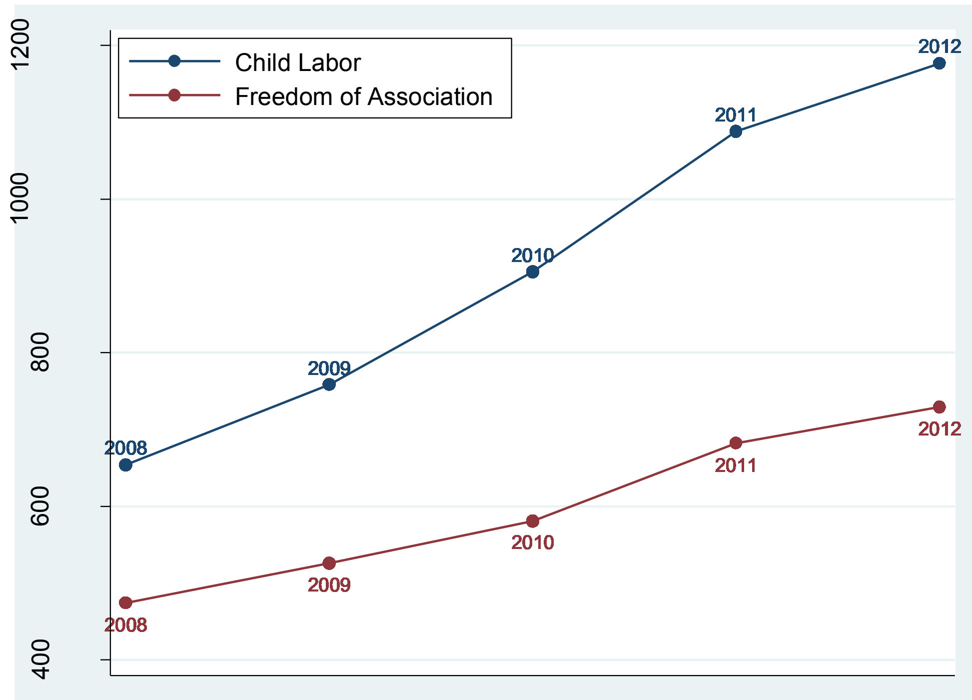


Figure 2. Effect of issue salience on the likelihood of child labor policy adoption over varying levels of stakeholder power

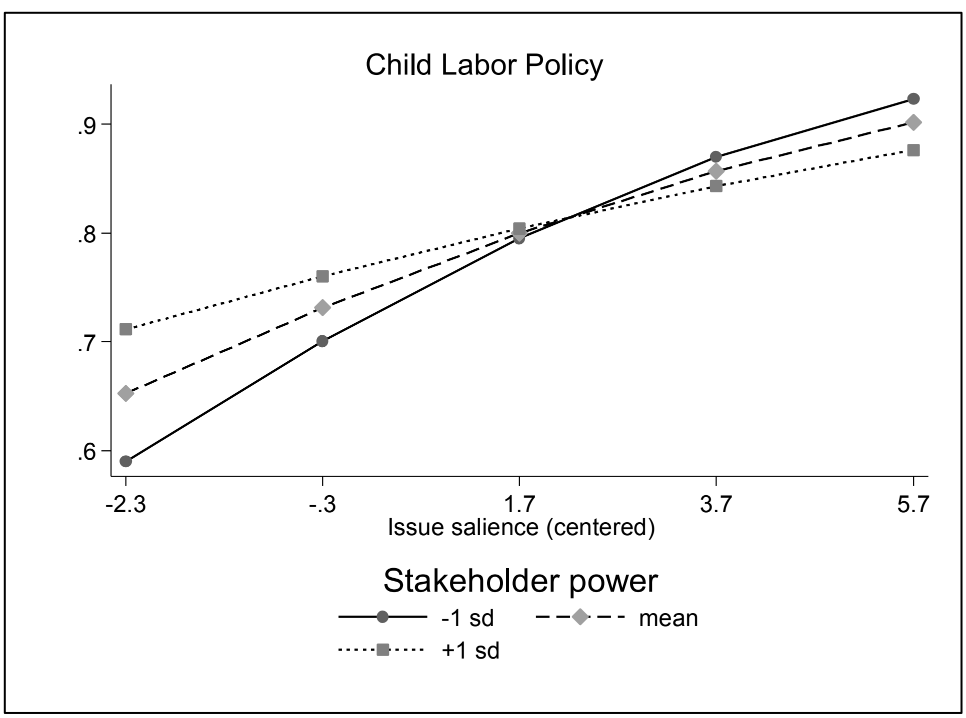


Figure 3. Effect of stakeholder power on the likelihood of freedom of association policy adoption over varying levels of issue salience

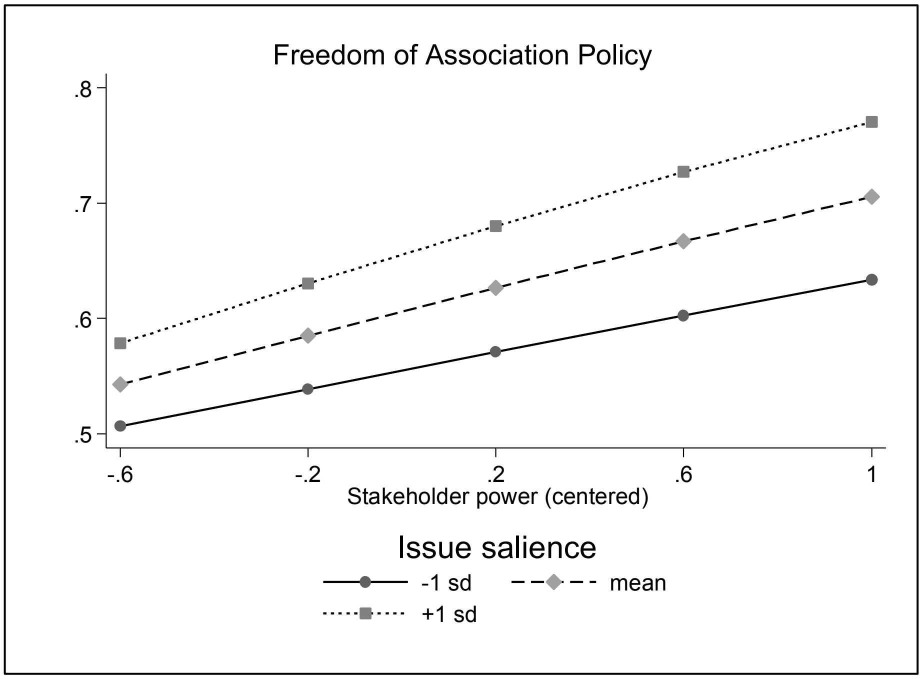
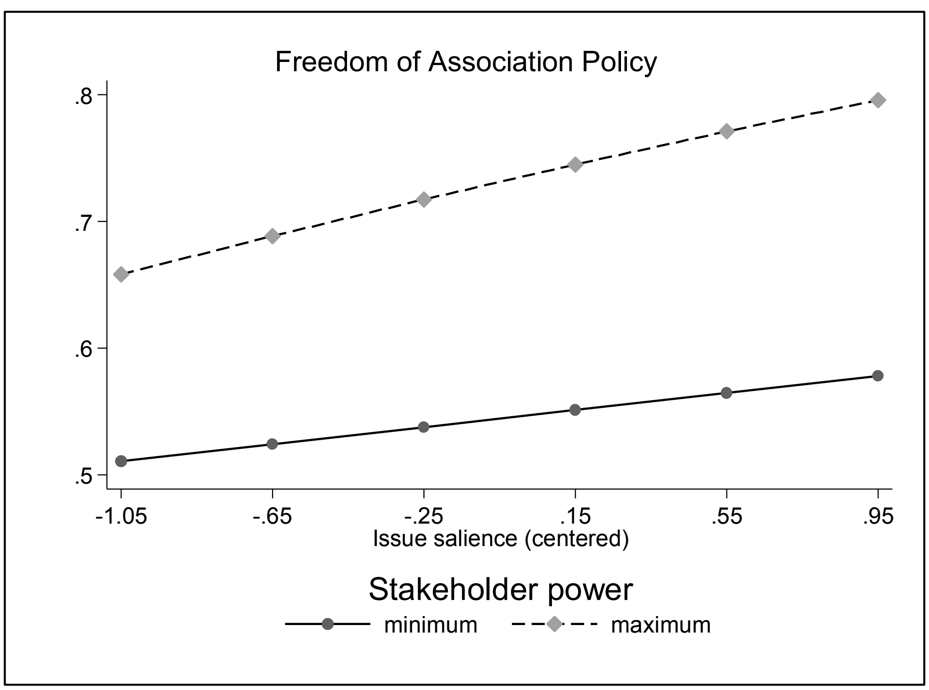


Figure 4. Effect of issue salience on the likelihood of freedom of association policy adoption over two levels of stakeholder power



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4. Impression Management Capacity: How Stakeholder Awareness Affects the Substance of Corporate Social Responsibility

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ABSTRACT: Implementing impression management tactics to appear legitimate in the eyes of stakeholders is a challenge faced by all modern corporations. Existing theories of impression management have heavily focused on the role that activists play in changing firm strategies, but have only begun to theorize about the organizational characteristics that lead to differences in the adoption of impression management strategies, which range from symbolic policies to substantive concessions. This paper examines the organizational drivers of impression management strategies, drawing on theories of organizational architecture and attention. We first show that within a given issue area, related and unrelated stakeholder challenges affect adoption of impression management strategies. Then, by introducing the concept of "impression management capacity", we propose that companies are more likely to adopt substantive strategies of impression management when attention to stakeholders is higher due to (1) board-level stakeholder architecture, (2) employee-level stakeholder awareness, and (3) available financial resources. We further hypothesize that these structural factors moderate the effect of challenges. We test this theory with data from US companies on stakeholder challenges and CSR adoption in the area of customer health and safety from 2005 to 2011, finding strong support for the direct effect of impression management capacity on the nature of CSR adoption.

Introduction

One of the key insights of the stakeholder approach to the firm is that the modern corporation has multiple and diverse stakeholders that can challenge the ways in which corporations do business (Donaldson & Preston, 1995). Organizational scholars interested in stakeholder influence have increasingly turned to social movement theory as an explanation for why certain stakeholder groups are more effective corporate challengers (Eesley & Lenox, 2006; Vasi & King, 2012). Social movements, NGOs, and other activist groups try to influence changes in corporate behavior by threatening an organization's image and reputational standing (King, 2008) and potentially stigmatizing those firms (Piazza & Perretti, 2015). In turn, impression management, such as corporate social responsibility adoption (henceforth CSR), has been promoted in the business press and the academic literature as one of the key tactics that firms should employ to manage the multitude of stakeholder claims that the modern corporation is exposed to (e.g., McDonnell and King, 2013). CSR practices, whereby firms adopt policies and processes to signal awareness of stakeholder issues, may buffer firms from reputational threats made by activists targeting them (Godfrey, Merrill, & Hansen, 2009; Koh, Qian, & Wang, 2013). Indeed, being a good "corporate citizen" has become a status symbol for large corporations (Bermiss, Zajac, & King, 2014).

Past research has argued that impression management has gained relevance in corporate strategic repertoires because external stakeholder challenges may negatively affect reputation, legitimacy, and potentially financial performance (Aguilera, Rupp, Williams, & Ganapathi, 2007; Bansal & Clelland, 2004; King & Soule, 2007; McDonnell, King, & Soule, 2015). Legitimacy, the "perception or assumption that the actions of an entity are desirable, proper, or appropriate" (Suchman, 1995, p.574) may be obtained by adopting CSR initiatives that make explicit a company's commitment to certain stakeholder groups, such as customers. However, anecdotal evidence suggests that companies vary in how they attempt to shape impressions of their organization. For example, outdoor clothing company Patagonia changed its sourcing strategy to comply with demands from stakeholder groups that argued the brand was using down from force-fed geese. The company first acknowledged the problem brought forth by a stakeholder group, and then implemented a practice that complied with these claims.[6] On the

[6] GreenBiz:" Patagonia, The North Face warm up to ethical goose down", February 10, 2014

other hand, the meat processing company Beef Products Inc. responded to allegations of selling products that are harmful to customer health by denying the charges and suggesting a "smear campaign". In the wake of this controversy, the company was forced to close three factories due to financial losses.[7] In response to the same issue, Cargill, a competitor of Beef Products, opted for a voluntary change in its labeling policy to identify certain product ingredients.[8] This suggests that a general awareness of stakeholder issues and an appropriate categorization of environmental stimuli might be affected by internal organizational characteristics (Haunschild & Rhee, 2004).

In this paper, we ask: What accounts for differences in companies' impression management strategies, such as different kinds of CSR adoption? To answer this question, we turn to the growing literature on organizational attention to stakeholder issues (Crilly & Sloan, 2014). We argue that attention to stakeholder issues may be either focused or diluted. In line with this notion, studies have shown that organizational stakeholder architecture, such as specific bodies or communication channels, can increase attention to stakeholder issues and affect the level of awareness that organizations have for their institutional environment (Crilly & Sloan, 2014; Gray & Silbey, 2014). Conversely, the ability to adopt specific kinds of impression management may be seriously impaired when such architecture is absent, particularly when organizations are confronted by multiple issues that compete for attention (Sullivan, 2010).

Prior literature on stakeholder influence has suggested that in order for external issues to receive attention, such issues must first become salient in the eyes of corporate decision-makers (Bundy, Shropshire, & Buchholtz, 2013; Mitchell, Agle, & Wood, 1997). However, firms may differ in their impression management strategies even in highly salient issue areas. Sometimes, an impression management strategy (or absence thereof) may even be detrimental to the legitimacy and financial standing of an organization, as for example when the US brewing industry failed to respond to the challenges of the temperance movement, ultimately leading to its demise (Hiatt, Sine, & Tolbert, 2009). While it has been repeatedly suggested that CSR can protect a firm's reputation and shareholder value (Godfrey et al., 2009; Janney & Gove, 2011), prior research has only rarely considered how companies differ in their ability to

[7] CBS News: "'Pink slime' outcry causes Beef Products Inc. to close three plants", May 10, 2012.
[8] Brandchannel: "Cargill Heeds Consumers, Labels 'Finely Textured Beef' Following 'Pink Slime' Scandal", November 6, 2013.

survey their environment and vary in the impression management strategies they use (for an exception, see Crilly and Sloan (2014) and Delmas et al. (2011)).

In this paper, we address the puzzle of varying impression management strategies by focusing on the differences in corporations' awareness of stakeholder issues. We propose that stakeholder awareness is driven by structural elements that shape attention to stakeholder issues in organizations, which we summarize with the concept of *impression management capacity*. Impression management capacity is understood to be a set of organizational factors that enables organizations to give attention to information relevant to their reputations and to develop strategies related to that information. Specifically, we investigate how attention to stakeholder awareness is institutionalized at the top management and lower organizational levels, and to what extent resources for CSR adoption are available. As companies vary in the degree to which they can attend to the external stakeholder environment, they are likely to differ in the way in which they seek to shape the impressions that their stakeholders have of them. Put differently, stakeholder claims and challenges are like any other social problem or issue that compete for time and attention on the corporate agenda (Hilgartner & Bosk, 1988; Hoffman & Ocasio, 2001).

Using data on customer health and safety controversies and related CSR adoption of US companies over a time span of seven years, we test our theory in an issue area characterized by a high salience for most companies, since customers constitute a key stakeholder group (Mitchell et al., 1997). Prior studies have shown that controversies related to customer issues have both reputational and economic consequences for companies, unlike stakeholder challenges related to issues such as environmental sustainability or human rights (King & Soule, 2007; Nayyar, 1995; Rhee & Haunschild, 2006). In line with established findings, we first show that related controversies (those pertaining to customer health and safety) only increase the likelihood of symbolic CSR adoption, while unrelated challenges and controversies decrease the likelihood of any change in CSR adoption. After controlling for different kinds of external challenges, we find that both top management and employee-level stakeholder awareness increase the likelihood of substantive CSR adoption, while slack resources do not increase the likelihood of either kind of adoption. We also analyze how these structural characteristics moderate the effect of controversies, and find that high slack resources increase the likelihood of symbolic adoption as controversies grow in number.

Our contribution thus lies in theorizing about the enablers and constraints of organizational stakeholder awareness and their effects on impression management strategies. More generally, our study indicates the importance of resource allocation in organizations towards stakeholder issues. We argue that salience is subject to attention-related limits driven by an organization's implementation of stakeholder-focused architecture and available resources. In applying theories of cognitive organizational resources and attention processes to the study of impression management, we emphasize the limits of organizational decision-making capabilities in the area of stakeholder management (Hoffman & Ocasio, 2001). Our findings contribute to the important debate on the conditions under which companies address stakeholder claims related to their operations.

Impression Management Responses to Stakeholder Challenges

One of the central tenets of contemporary organizational theory and sociology is that organizations depend on positive perceptions from key stakeholders and audiences in order to maintain their legitimacy and relative autonomy (King & Walker, 2014). Organizations have a variety of means at their disposal to signal legitimacy to the external environment, ranging from symbolic to substantive strategies (Meyer & Rowan, 1977; Oliver, 1991). Each firm draws on its own impression management repertoire – or the various types of "performance that firms routinely engage in as they seek to maintain a viable image of commitment to socially acceptable – or legitimate – behaviors, norms, and values" (Bundy et al., 2013; Elsbach & Sutton, 1992; McDonnell & King, 2013). Notions of the appropriate role of business organizations are constructed in the firm's institutional environment (Campbell, 2007; Jackson & Apostolakou, 2010). Firms will be especially likely to turn to impression management to maintain and defend their legitimacy and reputation when experiencing challenges from outside stakeholders or other controversies (Bansal & Clelland, 2004; Elsbach, 1994; Elsbach, Sutton, & Principe, 1998). As such, incorporating impression management tools such as CSR into strategic repertoires has become important for corporations experiencing challenges from activist groups (Soule, 2009; Walker, Martin, & McCarthy, 2008). CSR encompasses a diverse set of practices aimed at stakeholder concerns, conceived either by companies or in conjunction with civil society actors (Aguinis & Glavas, 2012; Wijen, 2014). In our study, we focus on CSR practices that are unilaterally implemented by companies to define responsibilities in relation to social and environmental issues, in particular customer health and safety. As an example of how key CSR has become in firms' impression management repertoire, rankings of corporate reputation, such as *Fortune's Most Admired Companies*, which in the past rewarded success according to financial indicators such as revenue and net income, now include CSR criteria (Bermiss et al., 2014).

Past research has primarily sought to explain the conditions in which firms will view external activism as a salient threat and lead to a response of any sort. These explanations have considered the political environment of firms and the power dynamics between activists and firms (Bartley & Child, 2011; King, 2008). One set of approaches highlights the attributes of stakeholders, such as their relationship with the firm and the use of particularly disruptive tactics (Den Hond & De Bakker, 2007; King & Soule, 2007; Luders, 2006). Stakeholders possess different characteristics, such as the legitimacy and criticality of the claim, that imply varying levels of influence (Mitchell et al., 1997). Empirically, prior studies demonstrate that media attention to activists' tactics increases the likelihood of a corporate changes in impression management tactics (King, 2008; King & Soule, 2007). Highly visible claims can threaten an organization's reputation and draw attention to management problems, potentially creating long-term disruptions for stakeholder support, and in turn necessitate a change in tactic. Moreover, the salience of a controversy in the media can lead to stigmatization of organizational practices (Bednar, Boivie, & Prince, 2013; Carberry & King, 2012; Jonsson, Greve, & Fujiwara-Greve, 2009; Piazza & Perretti, 2015).

Given the significance of the consequences of stakeholder challenges for an organization's legitimacy and reputation, it is not surprising that they often draw on impression management tactics to buffer themselves from these threats. Such tactics have most often been associated with offsetting negative perceptions of corporate behavior by adopting symbolic policies ("decoupling"), or highlighting unrelated pro-social initiatives. For example, Brammer, Pavelin, and Porter (2009) show how companies engage in greater philanthropic efforts when they are active in countries with questionable human rights records, while McDonnell and King (2013) study how companies use press releases about unrelated CSR achievements when stakeholders call for a boycott. Companies may prefer to adopt non-intrusive CSR policies that do not interfere with managerial decision-making (Lim & Tsutsui, 2012). However, prior studies also emphasize that, for various reasons, companies sometimes adopt substantive forms of impression management strategies that include concessions to stakeholder concerns and changes of underlying contentious practices (Bundy et al., 2013; Crilly & Sloan, 2014; Marquis & Qian, 2014). Patagonia's change in its sourcing policy mentioned earlier constitutes one such substantive and issue-specific response by the company. In this study, we understand impression management to include a range of symbolic and substantive corporate strategies.

More recently, authors have sought to make explicit the cognitive dimensions in organizations' propensity to attend to their stakeholder environment (Bundy et al., 2013; Waldron, Navis, & Fisher, 2013). In this view, internal organizational processes, such as managerial interpretation of stakeholder issues, are central in determining how companies respond to their stakeholder environment. Examples of drivers of impression management strategies include the extent to which issues resonate with organizational identity and strategic interests (Bundy et al., 2013; Waldron et al., 2013) or how the CEO's political ideology influences openness to voluntary CSR policies (Briscoe, Chin, & Hambrick, 2014; Chin, Hambrick, & Treviño, 2013).

Building on this literature, we argue that while issue salience highlights the importance of cognitive processes in the evaluation of stakeholder challenges, it may only explain when a firm is likely to respond, not how. The anecdotal evidence presented above demonstrates that many companies fail to respond to seemingly salient issues. Beyond responding to specific stakeholder challenges, we argue that firms have organizational capacities that make them more likely to engage in substantive CSR impression management strategies. Holding constant the salience of an issue, it may well be the case that whether a firm adopts symbolic or substantive CSR is determined by the organization's capacity to do so. To examine the role of firms' stakeholder "architecture" (Crilly & Sloan, 2014), we introduce the concept of impression management capacity. Using a new panel dataset of challenges in the firm's stakeholder environment and changes in CSR strategies over seven years, we then assess the impact of impression management capacity on the adoption of distinct kinds of CSR measures.

Attention in Organizations

In this study, we introduce the concept of impression management capacity as the structural factors that shape management's ability to focus attention towards the firm's stakeholder environment and implement CSR as a signal of the firm's legitimacy. We draw on the attention-based view of the firm (Ocasio, 1997), which posits that organizations differ in how they channel attention of decision-makers. Attention, defined as the process of "noticing, encoding, interpreting, and focusing of time and effort […] on issues […] and answers" (Ocasio, 1997, p. 189), has been the subject of various research streams within organizational theory, going back to foundational work in the tradition of the Carnegie School (Gavetti, Greve, Levinthal, & Ocasio, 2012). Using basic tenets of the attention-based view, we identify factors that affect how organizations process their stakeholder environment and how they draw on strategies to display legitimacy.

Work in this tradition focuses on how environmental cues are processed by individuals and organizations and then transformed into material practices (Porac, Thomas, & Baden-Fuller, 1989). The attention-based view of the firm assumes that organizational environments tend to be characterized by turbulence and fairly constant change (Barr, 1998), so that attention of decision-makers is limited and "situated" according to context (Ocasio, 1997). Attention to external stimuli is organized through managerial sensemaking capacities and structures that assist in interpreting the external environment (Cohen & Levinthal, 1990; Ocasio, 1997). This suggests that the ability to diagnose and interpret environmental cues, such as what is considered appropriate CSR adoption, is related to how well top management teams and other firm levels can make use of available resources and suitable information channels to assess and react to the environment. Thus, impression management is a function of an organization's limited attention to the various claims that an organization's stakeholders make, as well as internal organizational factors that drive attention to those claims.

Environmental turbulence

The attention of decision-makers will be shaped by the specific situations and contexts the organization finds itself in, i.e., its "situated attention" (Ocasio, 1997). In particular, situational characteristics in the organization's environment ought to channel the attention and behavior of actors, leading them to shift their attention to relatively strong stimuli. For our purposes of understanding why and how firms engage in impression management in response to stakeholder challenges, we can envision two basic scenarios: When a specific challenge occurs, managers will categorize the challenge into a given issue area, within which a response may be formulated. On the other hand, unrelated challenges direct attention away from any specific issue area, adding to the overall "problem load" of the organization (Sullivan, 2010).

As argued, companies have a variety of impression management tactics at their disposal to respond to legitimacy-threatening events. However, it is unlikely that companies would immediately concede to stakeholder challenges, as this potentially involves organizational change to accommodate the activists' claims. Instead, prior literature suggests that firms are likely to either engage in distraction efforts (Brammer et al., 2009; McDonnell & King, 2013), or respond with related, yet symbolic actions. These actions are less costly, inasmuch as they do not require core changes, but potentially effective in distancing a firm from the negative claims made by its challengers. For example, food companies are often challenged to change ingredients some stakeholder groups deem harmful, such as soft drink producers that have long been under pressure from activist groups over the use of synthetic chemicals. Recently, Coca-Cola and PepsiCo responded to one of these claims by exchanging a specific chemical ingredient for another synthetic material.[9] Therefore, we propose that:

Hypothesis 1: Stakeholder challenges in a given issue area positively affect the likelihood of related, symbolic CSR adoption.

A second implication of the concept of situated attention is that organizations cannot attend to every issue in their environment, and therefore, organizations will tend to focus on those issues that are the most salient at that moment. As the firm's environment becomes more turbulent and saturated with competing issues, the focus of corporate decision-makers will become more selective (Sullivan, 2010). Increased attention to unrelated issues may distract managers and make them less likely to adopt CSR policies that address a focal issue. For example, McDonald's was the focus of media attention related to unhygienic practices by its suppliers in China, coinciding with a strong drop in sales. At the same time, the company dealt with activist protests in the US concerned with working conditions.[10] As the different types of challenges increase in number, attention to any single issue will be constrained. Thus, the proliferation of

[9] The Washington Post: "Chemical shaming? Coke removes ingredient from Powerade after teen's on-line petition", May 5, 2014
[10] Huffington Post: "McDonald's Has Its Worst Month In 10 Years. Again.", September 9, 2014

different stakeholder challenges is a constraint on an organization's ability to adopt appropriate impression management strategies. Specifically, we suspect that as the number of diverse stakeholder challenges increases, companies' abilities to adopt substantive CSR practices related to a focal issue will be diminished. In other words, a proliferation of challenges makes it difficult for a firm to sufficiently to prepare a substantive impression management response. Therefore, we suggest:

Hypothesis 2: The number of unrelated stakeholder challenges negatively affects the likelihood of substantive CSR adoption.

Impression Management Capacity

Having established that a company's stakeholder environment focuses or dilutes attention to stakeholder challenges, our theory suggests that organizations can be structured in ways to enable distinct kinds of impression management strategies. With appropriate structural capacities, attention to specific stakeholder concerns becomes less dependent on situational factors; instead, impression management will more likely take on a substantive form due to companies devoting attention resources to the external environment (Crilly & Sloan, 2014; Delmas et al., 2011). For example, a CSR committee is one such structural element intended to give a firm greater stakeholder outreach. McDonnell et al. (2015) show that the presence of social management devices – or "structures or practices meant to aid the firm in managing and promoting its social image" – makes companies more receptive to stakeholder challenges in the future. Once companies have put in place a CSR committee or some other device, they intentionally or unintentionally create new pathways for influence that allow them to more easily process stakeholder issues and implement substantive CSR. In our study, we look at the presence of two social management devices that potentially affect impression management capacity, as well as at the role of financial resources that might influence the kind of impression management strategies that firms adopt. These devices and resources are suggested to increase the likelihood of substantive impression management adoption, compared to more symbolic forms. We also hypothesize that they serve to focus attention on emerging stakeholder challenges and moderate the effect of these challenges on the kind of adoption.

Diverse evidence supports the assumption that organizations with stakeholder-oriented structures, including top- and mid-level stakeholder-focused architecture, display a higher awareness of stakeholder concerns. As Eccles, Ioannou, and Serafeim (2014) show in a long-term study of what they term "high sustainability companies", these organizations are "significantly more likely to establish a more comprehensive and engaged stakeholder management process" (p. 2836). Crilly and Sloan (2014) provide qualitative evidence that "guided autonomy" as a type of organizational architecture – mid-level management discretion to attend to stakeholder concerns, combined with top-management guidance and communication on stakeholder orientation – leads to greater stakeholder awareness. Using ethnographic methods, Gray and Silbey (2014) investigate how organizational characteristics affect how members interpret external stakeholders. In particular, they show that organizational members react collaboratively to outside stakeholders when these members have stakeholder-specific expertise and command some autonomy to interpret external inputs, making them more likely to implement appropriate measures to stakeholder concerns. Overall, these findings suggest that organizational architecture affects companies' stakeholder awareness and its impression management strategies, the components of which we further specify in the following hypotheses.

First, we hypothesize that the presence of a specialized CSR committee on the board of directors is an indicator of greater stakeholder awareness. Such a committee constitutes an important interface with the firm's stakeholders, because it institutionalizes a regular review of the firm's stakeholder environment and adequate implementation of initiatives, rather than ad-hoc engagement (Cohen & Levinthal, 1990). For example, chemical company Air Products' CSR committee is tasked with monitoring "company health, safety, environmental, and security performance and events, and any significant liabilities or exposures with respect thereto", as well as reviewing "health, safety, environmental, and security risk management and assessment policies and practices."[11] We suggest that companies with a dedicated CSR committee are less likely to adopt symbolic CSR, because the decision to adopt any kind of impression management will be informed by a greater stakeholder issue awareness and a have greater capacities to implement substantive CSR practices into ongoing operations. A CSR

[11] http://www.airproducts.com/company/governance/board-of-directors/committee-composition/charter-environmental-safety-and-public-policy-committee.aspx

committee should also moderate the effect of a given challenge towards a higher likelihood of substantive CSR responses. Therefore:

Hypothesis 3a: A CSR committee positively affects the likelihood of substantive CSR adoption.

Hypothesis 3b: A CSR committee positively moderates the effect of stakeholder challenges on the likelihood of substantive CSR adoption.

While top management awareness of stakeholder challenges is crucial for an organization's impression management capacity, CSR scholars have pointed to the importance of stakeholder orientation on lower levels of the firm, such as middle managers and front-line employees (Crilly & Sloan, 2014; Eccles et al., 2014). Lower-level capacity is important as the introduction of any organizational practice carries uncertain performance implications (Piezunka & Dahlander, 2013). However, as impression management capacity is institutionalized among an organization's lower-level employees, firms will be more open to substantive CSR changes, because they can gauge the implications and feasibility of these changes more easily. Cohen and Levinthal (1990) highlight the importance of distributed expertise within the organization to develop an ability to attend to external information and implement effective strategies. One such approach to increase attention to stakeholder issues among an organization's population is to introduce sustainability training. Weick (1987) suggests that such employee training can create mental capacities to interpret the environment. Additionally, training is important because implementation of sustainability policies often depends on cooperation between multiple units within the firm (Delmas et al., 2011). According to Gray and Silbey (2014), lower-level employees "are often repositories of critical knowledge", so that one may expect that capacity to adopt CSR can be improved by increasing lower-level stakeholder awareness. Therefore:

Hypothesis 4a: Employee sustainability training positively affects the likelihood of substantive CSR adoption.

Hypothesis 4b: Employee sustainability training positively moderates the effect of stakeholder challenges on the likelihood of substantive CSR adoption.

Finally, another important factor that shapes impression management capacity is the availability of slack resources. The availability of uncommitted resources should affect impression management strategies inasmuch as it gives managers greater discretion and allows them to take risks (Thompson, 1967; George, 2005). Bourgeois (1981) argued that slack resources is that "cushion of actual or potential resources which allow an organization to adapt successfully to internal pressures for adjustment or to external pressures for change in policy." Thus, the availability of slack should allow for more substantive impression management strategies and facilitate greater responsiveness to stakeholder challenges (Crilly, 2011). King (2011) argued that slack gives companies that have been targeted by boycotts more flexibility in their responsiveness to activists, and he found evidence that greater slack lessened negative investor reactions to boycotted firms. Therefore:

Hypothesis 5a: Higher slack resources positively affect the likelihood of substantive CSR adoption.

Hypothesis 5b: Higher slack resources positively moderate the effect of stakeholder challenges on the likelihood of substantive CSR adoption.

Data and Methods

To test our theory about impression management capacity, we use data on firms' changes in CSR adoption in the realm of customer health and safety. Customer health and safety issues are particularly suited to this inquiry since they represent salient issues to most companies and constitute an area where voluntary CSR initiatives, such as nutrition labels, abound (Andrews, Burton, & Kees, 2011). However, customer health and safety is also an issue field that is relatively opaque in terms of clearly defined standards of behavior, for example what constitutes "safe" or "healthy" products, so that firms diverge in what kind of impression management they can adopt (Asch, 1988; Chandler, 2014). Hence, we expect that companies in this issue area are more likely to display any kind of changes in CSR strategies in the time frame we observe, with or without the occurrence of stakeholder challenges. Additionally, controversies surrounding the treatment of a core groups of stakeholders – its customers – should resonate strongly with managers, at the very least by addressing the ability to generate profits (Bundy et al., 2013; King & Soule, 2007).

Examples of companies engaging in largely symbolic impression management in response to such controversies abound. For example, Walmart instituted a new health and safety policy in 2008 in response to food safety concerns in China. However, as of 2014, the company is still experiencing similar problems, having been fined $10 million in the past years for selling poor-quality products.[12] Hence, when companies are singled out for controversial actions without impression management capacities in place (Walmart did not have a CSR committee at the time), the organizational impression management response may focus on appearances, rather than changes in production, even though the original stakeholder claim focused on the product itself.

Sample

We test our hypotheses with a panel of 615 listed, non-financial US companies over a time span of seven years (2005-2011). We constructed a dataset of stakeholder challenges and changes in impression management strategies based on data gathered by the CSR data provider ASSET4, which allowed us to assess detailed adoption patterns of CSR and corresponding negative media coverage. The sample consists of US companies that are either part of the S&P 500 index, the Russell 1000 index, or the NASDAQ 100 index. As of 2014, ASSET4 monitors roughly 1000 US companies, although that number varies for different years because companies are added to or dropped from the dataset each year for various reasons. We obtained complete data for all years in our sample for 428 companies, while we have at least 3 years of observations of the dependent variable for all but less than 1% of companies (for which there are 2 years available). In the analyses, the panel consists of 3120 firm-year observations.

[12] The Wall Street Journal: "Wal-Mart to Triple Spending on Food-Safety in China", June 17, 2014.

Dependent variable

As we are interested in changes in impression management strategies, we coded a three-outcome variable based on customer health and safety CSR data by ASSET4, tracking any changes in CSR adoption over the seven-year span. Using publicly available information, ASSET4 measures CSR adoption in two distinct ways. A company can adopt a formal policy, by which it states its approach and intention towards a certain stakeholder issue in broad terms. Alternatively, it may adopt an implementation process, by which the company describes in detail how it seeks to implement CSR. We suggest that policy adoption constitutes a symbolic form of CSR adoption, because while it describes a firm's commitment to institutionalized values, it says little about how the organization implements said policy (Meyer & Rowan, 1977). Similar to prior conceptions of distinctions between symbolic and substantive CSR (Marquis & Qian, 2014), an implementation process is a substantive form of CSR adoption because the firm is more explicit about how it integrates societal demands into organizational processes. Tracking companies from our starting year of 2005, we create a three-outcome variable of potential changes in CSR strategies, where companies can either display no change from one year to the next, symbolic change (adoption of a policy without a process), or substantive change (adoption of a process). From 2006 to 2011, 89% of companies displayed no change in customer health and safety CSR, 4% had a change towards policy adoption, and 7% exhibited a change towards process adoption. Figure 1 tracks total adoptions of each CSR practice over the time span of our sample, showing that process adoption is significantly lower compared to policy adoption. In the first year of our sample (N=430 companies), 25 % of companies had in place a health and safety policy, while 7 % had adopted a process.

####Figure 1 here####

Independent variables

ASSET4 uses media analysis to track negative coverage of companies in a large number of issue categories ("controversies"). We created a summary count variable based on data from two of ASSET4's controversy categories – customer health and safety and public health – that cover the health and safety effects of a company's products on its external stakeholders. This count variable measures unique controversies by firm-year, although any one controversy may be covered by multiple sources and multiple times. In our sample, 90% of companies do not experience any kind of health and safety controversy. Roughly 7% of companies experience at least one controversy, while the highest number of unique controversies experienced by any firm in our panel is 14.

To test our hypotheses related to environmental turbulence, we sought to obtain a broad picture of the level of stakeholder challenges a company experiences. To that end, we created a summary variable capturing media controversies unrelated to our focal issue of customer health and safety, challenges brought forth by shareholders through CSR-related resolutions, occurrence of a product recall, and actions taken by the Food and Drug Administration (FDA) in the form of warning letters. Warning letters constitute pre-enforcement notices by the agency to allow for voluntary changes in companies' behavior (FDA 2012). All data were obtained through the ASSET4 database, except for shareholder resolutions data, which we obtained from the ISS/IRRC database. Table 1 provides a detailed overview of the composition of the data.

In relation to our capacity-related hypotheses, we focus on the aspects of the organizational infrastructure and the resources that are available for adopting CSR. Drawing on the ASSET4 database, we created two dummy variables that each take on the value of 1 when a company has in place a CSR committee on the board of directors and has implemented employee sustainability training. Using Datastream, we obtained data on the free cash flow per share as a measure of slack resources (King, 2011). All data on controversies and other challenges, as well as presence of a CSR committee and sustainability training, were lagged by one year.

####Table 1 here####

Control variables

To rule out other potential sources of changes in CSR strategies, we control for a host of factors known to potentially affect CSR adoption in stakeholder safety issues. We control for a company's exposure to lawsuits and settlements in the area of health and safety, which may lead to CSR adoption. For example, as of 2012, retail and manufacturing companies with business operations in California must disclose how they implement compliance with requirements against forced labor. If they fail to do so, companies may be ordered by a court to implement such measures. Although we do not have data on company-specific court proceedings, we proxy for potential legal action against the company by controlling for costs the company incurred related to legal actions and settlements in the area of consumer protection in a given year, using data from ASSET4.

We also control for any changes related to a firm's reputational standing by using an ordinal scale of the yearly reputation rankings of Fortune's Most Admired Companies, which ranks companies on a scale from zero to ten (McDonnell & King, 2013). We calculate yearly quantiles of three tiers of reputational standing and assign a ranking of zero if a company was not part of the ranking in a given year in which a challenge occurred.

Conducting a manual search for the number of news articles in the English language in the category "major news and business press" of the Dow Jones Factiva database, we created a count variable of the number of articles on each company. We take the natural log of this variable, which we label "media attention". We also control for the size of a company by using the logged number of employees, and for a firm's financial standing by including the ratio of debt to equity and return on assets as a measure of profitability. These variables were all taken from Datastream. Additionally, we include year and industry controls using the Industry Classification Benchmark in the analysis. Table 2 presents the descriptive statistics and correlations.

Estimation

We use multinomial logit estimation with robust standard errors clustered by company, suited for the nature of our dependent variable, since a company can exhibit either no change in its CSR strategy, a policy change, or a substantive process change. Using "no change" as the reference category, multinomial logit analysis estimates the odds of being a member of a respective group change compared to the reference category. Because we are interested in the net effect of the independent variables on a specific outcome when compared to all of the outcome possibilities (e.g., "substantive CSR strategy" relative to "symbolic strategy" and "no change"), we need to assess the statistical significance of an independent variable in the overall model. Thus, following a common practice when using multinomial regression models, we test for overall significance of a variable by estimating the chi^2 Wald statistic for each independent variable, which assesses improvement of fit after inclusion of the variable (King & Cornwall, 2005).

However, in a multinomial logit model, individual coefficients can still be substantively important even when the Wald statistic is insignificant (Long & Freese, 2001), because a variable may not be a good predictor for a particular outcome. Therefore, we also calculate relative risk ratios and their related statistical significance to assess the magnitudes of the effects compared to a defined base outcome. Relative risk ratios are derived by estimating the likelihood of companies with a specific treatment (i.e. presence of a social management device, or a unit increase in stakeholder challenges) to exhibit a specific change in impression management tactics, divided by the likelihood of companies without the treatment to exhibit a change.

Results

####Table 2 here####

Table 3 presents results from a multinomial logit analysis, showing the likelihoods of adopting either symbolic or substantive CSR measures relative to the reference category of no change. We choose this reference category because we are interested in explaining differences in firms' impression management strategies. A significant chi^2 value suggests that inclusion of the variable improves the overall fit of the model, and the positive coefficient implies that a unit increase in the independent variable increases the likelihood of being in a given category, relative to the "no change" category. This model regresses the CSR adoption outcomes on health and safety challenges, unrelated challenges, our impression management capacity variables, and the control variables. We estimate separate models for each of the interaction terms.

####Table 3 here####

In relation to the control variables, we find that larger ($p < 0.01$) companies, as measured by the number of employees are more likely to adopt substantive CSR. Likewise, companies with high media coverage ($p < 0.1$) are also more likely to adopt substantive CSR. None of the other control variables were overall significant. For a clearer interpretation of the main results, table 4 shows the relative risk ratios for the key independent variables, as well as the significance levels of the ratios. Values below one indicate a decrease in likelihood for a given outcome, while values above one indicate an increase. We can interpret these ratios in the following way: for a dichotomous variable, the ratio shows the change in likelihood of a given outcome when the variable takes on the value of 1. For a continuous variable, the ratio shows the change in likelihood for a unit increase of the variable. This table shows the ratios for both the symbolic and substantive adoption outcome compared to the base outcome of "no change".

####Table 4 here####

As hypothesized, we find an overall statistically significant effect of health and safety controversies on the adoption of CSR practices related to health and safety ($p<0.05$), but in line with hypothesis 1, companies are much more likely to respond symbolically than substantively in the year following a controversy. Companies that experience media controversies are 49 % more likely to adopt a customer health and safety policy in the following year. They are also 33 % less likely to not respond at all, suggesting that health and safety is an issue area of high salience for companies. We also hypothesized that unrelated challenges negatively affect substantive responsiveness in a given issue area, and find support for this assumption in the model. Unrelated challenges have a statistically significant overall effect ($p<0.05$), and decrease the likelihood of any kind of impression management response related to health and safety by 6 to 8 %.

Next, we turn to our analysis of the effect of impression management capacity on the kinds of changes in CSR strategies. We proposed that stakeholder architecture creates more focused attention to stakeholder issues for decision-makers, holding actual stakeholder challenges constant. Following hypothesis 3a and 4a, we find that the presence of a CSR committee ($p < 0.1$) and the implementation of employee sustainability training affect the kind of CSR adoption companies engage in, although the chi2 statistic for sustainability training is marginally insignificant. The significant relative risk ratios in table 4 provide strong evidence that with such architecture in place, companies are more likely to adopt substantive measures. Companies with a CSR committee and employee sustainability training are 35 and 34 % more likely to adopt a substantive impression management strategy, respectively. Companies with *both* a CSR committee and sustainability training, which make up roughly 12 % of the sample, are 51 % more likely to implement substantive CSR and 59 % less likely to adopt symbolic CSR. Thus, the findings demonstrate that having impression management capacity enables firms to implement substantive CSR strategies.

We hypothesized that the availability of free resources would equally increase a company's likelihood to adopt more substantive CSR, as slack allows for more managerial flexibility. In relation to hypothesis 5a, we find that slack resources have an overall statistically significant ($p<0.05$) impact on impression management adoption. However, this finding suggests that as firms' slack resources increase, they are in fact less likely to adopt any kind of customer health and safety CSR, given a mean level of stakeholder challenges. The relative risk ratios show that this negative effect is strongest for symbolic CSR adoption. We were surprised by this counterintuitive finding, which we discuss in more detail at the end of the paper.

####Figure 2 here####

Turning to the analyses of the interaction terms, we do not find support for hypotheses 3b and 4b, where we proposed that stakeholder architecture moderates the effects of issue-specific controversies on substantive adoption. Although the relative risk ratios of the two terms, where we interacted the presence of a CSR committee and sustainability training with focal controversies, are above the value of one for substantive adoption, neither the chi2 statistic nor the relative risk ratios are statistically significant. Hence, we cannot confirm the hypothesis that organizational architecture moderates the effect of stakeholder challenges. This might be due to the fact that stakeholder challenges in customer health and safety are fairly rare events, so that the number of observations from which to draw inferences becomes very small.

We do find that the interaction term of slack resources and stakeholder challenges is highly significant ($p < 0.01$). However, contrary to our assumptions, these results suggest that slack resources only positively moderate the effect of health and safety controversies on the adoption of *symbolic* CSR. In other words, while more slack was found to decrease the likelihood of any kind of impression management change, companies with more freely available resources engage in symbolic CSR adoption following a controversy. Figure 2 shows the likelihoods of symbolic adoption over varying levels of slack. The effect of controversies is visibly positive for companies with a cash flow per share of $4 or higher, which roughly covers half of all company years.

Discussion and Conclusions

This study set out to investigate why firms adopt different impression management strategies in a highly salient issue area. By bridging insights from impression management research and the literature on organizational attention and architecture (Crilly & Sloan, 2014), our findings show that the organizational capacities that promote stakeholder awareness are an important factor in understanding why firms engage in specific kinds of CSR strategies. Much like technological absorptive capacity (Cohen & Levinthal, 1990), impression management capacity is important for firms seeking to manage a multitude of stakeholder demands in an effort to maintain legitimacy, particularly in highly salient issue areas where perceived deviance or wrongdoing may be strongly penalized.

We have argued that organizations engage in impression management in two ways: 1) through adoption of policies that have the symbolic intent of demonstrating conformity to social norms and 2) implementing policies that introduce substantive change. The former type of impression management strategy often fulfills surface-level pressures to be perceived as legitimate and normatively appropriate; however, the adoption itself may be superficial and have ephemeral consequences. The latter type of impression management represents a longer-term commitment to values and beliefs that appeal to certain audiences and usually entail higher costs.

Different factors are associated with the use of each impression management tool. Past controversies positively influence the likelihood of symbolic CSR adoption in a related area, but unrelated controversies have a negative impact on symbolic adoption. Based on these findings, we conclude that controversies stimulate attention to particular areas of impression management. Companies seek to defend their image when stakeholder challenges potentially undermine their reputation in a given area, but controversies can also be distracting if they focus executives' attention elsewhere. Interestingly, controversies do not seem to positively influence CSR implementation; however, unrelated controversies have a negative effect on CSR implementation. In this sense, impression management responses to controversies seem to be largely symbolic and, if anything, are a distraction to substantive implementation.

In contrast to controversies, having impression management capacity – i.e., CSR board committees and CSR training programs – reinforces substantive implementation of CSR practices and has no discernible effect on symbolic adoption. Our results, then, indicate that once a company has created the infrastructure for engaging in impression management – what McDonnell et al. (2015) refer to as "social management devices" – they become more capable of actually implementing practices that may have been initially intended as measures to defend their reputation. Thus, impression management architectures seem to give firms a new capability for enacting CSR and realizing practices that may have once been mere symbolic decorations.

One of the more surprising findings from the analysis was that slack resources did not have a positive impact on CSR adoption, either symbolic or substantive, unless health and safety controversies had previously occurred. We had assumed that slack resources would give companies more leeway to adopt these practices in most conditions, but in fact, slack resources only seem to facilitate CSR adoption if the firm faces reputational threats induced by controversies. In this sense, slack resources enhance companies' responsiveness to reputational threats in a way that architecture does not.

Contributions to social movement theory

Social movement research, and stakeholder approaches more generally, have for many years been interested in the outcomes that collective action and social movements have on policy adoption, both in government (Amenta, Caren, & Olasky, 2005) and market/corporate settings (King & Pearce, 2010). Most of this research has focused on the mere adoption of policies and has ignored implementation (for an exception, see Andrews (2001)). For this reason we have known little about the distinguishing factors that facilitate adoption from implementation. This distinction is especially important in the corporate arena, in which adoption is often symbolic and practices are meant to be defensive rather than substantive in nature (McDonnell & King, 2013). Our analysis extends research on social movement outcomes by indicating under what conditions they facilitate mere adoption versus implementation of practices that are consistent with stakeholder goals.

Interestingly, our analysis shows that one of social movements' main tactic for pressuring companies to change – creating media attention through external controversies – may be ineffective in leading companies to implement substantive changes. Instead, controversies invoke defensive responses that are mostly symbolic in intent. Adoption without implementation allows companies to focus on the surface-level threat that movement activists create when they spark controversy, and since most activist groups lack internal allies needed to spark more serious, consequential changes, change may frequently stop there.

Our analysis also suggests that movement activists may underappreciate the extent to which intermediate outcomes – like encouraging firms to create CSR board committees or CSR training – may actually enhance their ability to achieve their objectives for long-term change. Such changes create internal pathways for success, including the formation of roles for champions for activist causes within these organizations (McDonnell et al., 2015). Once firms create CSR training, for example, they must bring in professionals to do this training who are committed to the values of socially responsible business and share many of the beliefs of activists. In some cases, these professionals may actually be former activists themselves or come from the world of NGOs. Thus, one reason we speculate that impression management architecture facilitates implementation is because it creates a more serious and costly commitment to CSR values and creates internal pathways for substantive change.

Contributions to organizational theory

Our analysis provides some interesting answers to the question of why firms frequently engage in symbolic actions that are decoupled from substantive change. Since Meyer and Rowan (1977), organizational theorists have long been interested in decoupling as a practice whereby firms superficially conform to institutional norms while deviating in what they actually practice inside organizations. Recent attempts by scholars to explain why organizations might "recouple" myth and practice have focused on organizational leaders' attempts to deal with internal turmoil or instability (Hallett, 2010). Our analysis, in contrast, emphasizes that some organizations might have unique capabilities for implementing practices that were initially meant as merely symbolic responses. By creating impression management infrastructure to deal with ongoing reputational pressures, companies have inadvertently developed routines and leadership roles that enable them to implement more substantive changes in CSR.

Thus, our analysis demonstrates that some companies have infrastructural differences that make implementation of otherwise controversial practices possible. In many ways, this infrastructure represents the sorts of value commitments that Selznick and others (see King (2015) have argued makes some organizations able to transcend their peers and create meaningful organizational character. Our results indicate that adhering to CSR values requires more than just lip service. Organizations that invest in infrastructure that enables real change are better suited to realizing the values of CSR.

Tables and Figures

Table 1. Unrelated stakeholder challenges

- Business ethics media controversies
- Environmental media controversies: Biodiversity, product impact, spills and pollution
- Consumer media controversies: Product quality, privacy, marketing/labeling
- Working conditions media controversies: Diversity, employee health & safety, wages
- Human rights media controversies: Critical countries, child/forced labor, freedom of association
- Corporate governance media controversies: Shareholder rights, management compensation, insider dealings, accounting, tax fraud
- Product recall occurrence
- FDA warning letters
- CSR-related shareholder resolutions

Table 2. Correlation matrix

* $p < 0.5$

Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11
0.11	0.55	0	14	1										
0.23	0.42	0	1	0.16*	1									
66.65	177.76	-36.81	876	-0.00	0.00	1								
0.33	0.47	0	1	0.12*	0.25*	0.02	1							
1.81	3.60	0	39	0.51*	0.28*	0.03	0.25*	1						
0.66	3.21	0	24.96	0.45*	0.15*	-0.00	0.12*	0.39*	1					
0.47	0.94	0	3	0.14*	0.14*	0.18*	0.15*	0.33*	0.11*	1				
4.75	1.51	0	9.27	0.24*	0.2*	0.04*	0.19*	0.53*	0.22*	0.33*	1			
9.54	1.43	1.79	14.6	0.22*	0.17*	0.03*	0.18*	0.42*	0.18*	0.37*	0.51*	1		
113.92	1343.77	-46633.33	34709.26	-0.02	0.00	0.08*	0.00	-0.01	-0.02	-0.01	-0.01	0.01	1	
7.59	10.05	-113.65	108.39	0.02	-0.00	0.03*	-0.00	0.04	0.04*	0.07*	0.01	0.02	0.02	1

Table 3. Multinomial logit estimates of changes in customer health and safety CSR

		Health and Safety CSR	
	chi²	Symbolic adoption	Substantive adoption
Independent variables			
Health and safety (HS) controversies[a]	8.502**	0.40	0.10
		(0.14)	(0.14)
CSR committee[a]	5.883*	-0.40	0.30
		(0.28)	(0.17)
Sustainability training[a]	3.470	-0.12	0.29
		(0.26)	(0.17)
Slack resources	6.590**	-0.05	-0.02
		(0.02)	(0.01)
Unrelated challenges[a]	7.527**	-0.08	-0.07
		(0.05)	(0.03)
Interaction terms			
HS*CSR committee	3.024	-0.78	0.21
		(0.54)	(0.23)
HS*sustainability training	1.979	-0.59	0.02
		(0.42)	(0.22)
HS*slack resources	10.084***	0.10	-0.01
		(0.03)	(0.07)
Control variables			
Legal costs, logged[a]	0.564	-0.01	-0.01
		(0.04)	(0.03)
Ordinal reputation[a]	0.819	-0.09	-0.02
		(0.10)	(0.07)
Media attention, logged	4.732*	-0.05	0.14
		(0.08)	(0.07)
Size, logged	27.773***	0.26	0.36
		(0.09)	(0.07)
Debt/equity	1.483	0.00	0.00
		(0.00)	(0.00)
Profitability	3.184	0.00	0.02
		(0.01)	(0.01)
Constant		-4.69	-8.31
		(0.83)	(0.78)
Industry controls	YES		
Annual time controls	YES		

N	3120

Robust standard errors clustered by firm in parentheses
Reference category: no change in adoption
[a] = lagged by one year; *** $p < .01$, ** $p < 0.05$, * $p < 0.1$

Table 4. Relative risk ratios when "no change in CSR adoption" is the reference category

	Hypothesized adoption and direction	Symbolic adoption	Substantive adoption	Relative risk of "no change" when hypothesized adoption is the reference category
Health and safety controversies	Symbolic (+)	1.49***	1.10	0.67***
Unrelated challenges	Substantive (-)	0.92*	0.94**	1.08*
CSR committee	Substantive (+)	0.67	1.35*	0.74*
Sustainability training	Substantive (+)	0.89	1.34**	0.74*
Slack resources	Substantive (+)	0.95**	0.98	1.01
HS* CSR committee	Substantive (+)	0.45	1.22	0.81
HS* Sustainability training	Substantive (+)	0.55	1.02	0.97
HS* Slack resources	Substantive (+)	1.10***	0.98	1.01

*** $p < .01$, ** $p < 0.05$, * $p < 0.1$

Figure 1. Total adoption of customer health and safety CSR, US companies

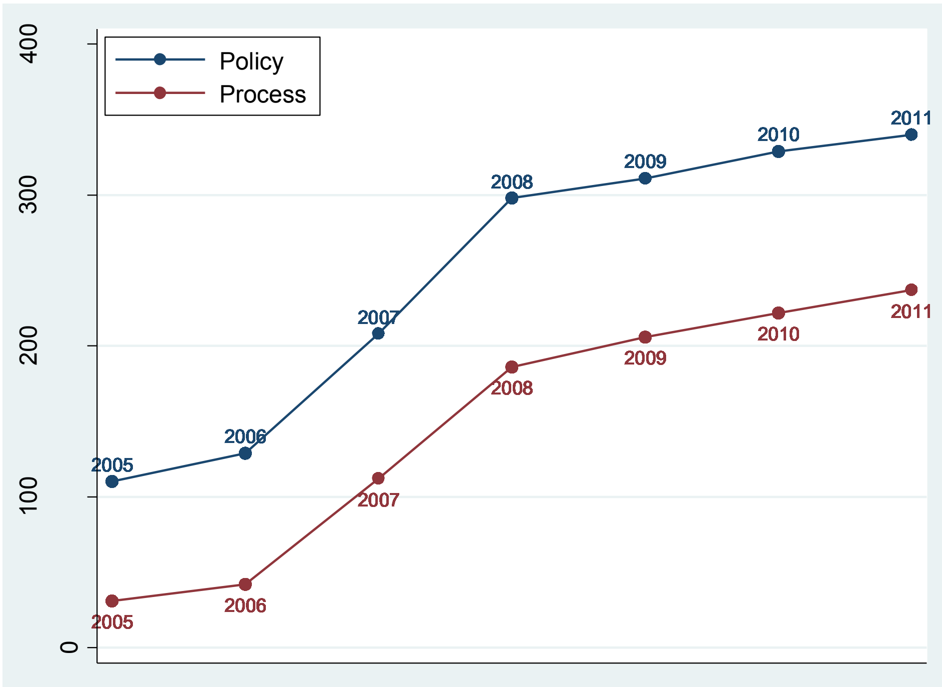
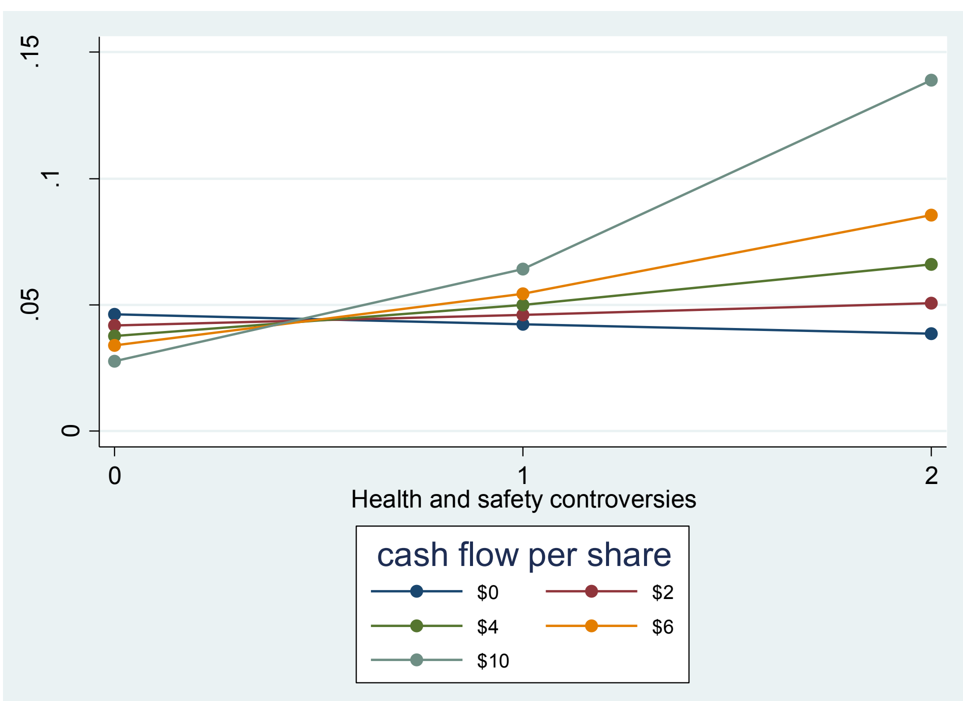


Figure 2. Effect of customer health and safety controversies on the likelihood of symbolic CSR adoption over different levels of slack resources



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Deutsche Zusammenfassung

Private Formen von „Governance“, durch die Firmen die sozialen Dimensionen und Konsequenzen ihres wirtschaftlichen Handelns regulieren, haben für moderne Unternehmen enorm an Bedeutung gewonnen und kommen in höchst unterschiedlichen Bereichen wie Menschenrechte, Kundensicherheit und Umweltverschmutzung zur Geltung. Dennoch sind unsere Kenntnisse über die Entstehungsbedingungen von Maßnahmen, durch die Firmen eine Verantwortung für solche Bereiche deklarieren – auch bekannt als „Corporate Social Responsibility“ (CSR) – stark begrenzt. Die bestehende Forschung präsentiert ein unklares Bild darüber, ob CSR staatliche Regulierung komplementiert oder sie ersetzen kann, sodass keine umfassende Theorie der institutionellen Bestimmungsfaktoren von CSR exisitiert. Hinzu kommt, dass CSR qualitativ unterschiedliche Formen je nach institutionellem Umfeld und organisationalen Charakteristiken annehmen kann. In diesem Sinne trägt diese Dissertation zur Bildung einer umfangreicheren Theorie der Entstehung von CSR als einer eigenen Form der Regulierung bei. Mit Rückgriff auf bereichsspezifische und detaillierte CSR-Daten werden zwei Faktorengruppen der CSR-Einführung untersucht: die institutionellen Umwelten der Firma, sowie die internen Organisationskapazitäten der Sensibilisierung auf Stakeholder.
Zwei der drei Artikel nutzen detaillierte Daten zu ausländischen Tochtergesellschaften, um den Einfluss von Institutionen in Heimat- und Gastländern auf die CSR-Einführung in europäischen multinationalen Unternehmen zu messen. Der erste Hauptbeitrag der Dissertation besteht darin, zu zeigen, dass CSR im Gegensatz zur bestehenden Literatur paradoxerweise sowohl komplementär zu bestehender Regulierung als auch substituierend zu solcher entstehen kann. Das dritte Papier nutzt Längsschnittdaten zu symbolischer und substantieller CSR-Einführung in US-Unternehmen, um den Einfluss externer Stakeholder durch negative Medienberichterstattung und CSR-bezogene Unternehmensstrukturen zu messen. In diesem Artikel wird gezeigt, dass die Qualität privater Governance durch die Art und Weise, in der Organisationen das Bewusstsein und die Aufmerksamkeit ihrer Mitglieder auf Stakeholder steuern, beeinflusst wird. Die Ergebnisse zeigen, dass Firmen mit Stakeholder-spezifischen Strukturen wie CSR-Ausschüssen und Nachhaltigkeitstrainings substantielle Formen privater Governance einsetzen.

English summary

Private governance, whereby firms devise and implement rules that govern the social issues that arise from their economic operations, has become increasingly relevant for modern corporations. Private governance pertains to stakeholder issues as diverse as human rights, consumer safety, and environmental pollution. However, our knowledge about the conditions under which firms adopt programs and policies by which they declare responsibility for such issues, known as corporate social responsibility (CSR), is still underdeveloped. Extant research has presented ambiguous arguments whether CSR may complement or substitute for regulation, so that no comprehensive theory of the institutional influences on CSR adoption exists. Additionally, differences in kinds of CSR may emerge given different institutional contexts and organizational characteristics. The papers in this dissertation contribute to a richer theory on the conditions under which CSR emerges as a distinct mode of governance that is different from state regulation. Using data on issue-specific and detailed CSR adoption, the papers focus on two drivers of CSR: the institutional contexts of a firm and its internal capacities that shape awareness of stakeholder issues.

In two papers, datasets of detailed subsidiary ownership of multinational corporations (MNCs) are used to measure distinct kinds of stakeholder expectations that originate in companies' home and host country institutions and their influence on European MNCs' CSR adoption. The first main contribution is that, in contrast to prior studies, CSR can – paradoxically – serve as both a substitute for and complement to regulatory institutions. In the third paper, a longitudinal dataset of symbolic and substantive changes in CSR adoption in US corporations was constructed to test how stakeholder challenges and CSR-related organizational characteristics affect the uptake of different forms of symbolic and substantive CSR. Here, the contribution is the finding that the quality of CSR can differ depending on how organizations focus attention of their members on the stakeholder environment. In this regard, it is shown that companies with CSR-oriented organizational features, such as a board-level CSR committee and employee sustainability training, tend to adopt substantive private governance.

List of Articles in this Dissertation

- "Multinational Corporations and CSR: Toward an Institutional Theory of Private Governance"
  - Status: revised and resubmitted to *Research in the Sociology of Organizations: Special Issue on Multinational Corporations and Organization Theory*
  - Co-authored with Gregory Jackson (FU Berlin); both authors contributed equally
  - Presented at:
    - FU Berlin Forschungswerkstatt 2015
    - Hertie School of Governance Work & Welfare Brownbag 2015

- "Strategies of Legitimation: MNCs and CSR Adoption in Response to Host Country Institutions"
  - Status: revised and resubmitted to the *Journal of International Business Studies*
  - Presented at:
    - Society for the Advancement of Socio-Economics (SASE) Annual Meeting 2012, Boston
    - Academy of International Business (AIB) Annual Meeting 2013, Istanbul
    - Oxford University Centre for Corporate Reputation Symposium 2013

- "Impression Management Capacity: How Stakeholder Awareness Affects the Substance of Corporate Social Responsibility"
  - Status: preparing for submission to *Organization Science*
  - Co-authored with Brayden King (Northwestern University); both authors contributed equally
  - Presented at:
    - European Group for Organizational Studies (EGOS) Annual Meeting 2014, Rotterdam
    - VHB WK ORG Workshop 2015, Zürich