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Rethinking Global Governance: Market Actors and Accountability

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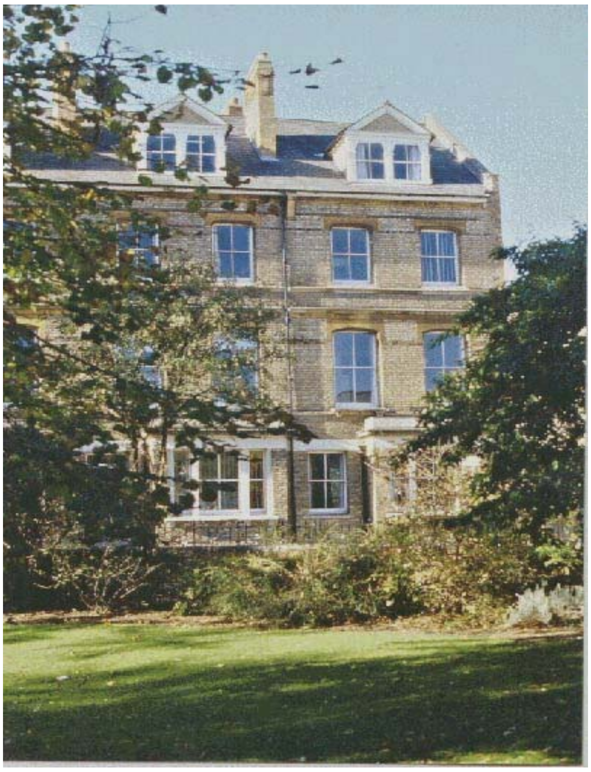

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Abstract: *Although globalisation is not an anonymous and irresistible force, nation states are said or perceived to lose parts of their autonomy to steer national (social) policies. Theoretically the loss of governance capabilities could be compensated through a system based on international or transnational actors. In this context, we are particularly interested in practices of accountability in the emerging transnational political sphere that reach beyond mechanisms of democratic accountability. While democratic accountability might be one possible mode of accountability, what are other potential modes of accountability and their sources as well as scope? These theoretical questions will be elaborated through an examination of social policy activities by Transnational Corporations (TNCs). Thus, this paper aims at integrating two different academic debates relating on the one hand to the issue of global governance or the politics of the international system, anchored in international relations and, on the other hand, to transnational social policy embedded in social policy and management studies.*

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1. Introduction

Globalisation has become a buzzword for many observers trying to identify the forces determining economic and social policies since the 1980s. Although we acknowledge that globalisation is not an anonymous and irresistible force, nation states nevertheless lose or are perceived to lose parts of their autonomy to steer national economic and social policies. This may create a lack of accountability and legitimacy if international or other forms of governance cannot compensate for the loss. In the first section of our paper, we will discuss global governance and accountability largely from an international relations (IR) perspective and delineate various mechanisms of accountability.

In a second step we then discuss these mechanisms in the context of transnational social policy from a theoretical perspective. In our view transnational corporations (TNCs) must be analysed as potential agents of transnational social policy development in order not to step into the same analytical trap as most comparative social policy research has done in the past until the recent focus on employers as (potential) agents promoting (certain) social policy provisions at the nation-state level (Martin 2000; Swenson 2002; Mares 2003). More specifically we identify various external conditions and internal triggers which are potentially relevant for a systematic analysis of TNCs' social policy activities. Based on the discussion of the literature we derive a set of propositions about the social engagement of TNCs in developing countries. We conclude by suggesting a conceptual framework how to approach the study of TNCs by incorporating organisational sociology in IR literature.

In the following section we present four illustrative case studies, exploring various mechanisms of accountability and modes of transnational social policy in the 'real world'. This analysis for one demonstrates that there are indeed accountability mechanisms at work in the transnational sphere which are located outside the usually state-centred governance structures or those governance structures based on international organisations (IOs). Secondly, new private and public-private mixes of governance arrangements with various combinations of the different accountability mechanisms seem to be emerging. Thirdly, TNCs seem to be involved in a wide variety of transnational social policy areas reaching beyond the limited focus on labour standards that have dominated public policy debates for years. Finally, we call for more empirical research in order to flesh out the extent and reach of corporate social policies, its various governance structures as well as the conditions under which these evolve. Only after we have a more comprehensive picture of these developments can we make substantial arguments about global governance and accountability in the realm of transnational social policy. This exploratory paper should be considered as a contribution to the theoretical debate on corporate social policies, conceptualising the conditions under which firms can effectively become agents of accountability in global governance.

In sum, the paper makes the following four arguments: First, instead of treating corporations as a given entity with stable economic preferences we argue for opening the black box TNC, considering their agency and conceptualising them as social and political actors. Hence, we argue for combing IR theories with managerial approaches and organisational sociology. Second, based on our conceptual framework we suggest a set of propositions that can be empirically tested. Third, following the description of the four illustrative case studies we suggest a 'variety of corporate social policies'. While many case studies about socially responsible behaviour of firms exist we argue that it is important to differentiate *what* exactly it is they are doing. Fourth, we argue for a comparative case study approach to the analysis of TNCs. Comparing cases will allow us to derive specific mechanisms and/or patterns based on *types* of firms that apply beyond specific situations. This is in line with Weber's method of ideal types (Weber 1973).

2. Global Governance and Accountability

Global governance is a widely used, but often not very well specified concept. Pattberg (2006) distinguishes between three different ways in which global governance is used in the literature, an analytical, normative and discursive version. The analytical version refers to governance as an integrative concept that embraces current developments and changes in world politics (in particular in IR, e.g. Hall and Biersteker 2002; Held and Koenig-Archibugi 2005). This perspective starts from the initial assumption of the transformation of political organisation and problem solving mechanisms at the international level and searches for new actors, patterns and practices in world politics. The normative understanding of governance employs the concept as a political endeavour calling to overcome democratic deficits that emerge through processes of globalisation in the economic sphere that are insufficiently accompanied by similar processes in the social sphere (Held 1995). The discursive notion analyses global governance critically as an hegemonic discourse which is used to conceal a current trend in world politics to deregulate and accompany processes of globalisation (Brand 2003). While Pattberg (ibid.) criticises the interchangeable use of the three different understandings of governance and argues for greater clarity and less conceptual polysemy, we are less convinced that it is possible or desirable to clearly focus on one of these three different uses of global governance. This is to say that a sound study would capture a theoretical and conceptual framework focusing on a specific empirical problem which is very often related to normative or political issues and might be able to critically assess current debates by means of its results.[i] This is precisely the aim of the article. We start from theoretical debates on global governance and argue for *combining* it with a specific empirical issue, i.e. social policy in the international sphere. While doing this, we hope to be able to contribute to theory building and, at the same time, to normative and critical debates on social policy at the global level.

Global governance in this article is conceptualised as "formal and informal bundles of rules, roles, and relationships that define and regulate the social practices of state and non-state actors in international affairs" (Mattli 2001, 332). This is slightly different than perceiving global governance as institutionalised ways of interaction and a specific order within the international system *without* the participation or presence of formal states. Such forms of "governance without government" (Rosenau and Czempiel 1992) had been the starting point of the governance debate and have been identified in the international system (ibid.; Kratochwil 1989). Ever since, debates have developed and focused on different degrees of the "public-private mix" (Drache 2001). In other words, we do not assume that nation states completely lose their relevance but that national governments are only one actor among a variety of other actors involved in public issues. There are two consequences from these developments: First, questions arise about new relations between the state and society. A second implication from this transformation is the fact that global governance is referred to as changing the international political system. Pattberg (2006, 18) suggests using global governance "… as a concept for the assessment of large-scale socio-economic transformation and the resulting reorganisation of the political realm". This is in line with Ruggie's argument that transnationalisation is transforming the world polity (Ruggie 2004). The main characteristic of that transformation are shifts in legitimate authority, i.e. power (Weber 1980). As Hall and Biersteker (2002) argue, boundaries between the domestic and the international arenas are blurring and a growing number of non-state actors have appeared in the international system and are ascribed various degrees of legitimacy and authority.

While some analyses, which Pattberg (2006) would classify as normative, would at that point remain rather descriptive-evaluative (e.g. Deacon 1997) or critical-normative, calling for greater accountability at the transnational level (Held 1995), main parts of the IR and governance literature have been focusing on approaching the question of democratic legitimacy at the international level from a theoretical perspective (Scharpf 1999; Moravcsik 2005; Zuern 2005). More precisely: "Is global governance – the structure of international institutions – democratically legitimate, or does it suffer from a 'democratic deficit'?" (Moravcsik 2005, 212) seems to be "*the* central question in contemporary world politics" (ibid.). Referring to 'democratic deficits' in world politics means usually the following list of issues (Dahl 1994; Held 1995; Dahl 1999; Scharpf 1999): (1) With the entry of new actors into the international sphere, or more precisely, with their increased power in decision-making, we are at first faced with the problem of identifying decision-makers who are accountable for specific actions. (2) Even if we detect the 'right' actor accountable and have enough information about their actions and decisions, a second issue arises, namely to whom are they accountable to. International organisations for instance such as the World Bank and the IMF serve a variety of constituencies. Are they accountable to their debtors or rather to the donors or as recently becoming more important to the poor? Others such as TNCs or NGOs are only accountable to specific groups of people. (3) This finally touches upon another issue, i.e. a missing transnational political community. In sum, these issues refer to information or transparency problems, the question of democracy in an international system and finally the possibility to have values and norms shared by an international (political) community.

This argumentation using an analogy, comparing the international sphere with the nation state and drawing the pessimistic conclusion that a similar democratic system is not possible beyond the nation state is mainly followed by scholars of (global) social policy studies (Deacon 1997, 2007). As a consequence, therefore, it is argued that one needs to address social policy at the national level despite processes of globalisation and a transforming world polity, or precisely because of them. Alternatively, it is sometimes argued that similar mechanisms that work on the nation-state level also have to be created and implemented on the transnational level, for instance a court of justice to ensure individual rights across borders. Chiefly however it is noted that a collective identity or, differently put, a notion of global sovereignty is very unlikely to be constructed at a global scale. Such an understanding of a 'we' – of *one* community – is however assumed to be the basis for solidarity and thus any democratic system (cf. Streeck 2001; Habermas 2001). In other words, the literature in this field seems to start from the assumption that mechanisms of democratic accountability are the only way to imagine social policy in a transforming national and international context. Firstly, it does not question the functioning and effectiveness of democracy on the nation-state level. Secondly, it seems not able to imagine that other mechanisms of accountability are possible. But, as Moravcsik put it (in a slightly different context): "If such an assessment is not to be an exercise in utopian thinking, then international institutions should not be compared to ideal democratic systems." (2005, 213)

Recent IR literature, or more specifically, studies of global governance offer conceptualisations that depart from this narrow thinking in democratic terms (among many, Biersteker and

Hall 2002; Kahler and Lake 2003; Dingwerth and Pattberg 2006; Djelic and Sahlin-Andersson 2006). If we are to fully grasp politics in a transnational system theoretically then we have to think beyond democracy in a nation state as we know it. We have to understand what it is that makes actors comply with rules beyond the nation state. What are the sources and forms of legitimacy in a transnational political system? The construction of democratic sovereignty as a source of legitimacy does not seem to be realistic or even possible on a global level. In this context, Muench (2003) argues that analogies with the nation state are misleading and that there is a need to think beyond national categories and to derive new modes of legitimacy. Similarly, Grant and Keohane argue that extrapolating from national models of democracy will not help us in theorising about "power in world politics" (Grant and Keohane 2005). Instead of referring to legitimacy they focus on accountability and offer an alternative analysis that considers democratic accountability as only one possible mode of accountability.[ii] Subsequently different mechanisms of accountability might be relevant to different actors and these may operate to varying degrees of strength in different contexts in terms of their ability to constrain power.

In this paper we rely on the definition of accountability suggested by Grant and Keohane (2005, 29), whereby

> Accountability [,…,] implies that some actors have the right to hold other actors to a set of standards, to judge whether they have fulfilled their responsibilities in light of these standards, and to impose sanctions if they determine that these responsibilities have not been met.

According to them we can differentiate between two models of accountability: participation and delegation. Participation refers to processes where directly affected fractions of society hold power-wielders accountable for their decisions, whereas in the delegation model power-wielders are judged by those who delegated authority to them. Both mechanisms are present in a nation state context. However, they also apply beyond a democratically organised society or community and thus are – as analytical tools – expandable to the international sphere. NGOs for instance are a good example where a fraction of society is *participating* in the political process aiming to hold these actors accountable. Nation states, on the other hand, are *delegating* power to IOs.

Based on these considerations, Grant and Keohane (2005) differentiate between seven mechanisms of accountability: Hierarchical, supervisory, fiscal, legal, market, peer, and public reputational accountability. While the first four rely on delegation, the last three follow the participation model. Hierarchical accountability refers to relationships within organisations whereas supervisory accountability addresses relations between organisations or so-called principal-agent relationships. Fiscal accountability refers to control and sanctioning mechanisms from funding agencies to recipients. Legal accountability refers to the adherence to laws enforced by courts. Market accountability describes the influence investors and consumers have through the market. Peer accountability is based on mutual evaluation amongst the same organisations. Finally, reputational accountability may play a role in all of the mechanisms mentioned above and refers to public naming and shaming of specific actions.

These different mechanisms of accountability give us insights into various ways to sanction abuses of power. They are not exhaustive, mutually dependent and might overlap to some extent. As Grant and Keohane (2005) point out, different mechanisms of accountability can apply to different actors in world politics. In the following sections we will explore various conditions under which certain accountability mechanisms might function in regards to transnational social policy. We will derive propositions about TNCs engagement in social policy issues in developing countries.

3. Accountability in Transnational Social Policy: The Case of TNCs

Over the last three decades the web of international economic exchange has been widening and deepening. Although this development has been uneven in a sense that the increased international economic transactions do not include every world region in a similar way, it has increasingly become global. As part of this globalisation process, economic and societal actors formerly focusing primarily on national economies have developed their reach beyond traditional boundaries. Above all TNCs have to be mentioned as core actors, driving the process of economic globalisation. A recent estimate puts their number at 63,000 up from about 35,000 in 1990. The revenues of the world's 100 largest corporations are said to be equivalent to 20 percent of world GDP; and 51 of the world's 100 largest economies are companies, while only 49 are countries (Roach 2005). Hence, not surprisingly they are perceived to have significant leverage influencing the economic and social policy conditions in host countries, thus reducing nation state autonomy. Some would even characterise these companies as the modern day *Leviathans* (Chandler and Mazlish 2005). Although recent quantitative research has shown that while globalisation can have significant effects on social policy developments in rich OECD countries, the direction of the effects heavily depends on the way we conceptualise 'globalisation' and the 'welfare state'. Moreover, domestic variables seem more important than 'objective' globalisation variables (cf. Brady, Beckfield et al. 2005).

In emerging and developing economies the influence of TNCs is much more likely to have a significant impact. Enterprise and export promotion zones with very liberal regulatory frameworks are deliberately created to attract TNCs. Thus social and labor standards are often said to be rather low. Furthermore, state actors are often incapable or unwilling to enforce national standards, to some extent due to the fact that, "TNCs' opportunities for 'exit' turn the accountability relationship upside down by making governments accountable to TNCs …" (Koenig-Archibugi 2004, 242). In addition, societies in many countries are confronted with various obstacles that undermine the introduction of and compliance with domestic social policies. Security, corruption, a lack of democratic accountability, and insufficient financial as well as infrastructural resources are among the very basic issues that need to be mentioned in this context (cf. Gough, Wood et al. 2004). Thus unsurprisingly compliance with existing international regulations in many countries is not internally achieved and the International Labor Organisation (ILO) lacks effective instruments to enforce minimum social and labor standards. Basically it has to rely on "naming and shaming" as well as technical support to attempt to rectify the situation. The ILO procedures fall into the category of public reputational accountability. However, the *General Reports of the Committee of Experts on the Application of Conventions and Recommendations* published annually do not necessarily trigger wide international attention nor are they promptly acted upon in countries with a dismal record (cf. Weisband 2000). Consequently, for some time scholars as well as activists have called for the introduction of *binding* labor and social policy standards into international treaties governing trade and finance. However, attempts to integrate such standards into the WTO framework have been unsuccessful. Opposition to such proposals was not driven by the 'neo-liberals' in Washington, but have largely come from nation states in the developing world arguing that, the introduction of such a regulatory framework within the WTO would undermine their competitive advantage. If the initiative to incorporate social and labor standards into the WTO framework had been successful, the mechanism of accountability would have shifted to the legal sphere. As has been shown, litigation has been a quite successful means to achieve compliance in the area of international trade (Steinberg 2006).

Based on a 'realistic' perception of the current power structures, it does not seem very plausible to expect an effective IO-based governance structure in regards to transnational social policy or even a 'ratification' of a 'global covenant' as has been proposed by Held (2004). Some observers might argue that as long as we do not witness a significant change of these context conditions, the possibility of improving the social conditions in developing countries are very slim. However, this pessimistic scenario does not take into account other potential avenues for new modes of global governance leading to increased accountability in a global economy.

Evidence shows that most large TNCs have introduced voluntary codes of conduct regulating social and labour standards. Thus TNCs might not only constitute the 'bad guy' or a main problem in regards to social and labor standards and policies in a global economy, but perhaps can also contribute to the solution. Despite a large number of publications on the topic (for a review see Vogel 2005), theory-guided systematic studies of the impact of the policies adopted by TNCs on global governance seem to be missing. Generally, we can distinguish between two different strands in the literature. On the one hand, there is the corporate social responsibility literature located in managerial and social policy studies (Pearson and Seyfang 2001; Porter and Kramer 2002; Zadek 2004[iii]). On the other hand, the issue of social and environmental standards, codes of conduct, the role of IOs in international norm setting or NGOs and civil society that put pressure on various levels becomes increasingly an issue in governance studies and IR literature (among many Hall and Biersteker 2002; Held and Koenig-Archibugi 2005; Djelic and Sahlin-Andersson 2006; Dingwerth and Pattberg 2006). The problem is that both literatures are rarely linked with each other.[iv] This is to say that the first tends to neglect corporation-external factors in the wider international environment of the corporation, whereas the latter ignores the agency of corporations and treats them as black boxes. In a first step, we discuss potential reasons for companies to accept certain standards and policies. Without such an analysis we cannot assess TNCs as organisations with the potential to enhance accountability in the global economy. Secondly, we outline some of the likely external conditions that may affect TNC behaviour. From both, internal motives and external conditions, we derive general propositions which can be tested in further research to ascertain the respective accountability mechanisms.

Internal Motives

According to a core belief among many economists "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman 1962, 133). Is this the only reason for companies to adopt corporate social policies? Why are we seeing a proliferation of a wide variety of social policy activities? Extrapolating a parallel trajectory from social policy developments within national economies, a closer look at the specific motivations of companies in an historic perspective unveils a wide variety of reasons, reaching from a perceived moral responsibility for workers, functional economic necessity, towards social control (cf. Elkins 1977). In most cases the various motivations are very likely to overlap. Furthermore, it can be argued that traditional social policy arrangements become inadequate for the needs of increasingly capitalistic exchange relationships and new arrangements are often first developed at the community or company level. In this respect one could refer to the establishment of corporate social policies in the 19th and early 20th century in Europe and North America by companies such as Siemens, Kodak or General Electric. As Jacoby (1997, 47) has argued in regards to arrangements by so-called welfare capitalists in the US during the first half of the 20th century, the priority to establish corporate arrangements stemmed "also from top management's belief that the corporate Gemeinschaft possessed moral worth, boosted productivity, and aligned employee interests with those of management." Thus we should not really be surprised that TNCs develop similar arrangements in an era of globalisation. Moreover, the development towards corporate social policy could be understood as part of a "general sequence of actions" (Mathis 2005). Based on a review of the literature we will develop a number of propositions, which may guide future research.

> *Proposition 1: Strong managerial leadership can lead to the introduction of corporate social policies.*

If we look at the various motives in greater detail, one reason for TNCs to engage in corporate social policies could be that, corporate leaders perceive it as their normative responsibility to provide certain policies or such provision may constitute part of their "managerial ego satisfaction" (Elkins 1977). Such managerial leadership in the adoption of corporate social policies assumes that managers have a high degree of autonomy. Independently of the manager's individual motives, once committed to corporate social policies public *reputational* and *peer* accountability mechanisms seem to be most relevant.

> *Proposition Two: Investors and consumers of TNCs specialising in certain brand products can trigger corporate social policies.*

Although we should not rule out this possibility, it arguably does not seem to have a high degree of probability in a globalised economy, if it is not supported by various stakeholders. As there has been an increased flow of capital into "socially responsible investment" during the past decade, one could hypothesise that companies do not want to be left out from this development in global capital markets. Similarly, companies of brand products may need to take the social preferences of their consumers seriously, if they indeed base their consumption behaviour on their stated preferences.[v] Therefore companies may develop certain minimum social and labour standards, at least at the symbolic level, to appease/satisfy the growing number of socially responsible investors and consumers. This mechanism can be reinforced through campaigns organised by NGOs and unions. Providing some social policy could thus be understood as paying “a risk premium” for the sake of continued production and sales, i.e. corporate social policies would function to pacify and accommodate certain interest groups. Accountability could be achieved through a *market* mechanism.

> *Proposition Three: Certain industries are more susceptible for the introduction of social policies than others. Once an industry-wide policy has been adopted this could trigger the implementation of the policies through cartel-like structures.*

Once a company has introduced such a policy in response to stakeholder expectations, this might lead other companies within the same sector to adopt similar codes, and eventually trigger a dynamic process leading to an industry-wide code (Kolk 2005; Kolk and van Tulder 2005). From a theoretical perspective sectors with a high number of brands as well as specific sectors such as toys, clothing and food seem to be most likely candidates for industry-wide regulatory frameworks. Who wants to have their kids play with toys made by child labour or to wear cloth knowing that it has been produced in sweatshops (Freeman 1998; cf. Heidkamp et al. 2007)? Once an industry-wide code has been institutionalised we might speak of cartelism, i.e. each enterprise will have an interest that none of the competing companies undercuts the agreed standards in order to gain a competitive edge. In these situations *peer* accountability seems to be the decisive mechanism, while NGOs function as enforcers (cf. Swenson 2002, 22 ff.).

> *Proposition Four: Corporate governance structures and the structure of the value chain can have significant impacts on the adoption and implementation of corporate social policies.*

Corporate governance structures might be of relevance for three reasons: Firstly, companies in liberal market economies usually rely on ‘outside’ capital, whereas companies in Europe and Japan rely more heavily on an “insider” system limiting the control of the shareholders over CEOs (cf. Kolk and van Tulder 2005). Thus the former increases the propensity for liability and class-action suits. Secondly, if a corporation decides to invest abroad it will most likely rely heavily on its ‘home’ management and not necessarily adjust to business strategies common in the host country. Hence, existing governance structures, including works councils, might affect firm behaviour beyond borders (cf. Lane and Probert 2006). Thirdly, taking the lead from Gereffi (1994) it may make a difference whether companies belong to a buyer or producer-driven value chain. Snyder (1999, 363) argues, if the number of dominant buyers is limited, it thus makes them more susceptible to political pressure. Furthermore, "dominant buyers, whose power rests on their control of brands and marketing, are able, in effect, to determine the content of industry-wide codes of conduct and to impose them on their suppliers, at least contractually if not always in practice. Codes of conduct thus are analogous to multilaterally negotiated treaties …". This mechanism falls into the category of *legal* accountability.

> *Proposition Five: The adoption of corporate social policies will be dependent on the skill requirements of the firm and the financial resources available.*

As social policy research has shown social policies do not only constitute a cost factor for companies, but companies as well as the economy in general can benefit from the provision of social policies (Vobruba 1991; Martin 2000). Taking the lead from the 'varieties of capitalism literature', TNCs might have an interest in certain social policies, as they are complementary to their needs of skill formation. Thus there should be a correlation between social policy provisions and the skills required by the firm. High skill requirements by the firm will lead to a greater likelihood of corporate social policy provision, assuming no or only a minimal provision by the host country (Mares 2003). In a similar vein and once again taking the lead from national experience, one can argue that large corporations tend to have greater financial resources enabling them to provide corporate social policies. Other economic arguments, such as market share or access, might also prove relevant. Providing corporate social policy in this case is based on pre-emptive accountability mechanisms, driven by strategic business interests.

External Context

After having identified potential corporate motives for social engagement, we have to address the issue of external conditions influencing TNC action, since they are embedded in a complex institutional and political structure.

> *Proposition Six: High salience of international conventions and declarations on global social policies will increase the likelihood of firms introducing corporate social policies. NGOs can be instrumental in determining the salience.*

Firstly, IOs or supranational bodies are crucial actors in setting social standards for TNCs. The most prominent examples are the *Global Compact* established by the United Nations (United Nations 2000), the OECD's guidelines for multinational enterprises (OECD 2000), the European Union's *Green Paper on Corporate Social Responsibility* (EC 2001), and the ILO's *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy* (ILO 2001). These guidelines constitute an overall normative environment, which *can* trigger *reputational* accountability mechanisms.[vi] In this context the role of globally-connected NGOs has to be stressed. It is increasingly them, who have become pro-active in the agenda-setting process of naming and shaming corporations for their 'irresponsible' conduct (Gereffi, Garcia-Johnson et al. 2001). Furthermore, they can act as policy entrepreneurs for specific global social issues. Once global social issues have been firmly anchored in the international political debate, dealing with these issues – even if it is only at the symbolic level – becomes a necessity for every transnational actor exposed to public scrutiny

> *Proposition Seven: A combination of high incentives for companies to invest and low standards of governance in the host country will decrease the likelihood of corporations to introduce social policies at the firm level.*

Secondly, the national context of the country in which a TNC invests might be relevant as regulatory frameworks determine their scope of action. National governments might try with a variety of incentives to attract (or keep) corporations and investments in their country as well as make them comply with their national standards or not (see e.g. UNCTAD 1995, 291ff.). Furthermore, of interest in this respect are overall levels of governance and democracy, e.g. measured by the extent of the rule of law, the level of corruption, and the power of civil society etc. Finally, the region in which the country is located might be a decisive factor as well. TNCs investing in industrialised countries might not need to care about social policies since these are largely provided by the respective state.

> *Proposition Eight: TNCs that are headquartered in industrialised countries, especially in those which regulate firm behaviour outside the 'home country', are more likely to develop corporate social policies.*

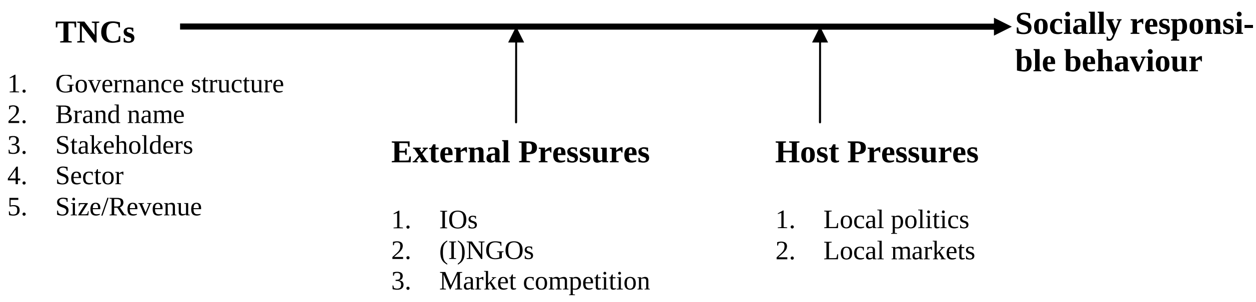
Thirdly, the home country of the corporation could be influential as the respective regulatory framework might reach beyond territorial borders. According to Vogel (2006) some countries have specific laws regulating the behaviour of TNCs abroad. Furthermore, corporations from industrialised countries are more likely to comply with international law and regulations (see Vogel 2006).

All of these factors are potential important criteria for a systematic analysis of TNCs' social policies. Combined with the TNC-internal factors discussed above we arrive at the following table:

CONTEXTUAL FACTORS EXTERNAL	TNC CHARACTERISTICS INTERNAL
Host country/region	Governance structures
	Brand name
Home country	
Global Policy Issues	Stakeholders (employees, investors and consumers)
IOs and international guidelines	Sector
Membership in GC (and others)	Size/revenue
NGOs	Production process (skilled/unskilled labour)

We can distinguish external and internal factors that potentially shape the behaviour of TNCs; the first refer to IR and governance studies, the latter to managerial and organisational studies. Both are interrelated. We therefore suggest to conceptualise TNC behaviour as a two-stage model (see figure 1 below): At the first stage, the external conditions discussed above such as international guidelines and NGOs are perceived as putting pressure on TNCs to incorporate and apply social standards. That means the TNCs are the dependent variable. In the second stage however, we perceive the TNCs' characteristics to be influential in the way in which they engage socially. In other words, the corporation becomes the independent variable. This is to say that different triggers for social engagement might have different effects depending on the type of TNC or the mode of engagement, and also employing different accountability mechanisms with a differing degree of success or strength. Methodologically we therefore call for a comparative case study approach to the study of TNCs which will allow us to derive specific mechanisms based on *types* of TNCs that apply beyond specific situations. This is in line with Weber's method of ideal types (Weber 1973). Such types are abstractions of thick descriptions that, by comparison, highlight variation among cases. Based on each type there will be different ways in which a TNC processes external pressure and engages in social policies or not. In the following section we will discuss these factors in relation to four illustrative case studies focusing in particular on the specific accountability mechanisms in place.

Figure 1. Two-Stage Model



4. Case Studies

The concept of corporate social policy is a vague concept. What constitutes corporate social policy may shift over time and through space. For our analysis we have chosen case studies that document a wide range of different types of social policy engagement by TNCs in order to illustrate in greater detail the theoretically identified contextual factors and internal characteristics as well as accountability mechanisms. The first area of intervention refers to political stability, one of the basic preconditions for the production of welfare. In contrast, the second case describes a much more traditional corporate social policy, i.e. international labour standards referring to child labour, health and safety as well as working time and wage. The third example relates to the second but extends the scope of intervention to major global social issues. We have chosen the example of HIV/Aids as it constitutes one of the most pressing/salient global social policy issue. Finally, we discuss cases of social investment by corporations in community projects and similar activities that, at a first glance, go far beyond what is usually considered to be social policy. The aim of this exercise is to identify patterns of specific accountability mechanisms that apply to certain corporations or specific modes of social activities.

(1) An example for corporate engagement in a country to achieve greater political stability is the case of ‘conflict diamonds’, a gradual process that stemmed from political concerns in regards to the civil war in Angola and the involvement of the mining industry.[vii] The process was initiated by the UN and three different countries, Portugal, Russia and the US (supervisory accountability). In 1998, the UN Security Council adopted the Resolution 1173 prohibiting the purchase of rough diamonds from the *Uniao Nacional para a Independencia Total de Angola* (UNITA) since the proceeds of the sales were said to finance the war in Angola. De Beers, a Dutch company in the diamond industry, was at that time engaged with the Angolan government buying diamonds and immediately complied with this Resolution. Only

6 months after the Resolution was adopted, a British NGO, *Global Witness* published a report on the impact of conflict diamonds in Angola followed by an effective media campaign which drew the attention of politicians in the US and Europe (reputational accountability). Furthermore, they mobilised other NGOs and established an umbrella organisation called *Fatal Transactions* which then distributed information about 'blood diamonds' to retailers. In 2000, the issue regained attention and was extended to Sierra Leone. The following year, the US Congress passed the *Clean Diamonds Trade Act* restricting the import of non-certified diamonds (legal accountability). Even though De Beers claimed to have never been involved in buying 'blood diamonds' they took an active stance in this process since for them it became important to secure consumer confidence in their product (market accountability). They were able to demonstrate credibility in testimony before the *US House Committee on International Relations* in 2000. Many of the issues and proposals discussed in this committee were later used in the *Kimberley Process Certification Regime*. Moreover, De Beers did conduct research on the topic, participated in conferences discussing possible solutions which then became known as the Kimberley Process. This process triggered further actions: First, a joint resolution by the international diamond retailers declared no tolerance for trading in conflict diamonds with the sanction of being immediately expelled from the industry (peer accountability). Second, over the course of the Kimberley Process the *World Diamond Council* (WDC) was established, representing the *entire* industry from mining to retailing instead of only focusing on the latter. Issues extended to health and safety for the workers in the mines. The Kimberley Process is a unique case, bringing together governments, business and civil society, leading to institutionalised collaboration amongst these different parties. Thus it was possible to extend the scope of the original action from political concerns to more traditional social policies. The problem of a credible monitoring system is addressed by a voluntary "peer review".

External actors, IOs, NGOs and governments, were crucial in raising the salience of the issue and fostering a variety of accountability mechanisms. Supervisory, reputational and market accountability were established at the beginning of the process and due to an increasing institutionalisation and legalisation of the issues peer and legal accountability have developed over time. Overall, the 'success' of this process can be associated with the industry sector and the high salience at the international level (propositions three and six).

(2) A second example refers to the adoption of codes of conduct in regards to labour standards specifically in the toy industry and in the coffee sector. Contrary to the first case study, NGOs, such as the *Coalition for the Safe Production of Toys* with the support of other

NGOs in Europe and Asia and without the involvement of IOs and governments, have been instrumental in moving the *International Council of Toy Industries* (membership includes all major toy companies) to accept a code of business practices in 1995 (revised subsequently), after serious incidents at toy factories in Thailand and China. The *ICTI Code of Business Practices* is a voluntary code regulating labour conditions and health and safety at the workplace. According to the code, participating companies will evaluate their own facilities as well as those of their contractors. If companies find contractors in non-compliance with the Code, or to implement a corrective action, this constitutes a breach of contract for which the contract *may* be cancelled. The certification is conducted by six independent auditing companies appointed by the ICTI (ICTI 2004; Biedermann 2005). This regulatory framework gives the large TNCs in the toy industry a potentially effective instrument to enforce compliance with its contractors (cf. Snyder 1999). However, various NGOs have reported continued violations of the Code of Business Practices as companies continued to source toys from non-complying contractors (China Labor Watch 2005; SwedWatch 2005; Aktion fair spielt 2006). Nevertheless, in the meantime companies controlling about 50 percent of the toy industry worldwide, including major players such as Hasbro, Lego, and Mattel, have committed themselves to *only* buy from ICTI-certified companies by 2006. Both Hasbro and Mattel have used the possibility to terminate contracts (Biedermann 2005, 24). Although slow and insufficient the overall process of implementing a Code of Business Practices within the toy industry can be characterised as a positive step forward, which seems to have been largely achieved through a mechanism of reputational accountability driven by NGOs, playing the card of market accountability, and subsequently – although only in a limited way – relied on legal accountability with the owners of the brand names as enforcers.

In the coffee sector we are currently witnessing a similar process towards a code covering the whole sector. Again this sector is dominated by very few TNCs – four companies are said to control approximately 40 percent of the world market. NGOs have pressured various key companies in the sector over the years to accept certain minimum standards of conduct. Although there was some overlap among the various codes, it took an initiative supported by the *German Ministry of Economic Co-operation and Development*, commissioning the *German Coffee Association* and the *Society for Technical Collaboration* (*Gesellschaft für Technische Zusammenarbeit*), to start a multi-stakeholder initiative leading to a *Common Code for the Coffee Community* in 2003. In addition to producers, key companies, including Kraft Foods International and Nestlé, as well as trade organisations such as the *European Coffee Federation*, civil society members such as Oxfam and the *International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association*, governmental as well as international organisations, including the World Bank, have in the meantime become members of the *Common Code for Coffee*. The coffee case demonstrates how in certain cases an initiative by a government can trigger the institutionalisation of a public-private, multi-stakeholder partnership that, if fully implemented, will rely on multiple accountability mechanisms. Differing from the toy industry this code makes specific reference to ILO Conventions (cf. CCCC 2004; Kolk 2005; CCCC 2006). The most interesting issue in both cases is, however, the development of certification regimes encompassing whole sectors. This will inevitably trigger (informal) peer accountability mechanism, while in both the toy as well as the coffee sector the NGOs can be seen as the enforcers of cartel-like arrangements.[viii]

In both cases the specific industry sector seems to have been important. Furthermore, in both cases external actors -- NGOs and a national government -- have been pivotal in pushing companies to establish a variety of accountability mechanisms in the realm of social policy. It seems likely that a combination of our propositions two (role of consumers), three (importance of sector) and six (salience of the issue promoted by NGOs) were of fundamental importance.

(3) Going beyond these traditional corporate social policies largely limited to labour as well as basic safety and health standards are initiatives by TNCs to become active in the area of specific global policy issues such as HIV/Aids. According to a global survey 16 percent of firms provide information about risks, 10 percent offer preventive programs, and 5 percent anti-retroviral treatment (Ruggie 2004). The motivations in this sector are very different. For some companies with a very high rate of HIV positive workers it seems to be an economic necessity to engage in some kind of activity to address the issue. For instance, the transnational mining company *Anglo American* has a workforce of which allegedly 25 percent are HIV positive (Ruggie 2004, 517). According to Anglo American’s HIV/Aids policy their initiatives in this policy domain, which are not limited to its own workforce, but include community outreach programs, “will help to ensure the continued profitability of our business” (Anglo American n.d.). In a way this policy approach can be characterised as falling into the category of a clear business case, pre-empting other accountability mechanisms. Reflecting on our propositions, proposition five (skills requirements) seems to be of primary relevance in this case. In regards to a different company, reputational accountability seemed to be the key mechanism. The President of the *International AIDS Society*, Joep Lange, told reporters at the Barcelona AIDS conference in 2002 that “If we can get cold Coca-Cola and beer to every remote corner of Africa, it should not be impossible to do the same with drugs” (quoted by Ruggie 2004, footnote 18). Subsequently activists accused Coca-Cola of “deadly neglect”

(ibid.). In this case activists chose the company because its product constitutes a global brand and has a very sophisticated global distribution network at its disposal. Although Coca-Cola has no intrinsic responsibility for the spread of HIV/Aids, it was effectively held accountable by activists for not responding adequately to the challenge based on a very broad notion of social responsibility. Coca-Cola has responded by incorporating AIDS treatment, prevention and education initiatives into its vast retail distribution network. Among other companies operating in Africa, Heinecken is providing workplace HIV/Aids treatment and according to an analysis commissioned by the company costs exceed the direct monetary benefits, suggesting that the company accepts a broad understanding of social responsibility (Ruggie 2004, 517).

In the case of Coca-Cola (and Heinecken) the salience of HIV/Aids as a global social policy issue in combination with a brand name seems to have been the core factor which has led the company to react positively to the demands of an NGO. This behaviour is largely in accordance with our propositions two and six.

(4) Various social investments such as community projects, micro-financing and education are a further kind of corporate social policies. Unilever[ix] in India, i.e. Hindustan Lever Limit (HLL)[x], initiated a rural marketing project called *Shakti*[xi]. This initiative brought together various NGOs, multilateral agencies, government bodies and public-sector banks to support self-help groups of ten to 15 women in rural areas in India. These women would receive a micro-credit, financed by the World Bank, to set up some approved economic activity. HLL would then collaborate with these women by offering the investment opportunity in form of micro-enterprises. In a time when HLL had to secure its market share in India which was endangered by increased competition due to the opening up of the Indian economy since the early 1990s, the micro-credit initiative constituted a strategic business decision. It allowed HLL to reach untapped markets and pursue a strategy of brand development through local mediators. At the same time, it has a significant social impact for Indian women in rural areas. Similar cases can be found, including Rio Tinto's investment in community projects in Madagascar[xii]. Many of these initiatives have wide social impacts, which can be interpreted both ways, positively and negatively, and go far beyond the case studies described above. More importantly, even if they are primarily business-driven, due to the involvement of multiple stakeholders they might have unintended consequences that will lead to accountability claims based on reputation mechanisms, i.e. reach beyond market accountability at a later stage.

Both Unilever's and Rio Tinto's activities seem to have been clearly driven by motives internal to the corporation (in accordance with propositions one and two), but through the cooperation with IOs and local stakeholders have created an environment which clearly reaches beyond profit motives.

These case studies are a first step to shed light on two questions and allow us to draw preliminary conclusions: First, they illustrate the amplitude of different types of social activities in which TNCs engage. They range from what we usually understand as 'traditional' social policies such as health and safety standards or labour standards in general to a wide variety of very specific social investments as well as taking on responsibility in areas of political and/or global social issues. These different modes of engagement have to be systematically analysed as to the questions of how and why TNCs act the way they do. But before a rigorous analysis is possible we have to fully map and clearly differentiate between different types of activity. Secondly, the differences between these types need to be further investigated along several lines. Comparing the presented case studies allow for tentative statements: The main *triggers* or *initiators* of social engagement of corporations varied among the cases. While in the diamond industry the first initiative came from IOs and in the coffee sector from a nation-state actor, it were NGOs in one of the HIV/Aids projects and a pure company initiative regarding micro-credits in rural India. One can assume that these differences refer to different types of TNCs. In the case of a brand name for instance, NGO pressure might be more important. Moreover different *motivations* might be the explanation for different ways to get involved in social policies. Micro-credits to Indian women might be a pure market strategy in which case there is no need for external pressure on the TNC but there might be a need for available partners in such projects.

The differences in motives also refer to different *accountability mechanisms* that apply in these different cases. In the case of NGO pressure market accountability seems to be high, whereas in the case of a 'social' manager reputational accountability applies. An interesting aspect we revealed was that most cases involved accountability mechanisms based on the participation model as discussed above. That changed in some cases over time and loosely agreed deals turned into written Codes of Conduct with monitoring and enforcement mechanisms which are based on delegation. Therefore, the *path of change* seems an important aspect for further study. How do different arrangements change over time in terms of the accountability mechanisms employed at various stages? Are there differences according to different types of TNCs and/or different modes of engagement? The last question and line of comparison then refers to the *consequences* of social engagement of TNCs. What is important in this context is the scope these different schemes of social engagement have. This can be viewed on two levels: on the one hand, *issue scope*, i.e. to what extent do these new agreements reach beyond sectors, countries, or specific villages/communities etc.; on the other hand, *institutional scope*, which refers to the degree to which specific deals or agreements in one sector, one corporation, one country or village will be institutionalised and/or internalised or set the normative environment of governance structures for future activities.

In order to answer these questions, more systematic empirical research is necessary. First, we need more knowledge on the question of *what* exactly it is that TNCs do before we secondly should then focus on *why* they do it and under what *conditions.* This paper was a first attempt to shed some light on possible determinants of TNCs' social behavior. We argue that internal characteristics of TNCs have to be combined with their external context. The link between the internal and external determinants is a relational one and goes in both directions. The final question then could illuminate on the impact TNCs have and their potential (new?) role as political actors in the distribution of public-private responsibilities.

5. Conclusion

In order to be able to identify a *status quo minus* in regards to governance structures in an era of globalisation, we first have to explore various potential new approaches which might replace arrangements we had become accustomed to over decades. Only if we analyse compensatory alternatives and come to the conclusion that these are less effective than the governance structures witnessed in the pre-globalisation era can we argue that we are indeed witnessing a *status quo minus* (Wiesenthal 1999, 417f.). It is a widely held belief that democratic accountability within nation states and the delegated accountability in regards to IOs has been undermined by the processes of globalisation (Hall 2006). The *democratic deficit* has become a buzzword. On the one hand powerful TNCs are said to undermine nation-state autonomy and on the other hand it has become very difficult for actors within nation states to hold transnational actors accountable. While true, this line of argument has not sufficiently explored various other avenues of governance and accountability. Among others based on the work of Grant and Keohane (2005) we presented seven mechanisms of accountability, which might be applied to the transnational social policy context.

In the case of social policy issues in developing countries we have argued that many nation states are indeed incapable or unwilling to hold TNCs accountable. Furthermore, IOs such as the ILO are unable to effectively enforce compliance with international norms and hold nation states or TNCs accountable beyond "naming and shaming". *The* IO with a seemingly effective institutional framework to achieve compliance in the world economy, the WTO, was not entrusted with the delegation of power from nation states needed to enforce compliance within the realm of social policy.

IR studies usually assume TNC activities without sufficiently analysing them. However, as recent research in regards to the role of corporations vis-à-vis social policy in rich countries has shown, they can take a pro-active role in its development. Although social policy analysis has acknowledged the agency of TNCs, it often criticises corporate social policies as sub-optimal due to the fact that they create an "enclave social policy" (Pearson and Seyfang 2001, 66). This is definitely true, but as of yet, we do not know how large these enclaves are and which policies they include. Despite the fact that we still do not have a clear picture of the overall extent of corporate social policies and the specific conditions that led to them, we have identified various motivations for corporate actors as well as different accountability mechanisms, which are often not easily discernible. At times pure market accountability, combined with managerial leadership, can lead to corporate social policies. However, often it seems to be the case that NGOs through various media campaigns instrumentalise the mechanism of reputational accountability combined with market accountability to change the behaviour of TNCs. Once an accountability process has been set in motion the mechanisms can change and increasingly include the mechanism of peer accountability, especially if we deal with arrangements that cover entire sectors of economic activity.

Most of the mechanisms that have been applied in the case of TNCs are based on a participatory model of accountability, which has been contrasted with the model of delegation (cf. Grant and Keohane 2005, 31). In our context participation refers to processes where civil society actors hold power-wielders accountable for their decisions. Compared with mechanisms at the nation-state level this participatory mechanism reminds us to some extent of corporatist arrangements, in which members are treated as equal with an equal voice in situations of collective decision-making, however, at the international level these arrangements are still clearly in a status nascendi.

Ruggie (2004, 519) has coined the term of an "emerging global public domain" to capture this development. For him the "effect of the new global public domain is not to replace states, but to embed systems of governance in broader global frameworks of social capacity and agency that did not previously exist." If we look at the historic development of corporatism we could make similar arguments and even go further to argue that in specific policy arenas these arrangements have indeed become functional equivalents of state governance -- arrangements Mayntz and Scharpf (1995) have identified as mechanisms of 'societal self-governance'. Key for the legitimacy of the global public domain – or speaking of functional equivalents in this context – will be the access of all those affected or their representatives to participate on an equal footing as well as effective compliance mechanisms, an issue we have not discussed in our paper.

In this paper we have aimed to combine different literatures to further develop the theoretical underpinnings for the analysis of transnational social policies. Our case studies have indicated different configurations of internal motives/characteristics and external, contextual factors building on various accountability mechanisms that can lead to the development of more effective transnational social policies. To be able to better understand the specific conditions and configurations leading to transnational corporate social policies, however, we call for more comprehensive comparative case studies. Whether we witness a status quo minus in the governance of global social policy, can only be answered after more systematic empirical research into the various governance structures and accountability mechanisms as well as the reach of the many corporate social policy initiatives. As Ruggie has reiterated numerous times "No comprehensive assessment is possible at this time; the necessary empirical research simply has not been done" (Ruggie 2004, 518; cf. Ruggie 2002). We propose to systematically map corporate transnational social policy initiatives and compare the relevance of the internal and external triggers and conditions to qualitatively advance the research in this field.

Endnotes

[i] We however agree with Pattberg (ibid.) that not being clear on all three levels will lead to confusion.
[ii] For detailed discussions on the concept of accountability, see e.g. Boven 2007, Puntscher Riekmann 2007.
[iii] For good reviews of the literature see Margolis and Walsh 2003, Orlitzky et al. 2003.
[iv] For exemptions , see Bartley 2003, Cashore 2004.
[v] For more information, see consumer studies such as Heidkamp et al. 2007.
[vi] However, past experiences have shown that these voluntaristic arrangements per se are not very effective instruments (Koenig-Archibugi 2004, 247 f.)
[vii] This paragraph is mainly based on Bone 2004.
[viii] For a discussion of the antitrust issues involved in sector-wide corporate social policy arrangements see Murray 2006.
[ix] This case study is mainly based on Rangan and Rajan 2006.
[x] Unilever held 51.5% of HLL's stock.
[xi] Shakti means strength or empowerment and was chosen as a symbol for women's role in HLL's enterprise.
[xii] For more detail, see http://www.minesandcommunities.org/Action/press355.htm, http://www.hatch.ceSustainable_Development/Projects/madagascar-qit_minerals_ilmenite_project.htm.

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