

AMERICAN UNIVERSITY OF BEIRUT

COMBINING AN INSTITUTIONAL AND SENSE-MAKING  
PERSPECTIVE: THE CSR PRACTICES OF MNCS  
SUBSIDIARIES IN THE ARAB REGION

by  
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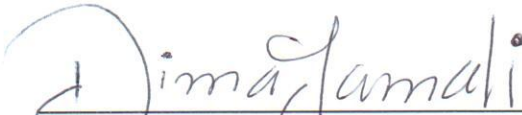
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## AN ABSTRACT OF THE PROJECT OF

Yasmeen Ghazi Makarem for Master of Human Resources Management  
Major: Human Resources Management

Title: Combining an Institutional and Sense-Making Perspective: The CSR Practices of MNCs Subsidiaries in the Arab Region.

The aim of this thesis is to investigate the role of both the sense-making and the institutional theory in relation to the implementation of the CSR doctrines at both the MNC's subsidiary level and the headquarter level respectively. It will further illustrate the numerous factors that result in the overlapping of both the sense-making and the institutional theory while implementing CSR activities in the host community. This study will tap on the legitimacy factor to further stress on the crucial role that the MNC subsidiary plays within a foreign context and the behaviors that it adopts to gain the acceptance and approval of its stakeholders. The analysis that was carried out reflects the situation of MNCs within the Arab context and portrays how actors at the subsidiary level make "sense" of the CSR themes devised at the headquarter level, and how much autonomy do they possess to gear and dismantle relevant CSR activities to their stakeholders. The results indicate that the CSR activities being implemented by the MNC subsidiary in the host country will generally fall under one of the pillars that are pre-devised at the headquarters and their main driver behind devising and implementing CSR is to increase their legitimacy with their stakeholders.

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*To*  
*My Beloved Family*

# CHAPTER I

## RESEARCH PROPOSITION

MNCs in host environments often seek to gain legitimacy through CSR activities. This field project will explore various aspects of the sense-making process that MNCs and their subsidiaries use to make better “sense” of the designated role that they are to carry in order to earn legitimacy in response to the embedded challenges and opportunities of their host environment.

### **Introduction**

#### **Background on CSR**

A comprehensive and common definition of what constitutes Corporate Social Responsibility (CSR) remains elusive, especially with new proposals constantly developing (Blowfield & Frynas, 2005). Several definitions are present to discuss and illustrate the meaning behind CSR. One definition of CSR focuses on the relationship between an organization and the local society. McWilliams & Siegel (2001), defined CSR as follows: “*Actions that appear to further some social good, beyond the interests of the firm and that which is required by law*” (p.120). Another definition focuses on the relationship of CSR to its stakeholders. For example, Hopkins (2003), relates CSR to stakeholders. “*Concerned with treating the stakeholders of the firm ethically or in a responsible manner*”. Other definitions include, Davis’s, 1973, who defined CSR as *the firm’s consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks. A commitment to improve community*

*well being through discretionary business practices and contribution of corporate resources* is how Kotler & Lee (2005) defined CSR. Furthermore, some CSR conceptualizations were introduced to further explain the various parameters within CSR. Carroll, in 1979, proposed a four-part definition of CSR, later refined in 1991 into a pyramid having as base “economic responsibility”, as apex “discretionary responsibility” and in the middle “ethical” and “legal” responsibility. Afterwards, in 2001, Lantos differentiated between ethical (including Carroll’s economic, legal and ethical responsibilities), altruistic and strategic responsibilities. Other CSR conceptualizations include “Strategic CSR” (Porter & Kramer), “Triple Bottom Line” (Social, Environmental and Economic), “Corporate Citizenship”, “Sustainability” and “Corporate Shared Value”.

Actually, to better understand the meaning of CSR, one method is to understand its nature. Among various definitions of CSR, Carroll's four-part model is the most widely cited since it incorporates CSR's economic, legal, ethical and philanthropic nature, and offers an encompassing model: First, corporations have the economic responsibility to make a profit. Second, they need to abide by the law. Third, they have to take up the ethical responsibility to ensure justice and fairness, and fourth, they have the philanthropic responsibility to serve society, the community or education (Carroll & Buchholz, 2006). Furthermore, Clarkson, 1995, further integrated stakeholder theory with CSR and identified six stakeholders: customers, employees, suppliers, investors, local communities and the natural environment. This approach has been widely accepted by CSR scholars (Clarkson, 1995; Mitchell, Agle & Wood, 1997).

### **Carroll's CSP Model**

There are different voices on CSR's definition, and similar terms also enrich the literature. To make it more pragmatic, a model that focuses on the results of CSR

has emerged, which is the corporate social performance (CSP) model. As illustrated by Preston (1975) and Carroll (1979), the CSP outlined and categorized social responsibilities into three dimensions. First, the four-part definition of CSR mentioned above. Second, the process of social responsiveness, which is the strategy continuum that includes four stages: pro-action, accommodation, defense and reaction. The third dimension revolves around the social and stakeholder issues such as consumerism, the environment, discrimination and safety. Carroll's CSP model incorporated the content of CSR (the four parts), the objects of CSR (stakeholders), and the different stages of strategy (pro-action, accommodation, defense and reaction). Hence, it integrated economic concerns and outcomes into a social performance framework and also provided managers with a tool for planning better social performance. Later on, the CSP model was extended and revised. Wartick & Cochran (1985) expanded this model and depicted CSP's three major components. The first included the principles of CSR, which reflects a philosophical orientation. The second component focused on the process of responsibility, which reflects an institutional orientation, while the third component was social issues management, which reflects organizational orientation. By this means, he gradually raised scholars' interest in the relationship between a firm's social responsibility performance and its financial performance.

### **The Stakeholder Perspective: The Triple Bottom Line**

Based on Freeman's argument that groups can affect and be affected by organization activities (Freeman, 1984), Clarkson (1995), developed the concept of the stakeholder. Freeman's (1984) normative stakeholder theory suggests that a socially responsible firm devotes attention simultaneously to the interests of all appropriate stakeholders and not only the interests of the firm's shareholders. Hence, contrary to the conventional view of the firm, managers of a firm do have fiduciary duties to all of its

stakeholders instead of holding exclusive fiduciary duties solely to its shareholders (Garriga & Mele', 2004). This also reaffirms the importance of firms acknowledging their organizational responsibilities towards different local stakeholders when pursuing legitimacy in host countries (Jamali, 2010; Yang & Rivers, 2009).

Freeman (1984) suggested that there are six main stakeholders for whom corporations should be responsible: customers, employees, suppliers, investors, local communities and the natural environment, and they all consistently demand higher levels of CSR (Clarkson, 1995). Examples of these six responsibilities may better illustrate the content and extent of these new terms. The stakeholder perspective has attained wide recognition by CSR scholars (Mitchell, Agle & Wood, 1997; Hopkins, 2003; Maignan *et al.*, 2004), since it has complemented the CSP model by emphasizing not only the economic aspect but also the environmental and social bottom lines. One managerial implication of stakeholder theory is an acknowledgement of the diverse stakeholder interests by managers and that they should attempt to respond to these interests due to the moral requirement to obtain legitimacy (Donaldson & Preston, 1995). In addition, stakeholder theory has been utilized in many CSR-related studies (Jamali, 2008, 2010; McWilliams & Siegel, 2001; Reimann *et al.*, 2012) to explain the implementation of CSR practices by firms due to the ease with which it can be understood by managers in relation to a firm's responsibilities and obligations to their stakeholders.

A summary of CSR definition can be found in the below table:

Table 1

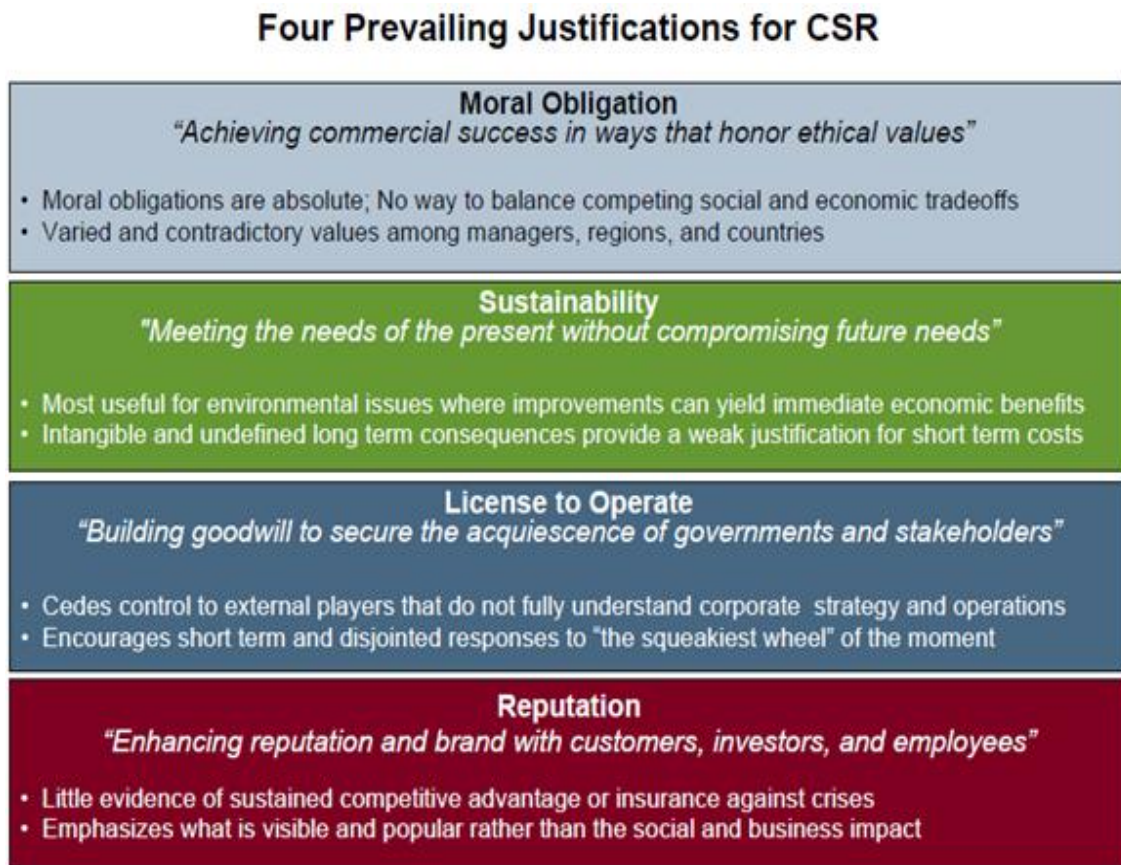
*A summary of CSR definitions*

Scholar (s):	CSR Definition:
Davis ,1973	The firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks
Carroll, 1979	The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time
Freeman, 1984 (Stake holder approach)	Stakeholder approach indicates that organizations are not only accountable to its shareholders but should also balance a multiplicity of stakeholders interests that can affect or are affected by the achievement of an organization's objectives
McWilliams & Siegel, 2001	Actions that appear to further some social good, beyond the interests of the firm and that which is required by law
World Business Council for Sustainable Development(WBCSD), 2001	The commitment of business to contribute to sustainable economic development, working with employees, their families and the local communities
Hopkins, 2003	Concerned with treating the stakeholders of the firm ethically or in a responsible manner
Kotler & Lee, 2005	A commitment to improve community well being through discretionary business practices and contribution of corporate resources
Kramer & Porter, 2007	The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates

Moreover, Kramer & Porter (2007) narrowed CSR to 4 prevalent justifications. In their Harvard Business Review article "Strategy and society: The link between competitive advantage and corporate social responsibility" they provided the following illustration to further explain how CSR is defined and perceived in the literature.

Figure 1

*Kramer & Porter (2007) CSR justification*



### **Defining a Multi-National Corporation (MNC)**

Our study broadly defines a MNC as a company that manages a portfolio of national entities (more commonly known as ‘subsidiaries’) due to its ‘strategic posture and organizational capability’ that allows the company to be sensitive and responsive to national differences (Bartlett & Ghoshal, 1989). An MNC consists of a group of geographically dispersed and goal-disparate organizations that include its headquarters and the different national subsidiaries (Ghoshal & Bartlett, 1990). Multinational organizations provide a context characterized by substantial heterogeneity and complexity, which can be (1) contextual (i.e., external environment), (2) intra-



organizational, or (3) occurring at the individual-level. Externally, MNCs operate in multiple countries and are therefore exposed to a variety of institutional, cultural, and economic environments. Internally, multinational organizations are typically comprised of differing units residing in different environments and possibly operating under different management systems. Finally, plurality at the individual level is reflected in the wide variety of backgrounds, cognitive templates and biases, values and beliefs, experiences and roles of MNC employees (Roth & Kostova, 2003).

As summarized by Chang & Taylor (1999) MNCs must function, “in more than one environment, and respond to a complex set of factors such as the diverse nationalities of employees, floating exchange rates, geographically imposed problems of communication, and so forth. MNCs can also be characterized as a group of geographically dispersed and goal-disparate organizations . . . essentially; they are workplaces where different ethnicities and cultural values are intertwined” (Chang & Taylor, 1999, p 550). By their very nature, MNCs are characterized by multiplicity and diversity of their external environments. The typical MNC will have operations in multiple countries and as a result will face a variety of political, economic, legal, social, and cultural circumstances. Furthermore, some of these multiple environments may be quite distinct from one another (Roth & Kostova, 2003). A particular distinction of the MNC context that should be explored further, concerns internal and external attributes of MNCs that present themselves as extreme competing pressures, choices, or tradeoffs. A substantial number of MNC-related articles attempt to theorize about these “tensions.” Other researchers strive to resolve them for the purposes of identifying the “best” MNC strategic response and organizational design. Such tensions include but are not limited to (Roth & Kostova, 2003):

- Centralized versus decentralized decision-making.
- Use of ownership versus non-ownership forms of control.
- Developing shared organizational values worldwide versus embracing diversity among MNC's operations.
- Pursuing competitive versus cooperative relationships with other entities.
- Worldwide integration of MNC activities versus local responsiveness in different markets.
- Standardization versus differentiation in management practices and processes.
- Maintaining a centralized versus a dispersed knowledge structure

This capability of local responsiveness allows MNCs to modify their organizational strategies accordingly, which in turn allows their subsidiaries to operate independently from their parent companies (Arthaud-Day, 2005; Bartlett & Ghoshal, 1989). Hence, the organizational structure of such MNCs tended to be decentralized, with their subsidiaries having substantial autonomy in terms of formulating their own strategies. In addition, by being responsive to the national differences and adapting to local needs, the subsidiaries of these MNCs play an increasingly important role by representing their parent companies and asserting the parent company's influence in host countries (AmbaRao, 1993). Bartlett & Ghoshal's (1989) organizational typology and definition of a MNC relates primarily to how the MNC formulates organizational strategy and develops strategic responses (i.e. globally integrated through to locally responsive) to the varying product markets in the global business environment.

Similarly, with regard to globally integrated versus locally responsive CSR strategies, Husted & Allen (2006) articulated that MNCs should also be concerned with the pressures to respond strategically to the growing need for MNCs to be socially

responsible towards the varying host-country communities. Campbell *et al.* (2012) suggested that commitment to CSR can be viewed as a non-market coping mechanism for MNC subsidiaries to obtain legitimacy when operating within host countries where stakeholders are unfamiliar with the firm. This is because a societal contribution in the form of CSR enables firms to be seen as contributors to the general welfare of the society and not simply to the immediate host-country economy growth (Campbell *et al.*, 2012). Hence, by engaging in CSR activities in different host countries, MNCs can harness the importance of strategic CSR and proactively enable the firm to be seen as a legitimate entity.

### **MNCs Headquarters' and Subsidiary Relationship**

The literature on headquarter–subsidiary and subsidiary–subsidiary relationship has primarily examined formal coordination mechanisms, such as the centralization of decision making at main or divisional headquarters, formalization, planning, performance control, and informal mechanisms such as informal communication, socialization, normative integration, and particularly the transfer of knowledge, people, goods, and services among MNC units, R&D co-practice, and inter-unit networking (e.g., Bartlett & Ghoshal, 1989; Fischer & Behrman, 1979; Foss & Pedersen, 2002; Ghoshal & Nohria, 1993; Gupta & Govindarajan, 1991, 1994; Martinez & Jarillo, 1991; Nobel & Birkinshaw, 1998). This stream of literature has been mainly concerned with conciliating strong globalization and localization pressures as well as reaping the benefits of a global organization in terms of worldwide knowledge exchange and learning (Cruz & Boehe, 2010).

To further understand the rationale behind the creation and adoption of CSR initiatives in host-communities by the MNC subsidiary, it is imperative to understand

the relationship that exists between the MNC's headquarter and its subsidiary. Hence, to better understand how CSR initiatives are debated, communicated and implemented, it is crucial to understand the strategy that the organization aims to employ. Muller (2006), explained that when exploring the CSR practices of MNE subsidiaries in host countries, the question arises whether subsidiaries tend to adopt CSR practices of the *home* country of their parent firm (embedded in a "global" corporate CSR strategy), or tailor their CSR responsiveness to the *host*-country context in which they are located ("local" CSR strategy). From his perspective, if companies follow such a global CSR strategy and are able to effectively transmit these practices to their foreign subsidiaries, MNCs have the potential to function as mechanisms for "upward harmonization" of CSR standards internationally (Tsai & Child, 1997; OECD, 1999).

The risk of such a local strategy is that MNCs might, in the case of multiple local strategies, be subject to internal tensions and criticized for a lack of consistency (Muller, 2006). Moreover, it increases the complexities of managing this whole set of divergent approaches from the range of subsidiaries, which even in mainstream business and operations is an issue that requires a considerable degree of coordination and control (Cray, 1984; Martinez & Jarillo, 1991; Porter, 1986).

Thus, speculations arise concerning whether MNCs should centralize their CSR strategies or decentralize them and develop at local subsidiary level. Muller (2006), emphasized that while centralization can be more efficient, it can lead to a lack of ownership and reduced legitimacy at the local level. At the same time decentralized strategies, while locally responsive, may also be fragmented and *ad hoc*. In addition, when the local context is a developing country with lower CSR standards and less public pressure, there are fears that MNCs target the lower rather than the higher standards that may be expected from them in their home countries (Muller, 2006). In

his paper, "Global Versus Local CSR Strategies", Muller (2006) reports results based on the subsidiaries of seven European MNCs in Mexico and concludes that a local CSR strategy/decentralized decision making are associated with higher local CSR performance. Moreover, Husted & Allen (2006) suggest that the key difference between global and local CSR is the community that demands it.

Local CSR thus deals with the firm's obligations based on the standards of the local community whereas global CSR deals with the firm's obligations based on those hyper norms or universal standards to which all societies can be held (Husted & Allen, 2006). Traditionally the broader CSR debate has been conducted within the frame of stakeholder theory, which positions CSR strategies in iterative dialogue with a firm's stakeholders (Burke & Logsdon, 1996; Waddock & Boyle, 1995). Developing a mutually beneficial relationship with stakeholders at the local level seems to require local engagement, which means that CSR should be contextual and locally responsive (Muller, 2006). For MNCs, such an argument would suggest that the most effective CSR practices are likely to emerge in decentralized organizations, where subsidiaries in host countries are characterized by a considerable degree of autonomy and develop CSR strategies that are responsive to the local context. At the same time, increasing internationalization means that firms are faced with a wider range of potentially conflicting stakeholders and are thus subject to divergent pressures across home- and host countries, especially when development levels differ (Van Tulder & Kolk, 2001).

This greatly increases complexities for MNCs, also because one and the same stakeholder category can be very different from one country to another (Muller, 2006). This means that a truly locally responsive CSR approach based on extensive subsidiary autonomy in host countries entails a considerable number of risks. The company's CSR strategy may be fragmented and inconsistent, leading to tensions within the

organization, a lack of clear responsibility and to approaches that only live up to minimum host-country requirement levels (Christmann, 2004).

When operating abroad, MNC subsidiaries often face contradictory expectations between home and host countries which arise from institutional differences and varying stakeholder demands. As a result, these firms are faced with the dilemma to either maintain parent–company focused strategies (e.g. more globally oriented strategies) or adapt their organizational strategies to suit the host–country expectations (e.g. more locally oriented strategies) when pursuing external legitimacy (Blumentritt & Nigh, 2002; Tan & Wang, 2011).

In Jamali (2010), this dilemma is examined from the aspect of global versus local CSR strategies and the MNC subsidiaries' responses to adopt more globally or locally oriented CSR strategies was observed to be an outcome of several different dimensions of CSR (i.e. CSR motivations, CSR decision making and explicit CSR manifestations). This dilemma is illustrated in the below.

Table 2

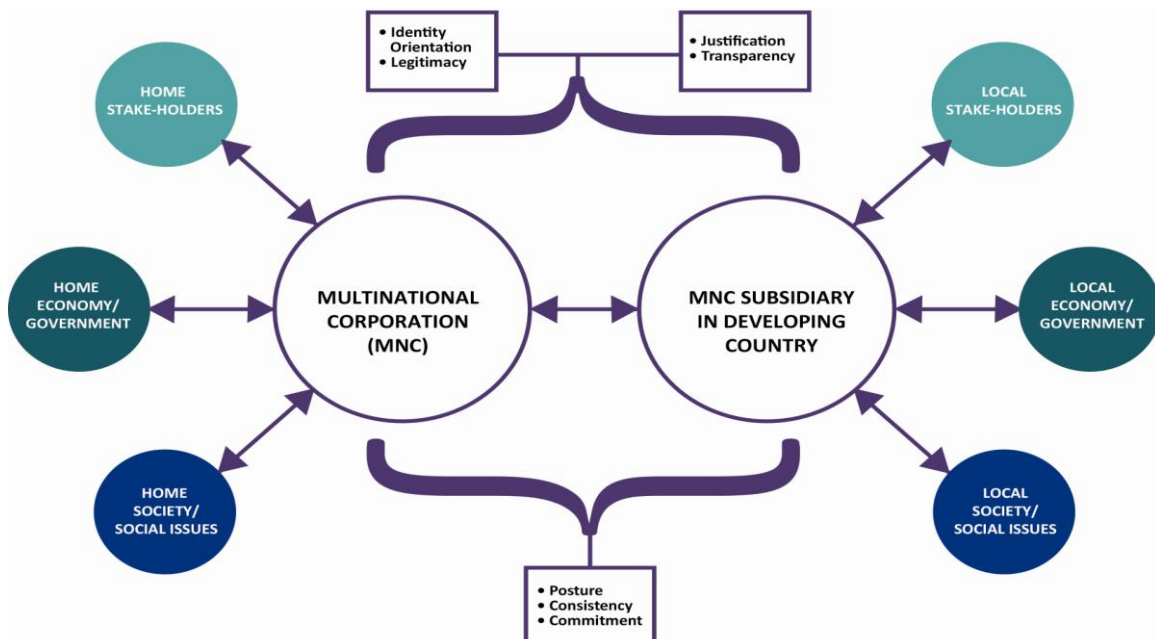
*Global vs. local CSR in MNCs*

	Advantages	Disadvantages
Global CSR	Upward harmonization of CSR standards internationally Globally integrated and standardized strategy Policies, processes, and structures consistent across cultures	Insensitivity to local needs Reduced ownership and legitimacy Compliance based strategies that are tailored to end of pipe controls Approaches that live up to minimum host requirements
Local CSR	Nationally responsive and adapted to local context Tailored to local cultural differences and preferences	Fragmented inconsistent and reactive strategies Lack of clear responsibility and internal tensions Approaches that live up to minimum global requirements High coordination and control necessary

Source: Husted, B.W. & Allen, D.B. (2006). "Corporate social responsibility in the multinational enterprise: Strategic and institutional approaches". *Journal of International Business Studies*, 37(6), 838-849 and Muller 2006.

Figure 2

*The CSR of MNC subsidiaries in developing countries*



Source: Jamali, D. (2010). "The CSR of MNC subsidiaries in developing countries: Global, local, substantive or diluted?" *Journal of Business Ethics*, 93(2), 181-200.

## CHAPTER II

### SENSE-MAKING AND INSTITUTIONAL THEORY

#### **Sense-Making**

“Sense-making” has been described as “a process by which individuals develop cognitive maps of their environment” (Ring & Rands, 1989). It views activities such as CSR as resulting not directly from external demands but instead from organizationally embedded cognitive and linguistic processes. The mental models or frames that underlie organizational sense-making, then, influence the way the world is perceived within the organization as well as critical decisions with respect to perceived external and internal demands (Basu & Palazzo, 2008). Studying CSR through the lens of sense-making might provide a robust conceptual basis to better address, analyze and make sense of the particular CSR activities that firms adopt

As described by Ghoshal & Moran (1996), a particular pattern of behavior is more likely to occur as a result of its strong links with cognitive, linguistic and behavioral features that define character. The sense-making process as advocated by Weick (1995) pertains to the fact that it is a highly subjective micro-level process that focuses on the relationship between cognition and action in the organizations, in order to address any unexpected event (Jensen *et al.*, 2009), thus, asserting the ongoing process of sense-making, where the need to make “sense” is heightened in complex and volatile environments. In particular to this study, the sense-making theory will offer further explanation of the inter-subjective processes that are present between the actors (Weick, 1995) of MNCs subsidiaries upon devising and implementing their CSR oriented activities and procedures in host communities.



The challenge of adapting to local expectations calls for an in-depth understanding of the relation that an MNC subsidiary has with its headquarters and the extent to which it is granted autonomy in delivering tailored CSR activities geared toward the specific demands of the community and environment that it is operating in (Jamali, 2010). Thus, understanding the relationship that exists between the MNC headquarters' and its subsidiaries becomes imperative, particularly that the MNC subsidiary is not an independent entity. In such cases it must comply with any practice mandated by the parent company. However, the subsidiary must also comply with the institutional pressures of the host environment which results in an *institutional duality* (Kostova & Roth, 2002). Hence, CSR strategies are to be studied and reflected upon in relation to the context that they are being implemented in, by understanding the specificity of the host environment, the discretionary space (autonomy) and decision making or sense making of MNC subsidiaries, as well as the guiding strategy framed at the headquarters.

This interplay accounts for a deeper understanding of the salient factors that contribute to the nature of the CSR decisions taken at the subsidiary level. In the face of the heterogeneous environments present with increasing conflicting demands regarding the adequate allocation of resources (Scherer *et al.*, 2013) and the organizations' heightened role with respect to their key stakeholders. The study will entail an analysis of the intrinsic factors that guide CSR-related activities are to be explored and analyzed through adequately defining the process, patterns and responses that guide the organization's CSR outcomes (Basu & Palazzo, 2008). Further, this study aims to dwell on the interplay between the legitimation strategies used and the mental models adopted by MNC subsidiaries in response to the external and internal demands of the numerous actors involved.

Studying CSR through the lens of the sense-making framework will enhance our understanding of the motivation schemes adopted by organizations (Basu & Palazzo, 2008) their decision making process, and the respective legitimacy strategies in regards to their CSR activities, all of which represent an aspect of the organizational identity and character of the MNC in question (Basu & Palazzo, 2008), and shape the nature of the CSR activities enacted. In this respect, a deeper understanding of CSR calls for the examination of the decision making processes along the tripartite view of the sense-making process (Basu & Palazzo, 2008) which considers the “cognitive”, “linguistic” and “conative” dimensions of CSR.

The *cognitive* dimension implies thinking about the organization’s relationship with its stakeholders and views about the broader world that entails practicing the “common good” that goes beyond what is good for business as well as the rationale for engaging in specific activities that might impact key relationships. It relates to the “what the firm thinks” and has both the identity orientation and legitimacy as its dimensions. As for the *linguistic* dimension, it involves the ways of explaining the organization’s reasons for engaging in specific activities and how it goes about sharing such explanations with others. It asserts “what the firm says” and has both the justification and transparency attributes. Furthermore, the *conative* dimension of CSR elaborates on “how the firm behaves” and it normally involves the behavioral posture that an organization adopts, along with the commitment and consistency it shows in conducting activities that impinge on its perceived relationships.

Each dimension embodies a set of patterns through which organization’s CSR activities are juxtaposed in relevance to the rationale behind their engagement in CSR, their communication strategies with both internal and external stakeholders and their behavioral disposition regarding CSR activities (Basu & Palazzo, 2008). The cognitive

dimension relies on two major (identity orientation and legitimacy) premises that intertwine with the framework advocated by Scherer *et al.*, 2013, regarding the strategies of corporate legitimacy which corporations adhere to in order to gain acceptance in the society they are operating in, which respectively reflect the corporation's identity and prevalent ideology. This study will further analyze the conative dimension of CSR by linking its premises of posture, consistency and commitment to the legitimacy patterns adopted by corporations, thus, adding characteristics to the organizational identity. Not withholding, the communication methodology that organizations adopt to transcend and convey their practices to their stakeholders. Basu & Palazzo (2008) model is based on the findings of other authors (Brickson, 2007; Suchman, 1995; Ashforth & Gibbs, 1990; Sims & Brinkmann, 2003; Mirvis, 2000; Porter & Kramer, 2002) which thus enabled them to create the seven dimensions of the model (identity orientation, legitimacy, justification, transparency, posture, consistency and commitment) which are subsequently embedded in the three major views: cognitive, linguistic and conative. Each view and its respective dimension will be discussed more thoroughly below.

### **Cognitive**

In the cognitive grouping Basu & Palazzo (2008) shift the focus to “what firms think”.

### *Identity Orientation*

Basu & Palazzo's (2008) model categorizes the identity orientation of firms into three sections; individualistic, relational or collectivistic. They particularly define “identity orientation” as the shared beliefs that the members of a particular organization share together which adherently connects them to each other and to the organization, and helps them to make sense of their environment. Basu & Palazzo (2008) rely on the

above categorization to illustrate that these orientations all stem from an understanding of the nature of the relationship between the organization and its environment, and the resulting understanding of reality. Therefore, the identity orientation is a reflection of the underlying assumptions which the organization has about the nature of its reality and existence (Brickson, 2005).

Identity orientation dimension is deeply rooted in the sense-making paradigm from which this model was drawn. In order for an identity orientation to exist, it needs to be constructed. Weick (1995) explains that identity construction is in fact an internal and external (reflexive) process. Weick, (1995), argues that “depending on who I am, my definition of what is out there will change”, thus, if this is applied to organizations, the employees will embody the “values, beliefs, and goals of the collectivity”. However, the structure of these perceived identities, in turn, would determine the specific nature of their activities including those that are CSR related. Hence, taking into consideration the type of the organization identity, this thesis will further dwell on the role that the organization’s identity will play upon enacting CSR activities.

### *Legitimacy*

Basu and Palazzo’s (2008) definition of legitimacy is based on Suchman (1995) which defines it as a “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) explains that the judgment or attribution of legitimacy is performed by a group, as a whole entity, and accepts the activities of an organization on the whole. It is the judgment of many and the exclusion of the singular (Suchman, 1995). On the basis of this definition, Basu & Palazzo proposed three types of organizational legitimacy namely: pragmatic, cognitive, and moral. Pragmatic legitimacy involves organization’s most immediate audiences based

on their self-interest and determination of practical consequences. It has been explored from a resource-based theory in which the organization has influence over its own legitimacy. Its legitimacy is conferred when stakeholders—that is internal and external audiences affected by organizational outcomes—endorse and support an organization's goals and activities.

As for Cognitive legitimacy, it has been explored from an institutional theory perspective which means that the organization appears to be shaped and influenced by the external environment, and its organizational legitimacy reflects the set of beliefs, values, and norms in broader society. The organization aligns itself to societal expectations so that its actions are considered comprehensible. Under this, the predictability and plausibility of the actions are encompassed, and become worth attributing legitimacy to (Suchman, 1995). The organization must make the effort to align to societal expectations if the organization is to be regarded as legitimate, or live in the hope that their actions will be accepted unquestioningly (DiMaggio & Powell, 1983). Moral legitimacy, in turn, is the positive normative evaluation of the organization and its activities. In evaluating the organization, the environmental actor makes judgments not about whether a given activity benefits the actor but whether it is 'the right thing to do'. In order to achieve legitimacy in a complex world, Kostova & Zaheer (1999) and Young (2003) have argued for the co-creation of norms for which moral legitimacy calls. This type of legitimacy differs "fundamentally from a self-interested approach" (Suchman, 1995).

In this light, MNCs face tremendous difficulties in gearing their actions toward adopting a certain institutional norm that matches the diverse host environments that they operate in, upon which this "double structure" and resulting "conflicts" (Meyer & Rowan, 1977) between the numerous stakeholders, prompts organizations to use various

strategies that may entail a mix of “decoupling” and “trust building” to create a needed façade of legitimacy (Meyer & Rowan, 1977). This institutional perspective towards legitimacy, prompted institutional theorists to argue that organizations may achieve legitimacy by becoming “isomorphic” with the institutional environment (Kostova & Zaheer, 1999), a legitimacy adaptation in which corporations can change their organizational practices and adapt to societal expectations in order to maintain “cognitive legitimacy” (Scherer *et al.*, 2013). As such, organizations adopt specific practices that they believe their institutional environment deem appropriate or legitimate (Campbell, 2004) thus, making this institutionalization process rooted in the held normative and cognitive activities that are in most cases granted as lawful by the host environment (Meyer *et al.*, 1994). At this point, MNCs face both an external legitimacy proposition in the host environment as well as an internal legitimacy proposition within the subsidiaries of the MNC itself (Kostova & Zaheer, 1999), hence, the process of legitimation is debated and asks for continuous testing and redefining of the legitimacy of the organization through its inevitable interaction with its internal and external environment (Baum & Oliver, 1991).

### **Linguistic**

In the Linguistic grouping Basu & Palazzo (2008) shift the focus to “what firms say”.

#### *Justification*

The purpose behind this dimension is to interpret how organizations go about explaining its own actions. In specific, it aims to understand how do organizations justify their actions to others, as it might be viewed as reflecting how they interpret their relationships with stakeholders and view their broader responsibilities to society. The language that organizations use might signal their understanding towards their

environment. This, in turn, has an influence on the formation of the reaction to the demands made by stakeholders. In the context of sense-making, justifications can be used to produce commitment (Ferraro *et al.*, 2005). When CSR is discussed, and justifications are formed, an outwardly expressed, explicit commitment is generated.

Justification methods have been mainly categorized into four different realms; legal, scientific, economical, and ethical. The legal aspect refers to the organization's method in backing up its position by adhering to legal arguments and statements of compliance and confidentiality. The scientific justification relates to external support from subject matter experts (SMEs) to consult on the organization's position. When an organization uses economic justifications, it draws on tangible or monetary contributions which it has given to stakeholders or invested in projects. The ethical justification differs significantly from the other three characterizations as the justification for the action would refer to a "higher order interest," (Teegen *et al.*, 2004). It can be thus inferred that the legal, scientific and economic justification hinder any kind of open discussion and communication between the organization and its stakeholders. The ethical justification, on another hand, opens the stand for dialogue between the parties involved; however, making the organization's position more susceptible to stakeholder's arguments and stand.

### *Transparency*

In addition to the type of justification an organization serves to its external world, it has a choice in terms of the valence of the information included in its CSR communication: either *balanced* with respect to both favorable as well as unfavorable aspects/outcomes of its actions, or *biased* in terms of including simply the favorable and omitting the unfavorable part. This dimension helps in differentiating organizations for whom responsibility is a central concern, and those who are only interested in the gains

which it is able to generate. Thus, reflecting back on the organization's legitimacy practices and its approach towards engaging with stakeholders.

### **Conative**

In the conative grouping Basu & Palazzo (2008) shift the focus to "how firms tend to behave".

### *Posture*

Posture refers to how responses are formed and framed when organizations face criticism from the public sphere. Firms can either be defensive, tentative or open in their posture (Basu & Palazzo, 2008). A firm's defensive posture reflects an antagonist attitude towards any external feedback or evaluation. A tentative posture postulates that the organization lacks a clear strategy to respond to any issues that it might face from the external sphere. This indecisiveness can be attributed to lack of experience with, or exposure to, these types of issues, or intent to remain unengaged, yet appear to be a responsible organization (Basu & Palazzo, 2008). As for an open posture approach, the organization exhibits willingness to engage in open dialogue forums, to listen and assimilate feedback and opinions which mainly consists of both the firm's and society's interests.

The firm's posture will indicate how will the organization deal with criticism, in what manner will it respond to it and whether its interaction with the stakeholders will result in cooperation or conflict. Moreover, Basu & Palazzo point out that posture is something which "evolves as organizations confront new challenges" (2008). Hence, given the sense making framework in which they have positioned themselves, it is crucial to note that the actions exhibited by organizations are often understood retrospectively. That means that the organization has the potential to change its posture and reconstruct its identity based on the reactions that it has gotten for its previous



positions.

### *Consistency*

This dimension is split into two considerations: internal consistency and strategic consistency. The strategic consistency, to which they refer, is that of coherence between the strategy of the organization and the activities which it undertakes. The internal consistency refers to coherence between the activities which the organization undertakes (Basu & Palazzo, 2008). Having a central framework for CSR which is linked to the central strategy of the organization would promote both internal and strategic consistency. Basu & Palazzo (2008) situate themselves in Porter & Kramer (2006) when they discuss strategic consistency. “If, instead, corporations were to analyze their prospects for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage” (Porter & Kramer, 2006). A further step to consistent CSR involves “integrating inside-out and outside-in practices,” (Porter & Kramer, 2006) and making necessary adjustments that will create both economic and social value to the entire value chain. This specific dimension will prove salient upon examining the relationship between the MNC subsidiary and its headquarters’ in relation to the devised and applied CSR activities.

### *Commitment*

Commitment in Basu & Palazzo’s (2008) model can either be instrumental (i.e driven by external pressures) or normative (i.e driven by internal pressure). Basu & Palazzo (2008) draw from Wiener (1982) when they choose to classify commitment as either normative or instrumental. “Internalized normative pressures to act in a way that meets organizational goals and interests,” (Wiener, 1982, p. 421) and displays itself in

committed individuals through their behaviors, which they have as a result of the belief that their actions are meaningful, because it is the “right and moral thing to do” (Wiener, 1982). A distinction between normative commitment and instrumental-utilitarian commitment is made where instrumental-utilitarian commitment is linked to a more calculated “means to an end” notion. Instrumental commitment is likely to be produced when driven by external influences, such as in the case of CSR, some sort of recognition, or compliance with an authority. Normative commitment is instead driven by internal considerations. A more integrated and sustainable means through which to commit to CSR practices is through normative commitment, as it leads to more integration and better performance. This interplay will most likely be prevalent upon dwelling into the sense making attributes guiding the MNC subsidiary’s actions.

However, it is crucial for us to understand that identity in sense making is constructed, and continually changing, hence, if this model is to reflect how an organization understands, defines and implements CSR, we need to take into point that adjustments, progressions and alterations will take place (Maon & Swaen, 2009). Furthermore, the elements in the model have the possibility to feed into each other and can likely influence the classifications of the dimensions of CSR of an organization. For instance, a defensive posture would indicate a tendency to be biased and to use either legal or scientific justifications. While this serves as criticism of the model, it is also this aspect of the model which makes it easily understandable and implementable.

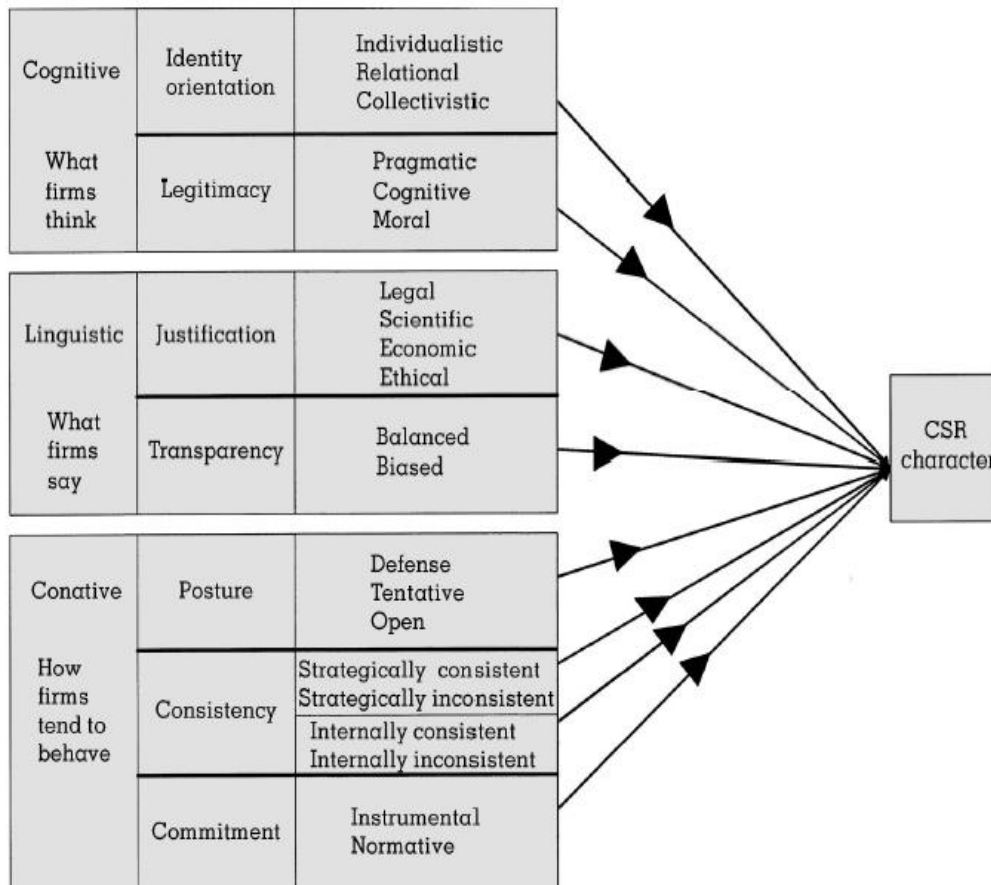
Nonetheless, the model appears to force the organization to opt to one specific approach (ex: individualistic or relational), which gives the impression that the dimensions can be easily compartmentalized and that the organization’s CSR cannot reside in more than one of the dimensions; which in most cases isn’t the norm. The relationship or the weighting between the dimensions has also not been explored.

Bansal & Roth's (2000) found that "firms were motivated largely by concerns for legitimacy, less by competitiveness, and even less by ecological responsibility." While they were not able to test this finding, which poses as a limitation to their process model, they argue that each dimension might have a different impact on the enactment of the CSR agenda by the organization.

However, if the purpose of this model is that it "could help explain CSR behavior in terms of processes managers are likely to adopt in coming up with their own view of what constitutes appropriate relationships with their stakeholders and of the world in which they exist," (Basu & Palazzo, 2008, p.130) then this model is apt. This model can be used to describe the CSR behavior of an organization through looking at its processes, as opposed to only the outcomes. Overall this is a more robust manner in which to consider the CSR behavior of an organization. For the purposes of this thesis, as seeking to understand the rationale behind organizations engaging in CSR, the model remains suitable.

Figure 3

*CSR: Dimensions of the sensemaking process*



Source: Basu, K. & Palazzo, G. (2008). “Corporate social responsibility: A process model of sense making”. *Academy of Management Review*, 33(1), 122-136.

### Institutional Theory

This research will generally be framed in institutional theory. Institutional theory is well regarded in the social science and depicts, the institutional process within the organization and how it is triggered by the external conditions, the negotiated definitions of problems, and the mutual constructions of expectations between organizations and their stakeholders [source]. Although socially constructed, institutions tend to gain power, since they lead actions prospectively and legitimize them retrospectively (Schultz & Wehmeier, 2010). From the institutional perspective,

organizations are the way they are for no other reason than that the way they are is the legitimate way to organize (Meyer & Rowan, 1977; Zucker, 1987). The key idea behind institutionalization is that much organizational action reflects a pattern of doing things that evolves over time and becomes legitimated within an organization and an environment (Pfeffer, 1982). Therefore, it is possible to predict practices within organizations from perceptions of legitimate behavior derived from cultural values, industry tradition, firm history, popular management folklore, and the like (Eisenhardt, 1989). Things are done in a certain way simply because it has become the only acceptable way of doing them. Institutionalization occurs in part because people conform to taken-for-granted ways of doing things (Pfeffer, 1982).

Institutional theory is traditionally concerned with how various groups and organizations better secure their positions and legitimacy by conforming to the rules and norms of the institutional environment (Meyer & Rowan, 1991; Scott, 2008). The term “institution” broadly refers to the formal rule sets (North, 1990), less formal shared interaction sequences (Jepperson, 1991), and taken- for-granted assumptions (Meyer & Rowan, 1991) that organizations and individuals are expected to follow. These institutions create expectations that determine appropriate actions for organizations (Meyer & Rowan, 1991), and also form the logic by which laws, rules, and taken-for-granted behavioral expectations appear natural and abiding (Zucker, 1977). Institutions define therefore what is appropriate in an objective sense, and thus render other actions unacceptable or even beyond consideration (DiMaggio & Powell, 1991). Institutional theory is thus concerned with regulatory, social, and cultural influences that promote survival and legitimacy of an organization rather than focusing solely on efficiency-seeking behavior (Roy, 1997).

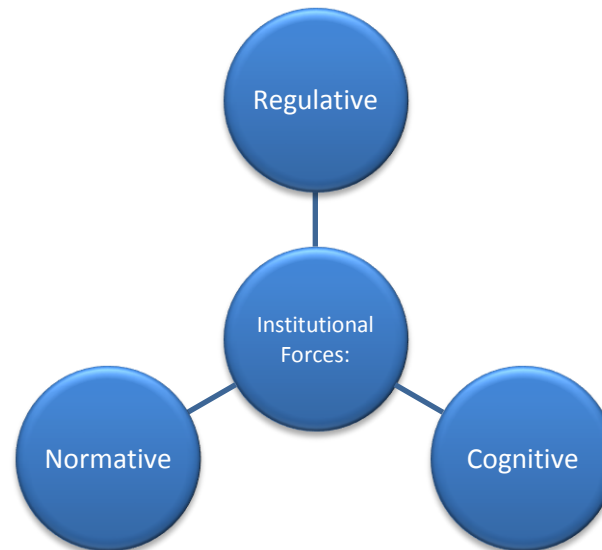
This information is collected and summarized by Scott (2007) in his well-

known formulation of three categories of institutional forces. The first institutional pillar is the regulative one which is derived most directly from studies in economics and thus represents a rational actor model of behavior, based on sanctions and conformity. These regulative components stem primarily from governmental legislation and industrial agreements and standards.

The second institutional pillar is the normative one, which represents models of organizational and individual behavior based on obligatory dimensions of social, professional, and organizational interaction. Institutions guide behavior by defining what is appropriate or expected in various social and commercial situations. Normative systems are typically composed of values and norms that further establish consciously followed ground rules to which people conform (Scott, 2007). Normative institutions therefore exert influence because of a social obligation to comply, rooted in social necessity or what an organization or individual should be doing (March & Olsen, 1989).

Finally, the cognitive pillar summarized by Scott (2007) and derived heavily from the cognitive turn in social science (DiMaggio & Powell, 1991) represents models of individual behavior based on subjectively and constructed rules and meanings that limit appropriate beliefs and actions. The cognitive pillar may operate more at the individual level in terms of culture and language (Carroll, 1994; Scott, 2007), and other taken-for-granted and preconscious behavior that people barely think about (DiMaggio & Powell; Meyer & Rowan, 1991). The institutional perspective directs attention to the rules, norms, and beliefs that influence organizations and their members, which can vary widely across countries and cultures (Fang, 2010; Scott, 2007).

Figure 4

*The institutional forces*

Furthermore, Institutional theory is explained within three constructs that diffuse multi-level analysis of the environment in relation to the individual, organization and organizational field. The constructs are: rationalized myths, isomorphism and institutional logics (Jensen *et al.*, 2009), are worth understanding and exploring when investigating the relationship that an MNC subsidiary has with its headquarters and its effect on the subsidiaries' legitimacy in the host community. *Rationalized myths*, as asserted by Meyer & Rowan (1977) are often disguised arguments used by organizations to maximize their legitimacy with their stakeholders which leads them to conform to the society in which they are operating in order to reach and leverage that legitimacy, thus exhibiting the second construct; *isomorphism*. Isomorphism at the organizational level faces coercive, normative and cognitive institutional pressures (DiMaggio & Powell, 1983) that gears and frames its practices in a particular manner. However, the effects of different and mostly conflicting institutional logics on

individuals and organizations aren't addressed. Thus, *institutional logics* link institutions and actions and provide a bridge between macro-structural perspectives (DiMaggio & Powell, 1983) and micro-process approaches (Zucker, 1977). However, they fail to explain how individuals and organizations choose between the multiple logics, which are often contradictory and then "edit" the roles and scripts (Weber & Glynn, 2006) to better serve both the organization itself and the community that it is operating in. This level of agency can be best understood by utilizing and expanding on the sense-making theory.

Nonetheless, institutional logic holds that companies are more than instruments for generating money; they are also vehicles for accomplishing societal purposes and for providing meaningful livelihoods for those who work in them (Kanter, 2011).

According to this school of thought, the value that a company creates should be measured not just in terms of short-term profits or paychecks but also in terms of how it sustains the conditions that allow it to flourish over time (Kanter, 2011). In developing an institutional perspective, corporate leaders internalize what economists have usually regarded as externalities and define a firm around its purpose and values. They undertake actions that produce societal value—whether or not those actions are tied to the core functions of making and selling goods and services. Whereas the aim of financial logic is to maximize the returns on capital, be it shareholder or owner value, the thrust of institutional logic is to balance public interest with financial returns (Kanter, 2011).

Institutionalizing CSR calls for a deeper insight into the factors that affect its implementation on both the macro- and the micro- levels, whereby external expectations and conditions of external stakeholders and institutions at the macro-level shape in turn internal interpretation mechanisms and sensemaking processes at the micro-level of



analysis (Shultz & Wehmeier, 2010). Great organizations identify something larger than transactions or business portfolios to provide purpose and meaning. Meaning making is a central function of leaders, and purpose gives coherence to the organization (Kanter, 2011). Institutional grounding involves efforts to build and reinforce organizational culture, but it is more than that. Institutional grounding is an investment in activities and relationships that may not immediately create a direct road to business results but that reflect the values the institution stands for and how it will endure (Kanter, 2011). A sense of purpose infuses meaning into an organization, “institutionalizing” the company as a fixture in society and providing continuity between the past and the future.

Institutional theory has been widely applied to the study of MNCs and CSR (Kostova & Zaheer, 1999; Salomon & Wu, 2012; Yang & Rivers, 2009). Institutional theory can also be explained through the related concepts of institutional isomorphism (DiMaggio & Powell, 1983) and institutional logics (Alford & Friedland, 1985; Tan & Wang, 2011). Institutional isomorphism emphasizes the influence of various isomorphic pressures on a firm’s adoption of CSR strategies into the overall organizational strategy of the firm (Husted & Allen, 2006).

In the context of a MNC, institutional isomorphism portrays that the isomorphic pressures exerted from the host–country society (i.e. coercive isomorphism) encourage the firm to shape its business practices to be homogenized with the particular society’s beliefs and value systems to obtain and maintain external legitimacy (DiMaggio & Powell, 1983; Kostova & Zaheer, 1999; Tan & Wang, 2011). In addition, a firm tends to model itself or its organizational strategies after those that are perceived as more legitimate or successful in the host country (i.e. mimetic isomorphism) (DiMaggio & Powell, 1983; Husted & Allen, 2006). Furthermore, with multiple operations across the globe, the MNC is challenged and pressured to homogenize

(within each host market) its cross-borders organizational strategies as well as maintaining a consistency within the organization and among its subsidiaries.

Nonetheless in the recent literature, Kostova *et al.* (2008) argued that the pressure for local isomorphism in host countries is rarely observed. One reason is that MNCs could be excluded from local isomorphic pressures due to their heterogeneity (differences) and foreignness (Jamali 2010). In addition, MNCs have the 'institutional freedom' to choose their level of local responsiveness and alignment to the local institutional environment. Hence, isomorphism may not be a necessary condition for MNC subsidiaries to obtain local legitimacy (Kostova *et al.* 2008).

Rather than conforming to coercive and mimetic isomorphic pressures, firms can further enhance their positive image in local host countries through CSR activities which can build additional local support. As these legitimating activities are firm and actor specific, they will lead to increased diversity rather than similarity between organizations (Kostova *et al.* 2008). In their article, Kostova & Roth (2002) explored the adoption of organizational practices by MNC subsidiaries. Building on insights from Westney (1993) and using the MNC context, they have been able to develop further several key ideas of institutional theory. By conducting their research at the level of the MNC subsidiary, they recognized the need to conceptualize further the institutional duality faced by MNC subunits and to explain the processes by which these dual institutional environments affect the adoption of an organizational practice. One particular insight that came out of their work is that due to the spatial separation between home and host country, the home country institutional pressures are transmitted to the subsidiary through the internal organizational environment and thus are affected by the relational context within the MNC. Based on this, they proposed a modified mechanism by which institutional effects operate in the MNC context. Thus,

they provided an explanation as to what happens when an organization faces multiple institutional environments with potentially conflicting demands. Institutional theory holds that firms will tend to become isomorphic with the institutionalized structures and processes in their environment. However, a firm cannot be isomorphic with multiple institutional environments where legitimacy in each of them is achieved through different means.

### **Combining both Institutional and Sense-Making Theory**

The need to make sense is intensified in circumstances where organizational members face new or unexpected situations, where there is no predetermined way to act and where a high degree of ambiguity or uncertainty is experienced (Weick *et al.*, 2005). Though institutional theory aims to explain the effects or outcomes of institutional pressure (Suddaby & Greenwood, 2009), it does not explicitly take into account the question of how social practices are internalized and reproduced through human actions (Barley & Tolbert, 1997). Hence we supplement the institutional analysis with the sensemaking process that the MNC subsidiary must adopt while enacting CSR activities in the host environment and the “set” organizational practices held at the headquarters. Scholars such as Fligstein (2001) go as far as arguing that institutional theory considers organizational actors as being passive recipients or 'cultural dopes' who use readily available scripts provided by government, professionals, or other institutional carriers to structure their actions, while DiMaggio (1988) criticizes institutional theory for lacking explanatory power of why actors act as they do and what interests motivate them (e.g., to adopt technology). While institutional theory provides powerful explanations of the influences of institutional structures on decisions, it does not accurately address how the human agency at the MNC's subsidiary level influences

the social practices from which the institutions are created and makes sense out of them. Combining the two frameworks is likely to lead to powerful insights, and capture adequately the influence of the macro institutional environment, as well as the role and agency and interpretation of micro actors and decision makers at the MNC subsidiary level.

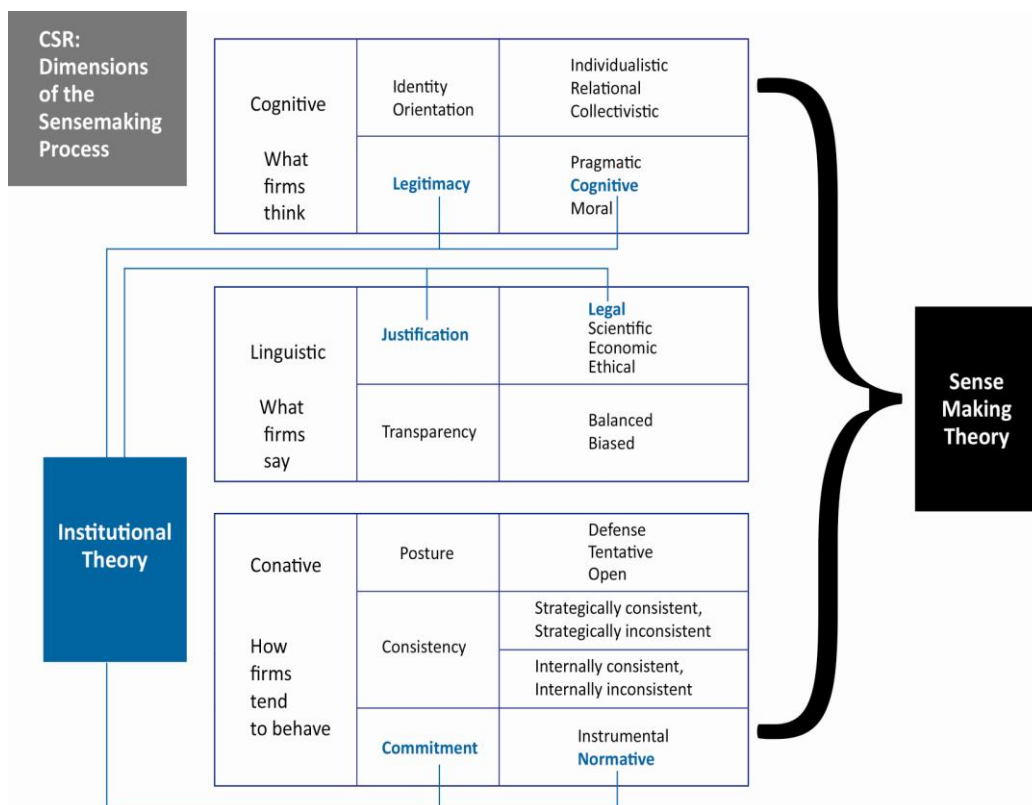
In line with this, this study will investigate the sensemaking process in relation to the implementation of CSR at subsidiary level. This will necessitate however a parallel mapping of the sensemaking process at headquarter level (which will be gauged by proxy) to understand the methods that the MNCs headquarter utilize to transfer the CSR “themes” to their subsidiaries and deepen our understanding of the communication mechanisms that are adopted. This analysis will help gain an understanding of how actors at the subsidiary level make “sense” of the CSR themes devised at the headquarter level, and how they go about steering and implementing relevant CSR activities in the host context in response to their local stakeholders. The vertical communication flow will thus be scrutinized and the “alignment/misalignment” of the CSR strategies will be analyzed as well as the processes that MNC subsidiaries utilize to make sense and adapt to local stakeholder demands and expectations in relation to CSR.

From a firm’s perspective, the motivation for social responsibility stems from the principle of legitimacy where the firm has a desire to maintain credibility and legitimacy. Such desire tends to be stronger for firms that are operating in a foreign host country (e.g. MNC subsidiaries) where they are more motivated to be seen as a responsible societal actor in a shared environment (Jamali, 2008). In addition, the management of CSR strategy by MNC subsidiaries also demonstrates the integration between sense-making theory and institutional theory. To be seen as a legitimate entity

when operating in a host country, foreign firms may need to provide the appropriate ethical responses to the institutional pressures exerted by local stakeholders. Ranging from passive conformity to active compromise, firms tend to mold their ethical responses, in the form of CSR strategy, to suit local needs when they face formal and informal pressures from local stakeholder activism and emerging expectations (Jamali, 2008).

Figure 5

*The integration of both the sense-making and institutional theory*



## CHAPTER III

### METHODOLOGY

The methodology is qualitative in nature; the study made use of in-depth interviews, which were conducted with a Senior Manager, CSR/Sustainability Manager, Risk Manager, Human Resources and Procurement Manager, Health and Safety Manager, or other CSR committee members within the organization. The advantage of interviews lies in the interviewer's ability to pursue in-depth information around the topic using follow-up questions to further probe responses (McNamara, 1999). The research probed into institutional pressures exhibited on the MNC subsidiary on one hand as well as the sensemaking process inside the organization and patterns of coping with the demands of the institutional environment and the directives of the MNC as a whole. The interview questions focused on the interplay that exists between the cognitive and conative dimension of the CSR decisions taken in the headquarters and subsidiary level and their actual "implementation", "implication" and "resonation" with the host stakeholders as well as the level of agency exhibited at the subsidiary level.

The interviews were conducted in a private setting where the participants were informed of the study's purpose, and confidentiality policy. Interviews were recorded upon approval of the participant. The analysis of the results relied on the content analysis methodology as content analysis is a research method that provides a systematic and objective means to make valid inferences from verbal, visual, or written data in order to describe and quantify specific phenomena (Mayring, 2004).

After transcription, the transcribed interviews were analyzed through the NVivo software which determined the recurring words, phrases or sentences that

created the emerging themes which fed into our research questions. We followed an inductive approach for analysis of the qualitative data. The purposes for using an inductive approach are to (a) condense raw textual data into a brief, summary format; (b) establish clear links between the evaluation or research objectives and the summary findings derived from the raw data; and (c) develop a framework of the underlying structure of experiences or processes that are evident in the raw data (Thomas, 2006).

### **Sample**

Our sample was comprised of 8 Multi-National Corporations subsidiaries operating in both Lebanon (Beirut) and United Arab Emirates (Dubai). We initially contacted 20 firms operating both in Lebanon (9 firms) and the UAE (11 firms) and received a response rate of 75% (15 firms). Out of the 9 firms contacted in Lebanon, 5 agreed to take part in this research, 2 firms declined our request and 2 firms didn't respond to our email invitation. Moreover, out of the 11 firms contacted in the UAE, 3 agreed to take part in this research, 5 firms declined our request and 3 firms didn't respond to our email invitation. The subsidiaries were selected based on the following criteria: (1) The firm is a subsidiary company of a well known MNC. (2) The subsidiary has some form of documented CSR involvement. This last criterion was essential to ensure the selection of firms can yield relevant information regarding the CSR component of the study. The below table provides a profile of the MNC sample. The managers who took part in the interviews were selected by their organizations, and occupied mostly marketing, communications, and public affairs functions within their respective firms.

Table 3

*List of participating firms*

<b><u>MNC:</u></b>	<b><u>Industry:</u></b>	<b><u>Manager Interviewed:</u></b>	<b><u>Location:</u></b>
MNC 1	Management, distribution, and sale of tobacco products	Corporate and Regulatory Affairs Manager – Yemen and Levant	Beirut, Lebanon
MNC 2	Management and distribution of premium brands	CSR Coordinator	Beirut, Lebanon
MNC 3	Manufacturing and distribution of cement products	Communication Manager	Beirut, Lebanon
MNC 4	Management and distribution of premium brands and products	Corporate Projects Manager	Beirut, Lebanon
MNC 5	Management and distribution of fast moving consumer goods	General Business Manager	Beirut, Lebanon
MNC 6	Management and distribution of fast moving consumer goods	Corporate Communication Manager- Arabian Peninsula	Dubai, United Arab Emirates
MNC 7	Management and distribution of fast moving consumer goods	CSR Manager	Dubai, United Arab Emirates
MNC 8	Management and distribution of food and beverages	VP Corporate Communication	Dubai, United Arab Emirates

For interviewing purposes, the interview guide was divided into two major parts. The first part probed on the institutional factors that govern the subsidiaries' CSR activities. The second part dwelled into the relationship that the subsidiary holds with its headquarters and how much sense does it make when it comes to devising the CSR activities in the host community it is operating in. The interview framework can be found in Appendix. Furthermore, this part also tapped on the legitimacy parameter that the subsidiary accounts for while devising CSR activities. The interview guide (Appendix )was sent to the managers concerned, and a meeting was scheduled to discuss the research questions. The interviews consumed on average 2 hours, were conducted in English, tape-recorded, and transcribed.



### **Data Analysis**

After the interview transcription, the data was imported to an excel document. Each question had its respective answer from all 8 MNCs highlighted. The answers were juxtaposed next to each other in order to find common words, trends and actions which will reflect both common and divergent themes. Furthermore, following the order that was previously used in the literature review, the data findings are analyzed and explained within the context of the two theoretical models (sensemaking and institutional). As per the Appendix, the questions followed a particular logical order that feeds into the two theories. The answers to these questions were highlighted and entered in an excel sheet; aligning the respective answers and insights from all 8 MNCs with regards to each theory. After this step, we started with the coding part. The coding entailed accurately analyzing across all 8 MNCs the most recurrent words, ideas and insights shared by them. This method allowed us to generate a particular code for each question/ group of questions which accordingly resulted in a particular theme. The themes were then stipulated under the relevant theory. The analysis and coding were done by the student investigator and were reviewed by the principal investigator accordingly. Nonetheless, in the case of problematic coding, the set data was given to an external researcher to further analyze the content and come up with his/her coding sample. Afterwards, a brainstorming session was assigned to further discuss any discrepancies between the coding sets. The analysis of the questions were divided as per the below.

The interview framework was divided into two parts. The first part tackled questions related to how CSR is positioned within the firm, what kind of identity does the firm work on portraying and the level of engagement that it attracts from both internal and external stakeholders. Moreover, the questions in the first part tapped onto

the perceived benefits of CSR and further delved into the various pressures that the firm faces when planning to engage in CSR. Hence, it covered several parts within the Sense-making theory; but mainly the cognitive (identity orientation), Linguistic (Justification, Transparency), and Conative (Posture, Consistency, Commitment). The second part of questions reverted back to the relationship that exists between the headquarters and the subsidiary. Hence tapping into the Conative dimension in specific that of “consistency”. Furthermore, the second part explored the relationship between CSR and legitimacy in details. These questions served as the ground floor for the Cognitive dimension in specific on “legitimacy”.

The interview questions also played a role in understanding the institutional pressures that the organizations face upon establishing and implementing their CSR activities and policies. Questions relating to the firm’s involvement in the decision making process, its legitimacy approach and the influences that it face, all revert back to its institutional identity.

## **Data Findings**

### **Sensemaking Theory**

#### *Cognitive*

*Identity Orientation:* the shared beliefs that the members of a particular organization share together which adherently connects them to each other and to the organization, and helps them to make sense of their environment. From this perspective, we gathered the information that describes the culture that is present in the organization and the values that it adheres to. We noted that the concept of “leadership” and “accountability” was present amongst 4 of the MNCs and the idea of “sustained growth” and “respect for the people, community and environment” was tapped upon by

3 MNCs. Phrases such as “freedom through responsibility, strength through diversity, empowered people, respect, integrity, passion, team work, team spirit, growth” fall under the above mentioned head titles and were mentioned often by all MNCs. The MNCs explained how the concept of CSR is integrated within their organization by stating the following:

MNC 1 pointed out that *“Sustainability is at the heart of everything that we do and is a key pillar of our Group strategy. For us, it’s about creating shared value and making sure that what we do as a business doesn’t just benefit our shareholders, but can also have a much wider positive impact for society”*. As for MNC 3 *“Our commitment to sustainable development is elaborated through the elements of the triple bottom line. This commitment, embedded within our organization and supported by transparent communication, is essential to build our brand. It is key to create a long-term value for our stakeholders, fulfilling economic, social and environmental performance criteria. A strong sustainability performance, in all its elements, allows us to earn and keep the trust and respect of our stakeholders in order to maintain our license to operate and strengthen our business.”*

*Legitimacy*: 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. Tapping into legitimacy, each MNC had its own way of defining “legitimacy” and the kind of strategies that it employs to achieve it.

For instance MNC 1 believes that legitimacy is *“abiding by the rules and regulations of the country, we make sure that we abide by all the rules and regulations of the country being specifically related to tobacco, related to our commercial aspect, to our product aspect when we are manufacturing it, it is our regulatory requirement that we abide by”*.

Furthermore, MNC 2 and 3 regard communication with key stakeholders as an ultimate legitimacy tool that must be constantly leveraged. They explain their rationale by stating that *“Communication for us is mainly addressed towards our suppliers and internal community. These are the parties that we would like to attract; I mean you get them on board. Why did we issue our first CSR report, we want people to feel that we are recognizing their efforts and therefore you incentivize people through that”* and *“When we approach our partners, we communicate with them on what they need, what they perceive as their priority. We conduct an assessment and devise an action plan. This is our legitimacy. You can’t work against people’s ideology, We have dialogues with municipalities; it is for our benefit to be transparent”* respectively.

For MNC 4 and MNC 8, legitimacy is framed within the context of the *“community”* which entails *“giving back to the community”*. MNC 4 emphasized that *“Whenever you kick off, you need time to build trust with your stakeholders, so the more they can see the benefits of CSR the more they can measure realistic and tangible effects on the ground, the more you will be accepted internally thus they will give you the means and resources to expand and implement projects on the ground for the long term benefit of the community that we work in, the more means that you have you will be able to partner with other companies, instead of seeing them as competitors, to also gather certain NGOs that are really working for the same purpose”* while MNC 8 stressed that *“it’s a real license to operate and particularly in countries like ours, full of challenges economically and politically. I think down the line there will be a point where companies will no longer have a choice but to give back to society and to integrate that into their business strategy versus looking at it as a philanthropic work or something they do on the side. Because we are a global brand coming to local markets, we are a foreign branding and the market for us is really the chance to operate and if we don’t*

*do these things then we shouldn't be allowed to be here, to exist in these countries. And the fact that all these countries are hosting us and allowing us to sell our brands, and we are bringing global brands to a local market, I think we do owe them a duty of care, there is something we need to give back and what we got back out of it is first of all, from a business stand point, is engaging with our consumers and understanding their mindset which helps us drive our business even better. When you engage with local minds you get inside, you get the feedback that would enable you to improve your performance in that market, even as a business so that's one point. The second point is (specially on environment) when you save water, energy and use the most advanced technology to take care of the environment, you are also ten times more productive and more efficient so you save on cost".*

For MNC 7, legitimacy has to do with *"working with stakeholders in a process that has various steps, from understanding stakeholder needs, to developing activities that align with our global sustainability policies and that will positively impact local communities"*.

To further illustrate the strategies that some MNCs adopt to gain legitimacy, MNC 1 noted that *"We try to assess what our stakeholders in Lebanon want and need and then try to respond to it. Our stakeholder's are already defined so we just need to make sure that we abide by the company's strategy for CSR and sustainability"* MNC 3 explained that *"We decide on the context and they (Head quarter) decides on the topics. However, if you think about it, these topics (pillars) cover a lot of things and we devise our activities within those topics"* and MNC 6 explains that *"as a global company, with operations and employees from across the world. These employees are also our shareholders. As many of our shareholders work in local communities, they understand the need to develop and implement sustainability strategies that will help us to become*

*part of those local communities. In every geography that we are in, we seek to understand the needs of the local communities and work with different stakeholder groups to address those needs. We work with stakeholders in a process that has various steps, from understanding stakeholder needs, to developing activities that align with our global sustainability policies and that will positively impact local communities. However, certain issues – such as the environment, health and well-being – are universal”* they also stressed that *“we work with different stakeholder groups (workplace, marketplace, community and government) to understand their needs and respond with relevant CSR activities based on our company-wide strategies”*, *“We’re based here closest to our stakeholders and hence we have to manipulate the global policy to fit the needs of the local community. Our global strategy and our company’s products are wide enough to enable us to build a suitable range of CSR activities in whatever part of the world we may be in. We do have a leeway in terms of interpreting the global policy for the benefit of the community here.”*

#### *Linguistic*

*Justification:* How organizations go about explaining its own actions sheds the light on how much information it is willing to share, based on what premise and rationale. The MNCs in our study eluded to explain their involvement in CSR to several reasons as illustrated below. Their reasons were categorized into five different divisions. The purpose behind this categorization is to illustrate the commonalities that are present between the MNCs when it comes to the reasons behind their engagement in CSR.

- *Creating Shared Value Rhetoric*

MNC 1 explained that CSR *“is more of a belief, you know we believe that there is always a shared value that should be met. Our shareholders should benefit, the society should benefit, all of our stakeholders and suppliers should also benefit while*

*maintaining the sustainability of our organization, we are in an industry that does a product that actually does harm, so we have this responsibility given the nature of our product”.*

Furthermore, MNC 3 believes that since *“the business has people from the society that it operates in, it doesn’t make sense to take from the community without giving back to it, for us, the reason behind our CSR and sustainability engagement is our “license to operate”. Without CSR we won’t have that license, we realized that if that community didn’t accept us, they can stop our business, we do recognize the authority that have.”*

As for MNC 7, “CSR is embedded in the idea that we need to create a shared value relationship with the stakeholders that we engage in, it’s a mutual relationship that should benefit all the parties involved.”

- *Performance with Purpose Rhetoric:*

MNC 8 stresses that *“we saw that massive consumer trends are changing, the world is changing, and that we had a role to play, we had a role to rethink the way we do business and the way we run our company, And how could we then use CSR or sustainability initiatives as a way to also drive our business forward, and at that stage we came up with this performance purpose philosophy and what it means is basically we are going to marry our performance with our purpose, so it's not going to be CSR on the side, it's going to go hand in hand. To do well, you need to do good. That's what we believe in, and that trickles down across the company, there's nobody who owns performance purpose, again as I said it's our mission, it's our philosophy, se every single employee in the company believes in it. It's something that has really trickled down and impacted different regions.”*

- *Internal Talent Rhetoric:*

Moreover, MNC 2, 4 and 8 explain that engaging in CSR will have a major effect on the quality of candidates that the organization will attract. They have emphasized that *“it will have a great impact on our reputation and on the morale of our employees, and employee engagement. The most important thing for us is attracting talent, retaining talent, and having an added value to any potential supplier and existing supplier”*, *“we want to be recognized as the employer and partner of choice, how we work and how we are perceived by every stakeholder in the region is very important to us”* and *“if you don’t invest in your people, if you don’t make yourself a great place to work for them, I think you will be gladdening behind your competitors and I think today when you look at the youth and the new generation they look for companies that are responsible and if you don't embark on that, on that journey from the start and you ingrate it in your strategy respectively.”*

- *Consumer Rhetoric:*

As for MNC 5, 6 and 7, CSR has a major reputation and image frontier. MNC 5 states that CSR can *“definitely help with our image. Consumers want to explore the organization’s nice side; are they green, are they ethical, are they respected, how do they treat their employees, what do they give back to the society, so that’s why you see the rush from all kind of business entities to participate in CSR, in order to shape their image”*, while MNC 6 believes that *“CSR has an effect on reputation and image, and that this influence is growing. Consumers are becoming ever more aware of brand strategy and consumers are more loyal to brands that can show evidence of actions that benefit society, the environment etc. Consumers believe that companies should be a positive force, a force for change, and so do we. It something called "cause-related marketing", People get used to the brands, they know them, so we are capable of*



*integrating sustainability into them. So the ROI in terms of education and awareness is significant”* and MNC 7 explains that CSR *“is inherent to who we are, and to stay truthful for our mission. And if we are recognized for that then basically this is how we want to be viewed and be successful over the long term. And of course it is part of our reputation.”*

- *Financial Performance Rhetoric:*

Nonetheless, MNC 2, 5 and 6 mentioned a financial aspect whilst engaging in CSR activities. MNC 2 noted that *“while engaging in CSR it can make us a preferential partner, as an added value for choosing our products”* and MNC 5 and 6 explained that CSR *“will add value to the stock, because it increases the trust of the shareholders and others and especially since we work on sustainable programs, it is a long term project it is not just hit and run”* and *“If consumers are more loyal to brands and companies that can show they’ve been a force for good, then it goes to follow that they will spend more on those brands. We do practice cause-related marketing, and we want to engage on issues that are important to consumers. In return, they have rewarded us with brand leadership”* respectively.

Furthermore, after exploring the websites of each of the MNCs and analyzing their reports in further details we were able to point out certain commonalities in the “language” that they use. Most of the MNCs use action verbs like “developing”, “innovating”, “investing”, “promoting”, “creating”, “protecting”, “engaging”, “reducing” and many others that fall under the topic of “sustainability”. Moreover, the sentences used are relatively short in length and are mostly in the present tense. The sentences reflect the work that the company is doing now and reflects on future endeavors.

*Transparency:* The organization has a choice in terms of the valence of the information included in its CSR communication; it can be either *balanced* with respect to both favorable as well as unfavorable aspects/outcomes of its actions, or *biased* in terms of including simply the favorable and omitting the unfavorable part. Hence, exploring the reporting style of all the MNCs with regards to CSR helps to shed the light on the level of transparency that they adhere to. We revised the sustainability reports that each MNC issues and how do they tend to structure the information and themes within it. We noted that the reports issued by MNC 1, 3, 5, and 7 had a major section that reported on the progress of the goals that are previously set for the organization. The reports explained in details the pillars that the organization foresee as essential for their CSR strategy and they respectively monitor their progress towards the goals underneath each pillar. The progress report displayed the status of the organization with regards to the specific goals under each pillar by marking either “on track, completed, not met” as a status update. Moreover, the reports issued by MNC 2, 4, 6 and 8 describe the goals that the organization would like to reach in the upcoming 5-10 years without proper description or illustration about the status of these goals at this moment.

However, it is to be noted that MNC 3 had a special report on the status of the goals for Lebanon and MNC 6 had a special report on the Arabian Peninsula detailing the activities that they have done with regards to their goals. All other MNCs had a global report detailing the progress of the goals without having anything specific for the region.

Table 4

*A sample of the firm's CSR activities*

MNC:	Report:	Type of CSR activities:	Progress Status:
MNC 1	Global	-Harm Reduction -Sustainable Agriculture -Corporate Behavior	on track, completed, not met, part of the Dow Jones sustainability indices/ overall organization standing not specific to each country
MNC 2	Global	-Education -Environment -People	Goals for the upcoming 5-10 years Lack of progress status update, explanation of the actions being taken under each pillar
MNC 3	Global, Specific report on Lebanon	-Environmental Performance -Social Performance -Economic Performance	Detailed KPIs, accordance with Legal requirements, benchmarking against previous years, goal attainment status with numbers
MNC 4	Global	-Education -Environment and Sustainable Development -Community Empowerment -Arts and Culture	General goals to be reached by 2020, no specific goal progress status
MNC 5	Global	-Nutrition -Water -Rural Development -Sourcing -Environment -Human Rights	Goal progressive and perspective of the organization is stated, Commitment and progress under each pillar
MNC 6	Global, Specific report on Arabian Peninsula	-Environmental Sustainability -Social Responsibility	Goal status is mentioned with a percentage of attainment level
MNC 7	Global	-Nutrition -Water -Rural Development -Sourcing -Environment -Human Rights	Goal progressive and perspective of the organization is stated
MNC 8	Global	-Human Sustainability -Environment Sustainability -Talent Sustainability -Global Citizenship	Mentions key figures and states goal attainment in 5-10 years

*Conative*

*Posture:* Posture refers to how responses are formed and framed when organizations face criticism from the public sphere. Firms can either be defensive, tentative or open in their posture. What we noticed is that several organizations will resort to stakeholder dialogue to confront or deal with any issue targeting the organization's practices. MNC 1 mentioned that "the key is communicating with all the stakeholders. Our engagement with our stakeholders includes formal stakeholder dialogue sessions, stakeholder panels, long-term partnerships and employee and customer surveys, along with day-to-day dealings with our suppliers", moreover, MNC 3 acknowledged that "we work with our stakeholders as partners, there is mutual decision making in most cases and there is always transparency between us. In most cases, there is a lot of engagement with them, especially in CSR" and MNC 6 explained that "we work with global partners (Habitat for Humanity, Save the Children, UNICEF) to indentify global causes that are prevalent in countries where we operate. For example, we prioritize general areas and work with our partners to develop projects which will positively impact the largest number of people possible, we have a "product approach" towards our sustainability practices, so the more we link CSR to the business the more sustainable we will be".

*Consistency:* This dimension, as previously discussed, is split into two considerations: internal consistency and strategic consistency. The strategic consistency, to which they refer, is that of coherence between the strategy of the organization and the activities which it undertakes. The internal consistency refers to coherence between the activities which the organization undertakes. To explore the strategic consistency, we will try to understand how the coherence of the activities taken at the headquarters level are viewed and implemented on the subsidiary level. It was noted from all 8 MNCs that

that the grand strategy of the organization that is present in the headquarters is deployed directly to the subsidiaries with a certain space of adaptation at the host-community level. This can be better understood by exploring the below statements concerning the CSR strategy that the MNC adopts.

MNC 1: *“Actually it is a global, we implement our strategy whether it is CSR or any other strategy, we are an international company so our standards on strategies are implemented uniformly across the countries, there is one strategy of CSR sustainability. There are policies integrated, there are guidelines related to our pillars that include harm reduction, sustainable agriculture and corporate behavior, and each country adapts these guidelines to its local dynamics”, “Globally the group sets the guidelines and ofcourse each community has different needs that you need to meet, the group sets the rules for different kind of countries and then you adapt whatever fits yours”*

MNC 2: *“It is created in the HQ and then duplicated in other countries”, “They are framed in the HQ and then communicated to us internally, the CSR is embedded within the strategy and it is communicated to all operating countries”*

MNC 3: *“We have one general policy and principle that deals with responding and respecting the triple bottom line indicatives, and we adapt to the local community that we are operating in. We address our needs and then propose activities and actions”, “The group has one policy towards CSR which is that the CSR is a strategic commitment and is not philanthropic. It is embedded in our corporate strategy. Our end goal is mainly to improve the quality of life of our stakeholders through capacity building, and each operation can devise the plans and activities that feed that goal. To reach that goal, we have 6 pillars in CSR that relate back to the business conduct and the code of ethics”*

MNC 4: *“Because we are expanding, no matter what we do at headquarter*

*level will be deployed in all of our subsidiaries. There will be a big alignment, but in terms of themes and activities you will have to adapt to a certain market, you have to adapt to a certain need, and so there might be certain NGOs in Syria or in Jordan or in the UAE that will help you grow your CSR strategy that will help you raise awareness that might not exist in Lebanon that we must work with. But they need to abide with our rules and code of conduct”,*

MNC 5: *“Our strategy is global and the themes are distributed to the operations”, “everything is centralized. All of our directors and strategic thinkers are present in Dubai for the ME and corporate communication is centralized, so all of our advertisement and communication is centralized. CSR falls under communication. The activities that we do have to solely belong to one of the three pillars, if we have an initiative we communicate it with Dubai and it has to be aligned with the three pillars”*

MNC 6: *“We implement the same strategy globally. Where there’s a difference between different regions is in the situation on-the-ground, CSR comes top-down it is driven from our HQ, We have tried to take what is a global mandate and apply it in the region and implement it in the plants that we have. We tailor the world wide programs to the local, we have to make sure that the ministries are happy with the content that no taboos are being broken, so it is tailored to the local market. For instance, we work with global partners (Habitat for Humanity, Save the Children, UNICEF) to identify global causes that are prevalent in countries where we operate. When we move into a different country we obviously have to be shaped by all the stakeholders in that country, be it government, civil society, the public, customers, suppliers, employees, so how do we shape ourselves to that reality. We can’t necessarily take a global model which might be suitable for one model and place it in another market. It is not going to work that way. We have to act within the boundaries of what is acceptable in the country that*

*we operate in. What we can do is generally push forward in terms of sensitive issues by bringing more mature conversation to the table. We can bring examples of which we have implemented in another parts of the globe and discuss them”, “The CSR themes of Environmental Sustainability and Social Responsibility are framed at a global level in partnership with input from each region. Global initiatives are aligned through extensive communications with each region, and with different functions in the regions (communications, marketing, management, manufacturing, supply chain”*

MNC 7: *“We tend to do a need assessment of the country that we operate in and then work on an initiative under the grand pillars that we work under, the idea behind these programs is to be able to replicate them. The idea might be very global but how you can implement them is very locale and culturally tailored and done for the people of the country”, “Mainly we follow the grand pillars of our CSR strategy and we customize accordingly based on the country needs”*

MNC 8: *“In different countries it takes different shapes, but it's part of our environmental sustainability or human sustainability strategy. It will fit into one of these three buckets of human, environment and talent sustainability. CSR managers in specific markets or countries, they will also be driving locally, the same kind of philosophy. The goals are not set by us, they are set by the headquarters, and it's based on international standards so our global strategy is laid to things that we have committed to like being part of the global compact, being a believer in the UN millennium development goals, so all our targets or the ones you find publically on our website will link to these international standards. It is good to engage with the community and understand what do they need not just what we think they need, because sometimes we could spend so much time doing that which is misplaced”, “So at the ME sector level I am the one who handles CSR, so I cover the four regions and I oversee*

*basically what kind of activities are happening on the ground, are they relevant to the business, do they fit into our sustainability strategy, do they drive any of our strategic areas like human, environment and talent, so this is pretty much my role, new projects that are being initiated with NGOs, again the evaluation of the impact of these projects, things like that, this would be the sector role in terms of CSR like very quickly. So for instance if you have a project..., anything that is related to regional you will come to me and then I will cascade it down to the different markets, and this is the same for other regions”*

Furthermore, to ensure internal consistency, most MNCs pointed out to the efforts that they place to engage their employees with devising CSR activities and then deploying them to the host community.

MNC 1: *“We engage our employees in the CSR activities, they are asked to pitch in their ideas, and they are always welcomed to give ideas to the specific department which will take it into consideration”*

MNC 2: *“We take small initiatives that employees have suggested in the companies and we spread them across the group. Whoever has an idea, he throws it and we discuss it with its pros and cons, if it fits the pillars that we have. This is how we proceed. It is just a brainstorming thing. We aim to have the efforts of all the employees be focused on the pillars”*

MNC 4: *“Every employee now is starting to understand what is the difference between donations and what is CSR (helping the community, employment, raising awareness, education). It is about long term plans, contributing with your skills, with your time, so we are starting now to deploy certain programs that were done inside and that were successful and that we believe are best practices and start to deploy them in our community”*



MNC 6: *“We engage employees through communication on our sustainability vision and activities, and we actively look to engage them through volunteering in CSR activities. We want them to be CSR ambassadors, to see the good that they are doing on behalf of the company”*

MNC 8: *“We could go now in some situation and say "Oh, Wow you know what this project make sense not just for one country, the one that the proposal is coming from, but it make sense to do it in multiple countries" and that would come to the sector and you know then I will be asked to know whether its relevant from a sector perspective”*

*Commitment:* Commitment in Basu & Palazzo’s (2008) model can either be instrumental (i.e driven by external pressures) or normative (i.e driven by internal pressure). The features of these two types of commitments were evident in the talk with the MNCs. When it comes to implementing and engaging in CSR, the interviewed MNCs resorted to both instrumental and normative reasons to further explain their CSR strategy. The external pressure that the MNCs face to enact CSR strategies can be directly inferred as per the below statements:

MNC 3: *“We have some pressure from the municipalities in the areas that we work in, so we look for collaboration with them in order to secure our right to work”*

MNC 6: *“There is some pressure exerted from national bodies, including governments, NGOs, media and other groups who are defined by national boundaries”*

MNC 7: *“Being part of the IFBA (International Food and Beverage Alliance) which is based on commitments of the MNCs operating in this industry to play an active role. We came together and we made commitments to the WHO on nutrition, communicating nutrition facts on our products, creating awareness, partnering with communities and so on. This alliance works on common platforms on some of the*

*topics, we have a chapter in GCC and also we have signed this pledge in GCC of marketing to kids, there are areas where the industry members come together to make some common platform approach”*

MNC 8: “In the UAE we are part of something called Dubai Chamber of Commerce Sustainability Network which asks us to promote certain ideologies around sustainability throughout our practices and activities”

Moreover, most MNCs stated that they were driven to engage in CSR to meet compliance regulation set by the headquarters. For instance, MNC 1 explained that “*we have pressure from the group to implement CSR, we have sustainability report that we should report to the group on what’s our sustainability and CSR which are considered investments that we are doing in our countries, we have the set of guidelines that we should abide by, we have to be in compliance with the group policies and guidelines we have these guidelines, we have these policies and we should abide by as we are being audited*” “*Since we are also part of the Dow Jones index we have to follow their regulations*”, MNC 2 also mentioned that “*since we are an international organization, the pressure comes from abroad and we need to abide by the standards of the organization as a whole*”, and MNC 5 asserted that “*since all operations are following the same guidelines we also have to follow those guidelines as well so that we are homogenous with the other operating offices*”.

### **Institutional Theory**

From an institutional theory perspective, most MNCs are directly shaped and governed by the context that they reside in. Institutional pressure can be exhibited on multiple fronts and from different agents. The MNCs have expressed that by stating that numerous factors affect their CSR activities and asks them to devise certain strategies to better respond to the pressure that they face. Concerns over legitimacy can also be

inferred from their statements. A snap shot of these institutional factors will be highlighted below.

MNC 1: *“we take the initiative, let’s say farmers, we provide farmers with ways that can protect them from any illnesses they can get from growing tobacco plants. We have started developing schools for educational requirement in the villages growing tobacco so all these initiatives come from the local context”*

MNC 6: *“in various countries, our Corporate Social Responsibility (CSR) priorities are consequently inspired by the country’s major needs and concerns. We are careful to address the most critical areas, through deepening our involvement into grass-roots operations and working towards a sustainable commitment to human welfare”*

MNC 8: *“you should realize that you are having a negative impact on the society and environment, I don't think that is something that you should run away from but in fact you should engage with your stakeholders and see how can you together change that and turn a negative situation into a positive one thorough partnership”.*

A summary of the major findings and the key related themes are illustrated in the below table.

Table 5

*Summary of findings and related themes*

Dimension:		Theme(s):	Representative Statement(s):
Cognitive	Identity Orientation	<ul style="list-style-type: none"> <li>• Leadership through accountability</li> <li>• Freedom through responsibility</li> <li>• Sustainable Growth</li> </ul>	<ul style="list-style-type: none"> <li>• <i>“Sustainability is at the heart of everything that we do and is a key pillar of our Group strategy. For us, it’s about creating shared value and making sure that what we do as a business doesn’t just benefit our shareholders, but can also have a much wider positive impact for society” (MNC 1)</i></li> </ul>
	Legitimacy	<ul style="list-style-type: none"> <li>• Legal</li> <li>• Communication</li> <li>• Giving back to the community /stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• <i>“Abiding by the rules and regulations of the country, we make sure that we abide by all the rules and regulations of the country being specifically related to tobacco, related to our commercial aspect, to our product aspect when we are manufacturing it, it is our regulatory requirement that we abide by” (MNC1)</i></li> <li>• <i>“When we approach our partners, we communicate with them on what they need, what they perceive as their priority. We conduct an assessment and devise an action plan. This is our legitimacy. You can’t work against people’s ideology, We have dialogues with municipalities; it is for our benefit to be transparent” (MNC 3)</i></li> <li>• <i>“Working with stakeholders in a process that has various steps, from understanding stakeholder needs, to developing activities that align with our global sustainability policies and that will positively impact local communities”( MNC 7)</i></li> </ul>
Linguistic	Justification	<ul style="list-style-type: none"> <li>• Creating Shared Value Rhetoric</li> <li>• Performance with Purpose Rhetoric</li> <li>• Internal Talent Rhetoric</li> <li>• Consumer Rhetoric</li> <li>• Financial Performance Rhetoric</li> </ul>	<ul style="list-style-type: none"> <li>• <i>“Is more of a belief, you know we believe that there is always a shared value that should be met. Our shareholders should benefit, the society should benefit, all of our stakeholders and suppliers should also benefit while maintaining the sustainability of our organization” (MNC 1)</i></li> <li>• <i>“Performance purpose philosophy and what it means is basically we are going to marry our performance with our purpose, so it's not going to be CSR on the side, it's going to go hand in hand” (MNC8)</i></li> <li>• <i>“We want to be recognized as the employer and partner of choice, how we work and how we are perceived by every stakeholder in the region is very important to us” (MNC 4)</i></li> <li>• <i>“While engaging in CSR it can make us a preferential partner, as an added value for choosing our products” (MNC2)</i></li> </ul>

Table 5

*Continued*

Dimension:		Theme(s):	Representative Statement(s):
Conative	Posture	<ul style="list-style-type: none"> <li>Stakeholder dialogue</li> </ul>	<ul style="list-style-type: none"> <li>“The key is communicating with all the stakeholders. Our engagement with our stakeholders includes formal stakeholder dialogue sessions, stakeholder panels, long-term partnerships and employee and customer surveys, along with day-to-day dealings with our suppliers” (MNC1)</li> <li>“We work with our stakeholders as partners, there is mutual decision making in most cases and there is always transparency between us. In most cases, there is a lot of engagement with them, especially in CSR” (MNC 3)</li> </ul>
	Consistency	<ul style="list-style-type: none"> <li>Centralized decision making</li> <li>Employee Engagement</li> </ul>	<ul style="list-style-type: none"> <li>“Our strategy is global and the themes are distributed to the operations” (MNC 5)</li> <li>“We implement the same strategy globally. Where there’s a difference between different regions is in the situation on-the-ground, CSR comes top-down it is driven from our HQ. We have tried to take what is a global mandate and apply it in the region and implement it in the plants that we have” (MNC 6)</li> <li>“We engage employees through communication on our sustainability vision and activities, and we actively look to engage them through volunteering in CSR activities” (MNC 6)</li> </ul>
	Commitment	<ul style="list-style-type: none"> <li>External Pressures</li> <li>Compliance with HQ</li> </ul>	<ul style="list-style-type: none"> <li>“We have some pressure from the municipalities in the areas that we work in, so we look for collaboration with them in order to secure our right to work” (MNC 3)</li> <li>“We have pressure from the group to implement CSR, we have sustainability report that we should report to the group on what’s our sustainability and CSR which are considered investments that we are doing in our countries, we have the set of guidelines that we should abide by, we have to be in compliance with the group policies and guidelines” (MNC 1)</li> </ul>

## CHAPTER IV

### DISCUSSION

The aim of this field project was to explore the implementation of CSR strategies and activities by MNC subsidiaries operating in a foreign host country. Despite considerable scholarly interest in the study of MNCs and their CSR, the literature in this field is still in a very limited state (Cruz & Boehe, 2010; Campbell *et al.* 2012; Kolk & van Tulder, 2010; Yang & Rivers, 2009). In this section, we re-examine our findings analytically and try to assess the usefulness of the two theoretical streams (sense-making and institutional) when studying CSR. The findings presented in the earlier section, will help us better illustrate their significance with regards to the literature and explore their alignment with the current research. The intersection between the two theories illustrated in Fig 5. will help us better understand the “why” behind the engagement of MNCs in CSR in a host country setting.

The results of this research, suggest that the parent-subsidiary relations and CSR practices requires rethinking and further reasoning. In the data findings presented above, the relationship that exists between the MNC’s subsidiary and its headquarters holds within it different nuances and varied rationales. It can be noted that the CSR strategies adopted by these subsidiaries appear to be predominantly in accordance with home-country and international policies and standards. Tailoring these strategies to the local context is drawn directly from the pre-set pillars that are advocated by the headquarters. This suggests that the subsidiary autonomy does not necessarily imply a conflicting agenda with that of the headquarters. On the contrary, our research has indicated that the definition of “autonomy” at the subsidiary level varies across different

organizations and host communities. We were able to further understand the rationale behind the subsidiaries implementing CSR activities by tapping on the factor of “legitimacy” and how is it perceived at the host-country level.

Nevertheless, by exploring the different dimensions of the “sense-making” theory paradigm we were able to analyze and present our data in a concrete manner. CSR activities were thus explained within a robust framework in order to capture all the different facades that revolve around implementing and advancing CSR in a host community. Moreover, the overlap between the sense-making theory and the institutional theory adds further depth and understanding towards the relationship that exists between the MNC’s headquarter and its subsidiary. That overlap or practical embedding of the institutional theory within the sense-making model, captures within it three major dimensions. The dimension of legitimacy (Cognitive), Justification (Legal) and Commitment (Normative) serve to advance the idea behind the institutional forces that govern the MNC subsidiary to practice a particular CSR activity. These forces were tapped upon by most MNCs and were explained in the actions that a particular MNC subsidiary takes when devising and advocating for CSR.

The results accurately describe the notions behind engaging in CSR and what factors it entails to actually present it within an organizational context. Taking the sense-making paradigm, the “cognitive” dimension gave us a detailed view of how the MNCs view themselves within a context and the identity that they aim to create and relay to the community they are in. Furthermore, this dimension emphasized extensively on the “legitimacy” component and explained the different ways the MNC subsidiary seeks to capture “legitimacy” in its actions and activities. For most MNCs, their “identity” with regards to CSR relates back to three major concepts; “Creating Shared Value”, “Triple Bottom Line” and “Stakeholder Engagement”. Hence, several MNCs

integrate the notions of “accountability”, “transparent communication”, “trust”, “respect”, “long term value for our stakeholders”, “build our brand” and many others in their definition of CSR. This definition ultimately feed into the “identity” that they aim to project towards the external community and signals the values and pillars that the organization would like to be known for and characterized by. Furthermore, the “identity” pillar under the cognitive dimension isn’t the only one that foreshadows on the behaviors that emphasize “what the firm thinks”. The “legitimacy” component explains the mechanisms that the MNCs adopt to make its actions more desirable and appropriate with the host country’s pre-set systems of norms, values and beliefs. Moreover, this is one of the components that overlaps with the institutional forces previously explained. Hence, understanding what does this component entails will give us a robust idea on the efforts that the MNCs place to “legitimize” their behavior and respond to the needs present in the country they are operating in.

Our sample views legitimacy in numerous ways. For them legitimacy entails a legal and a social dimension, serves as a license for them to operate within a foreign context and aims to engage relevant stakeholders in the decision making process. Legitimacy for most of the MNCs works on giving back to the community that they are in by understanding their immediate stakeholder’s needs and devise actions and initiatives that fulfill them. All MNCs stressed on the fact that their operations can’t go against the people’s ideology and respective values and beliefs. Hence, establishing a baseline of trust with key stakeholders is crucial for the success of the business. This mostly relates to the “cognitive” legitimacy that most of the MNCs adhere to. Our sample noted that they engage in open discussions with their stakeholders and provide numerous platforms for idea sharing. These platforms serve as an intermediary between the organization and the community it’s operating in. However, most of the firms



believed that the needs of a particular community will eventually fall under one of the “universal” pillars of human rights and justice. Hence, in their defense, most of the MNCs will tailor their CSR activities to the host community’s needs as long as the said activity can be framed within one of the pre-set pillars held at the headquarters level. This interplay between the headquarters mandates and the level of autonomy granted at the subsidiary level explains the power differentials that exist between the two. An MNC subsidiary has the autonomy to tailor its CSR activities to address a specific need at the host-country level as long as it feeds into one of the CSR pillars at the home-country level. This approach to legitimacy, in specific to “cognitive” legitimacy explains that institutional forces at the headquarters level govern the work of a particular MNC subsidiary and instills within it a unified corporate culture.

Furthermore, within the “linguistic” dimension, most MNCs justified their actions within two particular attributes; legal and economic. This transparency in their communication puts up front their commitment in sharing relevant information to their stakeholders. Most of the MNCs acknowledged that they are in the business of making “profit” or realizing a particular “economic” bottom line. However, they noted that this isn’t their sole purpose for operating and hence revert back to the integral part of the “triple bottom line” conceptualization. Moreover, adhering to the host country’s “legal” regulation and bylaws was also noted by some MNCs. They explained that there activities will normally respect both country and industry level legal regulations. This taps on the element of “legitimacy” and its driving role behind particular activities that the MNC subsidiary decides to promote and implement. Nevertheless, we have also realized different rhetoric’s that provide an in-depth rationale behind the MNC’s engagement in CSR.

We were able to highlight five main rhetoric’s that highlight the underlying

principle(s) behind the MNCs subsidiary's commitment in advancing the CSR agenda to the host country level. The rhetoric's can be accordingly divided into the legal and economic attributes. For instance, the "performance with purpose rhetoric" holds within it a legal dimension that reflects on respecting the "legal" environment that the MNC operates in. As for the other rhetoric's, they all realize a particular "economic" benefit to the firm. The creating shared value rhetoric and the consumer rhetoric illustrates the existence of an interplay between the needs of the organization and the needs of its stakeholders. Furthermore, the internal talent rhetoric and the financial performance rhetoric shed the light on the firm's internal human capital and financial strategies that it has in place and considers the role of CSR in leveraging both. However, it is to be noted that the "ethical" dimension was only reverted back to in an indirect manner. The idea of "ethics" wasn't exhibited as a major driver behind the MNCs engagement with CSR. "Ethics" was considered to be part of "how things are done" and is highly relative to each organization. The MNCs stressed that while "creating shared value" and "performing with purpose" they are inherently reverting back to their organization's code of conduct and ethical mandates. Hence, from their perspective, ethics is engraved in their approach to CSR but it is not the main driver. The legal and economic attributes have a major toll behind their engagement. Under this dimension as well, the "transparency" attribute holds the MNCs accountable for their CSR actions and activities. This accountability, however, is relative to each MNC's reporting structure and framework.

All of the MNCs have CSR reports issued and available on their various social platforms. However, some reports are balanced to both the favorable and unfavorable outcomes of the organization's CSR activities. These reports would detail the organization's status with regards to its pre-set targets and goals under each of its

pillars. This level of transparency is used as a mechanism to build trust between the firm and its stakeholders. Hence, increasing the firm's legitimacy and holding it responsible for its commitments towards the community it operates in. However, other MNCs are "selective" in the data that they provide, only highlighting positive achievements and lacking any explanation to the mishaps that might have occurred and the lag in reaching the intended targets.

This bias towards the data that these companies provide allows it to assume a position of power over its stakeholders by tailoring the content and data to feed the needs of a particular segment. Moreover, whether a company decides to have a balanced approach or a bias one in regards to the information that it provides on its CSR activities, we were able to note that there is a major lack in reporting done on either Lebanon or the UAE country level. Most of the reports released by these MNCs are centralized at the headquarters level and the data is aggregated from all sites; except for some MNCs who either have a specific report on Lebanon or the Arabian Peninsula in general. This prompts us to ask about the seriousness of the measurement tools utilized to assess the impact of these CSR activities in our region. Numerous MNCs noted that it is crucial to "measure our impact" and to "quantify" the results in order to advance the CSR agenda and make it more impactful. However, the current status of reporting mirrors the status of CSR in the region as a whole. CSR is still finding its way through the organization; however, it still requires further enhancement and prioritization from senior management and support from headquarters.

As for the Conative dimension within the sense-making framework, the "posture" attribute of openness is exhibited by all MNCs in our study. All of the MNCs have stressed on the importance of open communication with their stakeholders and the mechanisms that they use to solicit their feedback on a regular basis. Most MNCs

realize the importance of “pressure groups” and thus constantly seek to understand and reflect on any “controversial” issue that might arise. However, it is worth to note that attitude of “openness” could be further enhanced if the particular MNC increased its level of transparency and was balanced in the information and data that it is providing to its stakeholders. Furthermore, this dimension stresses on the element of “consistency”, both on the strategic and internal levels. In our sample, this element served to further explain the relationship that exists between the MNC subsidiary and its headquarter. We were able to note from the testimonies of our MNC sample that the particular subsidiary is part of an international network of operations that must be in strategic consistency with the mandated regulations of the headquarters and thus apply them internally within its overseas operation. Hence, this will undeniably include the implementation of a uniformed CSR strategy that is accurately deployed from the headquarters to the respective subsidiary.

Nonetheless, what we could infer from our conversations with the MNCs is that their commitment to engage in CSR activities is the result of both instrumental and normative pressure exerted by external and internal stakeholders respectively. Hence, in order to maintain strategic and internal consistency, the MNC subsidiary has to respond to the normative pressure from its headquarters to implement the CSR strategy. Hence, prompting it to engage with its host-country stakeholders to accurately devise relevant CSR activities. Nonetheless, other players, mainly external ones, pose a particular pressure on the MNC subsidiary and test its commitment towards the local community and its members. Hence, instrumental pressures from external constituents are a major driver behind the organization’s interest in pursuing CSR activities. This also taps on the weight that is attributed to “legitimacy” and the different mechanisms that the firms adopt to reach it.

The overlap between the sense-making framework and the institutional theory is interesting to expand on as their intersection in three different attributes explains the role of the institutional forces within the sense-making framework. In particular, the “legitimacy” attribute seems to be of particular importance in our study. Most of the MNCs in our sample constantly resorted back to the idea behind enacting legitimacy in the host country in order to gain the support and acceptance from their relevant stakeholders. Thus, devising CSR activities seems to be a viable option that most MNCs resort to in order to further enhance their relationship with their particular stakeholders. Nonetheless, the overlap of these two theories is also extended to the normative pressure that exists internally within the firm. This is very relevant to our study as it portrays the kind of pressure that is directed from the headquarters to the subsidiary. However, it is worthy to note that the communication between these two operations isn’t restricted to a top-down flow. On the contrary, some MNCs stated that they are capable of sharing their insights with headquarters on particular topics and communicating their viability to be implemented at host country level. Nevertheless, these topics are mainly centered around the company’s pillars and align with its overall strategy.

## CHAPTER V

### CONCLUSION

Studies on CSR tap into different theories within varied contexts and explore numerous variables that might affect the implementation of CSR activities by the organization. Our study highlights the importance of the context and the environment in which the CSR activities are implemented in and the factors that govern their execution. These factors, whether internal or external to the firm, are of major influence and dictate a specific trajectory that the organization will follow in order to reach its ultimate goal. We realized that organizations engage in CSR for various reasons and their understanding of its importance is gradually increasing within the region. In particular strategic CSR still needs further development and proper integration within the firm's overall strategy. The organizations in our sample are aware that the topic of CSR is that of crucial importance and one that will soon render itself as an inevitable factor for business operations. Numerous organizations are materialistically viewing the benefit of CSR on their bottom line, consumer ratio and operation cost. These benefits from an economic perspective are highly sound for the business and evoke business managers to consider CSR as a tool that can increase the organization's competitive advantage.

## APPENDIX I

### COMBINING AN INSTITUTIONAL AND SENSE-MAKING PERSPECTIVE: THE CSR PRACTICES OF FMCG COMPANIES IN THE ARAB REGIONN - INTERVIEW FRAMEWORK

#### **Interview Guiding Framework:**

##### **Part 1:**

##### **A- Strategic perspective of CSR vis-à-vis the stakeholders (internally and externally):**

- 1- Tell me about the history of CSR within your company?
- 2- When and how did CSR start? (Particular incidents or events?)
- 3- What is the company's understanding of CSR?
- 4- Why did it start?
- 5- How do you prioritize your CSR projects? Based on what and how?

##### **B- Process and Procedures for implementing CSR strategies:**

- 1- Do you face any kind of internal opposition for implementing CSR within the firm? And what is the current situation?
- 2- How do you engage with CSR within your company?
- 3- Who is involved in the process from your company?

##### **C- Implementation of the CSR strategies vis-à-vis the stakeholders (internally and externally):**

- 1- Are there any international pressures or influence on your CSR? How and why?
- 2- Are there any national pressures or influence on your CSR? How and why?
- 3- Are there any industry-level pressures or influence on your CSR? How and why?

##### **D- Perceived outcomes of CSR:**

- 1- Do you believe that CSR has an effect on your reputation and image?
- 2- Do you believe that engaging in CSR has an effect on your financial performance?
- 3- What do you think is the benefit of your CSR for your stakeholders?

##### **Part 2:**

##### **A- Headquarters' and Subsidiary relationship:**

- 1- How is CSR implemented differently in the headquarters' and in the subsidiary?
- 2- Where are the CSR themes framed and how does the transfer happen?
- 3- To what extent are you involved in the decisions pertaining to the drafting of the relevant CSR activities in your community?

- 4- How much autonomy are you granted to devise or manipulate your own CSR activities?

**B- CSR and Legitimacy:**

- 1- What kind of strategies do you employ to gain legitimacy with your stakeholders?
- 2- How do you perceive the difference between the home and host-community stakeholder's interests and what kind of strategy/s or coping mechanism/s do you adopt to respond to their needs?



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