

Understanding International Business Contexts: Characterizing Transnational Governing Institutions

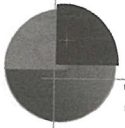
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Abstract

This paper draws upon the literature in international business, law, organizational theory, political science, ethics, and sociology to characterize governing institutions that influence international business. This paper is an attempt to further theoretical and empirical research underpinnings in international business through a detailed characterization of governing institutions. The main purpose of this paper is to identify elements drawn from the concepts of delegation and parity of which "governing institutions" are composed.

Keywords: International business Governing institutions International corporate

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ความเข้าใจบริบทธุรกิจระหว่างประเทศ: คุณลักษณะสถาบันการจัดการข้ามชาติ

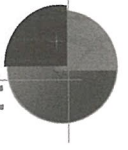
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บทคัดย่อ

บทความนี้พิจารณาเกี่ยวกับลักษณะสถาบันการจัดการ ที่มีอิทธิพลต่อธุรกิจระหว่างประเทศ ทางด้านกฎหมาย ทฤษฎีองค์กร การเมืองการปกครอง จริยธรรมและสังคมศาสตร์ นอกจากนี้ บทความนี้พยายามศึกษางานวิจัย ทั้งภาคทฤษฎีและผลในเชิงประจักษ์ ที่สร้างจากกรอบแนวคิด ในธุรกิจระหว่างประเทศ ผ่านคุณลักษณะรายละเอียดของสถาบันการจัดการ วัตถุประสงค์หลักของ บทความนี้คือ การกำหนดส่วนประกอบจากแนวคิดของกลุ่มตัวแทนและความเท่าเทียมกัน ของแต่ละ สถาบันการจัดการ

คำสำคัญ : ธุรกิจระหว่างประเทศ สถาบันการจัดการ บรรษัทระหว่างประเทศ

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Introduction

This paper draws upon the literature in ethics, international business, law, organizational theory, political science, and sociology to characterize governing institutions that influence corporate social responsibility (CSR) issues. The first section of the paper briefly reviews a previously described model of international corporate social responsibility (1). The second section of the paper, the centerpiece, develops a specifically detailed examination of governing institutions drawn from concepts of delegation and parity. The final section of the paper links the governing institutions to issues of business and society research.

As Hempel pointed out, “the vocabulary of science has two basic functions: (a) to adequately describe the objects and events being investigated and (b) to establish theories by which events and objects can be explained and predicted” (2). This key purpose of this paper is to provide an explicit characterization of governing institutions in an international context in order to better examine the black box at the center of corporate political activity or social issues management. As Weick (3) noted “theoretical problems are more likely to be solved when the problem is represented more accurately and in greater detail with assumptions made more explicit, as a greater number of heterogeneous variations are generated, and as more

selection criteria, of greater diversity, are applied more consistently to the variations that are generated.” As even Bacharach (2) conceded, “descriptive studies are often particularly rich and thus useful as grounds for theory building.”

Corporations have long been confronted with political uncertainty stemming from legislative and regulatory activity (4) and social issues (5). Numerous studies have investigated various processes of corporate social and political activity and their effects on firm economic performance. However, one must be careful to distinguish between practices, on the one hand, and institutions that support practices, on the other (6). Typically, the literature has tended to focus on the determinants or causes-and-effects of firm-government activity; there have been few studies on governing institutions because most authors view such structures as an intrinsic element. Often research studies present case studies that focus on the firm rather than the firm-government or firm-society dyad.

Previous research on government-business interaction has converged on a number of central themes: the structure of relations between businesses and governments, the firm’s use of political activity to control its environment, and the development of political advocacy structures (7). Shaffer (7) advocated the case study approach as

an effective means to capture the qualitative nature of complex organizational processes and interdependencies while at the same time capturing the longitudinal variation and evolution of public and private strategies.

However, Preston (8) previously cautioned that, "New research on business and politics should involve something more than the accumulation of additional case studies; these are the raw materials for serious analysis, but not the final product. The significant studies will be those that specify more clearly the conditions under which political activity of different types and levels produces (or fails to produce) different kinds of effects. The regulatory arena, rather than the electoral or legislative process, may be

the most important focus for attention."

This paper is an attempt to further theoretical and empirical research underpinnings through a characterization governing institutions drawn from concepts of delegation and parity. The paper considers these governing institutions in an international context using a materialist ontology perspective incorporating interaction among economies (infrastructure), institutions (structure), and cultures (superstructure) (9).

Modeling international corporate social responsibility

A previously formulated model of international corporate social responsibility (Figure 1) provides the basis for examining

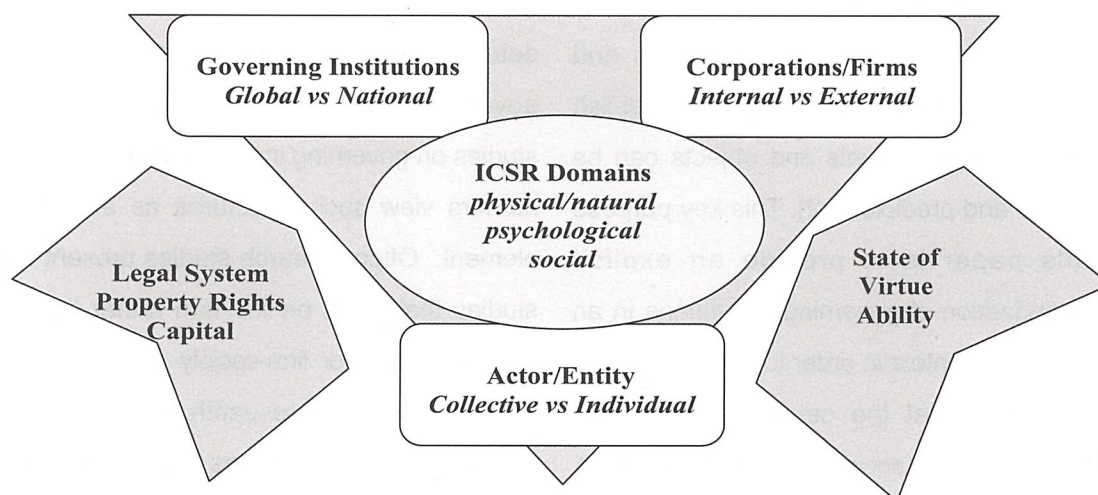
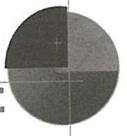


Figure 1 A Model of International Corporate Social Responsibility (ICSR)



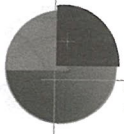
business-society interaction (1). This model consists of three participants in the international context: governing institutions, corporations/firms, and actor/entity. Each of these participants is a potential source of competing values and objectives. Each of these participants may be conceived of as either an individual or collective (10). Using a resource dependency perspective Dutton and Ottensmeyer (11) similarly proposed “that organizations in different environmental contexts and with different internal structures will have different forms of SIM systems serving different functions because of varying informational (information richness) and political (accountability) problems.” They suggested that whether an SIM system might be designed to monitor either internal or external issues depends upon the organization’s needs.

At the center of the model is the identification of three CSR domains derived from Strand (10). He identified basic categories of “human needs as material, social, or psychological.” In the Winfrey (1) model, a modified version these needs are at the center of the model. These “physical/natural, psychological, and social needs” are conceived as the very origin of corporate social responsibility decision making dilemmas. The delineation of these three CSR domains in the model is consistent with an observation by Sethi (12), “we must develop a schema to distinguish among various external environments within which a given corporate response to a set of social

problems must be evaluated.” Dyads of any combination of governing institutions, corporations/firms, and actor/entity participants interact within the three ethical and cross-cultural domains: physical/natural, psychological, and social.

Additional moderating influences are also represented in the model, the socio-economic infrastructure and the cultural ethical state. The socio-economic infrastructure draws selectively from Carroll’s (13) comment that a definition of social responsibility must include certain expectations of business performance. On the economic level the firm has a responsibility to produce goods and services that society wants and to sell them at a profit. On the legal level the firm has a responsibility to fulfill its economic mission within the framework of the social system under which a business is expected to operate. It is clear that in the international context, economic, cultural, and social conditions will moderate CSR decision making due to value differences.

The remaining element of the model is the moderating influence termed the “state of virtue ability.” This element draws from Carroll’s (13) notions of ethical and discretionary levels of responsibility, and merges them with Martin’s (14) notion of “virtue” ability and readiness. Martin (14) recognized that the expectations of corporate responsibility would vary by “world civilization.” Martin described these inconsistencies as a “virtue matrix” composed of a foundation on which there were frontiers



of both structural and strategic opportunity. Unlike the language used by both Carroll (13) and Martin, (14) the proposed model does not presume that ability and readiness are solely behaviors linked to the corporation.

As illustrated in Figure 2, the paper

specifically characterizes the transnational governing institutions that may participate in dyad. The transnational governing institutions operate in a context of specific environmental conditions that, in turn, influence their participation.

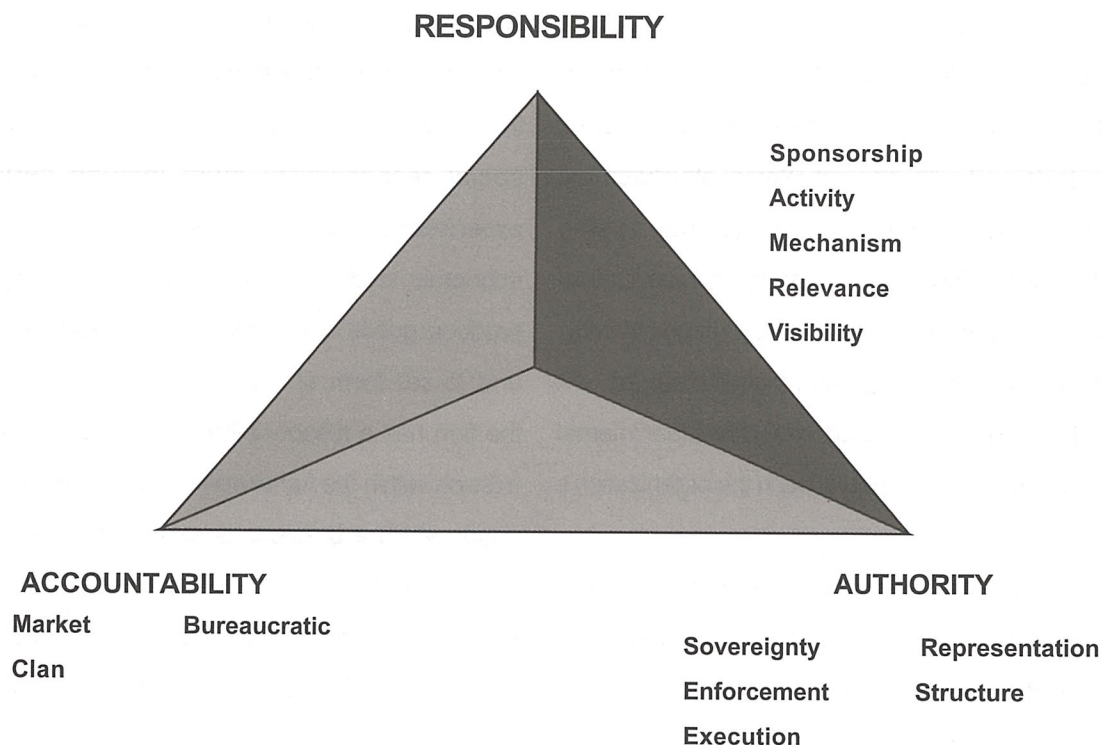


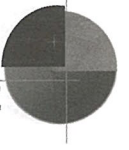
Figure 2 Characteristics of Governing Institutions

Governing institutions

The main purpose of this paper is to elaborate on the overall model element termed “governing institutions” in the transnational context. What is meant by the term institution or institutional structure?

The conceptualization of an institution or institutional structure utilized here relies on

an understanding of reality as socially constructed and enacted in discourse. Scholars have long argued that organizations actively participate in the social construction of their environments. Institutional structures require knowledge conceptualized as pragmatically oriented sets of rules and standards as techniques or general procedures



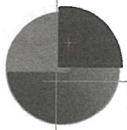
applied in the enactment of social practices. Like all social rules, institutional rules are always dependent on their interpretation and application by interested actors. Organizational actors rely on institution- alized rules and standards as guides for what is acceptable and legitimate action within their domain. Standards of practice provide guidelines, norms, and legal prescriptions relating to how practices are to be carried out within some specific context or universe of action (15). Generally, the charters of international organizations specify the decision-making organs and allocate competences among them. Articles of agreement usually set out the organization's objectives, its governance structure, its functions, and its powers. The articles of agreement provide a self-contained and coherent system that details the rights and obligations of members, procedural safeguards, and the rights and status of the institution (16). The manner in which organizations adopt structures, procedures, or ideas is not based always on efficiency, but rather on considerations of external definitions of legitimacy (15).

The fundamental relationship between action and social rules implies the possibility of change. The legitimacy of rules and practices is dependent on their continual reproduction through social interaction. The creation, maintenance, and support of international organizations stem from the unrelenting realities of international interaction

and interdependence and the realization that nation-states can achieve better value outcomes acting collectively rather than alone (16). Consequently, institutional rules are not fixed and determined, but rather the subject of ongoing formations and transformations by motivated actors. Furthermore, because institutional rules create asymmetrical power relations among the actors involved, the less privileged actors are often motivated by existing rules to work to overcome or transform them (15). Holder (16) has suggested that international organizations vary so much that with regard to responsibility it may be unreasonable to look for general rules applying to all international organizations.

Next, the criteria for including identifying factors that comprise governing institutions and lists factors should be logically considered as part of a governing institution. An institution that governs receives its legitimacy by virtue of the fact that it has been delegated some domain to control by an entity, entities, or group of actors. Thus to be an element comprising part of a governing institution, the factor must have been delegated.

In their discussion of delegation, Bushardt, Fowler, and Fuselier (17) identify the key elements characterizing a governing institution: "the exchange of authority from a superior to a subordinate;" the one receiving responsibility becomes accountable (accountability); and "the delegation of



responsibility adds to the total amount of responsibility in the hierarchy." This paper uses these basic concepts of delegation as the three key components of "governing institutions:" authority, accountability, and responsibility.

For the purposes of this paper a governing institution is defined as some actor/entity that is delegated authority, responsibility, and accountability from some source. Thus, the potential actors or entities that may be defined as governing institutions are varied.

Actors

Governing institutions include nation-state governmental entities, individual countries or city-states. Such traditional governmental entities include their respective executive, legislative, judicial, and administrative subunits.

Multinational alliances may be considered as governing institutions. These would include economic associations or economic unions, trading agreements, and mutual military assistance organizations.

Certain types of business infrastructure providers may also be construed as governing institutions: accounting standards boards, the International Air Transport Association, Central Banks, labor unions, and so forth. Resource markets, particularly capital markets, may be defined as governing institutions, such as the New York Stock Exchange, the NASDAQ, the Chicago Board of Trade, or others.

Nongovernmental organizations may

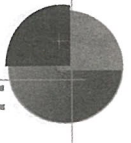
act as governing institutions depending upon their charter. The International Red Cross and the International Organizing Committee for the Olympic Games are two such examples.

Finally, global entities may be construed as governing institutions. They would include entities such as the United Nations, the World Trade Organization, the World Bank, and the International Monetary Fund.

Authority

Weber defined authority as "the probability that certain specific commands (or all commands) from a given source will be obeyed by a given group of persons" (18). "Authority arises only if all the [actors] rationally accept a governance structure by a constitutive agreement, in the perspective of mutual advantage" (19). The key rationale for authority is the virtue of goals and the degree of consensus associated with goal formulation and promotion. What legitimizes authority is the promotion or pursuit of collective goals that are associated with group consensus (18).

According to the social contract view, inter-agent transactions are governed via formal authority relationships among all agents participating with the governing institution (19). The authority is legitimized from the institutional "constitution" that specifies the set of rights and duties governing transactions with the institution. The constitution provides for the right to exercise authority, the right to



monitor the execution of authority, and the fiduciary duties towards other stakeholders with respect to legitimate claims (19).

The model details the basis of authority of transnational governing institutions along a number of tentative dimensions: sovereignty, representation, enforcement, structure, and execution. Sovereignty is derived from a variety of sources autocratic, authoritative, representative or democratic. Representation is derived from hierarchical, participative, patriarchal, or equality sources. Enforcement is determined either by right or ability. Structure originates from codification, independence, configuration, or operating characteristics. Execution is determined by values of utility, justice, or stewardship.

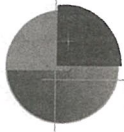
Responsibility

A generally accepted management principle, the parity principle, requires that the amount of authority delegated to subordinates should equal the responsibility given to them (17). The term responsibility is derived from the word "response," and is generally used in the context of reputation and response relations. In their review of the topic, Velayutham and Perera (20) used the Niebuhr definition of responsibility as "the idea of an agent's action as response to an action upon him in accordance with the interpretation of the later action and with his expectation of response to his response; all this in the community of agents." This is consistent with

community of agents." This is consistent with Holder's (16) notion of responsibility that "an international institution's credibility depends upon its observing the constraints, protections, and procedures of the articles, and the resulting assurance that its actions adhere to existing policies." Wellens (20) similarly noted that "when member states establish international organizations and entrust them with certain functions, they must charge the organizations with the "attendant duties and responsibilities."

Hafner (21) defined responsibility as "the legal consequences of noncompliance with an international obligation by conduct that is attributable to the organization." He noted that the term responsibility includes all kinds of actions by international organizations, not only towards states (members or not), but also towards individuals. Wellens (22) cautioned that "states are under an obligation not only to respect but also to ensure or secure respect." There is a conventional obligation for them to provide adequate supervision of the international organization to protect not only their own interests but also the interests of third parties.

The proposed model of transnational governing institutions details the basis of responsibility along following the tentative dimensions: sponsorship, activity, mechanism, relevance, and visibility. Sponsorship is created at the following levels: association, group, industry, nation-state, regional, or global. Activities include relationships, interdependence,



standard setting, and compliance. Mechanisms include threat, deterrence, accommodation, negotiation, and capitulation. Relevance is determined by clarity, consistency, timeliness, compatibility, and communicability. Visibility is derived from presence in a home country, host country, region or regions, or around the globe.

Accountability

Accountability is not an end in itself, but a means to achieve public consultation and activation of review processes (20). Accountability opens institutions to scrutiny, invites input into their decision functions and the actions of their officials, and encourages assessment by civil society generally (16).

Accountability is called for in any stewardship relationship. Day and Klein pointed out that accountability implies a shared set of expectations and a common currency of justifications. Accountability requires a code or codes which govern the establishment, execution and adjudication of stewardship (16) stated, "the articles of agreement of the governing institution contribute certain principles of internal accountability between actors. External accountability mechanisms focus on interested parties beyond the institution and its membership."

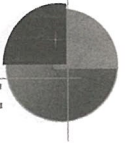
The exercise of governing authority is legitimated by the requirement of public accountability (20). Accountability includes primary norms regulating the policy of international

organizations that include transparency in both the decision-making process and the implementation of institutional and operational decisions. These principles define and eventually limit the ways these organizations exercise the powers they obtain from the states. They comprise a set of norms that govern activities of organizations in a general way. (21)

Similarly, Grigorescu (6) noted that theory has long recognized that a key characteristic of democracy is the continued responsiveness of the governing institutions to the preferences of its participants. Even the most minimalist understandings of what democracy entails include the ability of participants to complain and assume that one should have access to official information in order to know about what to complain. Thus, transparency of governing institutions toward their societies is seen as a necessary factor of official accountability and responsiveness.

Governing institutions have a twin duty, opacity, based on the need to protect information provided by members. The need for opacity is required in certain circumstances: a mutual understanding of confidentiality, market-sensitive information, information on the conduct of negotiations with members given to members, and the deliberations of certain organs (16).

The model details the basis of accountability of transnational governing institutions along three tentative dimensions: market, bureaucratic, and clan. Market-based



accountability refers to exchange pricing based upon resources, infrastructure, and regulation. Bureaucratic-based accountability refers to formalization and centralization based upon design intent, scope, and specificity. Clan-based accountability refers to culture based upon levels of sensitivity, trust, honor, and values.

Environment

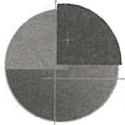
One would expect governing institutions and their participants to moderate their balance among authority, responsibility, and accountability based upon the particular environmental conditions they face (17). Environmental conditions include change frequency and rate, business model, and position and munificence level. The frequency of change and rate of change indicate whether the governing institution operates within a static or dynamic environment (another contrast often used to describe the environment is that of stable versus turbulent). The proposed model indicates whether decision making is simple or complex in its nature. It also suggest how expensive it is to process information and effect action. The position level indicates whether the governing institution is perceived as weak or strong actor. The munificence level indicates whether the governing institution is secure or potentially exploited.

Conclusion

This paper has presented a description of the key elements of governing institutions and suggested their composite factors based upon the concepts of delegation and parity. Empirical studies and observations about business-society interaction have previously taken for granted or ignored the nature of governing institutions. Although these studies have been careful to identify and operationalize firm-specific (business) variables they have usually defaulted to a black-box approach to governing institutions. These studies have typically defined or operationalized governing institutions as either a legislature or a particular regulatory agency.

While features or qualities of individual entities do not constitute a theory (2), the development of theory must begin with detail and accuracy in the problem statement (3). Before sense can be made of relationships among concepts there must first be a sufficient characterization of the problem and its key constructs. A more detailed examination of the government construct (or governing institutions) might provide a better framework for delineating and interpreting patterns or discrepancies in observations (23).

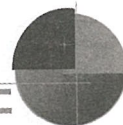
This paper has introduced a framework for understanding the nature of governing institutions. What remains to be accomplished is to identify how the key elements of governing institutions (and their constituent factors) might



affect relationships among the various actors, and under what specific environmental conditions the key elements might shift in importance. Business and society theorists will need to work with this descriptive contribution under various conditions to determine its efficacy and value (23).

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