MANAGERIAL TOOLS FOR CORPORATE AND BUSINESS-LEVEL SOCIAL RESPONSIBILITY

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We investigate upon the contribution and place of corporate social responsibility (CSR) in firm's corporate, business and functional strategies. We pursue two aims for the multi-business and/or multinational enterprise. The first is to include CSR as a dimension in defining the business (the strategic business area), as a result we consider what is implied from the mixture of brand and CSR policies for multi-brand firms. The second is to illustrate different methods to propagate CSR culture, by means of a classification of the tools to be implemented at corporate and business level to foster CSR compliance. We draw attention to a mechanism that can satisfy the pursuit of an overall harmonization of CSR at corporate level while respecting the subsidiaries' autonomy. We justify the introduction of this tool by considering CSR as a public good for the firm as a whole. We show that the level of CSR is jointly influenced by the corporate strategy of the firm, by the mechanism adopted to spread out CSR culture, and by the policies pursued by the strategic business units.

1. A SIMPLE FRAMEWORK FOR THE ROLE OF BUSINESS IN SOCIETY(*)

Citizens contribute to the evolution of democracy by upgrading the social contract on an ongoing basis, they seek new forms of social interaction with the shared desire to improve living standards. The extent of the involvement of business in this process is a crucial component of its role in society and the interaction with socio-political variables poses many hard questions. Answers could come, according to a far reaching proposal by Ansoff (1977), by dealing these problems at a «societal» level of strategic thinking, therefore the enterprise strategy will enhance societal legitimacy and stimulate a coherent approach for business to interact with socio-political variables to find a meaning for its role in society.

Since the social contract is a complex concept that brings about political considerations on democracy, we leave it out of the theoretical perspective of the paper, and present CSR practices inside the extant three levels of strategies in a firm. The fourth tier is left out of the analysis: the backbone of the paper is that we are not on a quest for a new meaning of doing business, a revised «sense» that could better align the conduct of undertakings to the desires of the community and renew the legitimate role of the firm in the economy, but on an effort to find ways of introducing methods to foster corporate social responsibility (CSR) for everyday operations of the firm. We follow Vogel (2005:

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34-35) in asking what are the conditions for a business case for CSR, which «[…] is better understood as one dimension of corporate strategy».

Our research question is: «Is there a space to a broadly managerial procedure in fostering CSR?». As Friedman and Miles (2006: 29) point out, a broadly managerial perspective on stakeholder theory recommends «[…] attitudes, structures, and practices that taken together constitute stakeholder management». The procedures we propose are not directly aimed at stakeholder management on a relationship basis, but point to ameliorate internal managerial practices with regard to CSR, as a first step towards more CSR compliance. Our paper has a limited scope: to propose tools for CSR at a corporate and business-unit level suggested by approaching CSR from two perspectives, external and internal.

In Figure 1 we distinguish between internal and external forces of standardization and adaptation that define CSR policies and performance for the strategic business area (SBA, or business), the strategic business unit (SBU), and the firm at corporate level.

From an internal point of view, CSR improves managerial competences, and the literature offers many perspectives from which the problem can be tackled (see Section 3).

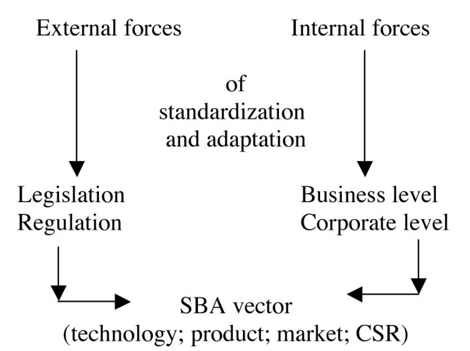
The external side analyzes the interaction between the firm and each group of stakeholders: from this perspective the proper way to approach CSR is from social regulation on a front, and from stakeholder management on another (the latter is left out of our analysis).

The regulatory environment is a key component of CSR (Carroll, 1979, 2004; Galbreath, 2006). Tirole (2006: 56) rephrases the position of the proponents of the stakeholder society as «the recommendation that management and directors internalize the externalities that their decision impose on various groups».

Nowadays the European Union has broader political aims than those previously attributed to the European Communities from which it originates; nevertheless, it still retains many scopes and powers typical of a (supra-national) regulatory agency in economic and social matters. In the USA agencies such as the US Environmental Protection Agency, the Occupational Safety and Health Administration, the Consumer Product Safety Commission and alike, are social agencies.

We suggest to consider social regulation as part of economic regulation, after Vis-

FIGURE 1.
BUSINESS AND CORPORATE-LEVEL CSR



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cusi *et al*. (2005), and to delimit social regulation to health, safety and environmental (HSE) regulation.

Two consequences derive: first, the interaction between firm and stakeholder is seen as part of the debate and conflicts inside the democratic process in any country; second, a limited-in-scope definition of CSR emerges, which can be called core-CSR, according to which CSR encompasses the policies adopted by the firm concerning social regulation in its more precise connotation of HSE regulation.

Core-CSR is then opposed to enlarged-CSR, the latter may correspond to the definition in the Green Paper by the European Commission (2001) that stresses its voluntary basis, as reaffirmed in the Communication (2002: 5): «CSR is the behaviour by business over and above legal requirements, voluntary adopted because business deem it to be in their long-term interest». In our opinion the introduction of these two levels of CSR inside the very concept of business definition will strengthen the idea (as expressed by the European Commission, among others) that «CSR is not an optional "add-on" to business core activities – but about the way in which business is managed».

Both consequences bring about an interesting result: core-CSR is coherent with Friedman's point of view on the social responsibility of the firm, according to which firms should only maximize profits and «engage in open and free competition, without deception or fraud» (2002, ch. VIII: 133). Profit maximization is a form of constrained optimization, whose constraints can include variables determined by HSE regulation. It comes without saying that firms can improve upon core-CSR, the establishing of CSR practices as normal conduct of business is a good result in many cases, most of all in managerial perception[(1)].

Introducing CSR-oriented procedures in routines can also be considered a form of replication strategy because it transforms tacit knowledge into explicit; it improves superficial knowledge of the firm and establishes the basis for enrichment in profound knowledge[(2)].

The internal and external perspectives help in solving the apparent dilemma arising from the consultation process the European Commission launched on its 2001 Green Paper «Promoting a European Framework for CSR». The consultation process revealed, among others, two different positions (European Commission, 2001: par. 2). On one side, enterprises stressed the voluntary nature of CSR (there should not be a «one-size-fits-all» solution)

(1) Studies in CSR stress the point of voluntary compliance and suggest that firms could invest more in human, social and environmental policies. We left out corporate charity and philanthropy: our point of view is to leave them to the decision of the shareholders' general meeting, as part of the distribution of earnings by the firm.

(2) As an example, firms can pursue replication strategies for CSR by endorsing certification, according to (global) standards such as SocialAccountability 8000 (SA8000, by Social Accountability International – SAI), AccountAbility1000 (AA1000, by the Institute of Social and Ethical AccountAbility), and/or by applying the principles of the Global Reporting Initiative prepared by Coalition for Environmentally Responsible Economies – CERES, which is in fact applying certain principles of quality management. The literature on the subject is overwhelming: see Tencati *et al*., 2004 and Christmann, 2004 for environmental policy standardization by multinational enterprises, and Friedman, Miles, 2006: ch. 9, for a complete list.

and pointed out that too much regulation would be counterproductive. Business want to have hands free in deciding how much to improve and comply. On the other side, civil society organizations, consumer advocates, trade unions, non-governmental organizations (NGOs) sustained that voluntary compliance is not enough.

It seems impossible to reconcile these positions. We sustain that if the distinction between internal and external perspectives on CSR is accepted, then these two positions are in fact complementary: the «entrepreneurial» stance is the expression of an internal point of view, because firms have the right to choose their strategies in developing their managerial competences; the «advocacy» position is from an external point of view, because it evaluates social regulation, suggesting that more can be done.

Inside this frame, in which CSR is at crossroads of regulation and managerial competences, we point to mechanisms to foster attention to CSR in multi-business firms. The capacity of firms to integrate and coordinate different business areas, each with its own CSR policies, constitutes a defining moment of overall «ethical» capability of the firm, a cornerstone of its sustainability, both locally and internationally.

We pursue two aims for a multiunit firm and/or multinational enterprise (MNE).

The first aim is developed in Section 2. Building on Abell (1980) we suggest to include CSR as a dimension in defining the business (the strategic business area, SBA); and we consider what is implied from the mixture of brand and CSR policies for multi-brand firms.

The second purpose is developed in Section 3 by proposing a simple classification of the tools that could be implemented at corporate and business level to foster CSR compliance in a multi-business and/or international firm.

We apply the distinction between internal and external forces to outline the replication strategies that can be pursued by designing proper mechanisms, separating those based on organizational forms from those relying on market-like functioning. We draw attention to mechanisms based on quantity and to those grounded on price, and on a very interesting one which can satisfy the pursuit of an overall harmonization of CSR at corporate level, while respecting the subsidiaries' autonomy. Introducing this tool is justified by considering CSR as a public good for the whole firm.

We assume that for each business area there exists a corresponding business unit (SBU) or else a subsidiary of a MNE; the problem is how to coordinate different business areas (internationally) from the perspective of fostering CSR harmonization. We show that the level of CSR is jointly influenced by the corporate strategy of the firm, by the mechanism adopted to spread out CSR culture, and by the policies pursued by the SBUs.

2. Strategic business area and CSR

Abell (1980: ch. 7 and Table 3 p. 190) considers three levels of decisions: corporate (dealing with diversification strategy), business (product/market strategy), program (segmentation and positioning strategy). For each one he shows the most important decisions about objectives, and the accompanying functional strategies. His definition of business is based on three questions and three dimensions (1980:

169). To start with, ask what is being satisfied: the customer functions, the needs to be served. To this corresponds a product dimension: who is being cared of (customer group), coupled to a market dimension (segment and country). Finally, how needs are satisfied (alternative technologies)[(3)].

Adding a fourth dimension in defining the business: CSR

In order to propagate CSR culture at any level we propose to consider CSR policies as a constitutive, fourth dimension of the SBA-vector, usually employed to theoretically define the business. This will bring about a change in perspective towards stakeholders: the care devoted to them will be comparable to that addressed to clients, and the «business case for CSR» will emerge at centre stage. Consequently, the strategic orientation of the firm will move towards stakeholder management from the perspective of usual «marketing» tools (client satisfaction and so on), not only according «production» tools such as quality management: the final result will be to enlarge the set of replication strategies and encompassing procedures applied to improve CSR compliance and also to ameliorate stakeholder management[(4)].

The CSR dimension can be created by conceptually disentangling specific competences belonging to the other three canonical and well-known dimensions of the SBA, and listing them under the heading of this new fourth variable. The CSR dimension in defining the business will result from this re-shuffling out of the existing dimensions: some characteristics will be added to extant ones, other de-listed, and the new CSR dimension will be introduced.

For example, the technology dimension already includes occupational safety and health in the workplace, the product dimension already takes care of product safety in its specifications; all of the environmental variables of the CSR policy are at the crossroads between technology (pollution) and product (life-cycle assessment). Policies pursued by the firm vis-à-vis regulation issues, such as economic, antitrust, social (HSE) regulation, are part of everyday conduct of business, and to be considered jointly with variables regarding technology, customer group and functions.

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(3) Hofer (1975) shows the interplay of a contingency theory of business strategy with divisional organizational form, an approach that fits well with Abell's. The theoretical tool of the strategic business area, mixed with the unit-form is a flexible framework to study the multi-business firm, in any instance it might appear: be it the multi-unit organization of Stopford and Wells (1972), the network-based organizational forms of Bartlett and Goshal (1989, 1990), or leaner forms (e.g., the hollow company, the virtual organization and so on).

(4) Relying on a customer-oriented approach to stakeholder management might appear in the best case to be too much marketing-culture-based, or, in the worst case, a bit naïve. We recognize that stakeholder engagement and management require approaches different from marketing policies: Friedman and Miles (2006: par. 10.2) are very clear on this. Our aim is just to lever on what should be an accepted and widespread concept in managerial thought: «respect thy client»; alas, often the first one principle to be overlooked in everyday practice. In strategic management it is widely accepted that an approach based on encompassing disciplines and managerial competences can be complementary to the use of SBA: in the CSR dimension inside the SBA we can read those managerial competences as represented by procedures and people of the SBU.

In the new dimension we suggest to include policies aimed at voluntarily improving upon core-CSR as defined by legislation and regulation. Leveraging on a more analytical distinction between core-CSR and enlarged-CSR, we can enlist core-CSR inside Abell's canonical dimensions, while the fourth dimension will include non-core, enlarged-CSR. Inside the enlarged-CSR dimension the same questions will be asked for each stakeholder: who, what, how, is being satisfied.

In Figure 2 we depict the four dimensions in defining the business vector, we show enlarged-CSR as a new dimension and core-CSR as component in each of the other three.

The first consequence of this approach will be to consider core-CSR as an ordinary part of the decisions by managers, jointly seen with other factors that influence and improve the competitive advantage. Moreover, adding a fourth dimension to those defining the business can be helpful in fostering more attention to CSR and in reinforcing its culture inside the firm. In both cases management thought and education will see CSR as part of established managerial culture (in this regard see Friedman, Miles, 2006: ch. 10).

Integrating brand and CSR policies

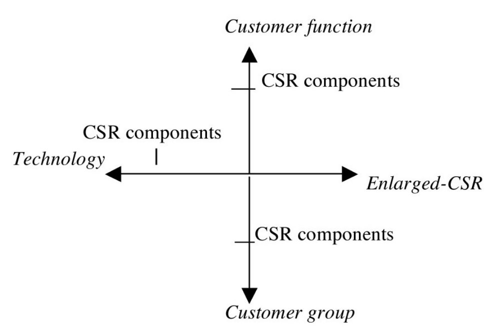
Let us now move towards an integration of brand and CSR policies. We use brand to single out the mixture of the three canonical (Abell's) dimensions as a synthetic expression and support of overall strategic positioning of the firm.

It is a common tenet in international strategy that a trade-off exists between global forces towards cross-country standardization and those to locally adapt country-wise, epitomized by the home versus host country dilemma.

Brondoni (2003) has approached these themes by analyzing the forces of globalization and the impact of culture in global networks from the perspective of corporate responsibility.

Goshal and Nohria (1993) propose a taxonomy of international environments: a trans-national one, in which both local and global forces are strong; a placid environment, in which both forces are weak; a global environment, in which non-demanding local forces to adapt are paired to strong pushes towards standardization; a multi-domestic environment, where strong local forces meet weak global ones. An analogous approach is used by Daniels and Frost (1991) in characterizing international firms.

FIGURE 2.
ADDING THE CSR DIMENSION IN DEFINING THE BUSINESS



In the same order as above (now «high» equals «strong», «low» equals «weak») we can classify firms as trans-national (high adaptation to local context, high level of standardization), multinational (low adaptation, low standardization), global (low adaptation, high standardization), multi-local (high adaptation, low standardization).

The strategic approach adopted at corporate level percolates to functional strategies and to brand management: Sandler and Shani (1992) along the same lines use brand (same or different) and advertising (standardized or contextualized) as dimensions of analysis, to derive a taxonomy of alternative brand strategies and advertising policies at an international level.

We suggest to read «same brand» as a factor of strong standardization and a «standardized advertising policy» as an instrument of weak adaptation; by doing so the inner relation of Sandler and Shani's model with the other two mentioned above is evident, and all of them can be read in conjunction to gain a comprehensive picture, from which we will move to build our model.

Sandler and Shani show that firms have four alternatives: country-specific advertising and international brand (strong adaptation, strong standardization); worldwide advertising and local brands (weak, weak); worldwide advertising and international brand (weak, strong); country-specific advertising with local brands (strong, weak). According to their approach, strategic decisions on brand and on advertising are taken independently and then combined.

We suggest to consider a network effect as far as CSR is considered: a local brand belonging to a multi-brand firm can have «feedback» effects and externalities on overall reputation of the firm, for example, if people (consumers, advocacy groups, and so on) realize that one of the units shows poor compliance, they can extend that perception to other products in the same firm, even if there is no connection in the supply chain. The network effect appears trivial when licensing or outsourcing production to a foreign supplier in a country with low employee protection: this decision can be disruptive for a firm selling in a high-standards country populated by concerned consumers and strong advocacy groups.

Examples like these suggest a bottom-up effect, in which compliance at local level is filtered at higher ranks: a worldwide brand cannot use different brands, so it has to minimize cross-country differences in national compliance, with the final effect of moving CSR «upwards», towards standardization in one of the relevant CSR dimensions: in the end a trading-up effect in CSR compliance will result.

Table 1 is developed along the lines set up by the three above mentioned models and should be read counter-clockwise: the dimensions on the lower-left side determine the policies inside the table, and then, through the policy, the effect is transmitted to the variables listed on the upper-right part of the table. For example, a brand which is global should use an homogeneous CSR strategy.

Contrary to the model of Sandler and Shani, our unusual way to read the table is suggested by the fact that while an advertisement campaign can be transferred from one country to another, with minor adjustment costs, a CSR policy can be adapted from one country to another one only when it rises the standards imposed by local legislation, thus inducing an upward process of cross-country harmonization: the new country of location experiences in this case a CSR policy that improves upon lo-

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TABLE 1.
BRAND AND CSR STRATEGY

BRAND STRATEGY	CSR STRATEGY	
	In-homogeneous	*Homogeneous*
Same brand	Trans-national	Global
Different brands	Multi-local	Multinational

cal core-CSR, thus resulting in an enlarged-CSR policy in that destination.

In Table 1 brand strategy operates as a factor of standardization and CSR as a force to adapt. Weak adaptation corresponds to homogeneity, because the reason behind the desire to adapt locally is to reduce compliance to the higher international standards eventually pursued by the firm, as established by the legislation in vigour in the strictest country of operations; this applies for each of the HSE dimensions that combine together to express overall CSR policy.

Some empirical hypothesis could be drawn. Firms with well established brands at an international level display higher probability to have more attention to CSR compliance than others, as measured by a lower variability in a CSR index for each HSE dimension, calculated by country (higher cross-country homogeneity).

Another testable hypothesis would be to distinguish trans-national from global firms (and brands), according to the index of variability used, which in turn reflects the degree of homogeneity of CSR policy adopted as detected by a measure of degree of spread. The trans-national firm will try to minimize the variance of the CSR indices for each SBU, thus using the mean value as a measure of centre for CSR, while the global firm will try to minimize the absolute distances among the SBUs, thus using the median as a measure of centre. The global firm, then, is more attentive to make half of the number of units (plus one) pass an appropriate trigger-level of CSR. The difference between the two types of firms depends on the fact that a trans-national firm can also produce and sell in one country only, so its CSR policy could be entirely country-specific.

A further step, deeper into functional strategies, will be to specify the relationships among the different kinds of brand and CSR policies: these connections are presented in Table 2, borrowing from Kapferer's (1997: ch. 7) brand architecture. We do not consider two-tier structures such as parent and endorsing brands, nor corporate branding.

TABLE 2.
BRAND POLICY AND CSR

BRAND / CSR	*Adaptation*	
Standardization	Strong	Weak
Strong	Umbrella branding	Line branding
Weak	Product branding	Range branding

When the forces of standardization and adaptation are strong, the brand covers the entire set of products, which can belong to different industries. In this case core-CSR compliance becomes very strict and pervasive for any product in any country, because the forces of homogenization among the diverse products and business propositions operate tightly only at CSR level; forces are strong to improve upon core-CSR and the risk is that bad CSR in one industry can cause damages to the whole brand.

When the forces of standardization are strong and those of adaptation are weak, CSR is less binding and brand policies can transfer a good image across products, the result being some kind of complementary effect in CSR policy as in the case of products belonging to the same product line.

When both the forces of standardization and adaptation are weak, range branding applies.

When the forces stemming from brand are weak and adaptation is strong, there are high risks of low compliance even in core-CSR so product branding is pursued: the MNE might even cover the business unit under a different legal entity to reduce risks.

In the following section different replication strategies are considered, through encompassing disciplines and mechanism design.

3. Replication strategies for corporate-level CSR

We now consider CSR policies alone, as the result of external and internal influences, along two dimensions of analysis: standardization and adaptation.

External forces towards standardization are notorious. International «regulation» is driven by organizations such as ONU, ILO, OECD, European Union (actually the only one with regulatory functions among those), by the increasing awareness of concerned consumers and NGOs, by the community of (and market for) corporate managers as far as their basic managerial competences are considered, and many more (for a complete analysis see Friedman, Miles, 2006: ch. 9; Galbreath, 2006).

External forces of adaptation (localization) are represented by governments willing to attract direct foreign investments to foster growth and development as a way out of poverty, and in exchange giving up social regulation. In essence these forces consist of «diversity in policy frameworks concerning protection of workers and environmental regulation» (Commission, 2002: 7) and consumers.

Culture influences both standardization and adaptation: in some cases home country disapproval of some business practices can suggest to export harmonization to the host country, and the culture of the host country can be a strong force to adapt. Galbreath (2006) takes the latter point of view.

Inside the firm, the diffusion of CSR practices and the adoption of certain standards is part of total quality management and an improvement of firm's capabilities. The diffusion of these practices can be considered as an example of encompassing disciplines (Hamel, 1991) to improve managerial competences and overall organizational learning and knowledge in the firm, or a form of benchmarking practice among different units aimed at aligning efforts and results (Kaplan, Norton, 2006), in this case towards CSR practice and compliance.

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Managerial competences in CSR result in a specification of those integrative competences usually called technology and marketing integrative competences. A new category can be created and dubbed relational (or sustainability) competences, which can be characterized as improving resources of trust at the disposal of the firm. Vicari and Verona (2000a, 2000b) show the relevance of resources of trust to built and secure competitive advantage in a resource-based framework. Along their lines, these competences coordinate and organize managerial competences on relationships in many directions. When CSR is considered part of managerial competences, the perspective is from the supply side, a point of view that is complementary to Mitchell *et al*.'s (1997), who present a thorough analysis of the relations with the stakeholders that can be considered as moving from the demand side.

Internal forces towards standardization change the perspective on CSR in a multi-business, international firm. If a drive to standardize exists, because the firm has a highly connected system in the supply chain or in terms of consumer and production sites, corporate-level strategy puts CSR in a peculiar perspective, namely, as a public good, erstwhile for each unit or subsidiary it is a private good. At a corporate level an effective standardization implies that the optimal conditions for a public good appear: at the optimal level of the public good the *sum* of each one unit's marginal benefits from the public good is set equal to the marginal cost of producing it. The benefits from each unit's investments (the «purchase») of the public good provide a direct and specific benefit, which extends and spills over to every other unit, too.

Internal forces of adaptation are especially effective when there is not a level playing field. At a national level, CSR policies by the unit/subsidiary are conditioned by law and regulation in force in each country. CSR policies appear under a different light from an international perspective: firms have more space of action, certain incentive systems to evaluate managers can induce them to look for CSR-shopping around the world, implicitly revealing their care in compliance. Since each SBU has its own approach to CSR, a question emerges whether the firm has to establish an overall comprehensive corporate policy for all of its subsidiaries through replication strategies and mechanisms, or let the units run loose and free.

These forces contribute to overall performance in terms of convergence and transparency. For example, the European Commission (2002: 13) deems desirable an increased convergence and transparency in the following fields: codes of conduct; management standards; accounting, auditing and reporting; labels; social responsible investment.

We consider two ways of classifying mechanisms: organization-based and market-like.

Organization-based (centralized) mechanisms are of hierarchical nature, they rely on various forms of authority and diverse managerial styles and are essentially negotiation-oriented. They are already present even when there is a weak degree of interest in harmonizing CSR policy in the firm, what we call weak standardization. Galbreath (2006) presents four strategic options in corporate strategy to foster CSR (shareholder, altruistic, reciprocal, citizenship strategy). In our opinion these strategies descend and are imposed from head-

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quarters to the units in much a deterministic way, an approach which can be appropriate only in those contexts where organization-based mechanisms play a major role. Our attempt is to allow a bottom-up way of creating an emergent strategy from the units to flood across units, with the headquarters (HQ) being a steering device.

Organizational mechanisms provide the backbone of the analysis, they are based on the trade-off between differentiation and integration. Lawrence and Lorsch (1967) paved the way to devising organizational forms of integration with the main scope to create a common culture (while avoiding conformism), still protecting creativity efforts and differentiation. Accordingly, a fully negotiated procedure is usually set up, evolving along the budget process and substantiated by organisms such as committees or teams (in both cases either temporary or permanent, functional or divisional, general purpose or *ad hoc*, and so on). These mechanisms of control and coordination induce more uniform application of norms of conduct and standards, and the enforcement of proper incentives, mostly through the adoption of quality-improving procedures (to gain certificates issued by independent agencies) and encompassing disciplines. Internal control and auditing have a (complementary) role, too (Salvioni, 2003), and so is activity based costing (Galbreath, 2006).

In a multi-business organization we could propose a CSR-committee to improve worldwide compliance. With the aim of propagating CSR culture, it could provide a centralized service to all of the units for any aspect regarding CSR (compliance, reporting), it could administer the transfer pricing mechanism, it could even run an internal market or organize auctions for funds, it could set up sub-committees and other organizational instruments across the units.

Other forms of coordinating mechanisms, simulating the market process, should be applicable not only as a tool in the hands of these hierarchical structures, but also to lean, loose, network-like organizational forms in which the central headquarters acquires a role of coordination.

Intermediate forms between organization and market (a kind of «centralized market») come into action when CSR policy assumes the value of a public good for the overall network of subsidiaries and there is a strong drive to standardization.

In simple terms, we propose to pair strong standardization with «CSR as a public good» for the corporation at international level and with some kind of market-like mechanism, while weak standardization means that each business unit considers CSR as a private good in terms of its benefits and organizational mechanisms seem more appropriate to reduce freedom of choice by the units.

Consider now adaptation (localization) forces. These drive the decisions of managers in a peculiar way. When local forces are weak (local HSE regulation sets high standards), each unit can calculate its need independently from the others, because the risk of bad CSR is lower. On the contrary, when there is a strong drive by localization forces, each business is very attentive to local requests and temptations, and forgets about the impact on the others and on headquarters. However, a form of strategic interaction is currently in vigour between SBUs because each one is transferring an externality onto the others, either positive or negative. Each should correctly reveal its true needs in terms of CSR, and should not disguise its ideal contribution to establishing an overall CSR (the public good) to the others; truthful revelation is needed, and each business unit reveals truthfully if everyone else does (a Nash equilibrium concept). Each SBU should know the aggregate requested by the others to calculate its most preferred CSR policy (i.e., how much to spend). The result is that dominant strategies, which can be sufficient in presence of weak forms of adaptation (and decentralized, market-like bargaining procedures, in which we do not care about what the others are doing) leave the scene to strategic interaction among units, that adopt reciprocal Nash strategies in which everyone «should find preferable to tell the truth if everyone else is doing so» (Cornes, Sandler, 1996: 230). Truthful revelation as a Nash strategy is at the base of the Groves, Ledyard (1977a, 1977b) mechanism to which we are heading, as an incentive scheme to foster and harmonize CSR compliance (see *infra*).

In what follows we mostly refer to Table 3, to be read from left and top jointly: it shows various replication strategies and mechanisms.

Mechanism design has become a substantial part of game theory. According to Fudenberg and Tirole (1991: 244), mechanism design is a game of incomplete information where the agent's type is private information. The principal designs a «mechanism», or «contract», or «incentive scheme» and usually has some coercive power to reduce the possibility for agents to refuse to participate to the game. «A mechanism is a game in which the agents send costless messages, and an "allocation" that depends on the realized messages. The messages game can have simultaneous announcements or a more complex communication process. The allocation is a decision about the level of some observable variables, e.g., the quantity consumed or the amount of public good provided, and a vector of transfers from the principal to the agents (which can be positive or negative). [The] principal can restrict attention to mechanisms that are accepted [...] by all agents [...] in which all simultaneously and truthfully reveal their types».

Consider the SBUs as agents having exclusive knowledge of their willingness to comply in CSR, as imposed by the specific legislation and regulation in their SBA (and country therein). Moreover, the effort of the manager in the SBU is estimated with a bias by HQ, and HQ represents the principal in this setting. The total amount of public good is the sum of CSR expenditure by each SBU, which is of benefit to the whole firm. The vector of transfers is the amount of funds to spend in CSR.

Another form of classification, different from the one shown above, distinguishes two simple classes of mechanisms (Fudenberg, Tirole, 1991: par. 7.5): some form of auction, or forms of bilateral bargaining.

TABLE 3.
REPLICATION STRATEGIES: MECHANISMS

	Adaptation	
Standardization	Strong	Weak
Strong	Groves-Ledyard Mechanism	Auctions/Internal market
Weak	Transfer prices	Quantity/investment transfers

An auction mechanism might be created by establishing an overall budget for CSR to be acquired by business units. The auction mechanism can either be a fully centralized one, with the HQ «selling» a whole budget of funds devoted to CSR and more willing-to-comply SBUs «buying» the budget and agreeing on performing a CSR-index grade; or a double auction in which the HQ will be the auctioneer, and buying and selling SBUs simultaneously submit their bids and asks for resources. An internal market might be created by establishing a pool of rights/coupons/permits that can be exchanged between business units. Both mechanisms are difficult to set up and usually the budget process does their job in a firm(5).

The bargaining process can be either bilateral among couples of SBUs or a centrally coordinated one with a role assigned to HQ, at least to stimulate it and to check the results.

These mechanisms appear when there is weak adaptation to local forces because each SBU has to face the others in the process of acquiring the budget to spend in CSR or because there is no need to worry that local forces can induce bad CSR. Moreover, the incentive mechanism according to which SBUs should submit an offer is not well defined and negligence can result because receiving more investment funds in CSR will imply a reduction in the reported rate of return for the subsidiary. In either case the process will end up with a result in which there are few transactions (Fudenberg, Tirole, 1991: example 6.4 and par. 7.5.2), which means that there is not so much interest by the SBUs in CSR improvements.

Consider now the HQ as a benevolent principal trying to maximize social surplus, namely, to rise average CSR standards in the organization, or reducing overall variance in a CSR indicator. HQ is also willing to design a balanced-budget mechanism to which the SBUs must comply. It will set up a bargaining process which takes into proper account the trade-off between standardization and adaptation, the more attentive SBU will act as a seller and the lesser attentive SBU as a buyer. It should be noticed that some procedures induce harmonization, to be considered as an upward trend towards rising the standards in lower CSR-complying countries.

Investment (quantitative) transfers and price-transfers have an inner drive towards reducing the attention to CSR quality improvements, thus dampening the process of harmonization of practices in the multi-business firm.

The direction of quantity transfers walks hand in hand with the redistribution of investments (installed capacity) worldwide, as if in a budget process. When this is coupled with a desire to re-allocate production in country with less attentive CSR policies, risks of bad CSR are high. Abstaining from direct investments in certain countries can be a strategy to reduce variance in the CSR policy of the firm, so weak adaptation will result, in this case controlled by HQ.

The mechanism of price transfer (e.g., Eccles, 1984) characterizes situations with

(5) Both mechanisms try to reduce externality by recurring to the missing market approach fostered by R.H. Coase and by applying auction theory, as pioneered by W. Vickrey among others.

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more care to adaptation, even though there is still a weak standardization. This process can be ameliorated by a form of central coordination by imposing penalties to production in less attentive countries, for example by calculating standard transfer prices: a component produced in a country which allows lower employee protection will be penalized when sold in a country with higher labour and social regulation standards, so that the economic profit from de-localization will receive a correction. Moreover, countries that need more foreign direct investments are not penalized, because subsidiaries will locate anyway.

When standardization is weak, there is either price or quantity transfer, managed at a strategic business level, and SBUs are left free to decide; the mechanism of incentive is closely related to evaluation of the unit and its management. When the forces of standardization become stronger, there is a need to establish a more profound incentive system, depending on which orientation is needed: whether CSR policies are considered a private good or a public good, according to the forces of adaptation.

If these forces are weak, each business unit considers CSR policies as a private good; if these are strong, each business unit realizes the impact on the others and a coordinated system must be set up in which each participant has to explicitly take in consideration what the others are doing. This implies that a mechanism must be established in which each SBU must explicitly consider what the others are investing in building the overall public good (i.e., CSR policy for the whole firm).

The result is that when forces to adapt and to standardize are both strong, the trade-off is at the highest level: units in lower-complying countries are tempted to give away overall CSR policy (both core and enlarged) as fostered by the headquarter and adopted by the firm, so a correct mechanism of revelation of needs is requested.

The so-called Groves and Ledyard mechanism (1977a: par. 12; 1977b: par. 4.2; see also Cornes, Sandler, 1996: par. 7.6) is based on reciprocal truthful revelation by the units (about their true type: their needs in terms of CSR investments). It generates an efficient level of provision of the public good (overall CSR in the firm) and respects budget balance of the overall organization. It is a decentralized method, an incentive compatible mechanism (i.e., one providing incentives for individuals to reveal their true preferences) in which the participants take into account what the others are doing; it is market-oriented, to be distinguished from organizational ones (which are active when standardization is weak).

This scheme invites SBUs to report increment (or decrement) of the public good from a starting level: each one reports the desirable increment (decrement) in investments in CSR over and above the total requested by everyone else. In our case, for example, the total could be calculated also with respect to the level of investments from the previous year.

The total provision of the public good is the sum of all the increments and decrements requested by the individuals (expressed by i): each will send a message δ^i which represents the desired increment of the public good.

The first formula determines total expenditure in CSR, $Q(\delta^1, \ldots, \delta^i, \ldots, \delta^n)$, the overall provision as a public good:

CSR expenditure =

$$= Q(\delta^1, \ldots, \delta^i, \ldots, \delta^n) = \Sigma_j \delta^j$$

Each SBU must know how cost shares are computed, according to the following «tax formula»:

$$T^i = \alpha^i Q + \gamma/2 * [(\delta^i - \mu^i)^2 * * (n - 1)/n - (\sigma^i)^2]$$

This formula says that each SBU sustains its own percentage of costs, represented by α^i, and in fact: $\Sigma_i \alpha_i = 1$. The second element of the formula represents a transferral from the SBU to the others (or vice-versa): how much my SBU relies upon the others. There, $\gamma > 0$ is a parameter to adjust the dimension of the expenses. The mean value of everybody's requested increments except that of unit *i* is represented by $\mu^i = \Sigma_{j \neq i} \delta^j/(n - 1)$. The variance of everybody's requested increments except that of unit *i* is represented by $(\sigma^i)^2 = \Sigma_{j \neq i} (\delta^j - \mu^i)^2/(n - 2)$.

In order to make its decision, each unit must know the costs of the CSR policies, the parameters α^i, γ, the mean of all other units' messages μ^i, the standard error of the mean of the others' messages σ^i. Each SBU has a desired overall level of the public good, knows the taxation formula and the aggregate requested by others, and calculates its message to be sent by subtracting this desired level from the aggregate requested by others. Each units knows the starting level for everyone, but does not need to know what is reported by each of the other SBUs. This procedure has an extra benefit: it induces HQ to collect data on CSR investments from each SBU and makes them known to each SBU, and this can be the starting point of the whole process anew (and is instrumental to define γ).

In the following passage Groves and Ledyard (1977b: 796) are very clear (read «unit» where they write «consumer»): «Given the others' messages then, a rational consumer will communicate the message [δ^i] such that the resulting bundle is the most desired one [...] Since every consumer can insure that the resulting allocation of public goods is his most desired bundle given the messages of the other consumers, in an equilibrium all consumers' most desired bundles must be equal. It is the role of the tax rules to ensure that this is possible. But, even though in equilibrium all consumer desire the same bundle, their messages and taxes will not generally be identical». The result is that it is in each unit's self-interest to reveal its true needs, its true valuation of the public good (CSR), even when there are free-rider business units.

We present an example with three units in the Appendix: the most willing-to-comply SBU in the end subsidizes part of the investment required by the other two. This redistribution of liquidity among divisions, that reveals cross-subsidization operated by headquarters, can be seen as a form of internal capital market. Further along this path, HQ could also run a liquidity pool and re-dispatch liquidity according to a mechanism of credit lines (see Tirole, 2006: 414, and references therein, for more on internal capital markets).

By jointly reading Table 3 and Table 1 some empirical hypothesis can be tested.

– *H1: A multinational firm (weak, weak) will prefer a quantity (investment) mechanism.*
– *H2: A multi-local firm (strong adaptation, weak standardization) will prefer a bargaining process based on transfer prices*

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(and few transactions will show up in terms of CSR transfers).

- *H3: A global firm (weak adaptation, strong standardization) will prefer a (centralized or bilateral) auction mechanism, or an internal market. Again, more attention to a median level of CSR compliance applies.*
- *H4: A trans-national firm (strong, strong) will consider CSR as a public good to be shared according to a scheme of taxes and subsidies, a Groves and Ledyard (1977a, b) mechanism. Again, HQ shows attention to mean value and variance reduction of the level of CSR compliance.*

4. LIMITATIONS OF THE PAPER AND AREAS OF FUTURE RESEARCH

In line with the suggestion by the European Commission (2002: 5) to manage CSR strategically, we have presented some conceptual and practical instruments for this aim. With Galbreath (2006) we share the aim to steer the discussion on CSR «towards strategy decision making in the core base of operation while considering» factors that affect location in host country and the strategic business area of interest. With Vogel (2005: 33-35) we share the desire to put CSR in its place and give it a chance to be part of the wide variety of strategies firms can pursue.

An anonymous referee has correctly pointed out that the mechanism could appear «instrumental and mechanistic», questioning it as «organizationally practical», and «reflecting the notion the CSR as a formulaic activity of corporate bidding». The critique is correct, and this is one limitation of the paper, due to the fact that the mechanism has a market-oriented structure; in any case further attention should be given also to show how the procedure could be paired with the budget process and managerial incentives and evaluation procedures.

Finding the data needed to test the two hypothesis tied to Table 1 can be difficult, and actually the four hypothesis concerning the mechanisms to adopt (see Table 3) appear more as suggestions, and as such are open to difficulties in practical implementations. In the end the model could lose its predictive power and can be seen as a normative instrument.

Our paper could be improved in many ways, which result in areas for future research.

The introduction of a fourth dimension in Abell's definition of SBA requires a reshuffling of the dimensions and a better focus on distinguishing core from enlarged CSR.

A more analytical analysis can be done using Eccles (1984) model for transfer pricing, including national cultures as a conditioning variable or developing other measures to define the budget in CSR.

The Groves and Ledyard (1977a, 1977a,b) mechanism can be better specified by directly using cash flow measures of transfers to stakeholders as medium of exchange among SBUs, such as EBITDA (earnings before interests, taxes, depreciation and amortization) net of direct investments, to be used by subsidiaries.

Our paper does not directly deal with topics in international business ethics (see De George, 2002; Vogel, 2005: ch. 4, 5, 6), even though national viewpoints are implicitly taken care of. We think appropriate to conclude by borrowing from De George (2002: 242): the procedures presented above can «[…] provide incentives to ethical behaviour on the part of multinationals, and […] help form and implement background conditions necessary to support and sustain the ethical development of international business».

APPENDIX

An example of the Groves and Ledyard (1977a, 1977a,b) mechanism (see Cornes, Sandler, 1996: par. 7.6)

Let us consider three subsidiaries or SBUs (n = 3). Headquarters transmit to each SBU the investment level from past year for each of the others; in any case we can consider this to be zero, since each SBU has to submit an increment or decrement from the preceding year.

Suppose each SBU submits the following increments as far as investments in CSR are regarded (this information could also be common knowledge to all of the SBUs):

$\delta^1 = +10,$
$\delta^2 = +10,$
$\delta^3 = +30,$

and CSR expenditure =

$$= Q(\delta^1, \dots, \delta^i, \dots, \delta^n) = \Sigma_j \delta^j = 50.$$

We now want to calculate the contribution of each SBU to overall expenditure, according to the «tax formula»:

$$T^i = \alpha^i Q + {}^1\!/_2 \gamma * \\ * [(\delta^i - \mu^i)^2 * (n-1)/n - (\sigma^i)^2]$$

Since $\mu^i = \Sigma_{j \neq i} \delta^j/(n-1)$, then:

$\mu^1 = 20,$
$\mu^2 = 20,$
$\mu^3 = 10.$

Since $(\sigma^i)^2 = \Sigma_{j \neq i} (\delta^j - \mu^i)^2/(n-2)$, we have:

$(\sigma^1)^2 = (10-20)^2 + (30-20)^2 = 200,$
$(\sigma^2)^2 = (10-20)^2 + (30-20)^2 = 200,$
$(\sigma^3)^2 = (10-10)^2 + (10-10)^2 = 0.$

Let us fix α^i in proportion to each unit's submitted amount of investment, so that there is no perceived disparity in treatment among all of the SBUs:

$$\alpha^1 = \alpha^2 = 1/5, \text{ and } \alpha^3 = 3/5.$$

Fix $\gamma = 1/10$, so that ${}^1\!/_2\gamma = .05$; trying different levels of γ will be useful in understanding its function, which is one of reducing the value of the number under the parenthesis in the «tax formula». We have that:

$$T^1 = 50/5 + .05\,[2(10-20)^2/3 - 200] = \\ = 10 + 5/100\,[200/3 - 200] = \\ = 10 + 5\,[2/3 - 2] = 10 - 20/3 = \\ = 10/3.$$
$$T^2 = 50/5 + .05\,[2(10-20)^2/3 - 200] = \\ = 10/3.$$
$$T^3 = 150/5 + .05\,[2(30-10)^2/3 - 0] = \\ = 30 + 5/100\,[800/3] = 30 + 40/3.$$

As it is shown the budget balance is guaranteed, because overall expenditure equals overall taxes:

$$10/3 + 10/3 + (30 + 40/3) = 50$$

Expenditure will be subdivided this way. HQ will collect the T's: T^1, T^2, T^3. Then each subsidiary will receive the amount revealed (10, 10, 30), to be spent.

It is interesting to notice that subsidiaries like 3, with high expenditures in CSR, are penalized, in a sense: they must contribute to other SBUs in order to receive the desired level of 30. In this example the most willing to comply subsidizes the other two (unit 3 gives 20/3 to each of the other two units); however, those (such as 1 and 2) which have a low desire to comply, must

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contribute anyway. Whether we submit a low desire of CSR or a high one, we have to contribute in any case: we are forced to truthfully reveal our need/desire as far as CSR is concerned, this is due to the public good nature of CSR.

This system works either way, regardless of the motives underlying our desire. It works in cases where our willingness to comply depends on the presence of a concerned consumer in home country or on the rigid regulation of the host country in which we are located. Or else, it works in cases where our willingness to comply depends on the fact that we have to catch up with other SBUs, perhaps because our host country has bad employee protection and/or our consumers at home are not concerned at all but our HQ wants us to comply anyway.

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