CORPORATE SOCIAL RESPONSIBILITY, ACTION, AND PERFORMANCE IN INTERNATIONAL SETTINGS: A CRITICAL REALIST PERSPECTIVE

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With my profoundest love to:

Edith, my admired wife and fellow traveler in life
   Thank you for your generous dedication and
   unconditional support throughout our life together

Edigaby and Lore, incomparable blessings of my life
   Thank you for your patience, your encouragement,
   and all the joy and hope you have brought to me

Ramón (†) and Berta, my brave and generous parents
   Thank you for encouraging me to dream with (perhaps
   unreachable) summits, and for teaching me to be a man
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ABSTRACT OF DISSERTATION

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Title: CORPORATE SOCIAL RESPONSIBILITY, ACTION, AND PERFORMANCE IN INTERNATIONAL SETTINGS: A CRITICAL REALIST PERSPECTIVE

The objective of this dissertation has been twofold: First, to develop a systemic theoretical framework on which to base ideographic explanations of the nature, causes, dynamics, and consequences of corporate social responsibility (CSR), corporate social action (CSA), and corporate social performance (CSP), with a focus on subsidiaries of multinational companies. This framework presents CSR, CSA, and CSP from the perspective of critical realism and morphogenetic social theory. Second, using that framework, to provide an explanatory account of CSR/CSA/CSP in the case of one particular subsidiary organization operating in Mexico.

Critical realism is a philosophy of science based on systems thinking. It assumes the existence of a reality independently of the researcher’s knowledge of it; however, its accessibility is not direct, but mediated. Real structures are not observable, but they have causal powers which can generate observable outcomes that may or may not be realized in specific situations. In the case of organizations, the actualization of the observable outcomes depends on a highly complex series of interactions between environmental constraints and corporate action. In critical realism, it is the task of the researcher to explain the causal mechanisms and the contingencies that
operate in particular situations. In turn, morphogenetic social theory has been developed as a practical theory that complements critical realism in social science. This theory argues that cultural properties (i.e. the world of ideas) and social structures necessarily pre-date social actions; the causal powers of those structures operate only through the actions of agents, and agents have their own causal powers which are revealed in their mediated interplay with structure; in turn, human actions either reproduce or transform those structures.

This dissertation presents a theoretical framework according to which, there are universal ethical principles and structural global factors that define and motivate CSR, but there are also many and more proximal factors that are idiosyncratic to each society. These causal factors emerge from both the cultural (ideational) and structural systems of each society. In the case of multinational companies and their subsidiaries, CSR causal factors emerge from the different cultural and structural systems in which these companies operate. In addition to their first-order (direct) causal influence, those causal factors have second-order relations of congruence or incongruence with one another. Their specific configuration in each time and place conditions, but does not determine, corporate social responses. The effect of those causal factors is necessarily mediated by the actions of managers, who also are endowed with causal powers.

The interplay between moral and social causal factors and managerial actions shape corporate social action (CSA). Such corporate responses have as their outcome a certain level of corporate social performance (CSP), a construct which has several dimensions, some of them empirical, and some others placed at deeper levels of social reality which imply a certain moral and social stable positioning of the company in its environment, i.e. a certain degree of legitimacy. In addition, corporate social action and performance also have second-order effects on the organization and its managers, which contribute positively or negatively to the development of the organization and its members.
The second part of the dissertations presents a single-case study. It refers to Mexfruco, a fruit exporting company located in Mexico, subsidiary of Interfruco, a U.S. corporation. The outcome of the study is an explanatory narrative of Mexfruco’s CSA, which constitutes a “plausibility probe” of the abovementioned theoretical framework.

The case study answers the question of which are the sources and nature of corporate moral and social responsibilities. A number of properties or causal factors are identified. They emerge from the socio-cultural system in which Mexfruco was embedded. In this way, causal factors of diverse nature are incorporated in one model, i.e. religious or philosophical motivations, institutional forces, patterns existing in the task environment, etc., add or subtract from each other to outline the complex causality of CSA. Those emergent properties stood in positions of complementarity or contradiction with one another, which defined a situational logic which pre-dated, conditioned, and in turn, was confronted by managerial actions.

Based on this analysis, three causal configurations of the company’s CSA are proposed, corresponding to its actions oriented to workers, growers, and customers, respectively. A number of factors (or emergent properties) combined to create a given form of CSA. Managerial agency (discretion and ability) was a necessary condition in all causal configurations. The postulated causal configurations ideographically explain the observed CSA, and therefore, they exhibit properties that are valid for understanding other cases, despite the particularities of Mexfruco. By virtue of this, these causal configurations constitute hypotheses amenable to verification or modification in other cases or contexts.

From the moral/social perspective, the desirable outcome of CSA is the creation of the various forms of legitimacy for the company which can be measured along a CSP profile. The last part of the case study explains how Mexfruco’s CSA gained or maintained legitimacy, i.e. CSP, for the company.
RESUMEN DE DISERTACIÓN

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Título: **RESPONSABILIDAD, ACCIÓN Y DESEMPEÑO SOCIAL CORPORATIVO EN CONTEXTOS INTERNACIONALES: UNA PERSPECTIVA CRÍTICO-REALISTA**

La presente disertación se ha elaborado con dos objetivos: en primer lugar, desarrollar un marco teórico sistémico sobre el que se puedan construir explicaciones ideográficas de la naturaleza, causas, dinámica y consecuencias de la responsabilidad social corporativa (CSR, por sus siglas en inglés), la acción social corporativa (CSA), y el desempeño social corporativo (CSP), con énfasis en las subsidiarias de compañías multinacionales. En este marco, las nociones de CSR, CSA y CSP se presentan desde la perspectiva del realismo crítico y la teoría social morfogenética. En segundo lugar, utilizando ese marco teórico, ofrecer una narración explicativa de la CSR/CSA/CSP en el caso de una empresa subsidiaria que opera en México.

El realismo crítico es una corriente de filosofía de la ciencia que se basa en el pensamiento sistémico. Considera que la realidad existe independientemente de que el investigador la conozca; sin embargo, no puede accederse a ella de manera directa, sino mediada. Las estructuras reales no son observables, pero tienen poderes causales que pueden generar resultados observables que pueden o no actualizarse en situaciones específicas. En el caso de las organizaciones, la actualización de resultados observables depende de una serie de interacciones
altamente complejas entre las restricciones del ambiente y la acción corporativa. La tarea del investigador, en el realismo crítico, es explicar los mecanismos causales y las contingencias que operan en situaciones particulares. A su vez, la teoría social morfogenética se ha desarrollado como una teoría práctica que complementa al realismo crítico en las ciencias sociales. Esta teoría postula que las propiedades culturales (el mundo de las ideas) y las estructuras sociales necesariamente preceden a la acción social; los poderes causales de esas estructuras e ideas operan solamente a través de la acción de agentes humanos; y estos agentes tienen sus propios poderes causales que se revelan cuando interactúan con la estructura social. A su vez, las acciones humanas reproducen o modifican esas estructuras.

En esta disertación se presenta un marco teórico que postula la existencia de principios éticos universales y factores sociales globales que definen y motivan la CSR; así como de muchos otros factores, más próximos a la acción, que son particulares de cada sociedad. Todos estos factores causales emergen tanto del sistema cultural (ideas) como del estructural de cada sociedad. En el caso de las empresas multinacionales, estos factores causales de CSR emergen de los distintos sistemas culturales y estructurales en que estas compañías operan. Además de su influencia causal directa, o de primer orden, esos factores tienen relaciones de segundo orden entre ellos, que pueden ser de congruencia o incongruencia. Su configuración específica en cada lugar y en cada tiempo condiciona, pero no determina, la respuesta social corporativa. El efecto de esos factores causales es necesariamente mediado por la acción de los gerentes, quienes también tienen sus propios poderes causales.

La acción social corporativa (CSA) es definida por la interacción entre los factores causales sociales y morales y las acciones gerenciales. El resultado de estas acciones corporativas es un determinado nivel de desempeño social corporativo (CSP), un concepto que tiene varias dimensiones; algunas de ellas son empíricas, mientras otras se ubican en niveles más profundos
de la realidad social, lo que implica un determinado posicionamiento social y moral de la compañía en su ambiente, es decir, un cierto nivel de legitimidad. Además, las acciones y el desempeño sociales tienen un efecto de segundo orden sobre la organización y sus gerentes, lo que contribuye positiva o negativamente al desarrollo de la organización y sus miembros.

La segunda parte de la disertación presenta un estudio de un caso, referente a Mexfruco, una compañía exportadora de frutas localizada en México, y subsidiaria de Interfruco, una empresa norteamericana. El resultado de este estudio es una narración explicativa de la acción social de Mexfruco, la cual constituye una prueba de la plausibilidad del marco teórico antes desarrollado.

El estudio de caso ofrece respuestas a la pregunta de cuáles son las fuentes y la naturaleza de las responsabilidades sociales y morales corporativas. Se identifican varios factores causales o propiedades que emergen del sistema socio-cultural en que Mexfruco se encuentra inmersa. De esta manera, factores causales de diferente naturaleza, tales como motivaciones religiosas o filosóficas, fuerzas institucionales, patrones de acción existentes en el ambiente de trabajo de la empresa, etc., se incorporan en un solo modelo en el que se agregan o se sustraen para definir la causalidad compleja de la CSA. Estas propiedades emergentes se encontraban en una posición de complementariedad o contradicción entre ellas, lo que definía una lógica situacional que precedía, condicionaba, y era confrontada por las acciones gerenciales.

Con base en este análisis, se proponen tres configuraciones causales de las acciones sociales de la compañía, orientadas a sus trabajadores, agricultores y clientes, respectivamente. Diversos factores (o propiedades emergentes) se combinaron para crear una determinada forma de CSA. En todas estas configuraciones, la agencia de los gerentes (su capacidad y discrecionalidad) resultó ser una condición necesaria. Las configuraciones causales que se postulan explican ideográficamente la CSA observada y, por lo tanto, exhiben propiedades que
son válidas para entender otros casos, a pesar de las particularidades de Mexfruco. En virtud de esto, las configuraciones causales constituyen hipótesis sujetas a verificación o modificación en otros casos o contextos.

Desde una perspectiva social y moral, el resultado deseable de la CSA es la creación de varias formas de legitimidad para la compañía, las cuales pueden ser medidas de acuerdo a un perfil de CSP. La última parte del estudio de caso explica la manera en que Mexfruco ganó o mantuvo su legitimidad, es decir, el CSP de la compañía.
# TABLE OF CONTENTS

List of Figures .................................................................................................................. xvii
List of Tables ..................................................................................................................... xviii

1.- Introduction ................................................................................................................... 1
   1.1.- Overview of the Research Areas ........................................................................... 4
   1.2.- Research Questions and Objective ..................................................................... 8
   1.3.- Expected Contributions for Research and Practice ............................................ 10
   1.4.- Organization of the Dissertation ........................................................................ 12

2.- Literature Review ....................................................................................................... 14
   2.1.- Corporate Social Responsibility ......................................................................... 14
       2.1.1.- Corporate Social Responsibility, Corporate Social Performance, and Related Concepts ........................................................................................................... 16
       2.1.2.- The Local Dimension of Corporate Social Performance in Multinational Firms ......................................................................................................................... 21
       2.1.3.- Theoretical Limitations of the CSR/CSP Literature ........................................ 22
   2.2.- Critical Realism and Morphogenetic Social Theory ........................................... 25
       2.2.1.- Ontological Assumptions of Critical Realism .............................................. 27
       2.2.2.- Epistemological and Methodological Assumptions .................................... 29
       2.2.3.- The Role of Theory in Critical Realism ...................................................... 35
       2.2.4.- Critical Realism and the Betterment of Society ........................................... 37
       2.2.5.- Analytical Dualism .................................................................................... 37
       2.2.6.- The Morphogenetic Approach ................................................................... 40

3.- Corporate Social Responsibility in International Subsidiaries: A Critical Realist Perspective .................................................................................................................. 47
   3.1.- Defining Corporate Social Responsibility and the Types of Action that It Motivates ......................................................................................................................... 58
       3.1.1.- Types of CSR-Motivated Corporate Actions ............................................... 60
   3.2.- CSR as a Cultural Emergent Property .................................................................. 65
       3.2.1.- The Anglo-American Cultural System and CSR ....................................... 69
       3.2.2.- CSR and Other Cultural Systems ................................................................ 74
3.3.- CSR as a Structural Emergent Property .......................................................... 75
  3.3.1.- Institutional Environment and Legislation ............................................. 76
  3.3.2.- Systems of Exchange ........................................................................... 79
  3.3.3.- Social and Economic Development ....................................................... 83
  3.3.4.- The Task Environment ....................................................................... 87
  3.3.5.- Stakeholder Relationships ................................................................... 88
  3.3.6.- An Example of Failing by Ignoring Differences in CSR: Wal-Mart in Germany ........................................................................................................... 95

3.3.- The Organization as a Mediating Cultural and Structural Space for CSR ........ 97
  3.3.1.- Organizational Structure ...................................................................... 98
  3.3.2.- Organizational Culture ........................................................................ 101
  3.3.3.- Organizational Identity ....................................................................... 105
  3.3.4.- Foreign Subsidiaries as Mediating Organizations ................................. 107

3.4.- Second and Third Order Relations between CSR Emergent Properties .......... 110
  3.4.1.- Directional Guidance of CSR as a Cultural Emergent Property ............ 111
  3.4.2.- Directional Guidance of CSR as a Structural Emergent Property .......... 118
  3.4.3.- Third Order Relations Between CSR Properties .................................... 124

3.5.- Summary: The Conditioning Effect of Cultural and Structural CSR Properties ... 125

4.- Managerial Agency and Corporate Social Action ............................................. 127
  4.1.- CSR and Managerial Agency .................................................................... 128
      4.1.1.- The Emergent Powers of Managers ................................................ 131
      4.1.2.- Managerial Moral Agency ................................................................ 139
  4.2.- Corporate Social Action .......................................................................... 153
      4.2.1.- Environmental Assessment ............................................................ 154
      4.2.2.- Stakeholder Management ................................................................ 156
      4.2.3.- Issues Management ....................................................................... 162

5.- A Critical Realist View of Corporate Social Performance in International Subsidiaries ............................................................................................................. 165
  5.1.- A Critical Realist Conceptualization of Corporate Social Performance ......... 166
      5.1.1.- CSP in the Empirical Domain ......................................................... 169
      5.1.2.- CSP in the Actual Domain ............................................................... 170
      5.1.3.- CSP in the Real Domain: Moral and Social Legitimacy ...................... 171
  5.2.- Socio-Cultural Elaboration and the Outcomes of CSR and CSA: Legitimacy and Competitive Advantage ................................................................. 184
      5.2.1.- Socio-Cultural Elaboration ............................................................... 185
      5.2.2.- Achieving CSP: Gaining and Maintaining Legitimacy ...................... 195
      5.2.3.- Developing Competitive Advantage from CSA ................................ 202
  5.3.- Double Morphogenesis: Institutionalization of the Socially Responsible Firm ... 208
  5.4.- Summary: An Outline of a Critical Realist Theory of CSR, CSA, and CSP in International Settings ...................................................................................... 214
6.- Methodology

6.1.- A Single-Case Study Strategy
   6.1.1.- Research Design
   6.1.2.- Case Selection: Mexfruco

6.2.- Data Management and Analysis
   6.2.1.- Measures and Observations
   6.2.2.- Data Collection
   6.2.3.- Case Analysis

6.3.- Validity and Reliability of the Case Study

7.- Mexfruco and its Corporate Social Action in the Actual Domain

7.1.- The Mexican Avocado Industry
   7.1.1.- Structure and Operation of the Avocado Supply Chain
   7.1.2.- Michoacán Avocado Exports
   7.1.3.- The Aguacatero Culture and Industry Organization
   7.1.4.- Social and Environmental Impacts of the Michoacán Avocado Industry

7.2.- Introducing Mexfruco
   7.2.1.- The People Behind Mexfruco
   7.2.2.- Mexfruco in the Period 1997-2004

7.3.- Description of Mexfruco’s Corporate Social Action
   7.3.1.- Longitudinal Patterns of Corporate Social Action
   7.3.2.- Customer-Oriented CSA
   7.3.3.- Employee-Oriented CSA
   7.3.4.- Grower-Oriented CSA
   7.3.5.- Relations with the Parent Company
   7.3.6.- Other Stakeholders

8.- A Morphogenetic “Local Theory” of Mexfruco’s Corporate Social Action

8.1.- Socio-Cultural Conditioning: the Source of Moral/Social Corporate Obligations
   8.1.1.- Cultural Emergent Properties
   8.1.2.- Structural Emergent Properties

8.2.- CSA and CSP in Mexfruco’s First Morphogenetic Cycle
   8.2.1.- Managerial Agency at Mexfruco
   8.2.2.- Decision Making on and Implementation of Corporate Social Actions
   8.2.3.- Conditioning Effect of the Parent Company’s Development
   8.2.4.- CSA Causal Configurations
   8.2.5.- Socio-Cultural Elaboration and Mexfruco’s CSP Profile
   8.2.6.- Competitive Advantage
   8.2.7.- Elaboration of the Subsidiary-Parent Company Relationship

8.3.- Mexfruco’s Second Morphogenetic Cycle
   8.3.1.- Socio-Cultural Conditioning
   8.3.2.- Managerial Agency
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.3.3.- New CSA Causal Configurations and CSP Profile</td>
<td>414</td>
</tr>
<tr>
<td>8.3.4.- What Happened to Competitive Advantage</td>
<td>423</td>
</tr>
<tr>
<td>8.4.- Summary and Discussion of the Case Study</td>
<td>425</td>
</tr>
<tr>
<td>9.- Discussion and Conclusions</td>
<td>433</td>
</tr>
<tr>
<td>References</td>
<td>449</td>
</tr>
<tr>
<td>Appendixes</td>
<td>490</td>
</tr>
<tr>
<td>Appendix No. 1.- Case Study Research Protocol</td>
<td>490</td>
</tr>
<tr>
<td>Appendix No. 2.- Mexfruco’s Vision, Mission, Values, and Other Documents</td>
<td>505</td>
</tr>
<tr>
<td>Appendix No. 3.- Longitudinal Scatterplots of Mexfruco's CSA Initiatives</td>
<td>512</td>
</tr>
<tr>
<td>Biographical Sketch</td>
<td>524</td>
</tr>
</tbody>
</table>
LIST OF FIGURES

1.- A Critical Realist Perspective of Corporate Social Responsibility, Corporate Social Action, and Corporate Social Performance................................................................. 54
2.- Types of CSR-Motivated Corporate Social Action..................................................... 62
3.- Cultural and Structural CSR Emergent Properties and their First-Order Conditioning Effect......................................................................................................................... 64
4.- Second Order Cultural and Structural Emergent Properties, and their Directional Guidance.......................................................................................................................... 111
5.- Personal CSR Emergent Properties and their First-Order Conditioning Effect........ 132
6.- Dimensions of a Firm’s CSP Profile............................................................................ 169
7.- Michoacán Avocado Export Supply Chain.................................................................. 247
8.- Mexfruco’s Organizational Chart (as of December 1999)......................................... 272
9.- Mexfruco’s Mission..................................................................................................... 279
10.- Mexfruco’s Resources Committed to Quality and Food Safety Programs................. 298
11.- Mexfruco’s Relative Expenditure on Workers’ “Training and Education” and “Health and Safety” Programs.................................................................................................. 304
12.- Houses and Salary Increases Received by Mexfruco's Workers................................ 308
13.- Effects of Interfruco's Income-Shifting Practices on Workers, Minority Shareholders, and Government.............................................................................................................. 321
14.- Socio-Cultural CSR Emergent Properties Conditioning Mexfruco’s CSA............. 328
15.- Corporate Ideology and Social Orientation of Mexfruco Founders........................ 345
16.- Organizational and Personal CSR Emergent Properties Conditioning Mexfruco’s CSA. 350
17.- Mexfruco’s CSA Decision-Making and Implementation............................................. 353
18.- CSR Emergent Properties Involved in CSA Causal Configurations...................... 368
LIST OF TABLES

1.- Some Indicators of Mexfruco’s Strategic Performance ........................................ 227
2.- Some Indicators of Mexfruco’s Corporate Social Action ...................................... 227
3.- Mexican Avocado Exports, by Region ................................................................. 252
4.- Comparative Indicators of the U.S. Export Program ........................................... 252
5.- A Summary of Mexfruco’s Financial Indicators .................................................. 275
6.- Mexfruco’s Exporting Performance ................................................................. 275
7.- Income Shifted from Mexfruco through “Price-Adjustment” Discounts..................... 285
8.- Tracks Representative of Mexfruco’s Corporate Social Action ............................. 292
9.- Track Groups and Mexfruco’s Phases of CSA ..................................................... 294
Chapter 1

INTRODUCTION

It has been asserted that multinational firms are “the Janus face of globalization” (Eden & Lenway, 2001). As the main protagonists of this age’s increasing scale of international trade and direct foreign investment (UNCTAD, 2004), the role of multinational companies (MNCs) is controversial (Boda, 2002). On the one hand, they can offer host countries the potential for cooperative behavior and mutual gains. This potential derives from the fundamental assumption underlying economic globalization, i.e. the early presumption of David Ricardo that international trade is beneficial because everyone involved in it might possibly be better off (Kapstein, 1999). On the other hand, however, the possibility exists for multinational firms to reap extraordinary profits at the expense of local communities or individual nation states (Eden & Lenway, 2001). Experience shows that this is often the case: The gains of international business are frequently unevenly distributed and one party, the multinational company, gets the bulk of the benefits (Dunning, 2003). This polemic can best be framed, not in terms of the MNCs economic efficiency, but of the way in which they conduct their affairs and the ends to which their activities are directed, that is, in terms of the MNCs’ corporate social responsibility (CSR) and corporate social performance (CSP) (Boda, 2002; Buckley & Casson, 2001).

Multinational firms constantly rely on strategies involving foreign investment. This fact has important implications from the perspective of the CSR and CSP of their subsidiary firms.
Although the fundamental legal status of the corporation is a contested issue, i.e. whether corporations are voluntary associations of private people (stockholders) or incorporation is a privilege granted by the State, the establishment and operation of a business enterprise owned by foreign interests is predominantly viewed as a State concession in most countries of the world (Spar, 2001; Windsor & Preston, 1988). Host countries encourage foreign investment by offering trustworthy guarantees, hospitality, and frequently more tangible incentives such as subsidies, low-cost financing, tax exemptions, and other concessions. Governments do so in order to alleviate poverty and promote the economic development of their countries (Eden & Lenway, 2001). Furthermore, foreign corporations come to these host countries and benefit from natural and social conditions, such as public education, infrastructure, weather conditions, etc., many of which are the result of the work of past generations of host country nationals. Consequently, there are many social expectations involved in host countries’ concessions for, and local stakeholders’ contributions to, the establishment and operation of foreign companies. Foreign firms, in turn, face corresponding social duties and responsibilities.

This perspective strongly stresses the social responsibilities of companies that are subsidiaries of multinational enterprises. Nevertheless, operating in foreign countries implies working in socio-cultural environments characterized by belief and value systems, institutional environments, and exchange modalities that can be more or less contrasting with those of the home country. The subsidiaries of multinational companies face the challenge of dealing with those differences (Katz, Swanson, & Nelson, 2001). However, managers of MNCs and their subsidiaries, often educated and experienced in one particular socio-cultural system, may face difficulties to identify, understand, and appropriately respond to the moral and social expectations idiosyncratic to other socio-cultural systems. Some “surprises” may be the consequence of inappropriate subsidiary’s corporate social responses (Wartick & Cochran, 1985). For instance,
two years ago, Wal-Mart announced the sale of its German subsidiary and acknowledged losses close to one billion dollars for the venture (Financial Times, 2006). According to Knorr & Arndt (2003), this decision was expected, after the retailer’s approach to “management by hubris and clash of cultures” precluded their managers from appropriately identifying Germany’s institutional environment, systems of exchange, and stakeholders’ expectations. Wal-Mart’s failure was a consequence of its ignoring a number of social factors such as German labor structures and unions; local managers’ links to their local communities; specific laws, regulations and customary duties in place for local retailers regarding the natural environment, competition practices, and financial disclosure; and the active role of the German government in protecting and informing customers.

Despite the wide adoption and use of CSR and CSP concepts and practices in international business, and the academic acknowledgement of the need of “constructing a management philosophy that integrates social and economic objectives … to illuminate and address how potentially competing objectives can be fulfilled for the public interest” (Walsh, Weber, & Margolis, 2003: 876), there has been insufficient theoretical work to explain and understand the causes, dynamics, and consequences of CSR/CSP, particularly in the case of subsidiary companies. Some well-known scholars argue that current CSR/CSP theorizing is in a crisis point (Frederick, 2006; Margolis & Walsh, 2003), which, in my view, can be related to at least three reasons. First, there are two major research perspectives on the topic: one is normative/ethical and the other, more conspicuous, is economic/managerial (Graafland & Van de Ven, 2006; Windsor, 2006); however, there is little communication and even less integration between them. Second, the economic/managerial literature on CSR/CSP is largely self-referential, accepting little influence from other social scientific disciplines (Lockett, Moon, & Visser, 2006), which also implies its poor integration with organization theory (Frederick, 2006; Gephart, 1991).
Third, to a large extent, business-and-society scholarship has narrowly focused on the relationship between financial performance and CSP. However, this work has a number of methodological weaknesses (Mitnick, 2000; Rowley & Berman, 2000), and no theory has been sufficiently developed to explain the empirical results (Margolis & Walsh, 2001). To make things worse for the international case, much of that (criticized) business-and-society literature is clearly ethnocentric; it either takes for granted the characteristics of the Anglo-American socio-cultural system or assumes that it is, will be, or should be universal (Crane & Matten, 2004; Küng, 1997/2000; Lozano, 1998/1999; Pesqueux & Biefnot, 2002, among others). This view precludes seeing the influence that various belief and value systems, and diverse institutional and task environments, have on the content of CSR and the assessment of CSP. Since the world is a mosaic of cultures and societies, mainstream scholarship on CSR/CSP may be inadequate, insufficient, or inapplicable in many international contexts.

Therefore, the need persists for explaining and understanding CSR and CSP in subsidiary companies, under a systemic approach capable of addressing the nature, causes, dynamics, and consequences of the corporate social dimension (Margolis & Walsh, 2003). This dissertation is an attempt in such direction, based on the concepts of critical realism and morphogenetic social theory (Archer, 1995, 1998a, 1998b; Bhaskar, 1978).

1.1.- Overview of the Research Areas

This dissertation rests on two main streams of literature. The first one deals with corporate social responsibility. The second one corresponds to a recent development in the philosophy of science, namely critical realism, and the most developed of its social theories, morphogenetic theory.
Corporate social responsibility in international business. The terms corporate social responsibility (CSR), corporate social responsiveness, corporate social performance (CSP), and other words such as corporate citizenship (CC), refer to concepts, practices, and outcomes that have been adopted and pursued by many organizations around the world. They encompass the economic, legal, ethical, and discretionary expectations that society has of organizations (Carroll, 1979). These concepts, practices, and desired outcomes emerge, in general, from the notion that business must further some social good (McWilliams & Siegel, 2001), or in other words, that business firms have responsibilities to society that go above and beyond the profitable production of goods and services (Buchholz & Rosenthal, 1999).

Although at the philosophical level there has been a long and largely unproductive debate to find the normative foundations of CSR (Buchholz & Rosenthal, 1999; Zamagni, 2006), there are many philosophical doctrines supporting the normative existence of corporate social responsibilities. In addition, there have been other, more pragmatic debates on the topic. For example, some voices categorically deny any social role for business firms beyond profit maximization (e.g. Friedman, 1962, 1970, 2005). Other scholars, without explicitly rejecting the normative notion that “business must further some social good”, prefer to emphasize the study of the relationship between corporate social performance and financial performance (e.g. Orlitzky, Schmidt, & Rynes, 2003; Preston & O’Bannon, 1997; Waddock & Graves, 1997; among many others), and the instrumental use of corporate social actions as elements of a firm’s social strategy aimed at increasing the firm’s economic performance (e.g. Burke & Logsdon, 1996; Dentchev, 2004; Husted & Allen, 2006; Jensen, 2002). These debates have not been settled. However, most academics and practitioners accept nowadays that businesses have responsibilities in addition to or beyond making a profit (Crane & Matten, 2004: 41-42).
As explained above, CSR/CSP theorizing has had a weak development (Margolis & Walsh, 2003), poorly integrated with organization theory (Frederick, 2006; Gephart, 1991).

There is a stream in the CSR literature that focuses on multinational companies, which is relevant for the present inquiry. It acknowledges that unique historical, socio-cultural, political, and economic conditions exist in the countries in which MNCs operate (Windsor & Preston, 1988), and involves a distinction between CSR/CSP at the global and local levels (Gnyawali, 1996). Nevertheless, the interplay between global and local CSR at the level of subsidiaries has been studied only from the perspective of international strategic management (Husted & Allen, 2006), without accounting for socio-cultural differences and the crucial role of international managers. It is my purpose to contribute, through this dissertation, to fill this void.

**Critical realism and morphogenetic social theory.** Critical realism is a philosophy of science based on systems thinking, that has emerged out of a growing dissatisfaction with the ontological and epistemological assumptions of both positivism and postmodernism, and their explanatory limitations in social science (Bhaskar, 1978). Critical realists assume the existence of a reality independently of the researcher’s knowledge of it; however, its accessibility is not direct, but mediated (Sayer, 2004). Bhaskar argues that the real structures are not observable, but they have causal powers which can generate observable outcomes that may or may not be realized in specific situations. In the case of organizations, the actualization of the observable outcomes depends on a highly complex series of interactions between environmental constrains and corporate action (Reed, 2005). In critical realism, it is the task of the researcher to explain the causal mechanisms and the contingencies that operate in particular situations. In turn, morphogenetic social theory has been developed by Margaret Archer (1995, 1996) as a practical theory that complements critical realism in social science. Archer argues that cultural properties and social structures necessarily pre-date social actions; the causal powers of those structures
operate only through the actions of agents, and agents have their own causal powers which are revealed in their mediated interplay with structure; in turn, those actions either reproduce or transform those structures.

According to Reed (2005), critical realist research in organizations pays attention to the relational character of management as a historical, dynamic, and contingent cluster of practices and structures embedded within wider structures. The explanatory task requires the researcher to provide analytically structured accounts of specific processes and their outcomes, focusing on the mechanisms that frame and modify the material conditions, moral foundations, and political relations of managerial work, with particular attention paid to the interplay between corporate agents, structural and cultural conditions, and situational contingencies. In short, the researcher must explain why an organization is as it is and functions as it does and not otherwise (Ackroyd, 2004; Reed, 1997).

Critical realism has also an emancipatory dimension. It rejects the common assumption in contemporary social science against normative judgments (Sayer, 2004). Realist social scientists assume that the knowledge of deeper levels may correct as well as explain knowledge of more superficial ones (Bhaskar, 1998). By revealing how human acts are implicated in the reproduction of certain social structures and relations falsely based, critical realists are in a position to consider alternative structures and relations that may overturn that state of affairs, and promote genuine human flourishing (Ackroyd & Fleetwood, 2000b).

view of corporate social responsibility and corporate social performance from the perspective of critical realism and morphogenetic social theory, as applied to subsidiaries of MNCs.

1.2.- Research Questions and Objective

It seems to me that, given their importance in globalized business, MNCs should pay renewed attention to justice and social responsibility considerations, at the level of their subsidiaries. Their failure to do so, on the one hand, may seriously harm the strategic performance and eventually the viability of the MNCs’ subsidiaries. On the other hand, it may contribute to the failure of globalization as a means to improve the welfare of millions of people, which would falsify the presumption of Ricardo about the potential social betterment brought about by international trade. Nonetheless, I understand that MNCs and their managers may find more or less difficulties in understanding and assessing the belief systems and social pressures of societies and cultures different from their own, and that those difficulties might escalate when there is conflict between such local beliefs and social pressures, those of the parent company and its home country, and global ones. Accordingly, my research questions can be formulated as follows:

1. What defines the corporate social responsibilities of a subsidiary of a multinational company?

2. What factors determine the corporate social performance of a subsidiary of a multinational company?

3. How can that subsidiary reach a high level of corporate social performance?

In chapters 3, 4 and 5, I develop a broad theoretical scheme that, I think, provides a framework of reference for answering this type of questions in the particular context of specific subsidiaries. According to that scheme, there are universal ethical principles and structural global factors that define and motivate CSR, but there are also many and more proximal factors that are
idiosyncratic to each society. These causal factors emerge from both the cultural and structural systems of each society. In the case of multinational companies and their subsidiaries, CSR causal factors emerge from the different cultural and structural systems in which these companies operate. In addition to their first-order (direct) causal influence, those causal factors have second-order relations of congruence or incongruence with one another. Their specific configuration in each time and place conditions, but does not determine, corporate social responses. The effect of those causal factors is necessarily mediated by the actions of managers, who also are endowed with causal powers.

The interplay between moral and social causal factors and managerial actions shape corporate social action (CSA). Such corporate responses have as their outcome a certain level of corporate social performance (CSP), a construct which has several dimensions, some of them empirical, and some others placed at deeper levels of social reality which imply a certain moral and social stable positioning of the company in its environment, i.e. a certain degree of legitimacy. In addition, corporate social action and performance also have second-order effects on the organization and its managers, which contribute positively or negatively to the development of the organization and its members.

Consequently, and consistent with critical realism, ideographic explanations are necessary to know the nature, causes, and dynamics of CSR and CSA, and their consequences both as CSP and as changes in the organization, for specific firms at particular places and points in time. The theory presented in chapters 3, 4 and 5 is a first attempt to develop a framework on which to base those ideographic explanations. It is an initial formulation of a “typological theory” (George & Bennett, 2004) of corporate social responsibility and corporate social performance in international settings. According to George & Bennett, typological theories identify causal mechanisms (as they are understood in critical realism), specify their conjunctions or
configurations, and provide contingent generalizations on the pathways through which and the conditions under which the causal mechanisms produce certain results. In this way, typological theories provide a way of modeling complex contingent relations, like those which often occur in the CSR/CSP field. The proposed framework can be used as a heuristic to provide answers, in specific cases, to questions like the following:

- Which are the cultural and structural causal powers in favor of or against CSR in the context of a particular subsidiary (including its global dimension)?
- What is the content of the social and moral expectations, needs, and opportunities that derive from those causal powers?
- How do managers act and interact with stakeholders to mediate the conditioning influence of those CSR causal powers? How should they act and interact?
- What is the outcome of these actions and interactions? How is that outcome elaborated and translated into a certain degree of corporate social performance?
- How and why does such level of CSP impact the strategic performance of the subsidiary?

Accordingly, the objective of this dissertation is twofold: First, to develop a general theoretical framework on which to base ideographic explanations of the nature, causes, dynamics, and consequences of corporate social responsibility and corporate social performance, with a focus on subsidiaries of multinational companies. Second, using that framework, to provide an explanatory account of CSR/CSP in the case of one particular subsidiary organization operating in Mexico and, through that account, to illustrate and refine the theoretical model initially presented in chapters 3, 4, and 5.

1.3.- Expected Contributions for Research and Practice

In this dissertation I pretend to offer a view of corporate social responsibility and corporate social performance from the perspective of critical realism and morphogenetic social
theory, as applied to subsidiaries of MNCs. I think that this perspective can be useful to clarify many concepts of the CSR/CSP literature and to overcome many of its theoretical limitations, in at least three fronts: First, given the “explanatory pluralism” (Reed, 1997) of critical realism, it offers the possibility of integrating different perspectives into one systemic model; for instance, the integration of normative (philosophical) and descriptive (social scientific) streams of research on CSR/CSP (Swanson, 1999), and the integration of the CSR/CSP literature with organization theory. Second, it provides a fresh perspective to the debate between CSP and financial performance: It has the potential for a theoretically sophisticated explanation of the relationships between these two variables. So far, the work of some scholars suggests that there may be mutual causation; other researchers are attempting to strategically use CSP to cause financial performance. By focusing on deeper strata of reality, better explanations could be found. And third, my model explicitly acknowledges the existence of diverse socio-cultural systems in different societies, which is relevant for the case of multinational companies and their subsidiaries. Much of the business-and-society literature is clearly ethnocentric; it takes for granted the characteristics of the Anglo-American socio-cultural system, which precludes seeing the influence that various belief and value systems, and diverse institutional and task environments, have on the content of CSR and the assessment of CSP.

In addition, this dissertation emphasizes the relevance of making explicit the ontological and epistemological assumptions that underlie research efforts. It also helps to make explicit the behavioral assumptions that are behind some research work on organizations in general, and on CSR/CSP in particular. In this way, it may help to define the scope of application of some theories and, more importantly in international fields, to improve the understanding of organizational and managerial behavior in environments in which the assumptions of those theories might not apply (Tsang, 2006).
Finally, I expect this dissertation to contribute, both theoretically and practically, to answering questions with respect to CSR/CSP in international business. Some of these questions could be, for example:

- What is the nature of corporate social responsibility across cultures and countries? How can international managers identify the moral and social expectations existing in the countries where they establish subsidiaries?

- Which are the ethical, cultural, social, and managerial factors that cause corporate social responses? How do these causes operate? Are these causes of CSR and CSP the same across nations and cultures? If not, on which basis do they differ?

- How can the interplay between global and local CSR at the level of subsidiaries be explained? What is the role of international managers in such interplay? How can international managers be prepared for their role?

- How is corporate social performance conceptualized across nations and cultures? Is that conceptualization the same in different countries? If not, on which basis does that conceptualization differ?

- How do subsidiaries reach high levels of CSP both globally and locally?

- Do CSR and CSP have an impact on the strategic performance of a subsidiary firm? If so, how and why?

1.4.- Organization of the Dissertation

This dissertation is organized as follows: In the next (second) chapter I present a review of the literature on two domains: First, on corporate social responsibility and related concepts (corporate social action, corporate social performance, corporate citizenship, stakeholder theory, etc.), including a brief discussion of their global and local dimensions and their theoretical limitations. Second, I introduce critical realism, a meta-theory of social science aimed at profound explanations of social phenomena, and its correspondent social theory: the morphogenetic approach.
In the third, fourth, and fifth chapters I develop a broad theoretical framework that constitutes an initial reformulation of the CSR/CSP literature from a critical realist perspective, within an international context. This is the theoretical view with which I approach the empirical part of the dissertation.

Chapter 6 describes the methodology used in the empirical part of this dissertation. Following George & Bennett (2004), I use a single-case research strategy, with an embedded, longitudinal design (Yin, 1994), to offer a plausibility probe of the explanatory power of the theoretical framework. The chosen case is the Mexican subsidiary of a U.S. firm, dedicated to packing and exporting fruits, known in this dissertation by the pseudonym of Mexfruco. Interviews and subsidiary’s archives are the main source of data. I use techniques like discourse analysis and process-tracing along with retroductive reasoning to produce an analytical, explanatory narrative of the causes, dynamics, and consequences of CSR/CSP in that subsidiary.

I present a general description of Mexfruco in chapter 7. As a proxy to its institutional environment, I first describe the Mexican avocado industry, of which the subsidiary is part. Next, I offer a historical outline of the company for the period of study (1997-2004). The last part of the chapter is dedicated to describe in some detail the company’s corporate social actions which, in morphogenetic terms, correspond to socio-cultural interaction in the actual domain of reality.

In chapter 8, I extend the analysis to the real domain, attempting to discover the underlying causal mechanisms that produce tendencies or regularities in the company’s CSA, along the lines of the theoretical framework introduced in chapters 3, 4, and 5. The presented narrative constitutes an attempt of “local theory” (Van de Ven & Poole, 1989/2000), one which attempts to offer an ideographic explanation of causes (CSR), actions (CSA), and outcomes (CSP) of Mexfruco’s moral/social dimension, for the period 1997-2004.

Finally, I offer some conclusions and discuss implications for research and practice.
Chapter 2

LITERATURE REVIEW

2.1.- CORPORATE SOCIAL RESPONSIBILITY

The idea that business firms should contribute to solve social problems has been around for a long time in many areas of the world, and its acceptance has increased in the last 30 years (Buchholz & Rosenthal, 1999; Küng, 1997/2000). During the 1960s and 1970s, the United States experienced many important and radical social changes. Several authors (e.g. Buchholz & Rosenthal, 1999; Frederick, 2006) have shown that at that time there was an increased interest of society in topics such as civil rights of minorities, women rights, environmental protection, workers’ health and safety, consumer rights, pacifism, etc., and the role of business firms with respect to them. These interests mobilized business people, scholars, governments, civil organizations, etc., in an unprecedented fashion. The CSR movement gained momentum in the United States, and other countries soon followed. This era is usually acknowledged in the literature as the origin of CSR.

Nevertheless, there are numerous evidences that, in other countries, CSR has been driven by local concerns, actors and contexts, in many cases much earlier than the emergence of the concept in the United States. For instance, according to Küng (1997/2000), the concept of social responsibilities of economic activities was firstly implemented by Ludwig Erhard in 1949, in his role as minister of economy of Western Germany, through an extensive body of legislation and
regulatory action. These ideas, known as “ordoliberalism”, had initially been proposed in the school of Friburg by Walter Eucken in the 1930s, and were further developed in the 1950s by Rüstow, Röpke, and others (Ulrich, 2002). The aim of ordopolitics has been to guarantee fair competition, assure economic development, promote equality of opportunities, foster social justice, protect the rights of workers and of those who are in weaker positions in the market, and environmental conservation. The existence and development of CSR in other countries, independently from the USA movement, has also been documented (e.g. Agüero, 2005; Berthoin Antal & Sobczak, 2007; Cappellin & Giuliani, 2004; Granillo Vázquez & Pruneda, 2005; Logsdon, Thomas, & Van Buren III, 2006; Mafune, 1988; Taka, 1994; among many others).

At the philosophical level there has been a long debate to find CSR normative foundations (Buchholz & Rosenthal, 1999; Pesqueux & Biefnot, 2002; Zamagni, 2006). This debate has not offered universally accepted conclusions with respect to whom a company is responsible to or what a company is responsible for, but has shown a general convergence of many doctrines in support of the normative existence of corporate social responsibilities, above and beyond the search for profits.

There have been additional and more pragmatic debates on the topic. For example, there is no agreement among management scholars on the nature of a firm’s social responsibilities. On one hand, some voices categorically deny any social role for business firms beyond profit maximization (e.g. Friedman, 1962, 1970, 2005). On the other hand, many scholars, without explicitly rejecting the normative notion that “business must further some social good”, prefer to emphasize the study of the relationship between corporate social and financial performance (e.g. Orlitzky, Schmidt, & Rynes, 2003; Preston & O’Bannon, 1997; Waddock & Graves, 1997; among others), and the instrumental use of corporate social actions as elements of a firm’s social strategy aimed at increasing the firm’s economic performance (e.g. Burke & Logsdon, 1996;
Dentchev, 2004; Husted & Allen, 2006; Jensen, 2002). Although these debates have not been settled, most academics and practitioners accept nowadays that businesses have responsibilities in addition to or beyond making a profit (Crane & Matten, 2004: 41-42).

2.1.1.- Corporate Social Responsibility, Corporate Social Performance, and Related Concepts.

Probably the most established and accepted model of CSR is that proposed by Carroll (1979). It conceptualizes the entire range of obligations that business has to society in four dimensions: economic, legal, ethical, and discretionary, which reflect the basic expectations that society has of organizations at a given point in time. For Carroll, firms, as the basic economic unit of society, are required to produce goods and services that society wants and to sell them at a profit. Society also requires business to fulfill its economic mission within the legal framework of the country. Ethical responsibilities are less well defined; they refer to expectations of society above and beyond legality, although the debate continues as to what is and is not ethical. Finally, discretionary or philanthropic responsibilities are not necessarily required or expected by society, but desired by it; they are purely voluntary. These four dimensions are not mutually exclusive; they are neither cumulative nor additive. A given business action may simultaneously involve several of these social responsibilities.

The concept of CSR was criticized by Frederick in an extensively cited 1978 working paper that was finally published in 1994. He argues that the operational meaning of corporate social responsibility (which he calls CSR₁) is very vague, difficult to be made to work, without criteria to solve trade-offs between the different responsibilities, and with moral basis that are neither clear nor agreed upon. Instead, Frederick proposes the concept of corporate social responsiveness (CSR₂), which refers to “the capacity of a corporation to respond to social pressures” (1994: 154). This action-oriented approach focuses on the ability to manage the
company’s relations with various social groups. However, despite its pragmatic orientation, the CSR2 model still fails to guide firms on which problems to address and which priorities to follow (Buchholz & Rosenthal, 1999).

The difficulties to identify clear-cut strategies of social responsiveness led to the development of ways of conceptualizing observable outcomes of business commitment to CSR, namely corporate social performance (CSP). There have been many interpretations and definitions of CSP. It is an elusive concept, whose determinants, measurement, and consequences are frequently presented without the necessary theoretical support (Frederick, 2006; Gephart, 1991; Margolis & Walsh, 2001).

The best known model on this line of research was proposed by Wood (1991). She defines CSP as “a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships” (1991: 693). According to Wood, the principles of social responsibility are legitimacy, public responsibility, and managerial discretion. The processes of social responsiveness involve environmental assessment, stakeholder management, and issues management. The outcomes of corporate behavior include social impacts, social programs, and social policies. Nevertheless, the actual measurement of social performance remained a complex and elusive task; under these circumstances, the stakeholder theory was proposed to help to better operationalize the concepts of CSR1, CSR2, and CSP, particularly to define who the firm is responsible to, and eventually what it is responsible for (Crane & Matten, 2004: 49).

The stakeholder approach was mainly developed by Ed Freeman, who argued that “if you want to manage effectively, then you must take your stakeholders into account in a systematic fashion” (1984: 48); “you must not leave out any group or individual who can affect or is affected by organizational purpose, because that group may prevent your accomplishments”
Freeman’s early concept of stakeholder is very broad; he includes almost everybody: owners, customers, employees, suppliers, governments, competitors, consumer advocates, environmentalists, media, etc. Later work by Evan and Freeman (1988) narrowed the definition of stakeholder to only those groups which are vital to the survival and success of the corporation. In Freeman’s view, organizational decisions must be made “trying to satisfy the needs of as many stakeholders as possible” (1984: 75). He proposed that for each major stakeholder, those managers responsible for that stakeholder relationship must identify the strategic issues that affect that stakeholder and must understand how to formulate, implement and monitor strategies for dealing with that stakeholder group. In this way, the stakeholder perspective has been found useful to answer the questions of what the firm is responsible for and who it is responsible to.

The stakeholder model has been particularly useful to evaluate corporate social performance. Since the notions of corporate social responsibility and responsiveness are somehow ambiguous for managers to measure, Clarkson (1995) proposed the use of the stakeholder model to do it. He argues that it is possible to analyze and evaluate the social performance of a corporation by measuring the performance of its managers in managing the corporation’s responsibilities to, and relationships with, its stakeholders. In essence, Clarkson’s approach implies that it is stakeholders who define the level of CSP of the company.

Mitnick has recently proposed a critical distinction between corporate social performance and corporate social action. For him, “outcomes (impacts) are not at all the same thing as outputs (activities)” (2000: 426). Building on this work, Mattingly & Berman (2006) have advanced the notion that firm-level social action is the central component of the organizational processes included by Wood (1991) in her CSP model, and akin to the concept of “social responsiveness” (Carroll, 1979; Frederick, 1994). Mattingly & Berman also argue that some common measures of CSP, such as the Kinder Lydenburg Domini (KLD) Social Ratings
Data or Clarkson’s (1995) RDAP scale, are indicators of social action toward stakeholders rather than of social performance outcomes. In this way, the notion of corporate social action, as a distinct and measurable construct, has gained recognition in the literature on corporate social responsibility.

Towards the middle of the 1990s, the term “corporate citizenship” (CC) emerged as a new way of referring to the social role of business firms, favored primarily by practitioners (Altman & Vidaver-Cohen, 2000). Currently, the literature on CC reveals three different perspectives to the concept: (a) a limited view which equates CC with corporate philanthropy; (b) a view that essentially equates CC with corporate social responsibility; and (c) an extended view that acknowledges the extended political role of corporations in society (Matten, Crane, & Chapple, 2003). When used in the first two senses, CC adds nothing; it is just a new buzzword to describe existing ideas about business-society relations. In the extended view, corporations are seen, not as entitled to certain rights as “real” citizens would, but as powerful public actors which have a responsibility to respect those “real” citizen rights (Logsdon & Wood, 2002). The corporation is understood as a channel for political rights, an enabler of civil rights, and a provider of social rights (Crane & Matten, 2004: 67-69). It focuses on the legal responsibilities of firms, but also on the fundamental set of responsibilities derived from the business models companies develop to deliver goods and services to customers, and the impacts that those strategies and practices (policies, procedures, and processes) have on stakeholders and the natural environment (Waddock, 2001). This is a political concept that integrates moral, social, and economic dimensions according to the custom of the place (a relativistic perspective). It moves the discussions of CSR from its philosophical, abstract, broad, and ambiguous terms to the political arena in which social demands are specific to the place and the time. Furthermore, in the context of globalization, corporations enter the arena of citizenship at the point where traditional
governmental actors start to fail; business receives a responsibility to common rights of citizenship across cultures (Logsdon & Wood, 2002).

In the field of business-and-society there have been many efforts to study the relationship between CSP and firm financial performance, testing the generic hypothesis that firms can do well by doing good. Actually, much of the scholarship in this area has focused on this topic. Research results have been inconclusive, although the empirical evidence shows that CSP does not necessarily implies weak financial performance; in many cases a mutual causation between CSP and financial performance has been identified, as well as the existence of virtuous circles or positive synergies (Allouche & Laroche, 2005; Barnett & Salomon, 2006; Margolis & Walsh, 2001; McGuire, Sundgren, & Schneeweiß, 1988; Orlitzky, Schmidt, & Rynes, 2003; Preston & O’Bannon, 1997; Waddock & Graves, 1997; Wu, 2006; among many others).

In addition to the many studies addressing relationship between CSP and financial performance, there are other views that are consistent with such endeavors, but theoretically more relevant. This body of research attempts to understand the conditions under which CSP leads to financial performance, i.e. it treats CSP as an independent variable and financial performance as the dependent variable. For instance, drawing from contract theory, Jones (1995) argues that firms showing good moral behavior toward their stakeholders will develop reputation for trustworthiness and will reduce opportunism. His work suggests that a high CSP leads to reduced transaction costs. On his side, Jensen (2002) posits that all actions to satisfy stakeholders should be oriented to maximize firm value; the criterion of maximization should be used to assign priorities to stakeholder interests and to solve any conflicts and trade-offs between those interests. Building on microeconomic theory, McWilliams & Siegel (2001) treat CSR as an input of production and argue that there is an optimal level of socially responsible process or product attributes, on which CSR decisions must be based. Other researchers (e.g. Burke & Logsdon,
1996; Dentchev, 2004, 2005; Harting, Harmeling, & Venkataraman, 2006; Husted, 2003; Husted & Allen, 2006; Husted & Salazar, 2006), working within the broad framework of business strategy, have emphasized the use of corporate social actions as elements of a firm’s social strategy; the aim, as usual in strategy, is to create competitive advantage and increase the firm’s economic performance.

2.1.2.- The Local Dimension of Corporate Social Performance in Multinational Firms.

There is a stream in the CSR literature that focuses on multinational companies, which is relevant for the present inquiry. It involves a distinction between CSR/CSP at the global and local levels. While many corporations have global or multinational operations, unique historical, socio-cultural, political, and economic conditions exist in the countries in which they operate (Windsor & Preston, 1988). Clearly, the demands and expectations of society from business firms may be different across countries and regions. It has been demonstrated that CSR/CSP adopts specific concepts and practices, according to the conditions of the environment, its history, and its culture (e.g. Agüero, 2005; Amaeshi, Adi, Ogbechie, & Amao, 2006; Cappellin & Giuliani, 2004; Chapple & Moon, 2005; Fig, 2005; Granillo Vázquez & Pruneda, 2005; Küskü & Zarkada-Fraser, 2004; Nelson, Hodges, Deri, Schneider, & Ruder, 2005; Schmidheiny, 2006; Visser, McIntosh, & Middleton, 2005, 2006; Vives, 2006). Given this situation, the subsidiaries of multinational companies face the challenge to deal with those differences (Katz, Swanson, & Nelson, 2001). A distinction emerges between being, on one hand, a responsible firm at the local, community or national scope, and being so at the global level on the other (Gnyawali, 1996; Husted & Allen, 2006; Logsdon & Wood, 2002). Gnyawali identifies the local or country-specific CSP as “a constellation of societal expectations from business and actual social performance of business in a given country” (1996: 255, 257). He finds that some firms are more likely to follow country-
specific practices than others because of differences in strategy and nature of the organization. Other researchers have offered empirical evidence to this line of research, by showing that while a company can behave in a socially responsible manner at the global level, it does not necessarily do so at the local level, or vice versa (Egels & Zaring, 2005). Nevertheless, the interplay between global and local CSR at the level of subsidiaries has been studied only from the perspective of international strategic management (Husted & Allen, 2006), without accounting for cultural differences and the role of international managers.

2.1.3.- Theoretical Limitations of the CSR/CSP Literature

Some scholars argue that CSR/CSP theorizing has reached a crisis point (e.g. Frederick, 2006; Margolis & Walsh, 2003; Van Oosterhout & Heugens, 2006). I think that the arguments for such a statement run along three main lines: First, the field generally identifies an intrinsic or ethical perspective for CSR, linked to normative arguments; and an extrinsic or strategic perspective, related to economic and management considerations (Graafland & Van de Ven, 2006; Pater & Van Lierop, 2006; Thompson Caplin, 2005; Windsor, 2006). However, there is little integration of these streams. The former view maintains the field open to contributions from philosophy, although these contributions remain isolated and limited. The latter view receives most of the academic attention. Consistent with this situation, the literature on CSR is largely self-referential: Its greater source of citations is the management and CSR literature itself, while the influence provided from other social scientific disciplines is very low (Lockett, Moon, & Visser, 2006).

Second, the many studies on the relationship between CSP and firm financial performance have important deficiencies. To begin with, no theory has been sufficiently developed to explain the empirical results (Margolis & Walsh, 2001). In addition, it has a number
of methodological weaknesses: one of them is that the validity and reliability of measurements of CSP and financial performance are at the center of debate and disagreement (Cochran & Wood, 1984; Griffin & Mahon, 1997; Mitnick, 2000). Another weakness is that statistical analyses of CSP measures are sometimes inadequate, in particular because there is a high reliance on correlations and regressions using contemporaneous data, which ignores the impact of time (Margolis & Walsh, 2001; Rowley & Berman, 2000). Other researchers criticize CSP measurements because they are built on the assumption of monism, i.e. the assumption that different moral and social outcomes are commensurable, which is rarely the case (Graafland, Eijffinger, & Smid, 2003).

Third, the work on CSR/CSP has been poorly integrated with organization theory (Frederick, 2006; Gephart, 1991). On the one hand, the understanding of CSR/CSP from perspectives akin to the economic theory of the firm, such as the strategic perspective, largely ignores that businesses are embedded in a social context which has structures and systems of belief (Granovetter, 1985), and that managers may have other reasons for acting in addition to or instead of profit maximization. Thus, it offers little help to understand causal mechanisms, implementation, and outcomes of CSR/CSP (Van Oosterhout & Heugens, 2006). In addition, the instrumental conception of CSP that underlies this stream of research, merely as stakeholder satisfaction to be used for economic performance, is perhaps its main drawback. Although there are plenty of strategic reasons for the firm to pay attention to stakeholders, in the economic tradition there are no moral reasons (Heath, 2006). As if there were no other, an economic perspective assumes that the profit motive is the cause of CSR/CSP, its orienting principle for action, and the criterion for the assessment of its performance. Such perspective runs the risk of being overstretched, ignoring its ethical underpinnings, which would pervert CSR practices. As Frederick has stated: “With an emphasis on mere performance, rather than a normatively tinged
responsibility, responsiveness, or rectitude, CSP emerges as a morally neutered concept” (2006: 261). For instance, Gond & Palazzo (2005) have demonstrated that, without a moral compass, even the Sicilian Mafia could be considered as a socially responsible organization.

On the other hand, there are also drawbacks in understanding CSR/CSP from the perspective of the natural system tradition of organization theory (Scott, 1998), and specifically from neo-institutional (Meyer & Rowan, 1977; DiMaggio & Powell, 1983) and resource-dependence (Pfeffer & Salancik, 1978/2003) theories. While neo-institutional theory can explain broad, isomorphic types of CSR/CSP, it offers no help to explain non-isomorphic types of CSR/CSP (Egels & Zaring, 2005) and the micro-processes by which both types are adopted and implemented by organizations (Louche, Gond, & Ventresca, 2005). On its side, resource-dependence theory cannot explain CSR/CSP actions that are beyond the demands of resource-controlling stakeholders. Thus, the interplay of environmental constraints and enablers with managers’ beliefs and actions, in the achievement of CSP, remains to be explained, particularly in the case of subsidiaries, which act in both global and local environments and have both global and local managers. In addition, both neo-institutional and resource dependence views can also lead to varieties of CSR/CSP that are deprived of their moral dimension: The former because institutionalized actions and beliefs are acritically taken for granted; and the latter because its aim is instrumental: to control resource interdependencies and resource flows.

In short, the CSR/CSP literature has not addressed the substantial questions of how corporate strategies contribute to the public good, which causal mechanisms generate corporate social action, how such social action is implemented and developed, and which the consequences are, all of that in different socio-cultural contexts. In other words, there is a need for a systemic approach capable of addressing the nature, causes, dynamics, and consequences of the corporate social dimension, including but not limited to its eventual instrumental use to foster corporate
profits (Margolis & Walsh, 2003; Walsh, Weber, & Margolis, 2003; Van Oosterhout & Heugens, 2006). With the purpose of contributing to overcome the theoretical limitations of the CSR/CSP literature, I will present a different perspective in chapters 3, 4, and 5, based on critical realism and morphogenetic social theory (Archer, 1995, 1998a, 1998b; Bhaskar, 1978), which I next review.

2.2.- CRITICAL REALISM AND MORPHOGENETIC SOCIAL THEORY

Social and organizational analysis has traditionally had a strong empiricist and positivistic orientation. Ontologically and epistemologically it takes for granted the existence of organizations as material entities and searches for universal, scientific generalizations about organizations and management. In contrast, postmodernist perspectives insist that organizations are discursive constructions and cultural forms that have no ontological status or epistemological significance beyond their textually created and mediated existence. Critical realism has emerged out of a growing dissatisfaction with the explanatory limitations of both positivism and postmodernism in social science. It promises to overcome the naïve realism of positivism and offers a very different set of ontological presuppositions and explanatory principles from those postulated by postmodernism (Ackroyd & Fleetwood, 2000b; Bhaskar, 1978; Reed, 2005). The critical realist most basic claim is that “there is a world which exists largely independently of the researcher’s knowledge of it. This independence implies not simple, direct access to the world, but a more difficult relationship. … At least part of the world is accessible to us, though … always in a mediated way” (Sayer, 2004: 6).

For critical realists, organizations, and society in general, are quintessentially open systems. Even if external closure is introduced, there are intrinsic sources of openness, which ontologically preclude closure. These sources are people’s particular powers and properties, such
as reflexivity and creativity, by which they engage in thought experiments and put them into practice; this is the factor that can never be controlled in experiments (Archer, 1998a). Critical realists see the social world as dependent on human action for its existence; it is socially constructed. However, the social world also forms people; it is pre-constructed for any particular human being. This is the traditional problem of structure and agency in social theory, which finds a powerful analytical solution in critical realism (Archer, 1998a; Reed, 1997). Critical realists also claim that there are underlying structures which are real, complex, and intransitive. They possess causal powers or capacities sufficient to generate observable outcomes and events that may or may not be actualized in specific situations. Whether or not these powers are realized is dependent on a range of historical, structural, and operational contingencies (Bhaskar, 1978).

In the field of organization and management studies, a key point of interest is to know how structures and institutions are produced by actors, the extent to which they are the product of human design, and the way in which those structures still exist externally to actors and shape their behavior. Organizations are concept dependent, or socially constructed, but not necessarily by the human beings involved in them at a particular time. In addition, organizations are not only concept dependent; underlying their existence there is an irreducible material substrate; consequently, they are also resource dependent (Ackroyd & Fleetwood, 2000b). The powers or mechanisms with capacity to sustain and/or transform existing organizational phenomena may or may not be mobilized in any particular temporal and spatial location. This depends on a highly complex series of interactions between environmental constrains and corporate action. As applied to organizations and management, critical realism is “a meta-theoretical paradigm focused on explanations of the underlying generative mechanisms or structures that shape corporate agency and the social relations that it reproduces and transforms” (Reed, 2005: 1623).
Critical realism postulates a number of ontological and epistemological assumptions that set it apart from positivism, postmodernism, and other philosophies of science. Let us review these assumptions.

2.2.1.- Ontological Assumptions of Critical Realism

Although many social scientists are “ontologically agnostic”, all science approaches have an ontological foundation, either explicit or implicit. This is necessarily so because ontological assumptions “govern those concepts which are deemed admissible in explanation as in description” (Archer, 1995: 20). Critical realism has three basic ontological premises: intransitivity, transfactuality, and stratification (Bhaskar, 1978).

Intransitivity refers to the conviction that intransitive (i.e. stable, enduring) entities must exist as a condition of the possibility of social science. In other words, it is the assumption that there is a state of things which is what it is, regardless of how we see it (Archer, 1998b). Social structures, cultural systems, and human agency are typical examples of intransitive objects. However, things social are not immutable; they have a capacity to change. Bhaskar (1978) assures that the only intransitive, durable objects of study in social science are relations, which constitute the linkage between people, structures, and systems of belief and meanings. Thus, critical realism entails a relational conception of the subject matter of social science. It involves the metaphysical assumption that some relations are necessary and at least relatively enduring.

Transfactuality means that the activity of causal or generative mechanisms and powers is continuous and invariant, emerging from their relative enduring properties. However, the outcomes of that activity in open systems exhibit variability (Archer, 1998b). Actual observable outcomes are the result of complex interactions between different generative mechanisms and
emerge from power struggles between multiple collective agents located in structural settings that may or may not provide opportunities or constraints for agential creativeness (Reed, 2005).

For critical realists, reality is stratified. They see events, processes, and structures, as different strata of social reality. A distinction is drawn between three domains: the real, the actual, and the empirical (Archer, 1998b; Bhaskar, 1978). The real is the domain of structures and their associated causal powers or generative mechanisms. Real objects are not only material or physical things; “something is real if it has an effect or makes a difference” (Fleetwood, 2004: 29), i.e. if it has causal powers. Those generative mechanisms are “nothing other than the ways of acting of things” (Bhaskar, 1978: 14); they exist independently of patterns of events, but are capable of producing them. They are not directly accessible to sense experience and have to be theoretically constructed and modeled. The actual is the domain in which events, patterns, and processes occur. The empirical is the part of the real and the actual that is experienced by social actors. Experiences presuppose the occurrence of events in the actual domain, independently of researchers taking note of them. In turn, events presuppose the existence of mechanisms in the real domain, which have been responsible for the generation of events. It is partly because of the contingent link between the three domains of reality that human action is both necessary and possible (Tsoukas, 1994). Positivist operationalization, in contrast, is an attempt to only bridge the gap between the actual and the empirical, ignoring the crucial link between the real and the actual (Easton, 2000).

A central concept in critical realism is “emergence”. Critical realists argue that some kinds of objects are emergent from their constituents. That is, from certain conjunctions or interactions of objects, new emergent properties develop which are irreducible to those of the objects on which they depend. These emergent properties, which have their own causal powers, are created when some objects or individuals are internally related to each other to form a
structure. For instance, new discourses emerge from language, but are irreducible to it; reasons emerge from more extensive networks of beliefs, concepts and symbols; the managerial power of control emerges from the larger structure of relations of production, and cannot be reduced to the powers of a specific manager. Faced with such emergence, researchers must study those emergent properties, and their generative or causal powers, at their own level. (Sayer, 2004; Tsoukas, 1989).

2.2.2.- Epistemological and Methodological Assumptions.

Given the ontological presuppositions of critical realism, a number of epistemological and methodological consequences follow, mainly with respect to the conception of causality, the type of explanatory knowledge that research produces, and the mode of inference used in research strategies. The following paragraphs explore these topics and their implications with respect to the research methods available to critical realists and their validity.

Critical realism endorses a conception of causality and causal explanation that is fundamentally different from that advanced in other perspectives such as positivism. The ontological depth of critical realism implies that the factual production of an event depends on a precise conjuncture of factors existing in the present (horizontal causation), whose efficacy depends upon structures which pre-date them; this introduces vertical causality and, necessarily, temporality (Archer, 1998b). The actual does not in any simple or straightforward way reflect the real: The extent to which and ways in which specific causal powers affect actual events is contingent on the interaction of different structures and other causal powers (e.g. social agents also have causal powers that affect the actual). Consequently, causality in critical realism is not conceived of as statistical generalizations of empirically observed Humean constant conjunctions, according to which a causal relation between X and Y entails a regular and predictable relation
such that wherever X appears, Y will appear. Instead, causality refers to the powers of mechanisms, structures, and people to generate certain tendencies which may or may not be contingently observed in empirical events; causality is inherent in the nature of things. Consequently, causal explanation is seen as the ascription of causal powers to objects (Fairclough, 2005; Reed, 2005). Empirical constant conjunctions or event regularities are not necessarily observed because causal mechanisms may either be dormant for a while or they may be counteracted by opposing mechanisms and lead to no events. Thus, such regularities, which only reflect co-variation and not causation, are insufficient and unnecessary conditions for the identification of a causal law. In any event, the production of those constant conjunctions requires human intervention and can be obtained only under conditions of system closure (i.e., in experiments), which, if ever possible in social systems, can only be sustained partially, artificially, and temporarily (Ackroyd & Fleetwood, 2000b; Tsoukas, 1989).

Critical realists seek valid explanatory knowledge, which requires the researcher to identify the causal powers and contingencies that are operating in particular situations and the ways in which they combine and interact in order to create the particular events observed in the empirical domain (Easton, 2000). Closely resembling the early notion of Max Weber (1922/1978), Sayer (2004) emphasizes that this perspective requires both causal explanation (erklären) and interpretative understanding (verstehen). In contrast to positivists, who argue that the ultimate end of research is deduction or prediction (e.g. Friedman, 1953), realists postulate that prediction is very rarely possible (Sayer, 2000). In critical realism, “explanation supplants deduction, prediction, solution, determination, calculation and logical consistency as the goals of theorisation” (Ackroyd & Fleetwood, 2000b: 15). The dynamic relationships between organizations and their contexts, and specifically between the generative potential inherent in social structures and its contingent realization through human action, are assumed to form
configurations that are peculiar to a defined space and time, and that, consequently, demand a form of causal explanation sensitive to contextual complexity (Reed, 2005; Tsoukas, 1989). Without this kind of idiographic explanation, “it is hard to imagine how the same practices … work under some conditions and not under others, or how anything in particular … could happen to us” (Sayer, 2004: 9; italics in the original). Similarities between the units of analysis are explained by the generative mechanisms and the similar type of contingencies that have been responsible for the mechanism’s activation. Differences may be due either to the operation of different mechanisms or to dissimilar contingencies.

The general research strategy of critical realists is “retroductive”. As Blaikie (1993) explains, retrodution is a mode of inference based on cyclic or spiral processes rather than linear logic. Its roots can be traced back to Aristotle’s three basic types of logical reasoning: induction, deduction, and anagôgê or “reduction” (Posterior Analytics, II, 2-3). This much neglected logic was used by Charles S. Peirce to present his ideas on the ways of reasoning in science. He named it “retroduction” or “abduction”, and gave it the same importance as induction or deduction, but considered retrodution to be the first and most critical step. For Peirce, all established scientific theories are due to the operation of retrodution: “every plank of [scientific] advance is first laid by retrodution alone, that is to say, by the spontaneous conjectures of instinctive reason” (Peirce, 1934b: 324, cited by Blaikie, 1993: 165), a notion consistent with Weick’s (1989) view of theory as informed conjectures developed through the use of “disciplined imagination”. Retrodution proposes something that may not have been observed or could not be observed directly. While involving a process of reasoning, it does not lead to certainty but to “a” solution to the research problem. Peirce expressed this form of inference as follows:

“The surprising fact, C, is observed;
But if A were true, C would be a matter of course,
Hence, there is reason to suspect that A is true”. (Peirce, 1934a: 117, cited by Blaikie, 1993: 166).

As used by critical realists, retroduction aims at discovering the underlying structures or mechanisms that produce tendencies or regularities, after which it returns to the analysis of concrete events in light of that knowledge (Fairclough, 2005; Reed, 2005). Hence, it involves a process of description, explanation, and redescription (Blaikie, 1993). The retroductive strategy begins in the domain of the actual, with observed connections between phenomena (e.g. correlations between variables). The second step is to postulate the existence of real structures and mechanisms which, if they existed, would explain the relationship. These causal relations are ascribed by reasoning backwards from the phenomenon under investigation and asking: “What, if it existed, would account for this phenomenon?” Such abstraction from concrete events and texts centers on the relationships between them as occasioned and situated events and pre-structured networks of social practices. Afterwards, and in sharp contrast to the abstraction of modernist research, which only moves from the concrete to the abstract, critical realism crucially makes the move back to the explanatory analysis of the concrete. In this third step the attempt is made to demonstrate the existence and operation of those structures and mechanisms. Researchers have to identify and account for the “compound effects” of the interactions between powers and influences, some of which may be contradictory and conflicting, that operate in specific research situations and contexts.

As summarized by Reed (2005), the critical realist research work in organizations pays attention to the relational character of management as a historical, dynamic, and contingent cluster of practices and structures embedded within wider structures. Critical realist explanations focus on the mechanisms that frame and modify the material conditions, moral foundations, and political relations of managerial work, with particular attention paid to the interplay between
corporate agents, structural conditions, and situational contingencies. This requires a complex interaction between, on the one hand, abstract, ideal-type theoretical explanations which identify generative mechanisms and the causal tendencies they generate; and, on the other hand, contextual explanations in which relatively enduring structures or patterns are related to temporally and spatially specific events. The explanatory task requires the researcher to provide analytically structured accounts of specific processes and their outcomes, linking recurring cycles of pre-existing structural and cultural conditioning, emergent social interaction, and the consequent structural elaboration or transformation (Archer, 1982, 1995).

There is no preference in critical realism for either quantitative or qualitative research methods. The critical realist must imaginatively combine different historical and analytical methods, both quantitative and qualitative, to illuminate causal mechanisms (Ackroyd, 2004).

It is characteristic of critical realists’ work to connect the particular to the general. Thus, many realists use case studies as their main research strategy. The case study has long been recognized in the organization and management literature (e.g. Eisenhardt, 1989). However, it has largely been regarded as a useful precursor of more traditional positivistic, large-scale studies, or only appropriate in situations which are “interesting” and/or unique (Yin, 1994). In contrast, critical realists (e.g. Dobson, 2001; Easton, 2000; Harrison & Easton, 2004; Tsoukas, 1989) consider case studies as useful even if the research object or phenomenon is considered to be well understood from within a particular theoretical perspective, because realists consider important to have alternative, expectedly deeper perspectives in order to improve the explanatory power of theory. Explanation is improved because “such alternative accounts in social science are not straightforward, mutually exclusive rivals, but emphasise different aspects of complex, many-sided processes” (Sayer, 2004: 8).
Realist case studies are, by definition, concerned with time and dynamics, i.e. they are longitudinal in nature, with a focus upon processual aspects of the object. Thus, realist case research begins by describing empirical events, and continue by tracing out links over time, digging ever deeper through the different strata of reality, following through the actual to the real domain as if it were “peeling off the layers of an onion” (Easton, 2000: 212).

Validity of critical realist research. In the realist perspective, valid knowledge requires the researcher to identify the causal powers and tendencies, as well as the contextual contingencies that are operating in the particular situation under research and the way in which they combine and interact to create the particular events observed in the empirical domain. If the researcher accomplishes this explanatory task, the case study is externally valid, because it is in a position to make general claims about the world, i.e. the case exhibits the properties that are exemplary for understanding the general case, despite its particularities (Ackroyd & Fleetwood, 2000b; Easton, 2000). Generality is a property of the necessary relations in real structures; it is ascribed to the operation of causal tendencies or powers, which operate independently of observed events. Causal powers are externally valid, although their activation is, and thus their effects are, contingently determined. Consequently, generality is not a property of the empirical domain (Tsoukas, 1989).

The validity of this type of research depends upon the appropriate identification and clarification of generative mechanisms and causal powers, not upon the number of cases. “One case is enough to generalise: not generalising to any population but to a real world that has been uncovered. … One case can create and/or test a theory to the extent that it uncovers reality” (Easton, 2000: 214). The “replication logic” of multiple case designs (Eisenhardt, 1989; Yin, 1994) entails a positivistic perspective, focused on regularities and conjunctions, which is not relevant for the critical realists’ quest for profound explanation. Naturally, more than one case
can be used, but “the use of multiple cases more often results from the nervousness of the researcher than from any profound concerns about epistemology or methodology” (Harrison & Easton, 2004: 196). The replication logic of multiple case designs is a specific research method that involves doing the same study two or more times, either in the same context or in contexts selected for their known variation on a relevant key factor (the “interesting/unique” case). It is not a replication in the usual sense of the concept, for true replication is to be carried out at a time after the original study has been completed, and ideally, by researchers different from those of the original study (Tsang & Kwan, 1999).

2.2.3.- The Role of Theory in Critical Realism.

For critical realists, theory “is the most important activity in research” (Ackroyd, 2004: 155). Theory offers informed conjectures about generative mechanisms and, if they are appropriately conceived, theories provide explanations featuring causes lying behind observed events. Thus, critical realists view the informed and critical use of theory as important, but since “theory is both a way of seeing and a way of not-seeing” (Dobson, 2001: 285), they acknowledge the biasing effect of theories, particularly when the behavioral assumptions of those theories are not even made explicit, much less tested (Tsang, 2006).

Critical realism rejects the view that all representations of the world are equally good and considers that there are, in fact, better theories. The criteria for evaluating theory are concerned, not with deduction or prediction, but with explanatory power. Bhaskar (1978) suggests that a theory $T_a$ is preferable to another theory $T_b$ (even if they are incommensurable) if $T_a$ can explain under its own terms almost all the phenomena $T_b$ can explain under its terms plus some phenomena that $T_b$ cannot explain. For critical realists, all theoretical descriptions and
explanations are grounded in processes that are temporally and spatially located in historical and social settings, which make them fallible, contested, and revisable (Reed, 2005).

Critical realism has been said to be “epistemologically open or permissive” (Sayer, 2000: 23). It entails a relativist epistemology by which it is broadly compatible with a whole range of theoretical approaches, as far as those approaches are compatible with its ontological assumptions (Archer, 1998a). This encourages the making of connections across a broad range of subject areas, offering a foundation for synthetic understanding and integrated approaches (Fleetwood & Ackroyd, 2004b), which has been denominated “explanatory pluralism” by Reed (1997). Nevertheless, Reed argues that it cannot be an all-inclusive mode. In addition to being ontologically consistent with critical realism, theoretical integration must conform to a logic of “structural contextualization” which acknowledges that local orderings and knowledge are necessarily situated in more extensive and enduring structures. In Reed’s view, macro-level theories can be used to identify the structural and developmental parameters within which lower, meso- and micro-level analyses are to be located.

Consistent with the view of explanatory pluralism, some researchers have built on critical realism to present syntheses between different theories; for instance, between autopoietic and complexity theories (Goldspink & Kay, 2004); or between diverse, seemingly contradictory perspectives on management (Tsoukas, 1994). Other scholars have used critical realism to provide an explicit ontological foundation for existing theories, e.g. for complexity theory (McKelvey, 1999); or for evolutionary theory and organizational change (Costello, 2000; Fairclough, 2005). Some others explicitly advocate the use of multiple theories; for example, Dobson (2001) argues that over the time involved in a longitudinal study, different theories can be applied dependent on the situation of the organization, following a “theory-as-scaffold” approach. He proposes to treat the use of theory as the scaffold of a tree, where the scaffolding is
removed once it has served its purpose of assisting in the understanding of complex social situations.

2.2.4.- Critical Realism and the Betterment of Society.

Critical realism has also an emancipatory dimension. It rejects the common assumption in contemporary social science against normative judgments, which are considered a threat to objectivity (Sayer, 2004). For realists, there is a fundamental distinction between objectivity in the sense of value-freedom and objectivity in the sense of truth-seeking. Realist social scientists aim at discovering truth. Thus, they assume that the knowledge of deeper levels may correct as well as explain knowledge of more superficial ones (Bhaskar, 1998). According to Bhaskar, social practices are informed by ideas and theories which may or may not be true. To identify understandings in society as falsely based is to imply that those beliefs and actions ought to be changed, i.e. an “ought” can be derived from an “is”. In other words, by revealing how human acts are implicated in the reproduction of certain social structures and relations falsely based, critical realists are in a position to consider alternative structures and relations that may overturn that state of affairs, and promote genuine human flourishing (Ackroyd & Fleetwood, 2000b). In order to do so, normative judgments must be made. Normative matters are not beyond the scope of reason or antithetical to it, nor are they reducible to subjective dispositions or to a matter of opinion. They are related to the stratification of the world and to the causes of phenomena. When causality is established, the concepts of responsibility, agency or freedom become meaningful, for individuals can only be responsible for what they can influence (Sayer, 2004).

2.2.5.- Analytical Dualism.

The social and individual nature of human beings has originated what probably is the most important and old debate in social theory: that of the “individual versus society”, which has
been variously named “voluntarism versus determinism”, “the micro- versus the macro-”, or “the problem of structure and agency” (Archer, 1982, 1995). In organization theory this debate has often taken the form of “environmental determinism versus strategic choice” (Astley & Van de Ven, 1983; Hrebinjak & Joyce, 1985; Scott, 1998). Critical realists make a categorical distinction between human action and social structure, or between people and the social system, and consider them to belong to different strata of reality. Structure and agency are capable of independent variation and therefore of being out of phase with one another in time. Realists argue that structure and agency can only be linked by examining the interplay between them over time (Archer, 1995; Reed, 1997). This leads to analytical dualism, which is considered the methodological complement of critical realism. This is not the same as Cartesian philosophical dualism, for there is absolutely no suggestion that researchers are dealing with two entities; structure and agency are only analytically and temporally separable for theoretical purposes (Archer, 1996). Agency and structure are interrelated, but they possess properties that are distinct to the level of social reality to which they refer, i.e. social interaction between individuals and groups, as opposed to enduring social relations. Although the properties of structure and culture do not determine human action, they enable or constrain the possibilities open to agents. Social research requires that agency and structure are analyzed independently and that the interaction between them is exposed and explained (Archer, 1995; Reed, 1997). This approach rejects conflationary theories that disregard either structure or agency, or that resort to notions of duality of structure. A brief digression is necessary to clarify the distinction between conflationary and non-conflationary social science.

Archer identifies three forms of conflation: downward, upward, and central. All of them, she argues, fail to adequately explain social phenomena. Downwards conflation reifies structure. It considers the behavior of individuals to be determined by social forces. Human action is seen
as marginal. This perspective, often assumed in sociology, promotes an over-socialized and over-determined portrayal of people. In organization theory, this stream of thought is represented by all the theories that lean towards environmental determinism (Astley & Van de Ven, 1983; Scott, 1998). In contrast, upwards conflation is associated with individualism. Social structure is viewed as the outcome of current human agency, i.e. as the aggregation of individuals, their beliefs and their actions, as they make up present-day society. Neoclassical economics is the paradigmatic example of this kind of theorizing, which advances an under-socialized concept of people. In the field or organization theory, this perspective is assumed by approaches such as strategic choice and the economic theory of the firm (Astley & Van de Ven, 1983; Scott, 1998).

Central conflation does make a distinction between structure and agency, and gives them equal weight. The typical example is structuration theory (Giddens, 1979). Giddens assumes that structure and agency are mutually constituted, as two elements of one whole, which are co-existent and co-variant. Mutual constitution implies temporal conjunction between the two elements. For structuration theorists, structural properties become real when, and only when, instantiated by the activities of current actors. For realists, in contrast, structure and agency are out of phase with one another. Structures precede and are the emergent outcome of human activity (Archer, 1982). In organization theory, some attempts to integrate environmental determinism and strategic choice can be seen as central conflationary (e.g. Hrebinjak & Joyce, 1985). Other perspectives, like Granovetter’s (1985) concept of embeddedness, seem to implicitly adopt a stance more consistent with realism.

In short, Archer’s (1982, 1995) analytical dualism argues that it is necessary to separate structure and agency in order to identify the emergent structures, to differentiate between their causal powers and the intervening influences of people (with their own and different causal
powers), and to explain any outcome at all. Importantly, time is incorporated as sequential phases rather than simply as a medium through which events take place.

The application of analytical dualism to organizations is now fairly obvious: organizations are structures that are reproduced or transformed by the participants in them, but they have emergent properties that bind participants into particular patterns of relationships. Different groups of participants have differential room for maneuver, and external agencies have their effects too. The research task is to explain why an organization is as it is and functions as it does and not otherwise. This explanation depends upon an account of how the properties and powers of structure, culture and participants emerge; how they causally intertwine with one another; and how they redefine each other. This kind of explanation is not available to the theorist that works under any of the conflationary perspectives (Ackroyd, 2004; Reed, 1997).

2.2.6.- The Morphogenetic Approach.

Realist social researchers do not only need the philosophical assurance which critical realism offers. There is a final element needed if theory is to be of utility, i.e. practical social theory. The morphogenetic/morphostatic approach has been developed by Margaret Archer (1982, 1995, 1996, 1998b) as the practical theory that complements critical realism in social science. Archer’s framework has been applied to organization and management studies by authors like Fleetwood (2004, 2005), Hay (2003), Thursfield & Hamblett (2004), and Willmott (1997, 2000), among others.

Archer’s morphogenetic approach builds on the early work of David Lockwood (1964), a systems thinker who distinguished between “social integration” and “system integration” to separate the relations existing between groups of social actors from those relations prevailing between parts of the social structure. In addition, Archer’s perspective borrows the term
“morphogenesis” from Buckley, who firstly proposed it in social science to refer to “those processes which tend to elaborate or change a system’s given form, structure or state” (Buckley, 1967: 58). In contrast, “morphostasis” refers to “those processes in a complex system that tend to preserve [a system’s given form, structure or state] unchanged” (Archer, 1995: 75fn).

The morphogenetic approach offers a method of conceptualizing how the interplay between structure and agency can actually be analyzed over time and space. This perspective does not consider the powers of structure and agency as constitutive of some form of “social hydraulics” in which their action is a matter of relative influence and simultaneity. Instead, Archer argues that the difference between the two kinds of entities lies in their mode of operation: The constraining and/or enabling effects of structure are necessarily mediated, while the agents stand as mediators with more or less degrees of freedom. “A non-reified account of structural and cultural conditioning thus requires an active agent in order to mediate the process” (Archer, 1995: 199; italics in the original).

Morphogenesis/morphostasis is based on two fundamental propositions: first, that structure necessarily pre-dates the actions leading to its reproduction or transformation. Second, that structural elaboration necessarily post-dates the action sequences which gave rise to it. In other words, social structures necessarily pre-date the social actions; the causal powers of those structures operate only through the actions of agents, and agents have their own causal powers which are revealed in their mediated interplay with structure; in turn, those actions either reproduce or transform those structures. In a nutshell, the morphogenetic approach entails four basic propositions with respect to structure and agency (Archer, 1995: 168-169):

1. There are internal and necessary relations within and between social structures.
2. Causal influences are exerted by social structures on social interaction.
3. There are causal relationships between groups and individuals at the level of social interaction.
Social interaction elaborates upon the composition of social structures by modifying current internal and necessary structural relationships and introducing new ones where morphogenesis is concerned. Alternatively, social interaction reproduces existing internal and necessary structural relations when morphostasis applies.

Analogously, this approach has four basic propositions with respect to culture and agency (Archer, 1996: 106):

1. There are internal and necessary logical relationships between components of the cultural system.
2. Causal influences are exerted by the cultural system on the level of socio-cultural interaction.
3. There are causal relationships between groups and individuals at the socio-cultural level.
4. There is elaboration of the cultural system due to socio-cultural integration modifying current logical relationships and introducing new ones, where morphogenesis is concerned. Alternatively, socio-cultural interaction reproduces internal and necessary cultural relations when morphostasis applies.

These propositions outline a “morphogenetic cycle” with three phases: structural conditioning, social interaction, and structural elaboration. In Archer’s conception, there are parallel cycles for culture and for agency itself. Naturally, action is a continuous flow over time; there are not empty spaces where nothing happens, and things do not just begin and end. The three phases of morphogenetic/morphostatic cycles are analytical. The starting point for analysis is arbitrary (Fleetwood, 2004).

**Structural conditioning.** Systemic (structural and cultural) properties, by conditioning the context for action, exert a causal influence on human interaction. They do so by shaping the situations in which later groups or “generations” of actors find themselves and by endowing the various agents with different vested interests according to the positions that they occupy in the structures they inherit. A given structural configuration is the result of previous interactions, which implies “a recognition of Auguste Comte’s important aphorism that the majority of actors are the dead” (Archer, 1995: 73).
Archer argues that the effects of the social system on human interaction cannot be attributed to the entire set of structural properties, but rather only to the sub-class of emergent properties. The differentiating features of emerging properties are their relative endurance, their natural necessity, and the possession of causal powers. Structural emergent properties arise from the necessary relations between entities that constitute a particular social system. Those entities are necessarily linked when their identity depends on their being in a relationship with the rest of the components of the structure. The feature of natural necessity sets such relations apart from others that are external and contingent (Tsoukas, 1994). For example, in a business organization, structural emerging properties arise from the necessary relations between managers and workers, customers, suppliers, shareholders, etc.

Social systems have a variety of emergent properties, structural and cultural. A social structure is a set of relatively enduring institutionalized relationships and connections between social positions and practices, with their rules and resources, located at different levels of analysis, which constrain or enable actors’ capacities to “make a difference” (Reed, 1997). Archer establishes that a structural property (e.g. roles, distributions, institutional structures, social systems, etc.) depends primarily on material resources, both physical and human. The internal and necessary relations between its constituents are fundamentally material ones, which can be legitimated by reference to ideas, but which could be sustained by coercion or manipulation. Thus, the legitimation of a structural property is not a matter of necessity.

Culture is another systemic element, different from structure. From the morphogenetic perspective, culture “is taken to refer to all intelligibilia, that is to any item which has the dispositional capacity of being understood by someone” (Archer, 1995: 180). Ontologically culture exists, independently of the human activity that created it. It persists, unrecognized at times, sustaining causal powers which may be exercised or not. The cultural system is integrated
by logical relations between its constituent parts. The logical consistency or inconsistency of the cultural system is a property of the world of ideas, independently of people noticing them. When those ideas are internally and necessarily related, they constitute cultural emergent properties. These properties have causal powers on people, through many different mechanisms (e.g. legitimation, mystification, persuasion, argumentation, etc.).

Within this perspective, Reed (1997, 2005) sees organizations as structural forms or entities constitutive of an ontological domain placed at the intermediate level of social structuring. As structures, they have spatially, temporally, and socially enduring institutional properties that are irreducible to the activities of contemporary agents. It is through organizations that more basic or primary level activities are coordinated and controlled, while they are contextualized in relation to higher-level structures that establish the conditions within which the organization operates.

**Social interaction.** Although it is structurally conditioned, social interaction is never structurally determined. Agents possess their own irreducible causal powers, such as skills, desires, beliefs and meanings, etc. Without human activity nothing in society could begin, continue, or change. Any form of structural or cultural influence is only efficacious through people. Thus, during the second phase of the morphogenetic cycle the focus of analysis is on specifically whose activities are responsible for what and when. Those groups of agents experiencing exigencies and facing frustrating contexts will try to change them. Other groups, located in favorable contexts and experiencing rewards, will seek to retain them.

Archer points out that agency exerts two independent types of influence. One is temporal: people can speed up, delay, or prevent the elimination of prior structural influences. The other influence of agency is of a directional type, based on the creativity of people: In the face of contextual constraints, agents can exercise their capacity for innovative responses.
“Voluntarism has an important place in morphogenesis but it is ever trammelled by past structural and cultural constraints and by the current politics of the possible” (Archer, 1995: 79). By the same token, this type of influence can accommodate the possibility of self-sacrifice on inherited vested interests by individuals or groups.

There is a mediating system that constitutes the point of contact between human agency and social structure. This is a system of positioned praxes, i.e. it is integrated by positions (places, functions, rules, duties, rights), which are occupied (filled, assumed, enacted, etc.) by individuals; and by practices (activities) in which these individuals engage in virtue of their occupancy of those positions (Archer, 1995; Reed, 2005). A person occupying a particular role entails two sets of emerging properties: the role itself (its obligations, interests and sanctions) and his/her personal qualities, ideals, objectives, skills, dedication, creativeness, etc. What is crucial for the outcome is whether individuals merely remain as unorganized primary agents, whose influence is just the aggregated effect of those similarly placed, or become collective agents, with emergent powers of promotive organization and articulation of interests.

According to Reed (1997, 2005), an organization is the zone where structures and agents interact, where large-scale social structures and smaller-scale processes encounter. It is at this intermediate level that groups, corporate agents, networks, cultural traditions, institutions, hierarchies, alliances, and struggles are initiated, strengthen, and are maintained or transformed. Corporate agency, which emerges from these interactions, in turn produces, reproduces or transforms the organization.

**Structural elaboration.** According to Archer, the outcome of social interaction is structural elaboration. It is co-determined by the conditional influence exerted by antecedent structural and cultural systems and the autonomous causal powers of current agents. Social systems can be made to change through the actions of their thinking components (people), though
not usually in precise accordance with people’s intentions. The morphogenetic approach sees social systems as dependent upon human reflection, but against idealism, considers that the social system does not embody such reflection and rarely changes in the way anybody wants. This is so because of the unpredictable interplay of the two sets of emergent, irreducible, and autonomous causal powers of structure and agency, respectively. Whether morphogenesis (change) or morphostasis (reproduction) occurs is contingent on the particularities of that interplay. At this point, the elaborated structure restarts a new morphogenetic cycle. The theories and concepts used to deal with this next cycle may have to change, in order to explain the change that the subject matter has undergone.

Archer argues that, at the end of a transformational sequence, not only structure is transformed. Agency also changes. As they reshape structure, people reshape themselves, in terms of their organization, their powers, and their relations with other agents. This is the notion of the double morphogenesis of structure and agency. Along this line of thought, both the organization and corporate agency are also transformed at the end of a morphogenetic cycle; the organization and its groups can still hold the same names, but they are not the same (Ackroyd & Fleetwood, 2000b).
Chapter 3

CORPORATE SOCIAL RESPONSIBILITY IN INTERNATIONAL SUBSIDIARIES: A CRITICAL REALIST PERSPECTIVE

The business-and-society literature offers a number of definitions and conceptualizations of corporate social responsibility (CSR), corporate social action (CSA), corporate social performance (CSP), and other related terms. As I have reviewed in the previous chapter, most of these notions converge on the idea that business firms have certain responsibilities to society, in addition to or beyond making a profit (Crane & Matten, 2004: 41-42), and that the degree to which firms fulfill these responsibilities can somehow be evaluated. Nevertheless, it is not difficult to identify some confusion, vagueness, and overlaps in the use of these concepts, to the point that some scholars have argued that CSR/CSP theorizing has reached a crisis point (e.g. Frederick, 2006; Margolis & Walsh, 2003; Van Oosterhout & Heugens, 2006). In the previous chapter I have advanced some arguments that, in my view, provide the basis for such a statement. They can be summarized by saying that the CSR/CSP literature has not addressed the substantial questions of what the source and nature of a firm’s responsibilities to society are; which causal mechanisms generate corporate social action; how such social action is implemented and developed; and which the consequences are for the firm and the relevant society; all of that in the different socio-cultural contexts in which global companies operate.

Consequently, I see that there is a need for a systemic approach capable of addressing the nature, causes, dynamics, and consequences of the corporate social dimension in international
contexts, including but not limited to its strategic use to foster corporate profits (Margolis & Walsh, 2003; Walsh, Weber, & Margolis, 2003). In this dissertation I attempt to contribute to building such a systemic approach, based on the philosophy of critical realism (Archer, 1998a; Bhaskar, 1978), as well as on morphogenetic social theory (Archer, 1995, 1996). Accordingly, my main objective in this and the next two chapters is to develop a theoretical framework, along the lines of “typological theorizing” (George & Bennet, 2004), on which to base explanations of the nature and causes of CSR, the dynamics of CSA, and their consequences as CSP, with a focus on subsidiaries of multinational companies.

I have already reviewed in detail the main foundations of critical realism and morphogenetic social theory (see chapter 2, section 2.2). In the following paragraphs I offer just a short recall of their most fundamental features, as well as a brief outline of the theoretical formulation that I see possible, according to those features, for the concepts of CSR, CSA, and CSP. The rest of this chapter initiates the development of my theoretical proposal, focusing on the nature and sources of corporate social responsibilities, as well as on the kind of social action that those responsibilities motivate. The next two chapters complete the framework by dealing with managerial agency, corporate social action, and corporate social performance.

**Critical realism.** Critical realism is a philosophy of science based on systems thinking, which is critical of the ontological and epistemological assumptions of both positivism and postmodernism, and that claims to be able to overcome the explanatory limitations of both currents of thought (Bhaskar, 1978). For critical realists, reality is stratified and exists independently of the researcher’s knowledge of it. They see events, processes, and structures as different strata of social reality. A distinction is drawn between three domains: the real, the actual, and the empirical (Archer, 1998b; Bhaskar, 1978). The real is the domain of structures and their associated causal powers or generative mechanisms: “something is real if it has an effect or
makes a difference” (Fleetwood, 2004: 29). The real domain is not directly accessible to sense experience and has to be theoretically constructed and modeled. The actual is the domain in which events, patterns, and processes occur. The empirical is the part of the real and the actual that is experienced by social actors. These experiences presuppose the occurrence of events in the actual domain, independently of researchers taking note of them, but their occurrence is contingent. In turn, events presuppose the existence of mechanisms in the real domain, which have been responsible for the generation of events. It is because of the contingent link between the three domains of reality that human action is both necessary and possible (Tsoukas, 1994).

In critical realism, it is the task of the researcher to explain the causal mechanisms and the contingencies that operate in particular situations, i.e. to provide ideographic explanations. In the study of organizations, the explanatory task requires the researcher to provide analytically structured accounts of specific processes and their outcomes, focusing on the mechanisms that frame and modify the material conditions, moral foundations, and political relations of managerial work (Ackroyd, 2004; Reed, 1997).

I think that the notions of corporate social responsibility (CSR), corporate social action (CSA), and corporate social performance (CSP) can be framed in a way consistent with a critical realist approach. In my view, the obligations, principles, and expectations that define a firm’s social responsibilities emerge from the socio-cultural structures in which the firm is embedded. These structures belong to the real domain and as such, they are intransitive, operate transfactually, and are only accessible in a mediated way1. The emergent obligations, principles, and expectations constitute causal powers that condition and motivate, although do not determine, the actions and interactions that companies perform in the social arena. In turn, corporate social

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1 See chapter 2, section 2.2.1, “Ontological assumptions of critical realism”, for a more detailed discussion of critical realism’s three basic ontological premises: intransitivity, transfactuality, and stratification (Bhaskar, 1978).
actions and interactions take place in the actual domain, in the form of processes and events carried out by managers and stakeholders. It is through this type of human action that the firm generates some outcomes in the social arena; some of these outcomes belong to the empirical domain and have often been conceptualized as corporate social performance. From my perspective, this is a reductionist way to think of CSP. There are other outcomes of social actions that exist in the actual domain such as policies, programs, and unobserved levels of stakeholder satisfaction. Moreover, the outcomes of CSA also involve the real domain, as when the firm legitimizes itself in its socio-cultural context, institutionalizes its CSA practices, and/or develops a distinctive socially responsible corporate culture. In fact, in chapter 5 I will argue that the real dimension of CSP corresponds to the degree of legitimacy that the firm gains or maintains in its socio-cultural environment.

**Morphogenetic social theory.** Morphogenetic social theory has been developed by Margaret Archer (1995, 1996) as a practical theory that complements critical realism in social science. Archer argues that cultural properties and social structures existing in the real domain necessarily pre-date social actions. The causal powers of those properties and structures operate only through human agency, in the form of events and processes that occur in the actual domain. In addition, agents have their own causal powers (e.g. reflexivity, self-monitoring, articulation of interests, moral agency, etc.) which are revealed in their mediated interplay with culture and structure. In turn, the interplay of structure and agency has as its outcome either the reproduction or transformation of the initial structures. These propositions outline a “morphogenetic cycle” with three phases: (a) socio-cultural conditioning, in which antecedent structural and cultural properties condition, but not determine the context for action; (b) socio-cultural interaction, in which actual human agency and social action takes place; and (c) socio-cultural elaboration, which represents the outcome of social interaction and is co-determined by the conditional
influence exerted by antecedent structural and cultural properties and the autonomous causal powers of current agents. Naturally, action is a continuous flow over time; the three phases of morphogenetic/morphostatic cycles are only analytical (Fleetwood, 2004).

Analogously to the case of critical realism, I consider the concepts of CSR, CSA, and CSP as amenable to analysis from the morphogenetic perspective. The principles, obligations and expectations that constitute a firm’s social responsibilities emerge from pre-existing socio-cultural structures. They motivate social action and condition the context for it, as is typical of the first morphogenetic phase, i.e. socio-cultural conditioning. However, social action does not occur until managers acknowledge and respond to those responsibilities. Managerial action, which necessarily involves the causal powers of managers as persons (values, experience, education, moral reasoning, self-regulatory skills, etc.), takes place at this stage. It constitutes the second morphogenetic phase, that of socio-cultural interaction. Finally, in the third morphogenetic phase (socio-cultural elaboration) there is an outcome of corporate social actions, namely corporate social performance (and, contingently, competitive advantage too), which is co-determined by both the conditional influence of CSR principles, obligations and expectations; and the autonomous causal powers of managers.

**Typological theorizing.** According to George & Bennett (2004), typological theories identify causal mechanisms, as they are understood in critical realism; specify their conjunctions or configurations, called “types” by these authors; and provide contingent generalizations on the pathways through which and the conditions under which the causal mechanisms produce certain outcomes. Consistent with critical realism, the goal of typological theorizing is the identification of the variety of causal patterns that can lead to the outcome of interest and the determination of the conditions under which these patterns have occurred or are hypothesized to occur in particular
situations. The hallmark of a typological theory is the accumulation of a repertoire of causal mechanisms and the refinement of contingent generalizations that allow rich explanations.

Accordingly, chapters 3, 4, and 5 constitute an initial formulation of a typological theory of corporate social responsibility and corporate social performance in international settings. Figure No. 1 synthesizes the argument, without showing the many relationships between the variables and feedback loops. My proposal is tentative. It hypothesizes a typology of variables considered relevant and suggests many different causal configurations among them. It can be used as a heuristic device. There may be many other relevant variables and causal paths that may eventually be added to the repertoire that I am initially proposing.

In a nutshell, in this chapter I propose that the causal factors of corporate social responsibility are the set of obligations (e.g. normative principles, social expectations, etc.) that emerge from both the cultural and structural systems of each society. In the case of multinational companies and their subsidiaries, the causal factors that define and motivate CSR emerge from both global socio-cultural structures and the different local cultural and structural systems in which these companies operate. In other words, corporate social responsibilities emerge from universal ethical principles and structural global factors, but also from many and more proximal factors that are idiosyncratic to each society. In addition to their first-order (direct) causal influence, these emerging causal factors have second-order relations of congruence or incongruence with one another. Their interplay generates specific configurations in each time and place which define the expected content, direction, and modality of CSR. These configurations set the context for action; i.e. they condition, but do not determine, corporate social responses.

My theoretical proposal continues in chapter 4, where I assert that the effect of the different CSR causal factors is necessarily mediated by the actions of managers, who are endowed with their personal causal powers. I argue that it is managers who can act according to
the responsibilities that emerge from the socio-cultural system by acknowledging, accepting, assuming, and responding to them. In my view, the interplay between emerging moral and social causal factors and managerial agency shape corporate social action. Such interplay is materialized in organizational activities of moral/social environmental assessment, stakeholder management, and issues management.

Finally, in chapter 5, I build on the notion that corporate responses have as their outcome a certain level of corporate social performance, a construct which has several dimensions, some of them empirical, and some others placed at deeper levels of social reality. In my view, corporate social performance implies a certain moral and social stable positioning of the company in its environment, i.e. a certain degree of legitimacy. I argue that, through processes of socio-cultural elaboration, appropriate corporate social action leads to the emergence of legitimacy (CSP in the real domain) and eventually other properties like competitive advantage. In addition, I posit that corporate social action and performance also have second-order effects on the organization and its managers, which contribute positively or negatively to the development of the organization and its members.

**A different, integrative perspective to CSR/CSP phenomena.** I think that the perspective that I am proposing can be useful to clarify many concepts of the CSR/CSP literature, to overcome many of its theoretical limitations, and to integrate other theoretical perspectives that have been used to study CSR and CSP. I claim that my theoretical framework is different from other perspectives for at least four groups of reasons, which I next discuss.
Figure No. 1 - A Critical Realist Perspective of Corporate Social Responsibility, Corporate Social Action, and Corporate Social Performance (Only first-order relations are shown)
First, it has a systemic orientation. Phenomena related to CSR/CSP have been barely explained from a systems perspective (Strand, 1983, is an exception). I think that only a systems approach is capable of addressing, in one model, the nature, causes, dynamics, and consequences of the corporate social dimension in different socio-cultural contexts. Furthermore, CSR/CSP phenomena often present complex causality, equifinality, and/or multifinality. These features can best be studied under a systemic perspective. I claim that my proposal takes this road and, upon further development, it can become a comprehensive systemic model that can be useful for deep explanations and practical decision making in international settings.

Second, the critical realist foundation of my proposal offers the possibility of integrating the normative (philosophical) and descriptive (social scientific) streams of research on CSR/CSP, which currently remain isolated from each other. Most social scientific perspectives have limitations to approach topics such as religion- and philosophy-based corporate social responsibilities. Under critical realism this kind of responsibilities are related to the stratification of the reality and to the causes of organizational phenomena. Thus, to the extent to which there are agents holding religious beliefs or philosophical postulates and wanting to act upon them, those beliefs and postulates have causal powers on actual behavior. My theoretical proposal considers these causal powers as one of the many sources of CSR. Furthermore, critical realists assume that the knowledge of deeper levels of reality may correct as well as explain knowledge of more superficial ones. Thus, through philosophical scrutiny, some corporate practices may be identified as normatively wrong or false, which implies that they ought to be changed in order to promote human flourishing and social betterment. My proposal accepts this sort of normative judgments as sources of CSR.

Third, my model explicitly acknowledges the existence of diverse socio-cultural systems in different societies, which is relevant for the case of multinational companies and their
subsidiaries. Much of the business-and-society literature is clearly ethnocentric; it either takes for
granted the characteristics of the Anglo-American socio-cultural system or assumes that it is, will
be, or should be universal. This view precludes seeing the influence that various belief and value
systems, and diverse institutional and task environments, have on the content of CSR and the
assessment of CSP. Since the world is a mosaic of cultures and societies, mainstream scholarship
on CSR/CSP may be inadequate, insufficient, or inapplicable in many international contexts.

Fourth, given the “explanatory pluralism” (Reed, 1997) of critical realism, the
morphogenetic theory herein advanced entails the promise of improving the integration of
CSR/CSP research with organization theory, which is currently poor, and of overcoming the
insufficient, conflationary theorizing of CSR/CSP studies based on either the theory of the firm or
theories of the natural system tradition such as neo-institutionalism and resource dependence.
Archer (1995, 1996) convincingly argues that all forms of conflationary theorizing fail to
adequately explain social phenomena.

On the one hand, according to Archer, upwards conflation is associated with
individualism. Social structure is viewed as the outcome of current human agency, i.e. as the
aggregation of individuals and their actions, as they make up present-day society. In the field or
organization theory, this perspective is assumed by approaches such as strategic choice and the
economic theory of the firm (Astley & Van de Ven, 1983; Scott, 1998). The understanding of
CSR/CSP from perspectives akin to this view largely ignores that businesses are embedded in a
social context which has social structures and systems of belief (Granovetter, 1985), and that
managers may have other reasons for acting in addition to or instead of profit maximization. In
other words, although in reality there are plenty of reasons for the firm to engage in CSR and
CSA, the economic tradition acknowledges no moral (or value-based in general), traditional, or
personal reasons. Thus, it offers little help to understand causal mechanisms, implementation, and
outcomes of CSR/CSP which are not explicitly directed to improve economic performance. The theory outlined in this dissertation acknowledges the importance of the economic orientation to the study of CSR/CSP and includes its views, but is not limited to or by it.

On the other hand, downwards conflation reifies structure. It considers the behavior of individuals to be determined by social forces, and human action is seen as marginal. In organization theory, this stream of thought is represented by all the theories that lean towards environmental determinism (Astley & Van de Ven, 1983; Scott, 1998). For example, neo-institutional theory can explain broad, isomorphic types of CSR/CSP, but it offers no help to explain non-isomorphic types of CSR/CSP (for instance, those strategic types that seek profits). It has difficulty to explain differences between individual companies in moral/social practices, because external, institutionalized pressures are often insufficient to explain CSA (Howard-Grenville, 2007). Neo-institutional views also fail to explain the micro-processes by which any type of CSA is adopted and implemented by organizations. There is little room for managerial agency, and actually for rational behavior (Donaldson, 2002), in the neo-institutional perspective. My model is not deterministic; it includes institutional forces and pressures as sources of CSR, but it gives human agency an important, mediating role. In my view, managers’ perceptions of the issues, their sense of the scope and nature of their company’s responsibilities, and their expectations about the future unfolding of social issues and external pressures matter in explaining a firm’s CSA. Several parts of my proposal attempt to explain processes linked to CSA at the organizational and individual levels.

Resource-dependence theory is another example. Its aim is only instrumental: to control resource interdependencies and resource flows. Consequently, this theory cannot explain CSR obligations that go beyond the demands of self-interested, resource-controlling stakeholders. In addition, resource-dependence also allows for little managerial discretion, because it assumes that
resource dependences control organizational behaviors. Thus, the interplay of environmental CSR forces different from stakeholder interests (e.g. normative, cultural, or traditional forces) with managers’ beliefs and actions, in the achievement of CSP, remains to be explained. The model advanced in this dissertation certainly focuses on stakeholder relationships and stakeholder interests, but it additionally considers many other sources of CSR and, as already said, it considers that human agency has a fundamental mediating role.

Furthermore, as it is the case with the theory of the firm, both neo-institutional and resource dependence views can lead to varieties of CSR/CSP that are deprived of their moral dimension: The former because institutionalized actions and beliefs are acritically taken for granted; and the latter because it does not address the ethical quality of stakeholder interests and firm responses. Throughout my proposal, both social and ethical concerns are always present.

3.1.- DEFINING CORPORATE SOCIAL RESPONSIBILITY AND THE TYPES OF ACTION THAT IT MOTIVATES

What should we understand for corporate social responsibility? The business-and-society literature offers many definitions. However, there is no general agreement on the concept. For the purposes of this dissertation, I adopt Frederick’s definition of CSR as the “obligation [of business corporations] to work for social betterment… throughout all phases –mainstream and peripheral– of the company’s operations… [which] may be recognized and discharged voluntarily… or may be imposed coercively” (1994: 151). This broad obligation can often be articulated in a number of more specific CSR principles\(^2\). However, identifying CSR obligations and principles is not an easy task. Consistent with critical realism’s stratified view of reality, CSR

\(^2\) A principle expresses a basic value or something fundamental that people believe is true (Wood, 1991).
principles and obligations can be seen as existing in different domains, at different levels of analysis, and with contents that vary from one socio-cultural system to another.

On the one hand, CSR principles can be categorized as belonging to a number of different domains, which according to Carroll (1979), can be classified as economic, legal, ethical, or discretionary. On the other hand, across these different domains there are a number of obligations that can be considered universal in scope (e.g. those related to respecting and promoting human rights). Other CSR principles, as Wood (1991) argues, apply to all firms existing in a given socio-cultural system, but not necessarily to firms in other systems. Moreover, within one particular context, some obligations are ascribed only to specific firms. Still other obligations specifically apply, either universally or contextually, to managers as individuals.\(^3\)

The fact that a particular cultural and structural configuration differs from others across time and space adds more complexity. CSR obligations, at the different levels of analysis and in their various domains, are filled with specific contents, according to the values, expectations, and preferences which exist within a given socio-cultural configuration. Those contents include normative principles emerging from the cultural system, i.e. religious beliefs, philosophical arguments, and accepted social theories. They also encompass obligations derived from the social structure, that is, from specific social conditions, practices and relationships. Adopting Archer’s (1995, 1996) terminology, in this dissertation I will refer to CSR obligations emerging from the cultural system as “cultural emergent CSR properties”, and to those arising from the social structure as “structural emergent CSR properties”.

It is important to acknowledge that the various CSR obligations, located in several domains, at different levels of analysis, and filled with specific contents, can stand in

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\(^3\) In this chapter I focus only on the levels of analysis that go from a single organization up to universals. I will discuss CSR obligations at the individual level in the next chapter.
relationships of contradiction or complementarity with one another. Consequently, each firm will be conditioned in a particular way at a given point in time. This is especially important in international settings, in which cultural and structural systems show more variation, as compared to those within one single society. In other words, the nature and content of CSR obligations is ideographic, and more so in the case of multinational companies and their subsidiaries.

3.1.1 Types of CSR-Motivated Corporate Action.

Cultural and structural CSR emergent properties have causal powers that condition and motivate, although do not determine, the actions that companies perform in the social arena. The main task of this chapter is to identify those CSR emergent properties and to propose the ways in which they condition and motivate corporate social actions. Before doing so, let us explore the different types of corporate social action that can be motivated by those properties.

The CSR literature has usually distinguished between two CSR-motivated types of CSA: altruistic action, aimed at benefiting others; and strategic or instrumental action, focused on achieving advantages for the firm, usually in the form of economic benefits (e.g. Austin, Reficco, et al., 2004; Graafland & Van de Ven, 2006; Husted & Salazar, 2006). More recently, some authors (e.g. Husted & Allen, 2006; Marquis, Glynn, & Davis, 2007; Matten & Moon, 2004) have added an isomorphic type of corporate social action which, building on the work of Meyer & Rowan (1977), sees CSA as taken-for-granted concepts of organizational work that are institutionalized in society.

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4 In this dissertation I use the terms “instrumental CSR” and “strategic CSR” indistinctly. Although in other contexts a difference between them can be established, herein I use them both to denote the motivation of corporate social actions towards increasing the firm’s economic performance. I do not consider actions that are only “window-dressing”, or opportunistic, or strictly self-serving, to be corporate social action, because (1) these actions do not “work for social betterment”, as Frederick (1954) would say; and (2) such actions are not “social” according to Weber’s definition of social action, i.e. action which “is meaningfully related to the behavior of other persons”, from whom a subjectively meaningful behavior can be expected (1922/1978: 1375; italics in the original).
In this dissertation I propose and use a more comprehensive classification of CSR-oriented types of CSA, based on the traditional typology proposed by Max Weber (1922/1978). Weber specified four types of orientation for social action, i.e. end-oriented or instrumentally rational (zweckrational), value-oriented rational (wertrational), traditional, and affectual. Analogously, I propose that CSR emergent properties can motivate four types of corporate social action: instrumental or strategic; value-based; isomorphic; and affectual or impulse-driven social action. These types are summarized in Figure No. 2.

Accordingly, in strategic or instrumental CSA, CSR obligations are seen either as opportunities from which the firm can derive economic benefits, or threats to the competitive position of the firm which should be neutralized. CSR obligations, and the consequent CSA, are used as means for the attainment of the firm’s rationally pursued and calculated ends, usually superior economic performance. This involves rational consideration of alternative means to achieve such a performance, the potential existence of secondary consequences, and the relative importance of the end.

Value-based CSA is determined by a conscious belief in the value, for and by itself, of some forms of corporate behavior, independently of its impact on economic performance. It requires the clear (rational) formulation of the ultimate values governing the action and a planned orientation of the course of action toward these values. The meaning of the action lies in carrying out the specific type of action for its own sake. For instance, based on environmental ethics, some companies take environmental measures even if they gain no economic/financial benefits, or even make losses (Nuki, 2007). Altruist CSA is another example, often implemented in the form of philanthropic actions. Other values that may motivate CSA are, for instance, nationalism, a sense of duty, etc.
**Figure No. 2 - Types of CSR-Motivated Corporate Social Action**

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic or instrumental</td>
<td>CSR obligations seen as opportunities to derive economic benefits or threats to be neutralized. CSR and CSA are used as means for the attainment of superior economic performance.</td>
</tr>
<tr>
<td>Value-based</td>
<td>CSA is determined by a conscious belief in the value, for and by itself, of some forms of corporate behavior, independently of its impact on economic performance. The meaning of the action lies in carrying out the specific type of action for its own sake.</td>
</tr>
<tr>
<td>Isomorphic</td>
<td>CSR obligations consist of rationalized concepts or taken-for-granted “myths” about organizational behavior that are institutionalized in society. CSA tend to be homogeneous for most firms in a particular society.</td>
</tr>
<tr>
<td>Affectual or impulse-driven</td>
<td>Impulse-driven reactions to stimulus from the socio-cultural environment. CSA is motivated by the affects and feeling states of managers, often as a response to an urgent social need or as a result of a “conversion” to some ethical or social value.</td>
</tr>
</tbody>
</table>

In my view, isomorphic CSA is analogous to Weber’s traditional type of social action. For Weber, traditional behavior is determined by “ingrained habituation”; it is “a matter of almost automatic reaction to habitual stimuli which guide behavior in a course which has been repeatedly followed” (1922/1978: 25). On their side, neo-institutional theorists argue that organizations survive more by compliance with institutionalized concepts or rationalized “myths” than by efficiency in the organization’s work activities (Meyer & Rowan, 1977). Those myths are institutionalized through a “process by which actions are repeated and given similar meaning by self and others” (Scott, 1998: 135); in other words, they become what Weber calls an “ingrained habituation”. Firms respond to those rationalized myths, not by developing original action paths, but by adopting practices which frequently resemble those of other firms, generating a homogenizing trend, i.e. an “automatic reaction”, which has been named “isomorphism” by
DiMaggio & Powell (1983). A number of CSR obligations can be conceived of as rationalized concepts of organizational work that are institutionalized in society. These CSR emergent properties motivate corporate social actions that are homogeneous for most firms in a particular society, i.e. isomorphic CSA.

Finally, affectual CSA consists of impulse-driven reactions to some stimulus from the socio-cultural environment. It is motivated by the affects and feeling states of managers, often as a response to an urgent social need for which corporate action can make a difference (e.g. help to victims of natural disasters), or as a result of a more or less sudden awareness or “conversion” to some ethical or social value. A process of “spontaneization” often follows, i.e. a self-generated and spontaneous involvement of companies with social and environmental issues (Nuki, 2007).

This Weberian-style classification only formulates these types in a conceptually pure form. However, it would be very rare to find cases of CSA orientated exclusively in one or another of these ways. To various degrees, actual corporate social action usually presents a combination of the different orientations. For instance, in strategic CSA, choice between alternative and at times conflicting means and ends is usually determined in a value-rational way. The orientation of CSA totally to the “rational” achievement of economic performance without relation to fundamental values would be an extreme case that, actually, would have lost much of its rationality and could eventually be classified as traditional (in some socio-cultural environments) or affectual action. By the same token, to the extent to which it losses the conscious formulation of the relevant value and the planned orientation of the corresponding course of action in favor of a more automatic, taken-for-granted behavior, value-rational CSA may become “ingrained habituation”, and thus traditional or isomorphic CSA. Similarly, affectual CSA may change to a conscious formulation of some values and, in this way, get closer to value-based CSA; or it may get rationalized and turned into isomorphic CSA.
After defining the concept of corporate social responsibility and studying the different types of corporate social action that CSR motivates, I now turn to a more detailed effort to identify cultural and structural CSR emergent properties and to propose the way in which they condition CSA. A summary of the upcoming discussion is presented in Figure No. 3.

**Figure No. 3 - Cultural and Structural CSR Emergent Properties and their First-Order Conditioning Effect**

<table>
<thead>
<tr>
<th>CSR emergent properties</th>
<th>Predominant type of motivated CSA</th>
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<tbody>
<tr>
<td><strong>Cultural CSR Emergent Properties</strong></td>
<td></td>
</tr>
<tr>
<td>Religious beliefs</td>
<td>Value-based and isomorphic</td>
</tr>
<tr>
<td>Philosophical and ideological principles</td>
<td>Value-based and isomorphic</td>
</tr>
<tr>
<td>Accepted social theories</td>
<td>Value-based and isomorphic</td>
</tr>
<tr>
<td><strong>Structural CSR Emergent Properties</strong></td>
<td></td>
</tr>
<tr>
<td>Institutional environment and legislation</td>
<td></td>
</tr>
<tr>
<td>Libertarian (e.g. USA)</td>
<td>Instrumental</td>
</tr>
<tr>
<td>Densely regulated (e.g. European Union)</td>
<td>Isomorphic</td>
</tr>
<tr>
<td>Weak / loosely regulated</td>
<td>Opportunistic or value-based</td>
</tr>
<tr>
<td><strong>Systems of exchange</strong></td>
<td></td>
</tr>
<tr>
<td>Price system (market)</td>
<td>Instrumental, isomorphic, and value-based</td>
</tr>
<tr>
<td>Associative system</td>
<td>Value-based and isomorphic</td>
</tr>
<tr>
<td>Moral system</td>
<td>Value-based and isomorphic</td>
</tr>
<tr>
<td>Communal system</td>
<td>Value-based and isomorphic</td>
</tr>
<tr>
<td><strong>Social and economic development</strong></td>
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<tr>
<td>Developed countries</td>
<td>Instrumental and isomorphic</td>
</tr>
<tr>
<td>Developing countries</td>
<td>Value-based and instrumental</td>
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<tr>
<td><strong>Task environment</strong></td>
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<tr>
<td>Dynamic environments</td>
<td>Instrumental and isomorphic</td>
</tr>
<tr>
<td>Munificent environments</td>
<td>Instrumental and value-based</td>
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<tr>
<td><strong>Stakeholder relationships</strong></td>
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<tr>
<td>Agency relationships</td>
<td>Instrumental</td>
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<tr>
<td>Stewardship relationships</td>
<td>Value-based</td>
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<tr>
<td>Mediated relationships</td>
<td>Isomorphic</td>
</tr>
<tr>
<td>Global / local</td>
<td>Instrumental and isomorphic</td>
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<tr>
<td><strong>Organizational CSR Emergent Properties</strong></td>
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<tr>
<td><strong>Organizational structure</strong></td>
<td></td>
</tr>
<tr>
<td>Formal</td>
<td>Instrumental and isomorphic</td>
</tr>
<tr>
<td>Informal</td>
<td>Value-based and instrumental</td>
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<tr>
<td><strong>Organizational culture</strong></td>
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<td></td>
<td>Value-based</td>
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<td><strong>Organizational identity</strong></td>
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<tr>
<td></td>
<td>Value-based and instrumental</td>
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<tr>
<td><strong>Foreign subsidiary status</strong></td>
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<tr>
<td>Centralized</td>
<td>Instrumental and isomorphic</td>
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<tr>
<td>Decentralized</td>
<td>Value-based and isomorphic</td>
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</tbody>
</table>
3.2.- CSR AS A CULTURAL EMERGENT PROPERTY

From the morphogenetic perspective, culture “is taken to refer to all intelligibilia, that is to any item which has the dispositional capacity of being understood by someone” (Archer, 1995: 180). Culture includes the theories and belief systems that are held to be true or false in a particular society, and which together constitute its cultural system. We should not assume that culture is an integrated whole in which theories and beliefs are consistent with each other: The elements of the cultural system have logical relations with one another, and these relations may be of either consistency or contradiction. We also should distinguish between the logical relations among beliefs and theories in the cultural system and the causal relations between people holding some of those ideas during their socio-cultural interaction (Archer, 1985, 1996).

In this section I focus on the cultural system of a given society, i.e. its world of ideas and the logical relations between them. I think that factors such as ideological and methodological limitations; or the complexity, the level of abstraction, and the lack of immediate practical application of the world of ideas has often led business-and-society scholars to ignore or to take for granted the influence of the cultural system on the emergence of CSR. However, as argued by Touraine (2006), the best way to understand our contemporary, globalized world, is through the study of its cultures. Theoretical and philosophical ideas, “both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else” (Keynes, 1936: 383). In the following paragraphs I try to show that the ethical concepts that are foundational to CSR, as well as those that oppose CSR, emerge from the cultural system of each society, and that, when analyzing CSR in international settings, it is crucial not to consider that all business firms, everywhere, operate out of the same set of theories, beliefs, and ideologies. Naturally, CSR as an emergent cultural property will have causal powers
on corporate actions only to the extent to which there are people holding those beliefs and theories (Archer, 1995).

At the deepest level, CSR emerges from ethical universals on which most religions and philosophical traditions converge; they represent the highest ethical aspirations of humanity. These non-demonstrable “first principles”, often called “hypernorms” by some business ethics theorists, emphasize values such as justice, freedom, and respect for human dignity (Bird, 1996; Donaldson & Dunfee, 1999; Küng, 1997/2000). The Universal Declaration of Human Rights (Bettati, Duhamel, & Greilsamer, 1998; UNO, 1948) is a synthetic formulation of these universals, broadly accepted nowadays. The Global Compact (Annan, 1999) can be seen as its simplified counterpart for business. These are principles so fundamental that serve as the basis and central reference for all other normative formulations. Nevertheless, as these principles are developed and interpreted by the different religions, philosophical schools, and social theories into specific precepts, the convergence diminishes.

Religious teachings play an important role as a source of normative criteria for social action and business decision making. For many people, moral laws are endowed with a religious character: They are considered to be divine commands (De Finance, 1991). All religions include a body of moral precepts, and many of these teachings continue to be an important reference of behavior in contemporary morality, even in highly secularized societies. In fact, to many executives religion has been essentially a series of moral precepts, from which they draw values and standards for their business decision making (Delbecq, 1999; Graafland, Mazereeuw, & Yahia, 2006; McMahon, 1985). Some scholars (e.g. Küng, 1997, 1997/2000; Zsolnai, 2002) argue that it is time to discard that neglect of the religions so characteristic of modernity, and to recognize and value “the incomparable resources of the world religions” (Küng, 1997: 21) for establishing a world ethics in business. For example, Christianity has been such a resource for the
Western world, for in it “most of the ideas and values used by independent ethics and the independent sense of existence are not in any way original phenomena, but rather epiphenomena, uses, adaptations, reinterpretations of Christian moments” (Guardini, 1993/1999: 797).

From a critical realist perspective, the actual influence of the cultural system, in this case of religious beliefs and precepts, on organizational actors requires a mediating system integrated by positions and practices. Consistent with this notion, Weaver & Agle (2002) propose that religion’s actual influence is explained by “religious role expectations” that constitute a person’s religious self-identity, and which are defined by the religious tradition to which the person belongs. Jacques Savary (1679), a French businessman and tax officer, offers an example of early CSR motivated by religious role expectations: Using his influence and position, he pushed traders to work across broad geographical demarcations in order to accomplish “a just distribution of the products that God gave to human beings”.

Philosophical ethics also provide many normative concepts that support and justify CSR from different perspectives. For example, some scholars have proposed a Kantian or deontological orientation (e.g. Bowie, 1999; Evan & Freeman, 1988). Others have offered interpretations based on the Rawlsian theory of fair contracts (Freeman, 2001; Phillips, 1997), the social contract tradition (Donaldson & Dunfee, 1999), property rights doctrine (Donaldson & Preston, 1995), or feminist philosophy (Wicks, Gilbert, & Freeman, 1994). Utilitarianism has also been proposed (e.g. Snoeyenbos & Humber, 1999), as well as pragmatism (Fontrodona, 2002; Rosenthal, 2002; Ulrich, 2006). Some researchers in Europe have supported a foundation on the discourse ethics of Apel and Habermas (e.g. Cortina, 1994), or in the Aristotelian-Tomist tradition (Argandoña, 1998; Kleinfeld-Wernicke, 1992; Melé, 2002). One or more of these or other ethical perspectives may be part of the cultural system of a given society, and as such, they define and circumscribe the ideational environment of organizational actors.
The cultural system is also integrated by different theories, mainly from social science, that may eventually be held by actors and, in this way, condition their behavior. It has been shown that independently of their truth or falsity, social theories are often assumed as true and thus, exert influence on people’s behavior (Ferraro, Pfeffer, & Sutton, 2005).

The diversity of religious, philosophical, and socio-theoretical views introduces different understandings about the role of the firm and its social responsibility. It is impossible to identify CSR principles with only one specific tradition. Most probably, through many cycles of cultural morphogenesis, the normative character of CSR has emerged in the different cultures and places as an eclectic outcome of their religious precepts and their most influential philosophical doctrines and social theories. Therefore, the specific content of CSR, as well as that of other cultural emergent powers, is part and parcel of each society’s “spiritual capital”, that is, the “moral forces of peoples” that emerge as “the slow maturing fruit of history, national culture, and a free and well-ordered public life” (Hildebrand, 1863, cited by Schefold, 1996: 181).

Needless to say, the specific content of the cultural system in a given society at a particular point in time is a complex matter that has evolved through many cycles of cultural morphogenesis and that, as we will see later, most likely has also impacted structural morphogenesis. At the risk of oversimplifying, but with the purpose of illustrating my argument, in the following paragraphs I will briefly present the cultural system that underlies capitalism, particularly as understood in the United States, and the way in which CSR principles have emerged, have transformed, and have been transformed by that system. I chose this system because of its relevance in the world of business, for both practitioners and academics. It has been acknowledged that the current process of globalization is largely a process of (Anglo)-Americanization (Friedman, 2000; Gordon, 2004; Kissinger, 1999; Pesqueux & Biefnot, 2002).
3.2.1.- The Anglo-American Cultural System and CSR.

The cultural system of business in the United States, which in virtue of its economic magnitude and influence is not limited to that geographic jurisdiction, is primarily a product of modern thought (Küng, 1997/2000; Sen, 1987), based at the same time on Protestantism and the secular rationality of the Enlightenment. These approaches originated primarily in Northern Europe and were readily adopted in Anglo-Saxon North America, where they developed and strengthened.

The relationship between Protestantism and capitalism has been widely explored. A classical reference is the work of Max Weber (1905/1995), who showed that certain types of Protestantism, particularly Calvinism, favored the pursuit of economic gain and that worldly success had been given positive spiritual and moral meaning as a measure of salvation. At the same time, based on *le droit d'examiner sans frein*, i.e. the unlimited right, claimed by Protestantism, to examine anything under the light of individual reason (De Maistre, 1989; Patapievici, 2006), an individualistic logic developed in Calvinism and its British descendants: Presbyterianism, Congregationalism, and above all, Puritanism (Tawney, 1922/1990). Tawney explains that these Protestant streams later became highly influential in the work of thinkers like Adam Smith and Jeremy Bentham, and that also played a fundamental role in the development of the British colonies in North America. In this way, self-interest and the pursuit of wealth became pivotal cultural emergent properties of Anglo-American Protestantism, quite different from those of other versions of Christianity or other religions.

On the other hand, as a result of the project of the Enlightenment, a distinctively modern approach to ethics emerged, based on the rationalistic justification of moral norms. The notion of the good was substituted by the notion of the right. In this way, the rationalist ethics of abstract principles such as deontology, its contractarian revisions, and utilitarianism, were developed.
Pleasure or utility maximization, under the constraint of universal duties, became the operative synthesis (Anscombe, 1958; MacIntyre, 1985), i.e. the cultural emergent properties in the language of morphogenetic theory.

In Archer’s terms, the emergent properties of both Protestantism and rationalistic ethics maintained a relation of “concomitant complementarity” (1995: 234 ff). The logical consistency of the items involved made the cultural system to be fundamentally problem-free. An additional concomitant complementarity was offered by the development of classic economic theory, and later, of its neoclassical version, based on a particular interpretation of *zweckrationalität* (Weber, 1922/1978), the ends-oriented or instrumental rationality which in economics is seen as oriented exclusively towards the maximization of individual utility (Sen, 1987). Eventually, and consistent with economics, the theory of the firm was developed (Coase, 1937), which in its contemporaneous versions see the organization as a mechanism for the governance of transactions (Williamson, 1975) or as a nexus of contracts (Jensen & Meckling, 1976), both between dyads of individual agents assumed to be self-interested, profit-maximizers, and to have a proclivity to act opportunistically.

Through time, and after vigorous intellectual endeavors, these emergent properties (self-interest, pursuit of wealth, pleasure/utility maximization, and constraining universal duties) formed a dense and consistent cultural system. In addition, corporate leaders were able to shape and implement doctrines of limited liability and legal personhood for firms (Hartmann, 2002; Perrow, 2002). Fostered by economic rationality and self-interest, profit maximization became the cultural property with the strongest influence on business conduct; while “ethics”, another cultural emergent property, was understood mainly in deontological terms, as universal duties.

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5 Hamilton & Biggart strongly state that the theory of the firm “may in fact be a theory based on, and only well suited to, the American firm as it has developed historically in the American society” (1988: S87-S88).
and obligations that constrain behavior (Caza, Barker, & Cameron, 2004). Archer (1995) posits that the situational logic of such concomitant complementarities conduces to protection, i.e. the maintenance of the purity of the system.

To a large extent, the ideas that supported the emergence of corporate social responsibility in the United States were logically contradictory to the strong cultural system described above (Green, 1993; Windsor, 2006). Systems based on modern thought have been subject to many and varied criticisms (e.g. Touraine, 1995), which have originated from different sources. Some of those criticisms echo many premodern beliefs and theories, whose assumptions are at odds with those of the Reformation and the Enlightenment (e.g. Farmer, 1964; Patapievici, 2006). For example, Feldman argues that in the Anglo-American cultural system “a selfish individualism destructive of community, culture, and the natural environment is proclaimed as the hallmark of freedom”. He affirms that “it was the destruction of the memory of the past by rationalist forces in modern culture that struck the near deathblow to the moral traditions that had kept man/woman’s sense of social responsibility alive and vigorous” (2002: 4).

On the other hand, the objections presented by postmodernism during the second half of the XX century were also very relevant. Postmodernism emerged as a strong although heterogeneous intellectual movement that highlighted voices, texts, and viewpoints previously neglected or ignored; it rejected “meta-narratives”, the broadly accepted ideologies and discourses of a mythical center (e.g. capitalism, communism, etc.), and called attention to the margins of society (Kilduff & Mehra, 1997). The ideas that prompted the emergence of corporate social responsibility in the United States (civil rights of minorities, women rights, environmental protection, workers’ health and safety, consumer rights, pacifism, etc.) seem very consistent with the claims of both postmodernism and some contemporary elaborations of premodern philosophy (Green, 1993; Shaw, 1995). As such, they represented contrasting moral systems, with emergent
properties that were in a situation of “constraining contradiction” or “necessary incompatibility” (Archer, 1995: 230 ff) with those of the Anglo-American system (self-interest, profit maximization, economic rationality, and ethics just as constraining universal duties).

A necessary contradiction occurred in this case because those committed to the early ideas of corporate social responsibility, opposed to economic rationality and profit maximization, had no option but to live with the cultural system of capitalism. Anglo-American capitalism appeared as both antithetical but also indispensable to them. The logical solution was not simply to repudiate such business system. Archer explains that, since no genuine resolution is possible between the two doctrines, the situational logic of the constraining contradiction makes a correction of the relationship mandatory. The contradiction is addressed and repaired by a reinterpretation of its components. Archer also points out that an important part of the correction of a constraining contradiction involves teaching the repaired relation. Both correction and teaching take place at the level of socio-cultural interaction, through the mediation of human agency. Eventually, as a result of such interaction, cultural morphogenesis occurs and the cultural system is transformed.

In this context, Milton Friedman’s dictum (1962, 1970) that the only social responsibility of business is to maximize its profits within the law and ethical custom, and about the “fundamentally subversive” nature of CSR, was perfectly consistent with the Anglo-American cultural system and the logic of protecting its purity during the emergence of CSR. However, he continued using the same discourse (Friedman, 2005), although protection was no longer the situational logic, but correction. Consistent with Archer’s view, a large proportion of the Anglo-American scholarly work in the business-and-society field can be seen as a series of attempts to correct the contradiction. To paraphrase Archer, “the [profit-maximization] ‘faithful’ had in some way to domesticate the [CSR] cultural monsters confronting them” (1995: 233).
Accordingly, some scholars have focused their work on profit maximization as the objective function of any corporate social action (e.g. Jensen, 2002; Navarro, 1988). Many others have tried to demonstrate that CSR can be (positively) related to business financial performance (e.g. Barnett & Salomon, 2006; Margolis & Walsh, 2001; McGuire, Sundgren, & Schneeweis, 1988; Orlitzky, Schmidt, & Rynes, 2003; Preston & O’Bannon, 1997; Waddock & Graves, 1997; Wu, 2006). Still others are trying to develop knowledge to deliberately and strategically use CSR in order to increase economic performance (e.g. Bhattacharya & Sen, 2004; Burke & Logsdon, 1996; Husted, 2003; Husted & Salazar, 2006; McWilliams & Siegel, 2001; Murray & Montanari, 1986). In this way, the Anglo-American cultural system has been going through cultural morphogenesis. CSR as a cultural emergent property has been integrated into it. Under the “repaired” perspective, the legitimation of corporate social activities has to pass through the criteria of economic efficiency. If CSR/CSP is consistent with, or helps financial performance, it will be considered legitimate to use firm resources in social actions. The debates about whether and why firms should care about CSR, or about whom they are responsible to, or what are they responsible for, have lost relevance. For this line of scholarship, the point now is to find out how companies can effectively manage CSR and build it into their strategies. The driving concepts and contents of this “domesticated” CSR have changed, but it still has causal powers, i.e. it conditions the actions of firms in the social realm, orientating them in a strategic way.

Teaching the transformed perspective is also taking place in the CSR field. Business schools are leading the way not only in assimilating CSR into the profit-maximizing paradigm, but also in teaching the “repaired” perspective (e.g. Kashyap, Mir, & Iyer, 2006). There is only a very limited amount of scholarly work on CSR out of business schools and the management academia (Lockett, Moon, & Visser, 2006).
3.2.2.- CSR and Other Cultural Systems.

The Anglo-American cultural system is not universal. In many cases, the “people’s moral forces” that constitute their “spiritual capital” are “more powerful than the theoretical principles of the Smithian school” (Hildebrand, 1863, cited by Schefold, 1996: 181). The ideas and theories derived from Protestantism, rationalistic ethics, and neoclassical economics cannot be understood “as contributors to a timeless debate about morality, but only as the inheritors of a very specific and particular scheme of moral beliefs” (MacIntyre, 1985: 51).

There are other cultural systems that, at least at the ideational level (actual socio-cultural interaction may be very different), are founded on other premises, which will impact the principles that normatively define CSR. For example, the Japanese cultural system is based on gi and shuyo, notions close to the Western concepts of virtue and self-discipline; and on gimu and giri, principles which define strong existential and hierarchical obligations towards others, which must be fulfilled in wa or harmony. In that system, the group is considered to be superior to its individual members because it is closer to the numen of the universe. Therefore, at the normative level, self-interest is considered to be despicable. Within the gimu obligations, chu, or duties to the country, its society, and its institutions, receive priority over all other obligations. In this context, the purpose of the corporation is to be useful to and meaningful for Japan and its society; the firm is thought to exist firstly for its employees, rather than for its shareholders, because it is through work that Japanese people try to unify themselves with the great life force of the universe (Benedict, 1946; Taka, 1994). In the Japanese system, profit-seeking behavior is not expected to be maximizing, but “moderate”. Consequently, corporations are expected to offer benefits to the closer circle of their stakeholders to counterbalance the benefits received; firms worry about the reciprocal “balance sheet” of benefits and debts with the stakeholders of their closer circle (Mafune, 1988; Taka, 1994). In this way, CSR remains as an emergent property of the Japanese
cultural system, but its principles and contents are very different from those of the Anglo-American system (Wokutch, 1990). In addition to an strategic orientation, Japanese CSR principles motivate many particular value-based and traditional corporate social actions. There are many other systems of beliefs and social theories that constitute the world’s mosaic of cultures. CSR concepts and principles, as emergent properties of those cultural systems, also show variety and diversity. The moral component of the legitimacy (Suchman, 1995) of a multinational company and its subsidiaries, as well as that of its stakeholders (Mitchell, Agle, & Wood, 1997) will be established according to the relevant cultural system and its emergent properties, including local concepts and principles of CSR. Consequently, understanding the causal properties of CSR as it emerges from a particular cultural system demands ideographic explanation.

3.3. - CSR AS A STRUCTURAL EMERGENT PROPERTY

Multinational companies and their subsidiaries are embedded in a set of relatively enduring institutionalized relationships and connections. From a morphogenetic perspective, these relationships constitute the structural system that endows companies and their stakeholders with different vested interests according to the positions that they occupy in the system (Archer, 1995). CSR as a structural emergent property arises from the necessary and internal (to the system) relations that exist between the company and its environment. Those structures occur at different levels of the social system.

At the most distal level in the environment external to the organization, a number of CSR pressures emanate from social macro structures such as regulatory frameworks and legislation, the systems of exchange that prevail in a given society, its level of social and economic development, and perhaps other social structures. Closer to the organization, CSR
properties emerge from the task environment in which the organization is embedded and from the necessary and internal relations of the firm with its primary stakeholders. Let us review the structural CSR influences exerted by some of these structures, acknowledging that in any given society there may be other relevant structures.

3.3.1.- Institutional Environment and Legislation.

In order to better understand the level of influence of regulatory frameworks and legislation on CSR, I think it is useful to introduce the distinction between “explicit” and “implicit” CSR, as proposed by Matten & Moon (2004, 2008). Explicit CSR refers to “corporate policies to assume responsibility for the interests of society”, which “normally consist of voluntary, self-interested driven policies, programs and strategies by corporations addressing issues perceived as being part of their social responsibility by the company and/or its stakeholders”. In contrast, implicit CSR refers to “the entirety of a country’s formal and informal institutions assigning corporations … [a] share of responsibility for society’s interests and concerns. Implicit CSR normally consists of values, norms and rules which result in (mostly mandatory but also customary) requirements for corporations to address issues stakeholders consider a proper obligation upon corporate actors” (Matten & Moon, 2004: 9, italics in the original). These authors point out the fact that implicit CSR is usually not included in traditional American scholarship on CSR.

Matten & Moon show that the institutional environment allocates responsibility for social issues in fundamentally different ways in different countries. For instance, in the United States, CSR is primarily addressed in corporate policies (explicit CSR). Through a long and complex historical process, involving several cycles of structural morphogenesis, the Anglo-American cultural system has produced an institutional environment which fosters individual
freedom, antistatism, competition, and decentralism, based on an impersonal structure of
government and a strong law system. The structural system guarantees the freedom of economic
interests to do business as an independent sector of society, with all the baggage of rights implied
by classic British liberalism (Vetica, 1993). In the words of Hamilton & Biggart, “the American
state … exists to allow the market to function in the service of private interests” (1988: S88).
Corporate law establishes the fiduciary obligation of management of maximizing the wealth of
shareholders. Even orthodox libertarians such as Friedman (1962) acknowledge the necessity and
relevance of implementing such a strong set of rules and laws within which firms can pursue
profits. Vetica concludes that in this context, corporate leaders are able to engage in CSR
practices if profitability is increased or at least not decreased. Consequently, an explicit, strategic
form of CSR emerges from this structural configuration, in which managerial discretion plays an
important role.

In contrast, the responsibility of business to society is implicit in laws, regulations, and
informal institutionalized rules in many other countries, where the government (Berthoin Antal &
Sobczak, 2007; Moon, 2004), as well as nongovernmental and other independent organizations
(Campbell, 2007; Terlaak, 2007) may act as key drivers of CSR. Matten & Moon (2004)
conclude that countries with a longer and denser institutional heritage tend to address CSR issues
in the form of implicit CSR. They offer the example of the European Union, in which markets are
regulated to protect consumers; labor laws define procedures for employee participation in
corporate governance and in profits; workers’ health insurance and pensions are taken over by
corporations by mandatory regulations; rigorous environmental standards are set by legislation;
etc. All these topics, which could be part of the largely discretionary and explicit CSR policies of
a USA corporation, are simply redundant in Europe, where it is mandatory or customary for
corporations to fulfill such measures. Another example is offered by Japan, where life-long
employment (*shushin koyō*) and other “rationalized myths” (Meyer & Rowan, 1977) have been part of the institutional framework that rules the strong and distinctive connections between business and society (Koehn, 2001). In these environments, implicit CSR has a defined content and allows for less discretion on the part of managers, which will likely lead to coercive CSR isomorphism (DiMaggio & Powell, 1983).

There are, however, countries whose laws and informal rules are weak and inconsistent, i.e. they are in a state of institutional anomie (Cullen, Parboteeah, & Hoegl, 2004). The institutional environments of many developing countries are severely constrained in their ability to implement and protect rights and to provide sufficient public goods. In those cases, companies are no longer subject to the rules defined by a nation state and often seek to arbitrate among alternative regulations. The institutional regime surrenders to the arbitrariness of corporate actors, which opens the door for either opportunism and abuse on the part of multinational firms, or their discretionary exercise of ethics as a supplement to law and institutions (Maynard, 2001; Scherer, Palazzo, & Baumann, 2006). The later case corresponds to explicit forms of CSR, which lead to strategic and/or value-based CSA. In addition, there are some nonmandatory international standards that can be important sources of CSR in institutionally weak environments (Terlaak, 2007). Initiatives such as the United Nations Global Compact, the Caux Round Table, and some certifiable management standards (e.g. ISO 14001, SA 8000, etc.) are attempts to develop a global institutional environment with specific directions for CSR (Annan, 1999; Arthaud-Day, 2005; Terlaak, 2007). Their adoption likely leads to strategic and/or isomorphic forms of CSA. Some authors have even argued in favor of establishing an international CSR enforcement agency (e.g. Boda, 2002; Velasquez, 1992a).
3.3.2.- Systems of Exchange.

In contemporary Western civilization, the market is the usual system of exchange and a fundamental construct in economic science. However, Granovetter (1985) modified the economic idea of the market as a logical abstraction, to show that markets are constituted by concrete social relations and not merely by a collection of rational buyers and sellers. Furthermore, the market is not the only system of exchange; there exist other systems in the world, supported by different cultural systems and different orientations to economic action (Biggart & Delbridge, 2004). From the perspective of the multinational company and its subsidiaries, it is particularly relevant to understand the emergence of CSR’s causal powers out of the different systems of exchange that prevail in particular societies.

Biggart & Delbridge have developed a typology of systems of exchange, based on two factors: One of them is the type of social action implied in the exchange, which can be either ends-oriented rational (zweckrational) or value-oriented rational (wertrational) (Weber, 1922/1978). The other factor refers to the structure of social relations that define the obligations of the actor to the other party in the exchange, which can be universalistic (similar treatment to everyone) or particularistic (different treatment for outsiders). These dimensions yield four ideal types of systems of exchange: markets, associative systems, moral systems, and communal systems, which often overlap and operate simultaneously. From each of the systems some directionality for CSR emerges.

The price system, or typical market, is based on universalism and instrumental rationality. It assumes a multitude of individual short-term transactions. Its logic emphasizes utilitarian reasoning, self-interest, and efficiency. The system is regulated by the proverbial “invisible hand”. This system is “the intellectual and political basis for Anglo-American style economies” (Biggart & Delbridge, 2004: 36). The economic notion of perfect market is assumed
to provide the greatest good for the greatest number, and market imperfections, i.e. deviations from the ideal perfectly competitive market, are seen as reducing that good for at least some people. Under this perspective, CSR emerges out of those market imperfections (Heath, 2006). For instance, labor markets are full of imperfections, which lead companies to care about their relationships with employees on social and ethical bases, different from the market. Insider trading, price collusion, and other breaches of the norms of the price system, constitute bases for CSR initiatives. Externalities are also an important type of market failure related to CSR. Externalities are defined as the consequences of production or consumption activities that have a social cost but that are not captured by the price system, that is, when the action of one party imposes costs on another party (Pindyck & Rubinfeld, 1998). For example, externalities with respect to the natural environment or community life often constitute the basis for CSR obligations. In a market system, all different types of CSA can be found, although strategic and value-based modalities are the most common.

The associative system of exchange is also based on instrumental (although not necessarily maximizing) rationality, and on particularistic relationships. It involves voluntary arrangements for durable exchanges, i.e. it implies a long term perspective. The system is regulated by social ties. Its logic emphasizes mutual support and gain, loyalty and reciprocity, all with respect to the closer circle of stakeholders, rather than efficiency and self-interest. Associative systems have been typical of Asian economies, although they are becoming less prevalent as these economies westernize. These systems originated large inter-organizational networks, some horizontal, as the *keiretsu* in Japan; and some vertical, as the *chaebol* in Korea or the traditional *zaibatsu* (currently known as *kigyo shudan*) in Japan (Hamilton & Biggart, 1988; Koehn, 2001). This type of alliances involves complex inter-firm relationships and mutual privileges and obligations, primarily built on trust (Dyer & Ouchi, 1993; Sako, 1992). The
relations with stakeholders are not egalitarian and horizontal, as in Western economies; each stakeholder relationship has a particular configuration (Wu & Wokutch, 2005). The social responsibilities that emanate from such a system differentiate between the members of the system and outsiders: Favoring allies (workers, allied suppliers and customers, etc.) is the expected standard (Taka, 1994) in order to maintain and strengthen social ties. In associative systems, strategic CSA exists; however, it usually is not orientated to the firm’s profit maximization but to the long term economic well-being of the network of stakeholders. Value-based and isomorphic types of CSA are very relevant in these systems.

The moral system of exchange is based on value-rationality and universalism. It implies the practice of economic activities subject to a substantive value (e.g. distributive justice, fair labor practices, environmentalism, etc.). Its logic consists in exchanging goods and services with those that most closely hold the substantive value, at prices that are considered to be fair. The system is regulated by some form of organization of the committed actors. For instance, compliance with the substantive value is often certified by a third-party and identified with particular seals or labels (Barham, 2002). Moral systems of exchange usually coexist with market systems and can be seen, in a way, as markets highly segmented on the basis of the substantive value. Participants in the moral system of exchange are ethically and voluntarily committed to support that value. Consequently, some participants (e.g. consumers) can freely enter and leave the system, while others, who had to build specific assets to comply with the substantive value (e.g. producers), face entry and exit barriers. This system of exchange has traditionally taken place in specific communities (Islamic banking, charging no interests, is an example). However, it is currently expanding at the international level, involving both big and small corporations, according to global concerns that are often reflected in CSR initiatives. Examples of such moral systems of exchange are the Fair Trade movement (Hudson & Hudson, 2001; Rice, 2003),
organic agricultural products (Thompson, 1998; Thompson & Kidwell, 1998; Verhoef, 2005), social accountability initiatives (e.g. SA8000), environmental programs (e.g. ISO14000, Forest Stewardship Council, etc.), etc. Social investment markets also partially belong to this category. The CSR properties that emerge from this system are usually very explicit, promoting the substantive value, and prone to develop value-based CSA and both mimetic and normative isomorphism (DiMaggio & Powell, 1983).

The communal system of exchange is based on value-rationality and particularism. It involves exchanges organized around specific groups whose shared identity is defined by relations of kinship, ethnicity, collegiality, etc. Its logic focuses on relational actions subordinated to the group norms and interests, which regulate the system. Some institutions practicing this type of exchange include cooperatives, “clans” (Ouchi, 1980), and families (Ben-Porath, 1980). CSR causal properties emerge from the preferential treatment that members of the group enjoy, and from the norms and values that the group espouses.

Cupanda, a cooperative integrated by almost 300 small farmers in Tacámbaro, Mexico, is an example of communal exchange. The organization was established in 1954 under the guidance of the local Catholic bishop, with the purpose of selling in common the products of its members, on which it has been reasonably successful at both the domestic and international levels. For most of its history the cooperative has allocated between 4 and 5% of its income to social programs specifically directed to the benefit of its members and their families (all company workers are cooperative members too). Social programs are not operated by the management of the company, but by an ad hoc committee of its board of directors. Through time, roughly 50% of the programs’ resources have been invested in education, which has included basic alphabetization; training on cooperativism, Catholic Social Doctrine, agricultural techniques, and small business management; contributions to local schools; and scholarships for advanced studies.
to qualified sons and daughters of members. The remaining resources of social programs, as well as some additional funds provided by members, have been used to establish and run a small hospital, a grocery store, an internationally-recognized center for the study of cooperativism, programs for joint purchases of agricultural inputs and agronomical technical services, and a small savings and loan organization, all of which work at zero profit and serve only cooperative members and their families, except for the center on cooperativism which is open to any interested person. The solidarity and commitment of the group can be illustrated by the fact that, in the late 1980s, when annual interest rates in Mexico’s financial system were well above 100%, cooperative members saved, and were able to borrow, at annual interest rates below 5% (Escalante, 1986; Pedraza, 1994). In communal systems of exchange, CSR emergent properties strongly condition CSA towards values and traditions.

3.3.3.- Social and Economic Development.

The vastly interconnected world of our days, in which international business thrives, continues to show increasingly large gaps in well-being and life chances for its inhabitants. According to the United Nations Development Programme (PNUD, 2006), the poorest 40%, who have an income of US$ 2.00 a day or less, account for only 5% of the world income, while the income of the 500 richest people exceeds US$ 100 billion, without taking into account their asset wealth. In regions like Africa, the share of people in the bottom 20% has more than doubled since 1980. The trend shows that “wealth accumulation at the top of the global income distribution has been more impressive than poverty reduction at the bottom” (PNUD, 2006: 269). Life expectancy, literacy and education, food intake, housing, and other similar indicators show the same contrasting reality. Such levels of poverty and inequality are ethically unacceptable (Hayward,
in those environments, all social actors, including business organizations, are expected to assume concrete commitments of social responsibility to foster social justice (Kliksberg, 2005).

In the context of the countries where poverty, social exclusion, and related problems become the most acute and urgent social issues (e.g. Latin America, Africa, and many Asian nations), the content and direction of CSR, as understood in developed countries and mainstream academia, is at least insufficient (Amaeshi, Adi, Ogbuchie, & Amao, 2006; Fig, 2005; Lodge & Wilson, 2007; Visser, Middleton, & McIntosh, 2006; Vives, Ferrioni, & Malkin, 2006; Schmidheiny, 2006). Additional CSR forces emerge from the need to address the local problems of poverty and social exclusion, and of development in general, which often involves the need to strengthen governments’ capacities (Schmidheiny, 2006). CSR becomes an imperative for “business in a tripartite partnership with government and civil society in aiding development towards a more participative, rule-of-law-based society where basic human needs and rights are met” (Visser, Middleton, & McIntosh, 2005: 18). Accordingly, social issues will likely be more prominent than environmental issues, at least from the local perspective: “Wealthy Northerners look southwards and see rainforests and biodiversity; thoughtful Southerners look around them and see poverty, poor education, bad housing, scarce healthcare and all the rest of that grim list” (Schmidheiny, 2006: 21). The CSR direction for local firms, including local subsidiaries of multinational companies, leads to value-based CSA, i.e. to establish forms of business that accelerate development while contributing to palliate the most urgent inequalities (Lodge & Wilson, 2007).

Philanthropy has historically been the most frequent response of business to alleviate poverty and exclusion problems, mainly through the support of education and community development projects (Sanborn, 2005). Although private philanthropy and volunteering are difficult to quantify, it is clear that they alone cannot solve the social problems of less developed
countries. Nonetheless, corporate philanthropy has an important qualitative role to play as a catalyst, energizer, and model builder in fostering social change, by itself or in association with governmental and civil society organizations (Coatsworth, 2005), which may eventually generate strategic advantages for the philanthropic firm and its associates (Austin, 2000; Husted, 2003). Therefore, proactive philanthropy specifically oriented to fighting poverty and social disadvantage emerges as an important modality of CSR in developing countries.

Undoubtedly, the greatest contribution of business to the alleviation of poverty is to expand the opportunities available to the poor and facilitate their participation in markets, through strategies and actions such as creation of employment; training, education and knowledge transfer; production of low-cost products and services; facilitation of local entrepreneurship; participation in building basic infrastructure, etc. (Peinado-Vara, 2006; Vives, Ferrioni, & Malkin, 2006). Such an approach requires that firms acknowledge and implement the ethical dimension inherent to strategy, which involves an “intelligent and objective concern for the welfare of society” that leads “in the direction of positive contributions to human betterment” (Andrews, 1971: 120), and that, at the international level, involves “the willingness to undertake joint ventures, to share management and profits, … to train nationals for skilled jobs, to enter businesses to meet social as well as material needs …” (Andrews, 1971: 149).

This kind of corporate contribution to poverty alleviation is not merely an altruistic option. Besides becoming a modality of CSR, developing business models for “the bottom of the pyramid” has strategic implications because it entails opportunities for creating new markets of untapped customers, developing innovative products and technologies, building future workforces and more efficient supply chains, etc. (Hart & Christensen, 2002; London & Hart, 2004; Prahalad, 2005). Nevertheless, for poverty alleviation, it seems more desirable and
effective to focus on the poor as producers and to emphasize buying from them, rather than seeing them as consumers, as most “bottom of the pyramid” models do (Karnani, 2006).

Corporate tax avoidance is another social problem in developing countries. “Companies professing allegiance to CSR would be shocked if tax avoidance became a key CSR issue” (Schmidheiny, 2006: 22). In fact, tax compliance is increasingly seen as a matter of morality and a fundamental dimension of local CSR, particularly in less developed countries. Academics, government officials, representatives of NGOs, and business leaders have been insisting on the ethical and social obligation of subsidiaries to pay taxes (Bendell, Bendell, Kearins, Ives, & Visser, 2005; Christensen & Murphy, 2004; Coleman, 2003; Díaz, 2000; Hasseldine & Toumi, 2003; Henderson Global Investors, 2005; McGee, 2005; Schmidheiny, 2006; Snyckers, 2006). “Curiously the CSR debate, which has touched on virtually every other area of corporate engagement with broader society, has only recently begun to question companies in the area where their corporate citizenship is most tangible and most important—the payment of tax” (Christensen, 2004). However, multinational firms, taking advantage of the institutional weakness of developing countries, often use their transfer pricing policies to “minimize” local tax payments (Clausing, 1998; Paul, Pak, Zdanowicz, & Curwen, 1994; Wrappe, Milani, & Joy, 1999). The problem is exacerbated by the eventual existence of tax incentives in developed countries, like the controversial, recently repealed U.S. Extraterritorial Income Exclusion Act, which represented a strong impulse for American multinationals to evade taxes in their subsidiaries’ host countries. Tax evasion is a CSR problem that deserves more attention from academics, firms, civil society, and governments. A multinational company cannot claim to be a

6 The US “Extraterritorial Income Exclusion Act” of 2000 and its predecessor, the “Foreign Sales Corporation Act” of 1984, granted tax incentives to US-based firms trading between third countries, of up to 100% of the income taxes caused by foreign transactions (Feischreiber, 1993). Both acts were repeatedly ruled illegal by the World Trade Organization. Finally, on May 11, 2004, the US Senate repealed the Extraterritorial Income Exclusion Act when passing the “Jumpstart Our Business Strength (JOBS) Act”, which was signed into law by President Bush on October 22, 2004. The tax incentive was in place for 20 years.
good corporate citizen while, in the operation of its subsidiaries in developing countries, it avoids tax payments (Snyckers, 2006).

3.3.4.- The Task Environment.

In line with the early work of Dill (1958), the task environment is seen as constituted by “those features of the environment relevant to the organization viewed as a production system—in particular, the sources of inputs, markets for outputs, competitors, and regulators” (Scott, 1998: 194). It is important to keep in mind that task environments are not independent from institutional environments; in the terms of critical realism, task environments belong to a more superficial stratum of the social reality.

From the perspective of CSR as a property that emerges from the structural system, the task environment is important for at least two reasons: First, if we adopt Evan & Freeman’s (1988) narrow definition of stakeholder as those groups which are vital to the survival and success of the corporation, the task environment is the space in which most of an organization’s stakeholders operate, and consequently, most firm-stakeholder interactions take place in the task environment. I will go back to this topic in the next section.

Second, it has been shown that some dimensions of the task environment influence the extent to which firms engage in CSR. Goll & Rasheed (2002, 2004) argue that in dynamic environments, i.e. those in which unpredictable change can occur (Dess & Beard, 1984), firms tend to more proactively seek the perception of legitimacy that results from CSR, probably with the purpose of getting some protection from the unpredictabilities they face. This leads to strategic and isomorphic types of CSA. Similarly, they conclude that firms in munificent environments, which according to Dess & Beard are those with the ability to support sustained growth of the organization, are more inclined to engage in CSR. Munificent environments may
often result in organizational slack, i.e. a cushion of resources that organizations may use for adaptation and change (Bourgeois, 1981). Several researchers have supported the notion that resource munificence and organizational slack tend to induce CSR, probably because the availability of resources provides the opportunity for companies to invest in social activities (e.g., Buchholtz, Amason, & Rutherford, 1999; McGuire, Sundgren, & Schneeweis, 1988; Preston & O’Bannon, 1997; Waddock & Graves, 1997). Slack resources may motivate all different types of CSA. Goll & Rasheed emphasize that it is the discrentional component of CSR which is most strongly influenced by dynamic and munificent environments.

3.3.5.- Stakeholder Relationships.

The stratum of the social structure in the real domain which is likely the most proximal to a business organization is that of the firm’s relationships with its stakeholders. The stakeholder concept is nowadays “CSR’s dominant paradigm” (Frederick, 2006: 261). Firm-stakeholder relationships are the *loci* of the positioned practices that operate as the mediating mechanism between organizational action and the emergent properties of the larger socio-cultural system. In other words, it is at the level of stakeholder relations that many, although not necessarily all, structural and cultural forces in favor of or against particular modalities of CSR become more identifiable and tangible for the firm, mainly as stakeholder demands and pressures, to which organizations respond via corporate social actions. The stakeholder literature often considers stakeholder demands as *the* causal powers which define the content and modality of CSR. From a critical realist perspective, this is at best superficial and only partially true. While stakeholder relationships have their own emergent CSR properties, which I will next discuss, they also (and perhaps primarily) funnel, at least partially, the causal powers for or against CSR that emanate from deeper cultural and structural strata. Therefore, CSR properties emerging from firm-
stakeholder relationships most likely lead to strategic forms of CSA, but they also imply value-based and isomorphic types that are conditioned by those deeper strata.

Firm-stakeholder relationships are characterized by a number of emergent properties, such as power, legitimacy, exchange modalities, the eventual existence of additional structures mediating the relation, and the global or local condition of the stakeholder. The specific configuration in which a certain relationship exists is a matter of contingency and degree which have to be established empirically in each particular case and place (Archer, 1995). Let us briefly review each of those properties.

**Power and legitimacy in stakeholder relationships.** Power is an important feature in the real domain of firm-stakeholder relations (Mitchell et al, 1997). From the perspective of agency theory, power accrues to those stakeholders which can reward or punish its counterpart. According to transaction cost economics (Williamson, 1975), power goes to the stakeholders that have small-numbers bargaining advantage. Perhaps the most consistent view of power in stakeholder relations is the one offered by resource dependence theory (Pfeffer & Salancik, 1978/2003). In this perspective, the type of relationship is defined by the degree of dependence of the firm and the stakeholder on each other’s resources. Four configurations are possible: stakeholder power, firm power, high interdependence, or low interdependence (Frooman, 1999). Power also arises from the position of the firm and the stakeholders within larger social networks. The stakeholder literature tends to see the firm as central and involved in dyadic relations with its stakeholders, but more often the firm is part of a larger social network, configured in unique patterns (Rowley, 1997; White, 2003). Rowley argues that the influence of the network on firm behavior and *vice versa* depends on the density of the network and the centrality of the organization in it. More density means more ability of the network to influence corporate behavior, while more centrality of the firm in the network means more ability of the organization
to take advantage of or to resist stakeholder claims. The balance of power in the dyad or the network, i.e. the potential for influence, threat or cooperation, defines the situational logic and the strategies available to firms and stakeholders (Frooman, 1999; Rowley, 1997; Savage, Nix, Whitehead & Blair, 1991).

According to morphogenetic theory, the differential distribution of resources to various corporate agents, which in the case of a firm and its stakeholders defines the degree of dependence or interdependence between them, gives origin to specific first-order relations of power, which Archer (1995) calls bargaining power. Archer stresses that bargaining power and the relations between a firm and its stakeholders can change independently of one another. In consequence, having command over resources represents a necessary, but not sufficient, condition for successful exchanges to take place. For a firm to actually mobilize resources it must stand in a particular relationship to the stakeholder involved, i.e. the relationship must be at an appropriate level of relational quality (Ariño, De La Torre, & Ring, 2005). Therefore, the decision of firms and stakeholders to cooperate with each other depends not only on power but also on legitimacy. (Mitchell et al., 1997; Savage et al., 1991).

Legitimacy is a relational characteristic that exists in the real domain as a result of previous morphogenetic/morphostatic cycles. Restricted to firm-stakeholder relationships, it refers to the “... perception or assumption that the actions of [a firm or a stakeholder] are desirable, proper, or appropriate...” (Suchman, 1995: 574). Savage and his colleagues point out that the potential of stakeholders to use their (bargaining) power is tempered by the stakeholder’s opportunity and willingness to act, which in turn depends on the quality and durability of the

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7 Legitimacy is a complex concept that involves moral, cognitive, and pragmatic dimensions (Suchman, 1995). I will return to the concept later, in chapter 5. For now, I am only referring to the cognitive and pragmatic legitimacy that firms and stakeholders may perceive in each other along their interactions and exchanges.
stakeholder-firm relationship. This relationship is strongly shaped by the firm’s own responsible (or irresponsible) actions, which connotes (or not) legitimacy for the firm (Freeman, 1984).

**Modalities of exchange relationships.** The exchanges of firms and their stakeholders can be shaped along two different types, either of agency (Hill & Jones, 1992) or stewardship (Davis, Schoorman, & Donaldson, 1997). For instance, relations with managers are usually conceived of as the “pure agency relationship”, a view that Hill & Jones (1992) extended for other stakeholders. An adversarial conception of stakeholder relations underlies this perspective. Accordingly, the firm-stakeholder relations are seen as a nexus of contracts, and the focus is on the divergence of interests between the firm and its stakeholders, all of who are considered to be self-interested and wealth maximizers. Consequently, it is assumed that shareholders want to maximize the value of their investments; managers aim at maximizing their remuneration, power, job security, and status; employees want higher wages and perhaps more leisure time; consumers claim for better quality and/or lower prices; suppliers want higher prices and stable ordering patterns; local communities and the general public claim for lower environmental pollution and enhanced quality of life; etc. All these interests involve the use of resources that somebody else claims. Thus, an agency conflict is seen as inherent in most, if not all stakeholder relationships. Consequently, in this context CSR is seen as an instrument, i.e. an incentive, among others, to reduce opportunism and align the interests of principals and agents.

However, some researchers argue that the interests of principals and agents are not necessarily in conflict. Actually, in many cases they may be perfectly convergent (Davis et al., 1997; Ricart & Rosanas, 1995), so that a logic of cooperation can prevail. Principals and agents may be jointly interested in good (labor, customer, supplier) relations, personnel development, pride in a job well done, public responsibility, product leadership, etc. In other words, stakeholders may engage in exchanges based in what Ring (1997) calls a “state of union” (in
contrast to a “state of contract” as in agency relations), an arrangement which reduces
divergences by promoting the identification between the parties, who are motivated by
commitment, rather than by a desire for compensation. Davis et al. (1997) identify these
arrangements as “stewardship relationships”\textsuperscript{8}.

When the firm and its stakeholders operate in a “state of union”, under relations of
“stewardship”, CSR causal powers will likely emerge inherently from the initiatives taken to
reduce divergences and build commitments, which leads to value-based forms of CSA, and not
just as an instrument that may be used as an add-on to contracts.

\textbf{Mediated firm-stakeholder relations.} Some firm-stakeholder relations may involve
mediating institutions, which often demand specific behaviors or require compliance with certain
rules (“rationalized myths”) from the firm. For instance, publicly listed companies are related to
shareholders through stock markets and their correlated organizations (brokerage houses, analysts,
etc.). It has been demonstrated that share value in stock markets is discounted if firms do not
conform to the roles expected by analysts (Zuckerman, 1999). Matten & Moon (2004) argue that
corporations listed in stock exchanges have an institutionalized propensity to disregard claims
from stakeholders other than shareholders, because those claims are not always considered as
legitimate in the stock market sphere, which focuses on short-term financial performance. These
authors argue that forms of direct or alliance private ownership show a stronger tendency to
integrate stakeholder claims as part of their corporate policies, considering it to be legitimate to
“sacrifice” some degree of profitability to these claims. Therefore, except for those companies
subject to filters of social investment in stock markets (Tanimoto, 2004), a lower concern for

\textsuperscript{8} Davis et al. argue that managers can exert choice between stewardship or agency relations. They concluded that,
because of diverse social and cultural factors, in the United States stewardship relations meet greater resistance
(1997: 42). On their side, Hamilton & Biggart (1988) argue that agency relations predominate in, and are probably
well suited only to, the American firm.
CSR issues can be expected from publicly listed companies, and that concern will be mainly of the strategic type. In contrast, direct ownership by individuals, families, or closely related groups occur frequently, particularly in the case of small and medium-sized firms in which there is no separation between management and ownership. It has been shown that, in these cases, CSR has heterogeneous influence. Often, their socially responsible actions are performed without any strategic intention or profit-maximizing drive, following informal and unmeasured processes (i.e. value-based, isomorphic, and/or affectual forms of CSA). Much of their activity takes place at the level of local communities and according to the personal values and interests of the owner-manager (Vives, 2006; Worthington, Ram, & Jones, 2006; Spence & Rutherfoord, 2001).

Relations with competitors also may involve mediating institutions, in this case at the industry level. CSR may emerge out of a given industrial sector as industry-specific issues, such as product safety programs in food industries; or control of environmental pollution in industries such as oil or cement. Those concerns may eventually be institutionalized, e.g. via formal regulations, industry self-regulation, third-party certifications, etc. (Christmann & Taylor, 2006), which would lead to isomorphic types of CSA. The industrial sector to which the company belongs also has influence on its CSR orientation; for example, service firms will likely focus on their relations with customers and employees (Brickson, 2005); analogously, firms in the primary sector (agriculture, mining, etc.) may be more interested, or more pushed, to care for the natural environment, poverty alleviation, or community development (Liarte-Vejrup & Zuazaga, 2004). By the same token, firms in industries that produce consumer goods may be more sensitive to some issues and opportunities for innovation in CSR (e.g. product safety or environmental concerns) than firms producing industrial goods, which often isomorphically do what their customers and allies demand along the supply chain (Boyd, Spekman, & Werhane, 2004; Jones, 1999). Analogously, the strategies that a firm develops according to the type and intensity of
competition and the industry environment (Porter, 1980) may also have an influence on CSR (Campbell, 2007). Firms in highly competitive environments will likely be more active in finding strategic uses of CSR in their search for cost reductions or differentiation (Jones, 1999).

**Global and local stakeholders.** The global or local condition of a stakeholder is an important structural property for multinational companies and their subsidiaries. As previously discussed, stakeholder relations often mediate the influence of deeper strata of social reality on CSR. Consequently, relations with international stakeholders will, at least partially, funnel broader global structural and cultural CSR emergent powers. Similarly, relations with host-country stakeholders will mediate local socio-cultural CSR influences. This means that firms are faced with a wider range of potentially conflicting stakeholders and may be subject to divergent pressures across home and host countries (Muller, 2006).

The literature on international strategy offers some guidance about the emerging characteristics of global and local CSR. This literature recognizes the existence of “forces for local responsiveness” and “forces for global integration” that influence product/market decisions (Prahalad & Doz, 1987). Building on this work, Bartlett & Ghoshal (1991) developed a typology that describes four types of strategic positions of multinational corporations: multidomestic, international, global, and transnational. Later, Harzing (2000) found empirical support for the multidomestic, the transnational, and the global types, but not for the international.

Based on these typologies and on the work of Gnyawali (1996), Husted & Allen (2006) have shown that, similarly to economic and competitive factors, CSR causal powers can also be considered as emergent from social forces for either global integration or local responsiveness. Their work suggests that all types of multinational firms are subject to CSR obligations related to global issues, while only multidomestic and transnational firms face CSR obligations related to local issues. However, Husted & Allen found that multinational firms tend to not distinguish the
global/local aspects of their product-market strategies from those of their social strategies, and consequently, they tend to isomorphically apply the former in the latter.

3.3.6. - An Example of Failing by Ignoring Differences in CSR: Wal-Mart in Germany.

The case of Wal-Mart in Germany provides a useful example to illustrate the failure of a corporate agent that, assuming itself to be powerful, disregarded the particular characteristics of CSR as it emerges from the German structural system, different from that of the United States. Wal-Mart entered the German market in 1997-98, through the acquisition of two local chains for some 1.6 billion dollars. The world’s largest retailer intended to operate as if it were in the U.S. context, ignoring the content and implicit form of important social concerns in Germany. Its approach to “management by hubris and clash of cultures” (Knorr & Arndt, 2003) precluded their managers from appropriately identifying Germany’s institutional environment, systems of exchange, stakeholders’ expectations, and the second order relations between them.

For instance, Wal-Mart’s labor practices, entailing working over-time, part-time workers, and other particularities, which are controversial even in the U.S. (e.g. Fishman, 2003; New York Times, 2006), proved to be completely inadequate in the German social context. Wal-Mart’s well known anti-union position (Fishman, 2003) strongly contrasted with the German system: Wal-Mart refused to acknowledge the labor contract centrally negotiated between unions and the retailer’s employers’ association. It did so in a country in which unions have great power, an example of which is their right to nominate half of the members of a firm’s supervisory board, a senior body which oversees the decisions of the board of directors (Fort, 2001; Tavis, 1997). Naturally, Wal-Mart’s actions generated responses such as strikes, boycotts, law suits, loss of sales, and bad publicity for “union-bashing”. In addition, ignoring that most European managers are reluctant to be relocated (Pin, Quintanilla, García Lombardia, & Gallifa, 2006), Wal-Mart
upset its local managers, many of whom left the company, by transferring them every two or three years, which disrupted their social relations and their traditional mutual ties with store customers (in addition to more “hubris and clash of culture” actions such as instituting English as the language of the German subsidiary).

Furthermore, Wal-Mart repeatedly infringed some German laws, regulations, and customary duties for retailers, such as those related to limitations on working and shopping hours (which are supposed to support employees’ private and family lives); disclosure of financial information (most German retailers are family-owned or cooperatives; for them, profit-maximization is not the most important principle, which shows up in their financial reports); provision of deposit-refund systems for some plastic and metal beverage containers (a salient environmental issue in Germany); and the ban to sell some loss-leader products below their cost (aimed at promoting fair competition and protecting suppliers). Wal-Mart also attempted to push its suppliers to receive privileged treatment from them, as it does in other countries (Fishman, 2003, 2006); the vast majority of suppliers refused, for Wal-Mart had not the power to do so: While the top five retailers in Germany controlled 63% of the market in 2002, Wal-Mart was only the retailer No. 13 in the country (Knorr & Arndt, 2003). On top of that, customers, Wal-Mart’s declared most important stakeholders, were not happy. In a context in which 40% of the retailers are “hard-discounters”, working with “ultra-low profitability”, Wal-Mart’s core value and fundamental promise of “every day low prices” was never fulfilled. The German government’s consumption protection agency repeatedly reported that Wal-Mart’s prices were not low enough, and considered them to be based on “low American quality standards” (Knorr & Arndt, 2003). Not surprisingly, in late July, 2006, Wal-Mart announced the sale of its German subsidiary to one of its competitors and acknowledged losses close to one billion dollars for the venture (Financial Times, 2006).
3.3. - THE ORGANIZATION AS A MEDIATING CULTURAL AND STRUCTURAL SPACE FOR CSR.

From a critical realist perspective, the actual influence of the socio-cultural system, in this case of CSR cultural and structural emergent properties, on organizational actions necessarily requires the mediation of human agency. However, human agency only takes place in a mediating system integrated by positions and practices that enable and/or constraint it. The organization is the particular cultural and structural system which provides such positions and practices for the actions of managers and that, at the same time, is constantly reproduced or transformed by managerial agency. The mutual and constant influence between managerial agency and the organization is a key point of interest for critical realists. Based on analytical dualism, in this section I review the organization as a mediating socio-cultural system, with its own emergent properties for or against CSR and CSA.

Critical realists conceptualize organizations as entities constitutive of an ontological domain placed at the intermediate level of social systems. With the exception of the very early stages of the life of an organization (when it is being created), at the time of actual interactions the organization has gone through one or more morphogenetic cycles, i.e. its own culture and structure have been elaborated, as the product of previous managerial actions and other human interactions. As structures and cultures, they have spatially, temporally, and socially enduring properties that are irreducible to the activities of contemporary agents. Actually, these properties pre-date and condition managerial agency (Ackroyd, 2004; Ackroyd & Fleetwood, 2000b). It is through organizations that more basic or primary level activities are coordinated and controlled, while they are contextualized in relation to higher-level structures that establish the conditions within which the organization operates. The organization is the zone where structures and agents interact. It is at this intermediate level that groups, corporate agents, networks, cultural traditions,
institutions, hierarchies, alliances, and struggles are initiated, strengthen, and are maintained or transformed (Reed, 1997, 2005).

Let us see how some organizational properties such as its structure, culture, and identity both condition and are influenced by the actions of managers with respect to CSR.

3.3.1. - Organizational Structure.

The structure of an organization belongs, in critical realist terms, to the real domain. It is ontologically distinct from both organizational culture and managerial agency, and predates the latter (Willmott, 1997). The business-and-society literature has barely looked at the conditioning influence of a firm’s structure on its corporate social action and performance. Textbooks and guides on the subject (e.g. Voien, 2000; Werther & Chandler, 2006) usually prescribe a functional organizational design. Such formal structure generally involves the creation of a CSR Officer position; the definition, implementation, and auditing of corporate social actions; the design of a system of rewards and penalties aligned to CSR policies; the issuing of codes of conduct and CSR position statements; and eventually the implementation of a feedback-complaint-whistle-blowing system. It is a contingent matter whether a structure of this type, if it exists in a given firm, is effective for corporate social action. On the one hand, the support from and degree of closeness with the top management team defines the extent to which the CSR structure can influence the firm’s actions. On the other hand, the skills and competences of the CSR team to identify moral and social influences and pressures from the environment, and to articulate appropriate responses, condition the firm’s potential for social action. In other words, internal power and personal relations, as well as the quality of managerial agency, define the effectiveness of a CSR formal structure.
Even if effective, a formal CSR structure like the aforementioned may be insufficient or inadequate. Most likely, organizational structures for CSR need “requisite variety”, i.e. an internal variety sufficiently sophisticated to cope with the variety and complexity which is encountered in the social environment (Husted, 1993). As discussed in the next section, structural and cultural CSR influences, as well as their relationships of congruence or incongruence with one another, define different and changing situational logics for the firm, each of which suggests an appropriate strategy for corporate social action. Using the theoretical basis and terminology of the strategy literature, Husted (2000) underlines the importance of fit between the situational logic (“social issue”), the appropriate strategy, and the corresponding organizational structure. He argues that a typical bureaucratic structure works well only in the “nonissue” case, i.e. “when both the firm and its stakeholders agree with the factual representation of a situation… and share similar interests, goals, and objectives” (2000: 32). In morphogenetic terminology, this is the case in which cultural and structural complementarities and compatibilities exist in the CSR realm.

Husted argues that the structure which leads to greater corporate social performance is contingent on the social issue at hand. In broad terms, all the types of issues studied by Husted involve logical contradictions and/or structural incompatibilities. Thus, they require strategies of negotiation, containment, correction, or defense, for which Husted (2000) prescribes different modalities of collegial or representative semi-formal structures, which often include agents external to the firm. He concludes that, since firms face different types of social issues at one point or another, they need to have all these structures available in order to maximize their CSP.

By having different structural arrangements available, as suggested by Husted, the firm introduces redundancy, i.e. some duplication and overlap into its structure, while also accomplishes requisite variety. This may be counterintuitive for business firms, which usually seek efficiency and the reduction of costs and overlaps. However, the structural requirements for
corporate social action do not necessarily follow the same logic. The properties of redundancy and requisite variety crucially improve organizational reliability, i.e. the extent to which the firm can achieve high CSP, notwithstanding the diverse nature of the social issues and situational logics that it may face (Husted, 1993).

Research on corporate ethics practices (Weaver, Treviño, & Cochran, 1999b) and on CSR self-regulation through international certifiable standards (Christmann & Taylor, 2006) suggests that formal and semi-formal structures for corporate social action can be totally or partially integrated into the overall structure of the firm, whereby they affect all decisions and actions and lead to substantive CSR implementation. Alternatively, some or all of those structures can be easily decoupled, that is, CSR can be implemented only symbolically or ceremonially (Meyer & Rowan, 1977), which provides the appearance of corporate socially responsible activity while insulating much of the organization from those responsibilities. The existence of either integrated or easily decoupled CSR structures is consistent with Selznick’s (1957/1984) distinction between “social awareness” and “public relations”; the latter phrase refers to decoupled practices that leave the organization intact, while the former involves integrated changes affecting its very conception of itself. Therefore, whether CSR structures are integrated or decoupled has an impact on an organization’s identity.

In addition, the deployment of structures for corporate social action may emphasize their formal aspect (e.g. adherence to rules, compliance, reporting, reward systems, etc.) or their informal side (e.g. identification, habits, value-sharing, trust, attitude development, etc.). However, these orientations are not necessarily mutually exclusive and, in fact, they may be mutually reinforcing (Weaver, Treviño, & Cochran, 1999a).

The design of formal organizational structures and the exercise of leadership to facilitate the development of informal structures are fundamental aspects of managerial agency, i.e. crucial
“functions of the executive” (Barnard, 1938; Pérez-López, 1993). For instance, Weaver et al. (1999a, 1999b) found that managerial agency, in the form of top managers’ commitment to CSR, strongly influence CSR structures: the higher the managers’ commitment, the more integrated the structure and the more informally-oriented its deployment. Organizational structure is probably the component of a firm’s reality which is more susceptible to be changed by managerial action. In this way, to a higher or lesser degree, managers can proactively work to develop complementarities and manage contradictions between the CSR-related properties of organizational structures and those emerging from the broader socio-cultural environment.

Through socio-cultural interaction in the actual domain, structural ties, particularly those in the informal system, serve to channel customs, values, beliefs, and standards of behavior, elements which constitute the essence of organizational culture (Andrews et al., 1999; Willmott, 1997). Let us next examine the influence of organizational culture on corporate social action.

### 3.3.2. - Organizational Culture.

Like structure, the culture of an organization is a feature in the real domain of an organization’s reality, with emergent, complementary or contradictory properties which condition corporate social action and managerial agency (Howard-Grenville, 2007; Willmott, 1997, 2000). Organizational culture has been conceptualized in many different ways. A widely cited definition is Schein’s (1992), who argue that culture exists simultaneously on three levels: On the surface there are artifacts, underneath artifacts lie values, and at the core there are basic assumptions. Assumptions represent taken-for-granted beliefs about reality and human nature; in critical realist terms, they are located at the deepest level in the real domain. Values are social principles, philosophies, goals, and standards considered to have intrinsic worth, which constitute the actual domain of culture in a critical realist perspective. Artifacts are the visible, tangible, and audible
results of activity grounded in values and assumptions; for critical realists, they represent the
empirical domain of culture.

The level of organizational culture that has received the most attention is values. Frederick argues that a company’s value system is “the component that permits change within constrained limits” (1998: 374). He points out that values can be grouped in a number of value clusters: by their nature, all business firms have economizing, power-seeking, and technologizing values. In addition, organizations have other values brought in by founders and managers, which direct a company either to recognize a variety of moral and social influences from its environment or to ignore them (Orlitzky & Swanson, 2002). It is around the notion of values that some scholars have developed the related concepts of corporate ideology (Goll & Zeitz, 1991), stakeholder cultures (Jones, Felps, & Bigley, 2007), and cultural styles (Cooke & Rousseau, 1988), which are related to a firm’s social action. Let us review each of these three concepts.

Corporate ideology is an offspring of organizational culture defined as “the beliefs and values about the world that provide the frame of reference for organizational action” (Goll & Zeitz, 1991: 192). An organization’s policy and behavior are influenced by such ideology through official directives, policy statements, ceremonies, symbols, and other practices such as recruiting (Hambrick & Brandon, 1988; Selznick, 1957/1984). A number of dimensions have been suggested for understanding managerial values and corporate ideology; some of those dimensions are closely related to CSR principles (e.g. Goll & Zeitz, 1991; Hambrick & Brandon, 1988). Specifically, Buchholtz, Amason, & Rutherford (1999) argue that CSR and corporate social action reflect values of collectivism (commitment to the wholeness of humankind and of social

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9 Working under the perspective of complexity theory, Frederick (1998) identifies the corporation’s value system as the “strange attractor” which allows the firm to change within a recognizable order and constrained limits, so that it can adapt and arrive to a desirable zone “at the edge of chaos”.

systems), duty (preserving the integrity of reciprocal relationships), and to a lesser extent, economic rationality (strategically using corporate social action for economic performance).

Stakeholder culture is a facet of organizational culture defined as “the beliefs, values, and practices that have evolved for solving stakeholder-related problems and otherwise managing relationships with stakeholders” (Jones et al., 2007: 142). These authors develop a continuum of five stakeholder cultures: On one extreme they identify fundamentally amoral or “agency” cultures based on self-interest, whose relationships with stakeholders are founded on the exercise of power without moral concerns. These firms do not usually reach a high corporate social performance. On the other extreme, Jones and colleagues place broadly moral cultures based on concern for the interests of all stakeholders; these organizations, which cannot be found often in the business world, deal with stakeholders on the basis of moral legitimacy, motivated by organizational commitment to humanistic values. These authors argue that, as firms move away from the extreme of amoral cultures toward the other extreme of moral cultures, they gradually show less self-interest and more of an other-regarding orientation; they also change from relations of agency to relations of stewardship (Davis et al., 1997) with their stakeholders; and as a result, they gain legitimacy.

Organizational cultural styles are “ways in which organizational members are expected to think and behave in relation both to their tasks and to other people”. They “reflect the direction or content of certain organizational norms and expectations” (Cooke & Rousseau, 1988: 252; italics in the original). Building on this work, Küskü & Zarkada-Fraser (2004) and Maignan, Ferrell, & Hult (1999) have demonstrated that both humanistic and market-oriented organizational cultures lead to more proactive corporate social action and to improved CSP, while competitive-oriented cultures show less proactive corporate social action and poorer CSP. These authors argue that this is so because market-oriented cultures are sensitive and responsive
to stakeholder issues, while humanistic cultures emphasize care, harmony, and concern for the welfare of internal and external stakeholders. In contrast, competitive-oriented cultures develop antagonistic relationships with stakeholders, are indifferent towards broader social problems, and are reluctant to support causes that do not provide immediate and tangible returns.

The studies on corporate ideology, stakeholder cultures, and cultural styles suggest that organizational culture’s influences on corporate social action can be described along three main categories. First, some organizational cultures have a greater proclivity to support strategic types of corporate social action. This is the case, for instance, of “progressive decision-making” ideologies (Goll & Zeitz, 1991), “instrumentalist” stakeholder cultures (Jones et al., 2007), or “market-oriented” cultural styles (Maignan et al., 1999). Second, other organizational cultures seem to be more inclined to support value-based types of corporate social action. Goll & Zeitz’s “corporate social responsible” ideology, Cooke & Rousseau’s “humanistic” style, and Jones and colleagues’ “moralist” and “altruist” stakeholder cultures are examples of them. Third, there are still other cultures that seem to be focused on short-term economic gain and tend to ignore cultural and structural CSR influences, for instance “orientation for profit/individualism” ideologies, “competitive-oriented” culture styles, and “managerial egoist” and “corporate egoist” stakeholder cultures.

As with other elements of the social reality, the properties for or against particular types of CSR that emerge from an organization’s culture may be in situations of complementarity or contradiction with one another and with the CSR properties of the larger socio-cultural system. Because of the proximity of an organization’s culture to the agency of its managers, the CSR properties that emerge from it strongly influence the situational logic which its managers face when making decisions on corporate social action, particularly when the organizational culture shows high intensity, that is, high degree of consensus on beliefs and behaviors, and strong
connections between expectations, rewards, and behaviors (Cooke & Rousseau, 1988). In addition to its own emergent properties, organizational culture is crucial for managerial sensemaking of external CSR properties, because it conditions the way in which socio-cultural CSR properties external to the organization are internally constructed and assumed as social responsibilities (Howard-Grenville, 2007).

3.3.3. - Organizational Identity.

An organization’s identity is the outcome of the interaction between informal organizational structures and organizational culture (Andrews et al., 1999). It refers to the deep sense of organizational members about “what shall we be?” (Selznick, 1957/1984: 65, italics in the original) and can be defined as the “internalized cognitive structure of what the organization stands for and where it intends to go” (Albert, Ashforth, & Dutton, 2000: 13). An organization’s identity is constructed through a contested and negotiated process (i.e. the process of “organizational identity construction”) which involves iterative interactions between managers and other organization’s stakeholders (Scott & Lane, 2000).

Organizational identity is not necessarily distinctive and enduring, as early identity theorists (e.g. Albert & Whetten, 1985) proposed. Managers may handle multiple organizational identities, whenever they are considered legitimate by stakeholders, particularly by those which are more powerful (Pratt & Foreman, 2000). Building on this notion, Brickson has developed the concept of “organizational identity orientation” to refer to “the nature of assumed relations between an organization and its stakeholders” (2005: 577). This self-perceived role of an organization relative to others, a feature of the real domain resulting from previous interactions, is foundational in how the firm manages its external and internal stakeholder relations. One of the identity orientations identified by Brickson corresponds to firms that see themselves as self-
interested parties which want to maximize their own welfare. Under this orientation, the firm will tend to see CSR as a strategic resource subordinated to its economic performance. In addition, Brickson identifies two other alternatives: on the one hand, there are firms with a relational identity orientation, whose emphasis is on enhancing the welfare of particular others (e.g. customer satisfaction) and on maintaining those relationships. In this case, CSR will likely focus primarily on the claims and needs emerging from the main relationships, and may or may not be strategically oriented. On the other hand, some organizations have a collectivistic identity orientation, which see the organization as part of a larger collective and connected to a larger whole (e.g. a local community, or the world climate). Their emphasis is on maximizing the welfare of that larger whole, and consequently, their CSR focus will likely be directed towards its claims and needs.

Brickson (2005, 2007) underlines the frequent existence of hybrid types of orientation, by which the organization relates in different ways with different stakeholders. Brickson concludes that “only organizations behaving within the confines of what is expected of them, given the identity orientation that they have negotiated with stakeholders, will be seen as behaving appropriately” (2005: 602). Therefore, perceptions or assumptions of legitimacy between firms and stakeholders are closely related to their organizational identities, which are molded by their mutual relations. Analogous to what Husted (2000) prescribes in the case of structures, the fit between organizational identity orientations, situational logics (as defined by cultural and structural CSR emergent properties), and their corresponding suggested strategies likely contributes to effective corporate social action and better CSP.
3.3.4. - Foreign Subsidiaries as Mediating Organizations.

In the international management literature, a subsidiary is defined as “a discrete value-adding activity outside the home country” (Birkinshaw, 2001: 381). Early contributions to the study of international subsidiaries considered them to be passive implementers of head office mandates. This view assumed that most international operations are governed by policies established by the parent company, which usually holds the most power in the relationship\(^\text{10}\) (Birkinshaw, 2001; Kogut, 1985). Increasingly, however, subsidiaries have been seen as more strategically pro-active and initiative-taking units (Birkinshaw & Hood, 1998). In general terms, topics such as the well-known distinction between “forces for local responsiveness” and “forces for global integration” that influence product/market decisions (Prahalad & Doz, 1987), and their corresponding organizational processes and structures (decentralized vs. centralized) have received considerable attention by international management researchers (Birkinshaw, 2001; Paterson & Brock, 2002). In a nutshell, the extent to which subsidiaries are autonomous and decentralized appears to be determined by their level of dependence/interdependence on global or local markets. Dependence on local markets seems to be related to more autonomy, while global markets are related to less autonomy and more centralization (Andersson & Forsgren, 2000; Bartlett & Ghoshal, 1991).

In contrast, topics related to CSR and CSA in subsidiaries of multinational companies have received limited attention (Muller, 2006). While both parent companies and their subsidiaries are affected by global cultural and structural CSR emergent properties, subsidiary organizations additionally experience “institutional duality” (Kostova & Roth, 2002). This means, in the context of CSR, that subsidiaries face a set of within-organization responsibilities to which

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\(^{10}\) Because of their severe limitations to make decisions, Thompson refers to subsidiaries as “captive” organizations (1967: 30). He cites a stronger statement by Carlson (1951), who calls them “domesticated” organizations.
all units in the multinational firm must conform (the parent company is likely the subsidiary’s most important stakeholder) and, at the same time, they are subject to the CSR properties that emerge from the host-country’s socio-cultural environment. In general terms, local firms seem to be more legitimate than foreign firms in most countries\textsuperscript{11} (Zaheer & Mosakowski, 1997).

International subsidiaries are subject to the “liability of foreignness”, i.e. “all additional costs a firm operating in a market overseas incurs that a local firm would not incur” (Zaheer, 1995: 343), which mainly consist of subtle structural/relational and institutional costs whose underlying cause is the lack of legitimacy in the host country (Zaheer, 1995, 2002). In short, the subsidiary firm needs to gain and maintain legitimacy on three fronts: within the multinational company, in the host country, and at the global level.

In a recent contribution, which builds on Gnyawali (1996) and Arthaud-Day (2005), Husted & Allen (2006) have proposed that, similarly to economic and competitive factors, CSR causal powers can also emerge from social forces for either global integration or local responsiveness. Accordingly, they posit that all types of multinational firms are subject to CSR obligations related to global issues, while only multidomestic and transnational firms, in the typology of Bartlett & Ghoshal (1991), face CSR obligations related to local issues. In fact, Gardberg & Fombrun (2006) argue that subsidiaries can overcome their liability of foreignness by investing in CSR programs than enhance their local embeddedness. Consequently, if Husted & Allen’s propositions hold, some centralized policies and practices are always required, in order to address global CSR emergent properties, while various degrees of decentralization are

\footnote{Zaheer & Mosakowski (1997) point out that, contrary to the more general “liability of foreignness”, there may be situations in which the legitimacy of local firms is called into question and foreign firms may prosper on account of their foreignness. In those cases, foreignness turns into an asset. For instance, in Mexico there are many spheres of social life in which there is a preference for foreignness; Mexicans know this trend as “malinchismo”, after “Malitzin”, the native princess who served as interpreter and translator for Hernán Cortés, the Spaniard conqueror, and eventually became his mistress (Lara, 1996; Paz, 1959).}
contingently necessary to face local CSR forces, in a way analogous to market/product strategies. However, for this structure to take place, managers need to clearly distinguish between, on the one hand, market/product global and local forces, and on the other hand, moral/social global and local forces; managers also need to understand that these forces vary independently of each other. The empirical evidence in Husted & Allen’s research shows that international managers tend to not make this distinction and to apply the same approach they use for market/product strategies to social strategies.

In contrast, some authors argue that autonomy and decentralization are always and primarily needed for subsidiary companies to face their legitimacy challenges. For instance, Garcia-Pont & Noboa (2004) argue that subsidiaries need organizational slack to appropriately respond to the obligations that emerge from their institutional duality and, therefore, they require less centralization. Consistent with this view, Fort (2001) claims that decentralization, which is an organizational application of the principle of subsidiarity (McCann, 2002), is necessary for subsidiaries in order to create structures that mediate between the multinational corporate structure and the concrete moral and social reality, global and local, of the subsidiary.

By the same token, the empirical results of Muller (2006) show that autonomous subsidiaries tend to be more engaged in CSR and CSA than centralized ones. Paradoxically, the CSA of such decentralized subsidiaries is not predominantly focused on the host-country context, but largely in accordance with global and home-country CSR concepts. Although the international management literature (e.g. Birkinshaw & Hood, 1998; Garcia-Pont & Noboa, 2004) suggests that this type of action tends to be strategic in nature, there is some empirical evidence that categorizes it as isomorphic (Husted & Allen, 2006). In summary, this line of research shows that subsidiary autonomy does not necessarily imply conflicting agendas with respect to global
and local CSR and suggests that, actually, both kinds of CSR can be appropriately addressed by decentralized subsidiaries.

In addition to the headquarters-subsidiary structure, and as an organization by and in itself (Birkinshaw, 2001), the subsidiary firm has its own internal CSR emergent properties, which arise from the legitimacy that its organizational form has in the host country (Li, Yang, & Yue, 2007), as well as from its structure, culture, and identity. Although the subsidiary is strongly influenced by the organizational structure, culture, and identity of the parent company, it remains a contingent matter, occurring during the phases of socio-cultural interaction and structural elaboration, whether the subsidiary develops its structure, culture, and identity in a way consistent or not with those of its parent company. The nature of the CSR causal powers that emerge from the particular configuration of the subsidiary is defined by such contingency.

3.4.- SECOND AND THIRD ORDER RELATIONS BETWEEN CSR EMERGENT PROPERTIES

Consistent with Archer’s (1995, 1996) morphogenetic theory, CSR structural and cultural emergent properties have specific contents and therefore, they condition the actions of organizations and their stakeholders in a given direction. This is the conditioning effect of a first order relationship: a given CSR property motivates a particular type of CSA. For instance, a legal environment that includes detailed social and/or environmental regulations, leads firms to comply and, consequently, to an isomorphic type of CSA. However, a firm receives the influence of many cultural and structural CSR emergent properties. Those different CSR properties vary independently of one another. The understanding of the conditioning effect of diverse CSR emergent properties both improves and becomes more complex when the relations between those emergent properties are considered. These are second order relations of either complementarity or
contradiction, which shape the CSR influences that an organization receives and place it under specific situational logics. The relations between properties of the structural system are causal. Those between properties of the cultural system are logical, with causal effects only when actors hold the beliefs or theories that are complementary or contradictory. Figure No. 4 synthesizes the discussion on second order relations, which follows below.

3.4.1- Directional Guidance of CSR as a Cultural Emergent Property.

Cultural systems are not necessarily consistent and integrated, for cultural integration is a myth (Archer, 1985, 1996). The emergent properties of a given cultural system (i.e. beliefs, theories, ideologies), including those for or against CSR, may be in situations of logical complementarity or contradiction with other properties of the same system or with those of the Anglo-American cultural system which largely underlies both globalization and business management knowledge. These logical relationships between cultural properties constitute second-order cultural emergent properties. Archer (1996) posits that, to the extent to which such complementarities and contradictions are detected, perceived, or known by social actors holding
the corresponding beliefs or theories, they will have causal effects on the actors. Therefore, a given multinational company, its subsidiaries, their stakeholders, and the managers of all of them will find themselves in particular ideational positions with respect to CSR and eventually, if they maintain their beliefs/theories, in particular situational logics which will constrain or facilitate, and delineate corporate social action. The moral legitimacy (Suchman, 1995) of a multinational company and its subsidiary firm will largely be defined by the particular configuration of the second order relations between the cultural emergent properties on CSR and their resulting situational logics. Let us examine the four different types of positions that Archer (1996) proposes, applying them to relations between beliefs and theories related to CSR.

**Constraining contradictions.** The first ideational position is one of “constraining contradictions”. In this case, two beliefs or theories are logically inconsistent. Assuming that there are agents who advocate those beliefs/theories, the constraining contradiction occurs when their positions are internally linked and necessarily related, i.e. when an actor’s invoking his/her belief or theory also ineluctably evokes the contradictory counterpart. This is the *locus* of cultural tension. The situational logic for belief-holders exerts a constraint upon their agency and calls for containment and correction. One general example at the macro level is the contradiction between the belief in profit maximization as the sole objective of the firm and the early concepts of CSR in the United States (which up to now have been largely corrected; see section 3.2.1 in this chapter).

In fact, it is very likely that the constraining contradictions which most commonly occur in the CSR cultural arena continue to be those between beliefs and theories in favor of some CSR principles (as understood in and emergent from the relevant cultural system) and (mostly short-term) profit-maximization dogmas. A hypothetical and simplified example at the organizational level would be the situation of a subsidiary management team who believe in “A”: it is the
subsidiary’s responsibility to offer job stability to its workers and to promote their professional
development; while parent company management believe in “B”: it is not the company’s
responsibility to train foreign workers or secure their jobs; the subsidiary should minimize any
liabilities derived from long-term labor contracts and thus, it should have short-term contracts,
high worker turnover, and no investment in training. The subsidiary managers are committed to
“A” yet have no option but to live with “B” as well. They can neither embrace “B” as it stands
nor simply repudiate it. The maintenance and eventual actualization of their belief depends upon
their repairing the inconsistency with the headquarters’ belief and/or containing the latter’s
influence, something that will eventually take place in the actual domain, during the phase of
socio-cultural interaction.

Multinational companies and their subsidiaries may, at times, find conditions of local
cultural resistance and resilience where local CSR theories prevail (Alcalá Campos, 2004;
Iribarne, 2003; Van Maanen & Laurent, 1993). These are situations in which a coherent, well-
deﬁned, and strongly held local cultural system, likely supported by a strong and compatible
structural system, advocates its CSR ideational principles with such effectiveness that foreign
companies must correct their social beliefs/theories, if they are contradictory to the local ones, in
order to operate in that country (something that, seemingly, Wal-Mart did not do in Germany). In
contrast, and probably far more frequently, there are many other cases in which the opposite
occurs, i.e. with the purpose of attracting and retaining foreign investment, local business/CSR
theories and beliefs are corrected or contained, in order to make them acceptable to those
multinational companies that hold the ideational business and CSR principles of the Anglo-
American cultural system. Such situation is conducive to a kind of cultural (and CSR)
homogenization in business at the global level (Alcalá Campos, 2004; Van Maanen & Laurent,
1993), along the lines of globalization as Anglo-Americanization.
**Concomitant complementarities.** The concept opposite to a constraining contradiction is, in Archer terms, a “concomitant complementarity”. This is a second type of ideational situation, which exists when two beliefs or theories are logically compatible, and the actors who advocate them are internally linked and necessarily related; i.e. when an actor’s invoking his/her belief or theory also ineluctably evokes the complementary one. Concomitant complementarities are a “source of ideational bonuses like psychological reassurance, technical back-up, corroboration of theories, and confirmation of beliefs” (Archer, 1996: 157). The situational logic promotes adherence, reinforcement, and protection of the complementarity, in such a way that, after time and intellectual endeavors, the compatible theories and beliefs may form an integrated whole. A typical example is the relationship between classical economics and utilitarian ethics, which has been crucial for the development of cultural systems of the Anglo-American type.

The integration of theories, beliefs, or ideologies, to which a concomitant complementarity may lead, has the effect of reducing ideational diversity, intensifying cultural uniformity, and eventually, forming “islands of order” (Archer, 1996: 179). For example, the Anglo-American cultural system is a large “island of order” whose evolution (morphogenesis) legitimizes profit maximization and individualism. Instrumental CSR, subordinated to economic interests, is a well-accepted belief in such system. There are other strongly integrated cultural systems, with their particular CSR emergent properties, which can be seen as different “islands of order”; Germany is an example, where many CSR ideational principles have been institutionalized and have become legally or customarily compulsory. In many cases, for a multinational company which has its own business/CSR beliefs, theories, and ideology, the beliefs and theories of different cultural systems become constraining contradictions.

The cultural uniformity that eventually emerges from concomitant complementarities produces conditions for either formidable support for or strong opposition to CSR and corporate
social agency. For instance, there are many scholars and business people who hold the theory that the primary, if not the only, social responsibility of business is to maximize profits. Some of them, including those with an undisputed intellectual stature like Milton Friedman (1962, 1970, 2005) and Arthur Laffer (2005), subscribe to the dogma that CSR is “fundamentally subversive”. This ideology, with the principle of short-term profit maximization as its hallmark emergent property, pervades stock markets, their correlated organizations, and their actors (investors, brokerage houses, analysts, etc.). Except for socially responsible investments, the stock market arena is more likely to become an “island of order” predisposed against CSR and corporate social actions, which conditions listed firms to disregard claims from stakeholders other than shareholders (Matten & Moon, 2004). By contrast, cases such as the Mexican cooperative Cupanda (presented in section 3.3.2 above), or social enterprises like Arcandina in Ecuador (Mair & Noboa, 2005), have become “islands of order” in which CSR beliefs, as they emanate from their respective cultural systems, practically drive all their organizational activities.

The identification and eventual development of concomitant complementarities in the realm of CSR can be a source for innovative, strategic corporate social actions. Holders of certain CSR beliefs and theories may become consumers, suppliers, or in general, allies and supporters of firms that develop social strategies logically compatible with those beliefs and theories. For instance, organic agriculture has historically developed on the basis of several concomitant complementarities, which through time and effort have become integrated. It began with some agronomists and farmers in Europe who embraced, in the 1920s, beliefs/theories that advocated harmony with nature and a view of the “health” of soils, plants, animals, and people as deeply interrelated; their position was matched by some local (rural) consumers who shared those perspectives. Afterwards, in the 1940s, their counterparts in the United States adopted the more focused theory that food should be produced without chemical pesticides; and concomitantly, a
number of consumers held the related idea that they should not “eat poisons”. The emergence of environmentalism in the 1960s and 1970s supported and strengthened those earlier ideas and provided many more “believers” in both Europe and North America. Later, in the 1980s and 1990s, a substantial concern for health and nutrition emerged on the part of consumers, which significantly increased demand for products believed to be healthier, such as organic foods. Finally, in the early 2000s, the governments of the United States, Japan, and the European Union standardized organic agriculture and established certifiable regulations (Thompson, 1998; Thompson & Kidwell, 1998; Verhoef, 2005). Many producers, wholesalers, food processors, and retailers have adopted the norms and principles of organic agriculture as one of the basis, if not the only one, for their business strategies.

**Competitive contradictions.** The third ideational position presented by Archer is one of “competitive contradictions”. In this case, two beliefs or theories are logically inconsistent, but the positions of belief-holders are not constrained by any necessary and internal relation. In other words, the groups holding contradictory beliefs and theories are independent from each other. The situational logic is competition, i.e. choice between alternatives and a tendency towards the elimination of all but one of them. To put it in Archer’s (1996) words, groups enacting competitive contradictions are often integrated by “deserters” or “schismatics” who freed themselves from previous situations of constraining contradictions. For instance, in Anglo-American contexts, and increasingly in global settings too, there are advocates of CSR who do not accept the “domestication” to which their principles and beliefs have been subjected in order to make them compatible with profit maximization concerns. At the individual level of analysis, “deserters” often become “emigrants” that join other causes, for instance, by affiliation with NGOs that advocate their principles and beliefs. At the level of organizations, groups internal to a firm (e.g. managers, owners, etc.), who do not agree with the business and CSR theories
prevailing in their organizations, may become “schismatics” that either collectively attempt to seize power in the organization in order to change it, or more likely end up establishing business firms which eventually compete against their former company on the basis of opposite corporate ideologies and social actions. At larger societal levels, anti-globalization agents hold beliefs and theories that stand in a situation of competitive contradiction with those underlying economic globalization.

From the perspective of a particular business firm, individuals and groups standing in positions of competitive contradiction become stakeholders which are ideationally adversarial to the firm and therefore, prone to put its moral legitimacy in doubt. The balance of interests, resources, and power (which are structural properties) will define how they act against or interact with the firm in the actual domain.

**Contingent complementarities.** The last of Archer’s ideational positions is called “contingent complementarity”. It is composed of items which are at the same time logically consistent but independent of one another. Groups that are placed in this position often come from situations of concomitant complementarities, “schooled in a [particular] mode of though” (Archer, 1996: 220). However, they are not completely comfortable with the cultural uniformity produced by the concomitant complementarity and seek some source of variety. In their search, they may hit upon something that happens to complement their existing beliefs, theories or ideologies, although the two components are independent and were previously not connected between them. The situational logic offers opportunities for cultural free play. Since there are no ideational counterweights to the new position, the possibility opens for attractive pay-offs.

For instance, as presented above, organic agriculture has gradually developed into a uniform system of concomitant complementarities. On the other hand, independently from organic agriculture, the Fair Trade movement has emerged in the last several decades as a way to
make the social and economic relations of production of small, poor farmers visible to consumers in developed economies, so that those farmers can get support and solidarity from such consumers (Hudson & Hudson, 2001). Since many of the participants in organic agriculture industry share or accept, to a higher or lesser degree, other types of beliefs, mainly in the realms of social justice and poverty alleviation, it soon became evident for those involved in organic agriculture that there were opportunities, both ideational and material, in the field of Fair Trade. In other words, Fair Trade emerged as a contingent complementarity to organic agriculture, in such a way that now both “programs” are often being developed jointly at the different levels of the supply chain (Rice, 2003).

3.4.2.- Directional Guidance of CSR as a Structural Emergent Property.

Analogous to the case of cultural systems, structural systems are not necessarily homogeneous and consistent, i.e. structural integration is also a myth (Archer, 1982, 1995). Consequently, the forces for or against CSR that emerge from the structural system may be in a situation of tension or coherence with one another. These relationships between first-order structural properties constitute second-order structural emergent properties which also have causal effects that condition human agency. The structural system endows companies (e.g. a multinational company and its subsidiaries) and their stakeholders with different vested interests according to the positions that they occupy in the system. Situations of tension or coherence between structural CSR emergent properties will position companies, in virtue of those vested interests, in particular situational logics which imply punishments or rewards and, consequently, will constrain or enhance specific modalities of corporate social action.

As in the case of cultural properties, Archer (1995) argues that there are four possibilities of second-order relationships between emergent structural properties, each with a
particular situational logic that suggests appropriate courses of action. Those possible relations are necessary complementarities, necessary incompatibilities, contingent complementarities, and contingent incompatibilities; which are also synthesized in Figure No. 4. Let us briefly discuss each of them.

**Necessary complementarities.** The first possible second-order relationship occurs when there are necessary and internal linkages of a complementary nature between structural properties. In this case, structural emergent properties are in synchrony with one another, forming a cluster of causal factors which constitute what Fleetwood (2004) calls a “causal configuration”. These configurations reinforce a congruent systemic context and generate well-defined tendencies. The situational logic calls for protection of the system and motivates strategies to defend it and reproduce it. Structural resilience derives from the fact that necessary complementarities create situations in which everyone has something to lose from disruption.

A typical example is, in economies of the Anglo-American style, the complementarity between a libertarian institutional environment, a market system of exchange where public policy is charged with correcting market imperfections, and the tendency to establish agency relations with self-interested stakeholders. Private business interests thrive in such structural configuration, which favors the development of explicit or strategic forms of CSR.

**Necessary incompatibilities.** According to Archer, a second possibility exists when the relations are internal and necessary, but marked by incompatibilities. “The effects of their operation are to threaten the endurance of the relationship itself” (Archer, 1995: 222). In these cases the situational logic is of compromise, because if the vested interests of one group are advanced, the contrary ones are also intensified, which threatens to escalate the incompatibility. This situation motivates strategies of containment, negotiation, or concessions. The promotion of vested interests has to be a cautious act, because the configuration is inherently unstable. When
there is a symmetrical mutual dependency, firms and their stakeholders will co-exist on uneasy compromises which contain the incompatibility. However, if the relation is or becomes asymmetrical in resources or power, the balance of gains and losses which led all parties to compromise changes and a different structural state of affairs emerges.

An example is the case of Wal-Mart in Germany, described above (see section 3.3.6, in this chapter). Wal-Mart’s American-style *modus operandi* stayed in relations of incompatibility with a number of German social structures, including some legal provisions, the institutionalized expectations of customers and suppliers, labor unions, local managers, and the German government. For Wal-Mart these structural relations were internal and absolutely necessary for its operations. However, Wal-Mart neither compromised nor conceded, as the situational logic suggested, which had disastrous results for that big retailer.

**Contingent compatibilities.** The third possibility is characterized by contingent compatibilities, in which structural properties are highly compatible with the interests of particular groups. A situation of contingent compatibility usually develops from a previous situation of necessary complementarities. Some groups explore new relationships, external to the protected system of the necessary complementarity, but compatible with it. Therefore, nobody loses, but the innovators can make new gains. The contingent compatibility entails a situational logic of pure opportunism.

Multinational companies are paradigmatic examples of explorers for new relations external to the social system in which they originated. The search for contingent structural compatibilities drives many of their efforts and decisions, which in this way seek the benefits of “operational flexibility” brought about by arbitraging between different jurisdictions (Kogut, 1985), but which also may lead them to their often criticized lack of social responsibility (Boda, 2002; Buckley & Casson, 2001; Eden & Lenway, 2001). The selection of host countries for
establishing subsidiaries, with the aim of fostering efficiency or facilitating access to natural resources, markets, or strategic assets (Rugman & Verbeke, 2001), is likely contingent on finding advantageous structural compatibilities in those countries. For example, when a multinational company is not affected by local CSR forces and the host country has a weak institutional environment, the possibility exists for the multinational firm to be opportunist and abusive, i.e. to reap extraordinary profits at the expense of the local natural environment, local communities, or the host country’s government, independently of how the company acts in its home or other host countries (naturally, there is always the contingent possibility that, at the discretion of ethical corporate actors, the multinational company alternatively develops explicit CSR programs as a supplement to law and institutions).

Contingent incompatibilities. The last possibility of second-order structural properties is that of contingent incompatibilities. Such incompatibilities can arise from within or without the system, and threaten to disrupt it. This situation is antithetic to all the other second-order structural relationships, i.e. to the stability fostered by necessary complementarities, the containment of divergent interests characteristic of necessary incompatibilities, or the free play allowed for by contingent compatibilities. Therefore, its situational logic is of elimination, and motivates competitive strategies.

Carrefour’s incursion in Japan offers an example of contingent incompatibilities. Carrefour, the large French retailer which is second only to Wal-Mart in the world, entered the Japanese market in late 2000 (Financial Times, 2000). This was the second attempt of a foreign retailer to get established in Japan, which is the second-largest retail market in the world (Costco had opened its first store just two months earlier). The company (as other similar retailers) is known by its aggressive policies and practices with its suppliers, with whom it often establishes tense relationships of agency. Initially, Japanese suppliers perceived the entrance of Carrefour as
a contingent compatibility, i.e. an opportunity to expand their otherwise established businesses. However, they soon developed animosity against Carrefour’s buyers, because they were considered selfish and careless for relations with suppliers, insensitive to their positions, and too focused on day-to-day transactions. Things went worse for Japanese suppliers when Carrefour refused to accept their multi-layered supply system and tried to go around “unnecessary middlemen”. Soon afterwards, Carrefour demanded exclusivity from its suppliers, which put suppliers’ business and relationships with other, larger retailers at risk. These two actions threatened the long-standing associative schemes that many suppliers had with their other customers, and with other companies integrating the distinctive multi-layered Japanese supply chains. Yasuyuki Sasaki, an industry analyst, declared about Carrefour: "They were too aggressive and arrogant … and got Japanese vendors mad. They never accepted that some things work better in Japan the Japanese way” (Financial Times, 2003). Carrefour threatened to disrupt a very resilient structural system forged on the basis of necessary complementarities, which at that time had already developed huge vested interests. In this way, since it was a relatively small and weak player in Japan, Carrefour put itself in relations of contingent incompatibilities with its local suppliers who, according to the corresponding situational logic of elimination, stopped selling to the French retailer. After four years, in which it could open only eight stores, Carrefour sold its Japanese business to Aeon, a local retailer, and left the country (Financial Times, 2005).

**Implications of second-order structural properties.** It is important to note that all the previous structural configurations and situational logics refer to relations between structural properties, not between agents. Archer’s work suggests that firms and stakeholders exist within those configurations and it is a contingent matter that, in virtue of their vested interests and alternatives for action (degrees of freedom), they are positioned in situations of incompatibility or compatibility, i.e. of threat or cooperation with one another (Savage et al., 1991). Therefore, it is
a mistake to categorize stakeholders themselves, not their positions and relations, as necessarily compatible or incompatible, because that situation may be different in other contexts.\textsuperscript{12}

The strategies that each of those situational logics motivate, if implemented in actual interaction, would eventually lead to forms of social, not necessarily moral, legitimacy (Suchman, 1995). However, according to Archer (1995), the legitimation of structural properties is not a matter of necessity. These properties can be sustained by power, via coercion or manipulation. Archer points out that the success or failure of any strategic action takes place at the level of social interaction and is conditioned by the relative power of the interacting firms and stakeholders (Frooman, 1999; Rowley, 1997). These agents may exert their power to implement the strategies that are motivated by the corresponding situational logic; if successful, they will eventually obtain the kind of legitimacy granted by the “coalition of parties who contribute the resources and support necessary for [the organization] to continue its activities” (Pfeffer & Salancik, 1978/2003: 26). However, since diagnosing those situational logics and their corresponding strategies is a complex matter (White, 2003), agents may alternatively exert their power trying to implement strategies different from those motivated by the (perhaps unacknowledged) situational logic. They may fail in such an endeavor, assuming more or less costs and frustrations, as Wal-Mart did in Germany and Carrefour in Japan; but they also may succeed, in which case they will advance their interests in a situation that may be judged as illegitimate (or socially irresponsible) by at least some stakeholders.

\textsuperscript{12} Friedman & Miles (2002) make such a mistake. In my opinion, they completely misinterpret Archer’s morphogenetic theory when they propose, for example, that relations between the firm, its top managers, and shareholders are necessarily compatible; or that relations between the firm and its workers, customers, suppliers, unions, etc. are necessarily incompatible.
3.4.3.- Third Order Relations Between CSR Properties.

As discussed in this chapter, ideational properties (or forces) for or against CSR emerge from the cultural system in which a firm is embedded. Those forces have second order relations of congruence or incongruence between them. Similarly, material forces for CSR derive from the corresponding structural system. Such forces are also in second order relations of compatibility or incompatibility with one another. Both sets of second order relations and the particular situational logics that derive from them encourage or discourage certain judgments about courses for corporate social action. However, as Archer (1995) explains, culture and structure are relatively autonomous. Therefore, it should not be surprising that the powers of cultural and structural emergent properties, including those which motivate and shape CSR, are often out of synchrony with one another. This is more complex for multinational companies and their subsidiaries, because their situations and contexts are shaped by relations between properties of two or more cultural and/or structural systems. Whether those properties are or not in synchrony results in third-order relationships of congruence or incongruence. Consistent with Archer, these relationships constitute the final socio-cultural conditioning influence upon actual social interaction.

In this way, the first phase of the morphogenetic cycle, socio-cultural conditioning, is completed. The different cultural and structural CSR emergent properties, as well as the second- and third-order relations between them, give a definite and particular shape to the situations in which firms, stakeholders, and their managers find themselves at a given point in time, and from which they mediate the effects of both material and ideational CSR causal powers. The next phase, socio-cultural interaction in the actual domain, takes off from this situation. Accordingly, the next step in my analysis focuses on managerial agency, a topic which I discuss in the next chapter. Before doing so, I offer a brief summary of this chapter.
3.5.- SUMMARY: THE CONDITIONING EFFECT OF CULTURAL AND STRUCTURAL CSR PROPERTIES.

The present chapter constitutes the first part of an initial formulation of a typological theory of corporate social responsibility and corporate social performance in international settings. It begins by broadly defining CSR, with Frederick (1994), as the obligation of business firms to work for social betterment. I argue that CSR obligations motivate different types of corporate social actions. Building on Weber (1922/1978), I classify these types as strategic/instrumental, value-based, isomorphic, or affectual.

Based on critical realism and morphogenetic social theory, I have proposed that CSR obligations (e.g. normative principles, social expectations, etc.) are causal factors that emerge from both the cultural and structural systems of each society. Hence, I call those obligations “cultural emergent CSR properties” and “structural emergent CSR properties”, respectively. In the case of multinational companies and their subsidiaries, these CSR causal factors emerge from both global socio-cultural structures and the different local cultural and structural systems in which these companies operate. In other words, corporate social responsibilities emerge from universal ethical principles and structural global factors, but also from many and more proximal factors that are idiosyncratic to each society. Most of the chapter is dedicated to analyzing the nature and sources of corporate social responsibilities, as they emerge from the socio-cultural system, as well as the kind of social action that each of those responsibilities motivate.

In addition to their first-order (direct) causal influence, emerging CSR causal factors have second-order relations of congruence or incongruence with one another. Their interplay generates specific configurations in each time and place which define the expected content, direction, and modality of CSR. These configurations define a situational logic and suggest a certain type of strategy for managers to follow, i.e. they provide some directional guidance which
conditions, but do not determine, a certain kind of corporate social response. Managerial agency takes place in the framework of those configurations and mediates the effect of the different CSR emergent properties. The next chapter analyzes the mediating role of managerial agency and the outcome of both CSR and CSA, namely CSP.
Chapter 4

MANAGERIAL AGENCY AND CORPORATE SOCIAL ACTION

In chapter 3, I presented a view of the principles and concepts of corporate social responsibility (CSR) as properties that emerge from both the cultural and structural systems of a given society, with powers to condition, but not determine, corporate actions. Those properties belong in the real domain of social reality and predate corporate actions. The present chapter continues the development of the theoretical framework of this dissertation, by focusing on human agency and corporate social action (CSA). The next chapter (5) will discuss the outcomes of the interplay between socio-cultural CSR emergent properties, managerial agency, and CSA.

Consistent with critical realism, in this chapter I develop a view of CSA as part of the actual domain, at the level of socio-cultural interaction. The role of human (managerial) agency receives much of the attention at this stage. It is at the actual level of reality that managers, other organizational members, and stakeholders, through their actions and interactions, mediate the conditioning influence of CSR principles and concepts and shape CSA. During this process, the personal characteristics of managers with respect to CSR come into play. Those characteristics (e.g. managerial power, identity, experience, education, moral agency) constitute causal CSR powers or, in Archer’s (1995) terms, personal CSR emergent properties. As with cultural and structural emergent CSR properties, personal CSR properties have first-order causal effects and, in addition, they stand in relations of complementarity or contradiction with one another (second-
order relationships) or with cultural and structural CSR properties (third-order relationships). The interplay of all these causal powers shapes CSA and determines its outcomes.

In turn, I describe CSA as the instance of actual socio-cultural interaction between the firm and other agents in its social environment. Following Wood (1991), I characterize CSA as composed of three main, intertwined aspects: environmental assessment, stakeholder management, and issues management. The crucial point is to explain how CSA can be appropriate for, i.e. congruent with, the situational logics defined by structural, cultural, and personal CSR emergent properties

4.1. – CSR AND MANAGERIAL AGENCY

As previously discussed, the cultural and structural CSR properties that emerge from the social system define the expected content, direction, and modality of those responsibilities, as well as the congruence or incongruence between them. However, firms are held responsible by society only by ascription. It is managers who can act according to such attributed responsibilities by acknowledging, accepting, assuming, and responding to them (Hemingway & Maclagan, 2004; Kleinfeld-Wernicke, 1992). The directional guidance of CSR properties becomes operative only when the basis for such operation exists or can be created within the firm. Nothing would happen if managers do not feel cause within themselves for undertaking social actions, or if they have no discretion or choice to do so (Coopey, Keegan, & Emler, 1997; Wood, 1991). Accordingly, corporate social action is a process that is shaped by the values, interests, and interpretive schemes of managers, whose agency is enabled or constrained by the social environment and their organizations (Hemingway & Maclagan, 2004; Ranson, Hinings, & Greenwood, 1980).

Up to this point I have followed Archer’s (1982, 1995, 1996) morphogenetic approach as the overarching theoretical base of my argument. In addition to it, and with the purpose of
better studying human (managerial) agency at the individual level of analysis, in the first part of this chapter I will also rely on Albert Bandura’s (1986, 1988, 2001; Wood & Bandura, 1989) social cognitive theory. Archer’s work, sociologically orientated, considers human agency at the level of groups, but not of individuals. Bandura’s theory, psychologically orientated, focuses on the individual level of agency but also bridges it with the group level. I see Bandura’s theory as compatible with Archer’s morphogenetic social theory, particularly because, like Archer, he explicitly recognizes the “analytic dualism” of social structure and human agency (2001: 5). Bandura proposes a shift of paradigm in psychology, which acknowledges the “bidirectionality of influence between social structure and personal agency” (2001: 6), and centers on “human functioning… as socially interdependent, richly contextualized, and conditionally orchestrated within the dynamics of various societal subsystems and their complex interplay”. This view is convergent with Archer’s, although Bandura does not discuss the ontological difference between social structure and human agency.

Furthermore, as reviewed in chapter 2, critical realism is characterized by its “permissive” epistemology (Sayer, 2000) and “explanatory pluralism” (Reed, 1997), which encourages the making of connections across a broad range of subject areas aimed at producing synthetic understanding and integrated approaches (Fleetwood & Ackroyd, 2004b). Archer’s morphogenetic theory and Bandura’s social cognitive theory can be integrated according to the critical realist logic of “structural contextualization”, by which theories at higher levels of analysis are used to identify the structural and developmental parameters within which theories at lower levels of analysis operate (Reed, 1997). Accordingly, up to this point I have used Archer’s approach to identify CSR causal properties that emerge from the larger socio-cultural system and to discuss their situational logic. These responsibilities, attributed to the firm, demand responses from managers. Now, in the first part of this chapter I rely on Bandura’s social cognitive theory
to guide the understanding of managerial agency with respect to CSR. The complementarity between both perspectives opens the possibility of “integrating personal and social foci of causation within a unified causal structure” (Bandura, 2001:5). In other words, based on Dobson’s (2001) “theory-as-scaffold” approach, I use Bandura’s social cognitive theory as the scaffold of a tree, which can be “removed” once it has served its purpose of assisting in the understanding of managerial agency.

According to Bandura, human agency “embodies the endowments, belief systems, self-regulatory capabilities and distributed structures and functions through which personal influence is exercised” (2001: 2). Social cognitive theory distinguishes three different modes of human agency: personal, proxy, and collective. Personal or primary agency refers to direct actions performed by individuals. In proxy agency, people try to get those who have access to resources or influence and power to act on their behalf to secure the outcomes they desire. With respect to collective agency, Archer (1995) distinguishes two modalities: aggregate and corporate. Aggregate agency refers to the action of collectivities that is not organized for the pursuit of their interests; nevertheless, these collectivities still react and respond to their context; the similarities of their responses can generate unintended aggregate effects. Some stakeholder groups (e.g. customers) usually operate as aggregate collectivities (e.g. markets). Finally, in corporate agency, groups engage in concerted action, for they “are aware of what they want, can articulate it to themselves and others, and have organized in order to get it” (Archer, 1995: 258).

Managerial agency can operate according to any of these four modes; however, the proxy and corporate modes seem to be more consistent with current conceptions of managerial work (Whitley, 1989) and of business organizations as rational systems (Scott, 1998). Keeping in mind that managers always act in the context of a particular organization, with its own CSR emergent properties, I now analyze the agency of managers with respect to CSR and CSA.
4.1.1. - The Emergent Powers of Managers.

To be an agent is to intentionally make things happen by one’s actions. Accordingly, to be a managerial agent necessarily implies to have managerial discretion, that is, to have latitude for decision making and individual action on the use of resources for organizational purposes (Hambrick & Finkelstein, 1987). The concepts of social responsibility and social action become meaningful only to the extent to which managers can exercise discretion (Hemingway & Maclagan, 2004; Wood, 1991), for managers can only be responsible for what they can influence. The process begins with the identification, by responsible managers, of CSR causal properties and their relations of congruence or incongruence, as they condition a particular firm’s behavior at a given place and point in time. If properly identified, those properties suggest an appropriate logic of action and a corresponding strategic path, which may or may not be implemented as part of the social action of a firm (Bansal, 2003; Hemingway & Maclagan, 2004). Nonetheless, managerial agency is not a wholly voluntaristic phenomenon. It is enabled or constrained by the social system. In order to inspire and empower their actions, managers must be able to access the structural forces inherent in their managerial positions, the resources made available by their social identity, and their personal psychological qualities (Whittington, 1992).

Consistent with both social cognitive theory (Bandura, 1986; Wood & Bandura, 1989) and morphogenetic social theory (Archer, 1995, 1996), managerial agency entails two sets of emerging properties: those that arise from the managerial role itself, and those emerging from managers’ personal cognitions, qualities and capabilities. The interaction of these properties with one another and with the social environment explains managerial behavior. Let us next review the emergent properties of managers and their operation, as they mediate CSR causal powers and perform corporate social actions (CSA). This discussion is summarized in Figure No. 5.
The causal powers of managerial positions. The nature of management stems from hierarchical arrangements in business organizations. It endows managers with a set of causal powers which reside in the real domain and that, taken together, have contradictory logics.
Tsoukas (1994) identifies three broad categories of causal powers emerging from management as a positioned practice. The first one is the “drive towards efficiency and effectiveness”, by which managers are compelled to generate value from the resources they manage. The dominant perspective in business often aligns this managerial power with the tendency, emergent from social systems of the Anglo-American type, to maximize shareholder profits. Nevertheless, organizational outputs must be at least minimally valued and legitimated in the context of specific societies; created value must also flow to the different stakeholders that constitute the firm’s environment. Therefore, this causal power also involves a direction to be socially effective and efficient, which may be more or less consistent with the emergent CSR properties of the specific social system in which the firm is embedded.

A second causal power of managers, according to Tsoukas, is the “ability to control the transformation of labor power into actual labor”. The indeterminacy of labor potential compels managers to acknowledge the “open” nature of labor, i.e. the human capacity for self-development, learning, and innovation; and consequently, for increasing its potential. This opens many motivations and possibilities for CSR focused on workers and employees.

The third managerial causal power is the “ability to elicit active cooperation” from stakeholders, through the provision of material and symbolic rewards. Tsoukas argues that the nature of rewards varies with the set of values that are legitimate in different organizations, industries, and societies. Again, this causal power likely involves social and ethical motivations to pursue the active cooperation of stakeholders, which “is a conditio sine qua non for the operation of an organisation” (Tsoukas, 1994: 298).

The composition of these causal powers involves some contradictions, which are resolved when managers exercise such powers. That resolution is a contingent matter that depends on the prevailing conditions at the organizational and societal levels and on managerial
capabilities. As argued by the theorists of the Carnegie School (March & Simon, 1958/1993; Simon, 1945/1997), managers’ perceptions of those conditions, as well as their decisions, are affected by their bounded rationality. A number of idiosyncratic “givens” such as managers’ preferences, values, and cognitive capabilities influence their actions.

The personal causal powers of managers. Engaged as they are in organizational activity, and limited by their bounded rationality, managers must be able to tap into and make sense of the flows of (perhaps contradictory) information that come to them from their membership in other social bodies beyond the firm, as well as from cultural and structural emergent properties in general. To accomplish it, and in addition to the causal powers with which managers are endowed by virtue of their managerial positions, managers also are subject to all the enabling and constraining principles by which people act, such as their social identity and their psychological qualities.

Self-identity is an organizing principle concerned with being an individual “to and for oneself”, by which persons (managers) socially position themselves as agents within a temporal and spatial network of obligations and commitments (Coopey et al., 1997). It is an emergent property of people, which does not emerge in a single movement (Archer, 1995). The social identity of managers is defined in terms of their positions within and relations to external structures situated beyond the organization: families, ethnic and religious groups, states, professional affiliations, etc. Those structures influence human agency through the norms and expectations of behavior that are assumed for their members. For instance, professional affiliations entail norms and expectations of integrity, public service, and excellence, which moderate the extent to which managers seek profit maximization (Moore, 2002; Shaw, 1995). Similarly, “religious role expectations” constitute a person’s religious self-identity, according to the prescriptions of the corresponding religion (Weaver & Agle, 2002). It has been shown that the
social identity of managers shape their recognition of political issues and their interpretation of issue salience relative to the corporation (Wilts, 2006), which suggests a similar role for managers’ social identity with respect to corporate social responsibility and action.

According to Whittington (1992), managerial agency is about more than just selecting appropriate modes of economic action. Local legitimacy may be as important for managers as economic efficiency. Therefore, managers may set their strategies according to their social identity and their estimates of different sources of social support, which leads to many competing managerial logics of action such as profit-maximization, professional excellence, solidarity with local communities or groups, care and/or paternalism, political positioning, etc. Managerial mobilization of the resources and motivations that emerge from their social identity allows the firm to become “a vehicle for realizing a much wider range of socially legitimate values” (Whittington, 1992: 707). Consequently, managers’ social identity becomes an additional source of CSR causal powers and logics of social action.

However, the opposite may also be true: According to institutional anomie theory, when managers’ economic role dominates their other relations in society, the utilitarian logic of profit maximization may often lead them to ignore social controls and to more egoistically seek their ends, even through ethically deviant or criminal means (Cullen, Parboteeah, & Hoegl, 2004). Thus, an unbalanced social identity may cause managers to be socially irresponsible.

Identity is developed along life trajectories in which experience is built and values and morality are formed (Davidson & Youniss, 1991). Identity formation both influences and is influenced by the development of psychological qualities such as consciousness, intentionality, forethought, self-direction, and reflectiveness. According to social cognitive theory, specific managerial decisions and actions will depend on the degree to which managers possess these qualities (Bandura, 1986, 2001; Wood & Bandura, 1989). Therefore, experience, values, and
psychological characteristics become mutually forming and reinforcing sources of knowledge and understanding which managerial action can mobilize (Coopey et al., 1997). Among the many sources from which people develop experience and values, I would like to have a closer look at two which are exclusive of many managers: business education and executive experience.

Educational systems are supposed to be designed, among other things, for transmitting values of respect, solidarity, rejection of violence, etc., which discourage egoism (Cullen et al., 2004) and are likely consistent with most CSR tendencies. Paradoxically, management education systems may be failing in forming values consistent with a broad, pluralistic perspective of CSR. Some social theories that are dominant in business school teaching, which are considered to be ethically poor by some leading scholars (e.g. Ghoshal, 2005; Ghoshal & Moran, 1996; Pfeffer, 2005; among others), have become normative guides for managerial behavior (Ferraro et al., 2005). “[B]y propagating ideologically inspired amoral theories, business schools have actively freed their students from any sense of moral responsibility” (Ghoshal, 2005: 76). MBA and executive programs are probably extending, if any, a view of CSR merely reduced to its instrumental or strategic versions (Kashyap et al., 2006), ignoring other modalities of CSR emerging in international settings from people and socio-cultural systems different from the dominant Anglo-American model. To the extent to which this is the case, the likely result is managers with a myopic vision of CSR, who are ill-prepared to understand ideographic CSR forces in many international environments.

Executive experience is also an important element in the definition of a manager’s values and social identity, and thus, of his/her attitudes towards CSR and orientation to corporate social action. The values and beliefs of executives are strongly shaped through their social interaction with other members of the management team (Chattopadhyay, Glick, Miller, & Huber, 1999). Although managers’ age, tenure, and years of education undoubtedly impact their
experience and values, research has shown that those variables have no significant relation with
corporate social performance, a counter-intuitive result that is perhaps a consequence of CSP
measurement problems (Browne, 2003; Simerly, 2003). However, functional background, i.e. the
manager’s exposure to various functional areas in his/her work history (Hambrick & Mason,
1984), offers a different perspective. Since different functional positions entail different logics of
action, which may be consistent or not with the assumption of profit maximization (Whittington,
1992), managers’ values and beliefs are partially conditioned by their functional background and
current functional position (Chattopadhyay et al., 1999). With particular reference to corporate
social actions, Simerly (2003) has demonstrated that managers whose functional background is
internally focused (e.g. production, finance, accounting) are less oriented towards corporate
social action than those with output focused backgrounds (e.g. sales, marketing, research and
development), probably as a result of the better-developed abilities of the latter in environmental
scanning and their higher sensitivity to external perceptions of the organization by its
stakeholders.

Managerial experience and values are crucially synthesized in the managers’ social
knowledgeability or “discursive penetration” (Giddens, 1979), that is, the depth of their
understanding of and degree of fluency with the key discourses, concepts, and influences that
represent the ideational and structural emergent properties which shape their organizations and
their environments, including those in favor of or against CSR. The trajectories and experiences
of some managers allow them to reach a high level of discursive penetration. Their consciousness
leads them to purposive accessing and deliberate processing of information about those
discourses and influences (Bandura, 2001). These managers acknowledge and understand CSR
directions emanating from the organization and its environment. In contrast, the trajectories and
experiences of other managers, and/or their lower level of consciousness, drive them to poor
levels of discursive penetration. Such managers barely recognize and/or understand the influences for CSR in the environment of their organizations.

Understanding their environment and having appropriate skills do not automatically entail effective managerial action. For many managers, social identity and experience also provide the foundations of self-efficacy, which is the resilient self-belief in one’s capacity to mobilize the motivation, resources, and courses of action necessary to accomplish successful outcomes (Bandura, 1986; Wood & Bandura, 1989). Self-efficacy emerges from successful experiences, social persuasion, and social modeling. It is a crucial element allowing managers to use whichever knowledge and skills they have in an effective and consistent manner, particularly in critical situations. Managers’ self-efficacy influences the choices they make, the effort they put forth in their projects, their perseverance in the face of difficulties, and their bounce-back capacity after suffering failures (Bandura, 1988; Coopey et al., 1997).

The personal self-efficacy of individual managers eventually contributes to the development of perceptions of organizational efficacy (Fernández-Ballesteros, Díez-Nicolás, Caprara, Barbaranelli, & Bandura, 2002). Relevant for international business is the notion that socio-cultural embeddedness shapes the way in which self-efficacy operates. In general terms, people achieve their greatest self-efficacy when their values and psychological orientation are congruent with the structure of the social system. People from individualistic cultures feel more self-efficacious under an individually oriented system, while those from collectivistic cultures perceive themselves more efficacious under a system oriented to the group (Bandura, 2001). The previous discussion suggests that individual and collective self-efficacy will likely be an important factor in the ways in which corporate social action projects are developed, the purposes to which they are put, and the arrangements through which they are implemented.
4.1.2.- Managerial Moral Agency.

A fundamental property of agency is self-directedness, i.e. “the deliberative ability to make choices and action plans… to give shape to appropriate courses of action and to motivate and regulate their execution” (Bandura, 2001: 8). Bandura asserts that moral agency constitutes the core of self-directedness. It emerges because human beings have to drive their existence, constantly choosing between good or bad, right or wrong. This is the ontological foundation of morality: it is “in statu nascente”; it emerges with and from human beings and focuses on the appropriateness of human acts (Polo, 1997). Most people have at least intuitions about what is morally appropriate: “It almost seems as if humans are either genetically built to make moral judgments or are quickly conditioned by social experience to make them” (Rest, 1986: 8).

Among many others, Wood (1991) emphatically asserts that managers are moral actors. She argues that they have choices about how to fulfill CSR obligations and that, consequently, to the extent to which they possess discretion, they are personally responsible for exercising it. Therefore, the moral agency of managers, conceptualized as a distinctive way of exercising managerial discretion (Calton & Lad, 1995), is the key mediator between the socio-cultural forces for and against CSR and their social outcomes.

There are many different approaches to the study of moral agency in psychology, sociology, and philosophy. While philosophical approaches tend to focus on substantively defining what is good or evil, sociological and psychological moral theories assume that the concepts of the good or the right are defined by the socio-cultural system. The latter approaches describe and explain individual and social moral behavior, but omit its content. While this is a parsimonious assumption for social theories, it oversimplifies the understanding of moral agency, particularly in international settings. Certainly, different socio-cultural systems may endorse different notions of the good or the right. In particular, the cultural system offers the ideational
reference about morality. As discussed above, upbringing, education, and other socialization processes transmit those notions to people, as part of what Feldman (2002) calls a collective chain of memory. Individuals adopt those references to develop personal values.

However, as Feldman notes, these ideational notions remain largely unrecognized and implicit within particular societies, which becomes an important challenge when managers work in the context of other societies. Thus, the need persists for managers to be able to discern good from evil or right from wrong, particularly if they work in international settings. This is a fundamental task, for which social theory can offer only limited help. It corresponds to philosophical inquiry to develop normative frameworks about the good, the right, and the morally/socially responsible. Therefore, although many managers may actually underestimate its relevance, philosophically defining what is good or right is extremely important for managerial agency, particularly with respect to CSR.

On its side, social science helps in the understanding of moral agency by describing and explaining individual and social moral behavior. Building on the work of Bandura (1986), Stajkovic & Luthans (1997) argue that individual moral agency in cross-cultural business settings is defined by the interactive influence of individual values, moral reasoning skills, and self-regulatory mechanisms. In the following paragraphs I address each of these factors.

**Individual values and motives.** Summarizing the common features that Schwartz (2006; Schwartz & Bilsky, 1987) has found in most definitions, values can be described as beliefs regarding final states or desirable goals that transcend specific actions and situations, guide the choice and evaluation of our decisions and conducts, and become an integral part of our way of being and acting. Values are “the most enduring personal characteristics of individuals that represent the foundation for moral judgment, personal standards, critical decisions, and life directions” (Stajkovic & Luthans, 1997: 26). As discussed in the previous section, values are
formed along life trajectories, under socio-cultural influence, through the process in which personal identity is developed.

Recent research by Waldman, De Luque, Washburn, & House (2006) has demonstrated that managerial values relevant to CSR can be grouped in three dimensions: a shareholder/owner dimension which emphasizes efforts to maximize economic returns; a stakeholder dimension that refers to ethical and positive relations directed toward certain groups of stakeholders; and a community/state welfare dimension, which represents values relevant to a larger, societal entity. These results suggest that managers more inclined to the shareholder/owner dimension will likely favor, if any, instrumental corporate social actions that can benefit the firm’s financial performance. In contrast, managers in tune with the community dimension will be more inclined to promote altruistic corporate social actions.

Waldman et al. also found that the orientation of managerial CSR values changes across cultures. In particular, they found that managers in collectivistic cultures significantly value the three aspects of CSR, while those in non-collectivistic cultures tend to be indifferent to all of them. Interestingly, managers in high power-distance cultures tend to assign a negative value to all three dimensions. By the same token, managers from wealthier countries resulted to be more in tune with shareholder/owner CSR issues and to disregard the community dimension, while managers from poorer countries tend to include the community dimension within their CSR responsibilities.

The different values constitute a source of motivation. Those desirable goals can be directly searched for by managers and, in this way, they become motives for action (Pérez-López, 1993). Research has shown that there are three main types of motives at the individual level: instrumental or extrinsic, linked to self-interest; relational, focused on the need for belongingness; and transcendental or morally-based, linked to the need for a meaningful existence (Aguilera,
Rupp, Williams, & Ganapathi, 2007; Pérez-López, 1993). Usually, these three types of motives are present in any human action, although the weight that each of them receives varies from person to person. The sensitivity that a person has for each of these motives, and particularly the importance that the person allocates to transcendental motives, define the person’s motivational quality (Pérez-López, 1993). Aguilera et al. (2007) argue that all three types of motives add to the total “CSR motivation” held by each manager, but that people whose morally-based motives are paramount exert the most pressure on organizations to engage in CSR. Therefore, the higher the motivational quality of a manager, the stronger his/her orientation towards socially responsible corporate action.

**Moral reasoning and moral development.** In addition to and interacting with values, moral reasoning is another crucial element that governs moral conduct (Bandura, 1991). Moral reasoning refers to the making of judgments to determine the course of action that is ethically right or just or morally good. Although most people have moral intuitions, not everybody morally reasons at the same level. To a higher or lesser degree, managers are constrained by bounded moral rationality, which is the difficulty to discover and process morally relevant facts (Donaldson & Dunfee, 1999). The theory of cognitive moral development postulated by Kohlberg (1984) plays a crucial role at this point. He proposed that moral reasoning develops and becomes more complex as people mature, according to a specific sequence of stages. There are six stages, grouped in three levels of moral thought: pre-conventional (stages 1 and 2), conventional (stages 3 and 4), and post-conventional (stages 5 and 6). Kohlberg argues that most adults reason at the conventional level.

Research has shown that, in fact, there are some universal features to the development of moral reasoning. For instance, expanding moral choices require more complex moral standards; reasoning from concrete to more abstract forms occurs with maturation; and change from external
regulation to self-regulation is also a universal order of development (Bandura, 1991; Puka, 1991). However, Bandura (1991, 2001) disagrees with the Kohlbergian postulate that development takes place in discrete lock-step stages. He has demonstrated that “moral development produces multiform moral thinking rather than follows a single developmental track” (Bandura, 1991: 49). Even at advanced levels of moral reasoning, some behaviors follow the rule of law, others are based on social influence, and still others are defined by personal principles. Bandura’s common finding is that adults use different forms of moral reasoning selectively or in a complementary way, depending on the circumstances of the case. Accordingly, it has been reported that different people can arrive at different judgments from the same principle (Bandura, 1991) and, conversely, that different people can arrive at the same judgment, specifically with respect to business practices, by using different reasoning processes (Husted, Dozier, McMahon, & Kattan, 1996). These results suggest, on the one hand, that even if managers from different cultures agree on some corporate responsible actions, they should not assume that their conclusions are the result of similar reasoning processes. On the other hand, even if those managers share a common CSR principle or concern, their judgments may end up being discrepant and favoring different courses of social action.

Kohlberg’s theory has been acknowledged as one of very few theories that attempts to build bridges between descriptive social science and moral philosophy, although with a very specific philosophical orientation. In addition to cognitive psychology, Kohlberg’s approach implies a rationalistic ethical perspective oriented to duty and principles of justice; in his view, people more morally developed are more autonomous and principle-based, closer to a Kantian ideal (Lyttle, Grant, & Trevino, 1998; Puka, 1991; Rest, Narvaez, Bebeau, & Thoma, 1999). Such “philosophical partisanship” on the part of Kohlberg (Puka, 1991) has been the source of many controversies. For instance, Bandura (1991) affirms that the conditions of social learning
are much too varied to produce a uniform, deontological moral type, and argues that the mature mode of thinking involves the comprehension of different moral principles, not only duties of justice. Many others consider that Kohlberg’s theory is tied too closely to a particular model of morality, prevalent in Northern Europe and Anglo-Saxon North America, which is not universal across time or space (MacIntyre, 1985). In fact, there is evidence that only individualistic cultures influence moral development in a Kohlbergian way (French & Weis, 2000).

There are many other ways to understand moral development (Velasquez, 1992b), particularly in cultures where the post-conventional level, as conceived of by Kohlberg, is inapplicable (French & Weis, 2000; Puka, 1991). This is the case of cultures in which the post-conventional level is based on honor (Benedict, 1946); community ties (Snarey & Keljo, 1991); interpersonal relationships (Miller & Bersoff, 1992); principles related to love, such as care (Gilligan, 1982) or forgiveness (Enright & the Human Development Study Group, 1991); or Aristotelian notions of virtue, character building, and human flourishing (De Finance, 1991; Park & Peterson, 2003; Spaemann, 1982/1989). These are alternative types of morality, premised on different views of the self, which are distinctive systems in their own right. International managers “should not [consider them] as a less developed version of the perspective emphasized in the United States” (Miller & Bersoff, 1992: 552).

The previous discussion suggests that the degree of moral development is not the only important dimension for a manager to make sound ethical judgments and take appropriate courses of corporate social action. The type of morality that gets developed is also very relevant, as well as the degree of congruence between the type of moral development of the manager and the kind of morality favored by the socio-cultural system in which he/she works.

Moral reasoning culminates when the individual weights and integrates different elements and forms an intention to carry out a selected course of action (Bandura, 1991).
Intentionality is the hallmark of human agency, and is inseparable from morality (Bandura, 2001). At this stage other values can reinforce or come into conflict with moral values. For instance, institutional, organizational, and other external factors interact with the manager’s moral judgments, enabling or constraining his/her intentionality (Bono & Judge, 2003; Stajkovic & Luthans, 1997; Trevino, 1986). The moral intensity of the ethical issue also influences the establishment of moral intent (Jones, 1991; Jaffe & Pasternack, 2006). In order to articulate their answers, including their “economic ethos”, managers may act toward greater consistency among the different structural, cultural, and personal emergent causal powers whose influence they receive. If these managers are morally developed, have a high level of discursive penetration, and are foresightful (Bandura, 2001), they construct outcome expectations from the real and contingent relations between those causal powers and, in this way, they identify imperatives and/or opportunities for appropriate corporate socially responsible action.

However, most managers have reached only moderate levels of moral development, have a limited discursive penetration, and do not tolerate great discrepancies between the influences of the material and the ideal at the time of forming intentions (Bandura, 1991). In these cases, managers act toward a “decoupling” of the different emergent properties that influence their decision (Ranson et al., 1980), giving much weight to a few moral factors. Trying to produce some sort of unification or harmony, managers tend to negate or forget some representations and influences and embrace others, in order to make intentional action possible, at least on the surface. In front of complex and uncertain situations, agents attempt to provide “quasi-closure” to the social system and rely on conventionally- or institutionally-defined decision-making frameworks (Downward, Finch, & Ramsay, 2002; Hodgson, 2003). What is denied or forgotten is strongly influenced by the socio-cultural system and operated through different psychosocial maneuvers (Bandura, 2001; Feldman, 2002). This process often leads to
forms of exonerative moral reasoning and, consequently, to underestimate or deny the importance of CSR forces. As I discuss below, in many business cultures there are institutionalized decision-making frameworks that may weaken moral reasoning.

**Engagement and disengagement of self-regulatory mechanisms.** Even if appropriate moral reasoning takes place and clear intentions are formed, actual moral behavior is not guaranteed. Echoing ancient Aristotelian insights, Bandura points out that “standards alone do not drive action” (1991: 61) and asserts that psychological theories of morality have largely neglected the study of actual moral conduct. Actual moral behavior occurs if the person has sufficient “perseverance, resoluteness, competence, and character” (Rest, 1986: 15). According to Bandura (1991, 2001) this behavior is motivated and regulated by both social sanctions and self-regulatory mechanisms.

For Bandura, affective self-reactions provide the mechanism by which standards regulate conduct. This is the third interactive element governing moral agency (with values and moral reasoning). People behave prosocially because it produces self-satisfaction, self-worth, and self-respect and they refrain from transgressing behavior because it gives rise to self-reproof and self-condemnation. However, possessing self-regulatory capabilities is not enough. To be able to apply them effectively and consistently under the pressure of contravening influences requires belief in self-efficacy to control own motivation. Furthermore, self-regulatory capabilities do not constitute an invariant, continuous control mechanism within a person. These mechanisms only operate if they are activated, and there are many psychological processes by which they can be selectively activated or disengaged.

The socio-cultural system provides social sanctions for the operation of self-regulatory mechanisms in at least three major ways: First, they contribute to the development of self-regulatory competence, through both proximal motivators for moral conduct and distal incentives
for holding to a moral system. Second, they provide collective support for adherence to moral
standards. And third, they facilitate selective activation and disengagement of moral self-
regulation. It is worth to remember that the organizational context in which managers work
constitutes the most proximal social influence on a manager’s self-regulatory mechanisms; some
organizations are “bad barrels”, i.e. they have an immoral organizational ethos which influences
managers to comply with corporate socially irresponsible actions (Pleasants, 2008; Treviño &
Youngblood, 1990; Ashkanasy, Windsor, & Treviño, 2006).

In the face of strong external pressures to engage in behavior that violates their moral
standards, people commonly experience conflicts. As long as self-sanctions override the force of
external inducements, behavior is kept in line with personal standards. However, when internal
standards are weak, behavior is especially susceptible to external influences (Treviño &
Youngblood, 1990) through selective disengagement of self-regulation. Self-sanctions that have
been weakened or nullified by exonerative moral reasoning and social circumstances enable
otherwise considerate people to perform socially detrimental activities. The predominant business
environment, orientated to profit maximization, often provides pressures that weaken moral
reasoning and lead to corporate social irresponsibility.

There are many psychological maneuvers that managers can use to weaken moral
reasoning and/or to disengage moral self-regulation. As discussed above, in front of complex
situations, individuals may single out some representations and influences and select others. In
this way, by decoupling complex or conflicting information, managers may adopt forms of
exonerative moral reasoning that can make the immoral inconsequential or even moral. By the
same token, selective disengagement of moral self-regulation takes place through cognitive
restructuring of behavior; for instance, through moral justification, using euphemistic language,
obscuring causal agency, disregarding or misrepresenting injurious consequences, and blaming and devaluing the victims.

Therefore, managers have many opportunities to justify otherwise questionable actions in the name of economic efficiency (e.g. “we cause some harm, but it would be worse not to generate these employments”). They can also discursively dilute controversially moral thoughts and actions (e.g. managers do not fire people, but “downsize” operations; their firms do not pollute the environment, but generate “emissions” that can be “rationalized” according to regulations and cost/benefit concerns; multinational companies benefit from “operational flexibility” and “arbitrage” between countries, they do not opportunistically abuse of weak institutional environments; etc.). Organizational arrangements such as division of labor and group decision making can diffuse responsibility, which also weakens self-sanctions. Managers may also disregard or distort the consequences of their decisions; for instance, the hierarchical arrangements of most organizations make it relatively easy for superiors to formulate plans that may hurt others, particularly when these others are physically and/or temporally remote from the decision-maker. In short, managers can use all these different mechanisms to justify unethical or socially irresponsible actions.

Bandura stresses that exonerative moral reasoning and moral self-regulation disengagement are particularly important when the social system contains “institutionalized inequities [which] provide a set of social justifications that make inequitable practices appear just” (Bandura, 1991: 50). I think that the strong emphasis on individualism and profit maximization that can be found in socio-cultural systems of the Anglo-American style, including many business cultures around the world, provides such a set of institutionalized social justifications, in this case for corporate social irresponsibility.
Institutionalized justifications for disengaging moral agency in business. In the mainstream (mainly Anglo-American) management literature, moral agency is often presented as a process different and separate from general managerial action. There is a well-developed body of literature that studies the process of ethical decision making (e.g. Rest, 1986; Rest et al., 1999) and its application to the business context (e.g., Trevino, 1986; Jones, 1991; Low, Ferrell, & Mansfield, 2000). Interestingly, all these authors assume that most managerial problems can be solved as if they were purely technical, and therefore, that their solution can be reached by non-moral schemes. Thus, a number of moral elements can be decoupled of decision-making, based on the assumption that there are two different and mutually exclusive decision frames on which managers rely: an ethical and an economic or business frame (Messick, 1999; Tenbrunsel & Messick, 1999; see Sen, 1987, for a critical position). In this view, known as the “separation thesis” (Freeman, 1994), managers are taught to perceive particular problems as having a predominant content, either ethical or economic. Accordingly, they are seen to choose only one of these frames to make their decision, at the neglect of the other.

The strength of business as an institution in this context predisposes managers to adopt a reified economic model of decision-making (Downward et al., 2002; Moore, 2002) and to easily disengage moral agency (Bandura, 2001; Feldman, 2002): “The repeated framing of social phenomena (Tversky & Kahneman, 1981) around business/economics may lead individuals to overlook that they are facing an ethical issue” (Sonenshein, 2007: 1029). According to this

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This “thesis of separation” between the ethical and non-ethical arenas in business decision-making emerged for ideological and methodological reasons (Freeman, 1994). These reasons are explicit in the work of Simon (1945/1997), who recognized that there is a normative ethical dimension to all decision-making, but argued that it had to be excluded from the analysis of managerial decision-making because it was not amenable to study from the perspective of positivist science. Consequently, the managerial decision-making models derived from this tradition have explained how to make effective decisions, but have ignored whether the decisions reached lead to the proper ends (Selznick, 1957/1984; Torres, 2001). The thesis of separation reflects a now unconscious acceptance of Cartesian dualism, ingrained in modern thought. Therefore, it is the product of a particular cultural system and, consequently, it is not necessarily of universal application (MacIntyre, 1985).
perspective, the use of ethical decision making approaches is restricted to those cases in which
the manager recognizes moral components in the decision, i.e. situations in which value conflicts
are identified. Only those designated as “ethical issues” or “ethical dilemmas” are of interest to
ethical decision making models (Torres, 2001). Therefore, when there is no value conflict, that is,
when the values present in a situation are perceived as compatible, the possibility of judging the
ethical worth of those values diminishes; i.e. moral reasoning weakens. Under these
circumstances, managers may easily fail to recognize his/her and others’ personal values and the
influences of the socio-cultural system, and/or they may consider those influences and values as
irrelevant to their managerial decisions and actions (Pleasants, 2008). In other words, they suffer
individual anomie (Tsahuridu, 2006) or normative myopia (Swanson, 1999), and in this way, they
disengage moral self-regulation.

It has been shown that managerial normative myopia contributes to a neglectful form of
corporate social action (Orlitzky, Swanson, & Quartermaine, 2006). Consequently, those
shortsighted managers are unable to foresee the eventual larger and longer consequences of their
actions and omissions in the social realm (Selznick, 1957/1984). This is particularly relevant in
international settings; managers whose upbringing and education has taken place in a given
socio-cultural system may see value congruence, i.e. no ethical dilemmas, in situations in which
people from other socio-cultural systems have a different perspective or identify a conflict. In
those cases, managerial agency may appear as socially irresponsible to local stakeholders.

In critical realist terms, the “thesis of separation” between ethical and non-ethical
business decision-making operates at a relatively superficial stratum of reality, but ignores other
deeper strata. Critical realists insist that knowledge of deeper levels may correct knowledge of
more superficial ones (Bhaskar, 1998). The rationalistic ethics of maximizing personal utility or
pleasure, constrained by norms and duties, ignores that every human action becomes part of the
chain of memory out of which the person’s identity and character is constructed. A person’s identity and moral character exist in a stratum of the real domain deeper than the stratum in which ethical dilemmas are identified. Moral character, the internalized moral values by which people evaluate their own actions and the action of others, controls people’s whole selves, not merely their cognitive faculties (Feldman, 2002). In Archer’s (1995) terms, this is a process of double morphogenesis: Managers do not only make business decisions; in so doing, they form themselves and their organizations. Therefore, managerial moral agency cannot be relegated only to the resolution of particular dilemmas. Since all managerial actions have a potential to contribute to the individual and social good, all managerial decisions have an ethical dimension (Fontrodona, Guillén, & Rodríguez, 1998; Torres, 2001).

The previous discussion portrays managers as being considerably constrained in their moral agency by the requirements of firms’ owners, the pressures of financial markets, and in general, the ever-present tendency to avarice in the business world (Moore, 2005). At the same time and to various degrees, managers are aware of, and both enabled and constrained by, the CSR properties emanated from the socio-cultural system in which their firms are embedded. Consequently, managers, with their own emergent moral and CSR properties, at the individual and group levels, often stand in complex, complementary or contradictory situations for making decisions on CSR and corporate social action.

Moore (2002, 2005) has studied this managerial problem from the perspective of the distinction that MacIntyre (1985, 1999) draws between practices, such as management, and institutions, such as corporations or the larger business system. Building on the notion that “the integrity of a practice causally requires the exercise of the virtues by at least some of the individuals who embody it in their activities; and conversely the corruption of institutions is always in part at least an effect of the vices” (MacIntyre, 1985: 195), Moore offers as a solution
the strengthening of managers’ virtues, so that they can act responsibly, even to the point of standing “against the corporation when it becomes … too focused on external goods to the detriment of both the [managerial] practice and the institution” (2005: 250). In the framework of the present discussion, such solution involves increasing managers’ discursive penetration, building their values, developing their moral reasoning capabilities, and strengthening their moral self-regulatory mechanisms. Otherwise, managers will easily tend to rely on exonerative moral reasoning and the disengagement of self-regulation, likely leading to poor socially responsible decision-making. This kind of moral managerial development remains a challenge for firms, business schools, managers themselves, and society at large.

In order to become abler to discern substantive issues on the good and the right, and to strengthen their social and psychological capabilities for moral agency, managers can draw knowledge from deeper levels of their own and other cultural systems through the study of moral philosophy (Spaemann, 1982/1989) and the exercise of self-reflectiveness, the metacognitive capability of human beings to reflect upon themselves and the adequacy of their thoughts, motivations, values, actions, and the meaning of their life pursuits. Reflective self-consciousness allows people to access deeper strata of the cultural, ideational reality (Bandura, 2001).

The study of moral philosophy and the development of self-reflective skills can greatly improve the capabilities of international managers to strengthen and make explicit their values, to consider the values held by others, to understand other cultural systems’ emergent properties (on CSR or otherwise), and in short, to acquire “normative awareness” (Swanson, 1999) at the international level.

Fifty years ago, focusing on the ethical content of managerial decisions, Selznick urged organizational scholars to inquire into the foundations of managers’ choices of (good or bad) ends and means, even at the risk of becoming “moralists rather than scientists” (1957/1984: 80).
His call is more necessary and relevant nowadays, when business and its corresponding managerial agency have expanded globally. The many kinds of moral theories and the many interpretations of business ethics and corporate social responsibility which characterize international business settings demand serious managerial reflection on the substantive question of what the good or the right is. In addition, the global society increasingly demands managers with strong moral cognitive and self-regulatory skills, capable of making decisions and carrying out actions that are morally and socially responsible.

4.2.- CORPORATE SOCIAL ACTION

The actual interaction of a firm with its stakeholders has been extensively studied by business-and-society scholars. As Mitnick (2000) and Mattingly & Berman (2006) argue, the notion of corporate social action (CSA) reflects both the early concept of corporate social responsiveness (Carroll, 1979; Frederick, 1994; Wood, 1991) and many of the outputs (activities) commonly measured as indicators of corporate social performance. Consistent with Frederick’s (1994) notion of CSR₂, corporate social action primarily focuses on the degree and kind of managerial actions taken in order to respond to social pressures and to manage the company’s relations with its different stakeholders. To put it in the language of critical realism and morphogenetic social theory, corporate social action constitutes the phase of socio-cultural interaction in the morphogenetic cycle, which occurs in the actual domain, and that can be partially observed and measured in the empirical domain. It is at this level that the cultural and structural CSR causal powers residing in the real domain, as well as the emergent CSR properties of managers, all of which have independent variation, intersect (Archer, 1995).

Corporate social actions can be studied along three main areas in which firms enact processes and behaviors: environmental assessment, stakeholder management, and issues
management (Wood, 1991). The literature on these topics is vast. My objective here is to briefly review some of the most relevant tendencies in the methods and conditions proposed by scholars for implementing CSA. The crucial point is that these methods and conditions will result in terminal, morphostatic or morphogenetic outcomes, which will eventually position the company in relations of congruence or incongruence with the ideational and structural CSR properties emerging from the socio-cultural system. In short, the outcomes of CSA, through a process of structural elaboration, will lead to a certain level of corporate social performance.

4.2.1.- Environmental Assessment.

Business organizations must know about their external environment in order to respond or adapt to it. Interestingly, environmental assessment is an area of corporate action that has received far more attention in the strategy and organizational theory literatures than in business-and-society scholarship (Margolis & Walsh, 2003; Wood, 1991). For instance, neo-institutional theory (Meyer & Rowan, 1977; DiMaggio & Powell, 1983) suggests that corporate social action should be oriented towards compliance with institutionalized concepts or “myths”, as the way to obtain social legitimacy in order to survive, which likely leads to isomorphic social activity. For resource-dependence theory (Pfeffer & Salancik, 1978/2003), CSA consists of managerial actions that seek to cope with resource dependencies and to control resource flows, given that it is resource controlling stakeholders who can facilitate or enhance the implementation of corporate decisions (Berman, Wicks, Kotha & Jones, 1999; Frooman, 1999). The consequent direction is strategic CSA. In the field of strategy, knowledge about the environment has the purpose of recognizing profitable arenas of competition, understanding the reasons behind such effects, and assessing the implications of potential changes in that environment, in order to guide a business to sustained competitive advantage and superior economic performance (Ghemawat & Collins,
Accordingly, strategic environmental assessment tends to focus on industry and market analysis (Porter, 1980). Coevolution, a research stream in the fields of both strategy and organization theory, has focused on the mutual influence of organizations and their environments, and the “mutual causation”\(^\text{14}\) of processes of adaptation and change (e.g. Baum & Singh, 1994; Lewin & Volberda, 1999).

None of these perspectives focuses on the deeper dimensions of the socio-cultural environment from which CSR causal powers emerge. Since “social demands and expectations are processed within an organization only to the extent that environmental monitoring and boundary spanning activities exist” (Strand, 1983: 93), there is a need to develop theoretical perspectives and practical methods to help firms to improve their monitoring of the moral/social environment. Such perspectives and methods should take into account that the values and social knowledgeability of managers, as well as a social orientation of the organization’s culture and structure (Howard-Grenville, 2007), likely act to improve the efficacy of monitoring activities and to increase the intensity and quality of the firm’s responses.

I think that a critical realist perspective can be very useful for environmental assessment in the context of corporate social action. As discussed throughout the previous chapter, the morphogenetic approach allows the understanding of environmental influences, or CSR causal powers, that condition CSA in specific places and points in time. I find this perspective particularly interesting for multinational companies and their subsidiaries, because it can help to make explicit the moral and social motivations for CSA as they emerge from both culture and social structure in different societies. Organizational theory and strategy have limitations to approach some topics, such as religion and moral philosophy; “few scholars are interested in both"

\(^{14}\) The idea of mutual influence and causation between an organization and its environment is an example of central conflationary theorizing. The morphogenetic perspective offers potential for fruitful study and deep understanding of coevolutionary adaptation and change phenomena, including those involving CSR issues.
ethics and organizational [theory]. … In addition, organizational scholars may be reluctant to study value-based issues because of ideological reasons or because methodological problems are considered difficult to surmount” (Jones, 1991: 367). Furthermore, organization and strategy research often take their theoretical assumptions for granted (Tsang, 2006), which blurs the perception of some socio-cultural forces. In contrast, critical realism offers a systemic perspective which allows the integration of different environmental dimensions, including those that are ideational. It also presents ontological, epistemological, theoretical, and behavioral assumptions very explicitly. Studying the cultural and structural conditioning aspects of a social environment allows for broader environmental assessments, including moral and social dimensions.

4.2.2.- Stakeholder Management.

From the perspective of morphogenetic social theory, CSA constitutes the phase of socio-cultural interaction, the second one in the morphogenetic cycle. In general terms, socio-cultural interaction “consists of using resources to transact exchanges with others in order to attain goals” (Archer, 1995: 296). Corporate social action primarily takes place in the form of interactions with stakeholders. More specifically, CSA involves interactions between firm and stakeholder managers conditioned by the structures of resource distributions and the structure of material and ideational interest groups. The resources may be wealth, political sanctions, or knowledge. Although wealth is entirely a material resource, both knowledge and political sanctions entail material and ideational dimensions. Knowledge involves expertise culturally-defined as valuable, and it partially depends upon subjective attributions of prestige. Sanctions may be formal or informal, and their nature and efficacy are also dependent on culture. Therefore, these three types of resources are incommensurable (Archer, 1995).
Freeman’s (1984) book first established the principles for firm-stakeholder interactions, within a strategic perspective. Later, many scholars identified different conditions under which stakeholder relations are framed and suggested specific courses of action and strategies that would be appropriate for firms to follow under those conditions (e.g. Frooman, 1999; Mitchell, Agle, & Wood, 1997; Rowley, 1997; Savage, Nix, Whitehead, & Blair, 1991; Wicks & Berman, 2004; Wicks, Berman, & Jones, 1999). Much of this work articulated corporate responses to stakeholders on the basis of resource dependences and interdependences, as well as on the exploitation of or protection from positional power in dyadic and network structures. This research stream assumes that most firms and stakeholders have individualistic identity orientations toward stakeholders (Brickson, 2005, 2007), which suggests that they interact with each other under relations of agency (Hill & Jones, 1992). The focus is, consequently, only on strategic or instrumental CSA which, as I have been suggesting, is insufficient in international settings. In many of these settings, particular cultural and structural CSR emergent properties lead to value-based and isomorphic CSA that may be different from that of the home country.

According to Archer (1995), the differential availability of material and ideational resources to various agents defines the bargaining power of each firm or stakeholder. Bargaining power is a first-order structural property between resource distributions and corporate agents. It is one of the basic attributes for the identification of stakeholders and the assessment of their salience (Mitchell et al., 1997). However, having command over a resource represents a necessary, but not sufficient, condition for successful exchanges to take place. For a firm to actually mobilize resources it must stand in a particular, legitimate relationship to the stakeholder involved. Legitimacy is a first-order cultural and structural property, and another of Mitchell and colleagues’ (1997) fundamental attributes of firm-stakeholder relationships. Morphogenetic theory suggests that both power and legitimacy are internal and necessary properties of firm-
stakeholder relationships, residing in the real domain; i.e. every relationship involves, always, a certain degree of legitimacy/illegitimacy and bargaining power. Morphogenetic theory also suggests, and Mitchell et al. converge, that the distribution of resources between a firm and its stakeholders and the legitimacy of their relations can change independently of one another. Consequently, the second-order relations between power and legitimacy involve necessary compatibilities or contradictions, with their associated situational logics of protection or containment, respectively. Each firm, by virtue of its internal organization and the public articulation of its objectives, finds congruence or incongruence with the purposes of its stakeholders, which consequently conditions the type of relationships and the possibility of alliances between them.

Archer (1995) proposes the notion of “negotiating strength” as a relational concept that pertains to second-order relations between holders of material and ideational resources, when they are confronted by constraints and enablements arising from cultural, structural, and personal emergent properties. Negotiating strength refers to the emergent resources and relations of firms and stakeholders vis-à-vis one another. It involves, but is not reducible to, first-order bargaining power and legitimacy properties. It also involves the different situational logics established by the second-order relations between cultural, structural, and managerial emergent properties. Accordingly, during their interaction, firms and their stakeholders will seek to contain the necessary contradictions and/or to build on the concomitant complementarities which they have been able to identify in their relationship. Even if it was originally endowed with limited resources, and consequently, with a limited bargaining power, a firm can derive benefits and increase its negotiating strength if, through its CSA, it protects and builds on complementarities with its stakeholders and is able to contain contradictions with them, according to the directional guidance provided by the different situational logics in which the firm may find itself.
In this context, urgency, the third basic attribute for the identification of stakeholders and the assessment of their salience, can be seen as a “catalytic component” (Mitchell et al., 1997: 864) of negotiating strength. It operates in the short term and becomes a factor only for those firms or stakeholders that have previously reached a certain level of negotiating strength. The claims of a corporate agent, as urgent as they might be, will matter to other agents only if the former already has a minimum level of negotiating strength\textsuperscript{15}. In other words, urgency is also a first-order emergent property of firm-stakeholder relationship, but its presence is a contingency. It is not a stable (intransitive) property of the relation; i.e. it does not reside in the real domain. Consequently, urgency stands in contingent relations of either complementarity or contradiction with bargaining power and/or legitimacy, and is operative only when one or both of the latter properties are present to a certain extent. Urgency may add to or subtract from the negotiating strength of a firm or a stakeholder, but its contingent operation entails a situational logic of opportunism or choice/elimination which has an interplay with, although is different from, the logic of protection or containment derived from the necessary relations of power and legitimacy (see section 3.4 in chapter 3).

Given that their initial endowment of resources, and consequently, of bargaining power is relatively invariable for a given period of time, firms can gain negotiating strength by improving relations with their stakeholders. According to morphogenetic theory, through time, firm-stakeholder relations transit along the different phases of the morphogenetic cycle, i.e. socio-cultural conditioning, socio-cultural interaction, and socio-cultural elaboration. The situational logic initially faced by the firm, i.e. the particular properties and modality of its relations with its stakeholders, is a matter of contingency and degree which have to be established

\textsuperscript{15} Mitchell et al. (1997) categorize an agent endowed with only urgency, without any power and/or legitimacy, as a “demanding stakeholder”. In contrast, my argumentation leads to arguing that such agent should be categorized as a nonstakeholder of the firm.
empirically in each particular case, at a given point in time. Managerial action mediates the influence of that situational logic through decision-making and subsequent CSA. At the end of the cycle, the properties of firm-stakeholder relations will likely change. If CSA was appropriate for the situational logic faced by the firm, the firm’s negotiating strength will likely increase. In other words, as Barnett (2007) correctly argues, the actions of a firm and the responses by its stakeholders are path dependent. This author posits that the ability of a firm to improve its stakeholder relations through CSA (which he calls “stakeholder influence capacity”) at a given point in time is positively related to its prior CSA. As discussed above, improved stakeholder relations moderate bargaining power and increase negotiating strength.

Recent research on stakeholder management suggests that actively engaging stakeholders, rather than merely identifying and managing their concerns, is a way to improve stakeholder relations and, consequently, to increase the firm’s negotiating strength. This perspective requires firms to have relational or collective identity orientations to stakeholders (Brickson, 2005, 2007), which suggests that, to a larger or shorter extent, they deal (or aspire to deal) with each other in a “state of union” (Ring, 1997), i.e. under relations of stewardship (Davis et al., 1997). Stakeholder engagement involves dialogue, the task of listening to and learning from one another (Burchell & Cook, 2006; Lawrence, 2002; Tokoro, 2007), which enriches but makes more complex the bases of the firm-stakeholder interaction. This approach is consistent with what Goffman (1983) calls “anchored relations”, that is, social interactions with some degree of personal intimacy, anchored in mutual knowledge which comes from regular face-to-face interactions. Anchored relations seem to facilitate acceptance of each other’s ideas and plans, although they require competences of listening and reflection (Schouten & Remmé, 2006). As compared to agency relations, anchored or stewardship relations have the potential both to increase the advantages of complementarities between the ideational and material resources of
the firm and its stakeholders, and to facilitate their negotiating and/or compromising on any contradictions. It is through such relations that intersubjective meanings, a shared sense of reality, trust, and creativity can emerge (Coopey et al., 1997; Pater & Van Lierop, 2006; Tokoro, 2007).

In other words, stakeholder engagement can be seen as a process of building both negotiating strength (Archer, 1995) and sensemaking at the individual, organizational, and inter-organizational levels (Cramer, Van der Heijden, & Jonker, 2006; Maitlis, 2005). Although Weick (1995) originally conceived sensemaking as a retrospective activity, Gioia & Mehra (1996) introduced the idea of prospective sensemaking. Thus, the process of stakeholder engagement involves not only retrospective sensemaking; it has the potential for the joint projection of the future (Pater & Van Lierop, 2006). As a consequence, the firm and its engaged stakeholders may develop prospective anchored relations, which substantially increases the relational component of their negotiating strength. In addition to detecting opportunities or threats to be faced with strategic forms of CSA, this perspective offers potential for better understanding CSR emergent properties that require other types of CSA, namely value-based or isomorphic.

A number of features of firm-stakeholder interactions can be observed and measured in the empirical domain, which helps to understand them. For instance, high expenditures on social benefits for workers indicate that, for whichever reason, there is an intense corporate action focused on these internal stakeholders. Nonetheless, the typical feature to observe has been “stakeholder satisfaction”, a perceptual measure of the degree to which the firm’s actions are up to the expectations of its stakeholders. Often, stakeholder satisfaction has been equated with corporate social performance (e.g. Clarkson, 1995; Husted, 2000). In my view, and consistent with Mattingly & Berman (2006), these are measurements of corporate social activities in the actual domain but do not constitute corporate social performance per se. As I will propose in the next chapter, at the level of the real domain, CSP is the degree of a firm’s legitimacy. It becomes
a stable, cultural and structural property. There is a process of structural and cultural elaboration by which stakeholder satisfaction, among other factors, contributes to CSP.

4.2.3.- Issues Management.

Traditionally, the business-and-society literature considers that a social issue emerges when there are inconsistencies, or expectational gaps, between management and stakeholders with respect to what corporate actions should be (Wartick & Cochran, 1985), i.e. when there is a threat to the firm’s legitimacy. In general terms, those gaps are seen as opportunities or risks for the organization (Husted, 2000). This approach entails, in my view, a narrow-sense, firm-centered definition of a social issue. In a broader, more systemic sense, I see that a social/moral issue can arise whenever there is incongruence between organizational actions and ideational or structural CSR emergent properties (including managers’ and stakeholders’ personal emergent properties), which imply a consequence for the organization and/or for the socio-cultural system, although such consequence might not necessarily be identified in the empirical domain in the short term.

In other words, a social/moral issue is a need or an opportunity for social/moral improvement which exists, identified or not, in the real domain of a firm’s environment, for which corporate social action can make a difference. If not appropriately addressed, the social/moral issue, particularly if it is a need, may become a threat for the firm. Corporate agents may identify the issue and respond to it, or not, which will cause benefit or harm to the social system and/or the company. Such harm or benefit will not necessarily be perceived in the empirical domain in the short term.

Issues management involves issue identification, issue analysis, and response development (Wartick & Cochran, 1985; Wood, 1991). The identification of topical areas that
call for corporate social action, i.e. social/moral issues, is helped by the environmental assessment activities of the firm. By the same token, issue identification is related to the issue’s social/moral intensity (Jaffe & Pasternak, 2006), as well as to managers’ moral sensitivity, normative awareness, and discursive penetration. As discussed above, to a higher or lesser degree, managers are constrained by bounded moral rationality (Donaldson & Dunfee, 1999), particularly when they are in an international setting culturally distant from their own. Consequently, there are well-founded possibilities that, in the dominant business system, a number of social/moral issues remain unidentified (Pleasants, 2008).

Once identified, issues are subject to analysis; this process takes place under the conditions of managerial decision-making and moral agency previously discussed and thus, its resolution is a contingent matter. Those conditions also shape the type of responses that the firm develops. Responses may be value-based, isomorphic, or strategically articulated in order to either take advantage of the opportunities or counteract the threats implied by the issue. As discussed in the previous chapter, there is an increasing amount of scholarly work being done in the field of strategic corporate social action in business schools. This is part of the strong intellectual effort exerted to “domesticate” CSR into the Anglo-American cultural system. Other streams of research are beginning to focus on value-based responses, mainly under the form of social entrepreneurship, a phenomenon which may occur within or without business corporations (e.g. Hemingway, 2005; Mair & Noboa, 2003, 2005; Mair, Robinson, & Hockerts, 2006).

Corporate responses likely have observable results, such as reductions in the emission of pollutants, incorporation of minorities in the workforce, development of innovative products or processes with social attributes, resource contribution to humanitarian causes, etc. However, the appropriateness of corporate responses depends on the degree to which they are acceptable to the relevant audiences and their philosophical, cultural, social, and economic features (Gardberg &
Fombrun, 2006; Iribarne, 2003), that is, on their degree of congruence with the CSR causal properties from which the issue arises. To the extent to which appropriate responses are incorporated into corporate social programs and corporate social policy, they enter the phase of socio-cultural elaboration and become stable properties. In this way, they contribute to CSP in the real domain. This is the topic of the next chapter, which focuses on the outcomes of corporate social actions and their socio-cultural elaboration as CSP.
Chapter 5

A CRITICAL REALIST VIEW OF CORPORATE SOCIAL PERFORMANCE IN INTERNATIONAL SUBSIDIARIES

The present chapter closes the development of the theoretical framework of this dissertation. The two previous chapters presented, on the one hand (chapter 3) a view of the principles and concepts of corporate social responsibility (CSR) as properties that emerge from both the cultural and structural systems of a given society and which can stand in situations of contradiction of complementarity with one another. On the other hand, chapter 4 focused on human agency and corporate social action (CSA). I now discuss the outcomes of the interplay between cultural and structural CSR emergent properties, managerial agency, and CSA, i.e. corporate social performance (CSP).

In this chapter I present the outcomes of CSA, focusing on corporate social performance, as integral to the morphogenetic phase of structural and cultural elaboration. I see CSP as a multidimensional construct both, in the usual sense of being constituted by outcomes of corporate actions on several types of issues (e.g. the natural environment, community, workers, etc.), and in the critical realist sense of being constituted by outcomes at different levels of the social reality (real, actual, and empirical). Accordingly, there is an actual, usually also empirical dimension of CSP, which is the direct result of corporate actions (e.g. a measurable reduction in polluting emissions, a third-party certification for superior working conditions, etc.). There is also a CSP dimension in the real domain. Through social elaboration, corporate social actions may
contingently end up being logically congruent and structurally consistent with the principles and concepts of CSR that emerge from the broader cultural and structural system, as well as with those emerging from organizational members. Such outcomes take place when corporate actions either change the firm to align it to that system, or change relevant parts of the system towards the characteristics and interests of the firm, or both. In all these cases morphogenesis occurs. This state of affairs includes but is not limited to stakeholder satisfaction. In other words, the organization gains moral and social legitimacy, i.e. it reaches a high level of corporate social performance in the real domain, independently of other contingent consequences such as developing competitive advantage.

In addition, I argue that, through processes of double morphogenesis, the acting organization also experiences internal changes. All these morphogenetic outcomes constitute a new cultural and/or structural configuration, which belongs to the real domain and, consequently, it is not directly available to observation and measurement; it can only be apprehended indirectly. In turn, that configuration has its own emergent properties, entailing rewards or punishments for subsequent corporate actions.

**5.1.- A CRITICAL REALIST CONCEPTUALIZATION OF CORPORATE SOCIAL PERFORMANCE.**

Corporate social performance (CSP) is an elusive concept that has been defined and operationalized in many different ways, and whose determinants, measurement, and consequences are frequently presented without the necessary theoretical support (Frederick, 2006; Gephart, 1991; Margolis & Walsh, 2001; Rowley & Berman, 2000). An early perspective (e.g. Carroll, 1979; Wartick & Cochran, 1985; Wood, 1991) conceptualized CSP in a comprehensive way, both as a process and an outcome, incorporating in the construct other related concepts such as corporate social responsibility and corporate social responsiveness (or corporate social action).
The best known model on this line of research was proposed by Wood (1991), who defines CSP as “a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships” (1991: 693).

However, as Mitnick has argued, “outcomes (impacts) are not at all the same thing as outputs (activities)” (2000: 426), and therefore, there is a critical distinction between corporate social performance and corporate social action. Convergent with this view, in this dissertation I have been proposing that CSR (principles and obligations), CSA (interactions), and CSP (outcomes) refer to different strata of reality and are not necessarily contemporaneous. Therefore, they should be conceptualized and analyzed separately. In this way conflationary theorizing is avoided, and we can better understand their properties and to clarify the nature and dynamics of the relationships between them. Consequently, after studying CSR as obligations that emerge from the socio-cultural system (in chapter 3), the mediating role of managerial agency, and CSA as socio-cultural interactions between firms and their stakeholders (in chapter 4), in this chapter I proceed to study CSP as the outcome of the interplay between CSR emergent properties, managerial agency, and firm-stakeholder interactions (CSA).

The notion of CSP implies both multifinality, i.e. the possibility of several outcomes emerging from one causal configuration; and equifinality, i.e. the situation where “a system can reach the same final state, from different initial conditions and by a variety of different [causal] paths” (Katz & Kahn, 1978: 30). Consistent with much of the business-and-society literature, in this dissertation I preliminarily conceptualize CSP as a multidimensional construct constituted by outcomes of corporate interactions with different stakeholders, actual or potential, on several types of social and moral situational logics (i.e. complementarities or contradictions with respect to ideational or material interests). However, in contrast with much of the literature, I envision
CSP less as a composite measure of the different outcomes, and more as a series of outcomes integral to a “citizenship profile” (Gardberg & Fombrun, 2006), which is particular to each company at a given point in time. This profile is defined by different types of tangible and intangible outcomes: Some of them represent benefits that are appropriable or costs than are bearable by the focal firm; others can be appropriable or bearable by the firm’s stakeholders; and still others represent externalities, i.e. benefits that are non-appropriable by anybody in particular or costs that are bearable by society in general. I consider the two latter types of outcomes, i.e. privately-appropriable social goods/damages and public goods/damages, to be integral to CSP (Van Oosterhout & Heugens, 2006). The first type, outcomes appropriable by the firm, may affect the firm’s economic performance but cannot be considered part of its social performance unless, as I discuss towards the end of this chapter, they endow the firm with increased capabilities for appropriate and effective CSA in subsequent cycles of interactions (Fort, 2001, 2002; Selznick, 1957/1984; Swanson, 1995).

In addition, from a critical realist perspective, I propose that CSP is also constituted by outcomes that occur at different levels of the social reality (real, actual, and empirical). In morphogenetic terms, I also argue that CSP is the outcome of the interplay between socio-cultural CSR emergent properties, managerial agency, and CSA, all of which are particular for specific firms at a given time and place. CSP is achieved to the extent to which this interplay ends up in an outcome that is appropriate for, i.e. logically congruent and structurally consistent with, the relevant socio-cultural and personal CSR emergent properties. In other words, CSP reflects the degree to which the company’s profile of social and moral outcomes falls within the range of acceptability defined by the philosophical, cultural, social, and economic features of the socio-cultural environment in which the firm is embedded. A synthesis of the several dimensions that constitute a firm’s CSP profile is presented in Figure No. 6.
5.1.1.- CSP in the Empirical Domain.

CSP in the empirical domain is constituted by a number of outcomes which exist at a particular point in time and place and are accessible to observation and measurement. These outcomes are not necessarily intransitive (i.e. stable or enduring), neither do they necessarily operate transfactually (i.e. in a continuous and invariant way). Their occurrence is a matter of contingency that depends on the operation of first- and second-order relations between CSR causal powers and CSA at a given point in time and place.
There is an objective dimension of CSP at the empirical level. It is comprised of unidimensional appraisals of specific outcomes. For instance, a firm may pursue the reduction of its emissions of pollutants. Since the amount of emissions is clearly measurable, the outcome of corporate actions to solve an environmental issue, i.e. its environmental performance, is objectively appraisable. By the same token, another firm may decide to promote diversity in its workforce. The number and proportion of diverse employees that are incorporated constitutes an objective measure of performance. In addition, social audits also constitute objective measures of CSP in the empirical domain, although they are usually multidimensional. They partially represent the citizenship profile of the audited company.

There is also a subjective, empirical dimension of CSP. It is based on the degree to which the expectations of stakeholders are satisfied (Clarkson, 1995; Husted, 2000) or, similarly, the degree to which the operations of the firm fall within the range of stakeholders’ acceptability (Mikkilä, 2003). On this basis, Husted defines CSP as “the extent to which stakeholders’ expectations regarding the firm’s behavior with respect to those same or other relevant stakeholders are satisfied or exceeded” (2000: 31). Stakeholder satisfaction is probably the most widely accepted measure of CSP. It is a dimension that can be partially captured in the empirical domain, usually through stakeholders’ self-reported levels of satisfaction.

5.1.2.- CSP in the Actual Domain.

Objective and subjective CSP outcomes in the empirical domain necessarily reflect analogous outcomes in the actual domain. Objective indicators reflect that the firm, through its deployment of material and/or knowledge resources, has achieved the development of some capabilities, for instance, to reduce its emissions of pollutants, or to increase the diversification of
its workforce, or to approve certain social audits, etc. These capabilities are not totally amenable to direct empirical analysis but do exist in the actual domain.

By the same token, the degree of stakeholder satisfaction (or dissatisfaction) reflects the matching (or mismatching) of the firm’s actions with stakeholders’ perceptions and expectations, although the concomitant or contingent nature of such congruity (or incongruity) may not be empirically accessible. Moreover, there always may be some expectations and perceptions that do exist but cannot be clearly articulated empirically.

In addition, there may be some actual outcomes, which are not necessarily observed or observable in the empirical domain, which match, or not, “an expanded agenda of human issues and needs” (Swanson, 1995: 52), that is, outcomes emergent from the interplay between CSA and the many cultural and structural CSR properties which are more distal from the organization than its stakeholder relations.

In morphogenetic terms (Archer, 1995, 1996), CSP outcomes at the actual level of reality constitute new emergent properties, i.e. third-order relations between pre-existing socio-cultural or personal properties, that emerge through actual interactions. They are not necessarily intransitive (i.e. stable or enduring), although they may become so through processes of socio-cultural elaboration deeper than those that produced such actual outcomes in the first place. Yet, in contrast to their empirical counterparts, outcomes in the actual domain do operate transfactually (i.e. in a continuous and invariant way), although the materialization of their effects in subsequent cycles is a contingent matter.

5.1.3.- CSP in the Real Domain: Moral and Social Legitimacy.

As I have already proposed, the interplay between CSR obligations and CSA has as its result a firm’s profile of social and moral outcomes. CSP is achieved to the extent to which this
profile is appropriate for, i.e. falls within the range of acceptability defined by, the socio-cultural and personal CSR emergent properties that are relevant for a firm at a given point in time and place. Although it might be argued that the degree of stakeholder satisfaction reflects the appropriateness of a firm’s CSP profile, I think that it does so insufficiently. Stakeholder satisfaction is an indicator of CSP at a given point in time; it implies acceptance of outcomes in the short term. In addition, it does not necessarily reflect the situational logic of congruence or incongruence between CSR emergent properties that pre-dated and conditioned such outcomes. Furthermore, it is primarily related to stakeholder expectations and relations, and only tangentially might it be concerned with deeper, more distal strata of the socio-cultural reality from which a broader CSR agenda emerges (Swanson, 1995).

Legitimacy seems to be a better construct to capture the appropriateness of a firm’s CSP profile vis-à-vis the socio-cultural and personal CSR properties that emerge from its environment. In broad terms, something is legitimate “if it is in accord with the norms, values, beliefs, practices, and procedures accepted by a group” (Zelditch, 2001: 33). Legitimacy “typically refers to an aspect of the larger [socio-cultural system], going beyond the immediate situation” (Kelman, 2001: 56), which requires a longer time cycle for its establishment. Consequently, it represents a more durable foundation for social relations. In addition, it implies the emergence of a shared system of values, rights, and obligations, which is not reducible to interests and preferences and involves more than the mere acceptance of outcomes (Kelman, 2001; Kumar & Das, 2007). Furthermore, legitimacy operates ideographically: “Particular environmental conditions are distinctively congenial to particular types of legitimacy” (Suchman, 1995: 604). These characteristics mean that legitimacy is intransitive (stable, enduring) and operates transfactually (in a continuous and invariable way), i.e. that legitimacy is a property existing in the real domain. It is a third-order property that emerges from the interplay between first-order socio-cultural and
personal CSR properties, the situational logics that result from the second-order relations between those properties, and corporate agency.

This line of reasoning leads me to argue that, in the real domain, CSP is the measure of the legitimacy gained, maintained, or repaired by an organization as an outcome of its decisions and actions to manage the situational logics defined by the CSR properties emerging from the socio-cultural reality of which the organization is a part.

Organizational legitimacy has been defined as the “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995: 574). Suchman’s definition emphasizes that legitimacy is socially constructed. However, with Donaldson & Dunfee (1999) and Neville, Bell, & Whitwell (2005), among others, I think that social construction is insufficient to capture the full extent of the concept of legitimacy, particularly in the case of moral legitimacy. As I discuss below, what is morally legitimate may not be entirely supported by a given society at certain point in time.

Organizational researchers studying legitimacy have typically focused on it as a resource that is useful for firm survival and economic performance (Elsbach, 2001). For example, for neo-institutionalist theorists, firm survival depends on its legitimacy, which in turn depends on the adoption of and conformity with rationalized “myths” institutionalized in the firm’s environment. Similarly, from the resource-dependence perspective, a firm reaches legitimacy to the extent to which it adequately manages the satisfaction of resource-controlling stakeholders. These and other instrumental perspectives in the organizational literature differ from the focus of most sociological and psychological research, which tends to see legitimacy as an attribute that is valued in and of itself (Elsbach, 2001; Zelditch, 2001). In this dissertation I adopt the latter type
of perspective. In this way, CSP-as-legitimacy becomes an inherent dimension of all organizational decisions, i.e. an end in and by itself.

Why do we need legitimacy as the cornerstone of CSP in the real domain? We do because of societal and organizational reasons. From a societal perspective, CSP reflects a firm’s legitimacy fundamentally because integrating organizations as institutions into society is a major social benefit (Selznick, 1957/1984). The mediating role of the organization between social structure and individual actions contributes to social betterment only if the organization is able to make congruent and acceptable its primary economic activity with the moral and social needs and values of society, i.e. if the organization is legitimate (Swanson, 1995). But legitimacy is not reflexive; it requires an object (Zelditch, 2001). The notion of legitimacy can be used to justify that a firm’s actions are good or right for society. If CSR is an obligation for organizations, and CSP reflects the extent to which that obligation is fulfilled, CSP becomes an indicator of the degree to which organizational actions are good or right for society, i.e. an indicator of the firm’s legitimacy. On the other hand, from an organizational perspective, CSP represents a firm’s legitimacy because stability is a major organizational goal. The stability of an organization emerges from and is maintained by its legitimacy, which involves the consent of its constituencies, that is, their voluntary but not purely instrumental acceptance of and loyalty to the firm (Zelditch, 2001).

In this view, CSP as legitimacy has both constraining and enabling connotations. On the one hand, legitimacy derives from compliance with negative duties about restraining corporate actions that harm society, i.e. it is a constraint to a firm’s autonomy and economic freedom. Thus,
CSP becomes a hygiene factor\textsuperscript{16} that should be at a minimum acceptable level in order to avoid the withdrawal of resources from society (Meijer & Schuyt, 2005).

Yet, on the other hand, legitimacy is also enabling. Legitimacy channels the ways in which firms can accomplish their goals (Zelditch, 2001). Consequently, good CSP motivates stakeholders to support the firm (Meijer & Schuyt, 2005), either by wanting to work for it (Greening & Turban, 2000; Maignan, Ferrell, & Hult, 1999), purchasing its products (McWilliams & Siegel, 2001), selling inputs to the company, investing in it, etc. This positive dimension of legitimacy involves the possibility for a more integrated set of values which includes those of economizing, but reaches beyond them to encompass moral, social, and ecologizing values. A company can build legitimacy through entrepreneurially finding new avenues to reach its goals by materializing this possibility (Swanson, 1995; Waddock, 2005). For instance, multinational companies may introduce practices representing higher moral, social, or environmental standards from their home country or from other host countries, which may eventually form a new standard in the host country (Gardberg & Fombrun, 2006). In general terms, business firms, which innovate in many different fields, can also become axiological innovators, above and beyond stakeholders’ current demands and expectations (Corbí, 2001).

Suchman (1995) posits that there are three different types of legitimacy: pragmatic, cognitive, and moral, and argues that they coexist in most real-world settings. Based on the critical realist principle that reality is stratified, I argue that these three types of legitimacy belong in the real domain, but that they exist at different levels of reality and have different properties. Legitimacy becomes more elusive to define and measure, more difficult to obtain, but more subtle, profound, and self-sustaining as one move from the pragmatic to the cognitive to the

\textsuperscript{16} Meijer & Schuyt’s (2005) view of CSP as both a hygiene factor and a motivator explicitly mirrors the motivation theory of Herzberg, Mausner, & Snyderman (1959), which separated motivating factors into hygiene factors and motivators.
moral. While pragmatic legitimacy rests on audience self-interest, cognitive and moral legitimacy implicate larger cultural and ideational realities. By the same token, both pragmatic and cognitive types of legitimacy correspond to the broad category of social legitimacy, which is based on the acceptance and support granted by a particular society at a given point in time. In contrast, moral legitimacy does not depend on social support, but on ethical assessments of fairness, rightness or goodness. In the following paragraphs I analyze the properties of the three types of legitimacy. Later, in a following section, I propose the mechanisms by which firms, through social elaboration, build or maintain legitimacy.

**Pragmatic legitimacy.** Pragmatic legitimacy is the most superficial of the different types of legitimacy. It “rests on self-interested calculations of an organization’s most immediate audiences” (Suchman, 1995: 578), which are those who have direct exchanges or broader political, social, or economic interdependencies with the organization. Organizations can often obtain this type of legitimacy by appealing to stakeholders’ self-interest, i.e. by directing certain rewards to specific constituencies or by engaging in public debates about cost-benefit appraisals. Pragmatic legitimacy is consistent with the strategic perspective. It becomes an operational resource of the organization, helping it to obtain active support from its constituencies. In my view, the concepts of stakeholder satisfaction and corporate reputation, which are often used as measures of CSP, constitute proxies that reflect, in the empirical domain, variable levels of pragmatic legitimacy residing in the real domain.

At the simplest level, pragmatic legitimacy is a sort of “exchange legitimacy” (Suchman, 1995), just a variant of power-dependence relations (Neville, Bell, & Whitwell, 2005; Pfeffer & Salancik, 1978), in which support for an organization is based on the value of corporate actions to a particular set of stakeholders. A slightly more elaborated form is “influence legitimacy” (Suchman, 1995), in which stakeholders support the organization not necessarily because it
provides favorable exchanges, but rather because it is responsive to the stakeholders’ larger political, social, or economic interests. This level of pragmatic legitimacy often means that the organization is willing to give up some authority to the affected audience. Both Neville, Bell, & Whitwell (2005) and Phillips (2003) converge in arguing that this type of legitimacy seems to be just another name for coercive power.

Most likely, stakeholders will be satisfied if their exchanges with the corporation are valuable to them and/or if the organization responds to their larger interests. Therefore, the notion of stakeholder satisfaction reflects, in the empirical and actual domains, both exchange and influence types of pragmatic legitimacy residing in the real domain. Consequently, stakeholder satisfaction is a valid proxy of real CSP if the concept of legitimacy is reduced to just its exchange and influence dimensions.

The third, most elaborated form of pragmatic legitimacy is called “dispositional legitimacy” by Suchman. It refers to attributions that constituents make of organizations, as if they were individual persons with goals, values, tastes, personalities, etc. Dispositional legitimacy is granted to organizations that “have our best interests at heart”, “share our values”, “are decent”, etc. This definition suggests that stakeholders grant dispositional legitimacy to, and hence align their resources with, those organizations whose characteristics are perceived to correspond with the stakeholder’s self-identity (Ashford & Mael, 1989).

The notion of dispositional legitimacy seems to be closely linked to that of reputation. Reputation is “a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal to all its key constituents” (Fombrun, 1996: 72). Research suggests that both reputation and dispositional legitimacy are formed through the same psychological processes of attribution (Sjovall & Talk, 2004) and social identity construction (Neville, Bell, & Mengüç, 2005; Rao, 1994). In fact, there has been much theoretical concurrence
and empirical convergence between the concepts of reputation, (pragmatic) legitimacy, and CSP, to the point that many measures of CSP and/or legitimacy (e.g. KLD scores, Fortune’s ratings) are actually measures of reputation (Brammer & Pavelin, 2006; Neville, Bell, & Mengüç, 2005; Quevedo-Puente, De la Fuente-Sabaté, & Delgado-García, 2007; Rao, 1994). Thus, in my view, reputation corresponds to a particular type of social legitimacy, namely, dispositional legitimacy. Consequently, reputational measures are a valid proxy for the assessment of real CSP if the concept of legitimacy is reduced to pragmatic legitimacy, and particularly to its dispositional dimension.

The previous discussion leads to the conclusion that frequent operationalizations of CSP, such as stakeholder satisfaction or firm reputation, effectively reflect a firm’s legitimacy, but only at its pragmatic level.

**Cognitive legitimacy.** Cognitive legitimacy rests on the acceptance of the organization as necessary or inevitable, based on some taken-for-granted cultural account rather than on interest (as pragmatic legitimacy) or ethical evaluation (as moral legitimacy). Cognitive legitimacy “stems mainly from the availability of cultural models that furnish plausible explanations for the organization and its endeavors” (Suchman, 1995: 582). This is the type of legitimacy usually referred to by neo-institutional theorists as necessary for firm survival and achievable through compliance with rationalized, taken-for-granted concepts (e.g. DiMaggio & Powell, 1983; Meyer & Rowan, 1977).

Cognitive legitimacy allows organizations to get “passive acquiescence” (Suchman, 1995: 575). Firms simply want some particular audiences to leave it alone. To be legitimate, organizations need only “make sense”, for which “the behavior of [organizations] becomes and remains isomorphic” (Zelditch, 2001: 48). Consequently, the threshold of this kind of legitimacy may be quite low, which makes it more a “hygiene factor” that should be at a minimum.
acceptable level, rather than a motivator for active support as is the case for pragmatic legitimacy (Meijer & Schuyt, 2005).

The determinants of a firm’s cognitive legitimacy (norms and “myths” with which firms must comply) seem to be culturally- and geographically-bounded. In other words, cognitive legitimacy may be a form of cultural relativism (Neville, Bell, & Whitwell, 2005), which is the view that all moral and social norms should be reduced to those practiced in particular cultures or societies (Brandt, 1983). Consequently, cognitive legitimacy is assigned to the social agents that comply with the norms of the corresponding socio-cultural system. This is very important in international settings. Multinational firms and their subsidiaries should not take for granted that institutionalized norms and myths are consistent across cultures and countries.

Multinational companies may be seen as socially irresponsible in many contexts if and when they do not comply with local institutionalized norms. Just to illustrate this possibility, I offer the following three examples: The first one is downsizing, a practice which may be socially justifiable in a number of developed countries, but that is likely seen with suspicion in Japan where life-long employment is still a strong, though weakening, institutionalized myth (Koehn, 2001). Similarly, tax arbitrage and income shifting between subsidiaries may be recommended by a number of scholars (e.g. Choe & Hyde, 2004; Kogut, 1985), practiced by many multinational companies, and socially and legally acceptable in some countries, but those practices may be seen as blatant tax evasions (Coleman, 2003; Hansen, Crosser, & Laufer, 1992; McGee, 2005; Snyckers, 2006), or even as neo-colonial predatory activities (Faria, 2004), in many nations that promote foreign investment with the purpose of locally creating wealth. My third example refers to profit maximization, a distinct type of profit seeking behavior which is not only an expected, but a socially desirable orientation for firms in some cultural systems (e.g. the Anglo-American type) (Biggart & Delbridge, 2004; Friedman, 1962, 1970); however, it can be seen with reserves
in Asian cultures, where profit seeking behavior is expected to be moderate (Taka, 1994); or it can be openly rejected in a number of developing, poor countries which expect firms to firstly contribute to poverty relief (Kliksberg, 2005; Schmidheiny, 2006).

Interestingly, predominant conceptualizations and operationalizations of CSP rarely consider the cognitive type of legitimacy. Since laws, regulations, and informal institutionalized rules related to CSR are usually not included in traditional American scholarship on CSR (Matten & Moon, 2004), many authors ignore or paradoxically “take for granted” these implicit obligations and, consequently, they do not consider the degree of firm compliance with institutionalized norms to be integral to CSP. However, even if overlooked by other perspectives, cognitive legitimacy is a very important component of CSP in international settings.

In summary, with respect to cognitive legitimacy, a firm will reach a satisfactory CSP to the extent to which it identifies and adopts, at the socially expected level of compliance, the rationalized CSR practices that are legally or customarily institutionalized in its environment, be them with a global or a local scope.

**Moral legitimacy.** Moral legitimacy rests on the audience’s judgments about whether the organizational activity is intrinsically right or good\(^{17}\), i.e. whether such activity promotes societal welfare and human flourishing (Neville, Bell, & Whitwell, 2005; Suchman, 1995). It is “the orientation to the common good … what lends the firm its moral legitimacy, [organizational activities] will be [ethically] acceptable to the degree that they do not erode the common good but contribute to its realization” (Melé, 2002: 198). Crucial notions for moral legitimacy, like “societal welfare”, “human flourishing”, “common good”, “good society”, etc., which are not

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\(^{17}\) In this section I interchangeably use the terms “right” and “good” to refer to positive, ethically desirable acts that contribute to societal welfare and human flourishing. However, philosophically speaking, “the right” and “the good” are not the same thing. They emerge from different philosophical traditions. Whereas “the right” is a key concept in rationalistic ethical theories (e.g. Kantian deontology), the notion of “the good” is broader and is generally used by many other ethical theories (Anscombe, 1958).
necessarily synonymous, are defined by established belief and value systems which exist in the real cultural domain and are studied within ethics and moral philosophy (Hybels, 1995). Such systems pre-date and are beyond the beliefs and values held by contemporary agents. Consequently, conceptualizing moral legitimacy as socially constructed, as Suchman does, is insufficient. Social construction excludes important, more profound perspectives (Neville, Bell, & Whitwell, 2005). Therefore, the appropriate theories to assess moral legitimacy are found in moral philosophy as it is applied to the organizational context.

However, ethics and moral philosophy offer a variety of theories (e.g. deontology, utilitarianism, virtue ethics, distributive justice, social contracts, discourse ethics, etc.) that attempt to define what is good or right in human action. The diversity of views may cause considerable confusion to people who try to judge the ethical quality of organizational actions, because of the seemingly contradictory principles that the different theories postulate. This diversity often leads to treating ethical theory either as a conceptual resource useless for making judgments in the real world; as perspectives that the judger can chose from or combine at his/her will; or as a theory that can be ignored, in favor of social scientific views, when assessing organizational legitimacy (Kaler, 1999).

The ideological and methodological difficulties to surmount these problems seem to be one of the causes, if not the cause, of the reluctance of many organizational scholars to include ethical analysis in their work18 (Jones, 1991). Consequently, by emphasizing social, not moral legitimacy, and predominantly its pragmatic dimensions, CSP has emerged as a “morally neutered concept” (Frederick, 2006: 261). Although simpler and more “parsimonious” than my

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18 This methodological and ideological reluctance is unjustified. Normative matters are not beyond the scope of reason or antithetical to it, nor are they reducible to subjective dispositions or to a matter of opinion. For critical realists, normative matters are related to the stratification of the world and to the causes of phenomena, and consequently, they play an important role in causal explanations of social phenomena (Bhaskar, 1998).
present proposal, such conceptualization of CSP is insufficient and reductionist, because it ignores the existence of the many cultural (religious, philosophical, socio-theoretical) CSR emergent properties. These are properties that have an effect and can make a difference; i.e. they are real (Fleetwood, 2004). After all, “legitimacy at its core is … the moral basis of social interactions” (Kelman, 2001: 55, italics in the original). Therefore, evaluating the extent to which firms respond to these ideational CSR obligations should be integral to any comprehensive assessment of CSP.

The moral legitimacy of a firm and its actions, i.e. the ethical dimension of its CSP, can be measured “by their purposes and their human consequences … by the impact they are likely to have on the rights, the dignity, and the well-being of concrete human individuals and their groups” (Kelman, 2001: 72). More specifically, as Donaldson & Dunfee (1999) suggest, moral legitimacy can be ideographically assessed in two broad steps, which are not necessarily easy because they require philosophical training and intellectual rigor. The first, preliminary discernment of what is morally good or evil, right or wrong, can be done by recurring to the moral norms of a community and by applying those that are relevant to the organization or action in question. The broad diversity of theories in moral philosophy is less of a problem here, because the moral norms that exist at a given point in time in a given community are usually not an ensemble of all the many different ethical theories, but a more limited set of beliefs and values that has evolved through history (i.e. through many cycles of cultural morphogenesis), under the influence of a few schools of thought, and that likely has ended up in a more or less coherent moral system (Schefold, 1996).

The second, ultimate assessment consists of what Donaldson & Dunfee call the hypernorm test. It involves the evaluation of local moral norms, and the judgments based on them, according to their logical consistency with the ethical universals, or hypernorms, that represent
the highest ethical aspirations of humanity19 (Bird, 1996; Donaldson & Dunfee, 1999; Küng, 1997/2000). The degree to which organizations and their actions pass these evaluations represents their level of moral legitimacy (Neville, Bell, & Whitwell, 2005), that is, their CSP in its ethical dimension.

Whereas pragmatic legitimacy helps the firm to get active support from its stakeholders, and cognitive legitimacy obtains passive acquiescence, organizational moral legitimacy has implications in at least two ways. First, to the extent to which there are stakeholders who make or have access to ethical judgements, and adopt them, ethical assessments will have causal powers in the organization and on its relations with stakeholders in subsequent cycles. Actually, Hosmer & Kiewitz (2005), assuming that corporate actions are moral, have suggested that managers can stimulate their constituencies to make moral judgments by offering them explanations about the ethical principles (e.g. justice, liberty, human dignity, equality, etc.) on which they base CSA. In their view, “the ultimate function of management is to logically explain the ethical principles that underlie their decisions and actions in order to achieve wholehearted cooperation” from their stakeholders (Hosmer & Kiewitz, 2005: 74).

Second, from a critical realist perspective, such ethical judgments constitute a form of knowledge at deeper levels of the cultural reality that may correct knowledge at more superficial ones (Bhaskar, 1998). Identifying organizational understandings and actions that, from an ethical perspective, are falsely based implies that those beliefs and actions ought to be changed. In other words, by revealing how organizational actions are implicated in the reproduction of certain, morally illegitimate, social structures, practices, and relations, corporate agents are in a position

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19 As discussed in chapter 3, section 3.2, the Universal Declaration of Human Rights (Bettati, Duhamel, & Greilsamer, 1998; UNO, 1948) is a synthetic formulation of ethical universals, broadly accepted nowadays. The Global Compact (Annan, 1999) can be seen as its simplified counterpart for business.
to consider alternative structures and relations that may overturn that state of affairs, and promote genuine social betterment and human flourishing (Ackroyd & Fleetwood, 2000b).

Ultimately, universal principles, or hypernorms, which reside at the deepest level of the cultural reality, are, by definition, the resource *par excellence* on which to draw for solving ethical conflicts, correcting wrongly-based beliefs and understandings, and “reaching to the root of what is ethical for humanity” (Donaldson & Dunfee, 1999: 44).

Let us now turn to briefly analyze the mechanisms by which firms, through socio-cultural elaboration, build or maintain legitimacy.

**5.2.- SOCIO-CULTURAL ELABORATION AND THE OUTCOMES OF CSR AND CSA: LEGITIMACY AND COMPETITIVE ADVANTAGE.**

The third phase of the morphogenetic cycle, namely socio-cultural elaboration, represents the outcome of the interplay between structural emergent properties, cultural emergent properties, and personal (managerial) emergent properties. In the context of this dissertation, socio-cultural elaboration refers to the changes (morphogenesis) or reproduction (morphostasis) which take place as a result of CSA with respect to both the moral/social position of the firm in its environment and, more narrowly, the characteristics and quality of firm-stakeholder relationships. The focus of the analysis is the extent to which such reproduction or changes, both at the cultural and structural domains, actually gel together.

Accordingly, and consistent with the possibility of equifinality and/or multifinality, the desirable outcome of appropriate CSA, that is, CSA which is congruent with the situational logic posited by the emergent CSR properties which pre-date and condition such CSA, is the creation and/or improvement of intangible “assets” for the firm (Gardberg & Fombrun, 2006; Wood, 1991), i.e. new or strengthened emergent properties in the real domain. From the social/moral
viewpoint, the most relevant of these properties is social and moral legitimacy, which in the theoretical proposal of this dissertation is considered to be valuable in and by itself, and is reflected in the degree of CSP achieved. Some authors also see reputation as one of these intangible assets although, as argued above, I include it as a particular kind of pragmatic legitimacy, namely the dispositional one.

A third intangible property that might be created or improved by CSA is competitive advantage, which is the most relevant from the economic point of view, and is reflected in the firm’s level of strategic/economic performance through time. Notice that, as autonomous and possibly out of synchrony third-order emergent properties, legitimacy and competitive advantage may stand in relations of complementarity or contradiction with one another. A later section will deal with specific socio-psychological processes of elaboration by which these properties emerge. Before going into that, let us review the sources of socio-cultural elaboration and the outcomes that likely emerge from each of them.

5.2.1.- Socio-Cultural Elaboration.

Elaboration involves recalling the relative autonomy of structural, cultural, and personal CSR emergent properties, the relations between them, and the fact that they may be out of synchrony with one another. In consequence, the achieved profile of social performance may possibly be not the originally intended. Although a certain CSP profile may be an intentional goal, the context contingently defines the realized outcomes, i.e. the way in which CSP emerges (Egels & Zaring, 2005) not just as the sum of socio-cultural and personal properties, but as the product of processes of negotiation, conciliation, concession, and coercion. Thus, elaboration “represents

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20 Through the analysis of relations of either complementarity or contradiction between legitimacy and competitive advantage, or between legitimacy and short-term profitability, the positive or negative correlations that many researchers have found between CSP and financial performance can be explained. I will analyze this matter below.
only tendential conditions which will have to be complemented by an analysis of the concrete contingencies in every research undertaking” (Archer, 1995: 294).

According to morphogenetic theory, there are three sources of socio-cultural elaboration: power-induced compliance, the confluence of desires and interests, and reciprocal exchange (Archer, 1995: 296). These sources of change or reproduction arise during the phase of socio-cultural interaction. Yet, as elaborated phenomena, the outcomes are not reducible merely to interaction. Let us see what these sources imply for firms and their stakeholders.

**Power-induced compliance.** One source of elaboration is “power-induced compliance”. Firms capable of attaining power will likely impose their hegemony over stakeholders, at least for some time (Archer, 1996; Frooman, 1999; Zelditch, 2001). If constraining contradictions exist, i.e. if social/moral issues occur between internally and necessarily related parties such as firms and their primary stakeholders, the powerful agent may act to contain the contradiction in the actual and empirical domains through the use of sanctions, censorship of opponents, refusal to transact exchanges, etc., but the contradiction will likely remain unresolved in the real domain. Some of the “contained” stakeholders may attempt to exercise their voice to convince about change or to manipulate the situation; others may acquiesce either by surrendering, i.e. by being passively “loyal” to the powerful firm; or by neglect, i.e. by subtly and partially withdrawing their resources. Still others may exit the relationship, at times assuming high costs. A number of them may, through time, combine their responses (Hirschman, 1970; Whitey & Cooper, 1989). Among those that leave, called “deserters” by Archer (1996), some may become “emigrants” and form collectivities that join other causes. This is a way, for instance, in which NGOs may get members and supporters (Doh & Guay, 2006). Some others may become “schismatics” and align themselves with competitors of the powerful firm in order to dispute its hegemony. In these or
other ways, agents that were contained may eventually become independent, and a situation of competitive contradictions develops.

When competitive or contingent contradictions exist, i.e. those in which the social/moral issue occurs between parties that are independent from each other, the powerful agent can use its power to devaluate, repudiate, coerce, or plainly eliminate opponents. However, active opposition is a matter of contingency which only becomes salient when agents are willing and able to exercise power. The powerful agent may be successful or not in damaging, discrediting, or even eliminating its opponents. Nonetheless, the contradiction at the real level may continue to exist: the ideas and/or interests of opponents are usually not defeated. “The ‘vanquished’ are still ‘alive’ at the end of the day” (Archer, 1996: 253).

A case in point is Wal-Mart, in its German adventure. By purchasing existing supermarket chains, Wal-Mart saw itself involved in existent, necessary relationships. The large retailer’s modus operandi immediately turned many of those relations into constraining contradictions. Instead of containing its powerful opponents and conciliating the contradictions, Wal-Mart acted as if it were the powerful player, which it was not (Knorr & Arndt, 2003). The outcome of these inappropriate interactions was Wal-Mart’s decision to leave the system at a high cost (Financial Times, 2006).

Another example is offered by a large group of Wal-Mart’s former employees, who had disagreements with the firm on labor conditions (constraining contradictions). These workers faced one or more of these questionable practices: they were denied meal breaks, received no health care, had to make themselves available around the clock, were changed from a full-time to a part-time status, and/or were denied their right to unionize. The first outcome of Wal-Mart’s inappropriate CSA was the exit of these employees. Later, once independent, they filed lawsuits

21 See section 3.3.6, in chapter 3.
(competitive contradictions) against that firm (Fishman, 2003; New York Times, 2006); these lawsuits have been far from eliminating Wal-Mart, but they have devaluated and discredited it.

Other examples, at a higher level of analysis, are the more or less powerful agents which often have agendas that are competitively contradictory with those of multinational companies (MNCs), such as anti-globalization NGOs and, increasingly important in Latin America, leftist, anti-corporate political parties (Castañeda, 2006; Cleary, 2006), whose aim seems to be the imposition of severe constraints on the activity of MNCs, if not their complete elimination.

In both cases of contradictions, firms, if powerful enough, may advance their interests and achieve their objectives in a manner actually and empirically orderly, but they will not be seen as legitimate by “contained” stakeholders in situations of a constraining contradiction, and much less by supporters of a competitive contradiction. In other words, the powerful firm that contains constraining contradictions or attempts to eliminate competitive contradictions may be very successful economically or strategically, but not necessarily so in the social or moral realms. Although powerful firms seem to enjoy a certain halo effect derived from its size or success (Brown & Perry, 1995), power by itself cannot make people believe that some agents and their actions are, as Suchman (1995) would say, “desirable, proper, or appropriate”, i.e. legitimate. If the organization is socially or morally questioned, that is, if a social/moral issue continues to exist in the real domain, its real CSP would likely be poor.

Legitimacy is a desirable, important attribute even for very powerful corporate agents. The risk for powerful firms is that they are often tempted to use legitimating actions only superficially, just to mask their real self-centered interests. Such orientation neither solves nor conciliates any contradiction existing in the real domain, which may turn against the firm if and when it eventually loses power. “[I]n the long run, pure power is unstable unless legitimated, so legitimacy is a prerequisite of any social order” (Zelditch, 2001: 42).
**Confluence of desires and interests.** Among the sources of socio-cultural elaboration, Archer cites “the confluence of desires and interests” at the other extreme from power-induced compliance. It implies the existence and continuous reproduction of a homogeneous set of ideas, values and beliefs among firms and their stakeholders, as well as a “monolithic form of social organization with a superimposition of elites who concentrate resources and thus, prevent the articulation of opposition” (Archer, 1995: 309). Since the prevailing, if not all, second-order relations are concomitant or necessary complementarities (that is, apparently no moral/social issues seem to exist), the system remains very stable and it usually is long-lasting. It is morphostasis, rather than morphogenesis, which actually occurs after CSA. At first glance, the legitimacy of all different parties is widely acknowledged. However, such legitimacy can still be subject to ethical evaluation. It might be that such homogeneous systems contain norms and practices which do not pass Donaldson & Dunfee’s “hypernorm test” and if so, they may show a deficit of moral legitimacy. Examples of such unethical but relatively homogeneous socio-cultural systems may be the Sicilian mafia (Gond & Palazzo, 2005) and other similar “firm-stakeholder” systems in organized crime; ancient systems in which slavery was accepted and legal; or protectionist economies like many Latin American regimes before the 1980s or 1990s, in which corporativism and corruption thrived.

In business settings, the confluence of desires and interests can often be found in some firm-stakeholder systems, particularly those that have been built on relations of stewardship (Davis, Schoorman, & Donaldson, 1997; Ring, 1997), as well as those whose exchanges are of an associative, moral, or communal nature (Biggart & Delbridge, 2004). However, it is rarely seen as a generalized condition at higher levels of analysis. The concomitant complementarities that characterize these relationships make them stable and, frequently, long-lasting. Firms and their stakeholders will likely want to protect and reinforce their relationships. Nevertheless, some
agents begin to achieve salience in the system, and/or some opportunists or “immigrants”
perceive advantages to be derived from the exploitation of the complementarity.

For instance, the search for contingent compatibilities drives many of the efforts and
decisions of multinational companies. The selection of host countries for establishing subsidiaries,
with the aim of fostering efficiency or facilitating access to natural resources, markets, or
strategic assets (Rugman & Verbeke, 2001), is likely contingent on finding advantageous
contingent compatibilities in those countries. The system begins to lose its homogeneity. As some
agents begin to exploit the compatibility in new ways, a contingent complementarity develops
from the initial concomitant complementarity (i.e. some agents become independent from the
original structure). Although the ideas of the different agents may remain logically
complementary, their actions may begin to be different. Exploiting complementarities is usually
strategic/economic in nature, and it often involves processes of foreign investment and/or
innovation. Eventually, the group that exploits the complementarity becomes distinct and
specialized and may consolidate its own legitimacy (Coopey, Keegan, & Emler, 1997). As the
group gets institutionalized, both new contradictions may appear, or new opportunities for further
innovation and increased legitimacy may emerge from newly identified complementarities.

Cemex’s *Patrimonio Hoy* initiative can illustrate the development and exploitation of
contingent complementarities, particularly in the cultural domain. Cemex is a large Mexican
manufacturer of cement and other derived products. Its *Patrimonio Hoy* program has enabled
very poor people to pay for building materials and services to upgrade their homes (Salazar,
Gutiérrez, Husted, & Acuña, 2007; Sharma, Mohan, & Singh, 2005). Up to the 1990s Cemex
operated in a highly protected economic environment, characterized by little competition. At that
time Mexican firms “complied” with their legal obligation of providing housing to every one of
their workers (Mexico, 2006: Art. 136) by paying fees to a State-owned institution (INFONAVIT,
by its initials in Spanish), which practically had the monopoly for building and financing housing for workers and the poor, often in an inefficient and corrupt way. In that environment most Cemex sales were made, through a network of distributors, to construction companies, many of whom had contracts with the Government. In the late 1990s this system was dismantled, and the low-cost house building industry was deregulated and liberalized. At that point in time and in this segment of its business (low-income customers), Cemex became independent from the necessary relations and concomitant complementarities that characterized the previous configuration and, as I explain below, began to exploit contingent complementarities. After several market studies and trials, Cemex launched its *Patrimonio Hoy* strategy, which has provided access to credit for the poor, has improved distribution methods and construction practices, has enhanced the perception of Cemex as a socially responsible firm, and has successfully created an entirely new channel which has increased the sales of cement and other construction materials (Sharma et al., 2005).

Perhaps inadvertently, *Patrimonio Hoy* has innovatively exploited a number of contingent complementarities with extended segments of the Mexican society, mainly in the cultural realm. Conditioned by its particular history, “Mexican culture expects business to work towards the achievement of public purposes ... CSR in Mexico tends to focus on meeting employee and direct community needs and facilitating economic development” (Logsdon, Thomas, & Van Buren III, 2006). In fact, there are many traditions of community self-help and solidarity that stretch back to the country’s pre-Hispanic cultures (Ríos Szalay, 1989). These ancient traditions later found concomitant complementarities with Catholic teachings, at least with respect to communitarian ideals of mutual support22 (Sanborn, 2005). More recently, the Catholic Church, which continues to play an influential role in Mexican society and among a

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22 One example of a traditional Mexican communitarian institution, after which Cemex developed its financing system for *Patrimonio Hoy*, is the *tanda*, a system of credit integrated only by friends, neighbors, and family members (Mansell Carstens, 1992: 135).
number of business leaders (Logsdon et al., 2006), has proclaimed a preferential identification with the poor and a defense of social justice (Pontifical Council for Justice and Peace, 2005: nn. 182-184). Simultaneously, using divergent ideological justifications, both left- and right-oriented political parties have adopted poverty relief as one of their most outstanding goals which, at least ideationally, has found strong support from ample segments of the population (Castañeda, 2006; Cleary, 2006). Particularly with respect to housing, as mentioned above, the Mexican Labor Law specifically establishes the obligation of employers of providing “comfortable and hygienic housing” to all their workers (Mexico, 2006: Art. 136). Independently of actual compliance with this legal mandate, it has created explicit expectations among poor workers about their right and possibility to own a house. In short, old and newer traditions, religious teachings, legal precepts, and political discourses have strongly complemented each other and converged in the social and moral obligation of being solidary with and helpful to the poor. In this context, support for housing represents an explicit, tangible, and desirable alternative for fulfilling such obligation. On this regard, not only the beneficiaries of Patrimonio Hoy, but Mexican society in general, exhibit an uncontested “confluence of desires and interests” which resides deep in the real cultural domain, i.e. a sort of “collective unconscious” (Jung, 1934-55/2002) which is likely shared by otherwise profit-oriented Cemex managers. Without logically challenging these cultural properties, Cemex began to act differently from the typical philanthropic responses to poverty (Sanborn, 2005) and came across an opportunity to exploit these contingent complementarities. Perhaps it is the depth and extended presence of these CSR cultural properties, innovatively and appropriately matched by Cemex, that has given this firm a degree of CSP, i.e. of legitimacy and social/moral success, which might seem to be disproportionately high with respect to the tangible benefits received by its direct beneficiaries (Salazar et al., 2007).
**Reciprocal exchange.** The third source of elaboration, “reciprocal exchange”, is the most common in those business settings in which the distribution of resources is flatter. If the original firm-stakeholder relationship was adversarial, i.e. a necessary contradiction existed, and none of the opposing groups had power and resources to effectively contain the contradiction, a firm’s CSA might have been directed to finding a *via media* which “mutes but never transmutes the contradiction” (Archer, 1996: 256), i.e. a pragmatic middle way that enabled the firm and its stakeholder to live with the contradiction without necessarily finding resolutions to it. This path usually involves conducting satisfactory exchanges of material resources even if agents remain ideationally opposed. In other words, the solution may consist of “purchasing” pragmatic legitimacy up to the point that opponents consider the cause worthless and stop opposition, leaving issues of cognitive and/or moral legitimacy unresolved. In these cases, CSP at the empirical and actual levels may seem appropriate, but the configuration of firm-stakeholder relations remains fragile.

Alternatively, when a middle way has not been worked out, opponents may decide to pursue actions (e.g. exit, active opposition). Newcomers may also appear, often adversarial to the focal firm. Both cases may end up in the development of contingent contradictions. A number of competing and divergent corporate groups interact in both structural and cultural realms. In this case, new material interest groups may survey a variety of ideas in seeking for a source that legitimizes them and/or delegitimizes their opponents. It may also be the case that new ideal interest groups search for structural support in groups with value as potential sponsors. Some alliance may be initiated from either the cultural side or the structural side. The process implies that ideas are adapted (sometimes substantially) to appeal to material interests, and material interests get ideational endorsements which legitimate their claims to some degree. The outcome
depends on the resources, power, and relations of the corporate agents involved in interaction, as well as on the ideas endorsed by the successful alliance.

A situation of reciprocal exchange may also start with concomitant complementarities between the firm and some of its stakeholders. This is a stable configuration that agents would likely want to protect. These cooperative relationships are supported by the existence of pragmatic and a good deal of cognitive legitimacy, although moral legitimacy might be lacking. Yet, some corporate agents, as they specialize or diversify, may find new material opportunities and consequently, push for changes. If these agents do not challenge the legitimacy of the firm, a contingent complementarity may develop, which frequently offers additional opportunities for material advance and legitimation. However, if those agents, or some newcomers, challenge the legitimacy claims of the firm, a contingent contradiction may develop. As explained in the previous paragraph, groups in interaction will likely form alliances in search for legitimating ideas and/or material sponsors. Again, the outcome depends on the resources and power of the interacting agents, as well as on the ideas endorsed by the successful alliance.

Leaving power considerations aside for a moment, the arrival of a multinational company to a new host country can illustrate the previous discussion. To begin with, the selection of host countries for establishing subsidiaries, with the aim of fostering efficiency or facilitating access to natural resources, markets, or strategic assets (Rugman & Verbeke, 2001), is likely contingent on finding advantageous contingent structural compatibilities in those countries. However, the newly established subsidiary likely suffers the “liability of foreignness”, which essentially consists of a deficit of legitimacy in the new host country (Zaheer & Mosakowski, 1997). How do subsidiaries obtain legitimacy in such cases? They usually follow two potentially complementary pathways. On the one hand, they build pragmatic legitimacy. Even if some of their stakeholders are economic nationalists which ideationally oppose foreign interests (Zaheer,
1995), subsidiaries may begin to develop “stakeholder satisfaction” by doing better than local competitors in employing local workers and managers, sourcing from and developing local suppliers, serving local customers, supporting community interests, etc. In this way, subsidiaries take advantage of any complementarities with their new stakeholders or are able to contain and “mute” contingent contradictions with some of their new, otherwise adversarial stakeholders. On the other hand, subsidiaries often partner with and sponsor culturally relevant groups such as some NGOs (Kapstein, 2001), business schools and academics (Camarena Adame, 2003; Faria, 2004), pro-globalization political actors, etc., in order to gain cognitive and even moral legitimacy.

After reviewing the sources of socio-cultural elaboration and the outcomes that emerge from each of them, let us next turn to the analysis of the process by which legitimacy develops.

5.2.2.- Achieving CSP: Gaining and Maintaining Legitimacy.

As discussed earlier, CSP is constituted by different outcomes, some of them in the actual and empirical domains, and its fundamental attribute, legitimacy, in the real domain. Legitimacy is gained, maintained, or repaired through a particular process of social elaboration, namely legitimization. It consists of categorizing or recategorizing a claim or a claimant (i.e. an action, policy, person, group, organization, or system) into the domain of social/moral acceptability or obligation. By the same token, legitimacy can be lost through the process of delegitimization, which entails recategorization of the claim or claimant out of such domain (Kelman, 2001).

Research suggests that legitimization emerges from psychological processes of justice perceptions as well as attributions (Aguilera et al., 2007; Brockner, 2002; Elsbach, 2001; Lind, 2001; Jost & Major, 2001, among others). It seems that, if given sufficient opportunity and
motivation, individuals will scrutinize and judge the fairness of organizational actions. However, when lacking adequate opportunity or motivation, people will call forth memory based impressions on fairness to make attributions and form a summary attitude towards the organization (Arpan, 2005; Brockner, 2002). Although legitimacy begins at the individual level by some people, in the end “legitimacy is a collective product of many psychologies, not one” (Weber 1922/1978; Zelditch, 2001: 44). Let us next shortly review the way in which fairness perceptions and attribution processes, as conceptualized of by organizational justice theory and attribution theory respectively, intervene in legitimization.

Organizational justice theory focuses on the perceptions of justice that organizational players have (Tyler, 2001b). In broad terms, it sees organizational actions as a sequence of events in which a procedure generates a process of interaction through which an outcome is achieved and allocated to someone (Bies & Moag, 1986). Each part of the sequence is subject to particular fairness considerations: the procedure to procedural justice; the interaction to interactional justice; and the allocation of outcomes to distributive justice (Greenberg, 1987, 1990). Procedural justice predicts that decisions resulting from a process perceived as fair are better accepted, even if they are unfavorable, than those resulting from unfair processes (Thibaut & Walker, 1975, 1978). Interactional justice posits that fairness perceptions are influenced by factors related to the quality of the interaction that people have with decision makers. “People are sensitive to the interpersonal treatment they receive during the enactment of organizational procedures” (Bies & Moag, 1986: 44). Distributive justice, based on social exchange theory (Homans, 1961) and equity theory (Adams, 1965), predicts that fairness is determined by a particular input-outcome balance, defined by the individual’s perception of what he/she is giving and receiving. People compare the ratios of their own perceived outcomes to their own perceived inputs to the
corresponding ratios of comparison others in the organization. Unfairness is perceived if the ratios are unequal.

A number of scholars have realized that discussions in the literature about legitimacy and CSP are permeated by justice considerations. For instance, Clarkson asserts that “if any primary group perceives, over time, that it is not being treated fairly or adequately … it will seek alternatives and may ultimately withdraw from that firm’s stakeholder system” (1995: 112). On his side, Husted notes that “[i]n a real sense, the application of justice notions and the measurement of the sense of fairness by stakeholders is the measure [of organizational legitimacy]” (1998: 647). Similarly, Lind affirms that the perceived legitimacy of an organization’s actions “seem especially likely to be affected by fairness judgments” (2001: 76), while Tyler argues that “legitimacy does not seem to flow so much from providing resources, opportunities, or outcomes as from providing fairness” (2001a: 430).

Thus, authors seem to agree that organizational justice notions, which have generally been applied to hierarchical relations (e.g. employee relations), can be usefully applied to all stakeholder relations (Hosmer & Kiewitz, 2005; Husted, 1998); and that the corresponding fairness judgments are causal factors, or “pivotal cognitions”, for the development of organizational legitimacy, i.e. real CSP (Aguilera et al., 2007; Elsbach, 2001; Kelman, 2001; Lind, 2001; Tyler, 2001a; Zelditch, 2001). In this way, if a firm’s constituents perceive that they have been fairly rewarded (distributive justice), fairly considered (procedural justice), and fairly treated (interactional justice) by the organization, their attitudes toward the organization will be more positive, with greater satisfaction, trust, and commitment (Hosmer & Kiewitz, 2005; Husted, 1998). The fairness judgments that are made about organizational actions are used as a heuristic to decide involvement and investment in the organization (Lind, 2001). Before seeing how
perceptions of fairness eventually develop into legitimacy, a brief digression is necessary to review the universality of justice judgments as antecedents of legitimacy.

Are fairness perceptions universal determinants of legitimacy? It seems that they are, but a couple of remarks are in order. First, organizational justice theory has been mainly developed in an Anglo-American cultural context, and therefore, some caution must be exercised regarding its cross-cultural generalizability. In general terms, research shows that concerns about justice are universal, but that what is considered to be distributively, procedurally, or interactionally fair shows substantial variation across cultures. The constructs of organizational justice do not seem to be universal in its causes, although their effects tend to be more generalizable across cultures (Greenberg, 2001; Leung, 2005; Morris & Leung, 2000). Therefore, although justice judgments may be a universal formal antecedent of legitimacy, the content of those judgments, i.e. the actual requirements of legitimacy, vary between countries and cultures. By the same token, the consequences of a lack of fairness and legitimacy may be understood differently in various cultures, but they show a high level of convergence around responses such as withdrawal of resources, including effort or commitment; exiting the relationship; voicing or activism against the unfair/illegitimate agent, and the like (Hirschman, 1970; Withey & Cooper, 1989).

Second, as Lind (2001) and Zelditch (2001) point out, in addition to fairness judgments, there may be other “pivotal cognitions” in the development of organizational legitimacy, such as affection, identity/identification, personal ideology, etc. Although Lind does not discard these factors, he considers that they are far less common than fairness judgments in organizational contexts. Nevertheless, it remains to be seen whether these or other pivotal cognitions become relevant for legitimacy building in socio-cultural systems different from those of the Anglo-American type.
The process by which fairness judgments are elaborated into legitimacy involves time and evaluative learning. People are “justice bookkeepers”; they rationally and gradually develop attributions of legitimacy based on a mental “balance sheet” of fair and unfair acts (Elsbach, 2001). Positive, fair experiences induce stakeholders to support the organization, but experiences of unfairness contribute to deteriorate the relationship. This is a path-dependent process by which small positive experiences in successive periods trigger a self-reinforcing process: Agents translate these past experiences into expectations concerning future social performance, which consolidates organizational legitimacy (Quevedo-Puente et al., 2007; Rao, 1994). This process involves a particular kind of learning, known as “evaluative learning” (Pérez-López, 1993; Rosanas, 2008), which emerges from the agent’s *ex-post* evaluation of its interaction with the focal firm. *Ex-post* evaluations include assessments of procedural, interactional, and distributive justice, which may be substantially different from *ex-ante* evaluations. Although evaluative learning is fundamentally an individual process, Rosanas suggests that the notion can be extended to corporate agents. In fact, to the extent to which evaluative learning represents “a change in the group’s repertoire of potential behavior” (Wilson, Goodman, & Cronin, 2007: 1043), it becomes a collective phenomenon.

Evaluative learning also involves the intertwined notions of trust and motive discovery. Trust is a specific type of evaluative learning (Rosanas, 2008; Rosanas & Velilla, 2003) which develops as the parties’ interactions allow them to know each other’s value system and decision making characteristics (Mayer, Davis, & Schoorman, 1995; Rousseau, Sitkin, Burt, & Camerer, 1998), and which occurs in both individual and collective agents (McEvily, Weber, Bicchieri, & Ho, 2002). The literature on organizational trust clearly demonstrates that justice perceptions are one of the main determinants of trust (Brockner & Siegel, 1996; Flaherty & Pappas, 2000; Konovsky & Pugh, 1994; Kim & Mauborgne, 1993, among others). Evaluative learning also
implies discovering the motives of the other agent. Of particular importance are pro-social (Frey & Meier, 2002) or transcendent (Pérez-López, 1993) motives, i.e. motives with moral significance (Aguilera et al., 2007). Agents learn as they make inferences about the trustworthiness and benevolence of the motives of organizational actors (Tyler, 2001a).

Evaluative learning, including the development of trust between two agents, involves each other’s appreciation of genuine interest. Through interactions, people are able to identify and learn about his/her counterpart’s motives, including but not limited to extrinsic ones, and particularly about transcendent motives (Argandoña, 2004; Rosanas 2008).

Evaluative learning, including trust, strongly influences behavior in subsequent firm-stakeholder interactions. On the one hand, agents will be able to better evaluate, \textit{ex-ante}, the potential outcomes of such interactions (Rosanas, 2008). On the other hand, evaluative learning helps to build social values; as these values develop, people increasingly feel a long-lasting, personal obligation towards the organization (Tyler, 2001a). At the end of the process people form an overall judgment about the responsibility and trustworthiness of the organization. Once formed, these judgments will be assumed to be accurate and will be used, more than they are revised, to make attributions about the legitimacy of the organization (Brockner, 2002; Lind, 2001). In this way, legitimacy becomes a stable, intransitive organizational attribute\textsuperscript{23}.

Naturally, not all the publics of a firm have had direct experience with the corporation. Consequently, a number of constituents do not always have direct information on the fairness of organizational actions. In those cases, people are specially attentive and sensitive to any fairness-

\textsuperscript{23} Kumar & Das (2007) explain that trust and legitimacy are qualitatively different properties. Legitimacy provides a more durable foundation for firm-stakeholder relations than trust or particular judgments of fairness. This is so because legitimacy implies congruence of values and a shared view that the relationship is a proper one, while trust implies predictability of behavior. Trust is likely created at an earlier point in time, because legitimacy, which is a broader construct, requires a longer time for its establishment. In critical realist terms, trust is a relational property located at a more superficial level of reality than legitimacy. This means that trust may facilitate cooperation in the immediate and relatively short-time frame, but it is less intransitive, i.e. less stable. In contrast, legitimacy is more intransitive; it guarantees longer-term relationships, as shared values provide a natural buffer.
related information, be it received directly, through communication of impressions across social networks, or via other channels such as media, markets, etc. (Brammer & Pavelin, 2006; Sjovall & Talk, 2004). For example, Aguilera et al. (2007) argue that the perceptions of corporate socially responsible behavior by one group of stakeholders (e.g. employees) are actually one aspect of their general justice perceptions, and that these perceptions eventually spread to other groups of stakeholders. Information on fairness, whichever its origin, is used as a heuristic: People “use a variety of cognitive shortcuts to ensure that they have a fairness judgment available when they need to make decisions about engaging in cooperative behavior” (Lind, 2001: 56).

It is important to point out that any fairness information is based on perceptions, and perceptions may be at variance with reality. Agents may learn something that is not true, attributing the results to the wrong cause (Lind, 2001; Rosanas, 2008). This phenomenon is known as the “fundamental attribution error”, because people often erroneously attribute certain behaviors to the agent’s disposition, even if the behavior was caused by external factors (Kelley, 1972; Ross, 1977). Research shows that people also and frequently commit the group-level equivalent of the fundamental attribution error, in such a way that corporate agents are perceived as sharing certain essential characteristics24 that explain their social standing, as if they were individuals, whereas aggregate agents do not exhibit these properties (Yzerbyt & Rogier, 2001). This opens the possibility for firms to deliberately attempt to influence the perceptions of and the attributions formed by their constituencies by using, for instance, advertising, lobbying, litigation, or other similar actions. Thus, to a higher or lower degree, legitimacy is a manipulable attribute (Suchman, 1995). Attribution processes are applicable regardless of whether agents personally judge corporate behavior or have it communicated to them, or whether they correctly perceive the

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24 “Essential characteristics” of an organization refer, in this context, to any “underlying feature that binds together the surface attributes displayed by its members” (Yzerbyt & Rogier, 2001: 109).
fairness of organizational actions or not. Eventually, automatic attributions of higher or lower legitimacy are made to a firm, based on inferred characteristics of it (Sjovall & Talk, 2004). Erroneous perceptions or attributions can be corrected only to the extent to which a firm’s constituencies rely on, or somehow have access to, evaluations of the fairness of organizational actions based on deeper strata of reality.

5.2.3.- Developing Competitive Advantage from CSA.

As discussed above, competitive advantage may be one of the outcomes of CSA and its interplay with emergent CSR properties. The vast literature on strategy shows that competitive advantage can be developed from many sources, whose analysis is well beyond the scope of this chapter. In this section I only want to present CSR and CSA as one of those possible sources, and competitive advantage as a third-order emergent property whose effects are contingent.

Briefly stated, a firm enjoys a competitive advantage over its rivals if it “earns superior financial returns within its industry … over the long run” (Ghemawat & Rivkin, 1999: 49). Porter’s (1980, 1985) widely used framework specifies two generic types of strategy to achieve competitive advantage: cost and differentiation. In other words, a firm with competitive advantage has either lower costs than rivals or the ability to offer products with superior value which command a premium price. In general terms, a firm can gain competitive advantage by positioning itself within its industry through the development of a configuration of activities that are superior to those of the competition (Porter, 1981, 1985), and/or through its possession of resources that are valuable, rare, inimitable, non-substitutable (Barney, 1991; Wernerfelt, 1984), and dynamically renewed according to the changing business environment (Teece, Pisano, & Shuen, 1997).
Many authors have shown that competitive advantage may emerge, under certain conditions, from the interplay between cultural, structural, and personal CSR emergent properties and appropriate CSA (e.g. Bernárdez, 2005; Burke & Logsdon, 1996; Castelo Branco & Lima Rodrigues, 2006; Dentchev, 2004, 2005; Gardberg & Fombrun, 2006; Harting, Harmeling, & Venkataraman, 2006; Husted, 2003; McWilliams & Siegel, 2000, 2001). However, although appropriate CSA represents a possible source of competitive advantage founded on moral/social grounds, it is neither necessary nor sufficient to achieve such advantage in at least two cases: First, competitive advantage may emerge from socially/morally inappropriate CSA; and second, competitive advantage emerges from some kinds of socially/morally appropriate CSA but not from others.

In other words, on the one hand, there are firms and individuals with a clear disregard for ethics and an understanding of the profit that can be made by exploiting factors such as stakeholders’ ignorance, their dependence on the firm, the existence of norms which limit the entry of other “immoral” competitors, institutional weaknesses, legal voids, etc. Therefore, competitive advantage may emerge from corporate action that is socially and/or ethically unacceptable, that is, from “destructive innovations” that constitute “novel methods of violating stakeholders’ ethical expectations” (Harting et al., 2006: 49). In particular, multinational companies are sometimes accused of increasing their economic competitiveness on the basis of social irresponsibility (Eden & Lenway, 2001; Boda, 2002), at least in some of their subsidiaries (Strike, Gao, & Bansal, 2006).

Naturally, when stakeholders are able to prevent or defeat such opportunism, or when the institutional environment is strong enough, inappropriate CSA likely leads to competitive disadvantage. This would be the case of firms whose reputation is negative, as a result of the performance of corporate actions which are socially or morally questionable, the execution of
exchanges which provide no value to stakeholders, the use of CSA just as a “window-dressing” device, etc. (Detchev, 2004, 2005).

On the other hand, appropriate CSA may not be sufficient for creating competitive advantage. Since it is heterogeneity in acquiring and deploying resources and capabilities that accounts for a sustainable competitive advantage (Rumelt, 1984), such advantage does not develop from CSA which is ethically and socially responsible just within “acceptable standards” (Harting et al., 2006), or from CSA that merely conforms to the rules and norms of the institutional environment (Neville & Caprar, 2006; Oliver, 1997). These are imitative, strictly isomorphic approaches that may be socially/morally appropriate and thus, help the firm to gain legitimacy, but which do not necessarily contribute to reduce costs or increase differentiation.

Thus, by definition, the development of competitive advantage based on CSR/CSA requires, as a necessary condition, that CSA is appropriate for the social, moral, and economic environment of the firm. But in addition, it requires axiological innovations (Corbí, 2001) and/or innovative products or processes with social/moral attributes (McWilliams & Siegel, 2001) that go beyond expectations and industry standards. It is important to point out, with Mintzberg & Waters (1985), that CSA-based competitive advantage can be deliberately developed, through strategically aligning CSA with the core mission of the company (Husted, 2003), or it may emerge, without or despite intentions, with more or less difficulty, from all different types of CSA (i.e. instrumental, value-based, isomorphic, or affectual).

One way in which CSA may lead to competitive advantage is by improving a firm’s business model and productivity (Detchev, 2004). Throughout their development, firms may find contexts in which they face strong social and/or environmental regulation from governments. At some other times or places, firms may find themselves under social pressure and struggling to solve problems with negative social or environmental impacts. There may be still other contexts
in which, rather than problems, the firm detects opportunities to develop and exploit demand for products or processes with socially responsible attributes (e.g. ecologically friendly products, production practices respectful of human dignity, etc.). In all these cases, appropriate CSA may involve investments in research and development, or in any other way, the acquisition of additional knowledge useful to rethinking the firm’s value chain and, in turn, to developing innovative processes and/or products, less costly than or differentiated from those of competitors (McWilliams & Siegel, 2000, 2001; Porter & Van der Linde, 1995a, 1995b).

However, the most typical way in which CSA creates competitive advantage is by building reputation, i.e. the dispositional type of pragmatic legitimacy. Actually, some authors claim that reputation constitutes a new type of competitive advantage, which includes cost and/or differentiation attributes (Roberts & Dowling, 2000) but is not reducible to them, and which emerges in a way distinctively related to CSR and CSA (Husted, Allen, & Coduras, 2003; Quevedo-Puente et al., 2007). From a transaction-cost perspective, reputation can provide cost advantage. Let us remember that reputation is developed through a process of socio-cultural elaboration, namely legitimation (Rao, 1994), that creates trust in and loyalty to the firm. Trustworthy parties are desirable contracting partners, because they are expected not to be opportunists and they will likely be mutually preferred parties for exchanges (Hill, 1990; Sako, 1992). Therefore, reputation likely reduces transaction costs, i.e. costs related to information search, negotiation and decision-making, policing and compliance, and dispute resolution (Williamson, 1981).

Furthermore, from a resource-dependence perspective (Pfeffer & Salancik, 1978/2003), reputation can provide both cost and/or differentiation advantage. Since it is stakeholders such as customers, investors, suppliers, workers, etc. who control resources that can facilitate or enhance the implementation of corporate decisions (Berman, et al., 1999; Frooman, 1999), reputation
helps to cope with resource interdependencies and to control resource flows, for instance, by attracting and retaining customers (Bhattacharya & Sen, 2004) or employees (Greening & Turban, 2000) who prefer to be associated with reputable firms. Thus, reputation often means either a cost-effective way of accessing resources, or a way to access distinct resources on which the firm may develop differentiation.

In addition, reputation is one of several hardly imitable, non-substitutable resources that can differentiate firms and isolate them apart from their competitors (Castelo Branco & Lima Rodrigues, 2006; Rumelt, 1984). Attributions of dispositional legitimacy are made to organizations as if they were individuals (Suchman, 1995; Yzerbyt & Rogier, 2001), which suggests that stakeholders grant reputation to organizations whose characteristics are perceived to correspond with the stakeholder’s self-identity (Ashford & Mael, 1989; Neville, Bell, & Mengüç, 2005; Rao, 1994). In this way, a firm can pursue a strategy of differentiation based on identity (Ben-Porath, 1980). Once formed, identity attributions may constitute a distinct, cognitive form of competitive advantage which can activate the “Matthew effect”25, i.e. the fact that firms with higher reputation are able to extract greater rewards for producing even the same goods as firms with lower reputation (Rao, 1994; Roberts & Dowling, 2000).

Thus, given certain conditions of innovation and through processes of social elaboration, appropriate CSA may lead to the development of competitive advantage, which should eventually be reflected in the firm’s strategic performance. If and when this occurs, there is an observable correlation between the firm’s CSP and its financial performance. However, this link is neither causal (Preston & O’Bannon, 1997) nor, as some have suggested, mutually causal (e.g. Waddock

25 The “Matthew effect” derives from the following verse in the New Testament: “For to everyone who has, more will be given, and he will have abundance; but from him who does not have, even what he has will be taken away” (Mt 25, 29). Merton (1968) used this text to capture the discrepancy in the citations of high- and low-status scientists for similar findings. The Matthew effect generally means that higher status actors derive greater benefits that lower status actors for performing an identical task.
& Graves, 1997). More likely, multifinality takes place, i.e. both CSP and financial performance emerge from the same causal configuration.

Nonetheless, even if it has acquired competitive advantage (from CSA or otherwise), a company may fail to exhibit superior strategic performance, particularly if it is measured as financial performance\(^{26}\). Competitive advantage is a third-order emergent property. Once developed, it resides in the real domain and, therefore, it is intransitive (i.e. stable, enduring) and operates transfactually (i.e. continuously and invariantly). However, as it is the case for any emergent property (Archer, 1998b), the observable outcome of its activity, i.e. strategic performance, exhibits variability. Actual performance is the contingent result of complex interactions between different autonomous emergent properties (Marcus & Anderson, 2006), which stand in relations of contradiction or compatibility with each other and involve power struggles between multiple agents located in structural settings that may or may not provide opportunities or constraints for strategic performance (Reed, 2005).

For instance, there are cases in which a firm has developed innovative, socially responsible products or processes, but the groups of potential customers for these attributes either do not exist, do not have purchasing power (McWilliams & Siegel, 2000), or by virtue of their psychological dispositions, they have not achieved the necessary sensitivity to those innovations (Giacalone, Paul, & Jurkiewicz, 2005). There are other cases in which the level and type of competition within an industry either enhance or diminish the benefits of CSA-based competitive advantage (Chand, 2006); this kind of advantage is particularly relevant in industries that

\(^{26}\) Strategic performance has usually been measured as financial performance, and the effect of CSA on such performance has inappropriately been researched by using contemporaneous and perhaps invalid measures of both variables (Cochran & Wood, 1984; Griffin & Mahon, 1997; Margolis & Walsh, 2001; Mitnick, 2000; Rowley & Berman, 2000). Many authors have proposed other measures of strategic performance or, more generally, of firm effectiveness (e.g. Geringer & Hebert, 1989; Venkatraman & Ramanujam, 1986). In particular, Burke & Logsdon (1996) propose to measure strategic performance derived from CSA by using outcomes such as customer loyalty, future purchases, new products, new markets, and productivity gains.
compete on the basis of trust and reputation (Glückler & Armbrüster, 2003), but the sensitivity of stakeholders to such competitive advantage varies across industries (Rowley & Berman, 2000). Another example is offered by those firms that, having developed competitive advantage, are embedded in value chains or multinational networks in which, through exercising power, other agents appropriate the value created by the firm’s advantage; such other agents may be a powerful leader in a value chain (Faria, 2004), or the parent company in a multinational network (Oyerle & Emmanuel, 1998; Tang, 1993).

In short, there are many circumstances in which a firm may have a cost, differentiation, or reputation advantage over its rivals, but it is unable to appropriate the value that such advantage creates (Burke & Logsdon, 1996; Husted, 2003) and, therefore, it does not exhibit a superior financial performance. In these cases, although the firm’s CSA is socially/morally appropriate for gaining legitimacy and developing competitive advantage, both in the real domain, a positive relation between its CSP and its financial performance cannot be detected in the empirical domain.

5.3.- DOUBLE MORPHOGENESIS: THE INSTITUTIONALIZATION OF THE SOCIALLY RESPONSIBLE FIRM.

According to Archer (1995), at the end of a transformational sequence in the morphogenetic cycle, not only the socio-cultural structure is transformed. Agency also may change. As they reshape culture and/or structure, corporate agents reshape themselves, in terms of their organization, their powers, their ideas and beliefs, and their relations with other agents (stakeholders). This is the notion of the double morphogenesis of structure and agency. As Ackroyd & Fleetwood (2000b) put it, after socio-cultural elaboration the organization can still hold the same name, but it is not the same.
Along this line of thought, in this section I argue that another outcome of the CSR-CSA-CSP morphogenetic cycle may be the transformation of the acting organization. More specifically, appropriate CSA (i.e. action motivated by and congruent with CSR emergent properties) leads to the institutionalization and operationalization of a comprehensive corporate social policy which upholds the legitimacy of the firm in its society, establishes an effective organizational structure for CSA, and creates a corporate culture of ethical choice (Wood, 1991). In other words, through a process of double morphogenesis, the appropriate interplay between CSA and CSR emergent properties transforms the organization and institutionalizes it. In my view, this institutionalization constitutes a dimension of CSP, which Egels & Zaring (2005) call “structural social performance”, because it means that the firm has acquired some enduring capabilities that, in subsequent cycles, will allow it to better “work for social betterment” (Frederick, 1994: 151) and to better “contribute to constructing ‘the good society’” (Swanson, 1995: 52). From this kind of capabilities the company eventually develops a distinctive moral/social competence. Accordingly, a firm’s structural CSP will be as high as the extent to which it acquires such capabilities and such competence. In the next paragraphs I introduce the concept of “mediating institution” and explain how those organizations develop. The underlying argument is that being effective at moral/social mediation constitutes a firm’s quintessential moral/social competence.

In general terms, mediating institutions are defined as “those institutions standing between the individual in his private life and the large institutions of public life” (Berger & Neuhaus, 1977: 2). An initial approach to the concept shows that business organizations can be considered mediating institutions merely because they mediate relationships between individuals at work and other entities (Madden, 1980). In this view, which is akin to the instrumental stakeholder concept, firms as mediating institutions foster material prosperity; they are focused on self-interested relations between owners, managers, employees, suppliers, customers,
investors, etc., in a morally neutral way. However, in morphogenetic terms, this is a reductionist view, because all mediated social systems involve not only structures, but also cultural dimensions which include morality.

Fort (2001, 2002) offers a broader perspective, which I herein adopt. He points out that mediating institutions necessarily involve a normative content, because it is in these institutions which identity, moral responsibility, and public affections are formed. In Fort’s view, firms as mediating institutions, while interacting with the outside world, provide their members with the context for meaning-making. At the same time, these firms allow their members to influence the development of the organization’s social responsibility and its moral identity. “A mediating institution integrates an individual’s good into the common good of others… It socializes its members to see the connection between individual self-interest and the good of others…” (2001: 14) and “link[s] personal moral identity with corporate policy” (2001: 110).

Consequently, although they may often be far from Fort’s ideal, business firms are necessarily mediating institutions. Every firm has a normative content, even if poor from the ethical and CSR perspectives. Some identity, some kind of moral responsibility (or irresponsibility), and some type of public affections are necessarily formed (or deformed) in every organization. The firm may not be open to the larger community, becoming a “quarantining institution” (Fort, 2001: 38); or it may not promote internal goods such as loyalty and solidarity, becoming an alienating megastructure that overwhelms the individuals working in it; or in any other way it may not acknowledge CSR principles and may not act in a socially responsible manner. Nonetheless, although ineffectively, such organization still mediates between managers’ actions and the broader social and cultural environment.

The development of a firm as an effective mediating institution involves infusing it with values (Fort, 2001, 2002) and attuning them. Value attunement “stands for the potential
alignment of organisational behaviour with broad-based social expectations of responsibility” (Orlitzky & Swanson, 2002: 120). This is a process akin to Selznick’s early notion of “institutionalization”27, which consists of “infusing day-to-day behavior with long-run meaning and purpose” (1957/1984: 151) and involves “transforming men and groups from neutral, technical units into participants who have a peculiar stamp, sensitivity, and commitment” (1957/1984: 150). For Selznick, building organizational character and integrity is a key part of such process of institutionalization, which entails increasing levels of “responsibility to the enterprise and to the community” (1957/1984: 147), and which eventually leads to the firm’s acquisition of a distinctive competence.

In my view, to institutionalize a morally/socially responsible firm essentially means to transform it into a mediating institution as conceived of by Fort. Therefore, the distinctive competence that emerges from this process is the set of organizational skills and knowledge necessary for effective moral and social mediation. In other words, the organizational character that is built consists of the competence for integrating “an individual’s good into the common good”, linking “personal moral identity with corporate policy”, and being responsible “to the enterprise and the community”.

Analogous to other business competences, this moral/social competence develops from the aggregation of a number of capabilities (Prahalad & Hamel, 1990; Marcus & Anderson, 2006), such as stakeholder engagement, ethical business behavior, social accountability, value-

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27 In my perspective, Selznick deserves to be recognized as a precursor of business-and-society studies. His view of the firm as a social institution clearly involved concepts that closely resemble today’s notions of corporate social responsibility, which he presented in a manner fully integrated with organization theory. For example, Selznick’s analyses paid attention to how the organization “has been influenced by the social environment”, … how it “adapts itself to existing centers of power in the community”, … “how it justifies its existence ideologically”, … “what underlying need in the larger community –not necessarily expressed or recognized by the people involved– is filled by the organization”, etc. (1957/1984: 6). He noticed that “there is also an internal social and moral world to be considered” (1957/1984: 7). Selznick also advanced the stakeholder notion by focusing on the internal or external constituent that is concerned by the maintenance and continued existence of the organization (1957/1984: 21).
attuned communication, and dialogue (Black, 2006). These moral/social capabilities emerge as the outcome of organizational processes of identifying and interpreting CSR forces, updating past experiences on CSA, and in short, learning about the firm’s proper response to social/moral issues (Egels & Zaring, 2005). As sets of skills and knowledge, they are codified in a repertoire of routines which constitute dynamic “building blocks” that can be combined and deployed in new and different ways (Costello, 2000; Nelson & Winter, 1982; Teece et al., 1997). Consistent with a critical realist perspective, these capabilities span an organization’s culture and structure and enable managerial agency. In other words, within a transformed firm structure and via an updated organizational culture, moral/social capabilities provide tools for appropriate CSA in subsequent cycles (Black, 2006). Managers can invoke these routines to frame and categorize social/ethical problems and select from this repertoire to construct lines of social action (Howard-Grenville, 2007).

Naturally, not all firms build organizational character and develop moral/social competence. Selznick distinguished between organizational orientations towards “social awareness” and “public relations”. Many firms enact easily decoupled CSR structures and programs, which leave the organization intact. This implies an orientation to public relations, which provides the appearance of corporate socially responsible activity while insulating much of the organization from those responsibilities. Likely, these firms will not acquire moral/social capabilities and competence.

In contrast, the institutionalization of the firm as a mediating organization involves the integration of CSR structures and the adoption of changes that affect the firm’s very conception of itself, which reflects an orientation towards social awareness. As argued above, such a firm has built organizational character, i.e. it has codified its CSA experiences into a repertoire of organizational routines constitutive of moral/social capabilities. Consistent with the previously
discussed arguments, the latter type of organization, internally changed by its CSA and in possession of the competence of being an effective mediating institution, represents a higher level of CSP in the real domain.

The failure to integrate purpose and commitment into the structure of the firm, that is, to infuse and attune values, constitutes “a default to efficiency and only efficiency” (Fort, 2001: 109) or a “retreat to technology” (Selznick, 1957/1984: 79), i.e. the organization’s evasion of its real commitments to its members and society, which Selznick emphatically attributes to a “default of leadership” (1957/1984: 25). Accordingly, institutionalizing a mediating organization requires the exercise of institutional leadership, a distinctive and important form of managerial agency which requires leaders to be “normative receptive”, i.e. aware “that values and facts are inseparable in policy formulation” (Swanson, 1999: 515). The exercise of this leadership defines the ends of the organization’s existence, designs a structure distinctively adapted to these ends, helps the development of organizational ideologies, and promotes the creation and protection of informal structures that play a vital role in the enactment of values (Goll & Zeitz, 1991; Orlitzky & Swanson, 2002), all of which contributes to produce “a distinct identity for the organization” (Andrews, Basler, & Coller, 1999; Selznick, 1957/1984: 40). In other words, through institutional leadership, the organization develops its structure, its culture, and its identity.

It is interesting to point out the strong parallelism between, on the one hand, the results of Waldman et al (2006) on the three dimensions of managerial CSR values at the individual level (shareholder-, stakeholder-, or community-oriented, as discussed in section 4.1.2 of chapter 4) and, on the other hand, at the firm level, Brickson’s (2005) three stakeholder identity orientations (self-oriented, relational, and collectivistic; see section 3.3.3 in chapter # 3) and Jones, Felps, & Bigley’s (2007) three central stakeholder cultures (discussed in section 3.3.2 of chapter 3). Waldman and colleagues also found that CEO leadership, in the form of vision and
integrity, strongly influence the formation of CSR values in subordinate managers. This suggests that the relationship between individual managerial CSR values, and organizational identity orientation and stakeholder culture is mediated by the exercise of institutional leadership (Selznick 1957/1984), which infuses and attunes values (Orlitzky & Swanson, 2002).

In short, a high degree of structural CSP is a desirable outcome of the interplay between CSA and CSR emergent properties. Such outcome essentially consists of, through double morphogenesis, the transformation of the focal organization and its institutionalization as a mediating institution (Fort, 2001, 2002; Selznick, 1957/1984). I describe such an organization as one which has acquired enduring moral/social capabilities (Black, 2006) and has developed organizational character, i.e. a distinctive moral/social competence (Marcus & Anderson, 2006; Selznick, 1957/1984). These attributes are likely reflected in a structure with enough redundancy and requisite variety for CSA (Husted, 1993, 2000); a corporate culture of social responsibility and ethical choice (Goll & Zeitz, 1991; Jones et al., 2007; Wood, 1991); and a relational and/or community-oriented organizational identity (Brickson, 2005, 2007). Such organization exerts, internally and externally, a comprehensive and effective social policy which allows the firm to gain and maintain legitimacy in its socio-cultural environment (Suchman, 1995; Wood, 1991). This process of institutionalization requires the intervention of institutional leaders, capable of infusing and attuning CSR values (Orlitzky & Swanson, 2002; Selznick, 1957/1984; Waldman, Siegel, & Javidan, 2006).

5.4.- SUMMARY: AN OUTLINE OF A CRITICAL REALIST THEORY OF CSR, CSA, AND CSP IN INTERNATIONAL SETTINGS.

Chapters 3, 4, and 5 constitute an initial formulation of a critical realist, typological theory of corporate social responsibility and corporate social performance in international settings, whose basic constructs and first-order relationships are synthesized in Figure No. 1, at the
beginning of chapter 3. This formulation begins in chapter 3 by broadly defining CSR, with Frederick (1994), as the obligation of business firms to work for social betterment. I argue that CSR obligations motivate different types of corporate social actions, i.e. strategic/instrumental, value-based, isomorphic, or affectual (Weber, 1922/1978). Based on critical realism and morphogenetic social theory, I have proposed that CSR obligations are causal factors that emerge from both the cultural and structural systems of each society in which a multinational company operates. Hence, I call those obligations “cultural emergent CSR properties” and “structural emergent CSR properties”, respectively. Most of chapter 3 is dedicated to analyzing the nature and sources of corporate social responsibilities, as they emerge from diverse socio-cultural systems, as well as the kind of social action that each of those responsibilities motivate.

In addition to their first-order (direct) causal influence, emerging CSR causal factors have second-order relations of congruence or incongruence with one another. Their interplay generates specific configurations in each time and place which define the expected content, direction, and modality of CSR. These configurations define a situational logic and suggest some directional guidance which conditions, but do not determine, a certain kind of CSA.

In this perspective, the organization is seen as an intermediate cultural and structural system which provides the positions and practices from which managers act. In international settings, “the organization” is often a dyad constituted by a parent company and its subsidiary, or a more extended network comprising several subsidiaries, which makes the organizational intermediate cultural and structural system more complex and less homogeneous. Organizational characteristics (culture, structure, and identity) of the parent company and the subsidiary add their own CSR emergent properties and mediate the way in which configurations of socio-cultural CSR emergent properties are perceived by managers.
Since it is managers who can act according to the responsibilities that emerge from the socio-cultural system by acknowledging, accepting, assuming, and responding to them, chapter 4 begins by highlighting the role of human (managerial) agency. Consistent with morphogenetic theory, I propose that managers, other organizational members, and stakeholders, through their actions and interactions, necessarily mediate the conditioning influence of CSR principles and concepts and shape CSA. During this process, the personal characteristics of managers with respect to CSR come into play. Those characteristics (e.g. managerial power, identity, experience, education, moral agency) constitute additional causal CSR powers or, in Archer’s (1995) terms, personal CSR emergent properties. As with cultural and structural emergent CSR properties, personal CSR properties have first-order causal effects and, in addition, stand in relations of complementarity or contradiction with one another and with cultural and structural CSR properties. The interplay of all these causal powers shapes CSA.

The chapter continues by analyzing the modalities of corporate social action, seen as socio-cultural interactions between firms and their stakeholders along the dimensions of environmental assessment, stakeholder management, and issues management. The fundamental point is the extent to which CSA is appropriate, i.e. congruent with the situational logic defined by social, cultural, and personal CSR properties. CSP will likely follow from appropriate CSA.

In chapter 5 I study CSP, conceived of as the outcome of the interplay between CSR emergent properties, managerial agency, and firm-stakeholder interactions (CSA). Consistent with much of the current literature, I initially conceptualize CSP as a multidimensional construct constituted by outcomes of corporate interactions with different stakeholders, actual or potential, on several types of social and moral issues. In addition, and consistent with critical realism, I propose that CSP is also constituted by outcomes that occur at different levels of the social reality (real, actual, and empirical). I argue that, in the real domain, CSP is the measure of the social and
moral legitimacy gained, maintained, or repaired by an organization as an outcome of its decisions to manage the situational logics defined by the CSR properties emerging from the socio-cultural reality of which the organization is a part. Building on Suchman (1995), legitimacy (and CSP) is seen as constituted by pragmatic, cognitive, and moral dimensions.

Some properties or intangible assets, particularly legitimacy, and perhaps competitive advantage, emerge as a result of appropriate CSA. The level of a firm’s CSP is defined by the extent to which legitimacy emerges, which occurs through processes of change (morphogenesis) or reproduction (morphostasis) in the moral/social position of the firm in its environment and, more narrowly, in the characteristics and quality of firm-stakeholder relationships. In addition, competitive advantage based on CSA may also emerge under some conditions. Although, in a situation of multifinality, legitimacy and competitive advantage may emerge from the same causal path (i.e. appropriate CSA), they do not necessarily emerge together, and if they do, they may stand in relations of contradiction or complementarity with one another. The autonomy of these properties explains the equivocal results that researchers have found when studying the relationships between CSP and financial performance.

Finally, I propose that another outcome of appropriate CSA is the transformation and institutionalization of the acting organization as a morally/socially responsible entity, endowed with specific capabilities that aggregate into a moral/social distinctive competence, i.e. character. This is a structural dimension of CSP. Such competence allows the firm to better work for social improvement in subsequent cycles.

A **Boolean representation.** The theoretical framework of this dissertation can be summarized in terms of Boolean algebra (Fiss, 2007). In this view, complex variables can be seen as sets of variables with logical relations with one another. For instance, the expression

\[ A + B \rightarrow Z \]
can be read as “A or B or both imply Z”; where “+” denotes the logical operator “or” while “→” denotes the logical operator for implication. Other operators used in this type of expressions are “•”, which denotes “and”, and “~”, which denotes the logical absence or “not”.

In this view, for example, the CSR properties that emerge from the cultural (ideational) system are seen as members of a set A. Similarly, properties emerging from the institutional and legal environment constitute a set B; and so forth. Accordingly, a simplified expression of the causal path of corporate social action is:

\[(A + B + C + D + E + F + G) \cdot H \rightarrow \text{CSA}\]

where “H” represents the properties emergent from human agency, and “A” through “G” represent properties emerging from the socio-cultural system, i.e. from the cultural/ideational system (A), the institutional and legal environment (B), systems of exchange (C), the level of socio-economic development (D), the firm’s task environment (E), patterns of stakeholder relationships (F), and the focal organization (G). The expression can be read as “one or more of the socio-cultural CSR emergent properties and personal properties emergent from managers condition corporate social action”.

The morphogenetic approach specifies that some properties may be complementary, while some others may stand in a position of contradiction. In the context of this dissertation, some emergent properties may complement one another to condition CSA in a certain way, while some other properties may contradict with each other and act against certain forms of CSA. In this way, for example, if A is the set of properties emerging from the cultural/ideational system of a society, it likely contains a subset A₁ which includes all pro-CSR properties; a subset A₂ which includes all properties against CSR; and a subset of other neutral properties, not related to CSR (formally, assuming that there are not neutral properties: \(A₁ \subset A\), \(A₂ \subset A\), and \(A = A₁ \cup A₂\)). Therefore, a more detailed expression of the causal path of CSA is:
\[(A_1 + \sim A_2 + B_1 + \sim B_2 + C_1 + \sim C_2 + D_1 + \sim D_2 + E_1 + \sim E_2 + F_1 + \sim F_2 + G_1 + \sim G_2) \land (H_1 + \sim H_2) \rightarrow CSA\]

where \(A_1, B_1, C_1\ldots\) represent properties conditioning for a particular form of CSA and \(A_1, B_1, C_1\ldots\) represent properties conditioning against that form of CSA. The expression can be read as “one or more of the socio-cultural pro-CSR emergent properties but not those against CSR and personal pro-CSR properties emergent from managers but not those against CSR condition corporate social action”.
Chapter 6
METHODOLOGY

In the previous three chapters I have presented a theoretical framework that sets the stage for answering the research questions of this dissertation, i.e. it provides guidelines for ideographic explanations of the causes of corporate social responsibilities, the dynamics of corporate social action, and their consequences as corporate social performance. This theoretical development is consistent with the assumptions of critical realism and, based on the postulates of morphogenetic social theory, it integrates mechanisms leading from managers to socio-cultural structures and those leading from such structures to managers. It constitutes an initial formulation of a critical realist “typological theory” (George & Bennett, 2004) of corporate social responsibility and corporate social performance in international settings.

Analogous to the concepts of Van de Ven & Poole (1989/2000: 48-50), I conceptualize the theoretical framework of the previous chapters as a “global model” or “motor” which describes and explains general trends, overall processes, formal causes, and final outcomes of corporate social action; but which requires “local theories of immediate action” for describing and explaining the processes, interactions, and mechanisms that operate in particular local and temporal contexts. In turn, as research accumulates, the global model will incorporate those local theories and will describe and explain how they combine.

In this dissertation, and with the purpose of continuing the development of a typological “global” theory of CSR and CSP in international settings, I follow a single-case research strategy
to formulate a “local theory”. As I explain below, the single-case study can serve as both, a plausibility probe of the theoretical proposal and one of its building blocks.

According to George & Bennett (2004), typological theories identify causal mechanisms (as they are understood in critical realism), specify their conjunctions or configurations (called “types” by these authors), and provide contingent generalizations (hypotheses) on the pathways through which and the conditions under which the causal mechanisms produce certain results. In this way, typological theories provide a way of modeling complex contingent relations, like those which often occur in the CSR field, such as path dependences, multiple interaction effects, disproportionate feedback loops, sequential interactions, equifinality (many alternative causal paths to the same outcome), and multifinality (many outcomes consistent with a particular value of one variable). George & Bennett argue that the value of a typological theory does not rest upon its ability to project the expected frequency distribution of causal mechanisms and outcomes in the total universe of cases. Consistent with critical realism, the goal of typological theorizing is rich explanation, i.e. the identification of the variety of causal patterns that can lead to the outcome of interest and the determination of the conditions under which these patterns have occurred, once or a thousand times, or are hypothesized to occur. The hallmark of a typological theory is the accumulation of a repertoire of causal mechanisms or “local models of action”, and the refinement of contingent generalizations that allow, on the one hand, researchers to formulate rich explanations and, on the other hand, practitioners to make clear diagnoses of emerging situations.

Typological theories are often constructed and refined through case studies (although they can also benefit from large-scale quantitative methods), via a “building-block” approach, by which each case potentially provides a new component in the construction of a comprehensive theory. In particular, George & Bennett advise that “new and relatively untested research
programs are more likely to be advanced by plausibility probes” (2004: 251). A plausibility probe is a preliminary, though rigorous, usually single-case study on relatively untested theories, which is performed in order to assess their usefulness and refine them. The theoretical framework presented in chapters 3, 4, and 5 draws from the extant literature on CSR and CSP to suggest an initial list of CSR causal mechanisms, CSA pathways, and CSP outcomes. I think that it can be developed into a cumulative, refined typological theory. For that purpose, and following George & Bennett’s suggestion, in this dissertation I use a single-case research strategy to offer a plausibility probe of the explanatory power of such a theoretical framework. In addition, this single-case study, whose outcome is an ideographic model of CSA, can be useful as a “building block” of the theory.

6.1.- A SINGLE-CASE STUDY STRATEGY

The main objective of this dissertation is to develop a theoretical framework on which to base ideographic explanations of the nature, causes, dynamics, and consequences of corporate social responsibility and corporate social performance, with a focus on subsidiaries of multinational companies. The theoretical model of the previous chapters presents these causes, dynamics, and consequences as complex, multidimensional, ideographic, and not readily distinguishable from its context. Under these conditions, it is impossible to conduct true experiments in order to test the proposed theory or to attribute the causality that the research questions of this dissertation require (Yin, 1994; 2003). On the other hand, survey strategies do not seem appropriate either. Surveys have important limitations to test multiple-variable, complex causal explanations (Yin, 1994; 2003) such as those outlined in the theoretical model of this dissertation, which involves multiple and sequential interactions, multiple levels of analysis, embedded units of observation, and perhaps relations of equifinality or multifinality. This type of
theory is hard to test with large-scale survey methods. Typological theories are usually tested with case studies, because the goal is rarely to refute a theory decisively, but to identify the scope or domain to which its generalizations apply (George & Bennett, 2004). However, such testing takes place when theories are fairly well developed, which is not the case for the theoretical framework presented in the previous chapters. As explained above, this framework should be seen as an “initial theory” (Hamel, Dufour & Fortin, 1991/1993) or “motor” (Van de Ven & Poole, 1989/2000), which requires further refinement through the eventual accumulation of “local theories”.

Therefore, as George & Bennett advise, a plausibility probe seems to be the most appropriate next step for the development of my theory. For that purpose, and for improving its explanatory power, I follow a case study strategy. This is consistent with Van de Ven’s assertion that a significant way to improve the robustness of explanations is “to explicitly observe the process argument that is assumed to explain why an independent variable causes a dependent variable” (1992: 170). The consideration of various possible causal paths in the case study allows for “different interpretations [that] are less like true ‘tests’ of theory and more like alternate complementary readings that focus on different variables and levels of analysis and reveal different types of dynamics” (Langley, 1999: 699).

6.1.1.- Research Design.

In this study I use an embedded, longitudinal, single-case design (Yin, 1994), in which the main unit of analysis is the subsidiary organization. Embedded units are the most salient stakeholders of the subsidiary: e.g., subsidiary and parent-company managers (as individuals), shareholders, workers, suppliers, customers, and government. Within-case embedded units have been selected for observation on a judgmental, theoretically driven basis.
The theoretical lenses with which I approach this case study necessarily require a longitudinal study, with multiple observations within the case. Morphogenetic social theory (Archer, 1995, 1996), which is the basis of the framework presented in previous chapters, explains a social phenomenon as a continuous flow over time, which for analytical purposes is divided in the three morphogenetic phases of socio-cultural conditioning, social interaction, and socio-cultural elaboration. The starting point for analysis is arbitrary (Fleetwood, 2004). Accordingly, the case has been divided into several phases, each of them defined by a discontinuous change in an important variable or causal path. This research design follows the logic of “time series” (Campbell & Stanley, 1963: 37). This is a quasi-experimental logic in which there are multiple observations of the relevant variables over time for the single case. The discontinuities in the measurements were traced to specific events or changes, which are analogous to an experimental change or “treatment”.

In particular, in this dissertation I use a single-case study strategy. I aim at providing an explanatory account of the causes, dynamics, and consequences of CSR for a particular subsidiary organization. The decision to work with a single case design is justified by at least three reasons. First, in this dissertation I have adopted the assumptions of critical realism. This philosophical stance endorses a conception of causality and causal explanation that is fundamentally different from that advanced in other perspectives. Unlike empiricists (and perhaps close to postmodernists), critical realists do not conceive of causality as statistical generalizations of empirically observed constant conjunctions. Like positivists, critical realists refer to causality as the powers of mechanisms, structures, and people to generate certain outcomes. However, critical realists claim that those outcomes are tendencies that may or may not be contingently observed in particular empirical events; they argue that the configuration of those causal powers is peculiar to a defined space and time, and consequently, it demands
ideographic explanation (Reed, 2005: Tsoukas, 1989). Single-case study designs are particularly well suited to provide such kind of explanations, which constitute worthy research projects in and by themselves. In this dissertation I present one such explanatory, single-case study.

Second, although the case study has long been recognized in organization and management research (e.g. Eisenhardt, 1989), it has largely been regarded as a useful precursor of more traditional, large-scale studies, or only appropriate in situations which are “interesting” and/or unique (Yin, 1994). This perspective, close to positivism, often favors the use of multiple-case designs which, on the basis of its “replication logic”, focus on regularities and conjunctions and, therefore, are assumed to be more generalizable (Eisenhardt, 1989; Yin, 1994). However, such replication logic is methodologically weak and only reflects the tendency of positivistic researchers to assimilate or “domesticate” case studies into their paradigm 28.

In contrast, most critical realists (e.g. Dobson, 2001; Easton, 2000; George & Bennett, 2004; Harrison & Easton, 2004; Tsoukas, 1989) consider case studies as useful even if the research object or phenomenon is considered to be well understood from within a particular theoretical perspective. A case is not seen as just one observation in a large population. Rather, a case is an instance in a class of events, that is, an instance of a phenomenon of scientific interest which can be studied in and by itself, with the aim of knowing its causes (George & Bennett, 2004; Siggelkow, 2007). The validity of critical realist research depends upon the appropriate identification and clarification of generative mechanisms and causal powers, not upon the number of cases. From the realist perspective, “one case is enough to generalise: not generalising to any

28 Indeed, the replication logic of Eisenhardt’s (1989) and Yin’s (1994) multiple-case study designs is not a replication in the strict sense of the concept, for true replication is to be carried out at a time after the original study has been completed, and ideally, by researchers different from those of the original study (Tsang & Kwan, 1999). Furthermore, “perfectly comparable cases for comparative analysis seldom exist” (George & Bennett, 2004: 164). For these and other inconsistencies, in the opinion of some critical realists “the use of multiple cases more often results from the nervousness of the researcher than from any profound concerns about epistemology or methodology” (Harrison & Easton, 2004: 196).
population but to a real world that has been uncovered. … One case can create and/or test a theory to the extent that it uncovers reality” (Easton, 2000: 214). Supported by this perspective, in this dissertation I rely on a single case study to help in the process of creation of a typological theory of CSR and CSP in international settings, and as an initial test of its explanatory power.

Third, the development of typological theories relies heavily on case studies (George & Bennett, 2004). It is in single-case studies that the detailed operation of causal mechanisms is examined and generalized to theory. If necessary, individual cases may later be joined by additional cases, some of which may offer different causal mechanisms when equifinality or multifinality is present. The accumulation of these “building blocks” leads to the formation of the repertoire of causal mechanisms and the refinement of contingent generalizations which is desirable in typological theorizing. However, George & Bennett recommend, as one of the first steps in developing a typological theory, to do plausibility probes of the theory. Therefore, studying one single case is consistent with the process of developing a typological theory, because it serves both as a probe of my theoretical model, as one of its first “building blocks”, and as a concrete example that illustrates the application of my conceptual arguments to an empirical setting (Siggelkow, 2007).

6.1.2.- Case Selection.

The chosen case is Mexfruco29, a Mexican firm which is a subsidiary of Interfruco, a U.S. corporation. Mexfruco is located in the State of Michoacan. Its main activity is sourcing, packing, shipping, and exporting fresh fruits, particularly avocados. The final products of the subsidiary (different presentations of fresh fruits) are sold internationally by the parent company without any further processing. Mexfruco is a medium-sized company in the context of its industry, with sales

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29 The firm identified as “Mexfruco” throughout this dissertation, and its parent company “Interfruco”, are pseudonymous. Any similarities between these fictitious “Mexfruco” and “Interfruco” and any real companies bearing these names are coincidental and unintentional. All personal names have been disguised too.
above 20 million dollars per year and 200 employees. This subsidiary began operating in 1997, with the participation of two local entrepreneurs as minority shareholders, who also acted as managers of the firm. In August 2001, the two local entrepreneurs left the organization and sold their shares to the parent company; from that point on, Mexfruco has been a wholly-owned subsidiary of Interfruco. Table No. 1 presents some indicators of Mexfruco’s strategic performance. Table No. 2 presents some indicators of selected concepts of corporate social action. For the purposes of this dissertation, I have studied the period that goes from Mexfruco’s beginning of operations in July 1997 to December 2004.

**Table No. 1 - Some indicators of Mexfruco’s strategic performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sales (Mexican Pesos)</th>
<th>Market Share of Mexican Avocado Exports</th>
<th>Market Share in Japan</th>
<th>Market Share in the UK</th>
<th>Market Share in USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>15,315,868</td>
<td>14.7%</td>
<td>21.0%</td>
<td>44.5%</td>
<td>47.2%</td>
</tr>
<tr>
<td>1998</td>
<td>109,462,663</td>
<td>13.7%</td>
<td>27.0%</td>
<td>30.7%</td>
<td>10.4%</td>
</tr>
<tr>
<td>1999</td>
<td>213,312,438</td>
<td>16.9%</td>
<td>42.7%</td>
<td>46.8%</td>
<td>12.2%</td>
</tr>
<tr>
<td>2000</td>
<td>199,791,222</td>
<td>11.9%</td>
<td>26.8%</td>
<td>35.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>2001</td>
<td>176,982,762</td>
<td>9.5%</td>
<td>23.6%</td>
<td>24.7%</td>
<td>14.2%</td>
</tr>
<tr>
<td>2002</td>
<td>132,357,567</td>
<td>12.3%</td>
<td>20.7%</td>
<td>32.1%</td>
<td>12.3%</td>
</tr>
<tr>
<td>2003</td>
<td>201,498,244</td>
<td>7.6%</td>
<td>10.4%</td>
<td>0.0%</td>
<td>10.1%</td>
</tr>
<tr>
<td>2004</td>
<td>132,273,521</td>
<td>8.4%</td>
<td>7.5%</td>
<td>0.0%</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

**Table No. 2 - Some indicators of Mexfruco’s corporate social action**

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure in Worker’s Training (Mexican pesos)</th>
<th>Expenditure in Worker’s Health and Safety</th>
<th>Expenditure in Food Safety Programs</th>
<th>Donations to Local Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>0</td>
<td>0</td>
<td>23,141</td>
<td>0</td>
</tr>
<tr>
<td>1998</td>
<td>0</td>
<td>0</td>
<td>Not available</td>
<td>0</td>
</tr>
<tr>
<td>1999</td>
<td>25,674</td>
<td>21,449</td>
<td>1,259,303</td>
<td>0</td>
</tr>
<tr>
<td>2000</td>
<td>36,667</td>
<td>45,625</td>
<td>3,456,595</td>
<td>0</td>
</tr>
<tr>
<td>2001</td>
<td>10,045</td>
<td>0</td>
<td>1,536,431</td>
<td>0</td>
</tr>
<tr>
<td>2002</td>
<td>4,431</td>
<td>0</td>
<td>158,104</td>
<td>8,843</td>
</tr>
<tr>
<td>2003</td>
<td>3,028</td>
<td>2,340</td>
<td>309,004</td>
<td>4,673</td>
</tr>
<tr>
<td>2004</td>
<td>5,139</td>
<td>0</td>
<td>204,797</td>
<td>4,442</td>
</tr>
</tbody>
</table>

The strategy for selecting the single case can best be labeled as “planned opportunism” (Pettigrew, 1990), given the combination of theoretical and pragmatic aspects on the decision. On
the one hand, the selection of the case followed the logic of theoretical, not random, sampling (Eisenhardt, 1989; Yin, 1994). According to Pettigrew (1990), an important reason to choose a case is the experience level of the phenomena under study that the case has. Mexfruco was the first company in its industry, and for some time, its leader, in developing and implementing locally- and globally-relevant CSR programs; it is probably the company with the most experience on that type of programs in its industry and, hence, a good case to select for study.

Another theoretical reason to select a case is the variance that it presents on the dependent variable, i.e. whether it illustrates high and/or low values of the dependent variable under study (Pettigrew, 1990). In contrast to usual criteria for selection of observations in large-scale, statistical studies, selecting cases on the dependent variable, as Pettigrew suggests, is appropriate in case studies in order to identify causal paths as well as variables that are not necessary or sufficient conditions for the selected outcome (George & Bennett, 2004). Interestingly, Mexfruco has presented, throughout its history, both high and low levels of strategic performance, as well as high and low levels of corporate social action, as suggested by the data in Tables No. 1 and 2. This circumstance allows “comparisons within the same organizational context” (Dyer & Wilkins, 1991: 614) and makes Mexfruco a relevant case for the present study.

On the other, more pragmatic hand, my research interest in CSR and CSP in international subsidiaries emerged to a large extent from my past personal experience as a manager in Mexfruco. Pettigrew argues that “the selection of research sites is shaped by the choice of research topics and questions being posed” (1990: 274). Since my research topic and questions fundamentally emerged from my experience in that company, it made sense to choose it as my research site. In addition, access to documentation, respondents, and other sources of data was greatly facilitated by my knowledge of the company and its members.
In summary, considering the theoretical and pragmatic aspects that I have discussed, I conclude that the selected case is relevant to and appropriate for the objective of this dissertation.

6.2.- DATA MANAGEMENT AND ANALYSIS

Data management in qualitative studies includes the operations needed for a systematic, coherent process of data collection, storage, and retrieval. In turn, data analysis encompasses three concurrent flows of activity: data reduction, data display, and conclusion drawing (Miles & Huberman, 1994). Typically, case studies involve an interactive model in which data collection, data analysis, and conclusion drawing occur before, during, and after each other, in an interactive manner. Accordingly, in this section I discuss these parts of the process under separate headings, but noting that those separations are not clear-cut; they often include activities that belong to the other parts of the process.

6.2.1.- Measures and Observations.

The following paragraphs offer a short explanation of the measures and observations which have been collected. More specific details of these observations are included in the Research Protocol (Appendix No. 1). The longitudinal nature of this study required multiple observations of the relevant variables over time. For some of these variables it has been possible to have precise measurements. However, several other concepts are not easy to measure and only allow for qualitative observations or, moreover, non-observable interpretations. On this matter I have followed the recommendation of Sutton & Staw (1995) about relaxing the measurement standard when dealing with interesting, speculative and innovative theories, which I hope my theoretical proposal to be. There are many examples of the benefits of accommodating speculative, complex causal mechanisms that, at least initially, cannot be observed empirically (Ofori-Dankwa & Julian, 2001).
The observations refer to the variables that have been discussed in chapters 3, 4, and 5. Here I only present a summary list of them:

**Cultural system.** It involves identifying the beliefs, ideologies, and social theories held to be true by parent company and subsidiary managers, as well as by stakeholders, and the logical complementarity or contradiction that may exist between them. Such identification proceeded from secondary sources about Mexican culture, as well as from interpretation of the beliefs of Mexfruco’s managers and stakeholders. The study of the cultural system also involves identifying the type of CSR which is associated with the relevant beliefs, ideologies, and social theories.

Some more specific topics to observe are:

- Religious precepts and religious role expectations.
- Predominant ethical (philosophical) principles and orientation.
- Dominant perspectives on social development and the role of the firm.

**Institutional framework and legislation.** It includes the laws, norms, institutional rules, and customary obligations of the subsidiary firm with each of its stakeholders, as existing in Mexico, including the role of the State and the roles and duties assigned to managers. It also includes the comparison with the institutional framework and legislation of the home country (USA). Observations of the institutional framework also involve identifying the type of CSR which is associated with the relevant laws, norms, etc.

**Systems of exchange.** The focus is on the system of exchange that prevails in the socio-cultural system of each major stakeholder of the subsidiary and the extent to which that system shapes the expectations of each stakeholder group with respect to CSR. These data was obtained from secondary sources about the Mexican business environment and other cultures’ systems of exchange, as well as from interpretation of the discourse of Mexfruco’s managers and stakeholders.
Socio-economic development. The observations on this topic refer to the pressures and opportunities for CSR derived from the level of socio-economic development of the host country (Mexico), particularly the social needs that are perceived by managers and stakeholders, as well as tax compliance.

Task environment. Among the different dimensions of the task environment identified by Dess & Beard (1984), there are two of them that previous research has related to a firm’s CSP (Goll & Rasheed, 2002, 2004) and that are subject to observation in this study:

- Dynamism, or the degree to which unpredictable change can occur, which is measured from 2 variables: growth in sales and growth in total employment. The dynamism is estimated by the dispersion about a trend line over time for each of these variables (Dess & Beard, 1984).
- Munificence, or the ability of the environment to support sustained growth, measured by the rate of growth in sales, profits, and total employment (Dess & Beard, 1984).

Characteristics of stakeholder relations, such as:

- Bargaining power (Mitchell, Agle, & Wood, 1997), seen from different perspectives: as the capacity to reward or punish the firm, small-numbers bargaining advantage, degree of dependence on resources, and degree of centrality in the firm’s network. This characteristic has been measured in a way similar to the work of Agle, Mitchell, & Sonnenfeld (1999).
- Legitimacy of stakeholders’ claims (Mitchell et al., 1997), as perceived by the subsidiary managers, similarly to the measure used by Agle et al. (1999).
- Modalities of exchange with stakeholders: agency or stewardship.
- Global or local condition of the stakeholder.
- Urgency, the third dimension of a stakeholder salience (Mitchell et al., 1997), has been observed only tangentially, because I do not consider it to be an emergent CSR property belonging to the real domain (i.e. intransitive, operating transfactually, and only accessible in a mediated way), but a feature of actual
interactions in the actual domain, with little relevance within a longitudinal perspective.

Organizational structure of both the parent company and the subsidiary. In this topic I follow the discussion of Husted (1993, 2000), focusing on the type of structure (e.g. functional, collegial, representative, informal etc.) and its impact on CSR activities and CSP.

Organizational culture of both the parent company and the subsidiary, and more specifically, its values (Frederick, 1998; Orlitzky & Swanson, 2002) and the dimensions of organizational culture that, around the notion of values, have been linked by previous research to a firm’s social action, i.e. corporate ideology (Goll & Zeitz, 1991), stakeholder cultures (Jones, Felts, & Bigley, 2007), and cultural styles (Cooke & Rousseau, 1988).

Organizational identity orientation, which is the nature of the firm’s assumed relations between an organization and its stakeholders, i.e. self-interested, relational, or collectivistic, as discussed by Brickson (2005).

Managerial logics of action, observed at the level of individual parent company and subsidiary managers. According to Whittington (1992), these logics of action may be, for instance, profit maximization, professional excellence, political positioning, solidarity with local communities, care and/or paternalism, anomie, etc.

Emergent powers of managers from both the parent company and the subsidiary. I follow the theory developed in chapter # 4 to identify the managerial powers to be observed. However, there may be other powers that might be identified and observed in the process of this study. The initial list of managerial powers is:

- Drive to efficiency and effectiveness.
- Ability to elicit active cooperation from stakeholders.
- Ability to control the transformation of labor power into actual labor.
Social affiliations, e.g. ethnicity, family, religion, professional groups.
Level and type of education.
Executive experience and functional background.
Discursive penetration.
Perceptions of self-efficacy.
Individual values and beliefs as manager: shareholder-oriented, stakeholder-oriented, or community-oriented.
Degree and type of moral development.
Self-regulatory skills, exonerative moral reasoning, and moral self-regulation disengagement.

Corporate social action. I measured different indicators of CSA in a quantitative form. In addition, CSA was qualitatively measured by using Clarkson’s (1991, 1995) methodology. Clarkson’s scale is known as RDAP (reactive, defensive, accommodative, and proactive). It measures the degree of “proactiveness” of CSA. Following his logic, I use an ordinal scale in which 1 means a reactive orientation and 4 means proactive CSA. The dimensions that I measured are:

- Employees: (a) Compliance with social security regulations; (b) contracting conditions; (c) profit-sharing; (d) training; (e) workers’ safety and hygiene; (f) collective bargaining; (g) absenteeism and turnover; (h) termination practices; (i) job conditions for women; (j) overall job satisfaction.
- Local and/or minority shareholders: (a) Assessment of their satisfaction, and (b) degree to which their rights are observed.
- Customers: (a) Observation of customers’ need or right to know; (b) product safety measures; (c) handling of customer complaints; (d) overall customer satisfaction.
- Suppliers: (a) Power balance between the firm and suppliers, and effects of relative power; (b) Overall suppliers’ satisfaction.
• Local government: (a) Tax compliance; (b) compliance with regulations for foreign investment; (c) overall satisfaction of local government officers with the subsidiary’s actions.

• Community: (a) Specific benefits and consideration of the local community; and (b) social investment, corporate donations and sponsorships.

• Industry/competitors: (a) Participation in industry associations; (b) overall assessment of the subsidiary by competitors (ranging from good/fair competitor to undesirable/unfair competitor).

• Environmental issues: (a) Waste management; (b) energy conservation; (c) development of environmentally friendly products; (d) use of environmentally friendly processes.

Assessments of stakeholders’ satisfaction and firm reputation, as proxies for pragmatic legitimacy.

Compliance with institutionalized CSR practices, as a proxy for cognitive legitimacy.

Moral legitimacy. As the business practices of Mexfruco are known, an ethical analysis of some of them might be necessary in order to assess their intrinsic ethical quality.

Subsidiary’s performance. Considering the inappropriateness of measuring performance of subsidiaries and joint-ventures according to traditional financial measures (Geringer & Hebert, 1989), subsidiary’s performance has been measured along several dimensions: (a) As the assessment of subsidiary managers of their unit’s performance to reach the objectives for which it was created, ranging from poor to good. (b) An analogous assessment, by parent company managers. (c) As assessments of subsidiary managers of their unit’s performance regarding quality of goods produced; sales; growth; labor productivity; and management development. (d) As subsidiary survival; evidence of liquidation, closing, significant reorganizations, or major
changes of ownership under adverse conditions were considered signs of failure. And (f) as changes in the subsidiary’s share of Mexican avocado exports.

6.2.2.- Data Collection.

The longitudinal observations that constitute the basis of this research have been drawn from retrospective accounts of the case, integrated from multiple sources of evidence. The theoretical framework has served a focusing and bounding function: some, not all, actors have been studied, along with some, not all, aspects of their activity; only some relationships have been explored and certain kind of outcomes measured.

Data collection began by interviewing ten local managers, two local stakeholders (farmers), two parent-company managers, and two global stakeholders (one Japanese customer and one British customer). These were individual, face-to-face interviews. In all of them I initially tried to establish an appropriate rapport and explicitly addressed the issues of informed consent and right to privacy of interviewees.

Following a multi-method approach to interviewing (Fontana & Frey, 1994), I initially used semi-structured interviews, applied as informal conversations in relaxed settings. In these interviews I asked for the interviewee’s own story in the subsidiary. I requested interviewees to develop “annals”, each of which is “a line schematic of the individual’s [life and experience in the studied firm] divided into moments or segments by events, years, places, or significant memories” (Clandinin & Connelly, 1994: 420), and to tell their stories around the points marked on the annal, i.e. to develop their chronicles (Clandinin & Connelly, 1994). Questions were based on the interview guidelines presented in Appendix No. 1 (Research Protocol). I accumulated almost 15 hours of interview recordings.
Other sources of data that have been available are many documents and archival records of Mexfruco, as well as some from relevant trade associations (e.g. the Association of Exporting Avocado Growers and Packers, APEAM, by its initials in Spanish). Such documents are: monthly financial statements, annual tax declarations, annual reports, minutes of annual shareholders assemblies, minutes of weekly management team meetings, accounting procedures and policies, internal communications, letters, electronic mail messages, industry records and statistics, etc. I obtained photocopies or electronic copies of these documents and organized them as part of the field notes. Relevant quantitative and qualitative data, events, actors and roles, and context indicators identified in these documents were recorded. In addition, direct observations of the firm’s activities and processes have been recorded in a book of field notes. Some of these indicators were related to the annals and later presented to managers or any other relevant stakeholders in repeated interviews to ask for the expansion or clarification of their chronicles.

I built a case database, with records of interview transcripts and notes, questionnaires, copies of documents, data from archival records, field notes, etc. The database also includes a summarized record of events, each entry of which shows the date, participants or subjects, actions or situations observed, outcomes (if observable), and data source. In addition, I kept a research diary, containing, among other notes, preliminary conclusions about regularities, patterns, explanations, causal flows, and in general, tentative open-ended answers to the research questions, attempting to integrate the available evidence as it was produced. These preliminary conclusions were repeatedly verified as the analysis proceeded, and tested for their plausibility and their confirmability, i.e. their validity. All of this allows maintaining a chain of evidence.
6.2.3.- Case Analysis.

The two basic tools for analysis and inference in the present case study are discourse analysis and process-tracing.

**Discourse analysis.** Discourse analysis is a technique by which many words of text are classified into substantially fewer categories, and a systematic procedure for studying the content of written documents or transcribed spoken presentations (e.g., interviews). In general terms, it involves the processes of conceptualization; categorization and coding; and conclusion drawing (Mayntz, Holm, & Hübner, 1969/1975; Wolfe, 1991). Conceptualization involves the definition of the linguistic unit of analysis. In this case, that unit is the sentence, although it eventually can also be a word or a paragraph. This process also involves the identification of the different ideas contained in the text. Categorization and coding involves the determination of the themes to be coded into specific categories.

In particular, I rely on Fairclough’s (2005) version of discourse analysis, which is based on a critical-realist ontology. A prominent tendency within research on organizational discourse is committed to postmodernism and extreme versions of social constructivism (e.g. Foucault, 1970/1973). Such tendency reduces the analysis of organizations to the study of discourse and rejects conceptions of organizational structures. Fairclough builds on that tendency but redefines it according to critical realism. For him, discourse is the linguistic element of the social, but the social is not reducible to discourse; accordingly, discourse is analytically isolable from but always interconnected with non-discursive elements. In addition, Fairclough sees the linguistic elements of human agency as ontologically different and analytically isolable from the linguistic elements of social structure. Correspondingly, discourse analysis has a doubly relational character: It analyses relations between discourse and other elements of social phenomena, and it analyses relations between linguistic elements of agency and linguistic elements of socio-cultural
structures. This perspective allows reaching a deeper understanding of these complex relations, including how changes in discourse can cause changes in other elements and vice versa. Consistent with this view, the processes of conceptualization and categorization performed in this dissertation are based on Fairclough’s distinctions and relations, including the status of complementarity or contradiction between them.

**Process-tracing.** A process is a sequence of events or activities that describe how and why things change over time (Van de Ven, 1992). Process-tracing is a method of inference that attempts to identify causal chains and mechanisms, and trace the links between those causes and observed outcomes by focusing on sequential processes. It requires the provision of a continuous and theoretically based historical explanation of the case, in which each significant step toward the outcome is explained by reference to the theory, or else the theory must be amended to explain the case (George & Bennett, 2004). Process-tracing involves sequence and phase analysis, as explained below.

Accordingly, I examine all data to see whether the proposed causal processes are in fact evident in the sequence and values of the variables that intervene in the case. In addition, I also use process-tracing as a heuristic device, to inductively generate new variables or causal paths on the basis of observed sequences of events.

**Within case analysis.** The analysis starts with a summarized record of events for the case. This required the use of content analysis techniques to reduce the qualitative information obtained from interviews, archives and documents, and other textual data. Although most categories or “tracks” were designed *a priori*, as informed by theory, I identified other categories emerging from the text. The summarized record of events was chronologically ordered. Each of its entries was initially coded into the different categories, using a set of dichotomous variables reflecting the presence/absence or occurrence/non-occurrence of qualitative and quantitative
indicators selected to measure theory-defined and emergent constructs (Van de Ven, 1992). Only those contents that are relevant for the research questions were recorded and coded.

Once dichotomously coded, I attempted to translate the indicators of each entry of the summarized record into a measure of the relevant variable. Most of these measures are RDAP ordinal scales (Clarkson, 1995), although some are nominal scales and others are quantitative ratio scales. When the entry could not be translated into the selected measure of a variable, the binary indicator of 1 for the presence/occurrence and 0 for the absence/non-occurrence of the informative feature was kept. In this way I developed conceptual tracks, each corresponding to the different categories (or constructs) theoretically defined (Van de Ven & Poole, 1989/2000). These tracks contain longitudinal measures of the different variables.

After developing conceptual tracks, I analyzed each of them to distill a description that was later used to test and refine the theoretical model. This analysis involved identifying patterns or cycles in each track through two approaches: sequence analysis and phase analysis.

A sequence is “an ordered sample of things” (Abbott, 1999: 376). As suggested by Abbott, I used sequence analysis to answer three types of questions: Are there meaningful patterns in the sequences? Which independent variables affect those patterns? Which dependent variables are affected by the patterns? Sequence analysis follows from the development of the chronologically ordered conceptual tracks described above. I identified sequences by displaying data in scatterplots of variables over time and in descriptive chronological networks of the various tracks (Miles & Huberman, 1994). I carefully examined the displayed data, in order to identify cycles, breakpoints, periods of disorganization, relative levels of key indicators, and general trends. By examining scatterplots I identified changes in the dependent variables (CSA and CSP), produced by changes in independent variables and causal paths, i.e. abrupt, constant changes; gradual, constant changes; or abrupt, temporary changes (McCain & McCleary, 1979).
On the other hand, “a phase is a period of unified and coherent activity” which is defined by “a meaningful set of co-occurring activities across the different tracks” (Van de Ven & Poole, 1989/2000: 40). Phase identification reduces the complexity of the many different tracks/variables. To identify phases, I firstly grouped all the tracks related to CSA into groups that showed homogeneous variation through time, according to the trends shown in the scatterplots. Since many of the tracks were constituted by nonmetric (mainly ordinal) data, I confirmed the homogeneity of each group by using Kendall's Coefficient of Concordance³⁰, a nonparametric test which is equivalent to confirmatory factor analysis in parametric statistics (Sharma, 1996). Afterwards, I used another nonparametric tool, the Wilcoxon Signed Rank Test³¹, to compare the combined scores of each track group across periods. Two or more adjacent periods showing no significant differences between them were identified as a phase. These phases were indentified exclusively on the basis of CSA indicators and, therefore, they only reflect periods of stability or change of Mexfruco’s corporate social action, not of other variables.

Phase identification is an appropriate way to implement the temporal bracketing strategy suggested by Langley (1999) and Harrison & Easton (2004) for theorizing purposes. In this strategy, data is decomposed into two or more successive adjacent periods, without presuming any progressive developmental logic between them. These periods constitute comparative units of analysis that permit the exploration and replication of theoretical models within the same

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³⁰ Kendall's Coefficient of Concordance (W) is an index of the divergence within a group of variables. It measures the degree of association between k variables. W can take values between 0 and +1; the higher the value, the more associated the group of variables (Siegel & Castellan, 1988; Gibbons, 1993b). In contrast to parametric factor analysis, the Kendall’s concordance test does not define which variables are associated with one another. Thus, it is necessary to observe and judge which variables seem to have similar variance patterns, group them together, and calculate W to test their concordance. This process must be repeated several times until, at the researcher’s judgment, the appropriate groups of variables have been identified.

³¹ The Wilcoxon Signed Rank Test compares two data sets to test the null hypothesis that both sets belong to the same population, i.e. that they are not statistically different. It considers the relative magnitude and the direction of the differences between the two sets. It is one of the most powerful nonparametric tests for the comparison of two samples (Siegel & Castellan, 1988; Gibbons, 1993a).
organizational context. For this purpose, I used time-ordered matrices in which all tracks, measuring either dependent (CSA) or independent variables, were displayed as rows and time periods as columns (Miles & Huberman, 1994). I carefully examined the matrices, seeking co-occurrences, patterns, and regularities. Afterwards, I causally analyzed the differences between consecutive phases.

As I studied phases and sequences, I cross-referenced the observed patterns with the actual events, actors, and contexts from which they arose, to draw preliminary conclusions, outline causal paths and relationships of complementarity or contradiction, and increasingly develop abstract explanations. As a help in this process, I developed causal networks (Miles & Huberman, 1994) and truth tables (Fiss, 2007), not shown in the body of this dissertation.

As typical in case studies, throughout the processes of data collection, data analysis, and conclusion drawing, I attempted to build alternative explanations for the case, different from those of the theoretical framework outlined in the previous chapters.

Afterwards, I wrote a comprehensive, but still preliminary narrative description of the case. Based on the different chronicles, conclusions of sequence and phase analyses, and research diary notes, I developed a story for Mexfruco. This preliminary narrative account was shared with two Mexfruco managers for their review. Their corrections and comments were incorporated into the analysis.

Finally, I wrote an analytical narrative of the case, along the lines of what Archer calls an “analytical history of emergence” (1995: 327), or what Van de Ven & Poole call a “local theory of immediate action” (1989/2000: 48). This narrative provides an explanation of the causal mechanisms of Mexfruco’s corporate social responsibilities in the real domain, the dynamics and pathways of its corporate social action, and its outcomes as corporate social performance for the period of study. In this format, “the tendential powers of generative mechanisms are
complemented and supplemented by a historical analysis of the concrete contingencies which intervened to produce the particular outcomes” (Archer, 1995: 327).

The process that I used to shape such explanatory narrative is “retroduction” (Blaikie, 1993; Savall & Zardet, 2004; see chapter 2, section 2.2.2). Retroduction proposes something that may not have been observed or could not be observed directly. It is a reasoning process aimed at discovering the underlying structures or mechanisms, in the real domain, that produce tendencies or regularities (Fairclough, 2005; Reed, 2005). While involving a process of reasoning, it does not lead to certainty but to “a” solution to the research problem.

My retroductive strategy began in the domain of the actual, with observed CSA activities and the identification of tracks and phases, on which I built the aforementioned preliminary, descriptive narrative (presented in chapter 7). The second step was to postulate the existence of real structures and mechanisms which, if they existed, would explain the actions and patterns of CSA. It involved asking: “What, if it existed, would account for this phenomenon?” While doing this exercise, I referred to the theoretical framework of the previous chapters, which led to the identification of socio-cultural CSR emergent properties in Mexfruco’s environment. Afterwards, in a third step, the attempt was made to demonstrate the existence and operation of those structures and mechanisms, through the development of causal configurations and the analysis of the processes of socio-cultural elaboration which they generated. The result is presented in chapter 8.

6.3.- VALIDITY AND RELIABILITY OF THE CASE STUDY

Case studies are often criticized for the lack of representativeness of the case or cases used as the point of observation (Hamel et al., 1991/1993; Yin, 1994), which reduces the external validity of any findings. However, in the critical realist perspective, valid knowledge requires the
appropriate identification and clarification of generative mechanisms and causal powers, as well as the contextual contingencies that are operating in the particular situation under research and the way in which they combine and interact to create the particular events observed in the empirical domain. To the extent to which I had been able to accomplish this explanatory task, the case study is externally valid, because it is in a position to make general claims about the world, i.e. the case exhibits the properties that are exemplary for understanding the general case, despite its particularities (Ackroyd & Fleetwood, 2000b; Easton, 2000). Generality is a property of the necessary relations in real structures; it is ascribed to the operation of causal tendencies or powers, which operate independently of observed events. Causal powers are externally valid, although their activation is, and thus their effects are, contingently determined. Consequently, generality is not a property of the empirical domain (Tsoukas, 1989).

The findings of this case study can therefore be generalized to theoretical propositions, i.e. an analytic, not statistical, generalization (Yin, 1994). The study is based on an initial theory which is tied to existing literature in the fields of sociology, organization theory, and CSR/CSP. Findings fit with and add to preexisting knowledge, which enhances the theoretical level of the resulting model (Eisenhardt, 1989). Certainly, it is an important risk of this research project to end with a very narrow and idiosyncratic model, but even if readers think so, it is consistent with the initial theory and the supporting literature, although limited in scope to subsidiaries of medium-sized MNCs, with a commoditized product. Consequently, the model may be not necessarily representative of most subsidiaries of MNCs, particularly of those that are part of extensive subsidiary networks of large MNCs.

Case studies are also criticized for the lack of rigor in the collection and analysis of empirical materials, which threatens their internal validity and reliability (Hamel et al., 1991/1993; Yin, 1994). The ties to existing and accepted theory, described above, also contribute
to internal validity. In addition, the methodology incorporated other measures to improve internal validity. First, I used multiple sources of evidence, both qualitative and quantitative; I also considered various procedures to collect and analyze data, which involved comparing and confronting the different sources and methods before reaching conclusions. This triangulation has provided redundancy and some control for my biases and those of informants, and it reduced the likelihood of misinterpretation.

A number of threats to internal validity exist for any comparisons that follow a quasi-experimental research logic (Campbell & Stanley, 1963). The time-series logic of this study helps to minimize all such internal validity problems but the threat of history (cyclic influences, seasonality, long-term patterns, etc.) typical of longitudinal studies. I address this threat by using the process-tracing method (George & Bennett, 2004; Pentland, 1999; Van de Ven, 1992), which requires that each change in the outcome be continuously and rigorously explained by reference to theory.

In terms of reliability, the triangulation of methods for data collection and analysis increases the repeatability of observations and interpretations. I have maintained chains of evidence by building a detailed and comprehensive case database. In addition, submitting drafts of the case’s report to subsidiary managers, to corroborate facts and evidence, has also increased reliability.

I paid attention to avoiding, or at least reducing, the problem of instrumentation (Campbell & Stanley, 1963) by requesting detailed information on measurement methods and criteria. The problem of instrumentation is a threat for internal validity and reliability that might be present in data from archival records and documents, i.e. the risk of changes in the method or criteria used to measure a variable over time.
Chapter 7

MEXFRUCO AND ITS CORPORATE SOCIAL ACTION IN THE ACTUAL DOMAIN

After presenting an initial formulation of a typological theory of CSR, CSA, and CSP in international settings (chapters 3, 4, and 5); and consistent with the methodology discussed in chapter 6, in the present chapter I report the results of my analysis at the actual level of reality. In other words, I introduce Mexfruco and offer a detailed account of its main lines of corporate social action.

This chapter has three sections. First, I describe the Mexican avocado industry, as a proxy to the institutional environment of Mexfruco. Second, I introduce Mexfruco and describe its history, business and work processes, structure, and culture. And third, I offer a longitudinal view of corporate social action at Mexfruco, describing its main projects or lines of action. In the next chapter I will develop an explanatory account of the antecedents (CSR), dynamics, and consequences (CSP) of Mexfruco’s corporate social action.

7.1.- THE MEXICAN AVOCADO INDUSTRY

In this section I introduce the Mexican avocado industry. After offering an outlook of its importance, I describe its structure and the way in which transactions are carried out by its members. Afterwards I present the increasingly important export activity of the industry. Next, based on some studies of economic anthropology, I introduce the culture and the organization of
the industry and its main players. Finally, I explore some of the social and environmental effects of the industry.

Mexico is the world’s largest producer of avocados, a subtropical fruit usually consumed as a vegetable in salads and sandwiches. The Mexican crop reached one million metric tons in 2003, which represented 33% of the global production (FAO, 2004; USDA, 2004). Other important producers are Indonesia, South Africa, the United States, Brazil, and Chile. Mexico is also the largest consumer. Domestic use of fresh fruit (excluding processed products) reached 885,393 tons in 2003 (USDA, 2004), a yearly per capita consumption that exceeds 8 kilograms.

The state of Michoacán is the center of the Mexican avocado industry. 88% of the 2003 Mexican avocado crop came from 81,000 hectares cultivated in that state. All the commercial orchards of Michoacán are grafted to the “Hass” variety, which is widely preferred in both global and domestic markets. Thus, in 2003, 96% of the Mexican “Hass” avocados were harvested in Michoacán (México SAGARPA, 2005).

In Michoacán, avocados are grown on the hillsides of the central state mountains; in altitudes ranging from 1,500 to 2,200 meters above sea level; and under a humid, subtropical climate with many different microclimates. These conditions, and the fact that Hass avocados can be stored on the tree for up to three or four months after reaching maturity, allows Michoacán to supply significant quantities of “Hass” fruit throughout the year. However, almost 50% of the crop is handled between October and February (Paz-Vega, 1989; Ramos, 2003).

As Stanford (1998) points out, the Michoacán avocado industry comprises a complex ecological, economic, social, and political structure. Since the 1960s, the Michoacán avocado industry has grown at an annual rate of four or five percent; it has been the most important economic activity in the state for years (Paz-Vega, 1989). In 1988, avocados represented 62% of the value of all agricultural products grown in Michoacán and generated employment for more
than 40,000 people on a permanent basis (Del Rio, García, Melgar, Morales, Sánchez, & Aguilera, 1989). As of 2002, the industry was generating 47,000 permanent jobs, 75,000 seasonal jobs, and 187,000 permanent jobs in related industries (Ramos, 2003). The economies of 27 of the state’s 103 municipalities depend on avocados (Del Rio et al., 1989; Paz-Vega, 1989).

7.1.1.- Structure and Operation of the Avocado Supply Chain.

The Michoacán avocado supply chain, schematically represented in Figure No. 7, is integrated by more than 9,000 farmers or “growers”, 296 packer-shippers for domestic markets, around 25 packer-exporters, and six processors that produce frozen avocado pulp, guacamole (a puree-like product used as a side dress to many dishes and as a spread), and small quantities of crude oil (Ramos, 2003).

Figure No. 7 – Michoacán Avocado Export Supply Chain

In contrast to many agricultural industries around the world, in the Michoacán avocado industry there are no significant collective (e.g. cooperative) schemes integrating growers and
packers for either production or marketing. Growers and packers usually run independent operations and deal with each other on a market basis, or so they say. In practice, farmers have been able to develop powerful associations focused on securing high prices (Stanford, 1998, 2002b). In this sense, Michoacán avocado growers have pioneered a model that some other industries have tried to adopt in rural Mexico. Upon the advent of globalization and economic reforms in the 1990s, and facing new competitive scenarios in both domestic and international markets, avocado growers did not merely transit to a free market system. Rather, they managed to construct “new institutions for market governance… [which] connect producer organizations, government actors, and private firms in novel and often surprising ways” (Snyder, 1999: 1). I will return to this institutional innovation later.

Given the high level of competition among packers, the generalized mistrust between growers and packers (Stanford, 2002a), and the focus of grower associations on securing high prices, vertical transactions within the industry are very competitive. Growers are well positioned in the chain. They (individually) sell their crop to local packing companies on a spot basis, choosing the one that pays higher prices and offers better payment terms. Growers have a strong bargaining power thanks to their possibility of storing fruit on the trees and to the action of their associations. Consequently, growers appear to realize extraordinary profits (Aragón, 2007).

Growers and packer-shippers deal at firm prices, on a per kilogram basis, agreed on before harvesting. This is in contrast with the system of sales by commission which prevails in most fresh produce markets around the world. Avocado growers and packers can adjust prices as

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32 When selling by commission, or “on consignment”, the packer-shipper sells the merchandise under the grower’s account. The grower’s final payment, or “return”, reflects product quality and market conditions at the time of sale. From the sale value, the packer-shipper deducts a commission, usually in the range of 6 to 10%, as well as harvesting, packing, transport, and marketing costs, liquidating a final amount to the grower some time after the final sale. The commission system works well if there is a need to clear inventories, and if the grower and the packer maintain an honest and open working relationship. The commission system has never been adopted in the Michoacán avocado industry because growers are able to manage inventories before harvesting the fruit (on-the-tree storage), and because growers and packers do not trust each other.
frequently as needed, according to market conditions, although weekly price schedules are the common practice. Packer-shippers are responsible for managing harvesting operations. In addition, packer-shippers grade, classify, pack, cool, and ship the fruit. Those that operate in domestic markets sell their avocados to wholesalers and supermarket chains. The exporters sell their products to foreign importers, trading companies, and to some foreign supermarket chains (Paz-Vega, 1994). There are a few U.S.-owned packer-exporters who, as part of vertically-integrated operations, usually deliver their products directly to food service or supermarket chains in the U.S., avoiding several middlemen.

According to Aragón (2007), packer-shippers, either for domestic or export markets, seem to be squeezed between their powerful customers (wholesalers, retailers, importers, etc.) and the organized local producers. He underlines that packing firms need volume to survive and depend heavily on their negotiating power over the grower and the wholesaler or importer. Their challenge is to somehow obtain such negotiating power, since they appear to be the weakest link in the avocado supply chain.

7.1.2.- Michoacán Avocado Exports.

Most of the Michoacán avocados (e.g. 85% in 2003-04) are consumed in Mexico (Ramos, 2003). The strength of the national market kept Michoacán away from export markets until the early 1980s. Influenced by globalization trends, domestic economic troubles, and public export-promoting policies, Michoacán began to participate in international markets since 1985, initially shipping to Europe and Canada, and later to Japan. Some of the new exporters were avocado growers, and others were businesspeople from nonagricultural industries. All of them had minimal experience in international business and were ill-prepared, both technically and commercially, to handle the specific problems of international trade. They faced challenges in
maintaining fruit quality along the supply chain. In addition, these new exporters lacked the sophisticated market knowledge required to sell in foreign markets, particularly in Europe where there were specific quality standards and norms, and where the common practice was to sell by commission. To make things worse, they were vulnerable to fraud from unscrupulous importers, who misrepresented the quality of the fruit in order to pay less to exporters (Aragón, 2007; Paz-Vega, 1986; Stanford, 1998, 2002b).

The exporters who survived began to develop sophisticated knowledge about infrastructure, packing facilities, post-harvest fruit handling, transportation services, market trends, marketing practices, and the politics and risks of international trade (Aragón, 2007; Paz-Vega, 1994). As a consequence, exports to Europe expanded around the mid-1990s, and to Japan and Central America during the early 2000s, as shown in Table No. 3. Afterwards, the Mexican participation in Europe has declined, because of several reasons: First, there are a number of countries with abundant production to supply the market. Second, most of those suppliers accept the system of sale by commission, which is widely preferred by importers, but strongly avoided by Mexican exporters who must deal on the basis of firm prices. And third, Mexican producers have other alternatives in the global marketplace, usually more profitable than Europe. In contrast, Mexico has strengthened its position as the first supplier of Japan, enjoying a market share superior to 90%. Since 2006, Mexican exporters began to ship to other Asian countries (e.g. South Korea and China), although still on a very limited scale.

The United States market, which had been banned for Mexican avocados since 1912, was partially opened in 1997 under strict requirements established by the U.S. Department of Agriculture (USDA). This change took place in the framework of the North American Free Trade
Agreement (NAFTA) provisions\(^{33}\). The Michoacán avocado industry, through its grower and packer associations, played a decisive role in this achievement, through effectively lobbying both Mexican and U.S. governments (Aragón, 2007; Zavala, 2002). Shipments were initially allowed only to 19 states in the northeastern U.S. during four months (November-February). Although the program required extensive and detailed coordination, it was very successful. During the first season, Michoacán exported some 6,000 metric tons with almost no complications in the field, packinghouses, or transports (Zavala, 2002).

Later, both the Mexican government and the Michoacán avocado industry kept working together to gradually increase the number of approved states as well as the extension of the export season. For most practical purposes, the U.S. market was totally opened in February 2005 (Federal Register, 2004). Following a general trend in international trade (Ghemawat, 2005; Rugman & Verbeke, 2004), and particularly in agrifood products (Jayasinghe & Sarker, 2008), Mexican avocado exports substantially increased after being reoriented towards their regional (i.e. North American) bloc. As shown in Table No. 4, exports to the U.S. have achieved a remarkable growth of 2,666 % in volume, while fruit price has increased in 45%.

To support the expanded access to the U.S. market, the Michoacán avocado industry has heavily invested in promotion and advertising. In the 2006-07 season this expenditure amounted to 7.5 million dollars. This effort has been led by APEAM, an organization which has also executed some, much smaller and discontinuous, promotional initiatives in Europe and Japan.

In this way, Mexico became the leading exporting country in the world, shipping close to 115,000 tons in the 2003-04 season (running between July 2003 and June 2004) and even more

\(^{33}\) With respect to the trade of agricultural products, NAFTA adopted most of the provisions of the World Trade Organization’s Agreement on the Application of Sanitary and Phytosanitary Measures, i.e. the SPS Agreement (Kastner & Powell, 2002). These provisions aim at facilitating the resolution of trade disputes based on food safety and plant health problems. The protocol that allowed the importation of Mexican avocados into the U.S. scientifically addressed the U.S. concern about some pests that supposedly were present in Mexican avocados but not in the U.S. (Peterson & Orden, 2008).
thereafter. The result of these efforts and expansion has been a substantial increase in avocado prices and the profitability of the industry, particularly of its growers. This export-expanding trend will likely continue for several more years, as international markets continue to grow, as well as growing areas in both Michoacán and other Mexican states.

Table No. 3 - Mexican Avocado Exports, by Region (Metric Tons)

<table>
<thead>
<tr>
<th>Season</th>
<th>Europe (France, UK, Spain)</th>
<th>Asia (Mainly Japan)</th>
<th>North America (Canada; mainly USA after 1997)</th>
<th>Latin America (Mainly Central American countries)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>514</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>514</td>
</tr>
<tr>
<td>1988-89</td>
<td>4,264</td>
<td>1,252</td>
<td>600</td>
<td>0</td>
<td>6,116</td>
</tr>
<tr>
<td>1991-92</td>
<td>8,946</td>
<td>1,640</td>
<td>2,551</td>
<td>0</td>
<td>13,137</td>
</tr>
<tr>
<td>1995-96</td>
<td>33,730</td>
<td>3,315</td>
<td>7,225</td>
<td>1,346</td>
<td>45,616</td>
</tr>
<tr>
<td>1999-2000</td>
<td>14,191</td>
<td>8,567</td>
<td>17,382</td>
<td>6,085</td>
<td>46,225</td>
</tr>
<tr>
<td>2000-01</td>
<td>10,509</td>
<td>13,582</td>
<td>20,196</td>
<td>8,206</td>
<td>52,493</td>
</tr>
<tr>
<td>2003-04</td>
<td>17,270</td>
<td>29,048</td>
<td>57,870</td>
<td>10,529</td>
<td>114,717</td>
</tr>
<tr>
<td>2005-06</td>
<td>15,616</td>
<td>21,796</td>
<td>143,385</td>
<td>17,478</td>
<td>198,275</td>
</tr>
</tbody>
</table>

Source: Own elaboration, from archival data of the Association of Avocado Growers, Packers and Exporters of Mexico (APEAM)

Table No. 4 – Comparative Indicators of the U.S. Export Program

<table>
<thead>
<tr>
<th>Season</th>
<th>1997-98</th>
<th>2006-07</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved municipalities</td>
<td>4</td>
<td>14</td>
<td>250.0%</td>
</tr>
<tr>
<td>Participant growers</td>
<td>60</td>
<td>4,240</td>
<td>6,966.7%</td>
</tr>
<tr>
<td>Approved hectares</td>
<td>1,499</td>
<td>44,271</td>
<td>2,853.4%</td>
</tr>
<tr>
<td>Participant packers</td>
<td>4</td>
<td>27</td>
<td>575.0%</td>
</tr>
<tr>
<td>Exported tons</td>
<td>6,032</td>
<td>166,830</td>
<td>2,665.7%</td>
</tr>
<tr>
<td>Average price/Kg to grower</td>
<td>1.00</td>
<td>1.45</td>
<td>45.0%</td>
</tr>
</tbody>
</table>

Source: Own elaboration, from archival data of APEAM

There has been a significant change in the structure of the Michoacán avocado exporting sector since the opening of the U.S. market in the late 1990s. Up to the mid-1990s, leading exporting firms were owned by local entrepreneurs. These pioneer firms focused their marketing efforts on Europe, and to a lesser degree, Canada and Japan. They sold 100% of the exports up to the 1992-93 season. At those times there were a few trading companies owned by foreign interests, operating in the industry only as buying agents for their parent companies without
directly running packing-shipping operations. By 1995 there already were two packer-exporter firms with foreign ownership, one from the U.S. and the other from France. After the partial opening of the U.S. market in 1997, other U.S.-based firms began investing in Michoacán. As of early 2008, there were six subsidiaries operating as packer-exporters, mainly focused on the U.S. and Japanese markets. In a typical example of industry dethronement (Ferrier, Smith, & Grimm, 1999), and according to the archival data of APEAM, these six companies sell between 50 and 70% of the Michoacán exports to the U.S. (depending on within-season and season-to-season variations in the production of California and Chile, the other large supplier regions of those companies for the U.S. market), and around 30% of the exports to other countries. Mexfruco, the company studied in this chapter, is one of those subsidiaries.

7.1.3.- The Aguacatero Culture and Industry Organization.

Most avocado producer and packing companies in Michoacán have been small or medium-sized, family-owned enterprises. These companies are usually referred to not by their official name, but rather by the name of the owner or the family that controls the firm (Stanford, 2002a). These families are locally known as aguacateros (after aguacate, the Spanish word for avocados), i.e. the collectivity of entrepreneurs specialized in avocado farming and packing, who share a distinct cultural identity, particular social practices and relationships, and specific discursive and symbolic forms; collectively, they have become a salient social actor which mediates between the State, entrepreneurs, and other publics (Hernández Palestino, 1998). Nevertheless, Hernández Palestino points out that the aguacatero collectivity is not homogeneous. A clearly apparent division exists between growers and packers, as well as between large entrepreneurial farmers and smaller, former peasants now turned into aguacateros.
It is worth to point out that, before the 1960s, life in the area was predominantly of a rural, placid style. Cities and towns were small, with changes occurring slowly throughout long periods of time. Agricultural production was directed to self-consumption and regional markets. Trade was an important activity, but organized around micro family firms. Those rather pre-modern conditions resemble the situation prevailing before the Industrial Revolution (Ashton, 1997). In a sense, the development of the avocado industry was the local equivalent of the Industrial Revolution (i.e. a “green” revolution34), consisting of the introduction of the plantation system, intensive farming technologies, and the capitalist mode of production. The aguacateros represent the capitalist, profit-seeking class (Hernández Palestino, 1998).

In general terms, the aguacateros (growers and packers alike) share some characteristics with other contemporaneous entrepreneurs or empresarios in central Mexico: They run small or medium-sized firms, owned and managed by members of one family; most of them are native to the locality where they work (in this case, Michoacán); only a few of them have a university degree, although this trend is rapidly reversing; most empresarios display a lot of dynamism, are visionary, take risks, rely on informal contacts, and are motivated to create and achieve on their own (De la Cerda Gastélum & Núñez de la Peña, 1990: 110; Kras, 1995).

The aguacateros are also characterized by their individualism. They claim to be self-reliant entrepreneurs, independent from the government, which usually intervenes decisively in other Mexican agricultural industries. Nevertheless, growers and packers have been able to organize themselves and work together to attain certain goals that are appropriate for their culture (e.g. the opening of the U.S. market), that is, when those goals are limited and bound in time, can

34 The name “Green Revolution” has been used to refer to the transformation that agricultural systems experienced in the 1950s and thereafter, by which high levels of production were obtained with the use of new technologies, chemical pesticides and fertilizers, heavy farm machinery, etc. One of its main proponents, Norman Borlaug, did most of his research in Mexico and, for his contributions, he received the Nobel Peace Prize in 1970.
be controlled by *aguacatero* leaders, show low potential for dissension and noncompliance, and are focused on producing short-term economic benefits (Stanford, 1998).

In contrast, the *aguacateros* have failed to consolidate long-term local alliances in pursuit of broader objectives such as fruit sale and marketing, or technological research (Aragón, 2007). In the words of Stanford, “the avocado industry is littered with the legacy of failed cooperative efforts, bankrupt *empresarios*, and an ideology of mistrust among producers, packers, exporters, and state representatives” (1998: 16-17).

The Association of Avocado Growers, Packers and Exporters of Mexico (APEAM), which compulsorily includes all growers and packers registered for exporting to the U.S. market, is perhaps the most conspicuous and successful industry organization. It was founded to administer the U.S. export program, not spontaneously or by an industry’s initiative, but after the normative request of the U.S. government, with the objective of contracting and paying USDA’s supervision of the program. APEAM’s governance, complex and emotionally and politically intensive, involves a detailed structure by which the chairmanship and other key positions in the board of directors rotate between growers and packers in a predetermined, “balanced” fashion. In this coercive way, through a U.S.-imposed mechanism, the Michoacán avocado industry has gotten a representative organization, capable of collecting funds and running promotional and research efforts, in addition to contracting with USDA. Nowadays, despite its many internal conflicts, APEAM materializes the social and political power of the *aguacatero* collectivity.

In this context, local growers and packers have seen the presence of U.S.-owned packing-exporting firms as a threat to the control of the industry and its exports. This perception exists within a generalized situation of nationalism/regionalism, i.e. the belief in the primacy of regional interests and local values against foreign interests. In particular, local packers consider that U.S. firms aim at taking over all exports to U.S. and reaping all the benefits of such trade.
In fact, foreign-owned firms now control most of the exports to the U.S. market, where their headquarters have long enjoyed a dominant, oligopolistic position (each of the two largest of these firms have traditionally had around 30-35% of the U.S. market, considering all different origins supplying it). Yet, most growers sell their fruit to these foreign-owned firms because they offer high prices, pay in very short terms, and are very competitive. Despite aguacateros’ regionalist ideology, the self-interest of growers, the financial and market power of foreign-owned firms, and the generalized distrust among local industry players have prevented the building of loyalty between growers and local packers (Aragón, 2007). As Stanford puts it, “the historical factors that fostered growth of an aguacatero culture that prided itself on individualism, competition, and shifting alliances now limit the region’s ability to defend economic interests in a globalized industry” (2002a: 22).

Facing the increasingly dominant role of U.S.-owned companies and the practical impossibility of building alliances with local packers, growers have focused on strengthening their bargaining power in order to secure high prices for their fruit. Like other agricultural producers in Mexico (Snyder, 1999), avocado growers believe they need some form of protection from the “exploitation” that, sooner or later, they expect from foreign interests. These growers found their particular way to do so and to institutionalize it. The Mexican Law of Plant Health (México, 2007) has a provision allowing the establishment of Local Plant Health Boards (JLSV, by their initials in Spanish), administered by growers, with the purpose of assisting the government in the implementation of plant protection campaigns and similar endeavors at the municipality level. Without the specific agreement of packers, growers managed to include such JLSVs as key players in the strict protocol for exporting to the U.S.

Specifically, since the first season (1997-98), the JLSVs were endowed with the tasks of (1) declaring orchards to be in compliance with the USDA protocol; and (2) issuing the official
documents required to mobilize the fruit from orchards to packinghouses, which USDA inspectors strictly require before allowing the fruit to enter packinghouses. Although, according to the law, these functions should not be exclusively performed by JLSVs, grower leaders convinced Mexican agricultural authorities of their need for “exclusivity”. Later, whenever market prices fell down and without any legal mandate allowing them to do so, the chairmen of the different JLSV met to decide a moratorium, or at least a reduction in the harvested volumes, with the purpose of increasing prices.

Soon afterwards, JLSVs’ officers were meeting regularly to agree on harvesting schedules and to prorate exportable volumes; they also began to set pricing objectives, sometimes at levels well above market conditions. In the event of dissidence on the part of a grower or opposition from a packer, the JLSV threatened with retaliatory measures: It would remove the grower from the list of cleared orchards or it would delay the issuing of all documents to transport fruit to the opposing packer. Interestingly, there was almost no opposition to this scheme during the first several seasons. Although blatantly illegal, it was tolerated by government officers. Growers overwhelmingly supported it. To a large extent, the scheme was also supported by local packers who wrongly saw in it a way to curtail the power of U.S.-owned packers (in practice, foreign companies, through their financial power, usually obtained the fruit they needed; it was local packers who often were left without supplies).

Although less intensively, this state of affairs continues to operate until now. Since growers cannot control their fruit marketing, they institutionalized a cartel-like market-governance mechanism to control supply and secure high prices.
7.1.4.- Social and Environmental Impacts of the Michoacán Avocado Industry.

The Michoacán avocado industry started its development in the 1960s, just a few years after the emergence of other entrepreneurial agricultural industries in extensive areas of the State of Michoacán where peasant agriculture had so far been prevalent. These changes in the agricultural landscape and the expansion of the corresponding urban centers caused a number of social and environmental impacts (Mora Camacho, 1992a). In particular, the avocado industry has been linked to processes of dysfunctional urbanization, migratory movements, unbalanced rural development, damages to native forests, pollution caused by the extensive use of agrochemicals, and exploitative labor relations.

**Immigration and urbanization.** The entrepreneurial form in which avocado agriculture grew in Michoacán created a large demand for labor force. As Singer (1998) argues, the creation of such labor markets represents an important factor of attraction that influences immigration movements. Consistent with this view, the urban centers in the avocado growing area have seen their population increase in a very substantial way. For example, Uruapan, which is the largest city in the region, doubled its population in the 1960s and has kept growing at a rate of 50% or more in each of the subsequent decades (INEGI, 2005). Many of the immigrants are people that arrive from other zones in Mexico. However, migratory movements have also been influenced by the sale of peasants’ land to entrepreneurial farmers, which has constituted a factor of expulsion (Singer, 1998) of people from rural to urban areas. In fact, many immigrants are peasants that sold their land to *empresarios* in both the avocado region and neighboring valleys with other agricultural industries (Mora Camacho, 1992a, 1992b).

Cities were not prepared to absorb the influx of immigrants and, consequently, the development of the urban space has been chaotic. The demand for houses has been satisfied, in most of the cases, by irregular and often illegal urban developments. These projects or
Fraccionamientos are commonly promoted by political parties, private owners, and other social organizations. They hardly have public services and usually do not count on any permits. Many of them, particularly in the 1980s and early 1990s, originated through the illegal and at times violent appropriation of non-occupied pieces of land, with the complacency of populist State governors (Mora Camacho, 1992a).

Although some authors (e.g. Liarte-Vejrup & Zuazaga, 2004) claim that it is the responsibility of entrepreneurial farmers to contribute to mitigate problems such as peasant expulsion and migration, the avocado industry has never acknowledged any social responsibility related to these processes of urbanization and immigration.

**Loss of forest resources.** The native ecosystem of the avocado region and the highlands that surround it is predominantly a rainy sub-tropical forest constituted of evergreen, coniferous trees. Most of the forest resources are located in the highlands, where cool weather prevents avocado farming; those forests belong to people of the Purépecha ethnic group, under the communal ownership of a number of collectivities, each located in a different town.

As many Michoacán cities expanded in the 1960s and thereafter, the demand for wood has constantly increased for the construction and furniture industries. An additional and important use of wood has been the manufacturing of boxes for fruit packing, including avocados as well as other crops produced in neighboring areas. Wood extraction increased 380% between 1965 and 1990; a significant portion of that trade has been clandestine, since permits for forest exploitation became difficult to obtain. For instance, in 1990, the government authorized the legal extraction of 160,000 cubic meters of wood from the Purépecha highlands. It is estimated that 255,000 additional cubic meters were extracted illegally, and that 63% of this clandestine wood was used for fruit packing, including but not limited to avocados (Mora Camacho, 1992a). In some areas the forests are not surviving. This ecological disaster has constituted a new factor migration
Although many packers have shifted to plastic containers, and all exports have always been packed in (mostly imported) cardboard boxes, a significant proportion of avocados are still packed in wood crates.

The avocado industry has had another, perhaps more devastating effect on forest resources. In addition to highlands, the sub-tropical coniferous forest also comprised a large surface at lower altitudes with warmer climate, much of which is now planted with avocado trees. Some researchers estimate that up to 50,000 hectares of wood land have been illegally converted to avocado orchards in the last 25 years. This represents more than 60% of the land currently farmed with avocados. This destruction, which in the view of *aguacateros* at least substitutes one species (pine-trees) for another (avocado trees), is part of a much larger devastation, not necessarily related to the avocado industry, that has taken place in Michoacán in such a period. The State has lost at least 1.3 million hectares of forests since the 1980s, with the complacency, likely motivated by corruption, of government officers (Navia Antezana & Mora Camacho, 2007).

Many *aguacateros* are aware of the forest destruction that their activity has caused. Some of them are timidly attempting to promote reforestation programs in marginal lands (Navia Antezana & Mora Camacho, 2007). However, the damage has been done. Large forest resources have been lost, and nowadays it is not an economically or socially feasible solution to cut down avocado orchards and replace them with forests.

**Unbalanced, unsustainable rural development.** The development of the Michoacán avocado industry has been led by avocado *empresarios* who have created, institutionalized, and expanded an agricultural industry that is thriving in both domestic and international markets. This transformation turned the resources of the peasant economy (land and water) into valuable and scarce resources, central to the interests of the entrepreneurs. In contrast to many rural development projects, the emergence and consolidation of the avocado industry never
represented an initiative designed to promote the improvement of the rural population that had traditionally owned the land (Stanford, 1998). In the process, many peasants sold their land and emigrated to urban areas, where they became farm workers who generally earn low, although regular salaries. As previously discussed, they joined many other immigrants who moved to the avocado region in search of jobs.

In discussing avocado’s benefit for the region’s development, *aguacateros* often refer to expanded employment opportunities, directly through job creation in orchards or packinghouses, or indirectly through the development of related industries such as construction and diverse services (Stanford, 1998). While this is generally true, the industry generates very few jobs that require specialized knowledge or skills. Most work positions only need unspecialized, low-wage work force. The result, analogous to the case of other successful export-oriented agricultural industries (e.g. Caro, 2007; Wright & Madrid, 2007) is that, while the industry thrives in the international scene and *aguacateros* increase their wealth, tens of thousands of farm and packinghouse workers remain in poverty, seeing time passing by without experiencing any significant improvement in their life quality standards.

Nevertheless, many other peasants were able to retain their land and became avocado growers (Mora Camacho, 1992a). Recognizing the success of private entrepreneurs, in the late 1970s and early 1980s the Mexican government extended avocado economic opportunities to small growers and remaining peasants in rural communities of Michoacán. The government offered them nursery trees for free, technical assistance, in some cases it built infrastructure for irrigation, and to some extent it provided credit (Hernández Palestino, 1998; Stanford, 2002b). Entrepreneurial farmers, on their side, have never been interested in extending their production and/or marketing opportunities to small producers (Stanford, 1998).
An additional consequence of the development of the avocado industry is that the rural way of life, which included traditional and perhaps more sustainable farming systems (like the mixed orchard, which used to have many different species of tree crops in the same unit and was farmed without synthetic agrochemicals), has been disappearing. In contrast, the intensive type of agriculture that has been practiced involves the use of chemical fertilizers, pesticides, agricultural machinery, fuel, etc., whose demand has increased significantly. Some researchers consider that this kind of technology is unsustainable (Quintero, 1994). Michoacán avocado growers are slowly becoming conscious of the need to reduce the use of synthetic agrochemicals, although motivated more for the concerns of international customers about food safety than for the growers’ concerns about sustainability.

**Labor conditions.** Mexican labor law (México, 2006) and regulations provide a number of obligatory benefits to workers, the most important of which can be summarized as follows: In addition to their salaries, all workers and their families are entitled to health, life, disability, maternity leave, and other types of insurance provided by the Mexican Institute of Social Security (IMSS, by its initials in Spanish). Employers are obliged to register each and every worker in the IMSS system as soon as they are hired and to pay most of the system’s fees. The IMSS runs a network of hospitals and medical facilities to which registered workers go for medical care. Workers are also entitled to housing, an obligation employers usually comply with by registering workers in the National Institute for Workers’ Housing (INFONAVIT, by its initials in Spanish) and paying a large part of the fees. Similarly, employers pay a large proportion of workers’ retirement funds. Formal employment in Mexico necessarily involves registration of workers in IMSS, INFONAVIT, and one of many private retirement funds. Payroll specialists estimate that these benefits represent between 25 and 35% of the salary.
In addition, all Mexican workers have a legal right to both a Christmas bonus which should be equivalent to at least the salary of one week, and a share of company profits equivalent to 10% of the firm’s yearly taxable income. The Mexican labor law also regulates vacation periods, as well as working hours and overtime premiums. It also establishes the obligation of creating company committees for workers’ health and safety and for workers’ training and development, integrated by both managers and worker representatives. Naturally, the labor law also guarantees workers’ rights to unionization and collective bargaining.

Although there is no definite data available, anecdotal information and some IMSS estimations (La Opinión de Michoacán, 2007) show that a large number of farm workers do not receive the benefits and rights to which they are legally entitled. In contrast, the overwhelmingly majority of packinghouse workers are formally contracted according to the law. In addition, avocado empresarios have been able, through the exercise of their influence on the government, to minimize the possibility of the formation of labor unions in the industry. While there are some “white”35 unions in some of the largest packinghouses, there are no unions at all in the farms.

Workers dedicated to harvesting operations represent a distinctive problem of the Michoacán avocado industry. Although harvesting is considered to be a farm operation, usually under the control of growers, this is not the general case in Michoacán avocados. It is packers who, for the most part, run harvesting tasks and hire picking crews. Export packers first proposed this way of working in the early 1980s in order to secure the quality of both the harvesting process and the fruit arriving to their packinghouses. Soon, the practice became generalized throughout the industry. But managing harvesting crews proved to be difficult and resource-

35 In México, a “white” union is usually organized, not by workers, but by the employer. It is a low confrontational and often highly cooperative union, which generally includes workers of only one firm and does not actively participate in politics. In contrast, “red” unions are organized by workers or, more frequently, by other, larger unions linked to political parties. They include workers from several companies and tend to be adversarial to firms (Quintero Ramírez, 2000).
consuming for packers. In addition to the large number of workers, administrative processes were complex because many of those workers were migrants without appropriate documents; many of them were unstable and worked only for few days before leaving, which caused a large rate of turnover. Registering and un-registering them in the different systems of the Mexican government, as well as running payrolls, demanded a lot of time and work. Furthermore, some pickers were violent or addicted to drugs, which led to their reputation of “being a little more than animals”, as one of the packing pioneers put it.

A singular, controversial solution emerged. Packers promoted the formation of harvesting companies in which, legally, the workers are partners. The legal status of these companies is known as Sociedad Civil, the same scheme used by professionals firms of lawyers or accountants in Mexico. In practice, harvesting firms are organized and led by a labor contractor who sells harvesting services to packers and manages the work force. Under a particular, although questionable, interpretation of labor laws, workers are technically considered to be partners, not employees, and consequently, they do not receive the benefits granted by law. IMSS estimates that only 25% of the avocado harvesters are affiliated with it (La Opinión de Michoacán, 2007). Labor contractors usually buy private health and life insurance for their workers, but not for their families. In addition, the harvesting job has some risks. On the one hand, crews travel throughout the avocado region in pick-up trucks, ill-protected. On the other hand, at times they harvest close to high voltage electric lines, using aluminum poles (instead of poles made of isolating materials). In the first nine months of 2007, 41 of these workers had died in accidents related to their work, either electrocuted or in car accidents (La Opinión de Michoacán, 2007).

This is the way in which packers outsource harvesting services without taking the burden of managing large numbers of workers; growers candidly ignore the problem, even when these workers actually work in their properties.
7.2.- INTRODUCING MEXFRUCO

Mexfruco is a Mexican firm established in 1997, as a subsidiary of Interfruco, a U.S. corporation based in California. Mexfruco is located in the State of Michoacán. Its main activity is sourcing, packing, shipping, and exporting fresh fruits, particularly avocados. The final products of the subsidiary (different presentations of fresh fruits) are sold internationally by the parent company without any further processing. Mexfruco is a medium-sized company in the context of its industry, with sales in the range of 15 to 20 million dollars per year during the period of study (1997-2004), and with 200 full-time employees. This subsidiary began operating in July 1997, with the participation of two local entrepreneurs as minority shareholders, who also acted as managers of the firm for some time.

Since the beginning, all international sales were formally managed by Interfruco. However, Interfruco’s staff conducted actual sales and client communications only in the case of some customers, while Mexfruco’s staff performed these functions with several other customers. Driven by market prices, and before accepting orders, Interfruco and Mexfruco agreed every week on selling and buying prices. On that basis, Mexfruco purchased fruit in Mexico and sold it to Interfruco, which in turn invoiced international customers, adding a commission of at least 8%. Physical fruit flows were direct from Mexfruco to international receivers. Internal transactions between Mexfruco and Interfruco were governed by a transfer price, which was also agreed upon on a weekly basis. This price was usually set according to Mexfruco’s costs, plus a markup for Mexfruco that varied from 3 to 5%. Interfruco used to pay Mexfruco seven days after fruit shipping.

Before continuing with the introduction of Mexfruco and the description of its growth, let us review the background of the people that led its creation and development.
7.2.1.- The People Behind Mexfruco.

As Coviello (2006) argues, networks are essentially related to the creation of international new ventures; she points out that network ties often result from activities carried out before initiating a new firm. The creation of Mexfruco is no exception. John Reed\textsuperscript{36}, the founder and CEO of Interfruco, and José Pérez, the co-founder and Managing Director of Mexfruco, had known each other for the previous six years. In diverse forums they had argued against each other about trade liberalization (e. g. Browne & Toerien, 1991), particularly with respect to the U.S. position of banning the importation of Mexican avocados\textsuperscript{37}.

John Reed graduated from a recognized California university in 1980, with a major in agribusiness. For several years he worked for some large avocado companies both in the field and the packinghouse; building close relationships with many growers and packers in the California avocado industry. In the late 1980s and early 1990s, John Reed was the President and CEO of a mid-sized cooperative of California avocado producers which, under his leadership, became the third largest packer/shipper in California. In addition, considering the seasonality of the California production, Reed began to import avocados from Chile and the Dominican Republic into the U.S., and to export California fruit to Europe, Canada, and Japan. He made a very good reputation as a knowledgeable and skilled marketer of avocados, widely recognized in the U.S. and well-known in several international markets.

Around 1994, John Reed found that the high prices and seasonal availability of California avocados were inadequate to keep his foreign customers supplied. Mexico and its huge avocado production was the obvious alternative. Reed traveled to the state of Michoacán and began

\textsuperscript{36} All personal names, both those of managers mentioned in the text and interviewed people, have been disguised.

\textsuperscript{37} The U.S. government imposed a ban on Mexican avocados in 1912, alleging the presence of a number of pests. In the meantime, important avocado industries developed, first in California, and later in Michoacán, México. Up until the late 1990s Mexico was not allowed to export to the now lucrative U.S. market.
buying avocados, already packed and cooled, from local packers. He soon realized that he needed someone on site to supervise the work of these packers and the quality of the fruit that he was buying. After sending a technician from California several times, Reed learned that a small firm owned by his old adversary, José Pérez, was inspecting avocado packing and cooling processes on behalf of some European importers. Reed soon contracted these services. The quality of the packed fruit, the valuable information that Reed received, and the technical expertise of Pérez and his team led to the development of trust between these two individuals.

José Pérez was the son of a mid-size Michoacán avocado grower. He was born aguacatero, i.e. within the distinctive collectivity integrated by avocado growers and packers in Michoacán (Hernández Palestino, 1998). Pérez obtained a bachelor’s degree in agriculture and agribusiness from a private Mexican university in 1981. Upon graduation, he returned to Michoacán and became an avocado specialist. His career began as a field manager for the largest avocado grower. Later he began to farm his father’s orchards and became involved in a number of industry organizations, being elected to the board of directors of several of them. In the late 1980s, Pérez was named packing and export manager for a local cooperative that was leading the early export endeavors of the Michoacán industry. He experienced many of the technical and commercial problems faced by export pioneers. In search of solutions, Pérez eagerly studied everything he could on avocado postharvest technology and international marketing. He traveled extensively, mainly to Europe and California, to meet with importers, exporters, scientists, growers, etc., and to attend avocado seminars and congresses. In time, Pérez was one of the contributors to solve many of the technical problems of Mexican avocado exports.

By the mid-1990s José Pérez had developed an extensive international network of technical and commercial contacts and had built a reputation in the Michoacán industry as an expert in all aspects of the avocado supply chain. He started a consulting business to help local
packers to export, but it soon was foreign importers who contracted his services to advise and supervise the work of their Mexican suppliers. In 1994, John Reed became one of his most important customers.

The expansion of his consulting firm led Pérez to hire a team of five agronomists, one office manager, and one accountant. As one of those agronomists explains, they were “rigorously trained in postharvest technology and quality management”. The team “learned to apply strict protocols in postharvest practices and to follow meticulous routines of quality assurance” (G. Rodríguez, interview, July 23, 2005). They also developed a culture of responsibility and professional excellence. In the voice of one of them: “We had to make sure that everything was perfect. We were the eyes and ears of the foreign importer in the local packinghouse. We accepted no excuses. The fruit had to be in perfect condition and the orders had to ship always on time” (G. Rodríguez, interview, July 23, 2005). Local packers usually accepted the advice and supervision of this team. Some of those packers, with a tone of both joking and respect, often called them los científicos (“the scientists”) because, in contrast to common practice, they wore white robes; used several pieces of equipment to test fruit firmness, fruit maturity, room and fruit temperature and humidity, etc.; and carried clipboards in which they recorded everything.

Throughout 1995 and 1996, Reed and Pérez maintained their professional relationship. The California cooperative that Reed was running decided to focus only on California-grown products and cancelled its international programs. Reed moved for a while to another company where he continued doing a similar import and export avocado business.

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38 The quotes cited in this chapter come from my interviews with Mexfruco actors. Most of them were originally carried out in Spanish. I have translated them in order to present English versions within the text.
In late 1996, Reed and Pérez developed a business plan and decided to create their own company. During the first semester of 1997 they met with several potential investors. Finally, Jorge Palacios, owner of the largest Hass avocado plantation in the Dominican Republic, who had been supplying Reed for years, decided to finance the project. In July 1997, Interfruco was incorporated in the U.S. and Mexfruco in Mexico. Interestingly, only Palacios and Reed became shareholders of Interfruco. Pérez was named Managing Director of Mexfruco and took 25% of Mexfruco’s equity.


As noted above, during its first season of operation (July 1997 – June 1998), Mexfruco was not directly running a packinghouse, but buying from several established packers. After July 1998, the company leased a packinghouse and directly operated as a packer thereafter. From that point, and until late 2000, Mexfruco grew and operated very successfully. As I will explain below, increased incompatibility between parent company and subsidiary management caused substantial changes after August 2001, when local shareholders left the company. From that date on, the company had many problems and lost market share, although it has remained in operation. The following paragraphs provide more details about Mexfruco.

From the beginning to 2000: growth and success. During its first season (1997-98), Mexfruco operated mainly as a trading company, buying packed fruit from established packers in Michoacán. Mexfruco also provided technical advice to those packers, particularly with respect to postharvest technology (fruit sorting, grading, packing, cooling, and related techniques), and implemented quality control systems in their packinghouses. Mexfruco’s first sales were to export markets in England, Spain, Sweden, and Canada.
In November 1997 the Michoacán avocado industry began its exports to the U.S. market. 47 of the 60 approved growers (75%) decided to create their own firm to sell their fruit, under the name of “Amimex”. Packers opposed the move, because, as it had always been, they expected to buy fruit from growers, add some value by packing it, and export it. With difficulties, Amimex reached an agreement with two packers, who agreed to provide packing and cooling services. Yet, these growers had no experience at all in any aspect of the post-harvest phase: i.e. planning and organizing harvesting operations; packing, cooling, and shipping; and selling and export logistics. The scenario was additionally complex by the strict regulations imposed by the USDA.

Mexfruco, building on its team’s technical expertise, Interfruco’s financial strength, Reed’s marketing knowledge, and Pérez’s local relations and status as *aguacatero*, got a contract from Amimex to run its harvesting operations, supervise the work of its packers, assure compliance with all relevant norms, and manage export logistics. In addition, Pérez obtained a contract by which Interfruco would import and market Amimex’s fruit in the U.S. As a result, Interfruco and Mexfruco handled 47% of the avocado exports to the U.S. market during that first, 1997-98 season. The success of the operation enhanced the image of Mexfruco in the industry. As for the marketing side, other potential importers claimed that, had they had the opportunity, they would have gotten better prices for Amimex. Some Amimex leaders felt that they were too dependent on one importer. They diversified their portfolio of customers and atomized their efforts, which eventually led them to close the company in early 1999. The dissolution of Amimex and the expansion of the U.S. export program diluted Mexfruco’s market share in subsequent seasons.

Jorge López, who had recently graduated from a master’s program in a California university, played an important role in coordinating Amimex’s operations for Mexfruco during the first U.S. season. López was also the son of an *aguacatero* and a cousin of Pérez. In January
1998, López joined Mexfruco on a full-time basis. He bought 5% of Mexfruco’s equity from Pérez and was named Director of Operations.

A significant change took place in July 1998. Interfruco and Mexfruco were facing increased avocado demand from their customers. In addition, they had begun to sell in Japan and, for a short season, in Hong Kong and Argentina\(^{39}\). Furthermore, their quality control and food safety systems were being increasingly appreciated by customers, but at the same time, they were becoming more sophisticated and difficult to implement by external packers. Under these circumstances, a decision was made to internalize and control packing operations; Mexfruco leased a large avocado packinghouse in Michoacán, initially for a 10 year-period. Once the deal was completed, the packinghouse was upgraded, which implied a significant investment in machinery, refrigeration equipment, and other fixed assets. The company also needed a large amount of working capital. All these investments were financed with loans from Interfruco.

Mexfruco had to restructure. It created a Packing Department, in charge of running the packinghouse, which implied hiring some 70 people. It also created a Fruit Sourcing Department, in charge of locating orchards with good fruit; purchasing directly from growers; and coordinating harvesting and hauling operations, including hiring picking crews. Initially, as customary in the industry, Mexfruco outsourced harvesting services. However, it soon changed this model and directly employed harvesting workers. Quality Control and Food Safety functions were consolidated in a separate department, directed to supervise both field and packinghouse operations. Administratively, Mexfruco added Cost Accounting and Personnel Management sections, in order to support the expanded operation. Mexfruco’s organizational chart, as it generally was from mid-1999 thru mid-2001, is presented in Figure No. 8.

\(^{39}\) Mexfruco is the only Mexican company that has ever exported avocados to Argentina.
Pérez assigned these new positions to his old, trusted associates (three agronomists, one office manager, and one accountant) who had been with him since the time of his consulting company. The three agronomists were named managers of the new Packing, Fruit Sourcing, and Quality Control departments, respectively. They were all coordinated by Jorge López, in his role as Director of Operations. The accountant was confirmed in her position, with expanded responsibilities and staff. The office manager was named Assistant Manager. She was put in charge of office management, the increasingly complex treasury of the company, and supervision of human resource management practices.

The expansion on both the number of employees and the activities designed to improve workers’ life quality led Mexfruco to create, in December 1998, a Department of Human Development, which took over some of the functions of personnel management (e.g. recruitment,
compliance with legal requirements, training, health and safety) and developed other programs that will be presented later, when describing Mexfruco’s corporate social action. This department was coordinated by a social worker. Some time later, in March 1999, a part-time medical doctor and a full-time nurse were hired as part of the Department of Human Development.

Once the Department of Human Development began to operate, Mexfruco made the decision to minimize its outsourcing of harvesting services and to directly recruit and employ its picking crews. Mexfruco has been the only packing company in the industry that made this move. Its managers claimed that the change was very positive. First, the quality of picked fruit, measured by the percentage of export quality fruit in each lot, increased significantly. Second, harvesting operations were subject to quality control and food safety protocols. Third, workers were more satisfied; they obtained a permanent job, with all the benefits established by law or granted by the company; their turnover rate diminished almost to zero. And fourth, a number of growers preferred to operate with Mexfruco because its picking crews were more efficient.

Mexfruco was a pioneer in quality control and food safety systems in the Michoacán avocado industry. Its protocols and expertise became a key factor to differentiate itself from competitors and constituted one of Mexfruco’s most important sources of competitive advantage. No other Mexican avocado exporter had these systems in place at that time.

Interfruco/Mexfruco captured 46% of the lucrative and quality-conscious Japanese market in the 1999-2000 season. It was the first Mexican company able to supply that market on a year-round basis. The same year, and after being audited by British supermarkets, Mexfruco expanded its exports to England up to the point of capturing more than 40% of the Mexican exports. It was also the first firm that exported Mexican organic avocados to the U.S. Mexfruco became the

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40 Organic fruit is produced without the use of chemical pesticides and fertilizers, in an environmentally conscious way. Organic production is internationally certified by third-party organizations.
largest exporter of Mexican avocados both in terms of volume and market diversity. In addition, the consistency that Mexfruco achieved in the quality of its fruit and its services (e.g. timely delivery, adequate information flows, year-round supplies, post-arrival product handling advise, etc.) led the company to a position of leadership in the Michoacán avocado industry.

Around May 1999, Mexfruco moved one step forward and decided, on the one hand, to get its quality systems certified, which was accomplished in late 1999. On the other hand, it decided to substantially improve its food safety systems, not to the relatively simple level required for fresh fruits, but to the more strict level of processed products. A specialist in food safety was contracted, first as external consultant, and six months later as a full-time employee. Mexfruco adopted a system known as HACCP (Hazard Analysis and Critical Control Points), which is widely acknowledged as one of the most sophisticated food safety programs. It took two years for Mexfruco to obtain external certification for this system.

A common complaint from avocado growers was that Mexfruco, as most other exporters, only picked export-quality fruit, leaving on the trees much fruit for sale in the domestic market. In September 1998, Mexfruco decided to sell avocados in the Mexican market. In just a few months, Mexfruco had established programs with some of the largest retailers in Mexico. Operating in the domestic market required an important investment in working capital, which was also financed with loans from Interfruco. In this way, the company was able to buy all the production of its key suppliers, serving them better and, at the same time, having the opportunity to make better purchasing deals. As the manager of the Fruit Sourcing Department points out, Mexfruco “offered growers the best commercial alternative: It was the leader in exports to Asia, Europe, and South America, with a good program to the U.S.; it had a large program in the Mexican domestic market, with good and reliable customers; it had the financial and marketing
resources of other U.S.-owned firms; but in contrast to them, it was managed and partly owned by local, well-known *aguacateros*” (H. Torres, interview, December 24, 2005).

All the previously discussed initiatives, implemented between 1997 and 2000, were proposed by Mexfruco’s management and fully supported by John Reed, Interfruco’s CEO. The subsidiary had substantial autonomy for most of its operating decisions, and it also exerted great influence on Interfruco’s sales and marketing programs and policies in international markets. As shown in Tables No. 5 and 6, all indicators of Mexfruco’s performance, but profits, improved continuously during these early years of operation (1997-2000). The reputation of the firm in Michoacán increased. In January 2000, José Pérez was elected Vice-Chairman of APEAM, the highest ranking position for a packer during that administration and, tacitly, the Chairman of the association for the next administration (2002-2004).

### Table No. 5 - A Summary of Mexfruco's Financial Indicators (Current Mexican Pesos)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Assets</th>
<th>Total Sales</th>
<th>Export Sales</th>
<th>Domestic Sales</th>
<th>Profits</th>
<th>Return on Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1,919,511</td>
<td>9,838,920</td>
<td>9,082,660</td>
<td>960,086</td>
<td>96,032</td>
<td>0.98%</td>
</tr>
<tr>
<td>1998</td>
<td>11,423,416</td>
<td>83,404,601</td>
<td>65,248,558</td>
<td>19,427,535</td>
<td>78,829</td>
<td>0.09%</td>
</tr>
<tr>
<td>1999</td>
<td>15,055,390</td>
<td>182,554,312</td>
<td>89,447,813</td>
<td>93,315,940</td>
<td>1,765,862</td>
<td>0.97%</td>
</tr>
<tr>
<td>2000</td>
<td>21,700,913</td>
<td>186,301,629</td>
<td>118,221,717</td>
<td>71,466,390</td>
<td>408,828</td>
<td>0.22%</td>
</tr>
<tr>
<td>2001</td>
<td>12,144,412</td>
<td>172,300,393</td>
<td>93,334,855</td>
<td>77,225,089</td>
<td>-2,416,550</td>
<td>-1.40%</td>
</tr>
<tr>
<td>2002</td>
<td>12,903,888</td>
<td>136,201,231</td>
<td>114,802,633</td>
<td>21,548,890</td>
<td>1,563,226</td>
<td>1.15%</td>
</tr>
<tr>
<td>2003</td>
<td>18,596,997</td>
<td>215,595,061</td>
<td>172,283,033</td>
<td>45,210,677</td>
<td>2,054,968</td>
<td>0.95%</td>
</tr>
<tr>
<td>2004</td>
<td>12,993,421</td>
<td>148,873,848</td>
<td>126,545,125</td>
<td>22,195,732</td>
<td>-3,057,353</td>
<td>-2.05%</td>
</tr>
</tbody>
</table>

### Table No. 6 - Mexfruco's Exporting Performance

<table>
<thead>
<tr>
<th>Season</th>
<th>Exports (Kgs)</th>
<th>Market Share of Mexican Avocado Exports</th>
<th>Market Share in Japan</th>
<th>Market Share in the UK</th>
<th>Market Share in USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>7,228,062</td>
<td>14.7%</td>
<td>21.0%</td>
<td>44.5%</td>
<td>47.2%</td>
</tr>
<tr>
<td>1998-99</td>
<td>5,877,953</td>
<td>13.7%</td>
<td>27.0%</td>
<td>30.7%</td>
<td>10.4%</td>
</tr>
<tr>
<td>1999-00</td>
<td>8,876,901</td>
<td>16.9%</td>
<td>42.7%</td>
<td>46.8%</td>
<td>12.2%</td>
</tr>
<tr>
<td>2000-01</td>
<td>6,230,048</td>
<td>11.9%</td>
<td>26.8%</td>
<td>35.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>2001-02</td>
<td>7,390,298</td>
<td>9.5%</td>
<td>23.6%</td>
<td>24.7%</td>
<td>14.2%</td>
</tr>
<tr>
<td>2002-03</td>
<td>10,066,244</td>
<td>12.3%</td>
<td>20.7%</td>
<td>32.1%</td>
<td>12.3%</td>
</tr>
<tr>
<td>2003-04</td>
<td>8,756,736</td>
<td>7.6%</td>
<td>10.4%</td>
<td>0.0%</td>
<td>10.1%</td>
</tr>
<tr>
<td>2004-05</td>
<td>8,267,675</td>
<td>8.4%</td>
<td>7.5%</td>
<td>0.0%</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

*Seasons run from July 1st to June 30*
In a parallel line of business, Reed and Pérez decided to expand their operations to the mango business. Starting in March 1998, Mexfruco sourced mangos from established packinghouses in the Mexican states of Oaxaca, Michoacán, Nayarit, and Sinaloa. Mangos were exported to the U.S., several countries in Western Europe, Japan, and Australia. The next year (1999), Mexfruco expanded its mango sources to Ecuador and Peru, and started a sales program in Mexico, with both domestic and imported fruit. All mango operations were supervised by Mexfruco’s staff, who applied their quality control protocols and, a few months later, food safety protocols too. In 2000, and for just one season, Mexfruco leased and operated a mango packinghouse in Michoacán.

In contrast to avocado internal transactions between Interfruco and Mexfruco, based on a “cost plus markup” transfer price, internal mango transactions were governed by a transfer price based on market prices minus an 8% commission for Interfruco. Since Mexfruco obtained the fruit by buying it from growers, at firm prices, Mexfruco received the residual, positive or negative, of Interfruco’s mango sales.

Facing the expansion of its subsidiary’s operations, and in a process typical of small growing firms (Dávila, 2005), John Reed realized Interfruco needed to professionalize financial management and to formalize control systems. In December 1998, Interfruco hired Gerald Kleber41 as its Chief Financial Officer (CFO). Kleber was Reed’s personal friend since high school. He held a MBA degree and had worked for one of the Big-Five global accounting firms.

One of Kleber’s first decisions was to charge Mexfruco interests on intra-firm financing, at commercial rates. Mexfruco’s managers accepted the decision as fair. Kleber also began, slowly but steadily, to implement formal procedures for planning, controlling, and evaluating Mexfruco’s activities, with a strong financial emphasis. Budgeting; monthly consolidation of

41 Recall that all personal names are pseudonyms.
financial statements (which involved conciliating differences in accounting principles between Mexico and the U.S.); weekly reports on cash, payables, and receivables; etc., became common practice. Although Kleber’s financial emphasis was somehow alien to Mexfruco’s operational orientation, Mexfruco’s top managers felt these systems were desirable and supported the changes. The accounting team, who shared with the rest of the company the urge to execute a good job, exerted a lot of effort to comply with Kleber’s requests. In short, as it is the case for most Mexican managers (Kras, 1995), Mexfruco’s managers welcomed these U.S.-style formal practices, learned from them, and rigorously adopted them.

The first difference between Kleber and the Mexfruco team arose when Kleber attempted to centralize, in the U.S. office, all foreign exchange transactions in order to hedge. His idea implied that Mexfruco would receive only Mexican pesos. The move prevented Mexfruco from paying in U.S. dollars to some large growers who so preferred. In addition, Mexfruco had to buy U.S. dollars in the Mexican market to pay for some imported inputs (e.g. cardboard boxes). There was also a loss of status in front of the local financial community, since Mexfruco was one of the major sellers of foreign exchange in town and, for that reason, had a preferential treatment in local banks. After few weeks of struggles, Kleber’s decision was reversed and Mexfruco received U.S. dollars again.

Towards mid-1999, Kleber insisted in hiring a Director of Finance and Administration for Mexfruco. Both Reed and Pérez agreed. Breaking from Mexfruco’s *modus operandi*, which relied on local recruitment and hiring decision-making at the subsidiary level, Kleber contracted the recruitment process with the Mexican branch of Ernst & Young, with a national scope for the search. Pérez and Kleber jointly conducted a number of interviews and, twice, they selected candidates. However, none of them accepted to move to a small city in Michoacán to work for a
small fruit exporting company. Throughout the interviews, Pérez realized that Kleber’s plan was to have the new Director of Finance reporting, not locally to Pérez, but directly to Kleber.

The centralizing aim of Kleber was increasingly evident for the team running Mexfruco, who saw it as a threat to its traditional autonomy and influence. Some struggling followed up. At the end, with a last minute decision by Reed, Mexfruco hired Juan Sánchez as its new Director of Finance and Administration.

Juan Sánchez was an experienced accountant who had worked for more than 20 years at one of the largest grower-packer firms in Michoacán. For several of those years he occupied the top management position of that company. Sánchez was a “local”, with ample relations in the avocado industry. It was José Pérez who contacted Sánchez, proposed his hiring to Reed and Kleber, and stressed his potential to eventually replace him (Pérez) if and when needed. However, Sánchez was not fluent in English and, by having a broader perspective of the business, lacked the financial sharpness that Kleber wanted. Nevertheless, after many months of work and mutual adjustments, Kleber and Sánchez established formal control systems and standard reports.

**Mexfruco’s culture.** Mexfruco’s key managers brought in the emphasis on “making sure that everything is perfect” which they had developed some years earlier. They were aware of their technical expertise, unsurpassed by any competitor in the industry at that time, and they were eager to take new technical challenges. At the same time, they also kept their emphasis on “being the ears and eyes of the customer”; an orientation towards satisfying clients was very evident, to the extent that working overtime or on weekends was accepted and not uncommon, if that meant complying with a customer’s order. A culture of hard work and professional excellence emerged. The head of the Human Development Department indicates that, upon her arrival, she was surprised by “how deeply people were involved in their work and how dedicated they were to their tasks” (V. Gutiérrez, interview, June 13, 2005).
As Mexfruco hired more managers and its Department of Human Development implemented new programs, the company integrated into its culture an emphasis on personal development and family well-being, reflecting concerns which are deeply ingrained in most Mexican managers and workers (Kras, 1995).

Throughout a collective exercise that lasted almost six months, a team of 25 top and middle managers wrote Mexfruco’s vision, mission, values, code of ethics, and other documents, which are presented, in Spanish, in Appendix No. 2. My translation of the mission into English is presented in Figure No. 9.

**Figure No. 9 - Mexfruco’s Mission**

<table>
<thead>
<tr>
<th>Mission Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>We, at [Mexfruco], are dedicated to produce, pack, and commercialize fruits in a globally competitive fashion, in such a way that we become our customers’ preferred company while being able to maintain sustained growth. In order to achieve this:</td>
</tr>
<tr>
<td>❖ We respond to the needs of our customers providing them with unprecedented quality in our products and services, using effective communication tools and technology, and creating a gratifying atmosphere of growth and competitiveness, since we seek to gain their preference, trust, and satisfaction.</td>
</tr>
<tr>
<td>❖ We integrate a responsible human team, with spirit of improvement, which acts according to the values of the company. We promote the personal and professional development of our collaborators, in the context of a pleasant working environment; we seek their personal, economic, family, and integral-life satisfaction.</td>
</tr>
<tr>
<td>❖ We aim at establishing long lasting commercial and professional relationships with customers and suppliers, maximizing the benefits for the members of the productive chains to which we serve, in particular growers, building with them relationships of trust and growth.</td>
</tr>
<tr>
<td>❖ We offer our shareholders satisfactory profits generated by work that is beneficial to our region and its inhabitants.</td>
</tr>
<tr>
<td>❖ We accept the challenge of competition as a stimulus to our improvement. We seek the respect of our competitors through innovation and the continuous improvement of our work.</td>
</tr>
<tr>
<td>❖ We have an authentic concern for the health of our collaborators and consumers, and for the natural environment. For this reason, we implement sophisticated systems of food safety, health and hygiene, and environmental conservation in our work processes and practices.</td>
</tr>
</tbody>
</table>

This mission highlights Mexfruco’s goal of being the “preferred company” of their customers; its aim at “responding to customers’ needs with unprecedented quality”; its commitment to “promote the personal and professional development” of all its collaborators; its
desire to build “long lasting”, trusted relationships with customers and suppliers; its purpose of offering shareholders “satisfactory profits generated by work that is beneficial to our region and its inhabitants”; and its “authentic concern for the health of consumers and workers”.

Interestingly, it seems that Interfruco, the parent company, provided little input, if any, to Mexfruco’s mission formulation. Interviewed managers assure that pursuing all these goals was a day-to-day effort, broadly supported by most people at Mexfruco.

An internal work climate survey applied in 1999 showed that most people had high levels of work satisfaction. In fact, the turnover in the top and middle managerial team was very low, as compared with Mexican acceptable standards of 15% (Arias Galicia, 1989: 404-405): 4% in 1998 (one manager left); 11% in 1999 (two middle managers left), and 16% in 2000 (three middle managers left). In short, it seems that a distinctive approach to personal and professional excellence, based on responsibility and hard work, was in place at Mexfruco and permeated all of its activities.

The period 2001-2004: change and crisis. Things were about to change for Mexfruco. The subsidiary did not have profits for several, intermittent monthly periods throughout 2000 and 2001. Several external factors contributed to a decline in the scale of sales and operations. On the one hand, as many new exporters entered the business, Mexfruco faced increased competition and reduced margins in all its major markets. On the other hand, there were strong seasonal pressures caused by a decrease in avocado production. Avocados were scarce and expensive for several months. Under these conditions, growers demanded higher prices, and customers refused to accept them, which further reduced Mexfruco’s margins. The seasonality of avocado production had always been reflected on Mexfruco’s profits. In general terms, Mexfruco’s profitability was lowest during late spring and early summer, when fruit supplies were at a minimum, fruit prices were at a maximum, and demand was at its lowest.
However, internal problems seem to have been far more important. In the view of one of Mexfruco’s managers (H. González, interview, June 10, 2005), a number of differences between parent company and subsidiary managers became evident as the company accumulated successes. He says that, while local management gave priority to medium and long term development, based on strengthening and expanding Mexfruco’s technology and stakeholder programs (to be described in the next section), parent company managers began to focus more and more on short term profitability.

Interfruco’s managers began to think that it was time to exploit the experience and reputation of the company, and to turn it into actual profits. On the one hand, they started to push for cutting costs in Mexfruco’s social and quality programs. They claimed that none of the other Mexican exporters was running quality and food safety programs as sophisticated as Mexfruco’s, and that, in contrast to Mexfruco’s proactive stance, competitors’ social programs (e.g. workers’ training and development and health and safety) were barely complying with Mexican law. On the other hand, Interfruco management decided to restrict sales to only those markets and customers which offered higher margins to the company, cancelling the accounts of many others which, although less profitable, were strategically important because they took lower quality or smaller fruit (some of which all orchards always produce and all packers have to sell). This decision significantly reduced Mexfruco’s scale of operation and ability to deal with growers. At that time, José Pérez, Mexfruco’s Managing Director, wrote to John Reed in these terms:

“By your decisions [about restricting sales to some customers], [Mexfruco] has lost 60-65% of its avocado volume… [On the other hand] there are serious limits to staff cuts if we are to maintain some of our business practices and achievements, such as individual lot costing, quality assurance, food safety, a perfect tax record, workers’ health and safety standards and training, etc… The alternative is to dismantle all these programs and lose the differentiation that [Interfruco/Mexfruco] obtained with them…. I think we should rather work to keep or increase sales to the proper levels in order to maintain those achievements and build on them for the future” (J. Pérez, letter to John Reed, August 7, 2001).
Although it had less customers and lower margins, Interfruco kept pushing for higher profitability. Without the possibility of augmenting prices or margins in an increasingly competitive market, those profits could only come from reducing its costs, i.e. from further reducing Mexfruco’s margins, which caused intra-firm conflicts. Mexfruco management proposed to absorb, in Mexico, all Interfruco’s sales and administrative functions in order to reduce the impact of Interfruco’s increasing costs. This proposal was not well received by Reed, who demanded strict compliance with the original business model (i.e. Mexfruco sources, packs, and ships fruit; it sells this fruit to Interfruco at cost plus a 5% markup; and Interfruco re-sells to all international customers, charging an additional markup of at least 8%).

In practice, the planned gross margins of 5% (for Mexfruco) plus 8% (for Interfruco) proven to be too big as compared to those of new, aggressive Mexican exporters. Since Interfruco insisted in having an 8% margin in each sale, Mexfruco often had to work without profits or even at a loss.

Intra-firm differences were aggravated by the results of their mango business. Jorge López argues that these operations were not transparent for Mexfruco, and that Mexfruco’s participation in decision-making was curtailed on purpose (J. López, interview, January 2, 2006). Under the frequent allegation that markets were over-supplied and prices were abruptly falling, Interfruco often applied arbitrary discounts to previously agreed intra-firm prices. Furthermore, cash transfers for mango payments were delayed and, at times, restricted. All of this caused losses for Mexfruco and generated distrust and conflict between the companies.

Mexfruco’s programs in the Mexican market were another source of intra-firm conflict. Since mid-1999 Kleber had insisted in cancelling all of Mexfruco’s sales in the Mexican market, even when they were profitable, because, he argued, it was unstable and it appeared to him as too
risky to grant credit to Mexican supermarket chains. The idea was straightforwardly rejected by Pérez and López. They acknowledged that the Mexican market was, in fact, unstable and volatile, because of intense and sometimes unfair competition from smaller packers and informal brokers. However, they argued that such risks were actually very low; that selling in the domestic market had increased Mexfruco’s bargaining power and closeness with key growers (which they considered to be a crucial success factor, given the structure of the Michoacán avocado industry); and that Mexfruco would always need to sell some lower-quality fruit graded out from its export operations. Sánchez mediated by arguing that Mexfruco’s efforts to develop the domestic market had been, in fact, “too aggressive”, but that the company had already learned how to deal in that market and thus, it was time to capitalize on that experience.

The issue was related to the subsidiary’s autonomy. By 1999 Mexfruco was already selling more fruit in the domestic market than in international markets. According to López, Mexfruco’s Director of Operations, “[Interfruco] managers began to perceive the subsidiary as too independent and somehow out of their control; this was a factor that they did not like much over there” (J. López, interview, January 2, 2006). After failing to cancel the domestic program, Interfruco attempted to collect payments directly from Mexican customers and charge a commission to Mexfruco, before returning any money to it. Tax regulations in Mexico precluded the actualization of this procedure. However, Mexfruco’s management resented Kleber’s attempt and considered it a move against the autonomy that the subsidiary had traditionally enjoyed.

In addition, in the words of Jorge López, Mexfruco’s Director of Operations, the “voice of those many [Interfruco] administrative employees silenced the voice of Mexican managers” (J. López, interview, January 2, 2006). This was particularly the case of Kleber’s influence on John

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42 Mexfruco’s Mexican customers were large and reputable chainstores like Soriana, Gigante, Costco, Smart, and Wal-Mart.
Reed, which steadily increased at the expense of Mexfruco’s influence, despite Kleber’s lack of knowledge of the fresh fruit business.

The transactions between Mexfruco and Interfruco, at first glance, continued as usual: avocados were sold to Interfruco at Mexfruco’s cost plus, when possible, a little markup. Occasionally, as it is normal in the fresh fruit business, a shipment could have problems. Failures in the transportation system, high maturity of the fruit, excessive rains in Michoacán, and several other problems might cause the fruit to arrive in poor condition to the market. In each of those cases, a technical analysis was performed by Mexfruco staff. At times the costs of the problem were claimable to insurance or transportation companies. In this situation, Interfruco used to file and eventually collect the claim without consequences for Mexfruco. When the problem was not claimable, Mexfruco used to absorb most of the losses, granting the corresponding discount to Interfruco by issuing credit notes; in these cases, Interfruco lost only its commission.

This mechanism of credit note issuing was used (as shown in Table No. 7), and seemingly abused, to shift income out of Mexfruco without any technical justification. At the end of the first year (1997), Reed and Pérez agreed to shift 68% of Mexfruco’s profits to Interfruco. During those initial months, Interfruco had had very low profits. Reed convinced Pérez of the need to improve the financial structure of Interfruco in preparation for the expected growth of the company. Pérez agreed, after negotiating some bonus for Mexfruco’s workers, equivalent to the legal profit-sharing mandate. Pérez also considered that, since Mexfruco was exempt from income tax during its first year of operation, the move did not constitute any tax evasion (and no personal risk for him). At that time, Pérez was the only Mexican shareholder. The losses he was facing as minority owner were compensated by a substantial salary increase for the next year. Paradoxically, it was Pérez who suggested the mechanism for this income shifting: Mexfruco
would issue a number of credit notes to Interfruco, granting it discounts on the basis of “price adjustments”.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Pre-discount (earned) profits</th>
<th>&quot;Price-adjustment&quot; discounts</th>
<th>After-discount (remaining) profits</th>
<th>Discounts as percentage of earned profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>299,858</td>
<td>203,826</td>
<td>96,032</td>
<td>68.0%</td>
</tr>
<tr>
<td>1998</td>
<td>522,039</td>
<td>443,210</td>
<td>78,829</td>
<td>84.9%</td>
</tr>
<tr>
<td>1999</td>
<td>1,904,360</td>
<td>138,498</td>
<td>1,765,862</td>
<td>7.3%</td>
</tr>
<tr>
<td>2000</td>
<td>3,701,877</td>
<td>2,293,049</td>
<td>508,828</td>
<td>89.0%</td>
</tr>
<tr>
<td>2001</td>
<td>-2,231,284</td>
<td>185,266</td>
<td>-2,416,550</td>
<td>8.3%</td>
</tr>
<tr>
<td>2002</td>
<td>1,816,605</td>
<td>253,379</td>
<td>1,563,226</td>
<td>13.9%</td>
</tr>
<tr>
<td>2003</td>
<td>2,448,783</td>
<td>393,815</td>
<td>2,054,968</td>
<td>16.1%</td>
</tr>
<tr>
<td>2004</td>
<td>-2,845,807</td>
<td>211,546</td>
<td>-3,057,353</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

At the end of the second year (1998), with Kleber on board, Reed decided to repeat the procedure. Mexfruco was already running its packinghouse (which implied loans from Interfruco) and its books showed an attractive profit. Reed decided to shift 85% of that profit through the mechanism of “price adjustments”. According to Mexfruco’s Assistant Manager at that time, Reed explained that Interfruco needed a stronger balance sheet in order to be able to finance future growth and promised not to use the mechanism in 1999. This time there were neither bonuses to replace workers’ profit-sharing nor compensation to local shareholders. And there was tax evasion: Mexfruco’s auditor reported violations to tax norms regulating transfer prices in “related party” transactions. Pérez never fully agreed with the move but trusted Reed would compensate Mexfruco in the future. In fact, “price adjustment” discounts diminished in the next fiscal year (1999). Because of this, and the expansion of its sales in both domestic and international markets, Mexfruco reported one of the largest profits of its history in 1999.
However, the practice of issuing “price adjustment” discounts was extensively practiced throughout the 2000 fiscal year. Mexfruco was on the path of having another record-breaking season in both sales and profits. When interviewed, the General Accountant indicated that, throughout that year, Kleber regularly and unilaterally mandated such “price” adjustments “with the only purpose of reducing Mexfruco’s profits”. Often, these discounts were not announced, but just deducted from weekly payments to Mexfruco. She adds that Juan Sánchez, Mexfruco’s Director of Finance, accepted them without requesting Pérez approval (G. Morales, interview, January 2, 2006). In an e-mail message to Kleber, Pérez emphasized:

> “The point that I would like to stress here is the same that I have been asking for once and again and again… let’s talk before you deduct, let us know what you plan to deduct, let’s play like the team we are supposed to be…” (J. Pérez, e-mail message, February 2, 2000).

At the end of 2000, Interfruco had shifted 89% of Mexfruco’s profits out of the subsidiary. External auditors again declared tax evasion problems. Mexfruco began to have some cash constraints and, consequently, it extended its payment terms to growers. In the extremely competitive environment of the Michoacán avocado industry, Mexfruco began to lose bargaining power. However, Interfruco’s managers kept on claiming that Mexfruco’s profits were not sufficient.

This state of affairs was unacceptable for Mexfruco’s managers and local shareholders. José Pérez and Jorge López traveled several times to Interfruco’s headquarters in California to express their disagreement, but their voices were not heard. In every one of those trips, Reed and Kleber insisted in also having Juan Sánchez present. The discussions always focused on profitability analysis and Interfruco’s request for higher margins both at Interfruco and Mexfruco. During those meetings, Kleber established a schedule for Mexfruco to pay back its debt. In addition, without much intervention from Reed, Kleber increased its pressure to cut costs at
Mexfruco. Although fruit purchases represented almost 80% of Mexfruco’s costs, Kleber focused mainly on the cost of staff; particularly, he targeted office management and quality/food safety personnel. Parent company managers systematically refused to talk of any issue not connected to short term financial performance. On their side, Mexfruco’s managers consistently argued that they could not “downsize”, and even less in quality/food safety staff. And they did not downsize.

To make things worse, Mexfruco’s programs in the Mexican market were completely cancelled in March 2001. For Mexfruco’s managers, Reed had abdicated and Kleber was running the company, exclusively on financial criteria. Their attempts to discuss the seasonal problems with Reed either were curtailed by Kleber’s intervention or found silence from Reed. In a lengthy letter to Reed, José Pérez wrote (original in English):

“The purpose of this letter is to confirm and explain my point of view in regard to the very poor future that I see for [Mexfruco]… most probably this document will not generate any change in your strategy. If this is the case… I would like to discuss a reasonable way to put an end to my involvement with this project…

…

I have some basic disagreements with our decisions and actions: 1) Our decisions are being oriented to the short term and the “right” margin in every single sale; I think we should better balance the short and the long terms. 2) Many decisions are being made in an authoritarian and emotional way, without any participation from us … I believe in participative decision making and a better evaluation of the impact of decisions in all different areas of the companies. 3) When there is a problem, we tend to look for someone to blame … 4) I see that the only profits from our endeavors stay in California, while many of the risks have stayed with [Mexfruco] … I believe that a fair share of the profits must go to where most of the value is added, for the benefit of the company, its workers and employees, and the society from which the company takes resources … 5) I see that we now consider human resources as exchangeable pieces; I believe that people is [sic] the most valuable resource that we have in [Mexfruco]; firing them is cutting part of ourselves. 6) I see that we will have to downsize, or even dismantle the programs that have made us different from the competition and have put us one step ahead of them; the emphasis now is to cut costs… I think we should rather work… to maintain those achievements and build on them for the future…

…

I have also been very offended by some acts from [Interfruco], like unannounced discounts, unjustified withholding and delays of payments and liquidations, etc., and all the jokes on us about those episodes; I perceive this attitude as a serious lack of respect, and even discrimination. In spite of many discussions and agreements on these topics, [Mexfruco] has often been not well treated by some of the [Interfruco’s] staff…” (J. Pérez, letter to John Reed, August 7, 2001).
This letter had no impact and, consequently, on August 21, 2001, the two local minority shareholders, José Pérez and Jorge López, left the organization and “sold” their shares to the parent company. Some days later, Kleber declared that, as of August 31, the book value of those shares was zero. Mexfruco’s Director of Finance and Administration, Juan Sánchez, was named Managing Director. The manager in charge of quality and food safety programs was promoted to Director of Operations, replacing Jorge López.

Sánchez soon implemented many of the changes that Kleber had been pushing for. The Department of Quality and Food Safety was dismantled. The Accounting Department was severely downsized. The Assistant Manager and some middle managers decided to leave. In short, between August and December 2001, Mexfruco lost 65% of its top and middle managers.

Sánchez asserts that he was able to convince Reed and Kleber that, now that the company was Interfruco’s wholly-owned subsidiary, there was no justification for “price adjustment” discounts. He also indicates that he conditioned his stay to the strengthening of Mexfruco’s financial structure (J. Sánchez, interview, June 11, 2005). In fact, Mexfruco’s debt was capitalized and, consequently, it paid no more interest to its parent company. “Price adjustment” discounts were apparently reduced during the fiscal years 2002 and 2003. Still, Interfruco kept on using that mechanism and shifted out of Mexfruco 14% and 16% of its profits in each of those years, respectively.

Immediately after the changes in its management team, Mexfruco increased its exports to the U.S. market, partially as a consequence of the expansion of the areas and time periods in which those exports were permitted by the U.S. government. However, it reduced its export operations to Europe and Japan. In general terms, Mexfruco saw its market share decline in the 2001-02 and 2002-03 seasons. Sánchez attributed this decline to increased and aggressive competition from other Mexican exporters who were selling directly, without a parent company
in the middle: “There were many new competitors… it became increasingly difficult to generate profits for both [Interfruco and Mexfruco] companies” (J. Sánchez, interview, June 11, 2005).

Another Mexfruco manager also points out to increased competition as one of the causes of decreasing market share, but she adds that the quality of Mexfruco’s products was also reduced, and that the company lost its responsiveness to customers’ claims and needs (S. Medina, interview, June 9, 2005).

Profits increased substantially in 2002, as a result of aggressive cost-cutting. However, many customers were not satisfied and their claims increased. As the new Director of Operations complains, “[Mexfruco’s] quality policy changed radically… in favor of drastically reducing costs”, which meant to buy and use cheaper and lower-quality fruit and packing materials. Not surprisingly, customer claims piled up (L. Espinoza, interview, June 11, 2005).

The 2002-03 season was particularly problematic. In addition to Mexfruco’s particular quality problems, and for a number of climatic and physiological reasons that cannot be discussed here43, all Michoacán avocados had severe quality problems in export markets. Something similar had occurred in the 1998-99 season, but Mexfruco’s technical team was able to neutralize most of the problems. Now Mexfruco lacked such expertise, and customers lost confidence in the company. The new Director of Operations declares that, as the new (2002-03) season advanced, “we lost Japan and England; [the customers] found suppliers who offered better quality and lower prices” (L. Espinoza, interview, June 11, 2005). Furthermore, in March 2003 APEAM reported44 that “[Mexfruco’s] fruit was showing the worst quality of the industry in the [U.S.] market”.

43 There are some years in which rains in the avocado region are excessive, mainly in late summer, when fruits are still relatively immature. This combination of factors weaken fruits in such a way that, once harvested, packed, and shipped, these fruits develop distinctive black spots on the skin, which gives them a very poor appearance. Although it is neither rotten nor internally damaged, the fruit is hardly saleable. These damages cannot be detected in the orchard or at the packinghouse, but only upon arrival to market, two or three weeks after shipping.

44 Since the opening of the U.S. market in 1997, APEAM appointed several market representatives who, among other functions, regularly surveyed warehouses and terminal markets to rate and report on the quality of Mexican avocados.
Trying to reverse the situation, Mexfruco reestablished its Quality Control Department in May 2003, with a staff of two people.

Mexfruco also found increasing difficulties to access growers. The company was often late to react to price changes. The manager of the Fruit Sourcing Department indicates that “during our initial four years we were very competitive in prices; afterwards we have always lagged behind because it is taking too long to make [price] decisions” (H. Torres, interview, December 24, 2005).

Facing an important decline in sales, Mexfruco reported huge losses in 2004. Kleber, Interfruco’s CFO, and several other Interfruco’s employees, left the company in late 2004 to start their own venture. In January 2005, John Reed resigned his position as CEO, although he remained as a minority shareholder. Jorge Palacios, the Dominican investor who now was the largest shareholder, hired an interim CEO with the mandate of “making operational and management adjustments in order to fulfill shareholder’s expectations” (The Packer, 2005).

7.3.- A STUDY OF MEXFRUCO’S CORPORATE SOCIAL ACTION

After describing the history of Mexfruco, let us now focus on the study of its CSA during the period 1997-2004. Consistent with morphogenetic theory, I begin the analysis in the actual domain of reality. Accordingly, in this section I emphasize the description and understanding of the actual level of reality, in which socio-cultural interactions take place, i.e. where managers and stakeholders, through their actions and interactions, shape CSA. It will be later, in the next chapter, that I will extend the analysis into the real domain. At that point I will develop an explanatory narrative that links causes (CSR), actions (CSA), and outcomes (CSP) for the Mexfruco case along the lines of the theoretical framework introduced in chapters 3, 4, and 5.
In this section I first introduce the different CSA initiatives, or tracks, that Mexfruco displayed throughout the period of study. By grouping them according to their patterns of longitudinal variation, I identify several phases of CSA in Mexfruco’s history and refer them to some critical events in the subsidiary’s history. And second, I describe Mexfruco’s CSA in detail; while doing so, I will explain the situational logic in which those activities were decided upon, on the basis of the compatibility or contradiction, concomitant or contingent, between the ideas and interests of both Mexfruco and its stakeholders45.

7.3.1.- Longitudinal Patterns of Corporate Social Action.

The analysis of (mostly qualitative) data on Mexfruco’s CSA allowed the identification of 23 main longitudinal tracks, or lines of corporate social action. I measured most of them by using Clarkson’s (1995) RADP scale46. For some tracks it was possible to use a metric measure of the company’s effort, expressed in monetary units. In those cases, I translated current Mexican pesos into constant units, using the Mexican Consumer Price Index for the transformation. In a few cases, I had access to monthly metric data, although the series were rarely complete. In most cases data was semi-annual or annual. The information on these tracks, their target stakeholder group, and their measures is summarized in Table No. 8.

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45 Let us remember that, as explained in section 3.4 (chapter 3), the terms “complementarity” (or “compatibility”) and “contradiction” (or “incompatibility”) refer to second-order relations between the different CSR emergent properties that characterize a particular firm-stakeholder relationship. Constraining (or necessary) contradictions and concomitant (or necessary) complementarities occur in relations that are internally linked and necessarily related (Mexfruco would not be such firm if it did not have these relationships). Competitive (or contingent) contradictions and contingent complementarities are features of relations that are not constrained by any necessary and internal relation, i.e. those whose actors are independent from each other (Archer, 1995).

46 Clarkson’s (1995) RADP scale evaluates the company’s strategic posture toward social issues, or mode of response, along an ordinal scale in which “1” is “reactive”, “2” is “defensive”, “3” is “accommodative”, and “4” is “proactive”.

Table No. 8 - Tracks Representative of Mexfruco’s Corporate Social Action

<table>
<thead>
<tr>
<th>Track Name</th>
<th>Stakeholder group</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations and sponsorships</td>
<td>Community</td>
<td>Constant Mexican pesos (2002=100)</td>
</tr>
<tr>
<td>Index of expenditure on quality and food safety programs</td>
<td>Customers</td>
<td>Based on constant MXP; 7-year average = 100</td>
</tr>
<tr>
<td>Posture on responsiveness to customer claims</td>
<td>Customers</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Overall customer orientation</td>
<td>Customers</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Posture on environmentally friendly products (Organic fruit)</td>
<td>Environment</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Posture on environmentally friendly products (No wood packs)</td>
<td>Environment</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Posture on reforestation</td>
<td>Environment</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Company’s tax compliance</td>
<td>Government</td>
<td>Constant Mexican pesos (2002=100)</td>
</tr>
<tr>
<td>Posture on growers’ tax compliance</td>
<td>Government</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Employment creation</td>
<td>Government</td>
<td>Employment growth (%)</td>
</tr>
<tr>
<td>Posture on payment terms to growers</td>
<td>Growers</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Posture on competitive fruit prices</td>
<td>Growers</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Posture on overall grower orientation</td>
<td>Growers</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Posture on support of industry’s agenda</td>
<td>Industry</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Posture on participation in industry organizations</td>
<td>Industry</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Value lost by minority shareholders via income-shifting</td>
<td>Minority shareholders</td>
<td>Constant Mexican pesos (2002=100)</td>
</tr>
<tr>
<td>Real salary increases</td>
<td>Workers</td>
<td>Percentage</td>
</tr>
<tr>
<td>Posture on labor law compliance (picking crews)</td>
<td>Workers</td>
<td>RDAP Scale</td>
</tr>
<tr>
<td>Profit-share income lost by workers via income shifting</td>
<td>Workers</td>
<td>Constant Mexican pesos (2002=100)</td>
</tr>
<tr>
<td>Index of expenditure in training and education</td>
<td>Workers</td>
<td>Based on constant MXP; 7-year average = 100</td>
</tr>
<tr>
<td>Index of expenditure in health and safety</td>
<td>Workers</td>
<td>Based on constant MXP; 7-year average = 100</td>
</tr>
<tr>
<td>Houses for workers</td>
<td>Workers</td>
<td>Units</td>
</tr>
<tr>
<td>Posture on family development activities</td>
<td>Workers</td>
<td>RDAP Scale</td>
</tr>
</tbody>
</table>

With the purpose of finding patterns of their variance over time, I visually analyzed each track. I draw longitudinal scatterplots of the various tracks (Miles & Huberman, 1994), which are presented in Appendix 3. I grouped all the CSA tracks into groups that showed homogeneous variation through time, according to the trends shown in the scatterplots. The small number of observations in each track (8 observations for annual data and 15 for less available semi-annual data) and the nonmetric nature of most data precluded the use of statistical tools such as factor analysis. Instead, I confirmed the homogeneity of each group of tracks by using Kendall's Coefficient (W) of Concordance\(^47\), a nonparametric test which is equivalent to factor analysis in parametric statistics (Sharma, 1996). This test requests scores to be transformed into ordered values between 0 and +1; the higher the value, the more associated the group of variables (Siegel & Castellan, 1988; Gibbons, 1993b). When the number of observations (n) is equal to or larger than 7, the distribution of W approaches \(\chi^2\), with n-1 degrees of freedom. This property of W allows testing its statistical significance.

\(^{47}\) Kendall's Coefficient of Concordance (W) is a measure of the degree of association between k variables. W can take values between 0 and +1; the higher the value, the more associated the group of variables (Siegel & Castellan, 1988; Gibbons, 1993b). When the number of observations (n) is equal to or larger than 7, the distribution of W approaches \(\chi^2\), with n-1 degrees of freedom. This property of W allows testing its statistical significance.
ranks. In contrast to standard factor analysis, the Kendall’s concordance test does not define which variables are associated with one another. Thus, it is necessary to observe and judge which variables seem to have similar variance patterns, group them together, and calculate \( W \) to test their concordance. I repeated this process several times until I judged that the appropriate groups of tracks have been identified, on the basis of its statistical significance. Table No. 9 presents the resulting four track groups.

Having homogeneous groups of tracks was not sufficient. It was necessary to assess whether differences between periods were significant. For this purpose, I used another nonparametric tool, the Wilcoxon Signed Rank Test\(^{48}\), to compare the combined scores of each track group across periods. Two or more adjacent periods showing no significant differences between them were identified as belonging to the same phase. On the contrary, two adjacent periods exhibiting significant differences were assigned to different phases. These phases reflect periods of stability or change in Mexfruco’s corporate social action. As it can be seen in Table No. 9, each group of tracks displays different phase patterns.

The description of patterns, which I briefly do next, is chronologically referred to the occurrence of two critical events during Mexfruco’s history: the packinghouse lease in 1998, and management restructuring in 2001. However, such reference does not necessarily imply that these events had causal influence on the patterns. Immediate causes (in the actual domain of reality) will be explored later in this chapter, while more distal causes (in the real domain) will be discussed in next chapter.

\(^{48}\) The Wilcoxon Signed Rank Test compares two data sets to test the null hypothesis that both sets belong to the same population, i.e. that they are not statistically different. This test is based on a statistic \( T \) on which significance tests are based (Siegel & Castellan, 1988; Gibbons, 1993a). To the best of my knowledge, in nonparametric statistics there is no equivalent to the several multiple mean tests available in parametric statistics. Thus, it was necessary to run paired comparisons between consecutive years.
Table No. 9 - Track Groups and Mexfruco's Phases of CSA (*)

### GROUP # 1

<table>
<thead>
<tr>
<th>Track Name</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real salary increases</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3.5</td>
</tr>
<tr>
<td>Index of expenditure in training and education</td>
<td>1.5</td>
<td>1.5</td>
<td>7</td>
<td>8</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Index of expenditure in health and safety</td>
<td>3</td>
<td>3</td>
<td>7</td>
<td>8</td>
<td>3</td>
<td>3</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Houses for workers</td>
<td>1.5</td>
<td>1.5</td>
<td>6.5</td>
<td>8</td>
<td>6.5</td>
<td>3.5</td>
<td>5</td>
<td>3.5</td>
</tr>
<tr>
<td>Posture on family development</td>
<td>3</td>
<td>2.5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Index of expenditure on QC and food safety</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>7</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Posture on environmentally friendly products (Organic fruit)</td>
<td>1.5</td>
<td>1.5</td>
<td>5.5</td>
<td>7.5</td>
<td>7.5</td>
<td>5.5</td>
<td>3.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Wilcoxon's $T$ (with respect to previous year):  
- $3 \text{ (p < .02)}$  
- $3.5 \text{ (p < .02)}$  
- $0 \text{ (p < .02)}$  
- $0 \text{ (p < .02)}$  
- $4 \text{ (p < .02)}$  
- $4 \text{ (p < .02)}$  
- $4 \text{ (p < .02)}$  

Phases:  
- A  
- B  
- C  
- D

### GROUP # 2

<table>
<thead>
<tr>
<th>Track Name</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Posture on responsiveness to customer claims</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Overall customer orientation</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Employment growth (%)</td>
<td>-</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Posture on support of industry's agenda</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
<td>5</td>
<td>5.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Posture on participation in industry organizations</td>
<td>7</td>
<td>3.5</td>
<td>3.5</td>
<td>7</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Posture on payment terms to growers</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Posture on competitive fruit price</td>
<td>4.5</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>4.5</td>
<td>1.5</td>
<td>3</td>
<td>1.5</td>
</tr>
<tr>
<td>Posture on labor law compliance (picking crews)</td>
<td>-</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Wilcoxon's $T$ (with respect to previous year):  
- $2 \text{ (p < .02)}$  
- $2 \text{ (p < .02)}$  
- $2 \text{ (p < .02)}$  
- $2 \text{ (p < .02)}$  
- $2 \text{ (p < .02)}$  
- $2 \text{ (p < .02)}$  
- $2 \text{ (p < .02)}$  

Phases:  
- A  
- B  
- B

### GROUP # 3

<table>
<thead>
<tr>
<th>Track Name</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Posture on growers' tax compliance</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Posture on environmentally friendly processes (No wood)</td>
<td>1</td>
<td>1</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Donations and sponsorships</td>
<td>1.5</td>
<td>4</td>
<td>1.5</td>
<td>5</td>
<td>3</td>
<td>8</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Posture on reforestation</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Wilcoxon's $T$ (with respect to previous year):  
- $0 \text{ (p < .02)}$  
- $0 \text{ (p < .02)}$  
- $0 \text{ (p < .02)}$  
- $0 \text{ (p < .02)}$  
- $0 \text{ (p < .02)}$  
- $0 \text{ (p < .02)}$  
- $0 \text{ (p < .02)}$  

Phases:  
- A

### GROUP # 4

<table>
<thead>
<tr>
<th>Track Name</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value lost by income-shifting</td>
<td>-79.322</td>
<td>-204.155</td>
<td>-129.972</td>
<td>-1,276.562</td>
<td>-81.317</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Income tax evaded by income-shifting</td>
<td>0</td>
<td>-345.650</td>
<td>0</td>
<td>-1,736.124</td>
<td>-26.954</td>
<td>-117.985</td>
<td>-178.229</td>
<td>0</td>
</tr>
</tbody>
</table>

Two-way ANOVA: $F = 4.7669 \text{ (p < .02)}$; MSD:  
- $(\text{NS})$  
- $(\text{NS})$  
- $(\text{NS})$  
- $(\text{NS})$  
- $(\text{NS})$  
- $(\text{NS})$  
- $(\text{NS})$

Phases:  
- A  
- B  
- A

(*) Except for tracks in pattern 4, all scores have been transformed to and exhibited as ordered ranks. Tracks in pattern 4 are scored in Constant MXP.
Group No. 1, which includes most of the worker-related CSA tracks, exhibits a pattern with significant changes at each of the two critical events of Mexfruco’s history. These tracks show a low level of CSA activities before the startup of packinghouse operations (1997-98), seemingly because the company had no positions at that time to exercise this type of CSA. CSA increases during the following two years (1999 and 2000). Later, the 2001 fiscal year represents a transition phase, reflecting the crisis period of the firm. And finally, the intensity of CSA activities decreases after the company’s restructuring (2002-2004).

Most CSA tracks related to customers and the avocado industry, as well as some tracks related to growers, belong to Group No. 2. This group’s pattern seems to have been consistent, at high levels of activity, since the foundation of Mexfruco in 1997 and until its restructuring in late 2001. The acquisition of the packinghouse in 1998 does not seem to have impacted these tracks. The pattern shows a decline in CSA activities after the change of management in late 2001.

Group No. 3 includes tracks related to the local community, the environment, and the local government. Its longitudinal pattern does not exhibit sharp changes along Mexfruco’s history. It appears as a gradual, steady trend toward higher levels of CSA.

Finally, all tracks in Group No. 4 are dependent on Interfruco’s income-shifting practices, which reduced the income of its subsidiary every year. The CSA implications of those practices were always negative. However, its impact was significantly higher in the 2000 fiscal year.

In the next several pages I describe in detail most of Mexfruco’s CSA tracks, i.e. its lines of socially responsible action throughout the timeframe of this study. I do so by following a stakeholder approach. I introduce stakeholder relations in the order in which they appear in Mexfruco’s mission statement (see Figure No. 9, above). At the same time, I will explain the ideational and material interests of both Mexfruco and its stakeholders, as well as their relationships of compatibility or contradiction, which defined specific situational logics and
conditioned actions and outcomes. This analysis corresponds to the actual domain of reality and refers to proximal or immediate causes of CSA.

7.3.2.- Customer-Oriented CSA.

Most Mexfruco’s customers were international actors: They operated mainly in Europe, Japan, and the United States. Consequently, their claims and needs reflected structural and cultural CSR powers emerging from globalized food markets. All of those customers were logically interested in quality products and competitive prices. Yet, in addition, they were firmly oriented to establishing long-lasting relationships close to the stewardship model⁴⁹. For example, one of Mexfruco’s Japanese customers emphasized the importance that “loyalty to the company” had for his firm, i.e. genuine interest, mutual learning, continuous improvement, and above all, passion for doing a good job (K. Kawabe, interview, July 7, 2005). On his side, Mexfruco’s British customer indicated that:

“For me, good suppliers are those in which I trust... I trust those suppliers who build good relationships; understand markets and customers; focus on servicing their customers; have the facilities, quality, and continuity to do the business; are skilled to do their job; and communicate effectively” (S. Glancy, interview, February 3, 2006).

In contemporary international food markets, “doing a good job” usually involves offering constant and timely supplies in order to avoid either shortages or over-stocking of perishable products (How, 1991), which is a challenge for distant suppliers. “Doing a good job” also involves offering consistent product and process quality, in compliance with official standards and/or market custom, which now frequently include the adoption of certifiable systems known

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⁴⁹ The difference between stewardship relations and stakeholder-agency relations is discussed in section 3.3.5, in chapter 3. In short, stewardship relations (Davis, Schoorman, & Donaldson, 1997) are those in which a logic of cooperation prevails. The parties are jointly interested in maintaining good relations over time and work to reduce divergences with each other by promoting their mutual identification. They are motivated by commitment, rather than by a desire for compensation. Their exchanges occur in a “state of union” (Ring, 1997). In contrast, an adversarial conception of stakeholder relations underlies stakeholder-agency relations (Hill & Jones, 1992). These relations are seen as a nexus of contracts, with the focus on the divergence of interests. All actors are considered to be self-interested and wealth maximizers. Their exchanges occur in a “state of contract” (Ring, 1997), and an agency conflict is seen as inherent in most, if not all stakeholder relationships.
as “Good Agricultural Practices” (GAP) and “Good Manufacturing Practices” (GMP) (Secilio, 2006). More recently, “doing a good job” has also meant to follow food safety protocols, usually certified by third-party agencies, in order to reduce the exposure of distributors to the risks of food-borne disease outbreaks and to protect the health of consumers (Hatanaka & Busch, 2008).

Specifically, fruit quality and food safety certified programs have increasingly received moral and social significance in international markets; they are currently seen as distinctive components of CSR programs in globalized agricultural industries (Barham, 2002; Secilio, 2006). Compliance with this type of programs became a necessary requisite to access markets and to do business in developed economies, initially in Europe in the late 1990s, and later in the U.S. and Japan. In this sense, they became an informal, institutionalized pressure, i.e. an implicit form of CSR (Matten & Moon, 2004, 2008), which has led to isomorphic CSA by most food suppliers. However, imports from developing countries were not subject to the same standards for several years; yet, exporters who were able to comply enjoyed the preference of importers and retailers.

Interfruco and Mexfruco were conscious of the requirements of its international customers and felt particularly able to satisfy them. The previous experience of Mexfruco’s founding team as quality consultants and inspectors gave them the knowledge and disposition to display an effective action on product quality and safety. In Archer’s (1995) terms, earlier morphogenetic cycles experienced by Mexfruco’s managers had as their outcome their position of concomitant complementarity with their customers’ expectations and needs. Consequently, for Interfruco and Mexfruco, fruit quality and food safety requirements constituted a form of explicit (voluntary) CSR, and implementing the corresponding programs was predominantly a strategic form of CSA which, at least initially, differentiated the company from its competitors.

The period 1998-2001. During its first year (1997), Mexfruco requested professional service and high quality standards from its packers, but it had no direct decision rights on these
matters. In June 1998, upon its directly operating a packinghouse, Mexfruco created a Department of Quality Control. Later, in May 1999, it integrated a Food Safety Committee, in charge of developing and maintaining food safety practices. As of June 2000, Mexfruco held several third-party certifications endorsing its programs. According to one of the founding managers, at that time “[Mexfruco’s] quality and food safety programs were exemplary in the industry” (H. González, interview, June 10, 2005). As shown in Figure No. 10, the amount of financial and human resources committed to these programs substantially increased between 1997 and 2000, up to the point in which they received certification.

In addition to those programs, both Interfruco and Mexfruco maintained a proactive posture with respect to customer complaints and customer service. The managers of both companies usually visited their clients at least once a year to better know about their needs and to receive feedback. Moreover, Mexfruco routinely requested a report of fruit quality upon arrival.
from its importers and, after receiving it, its managers expressed some comments. In particular, whenever there was a quality problem, Mexfruco’s team immediately traced the incident back throughout its process and determined, to the best of their knowledge, its causes. They usually shared this information with customers and Interfruco, explained the particulars of the case, and offered a plan of action to prevent its recurrence. They were not reluctant to acknowledge the responsibility that they might have had in the problem and, when technically justified, they accepted the corresponding discounts. Furthermore, they provided recommendations to improve their customers’ handling of the fruit and, at least twice, they trained customers on these matters.

These behaviors demonstrated that Interfruco and Mexfruco managers did “understand markets and customers”, were “skilled to do their job”, did “communicate effectively”, and exerted “loyalty to the (customers’) company”, which built trust and improved relationships. In morphogenetic terms, the concomitant complementarities between Mexfruco’s knowledge and position and its customers’ needs and expectations allowed the company to increase its negotiating strength and both parties to advance their interests. As Archer (1995) argues, this configuration leads to mutual gains; the situational logic calls for protection and reproduction of the system.

Towards late 2000, European customers educated Mexfruco managers on a new strategic trend that large supermarkets were adopting. Several of them were developing their particular protocols for suppliers, demanding from them food safety, quality management, respect for workers’ rights, and some environmental standards. These protocols were stricter and broader in scope than those in force at the time. The pioneer program was known as “Nature’s Choice” and was being implemented by Tesco, the largest supermarket chain in the United Kingdom. In France, Casino, also a large retailer, developed its “Terre et Saveurs” program. Mexfruco applied to Casino, and after adapting and developing the protocols, in June 2001 obtained a contract
which would have made it the exclusive supplier of Mexican avocados to the chainstore. However, after its upcoming changes, Mexfruco cancelled the program.

**The period 2002-2004.** The changes that Mexfruco experienced in late 2001 meant some important modifications to many of its customer-oriented programs and actions.

With respect to food safety, although the Department of Quality Control and Food Safety was dismantled, workers had been trained and food safety practices had been adopted and were already embedded in routine packing operations. In addition, Mexfruco had established commitments with external parties (certifying bodies) to continue with its programs. These were structural properties that increased the complementarities on which the food safety program was based and gave it resilience. Consequently, the company was able to maintain and eventually renew its third-party certifications on food safety.

By late 2000, several Mexican exporters had begun to implement food safety programs. Mexfruco had trained many agronomists and food technologists in these topics. When the company restructured, about ten of them left and soon afterwards were hired by competitors. This type of CSA began to turn from strategic to isomorphic. During the following two or three years, as most of these competitors received food safety certifications, Mexfruco gradually lost its differentiation but remained in compliance with these institutionalized requirements.

The story was different for quality programs, which depended more on variable fruit quality and technical judgment than on work routines. The lost of specialized staff and cost-cutting policies (e.g. use of low-quality fruit and cheap packing materials) implemented in late 2001 and 2002 stood in a position of necessary contradiction with customers’ needs. For instance, Mexfruco’s failure to satisfy 30% of the items in a quality audit performed by its British customer in November 2002 was an outcome of that contradiction.
Most importantly, the general orientation towards customer service significantly changed after late 2001. It seems that, as Interfruco/Mexfruco’s main customer in the United Kingdom put it, “[Interfruco/Mexfruco] lost its focus on customers” (S. Glancy, interview, February 3, 2006). In fact, Interfruco’s staff was now in charge of all sales; they were predominantly oriented towards agency relations with customers. The policy was either to have a certain margin in each shipment or not to sell. Mexfruco had no routine contact with importers anymore. Some practices illustrate this change. For instance, Mexfruco’s shipping records show that cancelling orders became a frequent event during 2002 and 2003. In addition, solving claims was not a technically informed process anymore, but a bargaining struggle. According to Mexfruco’s new Director of Operations, as claims piled up, the standard answer to customers was denial: “this claim is unjustified… we cannot accept it… we better do not sell to [a particular customer] anymore…” (L. Espinoza, interview, June 11, 2005). These events reflect the situation of necessary contradictions with customers’ expectations (loyalty, long-lasting relationships, etc.). One of the Japanese customers summarized the new situation in this way:

“When there is a quality problem, we expect the exporter to study the causes, to investigate what went wrong, to explain to us, and to propose and implement solutions. This is the way both parties learn and build trust. [The former Mexican managers] were very good at this. The salesman that took over never did so. Our staff began to feel very uncomfortable. We thought that they had lost their interest in the Japanese market… they were not caring about the product, about how to solve problems and how to improve. They only cared about business… [The former Mexican managers] were very passionate about their work and about doing things the best they could. The California staff was only focused on their margins, volume, prices…” (K. Kawabe, interview, July 7, 2005).

The situational logic of constraining (or necessary) contradictions, as those that Mexfruco faced with its customers in and after 2002, entails instability in the relationship and calls for negotiation, concession, or correction. Otherwise, as Archer predicts, “the effects of [the contradictions’] operation are to threaten the endurance of the relationship itself” (1995: 222).
Mexfruco attempted to correct the structural contradictions, by reestablishing its Quality Control Department in May 2003. But Interfruco/Mexfruco did not correct the contradictions. As customers found alternative suppliers, they increased their bargaining power and reduced their dependence on Mexfruco’s supplies. Consequently, many of them left the relationship.

7.3.3.- Employee-Oriented CSA.

In general terms, the departing point for Mexfruco’s worker-oriented CSA was the Mexican Labor Law (México, 2006), briefly described earlier in this chapter (see section 7.1.4, above). According to its Article No. 2, this law was explicitly developed with the purpose of promoting social justice. In its Article No. 3 it establishes that labor relations are not objects of trade, that they demand respect for workers’ freedom and dignity, and that they must be performed under conditions which assure the workers’ life and health, as well as a proper economic level for the worker and his/her family.

Mexfruco’s social action with respect to its employees was inspired by these principles. As Juan Sánchez asserts, “our philosophy has always been that the employee could count on the management’s support for individual, family, and social issues” (J. Sánchez, interview, June 11, 2005). Thus, in morphogenetic terms, there was a concomitant complementarity between the law and Mexfruco’s philosophy.

Yet, in most cases, Mexfruco did not merely comply with the law. In the words of the Coordinator of its Mango Program, “[Mexfruco] was different [from other firms in the industry], because the law establishes a minimum, but our company did not limit itself to the minimum… [Mexfruco] usually looked for ways to satisfy these obligations in the fastest and best way” (H. González, interview, June 10, 2005). In other words, although labor-related CSR emergent properties are a typical example of implicit (i.e. legal) CSR in México, Mexfruco went beyond
the expected law-compliant isomorphic CSA to implement other value-based and strategic forms of corporate social action.

The number of Mexfruco’s workers and office employees only became significant until the firm became a packer (June 1998) and, consequently, its worker-oriented CSA became relevant thereafter. An important event in this area was the creation of the Department of Human Development in December 1998.

Soon afterwards, in January 1999, the company integrated two commissions mandated by law: the Commission for Workers’ Health and Safety, and the Commission for Workers’ Training and Development. Mexfruco’s management decided to strengthen these commissions in order to make them, not just law-compliant, but proactively operative. In this way, health and safety, as well as training and development, became pivotal CSA programs. Figure No. 11 represents Mexfruco’s expenditure level on these two lines of action. The Human Development Department and these two commissions constituted structural concomitant complementarities additional to those from which these programs emerged.

**Training and development.** Mexfruco’s educational program consisted of different types of activities, designed for everybody in the subsidiary. The Mango Coordinator put it this way:

“Training was a continuous effort for all and everyone in the organization, from the top manager to pickers and packers; nobody slipped out of training… from literacy campaigns, to elementary and high school, to specialized courses and even master’s programs… no other company offered these opportunities” (H. González, interview, June 10, 2005).

Mexfruco signed an agreement with the National Institute for Adult Education (INEA, by its initials in Spanish) in 1999. At a very low cost, the company was able to provide alphabetization, elementary, and junior high school programs to its workers. Illiteracy was eradicated from the firm by 2000. Although with less participants, these programs, which are not legally mandated, continued at least until the end of the period of study (late 2004). Workers also
participated in several other educational programs, mostly focused on preventing accidents and improving their job skills (food safety training was particularly relevant). Some workshops on addiction prevention were also organized.

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\text{Figure No. 11 - Mexfruco's Relative Expenditure on Workers' "Training and Education" and "Health and Safety" Programs}
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In addition, between 1999 and 2001, Mexfruco implemented a number of courses for its managers. Some of them were focused on technical content; others were aimed at developing their managerial skills; and still others were oriented to improving their human relation capabilities. Furthermore, in late 1999, Mexfruco and other firms took the initiative to contract a State university to organize a Master in Management program in town, specialized in quality management. Four Mexfruco managers were accepted and three of them finished the program.

Courses for both managers and workers were organized less frequently after 2001, mainly because of budgetary constraints. Educational activities were limited to technical courses aimed at improving or updating job skills, as mandated by law. The Commission for Workers’ Training
and Development stayed in place, but both the reach of its decisions and the scope of its activities were reduced to just compliance with the law. The new Director of Operations concludes that “these programs have continued, although without the emotional support or conviction of [the new Managing Director]” (L. Espinoza, interview, June 11, 2005).

**Health and safety.** Workers’ hygiene and safety was the other major internally oriented CSA program at Mexfruco. It consisted of several subprograms. First, it involved education. Much of the training required for food safety initiatives was complementary and, hence, useful for improving workers hygiene. In addition, most workers were trained to prevent accidents and to apply first-aid measures. Machinery operators were also trained to do their job safely. Earthquake and fire evacuation protocols were designed and their implementation was regularly simulated. After 2002 these activities continued, but less of them were judged to be necessary. They were reduced to updates and new employee training.

Second, between 1999 and 2001 there were a part-time medical doctor and a full-time nurse working for the company. Most of their time was devoted to designing and implementing safe job procedures, as well as to preventing and treating professional illness. The doctor often offered courses and workshops on family planning and reproductive health, prevention of addictions, alcoholism, nutrition, child care, etc. The doctor’s contract was cancelled in December 2001 and the nurse position became a part-time one from that date on.

Third, there were important investments to upgrade the safety features of the packinghouse and to improve the safety conditions of picking crews. The Commission for Workers’ Health and Safety performed a number of studies to identify weak or unsafe areas and proposed a plan for improvement. Some of the main changes in the packinghouse were the following: Standard measures and equipments of industrial safety were installed and used; toilets,
dressing rooms, and a dining room were built and equipped; a policy of no-glass was adopted and implemented; etc.

With respect to picking crews, the company established a number of conditions that cars should meet if they were to be authorized to transport workers (protective structures in case of roll-overs, driving training, insurance, etc.); each crew was equipped with a portable lavatory and some fiber-glass picking poles to be used in areas with high-tension electric lines; etc. As it can be observed in Figure No. 11, most of these investments took place between October 1999 and June 2000. Thereafter it was only necessary to upgrade or replace some pieces.

In May 1999 the Commission for Workers’ Health and Safety proposed, and the Managing Director approved, the signing of a formal agreement with the Mexican Department of Labor (STPS, by its initials in Spanish) by which Mexfruco committed to self-regulate its legal obligations and self-imposed standards with respect to workers’ health and safety, while Mexican authorities would provide advice and would eventually audit the company. In 2000, Mexfruco received a STPS certification as “Empresa Segura” (safe company) at the first, initial level. It was the first company in the avocado industry, and just the sixth in the state of Michoacán, to receive such certification.

The Commission for Workers’ Health and Safety continued its endeavors and, as of November 2003, Mexfruco was awarded the third (top) level “Empresa Segura” certificate. Juan Sánchez, the new Managing Director, received the distinction in the State capital. A few days later, in a managerial meeting, he declared that he was “deeply moved” at the ceremony; he commended the commission for its four-year efforts and enthusiastically exhorted managers to keep the good work in the area of employees’ health and safety.

From a more pragmatic perspective, the Department of Human Development reports that, throughout its history, Mexfruco’s workers have had only minor work accidents. The worst of
them took place in February 2002, when a car transporting a picking crew rolled over. The protection equipment was in place, and only one worker suffered some contusions; no hospitalization was needed.

The investments in safety infrastructure as well as the commitment of Mexfruco with Mexican labor authorities provided additional structural strength to the concomitant complementarities which supported Mexfruco’s worker-oriented CSA.

There are three other lines of Mexfruco’s CSA that deserve to be herein presented: its activity to obtain houses for employees, its posture and actions with respect to salaries, and its compliance with profit-sharing obligations.

**Houses for workers.** According to Mexican Labor Law, workers have the right to own a proper house, and employers have the obligation to provide it. Acknowledging the difficulty to fully comply with this norm, the law and its regulations were reformed and the National Institute for Workers’ Housing (INFONAVIT, by its initials in Spanish) was created. Employers usually comply with their obligation by registering workers in that institute and paying a large part of the corresponding fees. It is up to individual workers to carry through all the procedures to actually obtain a house. Mexfruco complied with its obligations but, in contrast with other companies in town and in the industry, it decided to directly and proactively promote its workers’ cases.

The manager of the Human Development Department received this responsibility, with the recommendation of making sure that the houses were located in legal developments with all public utilities in place. She quickly learned the specifics of the process. Without more resources than this manager’s time, between 1999 and 2004 Mexfruco was able to provide houses for 40% of its workers, 68% of which were negotiated between 1999 and 2001. Figure No. 12 shows this trend through time.
Salaries. With respect to compensation, Mexfruco changed its policy for salary increases through time, seemingly in response to its economic performance. During its early years, it granted annual increases a little above the official increase in minimum wages. This usually meant that, in real terms (without the effect of inflation), salaries steadily increased. However, the policy changed after the company’s restructuring. No salary increases were granted between 2002 and 2004, which meant that, in real terms, Mexfruco’s salaries actually decreased. Figure No. 12 summarizes this trend. Several managers pointed out that Mexfruco’s salaries had been moderately above the industry average during its early years, but that the company lost this advantage and regressed to the average after 2002.

Profit-sharing. An issue in which Mexfruco’s action was very negative refers to its compliance with the legal obligation of sharing 10% of the company’s taxable income with its workers. Formally, Mexfruco complied with this norm every single year during the period of
study. Nevertheless, Interfruco’s regular practices of income-shifting significantly diminished its subsidiary’s taxable income and, consequently, the amount of profits to share with workers. As shown in Figure No. 13, Mexfruco’s employees systematically lost income every year but in 1997, 2001, and 2004. In these three years, Interfruco decided to grant workers a discretional bonus that was larger than the profit-share they would have otherwise received. However, the accumulated workers’ net loss, measured in constant Mexican pesos (base 2002), is equivalent to the income of one of Mexfruco’s average packinghouse workers for 21.6 years, or to the income of a minimum-salaried Mexican worker for 46.7 years. Most of the time, Mexfruco workers were not aware of this situation and, therefore, they usually did not claim. There was only one minor incident, in late 2000, when packinghouse workers attempted to go on strike for fairer profit-sharing and higher wages. The Director of Operations talked to these workers and diluted the threat in a matter of hours.

In general terms, the focus of the company on its internal stakeholders (workers) has always been important, but it seemingly was more proactive in the 1998-2001 period. The manager of Human Development argues that “when we began to work on [programs for workers], Mexfruco was one of the pioneer companies… we were ahead of most other competitors”. She points out that, after the 2001 restructuring, “the human development programs have been maintained… but we are at the same level of, or perhaps below, most of our competitors” (V. Gutiérrez, interview, June 13, 2005). Some assessments of workers’ job satisfaction support these arguments. A survey ran by the Department of Human Development on June 30, 1999, showed that 98% of the workers liked their jobs and 83% considered the working environment to be good. A similar survey, conducted in early 2005, showed that workers continued to be satisfied, but indicators were a little lower than six years earlier: Although 100% of the workers liked their jobs; only 52% considered the working environment to be good.
In conclusion, Mexfruco’s CSA with respect to its workers was largely conditioned by a number of ideational and structural concomitant complementarities. Most of the involved CSR properties were in synchrony and generated satisfactory outcomes for both workers and the company (the problem with profit-sharing is an exception to which I will later return). These properties led to a type of CSA that was beyond the isomorphic minimum and included value-based and strategic elements. The emerging situational logic called for protection and reproduction of the system. However, the decreased autonomy and resource constraints that Mexfruco faced after 2001 constituted factors in a position of incompatibility with the firm’s programs for workers. Yet, this incompatibility was locally seen as externally induced, temporary, and independent of the ideational and structural complementarities existing at the subsidiary level. Consequently, most workers’ programs lost intensity but for the most part they were kept in place.

**Picking crews.** As explained in section 7.1.4 above, the common practice in the Michoacán avocado industry has been to outsource harvesting operations to independent labor contractors. Supporters of this scheme maintain that it is legally valid, and neither the Mexican Labor Department nor any other similar authority (e.g. IMSS, the Institute of Social Security) have been able to exercise action against it. However, for Mexfruco managers, this practice had three major drawbacks: First, even when each worker has private medical insurance, their families do not, and neither of them receive benefits equivalent to those provided for them in the Labor Law. Second, the high turnover existing in externally-sourced picking crews prevents workers to be trained, something that was crucial for Mexfruco’s quality and food safety programs. And third, the legal and ethical status of this practice has remained controversial. In short, there were contingent contradictions between the industry’s common practice and Mexfruco’s position.
Consequently, in early 1999 Mexfruco decided to hire five picking crews as its employees, granting them all the corresponding legal benefits. Jorge López, the first Director of Operations, explains that “we worked a lot with these crews; we trained them, valued their work, and offered stable jobs… in contrast to our competitors who saw crews as nothing more than a necessary evil and a bunch of problems” (J. López, interview, January 2, 2005). He affirms that results were very positive: the quality of the harvesting job substantially improved, pickers’ turnover decreased almost to zero and, in his words, “many growers trusted us because the crews were our employees” (J. López, interview, January 2, 2005). Nevertheless, this initiative was not exempt of problems. Several of Mexfruco’s competitors complained about the change and attempted to influence José Pérez and Jorge López to reverse their decision. The issue was even presented at a meeting of APEAM’s packers, but Mexfruco resisted and, actually, challenged the ethical, legal, and pragmatic bases of crew outsourcing practices.

In Archer’s (1995, 1996) terms, Mexfruco became a “dissident” and corrected the contingent incompatibility by eliminating, within its scope of influence, the otherwise generalized practices that created the issue. In this way, its relations with harvesting workers were assimilated into its normal labor practice, which emerged from the strong aforementioned necessary complementarities.

In the first quarter of 2002, soon after the restructuring of the company, most Mexfruco’s harvesting activities were outsourced to external contractors, as everybody else in the industry does. Slowly but steadily, employed picking crews were dismantled. The manager of the Fruit Sourcing Department explains that Mexfruco’s priority at that time was to save in labor costs and to avoid the legal liabilities in which Mexican companies incur by having employees. He was instructed to implement the necessary changes so that “if they have an accident or kill themselves, it does not become your problem”. For him, the new policy was “a shame” (H. Torres, interview,
In this way, Mexfruco slipped out of some implicit social responsibilities and established “stakeholder-agency” relationships (see footnote 18 above, and section 3.3.5 in chapter 3) with its harvesting workers.

The generalized industry practice of hiring external labor for harvesting offered a possibility to reduce cash outflows, risks associated with employing workers, and the administrative workload required by labor management. It was a structural alternative compatible with Interfruco’s interests, which aimed at reducing costs, downsizing, and increasing short-term profitability. Once Mexfruco restructured, in late 2001, and under a new balance of intra-firm power favorable to the parent company, this contingent compatibility became apparent.

Morphogenetically speaking, this situation entails a logic of opportunism (Archer, 1995). Regardless of the weak opposition from the remaining Mexfruco managers, Interfruco mandated the change and took advantage of the situation in favor of its interests. Nevertheless, the structural and ideational contradictions between the industry’s common practice and Mexfruco’s initial position were not resolved; they have been only contained by the exercise of the parent company’s power.

Later in the same year (2002), Gerald Kleber, Interfruco’s CFO, attempted to implement the same scheme of labor outsourcing for packinghouse workers. However, there was not a compatible structure in the local environment on which to base such a change. In contrast, there were strong and necessary compatibilities supporting the *status quo* of those relationships. In particular, female workers strongly opposed Interfruco’s move; they threatened with a strike and actually stopped the packinghouse for half a day. Interfruco had no choice but to step back.
7.3.4.- Grower-Oriented CSA.

The Michoacán avocado industry is known for the high distrust that exists between packer-shippers and fruit producers or growers (Hernández Palestino, 1998; Stanford, 1998). They usually deal with each other under stakeholder-agency relations in which growers have high bargaining power. Mexfruco’s Fruit Sourcing manager summarizes this situation as follows:

“Growers do not trust us… We buy one kilo from them, we pay for it, and we have to compete and negotiate again for the next kilo… They only care for a good price; they can store their fruit on the trees until prices are at the level they expect; they are wealthy and can wait for the harvest” (H. Torres, interview, December 24, 2005).

In fact, growers’ main priority is, by far, the price they receive for their fruit. As explained above, Michoacán avocado growers have been able to institutionalize some market governance mechanisms in order to assure high prices. Payment terms, which should be as short as possible, are the growers’ second criterion for selecting a packer. Nonetheless, growers claim that other factors are also important for their decision of whom to sell their production. For instance, they say that they take into account the interest, field visits, and general attention that they receive from packers’ fieldmen. Growers also want to be well treated in the packers’ offices; i.e. they do not want to wait for service or for payment, they expect to be offered coffee, a good seat, and good manners. Apart from that, they appreciate to have good and well-known picking crews, who pick what is appropriate and was agreed on, behave properly in the orchard, and do not threat the grower’s personal safety. Finally, for some of them it is important to deal with a packer that can handle all of their production, including lower quality fruit directed to domestic markets (H. Torres, interview, December 24, 2005).

Grower relationships were probably the most important and, at the same time, the most difficult for Mexfruco among those with local stakeholders. The growers’ preference for stakeholder-agency exchanges and short-term negotiations, as well as their forced high prices,
stood in a position of constraining (or necessary) contradiction with Mexfruco’s own preferences and interests, as well as with those of its main customers (i.e. long-lasting, stewardship relations; fair prices; loyalty, etc.). Consistent with Archer (1995), the situation was conducive to inherently unstable relationships. However, growers held more bargaining power and the situational logic for Mexfruco, if it wanted their fruit, implied to concede, i.e. to play by the growers’ rules. Therefore, the best way for Mexfruco to obtain the satisfaction (and the fruit) of its suppliers was to offer competitive prices and short-term payments. Interfruco’s financial support was pivotal to do so. Consequently, Mexfruco enjoyed a continuous though unstable base of satisfied growers up to the first quarter of 2001.

Nevertheless, Mexfruco managers were not satisfied with this state of affairs. They envisioned closer, longer-lasting, and more trusting relationships with growers. They hoped, in this way, to align them with Mexfruco’s relations with international customers. Thus, Mexfruco managers did not hesitate to put into play their personal condition of and relations as local growers, as well as the increasing reputation of Mexfruco’s team, to attempt to change grower relationships toward stewardship modalities. In morphogenetic terms, Mexfruco managers attempted to correct the socio-cultural constraining contradiction existing between growers, on the one side, and Mexfruco and its customers on the other. If they were able to do so, the current contradictory situation would be replaced by a state of concomitant complementarities, and everybody’s business would thrive. The move was predominantly a strategic CSA attempt.

In June 1999 Mexfruco developed the concept of “Harvest Management” and proposed it to some growers (J. López, interview, January 2, 2006). The idea was to offer them the best average price for all their production, evaluated at year-end and not in every transaction. To achieve this, Mexfruco committed to harvest everything the grower produced, but according to Mexfruco’s decisions about when and what type of fruit to harvest. For his/her part, the grower
had to commit all his/her production to Mexfruco and allow it to harvest whenever and whatever they decided. For example, upon detecting a customer’s need for otherwise cheap small fruit, Mexfruco would negotiate it at a reasonable price and would pick it from the committed grower. At that time Mexfruco was diversified enough in its markets and was highly confident on its abilities to extract the most value for each type of fruit at some point throughout the season. To support its marketing position, Mexfruco developed the program of domestic sales that was described above. Mexfruco managers insisted with growers that they might not receive the best price everyday, but that they would end up with the best average price for the season.

The ideational contradictions between growers and packers were deeply rooted, and the “Harvest Management” program was not easy to sell. However, there were three large growers who accepted it for two consecutive seasons (1999-2000 and 2000-01), upon the condition that Mexfruco would also handle their non-exportable production. The results were positive and those growers were satisfied. They received a premium of between 7 and 14% over the prices they would have otherwise received (J. López, interview, January 2, 2006).

When comparing the productivity of Michoacán orchards with those in other countries, Mexfruco realized that there were many opportunities for improving the yields and the quality of most Michoacán groves, which would substantially increase growers’ income without necessarily increasing unitary fruit prices. Mexfruco managers conceptualized it as an opportunity to seriously and sustainably help growers’ profitability and competitiveness, while reducing their “excessive” focus on price. In November 2000, Mexfruco launched its “Growers’ Club”, an initiative directed at making growers conscious of that opportunity and helping them to pursue it. The initiative also sought to expand its “Harvest Management” program and to increase the loyalty of its fruit suppliers (J. López, interview, January 2, 2006). As a complement to its Growers’ Club, Mexfruco created a Department of Grower Relations, not dedicated to buying
fruit, but to offering services such as market and weather information, horticultural consulting, technological updating for farms, implementation of quality and food safety systems at the farm level, etc. The new department also organized some international study trips for growers, as well as some social functions to stimulate interaction and a sense of belongingness.

With its “Growers’ Club” initiative, Mexfruco was attempting to introduce new ideas and interests in the grower community in order to reduce the socio-cultural contradictions that they maintained with packer-exporters, while exploring for concepts on which to eventually build complementarities and to develop common interests. In the meantime, Mexfruco continued competing on the basis of price and payment terms, supplemented by fieldmen attention to growers and the use of efficient picking crews.

Most growers were skeptical of the new Mexfruco initiatives. There were only a few growers who tried. However, there was no time to know whether the programs would have eventually been successful. As Interfruco trimmed its customer list in late 2000 to only those who left a certain margin, Mexfruco lost its possibility to move some types of fruit. The cancellation of the domestic sales program further aggravated the situation. With the change of management and the company’s restructuring, in late 2001, these initiatives were forgotten. In short, the socio-cultural contradictions that characterized Mexfruco’s (as well as all other packers’) relations with growers were not corrected.

After the company restructured, in late 2001, a number of growers left the relationship. As the new Director of Operations explains, “many growers did not want to sell to us, because they distrusted us; they knew and trusted the former managers, who were well-known local growers too” (L. Espinoza, interview, June 11, 2005). Another manager points out that “some left because [Mexfruco] could not handle their domestic production anymore” (S. Medina, interview, June 9, 2005). Moreover, Mexfruco’s focus on grower relations weakened. The new Director of
Operations acknowledges that “growers were treated better before; we left aside the programs we had in place for supporting them… we forgot to be with them, to visit them…” (L. Espinoza, interview, June 11, 2005).

7.3.5.- Relations with the Parent Company.

Mexfruco’s relationships with its parent company have been broadly outlined above, at the time of presenting Mexfruco’s history. Local managers identify three broad phases of this relationship (e.g. H. González, interview, June 10, 2005).

The subsidiary was established with the purpose of sourcing, packing, and shipping the Mexican fruits that Interfruco was selling. It was planned that both companies would make some profits, although profitability expectations at Mexfruco were always moderate. At the beginning there was a high relational quality between the two parties. One of the members of Mexfruco’s founding team asserts that “the American partner had a lot of trust in us; he was very sure that we were going to offer secure and consistent supplies” (H. González, interview, June 10, 2005). The knowledge and relations of the founding team meant a high bargaining power for the subsidiary and a significant level of autonomy. Jorge López, Mexfruco’s first Director of Operations, explains that “many of the decisions of both Interfruco and Mexfruco were initially proposed by [José Pérez, the founding Managing Director]. He had great influence on the California managers” (J. López, interview, January 2, 2006). At that time, both companies shared a common vision of their business. They sought to position themselves as reliable suppliers of quality fruit in key international markets. Their priority was to do the best job they could. Their focus on profitability was important, but relatively secondary at that point. In short, their early success emerged from a situation of socio-cultural concomitant compatibilities. The parent company was
a very satisfied stakeholder during this first phase, which lasted two or three years (J. López, interview, January 2, 2006; H. González, interview, June 10, 2005).

As the business grew, new people (with ideas and interests) joined, and new (mainly financial) functions were performed, doing a good job at Mexfruco slowly began to be insufficient. One of Mexfruco’s founding members explains that, at some point in early 2000, some differences in beliefs became apparent: While Mexfruco kept on its endeavor for professional excellence with a long-term perspective, Interfruco increasingly focused on short-term profitability and competitiveness (H. González, interview, June 10, 2005). Jorge López points out that these sets of ideas were respectively represented by two individuals who soon were immersed in a power struggle: José Pérez and his quest for maintaining Mexfruco’s autonomy, and Gerald Kleber and his aim at increasing the control over the subsidiary (J. López, interview, January 2, 2006). A situation of socio-cultural constraining contradictions emerged. High profits in both 1999 and 2000 fiscal years decreased the intensity of the struggle, since there were slack resources to satisfy the needs and interests of both parties. However, Mexfruco began to resent Interfruco’s maneuvers to shift income out of the subsidiary. It also felt that Interfruco was threatening its worker- and grower-oriented programs, which eventually would damage its customer-oriented programs and, consequently, its overall performance and viability. The relational quality between Interfruco and Mexfruco started to decrease.

The 2000-01 season was critical. The entry of new and aggressive competitors, a short crop year, and a reduced portfolio of customers made things very difficult for the Interfruco/Mexfruco dyad. Their conflicting perspectives, i.e. their cultural and structural necessary incompatibilities, emerged again, which put them in a situational logic of compromise, concession, and/or negotiation. Interfruco did not accept to negotiate, and none of the parties conceded or compromised. Facing a smaller scale of operations and decreasing margins,
Mexfruco pushed for increasing sales. It also sought substantial changes in the business model in order to diminish the added costs that, in its view, Interfruco represented. On its side, Interfruco pushed for substantially lower costs, corresponding to the reduced scale of business, even at the expense of some customer- and worker-oriented programs that Mexfruco considered indispensable.

As explained above, Mexfruco’s negotiating strength with respect to its parent company had diminished through time. In addition, Interfruco had the control of most financial resources; it increasingly maneuvered them against the interests of Mexfruco, particularly through heavy income-shifting. Pérez and López, Mexfruco’s shareholders and top managers, told Reed and Kleber, in a meeting in April 2001, that “with low export volumes to pack, no domestic market operations, and large, arbitrary discounts against it, [Mexfruco] has no business to make money from … it is designed to lose money…” As Archer (1995) argues, when necessary contradictions are not resolved through compromise or concession, the relationship’s endurance is threatened. The second, troubled phase ended with a lack of satisfaction on both sides with respect to the behavior of the counterpart and the exit of Pérez and López.

However, the socio-cultural incompatibility, i.e. the conflict between Interfruco’s and Mexfruco’s ideas and interests was not resolved or concealed. The third phase of their relationship (2002-2004) was characterized by the exercise of power on the part of Interfruco and a corresponding perception of unfairness on the part of Mexfruco (S. Medina, interview, June 9, 2005; V. Gutiérrez, interview, June 13, 2005; H. González, interview, June 10, 2005). Although, at the more superficial level of socio-cultural interaction, Mexfruco tended to be in compliance with Interfruco’s interests, their conflict remained latent. Mexfruco managers thought that Interfruco’s decisions with respect to them were not morally correct. The new Director of Operations complains about the role that Mexfruco was playing: “Now we have to source, pack,
and ship fruit, at the will of [Interfruco], and at the prices they mandate… We cannot get the
profits we deserve” (L. Espinoza, interview, June 11, 2005). Another manager adds that, with
respect to prices and discounts, “we argue all the time and still they pay us whatever they want”
(S. Medina, interview, June 9, 2005).

Moreover, Mexfruco’s employees perceived the instability of the relationship and were
uncertain about their jobs’ continuity. As Kim & Mauborgne (1993) discovered some time ago,
Mexfruco employees were showing behaviors indicative of low commitment, low trust in parent
comp any, and neglect (e.g. G. Rodríguez, interview, July 23, 2005). The general attitude was, as
the new Director of Operations put it, that “nothing matters… if you do a good job, fine, if not,
we will wait for the customer’s complaint”. He acknowledges that, with respect to parent
comp any decisions, “we comply less than 70%” (L. Espinoza, interview, June 11, 2005).

7.3.6.- Other Stakeholders.

Mexfruco displayed CSA focused on other stakeholders. In the following paragraphs I
will briefly discuss its relationships with minority shareholders, the Mexican government, the
Michoacán avocado industry, the natural environment, and the local community.

Minority shareholders. As described above, Mexfruco had two minority shareholders
between 1997 and 2001, who also were its top managers: José Pérez and Jorge López. However,
they rarely acted as shareholders. Jorge López recalls his position in this way: “I never was
treated as a shareholder; I felt myself to be a manager much more than a shareholder, but it was
satisfactory to know that I owned something there” (J. López, interview, January 2, 2006). These
individuals expressed their voice, proposed their initiatives, and defended their rights in their role
as managers, in which they felt to be more influential. Consequently, they exerted no formal or
legal actions to claim their rights upon Interfruco’s recurrent practices of income-shifting.
Nevertheless, as shown in Figure No. 13, they lost wealth every year in which they were involved with Mexfruco. Without any doubt, the 2000 fiscal year was particularly critical. Through income shifting, in that period they were deprived of 44% of the value of their investment in the subsidiary.

**Figure No. 13 - Effects of Interfruco’s Income-Shifting Practices on Workers, Minority Shareholders, and Government**

![Graph showing effects of income-shifting practices on losses and avoided taxes](image)

**Government.** Interfruco’s income-shifting also affected Mexfruco’s compliance with Mexican tax obligations. Formally speaking, auditors only considered that Mexfruco was not in compliance in the 1998 and 2000 fiscal years. However, its accounting records show that, by reducing its taxable income, Mexfruco was, not legally, but morally and socially irresponsible with respect to its tax duties. Figure No. 13 shows the magnitude of Mexfruco’s tax avoidance. It is important to mention that, according to Mexican law, both the Managing Director and the General Accountant were personally liable for any tax evasions, if they occurred. José Pérez
underlined this risk to John Reed in one of its letters: “I also have the tax risk of illegally transferring profits out of the country… [which] is a criminal fraud” (J. Pérez, letter to John Reed, August 7, 2001).

In this sense, the situation of minority shareholders was not different from workers’, who lost profit-sharing income; or the Mexican government, who suffered tax avoidance. Interfruco’s practice was in a clear position of constraining contradiction with Mexican Labor, Tax, and Corporate laws, as well as with the interests of those three groups of stakeholders. Interfruco advanced its interests by exercising its power, but at the expense of the legitimate interests of workers, local shareholders, and the government.

**The Michoacán avocado industry.** With respect to its industry, Mexfruco always supported the broader political, economic, and social interests of the industry. José Pérez, Mexfruco’s founding Managing Director, affirmed that “to play a role in our industry is a moral responsibility for me” (J. Pérez, letter to John Reed, August 7, 2001).

In 1997, Mexfruco’s team supported Amimex, the marketing company that growers had established to directly export their fruit to the U.S. market. José Pérez was initially in its Board of Directors, but he soon resigned to avoid conflicts of interests, as Interfruco and Mexfruco were going to compete for (and eventually won) Amimex’s contracts for fruit sales, harvesting and quality control services. Mexfruco’s work at that time is considered to have been a key factor for the compliance with the strict phytosanitary protocol that the U.S. imposed and the success of the first export season.

Most of Mexfruco’s work in favor of the industry was performed within APEAM. In January 2000, José Pérez was elected Vice-Chairman of the association. In his two-year term he

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50 Recall that APEAM is the association to which, compulsorily, growers and packers authorized to export to the U.S. belong.
worked to overcome a number of conflicts between board members. Pérez was part of a group that proposed, and achieved, the implementation of the first campaign to promote Mexican avocados in selected American markets. Eventually, this program was institutionalized in APEAM. He also played a decisive role in the negotiations of the industry with U.S. and Mexican governments that led to the expansion of the area and the season in which Mexican avocados could be exported to the U.S. In short, “[Pérez] was a very active, positive, and influential Vice-Chairman” (J. López, interview, January 2, 2006).

Mexfruco also cooperated with the industry and the Mexican government to establish quality standards for export products. In October 1999, APEAM integrated a Quality Committee to develop such standards. Both José Pérez and Jorge López served in it, and López was its Chairman for some time. Eventually, the Mexican government launched its “Supreme Quality” program, which sought to promote those agricultural exports which achieved its quality certification. The standards that Mexfruco proposed for avocados, almost with no changes, were adopted as the criteria for such certification.

After the company’s restructuring, Mexfruco continued to play a role at APEAM. Juan Sánchez regularly attended its meetings and, for several months, he was the coordinator of packer companies within the association.

Mexfruco managers generally saw APEAM as the arena in which they could influence the industry to take advantage of the opportunities that concomitant and contingent compatibilities offered (e.g. the common interest for expanding the U.S. market, or the possibility of obtaining promotional funds from some agencies of the Mexican government, respectively). They also attempted to introduce ideas and interests aimed at correcting the contradictions between growers and packers, although they were not very successful in this endeavor.
**The natural environment.** Mexfruco seemingly had no particular concern for the natural environment. Jorge López reports that, in his view, Mexfruco had limited opportunities to work for the environment: “Our processes did not generate any toxic wastes… but for some time we tried hard to influence growers to reduce their use of pesticides” (J. López, interview, January 2, 2005). On this line of action, Mexfruco promoted organic farming. The company was certified to handle organic products in 1999, and throughout the next two seasons it made serious efforts to export organic fruit. It was the first company to export organic Mexican avocados to the U.S.

Although knowledgeable of the deforestation problems in Michoacán, Mexfruco managers considered that the issue was beyond their reach and in the hands of growers and the government. However, at one point in late 1999 Mexfruco decided to contribute to forest conservation by completely discontinuing the use of wood crates to pack fruit. Later, after the company’s restructuring, the no-wood policy remained in place and, additionally, between 2002 and 2004 Mexfruco’s employees have dedicated one day per year to directly work in reforestation projects (J. Sánchez, interview, June 11, 2005; S. Medina, interview, June 9, 2005).

In short, with respect to the natural environment, Mexfruco did not see any direct obligation related to its processes or its products; i.e. it did not identify any necessary relationship, of either concomitant complementarity or constraining contradiction. It did find some favorable coincidences between its ideas and interests and environmental protection, i.e. it identified contingent complementarities, and acted instrumentally upon them. For example, discontinuing the use of wood for packing was not required by anybody. However, it was ideationally compatible with the interests of some Mexfruco’s managers for forest conservation. At the same time, it was structurally complementary with food safety protocols, because splinters and nails were considered risky materials and, by eliminating them, the task was simplified.
By the same token, achieving certification as an organic handler was an easy step, given the detailed quality and food safety protocols of the company, which allowed it to explore the developing markets for organic products. In contrast, working in reforestation one day per year seems to be nothing more than a form of affective or symbolic CSA.

**Local community.** Serving the local community was not a matter of particular concern for Mexfruco either. The company limited its actions on this front to some minor sponsorships from time to time, such as an educational leaflet promoting a National Park in Michoacán, or sport uniforms for a team of rural children, and so forth. Between 2002 and 2004, the company regularly contributed to the local, voluntary Firemen Department, with small donations of some 500 USD per year. These activities are rather insignificant and most likely are affective or symbolic in nature.

In this section (7.3) I have described Mexfruco’s CSA in detail. The analysis focused on the empirical and actual domains, i.e. on indicators of CSA that I could observe and sequences and phases of CSA that I could identify. Based on them, I have developed a narrative in which I longitudinally describe the details of Mexfruco’s relationships with each of its stakeholders. I have also discussed the situational logic in which social activities were decided upon, on the basis of the compatibility or contradiction between the ideas and interests of both Mexfruco and its stakeholders. In the next chapter I focus on the real domain, attempting to discover the underlying socio-cultural and personal causal mechanisms that produced patterns in the company’s CSA. In this way, I try to develop an in-depth ideographic explanation of Mexfruco’s CSR, CSA, and CSP.
Chapter 8

A MORPHOGENETIC “LOCAL THEORY” OF MEXFRUCO’S CORPORATE SOCIAL ACTION

The detailed, mostly descriptive analysis of the previous chapter presents Mexfruco’s CSA at the actual level of reality (Bhaskar, 1978). In this chapter I extend the analysis to the real domain, attempting to discover the underlying causal mechanisms that produce tendencies or regularities in the company’s CSA, along the lines of the theoretical framework introduced in chapters 3, 4, and 5. To put it in Van de Ven & Poole’s terms (1989/2000: 48-50), such theoretical framework is a “global model” or “motor” on which “local theories of immediate action” can be built. The narrative that I present in this chapter constitutes that sort of a local theory, one which attempts to offer an ideographic explanation of causes (CSR), actions (CSA), and outcomes (CSP) of Mexfruco’s moral/social dimension for the period 1997-2004. In this way, I pretend to offer a plausibility probe of the explanatory power of my “global” theoretical framework and to develop one of its empirical building blocks.

The organization of this chapter has been defined according to the morphogenetic cycles that Mexfruco underwent during the period of study. As I argue below, based on the phases of the company’s CSA identified in the previous chapter, Mexfruco seems to have had two cycles in this period: One goes from its foundation to a point in time some months before its restructuring (June 1997 to late 2000 or early 2001); and the other, from that point until the end of the study. Accordingly, in the initial part of this chapter I analyze the first phase of the morphogenetic cycle,
i.e. socio-cultural conditioning, focusing on the cultural and structural properties that set the context for Mexfruco’s actions. In the second part of the chapter, I study the interactions (CSA) that took place in the company’s first morphogenetic cycle, defining their causal paths and explaining their outcomes. The third and last part of the chapter includes an analogous analysis, but for Mexfruco’s second morphogenetic cycle.

8.1.- SOCIO-CULTURAL CONDITIONING: THE SOURCE OF MORAL/SOCIAL CORPORATE OBLIGATIONS.

Consistent with the discussion in chapter 3, the causal factors of CSR (or CSR emergent properties) for Mexfruco are the set of obligations that emerge from the socio-cultural system of the Michoacán society. In the following paragraphs I propose several sets of CSR emergent properties which I have identified from the analysis of Mexfruco’s data (Figure No. 14). The interplay of those properties defined the expected content and modality of CSR, and set the context for each line of Mexfruco’s CSA. The situational logic defined by their relations of complementarity or contradiction with one another will be discussed later, at the time of explaining socio-cultural interactions with particular groups of stakeholders.

The process that I used to identify these CSR properties and to postulate their causal influence is “retroduction” (Blaikie, 1993; see chapter 2, section 2.2.2), a notion consistent with Weick’s (1989) view of theory as informed conjectures developed through the use of “disciplined imagination”. Retroduction aims at discovering the underlying structures or mechanisms, in the real domain, that produce tendencies or regularities (Fairclough, 2005; Reed, 2005).

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51 As discussed in section 3.4 (chapter 3), the terms “complementarity” (or “compatibility”) and “contradiction” (or “incompatibility”) refer to second-order relations between the different CSR emergent properties that characterize a particular firm-stakeholder relationship. Constraining (or necessary) contradictions and concomitant (or necessary) complementarities occur in relations that are internally linked and necessarily related (Mexfruco would not be such firm if it did not have these relationships). Competitive (or contingent) contradictions and contingent complementarities are features of relations that are not constrained by any necessary and internal relation, i.e. those whose actors are independent from each other (Archer, 1995).
### Figure No. 14 – Socio-Cultural CSR Emergent Properties Conditioning Mexfruco’s CSA

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<tr>
<th>Cultural Properties</th>
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<tr>
<td>Communitarian, within-group orientation</td>
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<tr>
<td>Paternalism</td>
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<td>Nationalism/Regionalism</td>
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<tr>
<td>Limitations to private property</td>
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<tr>
<td>Moderation in profit-seeking</td>
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<tr>
<td>Newer patterns of self-interest and individualism</td>
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<tr>
<th>Structural Properties</th>
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<tr>
<td>Legal and institutional properties</td>
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<tr>
<td>Mexican labor, tax, and corporate law</td>
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<td>Relative “anomie” of Mexican legal system</td>
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<td>U.S. tax incentives for foreign sales</td>
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<tr>
<td>Food safety and related international protocols</td>
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<tr>
<td>U.S.-México phytosanitary protocols</td>
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<tr>
<td>Systems of exchange</td>
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<tr>
<td>Associate exchanges preferred by customers and parent company</td>
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<tr>
<td>Short-term market exchanges preferred by suppliers (growers)</td>
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<tr>
<td>Monopolistic imperfections in local fruit markets</td>
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<tr>
<td>Availability of moral systems of exchange (organic fruit)</td>
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<tr>
<td>Trend toward communal exchanges with workers</td>
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<tr>
<td>Socio-economic development</td>
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<tr>
<td>A number of urgent social inequalities</td>
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<tr>
<td>Moral imperative for tax compliance</td>
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<tr>
<td>Task environment</td>
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<tr>
<td>Highly dynamic (turbulent) task environment</td>
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<td>Variably-munificent task environment</td>
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<tr>
<td>Established industry patterns of stakeholder relations</td>
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<tr>
<td>Low power and appearance of illegitimacy before growers</td>
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<tr>
<td>Law-compliant relations with packinghouse workers</td>
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<tr>
<td>Market (agency) relations with harvesting workers</td>
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<tr>
<td>Liability of foreignness for most international subsidiaries</td>
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<tr>
<td>Centralized management of most international subsidiaries</td>
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<tr>
<td>Customary participation in and loyalty to industry organizations</td>
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<tr>
<th>Founding Team Personal Properties</th>
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<tr>
<td>Parent company CEO’s strong CSR ideology</td>
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<tr>
<td>Founders’ defined orientation to CSR</td>
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<tr>
<td>Recent background in market-oriented corporate cultures</td>
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<tr>
<td>Operative networks of suppliers and customers</td>
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<tr>
<td>Technologizing and professional excellence values in subsidiary</td>
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My retroductive strategy had three steps. The first one focuses on the domain of the actual, that is, observed CSA and the identification of its tracks and phases, which I have presented in the previous chapter. The second step has been to postulate the existence of real structures and mechanisms which, if they existed, would explain the relationship. It involves asking: “What, if it existed, would account for this phenomenon?” This section reports the results of such exercise, i.e. the identification of socio-cultural CSR emergent properties. Afterwards, in a third step, the attempt is made to demonstrate the existence and operation of those structures and mechanisms, through an explanatory narrative. I develop such attempt in subsequent sections in this chapter.

8.1.1.- Cultural Emergent Properties.

The local history of what now is the Michoacán avocado region provides some clues about the origin of some current beliefs, ideas, and cultural characteristics which, in my view, are sources of moral and social obligations attributed to firms by society. In particular, I want to stress two aspects which have strongly shaped the “spiritual capital” (Hildebrand, 1863, cited by Schefold, 1996) of contemporary Michoacán people: the economic and social organization of ancient, pre-hispanic inhabitants; and the influence of Catholicism.

The Purépecha people dominated most of the current territory of Michoacán until the Spanish conquest of the XVI century. As many other pre-hispanic groups in México, they were organized according to a social pyramid in which the king, or cazonci, was the earthy representative of deities. Therefore, he had total control over land and natural resources, but also the responsibility for their stewardship. Below him there existed several strata of people, each with certain duties and privileges (Castro-Leal, Díaz, & García, 1989). For all of them, land (and nature in general) was not only a productive resource, but part of a common heritage received from ancestors and, therefore, constitutive of their identity. Thus, land could not be privately
owned. This belief led them to adopt a communitarian mode of life, production, and environmental stewardship based on solidarity. In turn, this solidarity pervaded many other aspects of social life like the organization of work and family. For instance, cooperative and collective work was reciprocal (“today for you, tomorrow for me”), which explains why the notion of salary was alien to their culture (Rios Szalay, 1989). Families were organized along the patriarchal line, and consisted of extended groups including grand parents, parents, and their children (Mendoza Bolio, 1989).

It is important to point out that, in the area, there still exist a number of communities of Purépecha people, with more or less influx of Spanish descendants, who usually live in specific towns or particular neighborhoods within larger cities, and have their internal hierarchical organization. They own land under communal forms of property and often work collectively. Several of these communities now grow avocados. Horacio González, one of the members of Mexfruco’s founding team, was a member of one of these communities.

The Purépecha were never conquered by the Aztecs or any other tribe. The Spaniards, who arrived in the XVI century, also failed to conquer them by sword. It took a long and patient work on the part of missionary friars to incorporate them to the new reality. This is a matter of pride even nowadays, which reflects a particular trait of many people in Michoacán, not only nationalistic, but regionalistic.

The Purépecha’s communitarianism, hierarchical social organization, and disdain for worldly-wealth were, to a large extent, logically and practically compatible with the corresponding values preached by the Catholic Church. In other words, both world visions were in a position of contingent complementarity, at least with respect to these cultural traits. In many cases, Catholic priests respected, and often proactively promoted, the communitarian traditions,
ways of social organization, and frugality of the natives, particularly in the area in which nowadays avocados are grown\textsuperscript{52} (Mendoza Bolio, 1989; Warren, 1963).

Afterwards, the influence of Catholic teachings on the Michoacán population cannot be underscored. They have influenced, and will likely continue to impact, millions of people, including managers, in México and all over Latin America (Agüero, 2005; Cappellin & Giuliani, 2004; Granillo Vázquez & Pruneda, 2005; Ríos Szalay & Paniagua Aduna, 1977; Sanborn, 2005; Vives, 2006). The Catholic Church has played a proactive role in most areas of CSR since early days. Pope Leo XIII’s (1891) encyclical \textit{Rerum Novarum} proclaimed the rights of workers and promoted solidarity and subsidiarity as the guiding principles of the relations between labor and capital. The labor legislation of many countries readily adopted this doctrine (e.g. Mexico, in 1917). More recently, John Paul II updated Catholic Social Teaching through encyclicals such as \textit{Laborem Excercens} (1981) and \textit{Centesimus Annus} (1991), which, among other things, widen the scope of this doctrine to include contemporary concerns such as environmental protection.

The Catholic tradition respects private property and profit-seeking behavior, but subordinates them to a social function: all material goods have a “universal destination” that should benefit all present humanity, particularly society’s weakest members, and future generations. Furthermore, based on the principles of solidarity and subsidiarity, Catholic thought considers business organizations to be “communities of persons”, that complete themselves in the service of those outside them, which is the basis for developing those within it. Thus, business organizations are considered legitimate to the extent to which they serve the common good, which encompasses the growth of company members “as persons” and everything else that is conducive to the human flourishing of each person in a society. Catholic teachings reject profit

\textsuperscript{52} Zavala (1937) extensively studied the models of social organization that Vasco de Quiroga, Michoacán’s first bishop, applied in the \textit{Purépecha} region in the XVI century. These models were explicitly inspired by the humanism of the Renaissance, and particularly by Thomas More’s Utopia.
maximization as the primary purpose of business; profits are seen as necessary for the life of a business, but also subject to the service of the common good (Calvez & Naughton, 2002; Melé, 2002). As I argue later, many of these principles clearly influenced Mexfruco managers.

In summary, I propose that, from the cultural system of central-western Michoacán, the following emergent properties can be identified, which likely lead to value-based and traditional (or isomorphic) forms of CSA:

- **Communitarianism**, in the form of within-group loyalty and solidarity. This property is consistent with the view of the firm as a community of people (Calvez & Naughton, 2002). It also can be extended to “familism”, a form of particularism in which family takes precedence over other aspects of life (Kras, 1995), and in which family-type structures are adopted in organizations (De La Cerda Gastélum & Núñez de la Peña, 1990).

- **Paternalism**, i.e. a manifestation of structured hierarchical relationships in society, by which the superior is held responsible for protecting subordinates, usually in exchange of their loyalty. Leaders or superiors are expected to show concern for the material and social well-being of their associates or employees (De La Cerda Gastélum & Núñez de la Peña, 1990). This property may also be related to the importance of status; sensitivity for avoiding confrontation and loss of face; and good manners, particularly when dealing with people of higher status.

- **Nationalism and regionalism**, which implies concern for the intrusion of new life styles into the traditional value system.

- **Private property rights** are not absolute. They are considered to be subordinated to higher societal ends.
- Moderation in profit-seeking behavior, and suspicion of profit maximization.

It is worth to emphasize that the cultural system prevailing in Michoacán had been very stable throughout the long “pre-modern” period that anteceded the “avocado revolution”. In the 1960-70s and afterwards, the capitalist mode of production and the emergence of entrepreneurial aguacateros strengthened other ideational positions, oriented towards self-interest and profit-maximization, which stand in relationships of constraining contradiction with much of the traditional system. In addition, traditional Michoacán cultural properties have been confronted with the Anglo-American cultural system since the internationalization of the avocado economy, and particularly since the opening of the U.S. market in 1997 and the concurrent U.S. investments in Michoacán packinghouses.

8.1.2.- Structural Emergent Properties.

Mexfruco, as any other subsidiary of a MNE, is embedded in a set of relatively enduring institutionalized relationships and connections. From a morphogenetic perspective, these relationships constitute the structural system that endows the company and its stakeholders with different vested interests according to the positions that they occupy in the system (Archer, 1995). In the following paragraphs I discuss the CSR structural emergent properties that arise from the relations that exist between Mexfruco and its stakeholders, as well as the conditioning effect that those properties have on the subsidiary’s CSA.

Legislation and the institutional environment. Mexfruco was conditioned by a number of implicit CSR properties (Matten & Moon, 2004), that is, values, norms, and rules which result in mandatory or customary requirements for the company. These properties usually lead to isomorphic types of CSA.
Mexican legislation is an obvious source of this type of obligations (Floresgómez y Carvajal Moreno, 2007). In particular, Labor Law (México, 2006), which has been briefly described earlier in the previous chapter, regulates the relationships of firms with their workers. It is based on principles such as the promotion of social justice, labor as not an object of trade, workers’ freedom and dignity, etc. Tax legislation is also important, particularly with respect to the legal way to transfer profits to other countries and specific regulations ruling transactions between parent companies and subsidiaries. This legislation is consistent with international standards on transfer pricing (OECD, 2001). Corporate law is particularly relevant on the rights of minority shareholders. It is worth to mention that, unlike U.S. law, Mexican corporate law does not establish the fiduciary obligation of managers to maximize the wealth of shareholders.

Nevertheless, law enforcement in México is weak and inconsistent. Often, companies do not comply with some of the obligations defined by law. Corruption worsens the situation, because non-compliant firms, if caught, can frequently avoid sanctions by bribing officers. This opens the door for opportunism and abuse on the part of business firms or, alternatively, their discretionary exercise of ethics as a supplement to weak law and institutions. The later case corresponds to an opportunity for explicit forms of CSR, which lead to strategic and/or value-based CSA.

There was a piece of U.S. legislation that had an important impact in the relations between U.S. parent companies and their international subsidiaries. It is the “Foreign Sales Corporation Act” of 1984, which was replaced in 2000 by the “Extraterritorial Income Exclusion Act”. These laws granted tax incentives to U.S.-based firms trading between third countries, of up to 100% of the income taxes caused by foreign transactions (Feinschreiber, 1993). Although both acts were repeatedly ruled illegal by the World Trade Organization and the latter was finally repealed by the U.S. Senate in 2004, they provided an effective incentive for income-shifting
practices. This incentive, if not discretionally constrained, may lead to behavior that is locally irresponsible from the perspective of subsidiaries.

There were at least two other regulations that conditioned Mexfruco’s CSA. One of them was the U.S.-México protocol for avocado exportation to the U.S., which established mandatory requirements in the operation of the packinghouse. Although neither the avocado industry nor Mexfruco saw protecting U.S. farmers from pest infestations as a social responsibility, this protocol led to isomorphic compliance, and more importantly, its regulations were compatible with food safety programs.

The other set of institutionalized norms were international standards related to processes of food production. The most conspicuous of them at the time was known as Eurep-Gap, i.e. the Euro-Retailer Produce Working Group Good Agricultural Practice.\(^{53}\) It was established by a consortium of leading European supermarket chains to define certifiable standards of food safety, environmental protection, and respect for human rights (Hatanaka & Busch, 2008). Compliance with these standards by non-European suppliers was voluntary until 2002 and, therefore, if voluntarily adopted by those suppliers, it led to strategic CSA. There were other sets of analogous standards which were known to and influenced Mexfruco, such as the British Retail Consortium’s (BRC) Good Manufacturing Practices, U.S. voluntary GAPs and GMPs (Good Agricultural Practices and Good Manufacturing Practices), and HACCP (Hazard Analysis and Critical Control Points) protocols.

In short, structural CSR properties emerging from global and local institutional environments can be summarized as follows:

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\(^{53}\) Beyond Europe, this initiative was increasingly adopted in many other countries (but the U.S.). In 2005 it was transformed into Global-Gap, i.e. the Global Partnership for Good Agricultural Practice, integrated by large retailers and private organizations of exporting countries (Hatanaka & Busch, 2008).
• Mexican law, which conditioned isomorphic forms of CSA related to taxation and Mexfruco’s relations with workers and minority shareholders.

• A relative “anomic” (Cullen, Parboteeah, & Hoegl, 2004) of the Mexican state, which allows for non-compliance with laws in some cases and topics, unless firms ethically self-restrain.

• U.S. tax incentives for foreign transactions (Feinschreiber, 1993), which may motivate strong income-shifting out of the subsidiaries if firms do not self-restrain. These incentives stood in a situation of concomitant contradiction with Mexican tax regulations and internationally accepted principles on intra-firm trade.

• A number of initially voluntary standards of CSR for food products and markets (e.g. Eurep-Gap, British Retail Consortium, U.S. GAPs and GMPs, and HACCP protocols), which inspire food safety and quality programs as well as labor-friendly initiatives.

• U.S.-México phytosanitary protocols, which may contingently support programs in quality control and food safety.

**Systems of Exchange.** A subsidiary like Mexfruco, with a U.S. parent company and direct commercial contact with customers in different countries, simultaneously participates in diverse systems of exchange. As Biggart & Delbridge (2004) propose, these systems can be described along two factors: One is the type of social action implied in the exchange, which can be either instrumentally rational or value-oriented rational (Weber, 1922/1978). The other is the structure of social relations that define the obligations of the actor to the other party in the exchange, which can be universalistic (similar treatment to everyone) or particularistic (different treatment for outsiders).
Some important relations were likely to take place in a modality close to the associative system of exchange (i.e. those with the parent company; also those with foreign customers, particularly in Japan but to a large extend also with several European importers). This system is based on instrumental (although not necessarily maximizing) rationality, and on particularistic relationships. It implies a long term perspective and emphasizes mutual support and gain, loyalty and reciprocity, all with respect to the closer circle of stakeholders, rather than efficiency and self-interest. The social responsibilities that emanate from such a system differentiate between the members of the system and outsiders: Favoring allies (workers, allied suppliers and customers, etc.) is the expected standard (Taka, 1994). In these systems, strategic CSA exists, but value-based and isomorphic types of CSA are very relevant.

Exchanges with fruit growers were closer to the price system, or typical market. It is based on universalism and instrumental rationality and assumes a multitude of individual short-term transactions. Its logic emphasizes utilitarian reasoning, self-interest, and efficiency. However, because of associative patterns of a monopolistic trend among growers, leading to price collusion, local avocado markets are full of imperfections. This outlined a possibility for firms to deal with growers on social and ethical bases, different from the market.

Companies in the produce business have the possibility of participating in moral systems of exchange, for instance if they operate in markets of organic fruit or, more recently, Fair Trade markets. These systems are based on universalism and value-rationality. Entering such systems requires adherence to and compliance with a substantive value (e.g. environmentally-friendly fruit production), which conditions CSA.

Finally, labor relations can be seen as price exchanges in imperfect markets, which likely leads to strategic CSA to strengthen psychological contracts. However, it seems to me that, in a number of cases, labor relations in México are closer to communal systems of exchange,
based on value-rationality and particularism. They involve exchanges organized around specific groups with a shared identity, and focus on relational actions subordinated to the group norms and interests.

To summarize, structural CSR properties emerging from the systems of exchange in which firms like Mexfruco participate can be described as follows:

- Associative exchanges preferred by a narrow group of international stakeholders (e.g. international customers, the parent company).
- Short-term market exchanges preferred by one group of local stakeholders (i.e. growers).
- Imperfections of such market systems (local fruit markets), caused by growers’ monopolistic attempts.
- Possibility to enter moral systems of exchange (e.g. organic fruit markets) if the substantive value is adopted and the corresponding CSA is performed.
- Particularism and value-orientation in relations with workers (communal system of exchange).

**Social and economic development.** As discussed in the previous chapter (see section 7.1.4), the Michoacán avocado industry has had important social and environmental impacts. Paraphrasing Schmidheiny, “thoughtful [local managers] look around them and see poverty, poor education, bad housing, scarce healthcare and all the rest of that grim list” (2006: 21). Among others, Schmidheiny argues that, under those circumstances, social issues take precedence over environmental issues. Consequently, avocado firms, as many other agricultural businesses in Latin America, are morally and socially expected to assume concrete commitments of social responsibility to foster social justice (Kliksberg, 2005; Liarte-Vejrup & Zuazaga, 2004).
In the Mexfruco environment, poverty exists, but it is somehow palliated by very high rates of employment. This situation makes employment creation a social demand which is desirable but not necessarily a priority. Claims for social justice are much more specific: literacy and education of adults, legal and proper housing, prevention and control of substance abuse, support for large numbers of working single mothers, etc.

A related moral imperative refers to the private sector’s contribution to public expenditure via taxation. Avocado growers represent the wealthiest segment of the population. However, although they enjoy a special regime that significantly reduces their tax burden, they are very inclined towards evasion. In addition, multinational companies operating in the industry, mainly as packer-exporters, also have ethical obligations with respect to tax payments merely because that is one of the objectives of policies allowing foreign investment (Christensen & Murphy, 2004).

Therefore, the level of social and economic development of the avocado growing region involves the following moral/social obligations, leading to value-based CSA:

- Need to palliate the most urgent inequalities, e.g. illiteracy, housing, addictions, support to working mother’s, etc.
- Tax compliance, both of growers and packers.

**The task environment.** Goll & Rasheed (2002, 2004) demonstrated that two dimensions of the task environment have conditioning effects on corporate social actions: dynamism and munificence. The task environment of Michoacán avocado packer-exporters, including Mexfruco, has generally shown high levels of dynamism and variable levels of munificence.

According to Dess & Beard (1984), dynamic environments are those in which unpredictable change can occur, i.e. they are instable and turbulent. The Michoacán avocado
industry, as most other agricultural sectors, is subject to many, often unpredictable uncertainties, both within and across seasons. First, crop size, or the total production of the zone, varies according to climatic conditions: Freezes, hot spells, drought periods, or excessive rains are conditions that, though not frequent, eventually affect crop size (Del Río et al., 1989). Second, avocado trees are characterized by a crop pattern known as “alternate bearing”, by which they produce high yields one year and low yields the next one. However, this supposedly biannual pattern is not consistent; in practice there may be two or more consecutive seasons with either high or low yields (Monselise & Goldschmidt, 1982).

Third, avocado production is seasonal. In Michoacán, higher harvesting rates occur between October and February, while both early (July-September) and late (March-June) parts of the season show lower harvesting activity. Since growers can store their fruit on the trees for several months, the actual seasonal pattern is not consistent because growers may chose to pick earlier or later than their usual schedule if they feel it would give them better prices. Fourth, grower associations are inclined to temporarily reduce or stop harvest operations whenever they feel uncomfortable with price levels. In these cases, their decision-making process is usually emotionally charged and, thus, more or less unpredictable.

There are three additional sources of unpredictable change particularly relevant for the export business: One, international markets are subject to crop size and seasonal variations which other supplying countries often experience, for reasons similar to those in Michoacán. Two, importing country’s governments may, at their will, temporarily restrict trade for whatever reason. This has happened a few times in the U.S. market. And third, quality problems endemic to the Michoacán industry (pulp rots, peel spotting, etc.) affect, from time to time and in a barely predictable way, the condition of fruits upon their arrival to distant markets. Damaged fruit, when it is saleable, command very low prices. Those problems are not detectable at producing or
shipping times. Once these problems appear, and in addition to the losses caused by damaged fruits, new shipments are reduced or stopped, which severely disrupts the normal flow of business for exporters.

Munificent environments, on their side, are those with the ability to support sustained growth (Dess & Beard, 1984). As discussed in chapter 7, the Michoacán avocado industry, particularly its export dimension, has shown amazing levels of growth: APEAM data shows that total industry exports increased 251% during the period of study of this dissertation (between 1997 and 2004). In addition to industry growth, Dess & Beard suggest margin growth as a measure of munificence. The environment has been very munificent for growers since, according to APEAM data, fruit prices at the farm level increased 45% in the same period. However, the situation is not the same for packer-exporters. These firms see their margin increase whenever they can have consistent and relatively high levels of operation, measured in volume (kilogram) terms. But when their scale of operation decreases, their margins do too. Therefore, in short crop years and/or in the low-volume parts of the season, packer-exporter margins diminish. In addition, the contingencies that may appear in international markets also have a clear impact on the margins of packer-exporters.

Goll & Rasheed (2002, 2004) argue that in dynamic environments, firms tend to more proactively seek the perception of legitimacy that results from CSA, probably with the purpose of getting some protection from unpredictabilities. By the same token, they argue that munificent environments may often result in organizational slack, which tends to induce all types of CSA.

Consequently, the task environment for packer-exporters in the Michoacán avocado industry offers the following CSR emergent properties:

- High dynamism, or turbulence, mainly derived from the biological nature of avocado production and, hence, linked to relations with growers.
• Usually high but variable levels of munificence, conditioned by the firms’ scale of operation and the conditions of international markets. There are years or within-year seasons in which munificence for particular packers is very low.

**Patterns of stakeholder relations.** When Mexfruco entered the Michoacán avocado business (and later, to a smaller extent, the mango business), there were already some clear patterns for the interactions between packer-exporters and their local (mainly growers and workers) and global (customers and, in the case of subsidiaries, parent companies) stakeholders. In the next paragraphs I briefly discuss them.

Relations with growers are characterized by distrust and conflict. In the terminology of Mitchell, Agle, & Wood (1997), growers consider packers’ claims to be illegitimate for the most part. At the same time, growers hold high bargaining power based on, first, the packers’ dependency on their fruit, at times urgent; and second, the growers’ institutionalized mechanisms to manipulate harvest rates and prices (based on their ability to store fruit on the trees and their cartel-like organization). Thus, growers are dominant stakeholders in their relations with packers. Their exchanges tend to be adversarial and self-interested, in a stakeholder-agency mode (Hill & Jones, 1992). An interesting paradox is that, while growers tend to consider foreign-owned packinghouses to be more illegitimate than locally-owned ones, they pragmatically prefer to deal with foreigners.

Customer relations show variance in the industry. Successful exporters tend to see their customers’ claims for quality, consistency, and service as legitimate, and consequently they tend to build stewardship-type relations (Davis, Schoorman, & Donaldson, 1997) with importers. However, some customer claims might be considered illegitimate, if they are perceived as opportunistic (e.g. asking for discounts after shipping, hard punishing quality deficiencies, etc.). Power between the parties is an attribute particular to each relationship, yet usually without a
pattern of dominance by one side. International customers funnel many of the global CSR properties that condition exporters’ CSA, like food safety and quality requests.

Worker relations have two different modalities. On the one hand, packinghouse workers are subject to standard conditions of employment, more or less compliant with labor law and regulations. Women occupy many of packinghouse job positions. These relations tend to be stable and relatively long-lasting. Mutual claims are considered legitimate if they are framed within the law and local custom. However, firms retain a larger bargaining power over workers’, particularly because there is no common practice of collective bargaining and unionization.

On the other hand, relations with harvesting workers are usually outsourced from labor contractors and, therefore, there are no formal relations between the packer firm and those workers. These labor relations are of a stakeholder-agency type; i.e. labor has become an object of commerce. If pickers have some claims beyond the established modus operandi, they are likely considered illegitimate. Packers hold much more bargaining power and are dominant in this relationship.

The relationships of local subsidiaries with their foreign parent companies were not accessible for observation for this dissertation. However, except for Mexfruco in its early years, all of them are wholly-owned subsidiaries. The general impression among other packers and APEAM officers is that the administration of these subsidiaries is highly centralized and, therefore, they seem to be totally dependent on their headquarters’ decisions. This pattern was well known by Interfruco managers, who had frequent contact with managers of other parent companies (most headquarters were located in the same area in California). Thus, there was an isomorphizing force influencing Interfruco managers. In their relationships with growers, these subsidiaries have faced the “liability of foreignness” (Zaheer, 1995), and have overcome it by “buying” growers’ satisfaction through relatively high fruit prices and very short payment terms.
With respect to within-industry relationships, there are customary obligations at the level of industry organizations, and particularly at APEAM. Packers are expected to participate, and they usually do, in the many meetings and discussions that take place within the association, and as members of boards or committees. While the group of packers is very heterogeneous and they often had interests in conflict, they are expected to show solidarity to their group against the claims of growers.

Organizational antecedents. The theory presented in chapter 3 assumes that an existing intermediate cultural and structural system, namely an organization, mediates the influences of the socio-cultural environment and provides positions and practices for the actions of managers. However, my study of Mexfruco begins with its foundation when, naturally, there were no existing organizational properties such as structure, culture, identity, etc.

Building on the almost universally accepted notion that founders of new organizations have profound influence on organizational strategy and action (Dunbar, Dutton, & Torber, 1982; Nelson, 2003), both Goll & Sambharya (1995) and Harris (2005) have suggested that the initial formation of the ethical culture of a new entrepreneurial venture strongly depends on the influence of the founders. In the case of Mexfruco, the role of founders corresponds, on the one hand, to John Reed, CEO of the parent company; and on the other hand, to José Pérez, Managing Director of the subsidiary and, to a large extent, to his team too.

In this research I have not had access to data on founders’ psychological traits. However, interviews and documents shed light on the past experience and values of these individuals. In addition, I was able to conduct a little survey, complemented with interviews, to assess both the corporate ideology of Reed and Pérez (Goll & Zeitz, 1991) and their corporate social orientation (Aupperle, 1984). The results of this survey are presented in Figure No. 15.
The interpretation of the ideology survey results (upper part of Figure No. 15) shows that Reed had a more progressive corporate ideology than Pérez, who tended to be more traditionally-oriented (Goll & Zeitz, 1991). Compared with Pérez, Reed relied more on a systematic and widespread information search for decision-making and viewed social
responsibility as a major issue area for management. Both founders showed high levels of organicity, understood as in Burns & Stalker (1961), i.e. participative decision-making, acceptance of informal systems, etc. In short, Reed’s ideology assigned high importance to CSR while, in this test, Pérez’s was not particularly strong on this dimension.

The corporate social orientation of Mexfruco founders, according to Aupperle’s (1984) test, shows them to have a similar profile (lower part of Figure No. 15). Both gave a greater emphasis to the economic component (around 35%). Their ratings for legal, ethical, and discretionary dimensions are also alike, with Pérez showing a little higher orientation to discretionary CSR, while Reed got a slightly higher score in the legal and ethical dimensions. However, when these three “social” dimensions are jointly considered, both founders reached a high and similar score, of almost 60%. Both profiles are very close to the “ideal” weights assigned to each of these dimensions by Carroll (1979) and empirically supported by Aupperle.

Besides their ideology, all founders had been part of organizations with strong market-oriented organizational cultures (Cooke & Rousseau, 1988), as reflected by the saying of one of the members of Pérez’s team about their being “the eyes and the ears” of their customers. According to Küskü & Zarkada-Fraser (2004) and Maignan, Ferrell, & Hult (1999), this type of culture leads to proactive corporate social action.

Founders also provided their social capital. At the time of founding Interfruco and Mexfruco, both Reed and Pérez had extensive, operative network relations with international avocado importers. Reed enjoyed personal reputation as a skilled marketer; he also had close contacts with suppliers of export-related inputs (packaging manufacturers, sea-shipping lines, freight forwarders, etc.). On their side, Pérez and his team had long and widespread relationships with Michoacán avocado growers and packers, and a reputation for technical expertise.
In addition, the Mexican team shared a recent history of working together, in which they collectively adopted distinctive technologizing values (Frederick, 1998). They were conscious and proud of their technical knowledge, skills, and reputation in fruit handling for export and, concomitantly, they were eager to learn and apply new technologies. Moreover, they had apprehended the value of “making sure that everything is perfect”, i.e. a culture of professional excellence.

In short, the characteristics and past experience of the founding team included several emergent properties which, according to the theoretical framework of chapters 3, 4, and 5, are personal in nature and, consequently, should be analyzed under the topic of human agency. However, I preferred to discuss them at this point because they were part of the properties that conditioned Mexfruco’s CSA even before its start-up. These properties are:

- A strong ideological orientation towards CSR on the part of the parent company’s CEO.
- A well-defined orientation to social responsibility from both U.S. and Mexican founders, and a balanced orientation to the economic component of CSR.
- Clear identification of all founders with, and recent participation in market-oriented organizational cultures.
- Operating networks with international customers and the local industry.
- Strong technologizing and professional excellence values in the Mexican founding team.

The different cultural, structural, and personal emergent properties previously discussed stand in positions of complementarity or contradiction, necessary or contingent, with each other. The status of these second-order relationships is contingent on each type of firm-stakeholder
relations; such status defines the situational logic for Mexfruco’s action with respect to its different stakeholders. The following section discusses the interplay of these properties with one another and with managerial agency during the first morphogenetic cycle of Mexfruco’s history.

8.2.- CSA AND CSP IN MEXFRUCO’S FIRST MORPHOGENETIC CYCLE.

The context for Mexfruco’s CSA was defined by the several cultural and structural emergent properties discussed above. In this section I study the interactions which, within that context, took place in the first morphogenetic cycle of the company. I also explain the outcomes of those interactions, namely CSP and competitive advantage. The analysis begins with human agency, i.e. a discussion of some characteristics of the relevant managers which constituted personal CSR emergent properties. Next, I define the process by which Mexfruco made and implemented its CSA-related decisions, from which some organizational CSR properties emerged. Afterwards, I introduce the changes that the parent company underwent, which had implications on its managerial agency and its organizational properties. Finally, I propose the causal configurations that explain Mexfruco’s CSA and discuss the process of social elaboration which led to CSP outcomes.

Before moving on, I would like to postulate that Mexfruco had only two morphogenetic cycles during the period of study: the first one took place from its start-up until late 2000 (approximately one year before the company’s restructuring). During its first year of operation, between July 1997 and June 1998, the subsidiary underwent a period of gradual transition from the recent history of the founding team (in their consulting firm) to the beginning of packinghouse operations. However, I consider this initial year to be part of the first morphogenetic cycle because most of the relevant structural, cultural, and personal CSR emergent properties were already transfactually active (in the real domain). Opening a
packinghouse in June 1998 only provided the positions and practices for many of those properties to become operative. This event brought about many changes at the actual and empirical levels, but almost no change at the real level (no morphogenesis). I will later explain why I postulate that the second morphogenetic cycle began in late 2000; the company’s change of management and restructuring was part of an ongoing cycle, and not its beginning.

8.2.1.- Managerial Agency at Mexfruco.

As discussed in chapter 4, socio-cultural emergent properties define the expected content, direction, and modality of corporate social responsibilities. The congruence or incongruence between them defines a situational logic and directional guidance. However, only managers can act, accept, and respond to those attributed responsibilities (Hemingway & Maclagan, 2004; Kleinfeld-Wernicke, 1992). Nothing would happen if managers have no discretion or choice for undertaking social actions (Coopey, Keegan, & Emler, 1997; Wood, 1991). Accordingly, corporate social action is a process that is shaped by the values, interests, and interpretive schemes of managers.

I already reported a number of the personal CSR properties that emerged from both Interfruco and Mexfruco founders (Figures Nos. 14 and 15). In this section I introduce other properties, emerging from Mexfruco managers’ professional roles, social identity, and personal background, which are included in Figure No. 16. This analysis includes the emergent properties corresponding to the company’s Managing Director (José Pérez), the team of collaborators he brought in from his consulting company (three agronomists, the General Accountant, and the Assistant Manager), and the Director of Operations, Jorge López, who had sporadically worked with this team in the past and joined Mexfruco six months after its start-up.
With respect to managerial roles, Mexfruco initially was a very autonomous subsidiary and, consistently, its managers enjoyed a high level of discretion. In this context, the concepts of social responsibility and social action were meaningful for Mexfruco’s team (Hemingway & Maclagan, 2004; Wood, 1991). Upon the starting-up of their packinghouse, Mexfruco managers were exposed to the need of controlling the transformation of labor potential into actual labor (Tsoukas, 1994), and their corresponding ability and discretion to increase employees’ capacity (self-development, learning, etc.). Similarly, they faced the need of pursuing the support of the company’s external stakeholders (mainly growers and customers), and the corresponding ability and discretion to elicit their active cooperation.

**Figure No. 16 – Organizational and Personal CSR Emergent Properties Conditioning Mexfruco’s CSA**

<table>
<thead>
<tr>
<th>Mexfruco's Managerial Personal Properties</th>
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<tbody>
<tr>
<td>Ability and discretion to increase human (workers) capacity</td>
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<tr>
<td>Ability and discretion to elicit active stakeholder cooperation</td>
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<tr>
<td>Strong ties to the broader local community</td>
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<tr>
<td>Membership in the <em>aguacatero</em> community</td>
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<tr>
<td>Catholicism</td>
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<tr>
<td>Ability to influence headquarters' decisions</td>
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<tr>
<td>Managerial logics of professional excellence and solidarity with certain local groups</td>
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<tr>
<td>Collective self-efficacy beliefs</td>
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<tr>
<th>Mexfruco's Organizational Properties</th>
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<tr>
<td>Internal ideational and structural commitments</td>
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<td>External anchorages</td>
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<table>
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<tr>
<th>Interfruco's Personal and Organizational Properties</th>
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<tbody>
<tr>
<td>Ethnocentrism</td>
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<tr>
<td>Absence of ties to industries or communities</td>
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<tr>
<td>Strong economizing orientation of CFO</td>
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<td>Orientation to progressive decision-making</td>
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<tr>
<td>Managerial logics of profit maximization</td>
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<tr>
<td>Financially-based decision-making</td>
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<tr>
<td>Executive compensation based on margins</td>
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<tr>
<td>Tendency to centralized management - Myth of the MNC</td>
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</table>
To a large extent, the autonomy of Mexfruco was a consequence of its position within the value chain (Luo, 2005): First, it was in charge of sourcing the main input (fruit) from local stakeholders. Second, it had unrestricted and frequent access to Interfruco’s customers, and it regularly learned about their needs and expectations. Third, it was the repository of the knowledge on which the Interfruco/Mexfruco dyad relied for servicing clients. And fourth, Interfruco’s office during the initial several months was very small: it consisted only of its CEO and two assistants. Put differently, Mexfruco was largely in charge of the dyad’s responding to forces for both global integration and local responsiveness (Prahalad & Doz, 1987). Consequently, Mexfruco managers had a significant ability to influence headquarters’ decisions (Birkinshaw, 1996; Luo, 2005).

The social identity of Mexfruco managers was clearly emergent from local socialization. The Managing Director, the Director of Operations, and the Assistant Manager belonged to families that had been well-known and respected in the city for at least two generations. In addition, two of those families were medium-sized avocado growers; actually both, Pérez and López had been active in *aguacatero* organizations. Moreover, one of the agronomists was a member of one of the local *Purépecha* communities and small avocado grower. Finally, all of them were practicing Catholics. These positions and relations placed Mexfruco managers within a temporal and spatial network of obligations and commitments (Coopey, Keegan, & Emler, 1997). Research shows that having this kind of strong local allegiances may, at times, conflict with loyalty to the parent company and with profit-seeking behaviors (Harvey, Novicevic, & Speier, 1999; Whittington, 1992).

I had no access to data on the psychological traits of either Interfruco or Mexfruco managers. Hence, I cannot identify any personal CSR properties emerging from their moral reasoning skills or self-regulatory mechanisms. On this matter, as already discussed, I only knew
that the Mexfruco team emphatically endorsed technologizing and professional excellence values, while Interfruco’s CEO was strongly oriented to customers. This mindset and their past technical successes likely laid the foundations of the team’s belief in self-efficacy (Bandura, 1986, 1988).

With respect to moral agency, the description that Kras (1995) made of executives from Central México can be taken as a proxy: She argues that their morality is based on the teachings of the Catholic Church; moral reasoning is based on a mix of virtue ethics and interpersonal relationships; and moral standards are somewhat ambiguous in order to avoid hurt feelings and confrontation.

Summarizing this discussion, the main personal CSR emergent properties of Mexfruco managers, during the first morphogenetic cycle of the company, were:

- Ability and discretion to increase human capacity (workers).
- Ability and discretion to elicit active stakeholder cooperation.
- Strong ties to the broader local community.
- Membership in the *aguacatero* community as both growers and packers.
- Ability to influence headquarters' decisions.
- Catholicism.
- Managerial logics of professional excellence and solidarity with certain local groups.
- Belief in collective self-efficacy.

I conclude that, as Whittington (1992) explains, Mexfruco managers likely set their strategies according to their social identities, abilities, background, and values. Thus, their dominant managerial logic of action was based on both professional excellence and solidarity
with certain local groups. Consequently, they saw the firm as “a vehicle for realizing a much wider range of socially legitimate values” in addition to profit-seeking (Whittington, 1992: 707).

8.2.2.- Decision-Making on and Implementation of Corporate Social Actions.

The different cultural, structural, and personal CSR emergent properties aforementioned, and their second-order relations of congruence or incongruence, are perceived to various degrees by managers and, consequently, those properties condition managerial decision-making. But how was actual decision-making on CSA made at Mexfruco? How were those decisions implemented? Which implications did this process have? In this section I explain the internal mechanisms and procedures by which Mexfruco made and implemented those decisions. The sequence is synthesized in Figure No. 17. Some ideational and structural properties emerged at the organizational level from these processes, which also conditioned Mexfruco’s CSA.

Figure No. 17 - Mexfruco’s CSA Decision-Making and Implementation
Origin of CSA initiatives. There was not an established pattern for identifying initiatives for CSA at Mexfruco. Neither the subsidiary nor its parent company had any formal system of moral/social environmental assessment to identify CSR forces (or emergent properties). As it is common in small and medium-sized enterprises (Russo & Tencati, 2007; Spence, Schmidpeter, & Habish, 2003), managers relied on their social capital (i.e. social relationships, business networks, local embeddedness, etc.) to identify pressures or opportunities for corporate moral/social action. They also identified and framed CSA initiatives through the “consciousness” (Neville, 2007) or “discursive penetration”54 (Giddens, 1979) that they had acquired by experience. Similar to Floyd & Woolridge’s (1992) findings for the case of general strategy, Mexfruco’s middle managers participated in this informal process; several times it was one or several of them who proposed CSA initiatives. In short, Mexfruco’s CSA initiatives did not generally emerge from formal CSR planning processes, and company managers did not regularly use the language of CSR to describe what they were doing.

Sensemaking and decision-making. The analysis of many minutes of Mexfruco’s management team meetings55 reveals a pattern of CSA decision-making and implementation. Once an initiative had been sufficiently defined by one or more of the managers, it was informally presented to the management team at one of those meetings. The usual discourse was something like “we have been thinking about [doing X or Y]… and we may have to make a

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54 Consistent with Giddens (1979), in this context “discursive penetration” refers to the depth of a manager’s understanding of and degree of fluency with the key discourses, concepts, and influences which represent the ideational and structural emergent properties that shape his/her organization and environment, including those in favor of or against CSR. More recently, Neville (2007) has proposed an analogous concept, “capitalist consciousness”, to refer to the ability of a manager to be guided by three assumptions: (1) Interconnectedness, or the belief that individuals and systems are highly interconnected and interdependent and, hence, that individuals have impacts on other people, the natural environment, and the collectivity. (2) Holistic wealth, or the notion that wealth can be assessed at the individual, community, or global levels, through a number of measures like financial gain, quality of life, access to natural resources, etc. And (3) multiple generations of time, or the notion that relevant time exists from past generations through to the world that future generations will inherit.

55 Since early 1999, Mexfruco’s management team usually had meetings on a weekly basis. A short minute was written for every meeting and circulated to all participants.
decision on this in [an open, but relatively defined timeframe]”. All managers were asked to think and comment about the initiative during the following days or weeks, i.e. to project how it would affect them, to evaluate its advantages and disadvantages, to assess the possibilities for successful implementation, to think whether the initiative was consistent with the company’s beliefs and actions, etc. Usually, one of the managers was assigned to find out about costs, benefits, and eventual acceptance of the initiative by the target stakeholder. The initiative was analyzed in one or more subsequent meetings. In the between-meetings period there was informal consultation and comments among managers.

Eventually, the initiative was formally presented to all of Mexfruco’s management team and a decision was made. There was sort of a rite when a decision was made to approve an initiative, by which every participant in the meeting would voice his/her position, and likely his/her commitment to the new initiative. Afterwards, at least during the first morphogenetic cycle, Mexfruco’s Managing Director communicated the initiative to Interfruco’s CEO in order to ask for, and usually obtain, his approval and support.

If sensemaking “is a search for contexts within which small details fit together and make sense” (Weick, 1995: 133), so that “individuals develop cognitive maps of their environment” (Ring & Rands, 1989: 342), Mexfruco’s decision-making process seems to have been an exercise of prospective sensemaking (Gioia & Mehra, 1996) by which intersubjective meanings, a shared sense of the future, and creativity likely emerged (Pater & Van Lierop, 2006). While consensus was built, any opposition to the initiative was also contained. By focusing sensemaking on a specific alternative and its consequent binding actions, a series of hardly revocable assumptions and expected behaviors, i.e. commitment, were built (Weick, 1995).

**Structural response.** With a decision made, Mexfruco managers focused on finding out the best way to implement it. When decisions implied just the adoption of a course of action that
afterwards would be routinely performed (e.g. switching packing materials from wood crates to cardboard boxes), the relevant manager was appointed as responsible of implementation (e.g. the Director of Operations and the Packinghouse Manager would find suppliers, design the new pack, and adjust the packing process as necessary). Other managers would support the process within their respective areas of competence (e.g. sales people would inform customers and “sell” the new packaging). In many cases, the Department of Human Development was put in charge of implementing CSA initiatives.

However, several CSA decisions implied a complex course of action, requiring further and often continuous decision-making. In these cases, Mexfruco usually integrated a permanent group (committee, commission, etc.) in charge of developing the initiative. A group leader was chosen and a “technical secretary” was appointed to assure direction and consistency of action through time. The Manager of Human Development acted as the technical secretary of most committees or commissions. From this point on, the group was responsible for implementing the initiative and regularly reporting its progress to the managerial team. In this way, a parallel semi-formal structure was established, specifically aimed at CSA projects. The membership of these groups largely overlapped, although each group worked independently from the others and under its particular leadership.

During its first morphogenetic cycle, Mexfruco established three permanent working groups: the Commission for Workers’ Health and Safety and the Commission for Workers’ Training and Education, initially integrated by law mandate, and the Committee for Food Safety. Towards the end of its first cycle (in early 2001), Mexfruco established a Quality Management Committee, a fourth working group that would have been also permanent, aimed at integrating the different management systems of the company according to, and in pursuit of, ISO-9000

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56 This new committee was known as “Sicato”, an acronym for “Sistema de Calidad Total”.
certification. Mexfruco’s Growers Club, an informal group of fruit suppliers with whom the company was attempting to develop a new type of relationship, also took place along this line of semi-formal collegial structures, although in this case it included external members. Given the changes that the company underwent, the two latter groups operated just for a few months and did not reach their objectives.

It seems that Mexfruco designed its structure for CSA as a function of the complexity of the task to be developed, and not the type of issues at hand as Husted (2000) suggests. The open-ended and permanent nature of some tasks demanded Mexfruco to have an internal variety sufficiently sophisticated to cope with the variety and complexity which it encountered in the social environment, namely “requisite variety”; as well as some duplication and overlap into its structure, i.e. redundancy (Husted, 1993). Independently of the nature of any existing “issue”, the semi-formal collegial structure that Mexfruco adopted for its most significant CSA programs provided the redundancy and requisite variety that the tasks demanded.

A compelling explanation of Mexfruco’s structural response to CSR forces can be based on Selznick’s (1957/1984) theory of elite autonomy, which is a value-based perspective. He defines elite as “any group that is responsible for the protection of a social value” (1957/1984: 120). Selznick argues that firms are exposed to many demands to provide short-term benefits, which risks the company’s standards of knowledge and conduct. He asserts that the maintenance and maturation of values, that is, the maintenance and maturation of the firm’s identity and integrity, depend on the protection of key values by an elite isolated from the everyday pursuits of the company in a competitive economy.

Mexfruco’s committees and commissions can be seen as elites protecting values. Those values can be labeled as “workers’ protection and development” in the case of its two worker-oriented commissions (which had to be two by legal mandate); and “responsibility to customers”,...
with respect to its food safety committee. Analogously, the values that the Total Quality Committee and the Growers Club were attempting to and beginning to protect were “professional excellence” and “sustainable progress of and relations with growers”, respectively. The focused task and relative autonomy of those groups allowed them to remain isolated, for good or bad, from pressures of profitability and competitiveness.

**Enactment.** The implementation of CSA initiatives was mostly in the hands of middle managers. Analogous to what has been reported for general business strategies (Floyd & Woolridge, 1992; Mair, 2005), Mexfruco middle managers shaped, adapted, and in general, enacted CSA initiatives. In a practice that anticipated prescriptions offered in the early 2000s (e.g. Waddock & Bodwell, 2004, 2007), and building on their technical training, Mexfruco managers developed CSA initiatives by adopting patterns of work similar to those used for Total Quality Management (TQM).

I identified at least five analogies between Mexfruco’s CSA and TQM programs: First, the commitments established at managerial meetings also included the explicit support and commitment of the Managing Director and the setting of the general goals of the initiative. These events were equivalent to establishing a vision and a set of values and goals for a Total Quality Management (TQM) program. Second, Mexfruco’s CSA initiatives were oriented to satisfy and build the loyalty of certain groups of stakeholders, notably workers, growers, and customers, analogous to TQM’s orientation to customer satisfaction. Third, as in TQM programs, the responsibility of CSA initiatives was in the hands of an ad hoc team. Fourth, CSA initiatives were extensively documented (manuals, minutes, procedures, etc.) and aimed at reaching some standards which, in several cases, were subject to external, third-party auditing and certification.

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57 Mexfruco managers were trained in TQM by a Mexican expert who, in turn, had been trained in Japan in the late 1980s. There is a published synthesis of this expert’s model (Sosa Pulido, 1992).
And fifth, Mexfruco managers regularly used the TQM language (e.g. “standard operating procedures”, “corrective actions”, “continuous improvement”, etc.) for managing their CSA initiatives.

**Commitments.** Once a given CSA had begun to operate, Mexfruco frequently sought for some kind of external support or certification, which I call “external anchorages”. For instance, as described in chapter 7, it signed an agreement with the Mexican Labor Department for self-regulation of its workers’ health and safety programs, which was auditable and certifiable by that authority. By the same token, Mexfruco signed a multi-annual agreement with the National Institute for Adult Education, aimed at workers’ development. In another, analogous move, the company applied for, and eventually obtained, a number of certifications for its food safety program, as well as for its initiative to handle organic fruits. Even some initiatives which were straightforwardly implemented were subject to such kind of external anchorage. For example, Mexfruco included, within its certifiable food safety protocols, the decision to not use wood crates for packing.

In several other cases, Mexfruco supported its CSA initiatives with more or less significant financial investments. For instance, the workers’ health and safety program required important upgrading of the packinghouse and the cars transporting picking crews. Other initiatives demanded a lot of training.

This type of actions represented, for Mexfruco, strategic commitments which, in turn, defined path dependencies (Ghemawat, 1991). The company had already established some within-company psychological commitments at the time of making sense and decisions on a CSA initiative. Then it integrated elites to protect and develop the values underlying those initiatives. In addition, it formalized agreements and commitments with government agencies or third-party certifying bodies, and/or it invested in physical infrastructure and training. In this way, for good
or bad, Mexfruco somehow constrained its subsequent behavior. Put differently, it established paths by which its broad courses of CSA necessarily became persistent, because stepping back meant facing big economic and psychological difficulties. In Ghemawat’s terms, the company adopted a lock-in process of strategic commitment.

All these structural and value-based commitments constituted additional CSR forces, at the subsidiary’s organizational level. As these properties emerged, they conditioned subsequent Mexfruco’s CSA. Figure No. 16 includes these properties, labeling them as “internal ideational and structural commitments” and “external anchorages”. It is worth mentioning that, as Ghemawat (1991) argues, these commitments accumulate and eventually shape an organization’s culture and structure. In Selznick’s words, “Commitments to ways of acting and responding are built into the organization. When integrated, these commitments define the ‘character’ of the organization” (1957/1984: 47).

Ghemawat clearly explains that commitment, while a dynamic constraint on strategy, is neither intrinsically good nor bad. Actually, commitment can be a source of differentiation and competitive advantage which may insulate the company from competitors, at least for some time. In this way, intended or not, Mexfruco’s CSA became both a strategic resource and a strategic constraint for the subsidiary and, by extension, for its parent company.

**8.2.3.- Conditioning Effect of the Parent Company’s Development.**

Interfruco was, for more than one year (July 1997- November 1998), a small company that consisted only of its CEO (John Reed), one sales assistant, and one assistant accountant. For family and personal reasons, Reed decided to move his office to Ventura, California, in November 1998. Foreseeing growth in the company, he hired some additional staff in late 1998 and early 1999. In this section I discuss the properties which, for CSR concerns, emerged from
the parent company’s growth. I divide this analysis in two parts, one corresponding to personal emergent properties (managerial agency), and the other to organizational emergent properties. Both are summarized in Figure No. 16, above. This discussion is constrained by the limited access that I had to information on Interfruco’s internal affairs.

**Managerial agency.** In this section I discuss some personal properties of Interfruco managers, which emerged from their professional roles, social identity, and personal background. This analysis includes the emergent properties corresponding to the company’s CEO (John Reed) and CFO (Gerald Kleber); the latter joined the company in December 1998.

The emergence of the social identity of these two Interfruco managers had some common ground. Both of them were Anglo Americans (although Reed’s mother had been born in Italy). They had grown up in the same California city (Ventura), attended the same school, and knew each other for years. Different from Kleber’s agnosticism, Reed was educated as a Catholic and, in general, espoused Catholic values.

I already discussed a number of the personal CSR properties that emerged from Interfruco’s CEO, when studying his role as one of Mexfruco founders (Figure No. 14). It is worth remembering that his corporate ideology was highly oriented to progressive decision-making and CSR. I already pointed out too that he had worked for and led companies with strong market-oriented cultures, which likely strengthened his orientation to strategic types of CSA (Küskü & Zarkada-Fraser, 2004). Professionally speaking, Reed had developed a career in the California avocado industry, in which he built a network of relationships with growers and handlers (packers). However, when he turned himself into a champion of international avocado trade and focused more on foreign avocado sources and markets, many of those local professional relationships became rather distant.
On his side, Kleber developed a career in accounting. He worked for several years in a very large accounting firm and held a MBA degree in finance. Before joining Interfruco, he had never worked in the produce industry and, consequently, he had no ties to this kind of industries or their actors. Kleber’s corporate ideology, measured according to Goll & Zeitz (1991), was consistent with his professional background: He had a strong orientation to progressive decision-making, and a low concern for both CSR and organicity. His CSR profile (Aupperle, 1984) showed an average orientation to the economic domain (33%), but low orientation to social domains (41% when adding legal, ethical, and discretionary dimensions), which contrasted with the high social orientation (around 60%) of both Interfruco’s CEO and Mexfruco’s Managing Director. From these results, it can be inferred that Kleber held strong economizing, shareholder-oriented values (Frederick, 1998; Waldman et al., 2006). Research shows that, when managers’ economic orientation dominates their other social dimensions, the utilitarian logic of profit maximization may often lead them to ignore or disengage social responsibilities (Aupperle, 1984; Cullen, Parboteeah, & Hoegl, 2004; Sonenshein, 2007).

As in the case of Mexfruco, I had no access to data on the psychological traits of Interfruco managers and, consequently, I cannot identify any personal CSR properties emerging from their moral reasoning skills or self-regulatory mechanisms. Using Kraus’ (1995) descriptions as a proxy of moral agency, it can be said that American managers have been brought up in a system with great respect for the law and norms in general, even if compliance is unpleasant (i.e. a deontological perspective), along with appreciation of wealth maximization at the individual and firm levels (i.e. an utilitarian orientation).

At the risk of stereotyping, these Interfruco managers seem to have shared some common traits of American managers. Research shows that, in international settings, managers from wealthier countries tend to be more in tune with shareholder/owner issues and to disregard other
stakeholder issues and the community dimension (Waldman, De Luque, Washburn, & House, 2006), perhaps as a consequence of their adoption of decision-making frameworks institutionalized in their societies (Downward, Finch, & Ramsay, 2002; Hodgson, 2003). Kleber seemingly was closer to this pattern than Reed. There is also evidence, at least anecdotic, that Americans who work overseas tend to exhibit an attitude of superiority (Macdonald, 2008). Some of them who work in Mexico “are fully convinced that… everyone would like to be a citizen of the United States… They are convinced of the superiority of the ‘American way of life’” (Kras, 1995: 30). Some of the interviewed Mexfruco managers agreed with this view of American managers (e.g. H. González, interview, June 10, 2005).

Summarizing this discussion, in addition to what I presented on Interfruco CEO’s properties as Mexfruco founder, the main personal CSR emergent properties of parent company managers were:

- A sense of American superiority (ethnocentrism).
- Absence of ties with industry and local or foreign communities.
- Strong economizing orientation of CFO.
- Orientation to progressive decision-making.

Based on Whittington (1992), I conclude that Interfruco managers likely set their strategies according to their social identities, abilities, background, and values. Thus, although it began differently, their dominant managerial logic of action was based on the maximization of firm profits and shareholder value.

**Organizational properties.** Interfruco was, essentially, a firm dedicated to manage sales and to control financial resources. As its operations grew, Interfruco followed a pattern that is common to small growing firms and to managers oriented to progressive decision-making
The company’s CEO decided to strengthen and formalize its financial control systems, starting by hiring a Chief Financial Officer (CFO). In this way, throughout 1999, Interfruco adopted a number of accounting and financial practices that were soon extended to its subsidiary. Slowly but steadily, performance assessments and operational decisions were increasingly based on financial instruments like budgets, variance analysis, policies for approval of capital and operating expenses, and analysis of customer profitability. Concomitantly, other criteria gradually lost relevance, including aspects that the subsidiary management considered relevant (e.g. market and customer diversification, differentiation from competitors based on distinctive processes, etc.). Consequently, one of Interfruco emergent properties was the primacy of financially-based decision-making.

One of the outcomes of this orientation was the trimming (i.e. reduction) of the company’s customer portfolio during the 1999-2000 season. Interfruco decided to sell only to customers who offered a given level of profitability, independently of the type of products that they used to buy. They also discarded customers who wanted some added service (e.g. special packaging, longer payment terms, etc.) and retained only those who accepted Interfruco’s standard terms and products. This decision was made at the time of a very profitable season (1999-2000) and, likely, Interfruco managers had made some optimist projections for the subsequent seasons.

These actions seem to correspond to typical behaviors of growing multinational companies. On the one hand, research shows that international managers tend to focus their attention on the markets and customers with the greatest weight in profits, leaving smaller markets aside (Doz, Santos, & Williamson, 2001). On the other hand, it has been demonstrated that, after a high exporting performance in the preceding year, firms’ adaptive behavior declines, particularly with respect to distribution adaptation (e.g. selection of markets and customers,
decisions on distribution networks) and pricing adaptation (e.g. decisions on pricing strategy, margins, discounts policies) (Lages, Jap, & Griffith, 2008; Lages & Montgomery, 2004).

Another significant change was the growing influence of Interfruco’s external auditors, namely Ernst & Young, who claimed to be experts in international subsidiary control. A couple of reports to which I had access recommended establishing a number of internal controls of cash, information, and decision rights along a typical scheme of centralization. In response, Interfruco began to establish such type of controls and to centralize decisions and cash flows.

It became apparent that Interfruco began to manage its subsidiary according to a well-defined paradigm in international business, namely the supply chain management school. It is not clear whether Interfruco managers were already familiar with it, or they learned it from their external advisors. As Faria (2004) explains, this school represents the Anglo-American tradition in international management, based on centralization and hierarchy (in contrast to the European paradigm of “industrial networks”). According to Faria, the supply chain perspective has institutionalized the concept, or myth, of the multinational company as a network of subsidiaries led and controlled by a central strategist.

In this view, a subsidiary’s mandate is strictly the responsibility allocated by headquarters (Birkinshaw, 1996). Furthermore, the parent company’s desire to maintain control is seen as being opposed to the subsidiary’s drive for autonomy, which leads to mandated policies with respect to the distribution of profits and the direction of development of the subsidiary (Soelvell & Zander, 1998). In addition, even when subsidiaries face strong forces for local responsiveness, headquarters do not necessarily provide the corresponding resources (Luo, 2005). Moreover, the typical headquarter attitude is ethnocentric, showing culturally dominant behaviors (Almond et al., 2005; Birkinshaw & Ridderstrale, 1999). In short, in this paradigm, headquarters actors have,
and are advised to exert, power emanating from their setting of organizational rules and their control of financial resources and information (Faria, 2004; Turner, 2006).

In short, the organizational CSR properties emergent from Interfruco were:

- Primacy, if not exclusivity, of financial criteria for decision-making and performance evaluation.
- Increasing orientation to centralized management, according to the “myth” of the multinational company in the supply chain management school.

8.2.4.- CSA Causal Configurations.

Up to this point I have proposed a number of factors, or CSR emergent properties, that likely condition, but do not determine, Mexfruco’s CSA. In this section I discuss how those properties interact with one another to form causal configurations which explain the actions that Mexfruco executed with respect to specific groups of stakeholders. The focus is on Mexfruco’s primary stakeholders: workers, customers, and growers.

At the end of the discussion of each causal path, I summarize that configuration in terms of Boolean algebra (Fiss, 2007), along the lines presented in the last part of chapter 5. At that point I proposed a general expression of the causal configuration of a firm’s CSA as follows:

\[(A_1 + \neg A_2 + B_1 + \neg B_2 + C_1 + \neg C_2 + D_1 + \neg D_2 + E_1 + \neg E_2 + F_1 + \neg F_2 + G_1 + \neg G_2) \cdot (H_1 + \neg H_2) \rightarrow \text{CSA}\]

where “H” represents the set of properties emergent from human agency, and “A” through “G” represent sets of properties emerging from the socio-cultural system, i.e. from the cultural/ideational system (A), the institutional and legal environment (B), systems of exchange (C), the level of socio-economic development (D), the firm’s task environment (E), patterns of stakeholder relationships (F), and the focal organization (G). In this expression, subindex “1” is used to define, within each set, the subset of properties that operates in favor of a certain form of
CSA, while subindex “2” is used to denote the subset of properties that operate against that certain form of CSA. The expression contains the operators “+” which denotes “or”, and “→” which denotes “implication”. For example, the expression “A + B → C” means that “A or B or both implicate C”. Other operators used in this expression are “•”, which denotes “and”, and “~”, which denotes the logical absence or “not”. Therefore, the above expression can be read as “one or more of the socio-cultural pro-CSR emergent properties or the absence of one or more of the properties against CSR and personal pro-CSR properties emergent from managers or the absence of personal properties against CSR condition the emergence of a given form of CSA”.

Let us now discuss the causal configurations of Mexfruco’s CSA, as it was oriented to its workers, customers, and suppliers, respectively. Figure No. 18 summarizes this information and exhibits the nomenclature of the sets of properties used in the Boolean expressions. Figure No. 18 does not include several of the socio-cultural and personal emergent properties previously identified (see Figures No. 14 and 16), fundamentally because I could not find a causal contribution between these omitted properties and the causal configurations of Mexfruco’s CSA oriented to workers, growers, and customers. They likely have causal effects on the configuration of CSA directed to other stakeholders, which are not discussed here.

Worker-oriented CSA. Research has shown that, in general terms, CSR in México tends to focus on employee development, community needs, and economic development (Agüero, 2005; Logsdon, Thomas, & Van Buren III, 2006). Michoacán is no exception and, particularly at Mexfruco, CSA programs oriented to meet employee needs received much attention. All worker-oriented programs followed the first longitudinal pattern identified in the previous chapter, i.e. they exhibited low levels of activity during the 1997-98 period, basically because Mexfruco had only five employees at the time. Later, these programs showed high levels of activity throughout the rest of first morphogenetic cycle of the company (up to early 2001).
### Cultural Properties (Set A)
- A1 Communitarian, within-group orientation
- A2 Paternalism
- A3 Nationalism/Regionalism
- A5 Moderation in profit-seeking
- A6 Newer patterns of self-interest and individualism

### Structural Properties (Sets B-F)
- **Legal and institutional properties (Set B)**
  - B1 Mexican labor, tax, and corporate law
  - B2 Relative “anomie” of Mexican legal system
  - B4 Food safety and related international protocols

- **Systems of exchange (Set C)**
  - C1 Associative exchanges preferred by customers
  - C2 Short-term market exchanges preferred by growers
  - C3 Monopolistic imperfections in local fruit markets
  - C5 Trend toward communal exchanges with workers

- **Socio-economic development (Set D)**
  - D1 A number of urgent social inequalities

- **Task environment (Set E)**
  - E1 Highly dynamic (turbulent) task environment
  - E2 Variably-munificent task environment

- **Established industry patterns of stakeholder relations (Set F)**
  - F1 Low power and appearance of illegitimacy before growers
  - F2 Law-compliant relations with packinghouse workers
  - F3 Market (stakeholder-agency) relations with harvesting workers
  - F4 Liability of foreignness for most international subsidiaries

### Mexfruco's Organizational Properties (Set G)
- G1 Internal ideational and structural commitments
- G2 External anchorages

### Founding Team Personal Properties (Set H)
- H1 Parent company CEO's CSR ideology
- H2 Founders' explicit orientation to CSR
- H3 Recent background in market-oriented corporate cultures
- H4 Operative networks of suppliers and customers
- H5 Technologizing and professional excellence values in subsidiary

### Mexfruco's Managerial Personal Properties (Set H, continued)
- H6 Ability and discretion to increase human (workers) capacity
- H7 Ability and discretion to elicit active stakeholder cooperation
- H8 Strong ties to the broader local community
- H9 Membership in the aguacatero community
- H10 Catholicism
- H11 Ability to influence headquarters' decisions
- H12 Managerial logics of professional excellence
- H13 Collective self-efficacy beliefs

### Interfruco's Personal and Organizational Properties (Set I)
- I6 Efficient financial management
- I7 Tendency to centralized management - Myth of the MNC
As it has been discussed, communitarian ideas of mutual assistance have emerged from the history of that region in Michoacán, based on the complementarity (at least on this matter) between pre-hispanic Purépecha traditions and Catholic influences. In a parallel development, paternalism has prevailed in many work relationships, and consequently, employers are expected to provide protection and support for the well-being of workers. These cultural properties have influenced the definition of a trend toward communal types of exchange (Biggart & Delbridge, 2004) between employees and employers, i.e. relations that are consistent with principle that work should not be an object of trade; and rationally based on communitarian or family-type values, but narrowly applied to company workers.

In addition, the large number of farm and packinghouse workers in the area, who earn insufficient income, have poor housing, receive limited education, or constitute atypical families (e.g. single mothers) appeal to the solidarity and responsibility of many managers (certainly, to Mexfruco managers). In this way, communitarianism, paternalism, communal systems of exchange, and the urge to alleviate a number of social inequalities are socio-cultural CSR emergent properties that stand in relations of concomitant complementarity with one another. They likely led Mexfruco towards value-based CSA in favor of the protection and development of its workers.

In this context, the Mexican Labor Law and its derived regulations set a number of obligations for employers in favor of workers’ well-being, e.g. remunerative salaries, training, job safety, social security (including medical care), retirement funds, etc. This code also stands in a relation of concomitant complementarity with the properties discussed in the previous two paragraphs: However, since it has the force of law, it establishes a minimum to comply with, which usually leads to isomorphic CSA. In fact, established labor relations in most
packinghouses reflected a rather standard law-compliant pattern. This pattern or “custom” constituted another social emergent property in concomitant complementarity.

There were, however, two properties which stand in a position of contradiction with all the above-discussed factors. On the one hand, the Mexican legal system suffers a relative state of “anomie” and it weakly enforces many of its laws. On the other hand, and partly as a consequence of such weakness, the industry had established a seemingly exploitative pattern of relations with picking crew workers. These two factors likely reduced workloads, costs, and risks for employers. Their position of contradiction with all other properties was contingent, i.e. although it was not necessary for employers to adopt this practice, it appeared as opportunistically advantageous to do so.

Under such context, the characteristics of Mexfruco managers came into play. Their ties to local communities, values of solidarity particularistically applied, orientation to CSR, Catholicism, and the initial support of Interfruco’s CEO represented properties which stood in relations of concomitant complementary with most of the previously discussed properties, but in contradiction with the practice of outsourcing harvesting activities. In addition, Mexfruco managers had and exercised the ability and discretion to implement worker-oriented CSA programs. Thus, their agency built on legal mandates but, under a value-oriented modality, it went beyond the minimum requested by law to establish ambitious programs for workers’ health and safety, training and education, housing, and salary increases above inflation and official minimum-salary mandates. Also in a value-oriented way, they decided to “correct” a practice that they saw as morally wrong and hired picking crews according to the pattern of stable employment that packinghouse workers enjoyed.

These actions took place during a period of time in which Mexfruco’s task environment was highly munificent. Since its startup and until mid-2000, Mexfruco was a profitable and
growing company that generated slack resources with which to support its worker-oriented programs. In addition, the subsidiary had a high level of autonomy.

In short, during its first morphogenetic cycle, Mexfruco’ worker-oriented CSA was conditioned by the following socio-cultural emergent properties:\(^{58}\):

- Cultural properties of communitarianism (A₁) and
- Paternalism (A₂)
- Legal labor standards (B₁)
- A trend to communal system of exchange (C₅)
- A number of evident social inequalities (D₁)
- A munificent task environment (E₂)
- Industry patterns of law-compliant employment in packinghouses (F₂)
- A weak labor law enforcement (B₂; if morally rejected = ~B₂)
- Industry practices on pickers employment (F₃; if morally rejected = ~F₃)
- Support of parent company CEO (H₁), and
- Subsidiary autonomy, i.e. absence of centralizing practices on the part of the parent company (~I₇),

which combined with managers who:

- as a necessary condition, had and exerted ability and discretion to implement worker-oriented programs (H₆) and, complementarily,
- were solidary with local groups (H₈)

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\(^{58}\) Following the nomenclature used in Figure No. 18, from now on “H” represents the set of properties emergent from human agency, and “A” through “G” represent sets of properties emerging from the socio-cultural system, i.e. from the cultural/ideational system (A), the institutional and legal environment (B), systems of exchange (C), the level of socio-economic development (D), the firm’s task environment (E), patterns of stakeholder relationships (F), Mexfruco (G), and its parent company (I). Subindexes only denote different subsets, not necessarily complementary or contradictory with one another.
• were CSR-oriented (H₂), and
• were somehow influenced by religious role expectations (H₁₀)

to cause a form of worker-oriented CSA which was isomorphic at its base but moderated by value-rationality towards higher standards, executed since the time the company had workers (June 1998) throughout the transition year of 2001 (CSA_{workers(t₁)}).

In Boolean terms, this configuration can be expressed as follows:

$$(A₁ + A₂ + B₁ + \sim B₂ + C₅ + D₁ + E₂ + F₂ + \sim F₃ + \sim I₇ + H₁ + H₂ + H₈ + H₁₀) \cdot H₆ \rightarrow CSA_{workers(t₁)}$$

None of these properties is sufficient by itself to produce the CSA outcome; rather, they combine to create it. While all these properties were present in the Mexfruco case, and stood in a situation of complementarity with one another, it is the presence of some, but not necessarily all of them which might be a necessary condition for the occurrence of CSA_{workers(t₁)}. In contrast, the exercise of managerial discretion (H₆) is, by itself, a necessary condition.

As explained above, as the first morphogenetic cycle advanced, Mexfruco established some internal ideational and structural commitments to worker-oriented CSA (G₁), like commissions, departments, value statements, etc., as well as some external anchorages (G₂), e.g. agreements with government agencies. These organizational emergent properties were neither necessary nor sufficient to initially produce CSA_{workers(t₁)}. However, they were necessary to provide the configuration with some degree of persistence. Thus, the more resilient causal configuration that was operating at Mexfruco towards the end of its first morphogenetic cycle can be expressed in the following way:

$$(A₁ + A₂ + B₁ + \sim B₂ + C₅ + D₁ + E₂ + F₂ + \sim F₃ + \sim I₇ + H₁ + H₂ + H₈ + H₁₀) \cdot H₁ \cdot (G₁ + G₂) \rightarrow CSA_{workers(t…)}$$
**Customer-oriented CSA.** Mexfruco’s customer-oriented CSA seems to have been conditioned by a number of global and organizational socio-cultural properties which were already transfactually operating, and influencing Interfruco CEO and Mexfruco founding managers, before the startup of the company. This explains why, in contrast to worker-oriented CSA, most tracks of customer-oriented CSA exhibit a sequence of continuous, high level of operation, since the company’s founding and throughout its first morphogenetic cycle (with no change at the time of leasing the packinghouse).

In the first place, Mexfruco started when its founders already had an operative network of international customers. The most salient of them had an orientation to transact according to associative systems of exchange (Biggart & Delbridge, 2004), either by virtue of their cultural origin (e.g. Japanese customers) and/or by their business needs of having consistent and continuous sources of fruit supplies (e.g. European customers). As discussed in chapter 3, associative exchanges are characterized by their instrumental rationality and particularistic relationships. The system involves voluntary arrangements for durable exchanges on the bases of mutual privileges and obligations. It is regulated by social ties and trust between the allied parties. The system often leads to strategic CSA, though frequently not orientated to the firm’s profit maximization but to the long term economic well-being of the members of the alliance. In addition, the system also motivates value-based and traditional forms of CSA.

Second, some properties of Mexfruco’s local cultural system were complementary to such preferences for associative exchanges. Notably, its within-group-oriented communitarianism and its relative moderation in profit-seeking. The ideal of building long-lasting relations with and to privilege particular groups (in this case, of customers) was not alien for Michoacán managers, even if it implied sacrificing some private earnings in the short term for the benefit of the group.
In addition, the professional background of the founding team had provided them with a strong orientation towards servicing customers. Interfruco CEO saw himself as a “marketer” and often declared that the company should be the “preferred supplier” of its customers (and idea that was later adopted in Mexfruco’s mission statement). Mexican founders were used to, and proud of, being the “ears and eyes” of their customers.

Fourth, Mexfruco’s customer-oriented CSA was also strongly conditioned by a set of institutionalized, customary standards of food safety and quality that were initially established in Europe in the late 1980s. Interfruco CEO and Mexfruco managers knew about them, and learned to operate them, several years before starting up the subsidiary. However, formalized food safety programs only appeared at Mexfruco after 1998; this is the only track of customer-oriented CSA showing a transition after the first two years of the cycle. It seems clear that food safety, as a structural (institutionalized) emergent property, had transfactually being influencing Mexfruco founding team for some time (at least five years) before they founded the company. Yet, it was only until the company directly operated a packinghouse which Mexfruco had available positions to take this property into practice (i.e. into the empirical domain).

In the fifth place, the dynamism (turbulence) of the task environment constituted a structural property which demanded some strategic responses from the company. The adoption and mastering of food safety and quality systems represented, for Mexfruco, a strategic opportunity to differentiate from competitors, given that no competitor was implementing such systems at the time. In an industry of generic, commoditized products, obtaining food safety and quality recognition and certification importantly contributed to building trust with and locking-in customers, while achieving some stability. Thus, this strategic opportunity stood in a position of contingent complementary with the task environment, at least for the first several years. Afterwards, as competitors also implemented this type of programs and its application became
closer to being a standard norm of operation in several markets, the complementarity became concomitant (necessary) instead of contingent, and food safety and quality systems became more an isomorphic than a strategic form of CSA.

Sixth, although Mexfruco’s customer-oriented CSA programs were largely conditioned by global socio-cultural CSR properties, it is interesting to point out that it was the subsidiary which actually defined and operated these programs. This is clearly a consequence of the initial structure of the dyad, in which the subsidiary was highly autonomous and influential, and its managers had significant discretion. It is also a consequence of the technical expertise of Mexfruco founders, which gave them the ability to implement such actions. Furthermore, implementing sophisticated food safety and quality systems was a very challenging task at the time Mexfruco began to do it. Without doubt, the technologizing and professional excellence values which Mexfruco managers held, as well as their collective self-efficacy beliefs, significantly contributed to the actual exercise of managerial discretion and to a successful implementation of such systems.

Finally, as was the case for worker-oriented CSA, Mexfruco established some internal ideational and structural commitments supporting its customer-oriented CSA (a Department of Quality Control, a Food Safety Committee, extensive training, etc.). It also built some external anchorages to its programs, via third-party certifications. These properties added a component of persistence to those actions.

In short, during its first morphogenetic cycle, Mexfruco’ customer-oriented CSA was conditioned by the following socio-cultural emergent properties:\n
\footnote{Just to remember the nomenclature in use, “H” represents the set of properties emergent from human agency, and “A” through “G” represent sets of properties emerging from the socio-cultural system, i.e. from the cultural/ideational system (A), the institutional and legal environment (B), systems of exchange (C), the level of socio-economic development (D), the firm’s task environment (E), patterns of stakeholder relationships (F),}
• Ideational within-group communitarianism (A₁)
• Ideational profit-seeking moderation (A₅)
• Institutionalized quality and food safety requirements in leading markets (B₄)
• Preference of customers for associative systems of exchange (C₁)
• A dynamic, increasingly turbulent environment (E₁)
• A strategy of differentiation (G₃)
• Subsidiary autonomy; i.e. absence of centralizing management by Interfruco (~I₇)

which combined with subsidiary managers who:

• as a necessary condition, had and exercised ability and discretion to elicit customers’ cooperation (H₇) and, in addition
• were positioned in operative networks of customers (H₄)
• were oriented to servicing customers (H₃)
• were oriented to CSR (H₂)
• had ability to influence headquarters decisions (H₁₁)
• held technologizing and professional excellence values (H₅), and
• believed in collective self-efficacy (H₁₃)

caused a form of customer-oriented CSA which was primarily strategic, though moderated by value-rationality and isomorphism; executed since the company’s startup (July 1997) till the transition year of 2001 (CSAcustomers(t₁)); and which gained persistence as the company built:

• Internal ideational and structural commitments (G₁) and
• External anchorages (G₂).

Mexfruco’s organizational properties (G), and its parent company’s (I). Subindexes only denote different subsets, not necessarily complementary or contradictory with one another.
In Boolean terms, this configuration can be represented as follows:

\[(A_1 + A_5 + B_4 + C_1 + E_1 + G_3 + \neg I_7 + H_2 + H_3 + H_4 + H_5 + H_{11} + H_{13}) \cdot H_7 \cdot (G_1 + G_2) \rightarrow \text{CSA}_{\text{customers}(t...)}\]

Similar to the configuration of worker-oriented CSA, none of these properties is sufficient by itself to produce the CSA outcome; rather, they combine to create it. All of them were present in the Mexfruco case, although it is the presence of only some of them which might be necessary for the occurrence of \(\text{CSA}_{\text{customers}(t1)}\). In contrast, the exercise of managerial discretion (H7) is, by itself, a necessary condition. Properties G1 and G2 are necessary only for the configuration to gain some resilience (\(\text{CSA}_{\text{customers}(t...)}\)).

**Grower-oriented CSA.** The relationships of Mexfruco with its fruit suppliers were full of contingent and constraining contradictions. For a long time in the Michoacán avocado industry, transactions between growers and packers have been short-termed, instrumentally rational, and universalistic. In general terms, any grower is willing to deal with any packer at any time, as far as the grower perceives that price and payment terms are appropriate. These conditions closely resemble a price system of exchange (Biggart & Delbridge, 2004), or a typical market. Under these conditions, satisfying growers involves offering “competitive” prices (i.e. as high as possible) and paying them very shortly (e.g. within one week after harvest). This system of exchange has been likely supported by the cultural change that has taken place in the Michoacán society after the “agricultural” revolution, i.e. the adoption of a capitalist mindset on the part of growers, with its accompanying properties of individualism and profit-maximization.

In this context, satisfying growers could be achieved, fundamentally, by following the rules of price and payment terms. The invisible hand of the market would operate, everybody would benefit, and there would be no major need of corporate social actions. In fact, Mexfruco
was able to respond to this situation and be competitive, by virtue of Interfruco’s financial resources, safeguarded by the parent company’s efficient financial management.

However, things were not that simple. Based on a generalized, long assumed, and often true “myth” that farmers are exploited by middlemen, packers’ claims have often appeared to growers as illegitimate. Thus, to counteract the packers’ “power”, and building on the belief in within-group communitarianism typical of their society, growers felt the urge to organize themselves to push for higher prices. They institutionalized a market governance mechanism based on collusion (i.e. a quasi-cartel), which created market imperfections. As a consequence, growers situated themselves in stronger positions of bargaining power than packers. This situation put packers at a disadvantage and created the need of exercising strategic CSA in order to contain, and if possible correct, such market imperfections.

From the perspective of packers, the dynamism (turbulence) of the task environment aggravated their position of dependence with respect to growers. In years when crops were short, or in periods of low volume within a season, growers behaved much more aggressively in search of high prices.

Foreign-owned subsidiaries were considered by growers to be even more illegitimate than local packers. They faced a strong “liability of foreignness” because growers were suspicious of their interests and intentions. Without doubt, the ideational property of nationalism and regionalism that exists in Michoacán’s cultural system was an underlying support of these growers’ perceptions. As already explained, foreign-owned subsidiaries largely overcame this liability by paying higher prices at shorter terms. However, since such liability was inscribed within the broader conflict between growers and packers, the constraining contradiction between the subsidiaries’ foreignness and their “purchased” legitimacy was only contained but not resolved.
Mexfruco managers had some personal emergent properties on which to build to counteract such state of affairs, which no other foreign subsidiary possessed. They had strong ties to the local community and, more particularly, several of them belonged to and had voice in the *aguacatero* community. In addition, they were backed by their experience and reputation for technical expertise. Generally speaking, when competing against other foreign-owned subsidiaries, Mexfruco could claim to be “a local”. When competing against local packers, Mexfruco could claim to have the financial strength and marketing expertise of foreigners. In consequence, growers often granted it their preference (naturally, if prices were at the same level). These personal properties were in a situation of contingent complementarity with growers’ interests and provided Mexfruco with a level of negotiating strength higher than most competitors, but still within the general price exchange system, its imperfections, and its corresponding power unbalance.

Under these conditions, Mexfruco kept its growers satisfied by paying high prices in a quick fashion. In addition, in order to contain the ideational and material contradictions that characterized their relationship, Mexfruco managers were constantly negotiating with growers; explaining market trends, hoping that they would make informed decisions; voicing the message that there were not and there should not be conflicts of interests with growers with respect to prices; showing support for their broader political and economic interests (like helping them to set up Amimex, their own and eventually failed exporting firm); making growers feel comfortable with the service of the company (quick payments, polite and considerate treatment when they showed up at Mexfruco’s offices, visits to their orchards, birthday calls, etc.); etc. This was the type of instrumental CSA that Mexfruco practiced to satisfy growers, gain their trust, and contain their higher bargaining power.
Summarizing this discussion, it can be said that Mexfruco’s grower-oriented CSA was conditioned by the following socio-cultural emergent properties:

- An emerging, ideational trend among growers towards individualism and profit-maximization beliefs ($A_6$)
- Nationalism and regionalism ($A_3$)
- A price (market) system of exchange, with short-term transactions ($C_2$)
- Monopolistic imperfections in local fruit markets ($C_3$)
- A dynamic (turbulent) task environment ($E_1$)
- Packers’ low power and appearance of illegitimacy in front of growers ($F_1$)
- Liability of foreignness for most subsidiaries ($F_4$); no liability in the case of Mexfruco ($\neg F_4$)
- Interfruco’s financial resources ($I_6$)

which combined with subsidiary managers who:

- as a necessary condition, had and exercised ability and discretion to elicit growers’ cooperation ($H_7$) and, in addition
- had strong ties to local community ($H_8$), and
- were members of the *aguacatero* community ($H_9$)

...to cause a form of grower-oriented instrumental type of CSA ($CSA_{\text{growers1(t1)}}$) primarily aimed at containing growers’ dominance.

In Boolean terms, this configuration can be expressed as follows:

\[(A_3 + A_6 + C_2 + C_3 + E_1 + F_1 + \neg F_4 + I_6 + I_7 + H_8 + H_9) \cdot H_7 \rightarrow CSA_{\text{growers1(t1)}}\]
Nevertheless, even if successful at containing grower power, another strong constraining contradiction existed between the growers’ system of exchange, based on stakeholder-agency transactions (Hill & Jones, 1992) and worsened by its monopolistic imperfections, and the associative system of exchange which Mexfruco’s customers preferred, based on stewardship relations (Davis et al., 1997). This contradiction had ideational and material components which entailed economic and social risks for Mexfruco. Importers usually committed with their customers to supply programs for at least one week, and often for several weeks, at certain prices. Thus, importers had to make pricing and volume decisions four or five weeks before receiving any fruit. In consequence, importers requested a similar, back-up commitment from Interfruco/Mexfruco. In this way, Mexfruco usually closed its sales at firm prices at least one week, and often for several weeks, in advance of shipping. But Mexfruco did not and could not know at what prices it was going to buy fruit next day, much less next week; or whether growers would decrease harvesting rates. By the same token, importers and their customers requested detailed, traceable information on fruit farming practices, pesticide use, etc. Mexfruco usually had this information from its main suppliers, but there was no way of knowing when those suppliers were going to be willing to harvest, or from exactly whom it would buy fruit next day or next week.

Containing and eventually correcting this contradiction represented a challenge for the subsidiary, as well as for all packer-exporters in general. This situation motivated Mexfruco to attempt some strategic forms of CSA, specifically trying to engage growers in order to change the system of exchange. The strategy also attempted to lead growers towards more sustainable and higher yielding farming practices.

For this purpose, Mexfruco tried to recover cultural ideals of communitarianism; it also continued building on regionalistic beliefs and the company’s lack of liability of foreignness. It
attempted to display an associative system of exchange\(^6\) with at least a few growers, who had agreed not to follow the lead of the growers’ cartel. Consistent with this approach, Mexfruco assumed some internal structural commitments like the creation of the Department of Grower Relations, and it was in the process of establishing external anchorages like its Growers’ Club. Although the subsidiary had autonomy and its managers had discretion to select and enact such course of action, it was not clear whether they had the necessary ability to do so. In any event, these properties shaped a form of grower-oriented strategic CSA (\(CSA_{\text{growers2(t1)}}\)) different from the aforementioned Mexfruco’s actions aimed at containing growers dominance (\(CSA_{\text{growers1(t1)}}\)).

In short, Mexfruco started an attempt to change the causal configuration of its grower-oriented CSA on the bases of the following socio-cultural properties:

- Nationalism and regionalism (A\(_3\))
- Recovered communitarian ideals (A\(_1\))
- An associative system of exchange (C\(_1\)), seeking the …
- Gradual substitution of the prevalent price (market) system of exchange (\(~C_2\))
- A dynamic (turbulent) task environment (E\(_1\))
- By-passing cartel-like mechanisms on the part of growers (\(~C_3\))
- Lack of liability of foreignness for Mexfruco (\(~F_4\))
- Internal ideational and structural commitments (G\(_1\))
- External anchorages (G\(_2\))

which combined with subsidiary managers who:

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\(^6\) An associative system of exchange is based on instrumental (although not necessarily maximizing) rationality, and on particularistic relationships. It involves voluntary arrangements for durable exchanges, i.e. it implies a long term perspective. The system is regulated by social ties. Its logic emphasizes mutual support and gain, loyalty and reciprocity with respect to a close circle of stakeholders (Biggart & Delbridge, 2004). See section 3.3.2, in chapter 3.
as a necessary condition, needed ability and exercised discretion to elicit growers’ cooperation (H₇) and, in addition

- had strong ties to local community (H₈), and

- were members of the *aguacatero* community (H₉)

to cause a different form of grower-oriented strategic type of CSA (*CSA*<sub>growers2(t₁)</sub>) primarily aimed at engaging growers and leading them into sustainable farming practices.

In Boolean terms, this configuration can be expressed as follows:

\[(A₁ + A₃ + C₁ + \sim C₂ + \sim C₃ + E₁ + \sim F₄ + G₁ + G₂ + H₈ + H₉) \cdot H₇ \rightarrow CSA_{growers2(t₁)}\]

In the precedent discussion I have provided a series of causal paths that explain why Mexfruco’s CSA turned out to be as it was. Let us now focus on the outcomes that such CSA produced.

8.2.5.- Socio-Cultural Elaboration and Mexfruco’s CSP Profile.

The third phase of the morphogenetic cycle, namely socio-cultural elaboration, represents the outcome of the interplay between structural emergent properties, cultural emergent properties, and personal (managerial) emergent properties (Archer, 1995). In the context of this dissertation, socio-cultural elaboration refers to the changes (morphogenesis) or reproduction (morphostasis) which took place in Mexfruco’s relations with its stakeholders, during its first morphogenetic cycle, as a result of the company’s CSA. Whereas in the previous section I explained the causal configurations that likely produced Mexfruco’s CSA, in this section I discuss the consequences or outcomes of such CSA.

As discussed in chapter 5, the desirable outcome of appropriate CSA, that is, CSA which is congruent with the situational logic posited by the emergent CSR properties which pre-date...
and condition such CSA, is the creation and/or improvement of intangible “assets” for the firm (Gardberg & Fombrun, 2006; Wood, 1991), i.e. new or strengthened emergent properties in the real domain. In this section I explain the emergence of intangible assets such as reputation and other forms of legitimacy. The upcoming discussion is consistent with section 5.1.3 (chapter 5), in which I argued that CSP is the measure of a firm’s legitimacy, analyzed the different types of legitimacy, and proposed that CSP can be best represented as a profile along the several types of legitimacy.

In section 5.2.2 (chapter 5), I argued that legitimacy is built, maintained, or repaired through elaboration of stakeholders’ judgments of fairness and, when such judgments are not readily available, through elaboration of attributions (Brockner, 2002; Elsbach, 2001; Lind, 2001; Jost & Major, 2001, among others). Such elaboration involves time and evaluative learning (Rosanas, 2008), which develops trust. Hence, from this perspective, trust seems to be the immediate antecedent of legitimacy (Kumar & Das, 2007). However, I cannot use this causal path to explain Mexfruco’s CSP because I had no possibility of accessing but a few of the company’s external stakeholders (two international customers), and only for a single interview. Thus, I could assess neither their perceptions of fairness across time nor their attributions with respect to their interactions with Mexfruco. I only could indirectly assess fairness perceptions of a few internal stakeholders through interviews and textual analysis of some archival data.

Consequently, in this section I base my arguments on the notion that legitimacy (and hence, CSP) is increased or maintained by accumulating social capital (Carlisle & Flynn, 2005; Habish, 2004). This notion has been used to analyze the corporate social dimension of small and medium-sized enterprises (SMEs) such as Mexfruco, under the argument that they are not just scaled down versions of large firms, but distinctive organizations built on personal relationships (Habish, 2004; Spence & Schmidpeter, 2003; Spence, Schmidpeter, & Habish, 2003). This more
sociological approach is consistent with my earlier, more psychological argument on fairness perceptions and attributions inasmuch as both importantly focus on the creation of trust.

In addition, I extend the notion of social capital as constituent of legitimacy by arguing that the accumulation of other types of intangible capital, i.e. cultural capital (Bourdieu, 1979, 1994) and moral capital (Brytting, 2002; Sison, 2003), also builds legitimacy, on the basis of Bourdieu’s (1986) contention that the different forms of capital are convertible between one another through symbolic exchange. I briefly discuss these forms of capital in the following paragraphs, before explaining the processes of socio-cultural elaboration in Mexfruco’s first morphogenetic cycle.

Social, cultural, and moral capital. According to Bourdieu (1986, 1994), there are three fundamental forms of capital, namely economic, social, and cultural. Among other sociologists, Bourdieu (1980, 1986) advanced the concept of social capital to refer to networks of social connections and mutual obligations. It is a concept that has received increasing attention in the social sciences during the last 15 years, after Putnam (1993) applied it to his famous study on civic cooperation. For Bourdieu (1980), social capital comprises both the network and the resources that may be mobilized through that network. It can be appropriated by individuals or be a public good, but more likely, it is “collectivity-owned” (1986: 249), i.e. it is a property of the relationship, not of the actors. Social capital is a distinctive type of resource “whose supply increases rather than decreases through use and which become depleted if not used” (Putnam, 1993: 169; italics in the original). Thus, social capital is created or destroyed by virtuous or vicious circles, respectively.

Analyses of social capital often make a distinction between inward looking networks that tend to reinforce exclusive identities and homogeneous groups, i.e. bonding social capital; and open networks that are outward looking and encompass people across diverse social groups, i.e.
bridging social capital (Putnam, 2000; Patulny & Svendsen, 2007). However, Putnam explains that most collectivities simultaneously have bonding relations with some groups and bridging relations with other groups. Both types of social capital have positive and negative aspects: While bonding capital tends to be less instrumental (more solidary and socially supportive), it is more likely to produce negative externalities (e.g. it may create strong out-group antagonism). On the other hand, bridging capital has higher potential to produce positive externalities (e.g. creation of more diverse, broader identities), but it might be exploited in an instrumental way unless the actors adopt a virtuous approach (Fukuyama, 1995).

Many authors have brought the concept of social capital into the management literature (e.g. Adler & Kwon, 2002; Leana & Van Buren III, 1999; Nahapiet & Ghoshal, 1998). In this context, Nahapiet & Ghoshal define it as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit” (1998: 243). Adler & Kwon add that social capital’s source “lies in the structure and content of the actor’s social relations. Its effects flow from information, influence, and solidarity it makes available to the actor” (2002: 23).

Nahapiet & Ghoshal (1998) propose that organizational social capital has three dimensions: structural, relational, and cognitive. The structural dimension refers to overall patterns of connections between actors and impersonal configurations of linkages between people or units. The relational dimension is closer to both Bourdieu’s (1980) and Putnam’s (1993) earlier formulations; it refers to the trust, identification, norms of reciprocity, and mutual obligations that characterize personal relationships emergent from a history of interactions. Specifically, some social scientists (e.g. Fukuyama, 1995) consider trust to be the fundamental component of social capital. On their side, Leana & Van Buren III add, to trust, associability as a basic component of the relational dimension. They define associability as “the willingness and ability of participants
in an organization to subordinate individual goals and associate actions to collective goals and actions” (1999: 541).

For Nahapiet & Ghoshal, the cognitive dimension consists of resources providing shared representations, interpretations, and systems of meaning. Examples of such resources are the perceptions about which a firm’s reputation relevant stakeholders have, or the sense of mutual value which cooperation arises in the participants of a cooperative endeavor (Putnam, 1993).

On its side, cultural capital is, for Bourdieu (1986, 1994), the set of knowledge, skills, and similar enabling dispositions which are externalized through action. It equips those who possess it with a responsive kind of understanding of events and environments built on diverse forms of knowledge. It can be appropriated by individuals or collectivities. Bourdieu (1979) classifies cultural capital in three forms: institutionalized, objectified, and embodied.

Institutionalized cultural capital offers its holders a certification of cultural competence; educational degrees are the typical Bourdieu’s example. Burton, Kuczera, & Schwarz (2008) consider that contemporary third-party certifications such as ISO-9000 also constitute an institutionalized form of cultural capital. Objectified cultural capital refers to diverse forms of knowledge incorporated in material goods, like books or manuals. Machinery or products which manifest technology also represent forms of objectified cultural capital.

Embodied cultural capital is constituted by long-lasting dispositions of the mind or body whose accumulation involves the work of self-improvement and assimilation. It contributes to forming the actor and cannot be transmitted instantaneously. This notion closely resembles the concept of tacit knowledge (Nonaka & Takeuchi, 1995). For instance, organizational routines (Nelson & Winter, 1982) represent a form of collectively embodied cultural capital. Burton et al. (2008) argue that displaying embodied cultural capital requires that performance be
distinguishable between good and poor, the displayed skills should be manifest in the outcome of
the activity, and these signs of skill must somehow be accessible to others.

According to Bourdieu (1986, 1994), the different forms of capital are convertible
between one another, through symbolic exchange. He argues that all forms of capital can function
as symbolic capital, a condition whereby those with a particular identity, i.e. with similar
categories of perception and appreciation, are able to recognize shared symbolic significance. In
this sense, Nahapiet & Ghoshal’s (1998) cognitive dimension of social capital (shared
representations and meanings) seems to have a symbolic function that facilitates exchanges
between social capital and other types of capital. Similarly, displayed cultural capital which can
be recognized by others may be transformed, through symbolic exchange, in social capital, for
instance in the form of enhanced status or reputation (Burton et al., 2008).

Moral capital has been defined as “the possession and practice of a host of virtues
appropriate for a human being within a particular sociocultural context” (Sison, 2003: 31).
According to Sison, such a host of virtues, or embodied values, is known as character in
individuals and culture in organizations. Consistent with this view, Brytting (2002) suggests that
moral capital is the set of resources by which an agent is capable of understanding itself as a
responsible subject connected to the welfare of others, and of choosing its actions in a non-trivial
way, since they confront the agent with significant and meaningful claims stemming from outside
itself.

Moral capital does not necessarily constitute a different form of capital. It can be
conceptualized of as a distinctive combination of Bourdieu’s social and cultural capitals, but
which, in Sison’s words, can only be used for the good and not for the bad. In a sense, moral
capital is an encapsulated or constrained version of other forms of capital. It can be accumulated
by persons or organizations through proper investments of time, effort, and other resources.
Moral capital can also be transmitted through symbolic exchange. For instance, Pastoriza, Ariño, & Ricart (2008) argue that a virtuous manager, motivated by transcendent motives (i.e. a manager with moral capital), can create organizational social capital. Such a manager, by acting exemplarily and showing his/her employees the value of responsibility, is likely perceived as someone with serious concern for the well-being of his/her employees. Employees learn from this symbolic exchange, and the consequent evaluative learning (Rosanas, 2008) constitutes trust and associability, the main components of organizational social capital.

After this brief digression to review the concepts of social, cultural, and moral capital, let us focus on explaining the processes of socio-cultural elaboration during Mexfruco’s first morphogenetic cycle.

**Socio-cultural elaboration.** According to morphogenetic theory, there are three sources of socio-cultural elaboration: the confluence of desires and interests, power-induced compliance, and reciprocal exchange (Archer, 1995: 296). All of them took place during the first morphogenetic cycle of Mexfruco (from the company’s startup in 1997 thru early 2001), although to various degrees and with different stakeholder groups. There were confluence of desires and interests with customers and, to a large extent, with workers too. A situation of predominantly reciprocal exchanges existed with growers. Each situation led to different types levels of legitimacy. Let us discuss each of them.

**Customer-based CSP.** Mexfruco’s CSA initiatives largely represented a “confluence of desires and interests” with its international customers during the company’s first cycle. Mexfruco conducted its relationships with them in a way in which moral or social issues were jointly addressed, i.e. second-order relations between the company’s ideas and interests and those of its customers were concomitant (necessary) complementarities. To begin with, when Mexfruco started up there were already some established relations between several international customers
and Interfruco’s CEO, Mexfruco’s Managing Director, or both. Thus, there was an initial stock of social capital on which to build future relationships.

The cultural and personal antecedents of Mexfruco managers facilitated their understanding of associative systems of exchange (Biggart & Delbridge, 2004), like those proposed by their most important customers. In addition, the autonomy that, although decreasing, Mexfruco enjoyed during this fist cycle, and the role that it played in servicing customers provided the positions for the development of close customer relations along the stewardship model (Davis et al., 1997), i.e. based on a logic of cooperation, long-term vision, and common interests in having consistent and reliable products. As interactions accumulated through constant communication and mutual visits, the identification between the parties increased. In addition, Interfruco/Mexfruco had no problems with these customers with respect to payments, unfounded claims, etc., while the customers had no problems with on-time deliveries, appropriate communication, and consistent quality, i.e. both parties complied with their mutual obligations. In other words, their relational social capital (Nahapiet & Ghoshal, 1998) gradually increased.

Mexfruco’s implementation of quality and food safety protocols represented the creation of cultural capital, and later its transformation to social capital. Mexfruco first acquired embodied cultural capital (Bourdieu, 1979), i.e. it learned the relevant protocols and how to implement them. This step involved significant investments in training, packinghouse upgrading, and equipment (i.e. economic capital was transformed into cultural capital). Quality knowledge largely remained as embodied cultural capital because it had a large tacit component: Technicians had to make continuous judgmental decisions on fruit quality and postharvest treatments on the bases of the appearance and degree of maturity of the fruit that they were receiving every day (for example, some of those decisions involved setting the appropriate temperatures to store the fruit,
adjusting standards to apply to certain orders, defining customers to serve with each of the lots arriving from the field, etc.).

However, some of the knowledge on quality management (fruit quality standards, as well as guidelines for decision-making on quality), and most of that on food safety was successfully codified in manuals and applied in documented routine procedures (e.g. checklists for sanitization tasks), i.e. it was objectified. Moreover, as the company achieved certifications for these programs, a component of institutionalized cultural capital was added.

Consistent with Burton et al. (2008), as Mexfruco displayed its cultural capital, it became manifest in the consistent quality of the products and added services (i.e. timely arrivals, efficient information, proper documentation of shipments, etc.), the success of external audits, and the various third-party certifications. In addition, customers were able to recognize it, i.e. they had the necessary categories of perception and appreciation (Bourdieu, 1986) to value Mexfruco’s cultural capital. In this way, Mexfruco gained symbolic capital, which its customers exchanged for social capital in the form of increased trust and reputation.

Under these circumstances, Mexfruco and its main customers accumulated significant stocks of bridging social capital, in its relational and cognitive dimensions. As of late 1999, two Japanese customers, one French importer, and one British customer were buying Mexican avocados exclusively from Mexfruco, which offers an evidence of the level of trust and closeness that these relationships had reached. Consistent with Archer (1995), in such confluence of interests and desires, the parties mutually acknowledged their legitimacy. Mexfruco customers were satisfied, the company had built reputation, and it was in compliance with the customary norms ruling international food trade. In short, with respect to its international customers, Mexfruco’s CSA had been congruent with the situational logic posited by the emergent CSR
properties which pre-dated and conditioned such CSA. Consequently, the firm obtained pragmatic and cognitive legitimacy.

There were some additional outcomes of Mexfruco’s customer-oriented programs, some of which were close in nature to public goods. First, the company gained reputation at the local level, among growers and competitor packer-exporters: “[Mexfruco] was admired because it was the first company exporting from México to Japan on a year-round basis and consolidated a position of leadership in that market… It was the largest exporter to the U.S. during the first season… It pioneered exports to Hong Kong and Argentina…” (J. Sánchez, interview, June 11, 2005). This had a signaling effect on competitors, as several of them began to implement food safety and quality systems, as well as to seek opportunities in Japan on a year-round basis (J. López, interview, January 2, 2006).

Second, the Mexican government launched in 1999 a program for quality certification of fresh fruit exports. The avocado industry was chosen for the pilot program. Mexfruco’s quality standards were the bases for the corresponding certification protocol. In fact, Mexfruco technicians wrote the drafts of such protocol and contributed to drafting a similar standard for mangos. Early interpretations of these actions considered them to have been designed by local elites with the purpose of excluding small growers or packers from international markets (e.g. Stanford, 2002b). However, those standards were later adopted by the entire avocado industry, including its many small growers and packers. Eventually, this initiative was the foundation for a larger program known as “Mexico Supreme Quality”, nowadays a cornerstone of the government’s promotional actions aimed at increasing agricultural exports.

To a limited extent, the previous two outcomes represented a transmission of Mexfruco’s cultural and social capital from the private to the public sphere, at the industry level. The company received, in exchange, relational and cognitive social capital (Nahapiet & Ghoshal,
1998) and, consequently, pragmatic (i.e. dispositional or reputational) and cognitive legitimacy in its industry. At the same time, by spreading quality standards, they seem to have worked against the bases of Mexfruco’s differentiation strategy.

Third, as a result of food safety training, workers adopted, at their homes, many of the hygiene practices they were used to follow at work. The manager of Human Development routinely visited workers’ families; in this process she discovered that “their culture has changed; now they do [hygiene routines] even at home” (V. Gutiérrez, interview, June 13, 2005).

**Worker-based CSP.** Mexfruco’s worker-oriented CSA also represented, for the most part, a “confluence of desires and interests” with its employees. In fact, the company’s actions were largely compatible with the social trend towards communal types of exchange (Biggart & Delbridge, 2004) and workers’ expectations of within-firm solidarity and care, as reflected by the results of the survey conducted by the Department of Human Development on June 30, 1999, which showed that 98% of the workers were satisfied with their jobs and 83% considered the working environment to be good.

To begin with, Mexfruco maintained job positions for almost all the employees that used to work for the company that was running the packinghouse before Mexfruco leased it (M. Martínez, interview, December 21, 2005). This created an initial stock of structural social capital (Nahapiet & Ghoshal, 1998). As Mexfruco took over, workers learned that the company was trustworthy at least with respect to their legal rights. This evaluative learning set a basis for trust building. In a straightforward argument, strict compliance with Labor Law and related regulations gained cognitive legitimacy for Mexfruco on the part of its workers and the corresponding authorities.

In addition, CSA in the form of literacy campaigns, adult education, housing, in-plant medical care, and family training was fundamentally founded on moral values of solidarity with
local, less-favored groups. In other words, Mexfruco went beyond and above Labor Law by investing moral capital. Moreover, although partly motivated by strategic goals, the company’s decision to internalize harvesting operations by directly hiring picking crews was also, and to a large extent, motivated by moral considerations (J. López, interview, January 2, 2006). In Bourdieu’s terms, packinghouse and harvesting workers were able, to a higher or lower extent, to recognize these signals and to grant, in exchange, moral capital (loyalty) and relational social capital (trust). Thus, Mexfruco gained moral and pragmatic (influence) legitimacy.

In particular, the program on workers health and safety required the investment of economic capital to upgrade the packinghouse and to train workers. This led to the accumulation of objectified and embodied cultural capital, respectively. Obtaining the “Empresa Segura” certificate added an institutionalized component to such cultural capital. However, health and safety are considered to be hygiene factors in the workplace (Herzberg, Mausner, & Snyderman, 1959). Consequently, it is likely that workers had considered these actions as something that had just to be done, i.e. their categories of perception and appreciation were conducive to acknowledge some symbolic value in these actions for which they granted, in exchange, cognitive legitimacy.

In this way, throughout Mexfruco’s first morphogenetic cycle, the company and its workers accumulated social capital, mostly of the inward-looking, bonding type (Putnam, 2000), which was manifest in the workers’ high job satisfaction. There was also an accumulation of moral and cultural capital. As Archer (1995) points out, this confluence of interests and desires led the parties to mutually acknowledge their legitimacy. Mexfruco workers were satisfied, while the company was compliant with legal norms and its moral interests. In short, with respect to workers, Mexfruco had obtained legitimacy of the pragmatic (mainly influence), cognitive, and moral types.
Grower-based CSP. Mexfruco’s relationships with growers were close to Archer’s (1995) situation of reciprocal exchange. They started within the established industry pattern of adversarial firm-grower relations by which necessary (or constraining) contradictions existed. Moreover, Mexfruco represented one more foreign-owned company in the industry, and thus, it was seen with suspicion by nationalist/regionalist locals. Therefore, to a certain extent, Mexfruco held a deficit of legitimacy by virtue of its newness (Stinchcombe, 1965), its foreignness (Zaheer, 1995), and its condition as a packer. However, Mexfruco’s management team was neither new to the industry nor foreign. To some extent, such deficit of legitimacy was compensated by the existing social capital of Mexfruco managers as aguacateros and avocado experts.

As Archer (1996) predicts for situations of reciprocal exchange in which there are some initial constraining contradictions, Mexfruco directed its CSA to finding a pragmatic way to position itself in the local environment, i.e. to live with the contradictions without necessarily finding resolutions to them. On the one hand, Mexfruco “purchased” cultural and relational social capital by hiring three fieldmen who had extensive business networks with growers; in addition to being well-known by farmers; these fieldmen were knowledgeable of the area (location of orchards, microclimates, harvesting season in different micro-regions, etc.). On the other hand, Mexfruco purchased pragmatic legitimacy by offering high prices to growers and paying quickly, leaving issues of cognitive and/or moral legitimacy unresolved.

Customary quick payment of usually competitive prices, negotiated with experienced fieldmen, supported by the financial strength of Interfruco, and backed by the local identity of the subsidiary managers, were complementary factors easily interpreted by the growers’ categories of perception and appreciation. Under symbolic exchange (Bourdieu, 1986), Mexfruco transformed its economic and cultural capital in instrumental bridging social capital with growers. In fact, after several months of operation, “growers’ comments about the company were very
satisfactory” (H. Torres, interview, December 24, 2005). The company had gained pragmatic legitimacy and was able, to some extent, to contain the growers’ higher bargaining power.

However, as Archer points out, without resolving the contradictions, the configuration of firm-grower relations remained fragile. In fact, an overwhelming majority of transactions with growers lasted for only one, or at the most, a few weeks. Furthermore, besides the unbalance of power against packers and the short-term modality of transactions, Mexfruco had some other contradictions in their relations with growers. On the one hand, the system of fruit exchange constituted a threat for Mexfruco’s and its customers’ interests in international markets. On the other hand, the company considered the cartel-like organization of growers as illegal, immoral, unnecessary, and economically damaging.

By creating its “Harvest Management” program, its “Growers’ Club”, and its Department of Grower Relations, Mexfruco mobilized its social and cultural capital trying to change the characteristics of its relationships with at least some growers. In exchange, Mexfruco claimed that growers would receive higher average prices and, with better technology, their operations would become sustainable and more productive. In other words, the company attempted to change part of both its cultural capital and its bridging instrumental social capital for a different, more bonding type of social capital with growers. In return, the company promised them economic capital and cultural capital.

Yet, just few growers had the categories of perception and appreciation to interpret this move. As of December 2000, there were only three individual growers and one collective grower (a group of nine small growers) participating in Mexfruco’s initiatives. Their orchards represented 476 hectares, which had the potential to supply around 10% of Mexfruco’s yearly needs. Two of the individual growers, who owned 340 hectares, were independent producers. The remaining ones were relatives of Mexfruco employees. As the first morphogenetic cycle of the
company was reaching its end, these initiatives had not resulted in any gain of legitimacy for the company. This line of CSA did not seem to be appropriate, i.e. it was not (at least it had not been demonstrated to be) congruent with the situational logic posited by the CSR properties emerging from the relations of Mexfruco and its growers.

In short, Mexfruco gained pragmatic legitimacy, of the exchange and dispositional types (growers’ satisfaction and company reputation, respectively), inasmuch as it displayed CSA congruent with the prevailing exchange system and the apparent interests of growers for price and payment terms. Mexfruco’s endeavors to modify those emergent properties through a different type of CSA largely failed.

**Structural CSP and double morphogenesis.** According to Archer (1995), at the end of a transformational sequence in the morphogenetic cycle, corporate agents reshape themselves, in terms of their organization, their powers, their ideas and beliefs, and their relations with their stakeholders. This is Archer’s notion of the double morphogenesis of structure and agency. Consistent with it, as I argued in section 5.3 (chapter 5), another outcome of the CSR-CSA-CSP morphogenetic cycle may the transformation and, in the sense of Selznick (1957/1984), the institutionalization of the acting organization. In my view, this institutionalization constitutes the structural dimension of CSP (Egels & Zaring, 2005), by which a company eventually develops a distinctive moral/social competence.

The previous discussion about the causal configurations of Mexfruco’s CSA and their consequences in the firm’s gaining different forms of intangible capital and legitimacy suggests that Mexfruco started in 1997 with, and continued developing for the subsequent several years, a stakeholder culture which showed an other-regarding orientation and a tendency to build relations of stewardship. The accumulation of internal and external commitments derived from the company’s CSA was consistent with such a tendency and orientation. In the continuum of Jones,
In general terms, Mexfruco predominantly focused on enhancing the welfare of particular stakeholder groups and on maintaining its relationships with them. The Packinghouse Manager plainly indicated that the company’s priorities were “attention to customers, attention to workers, and attention to growers” (M. Martínez, interview, December 21, 2005). Mexfruco primarily, although not exclusively, emphasized the claims and needs emerging from these relationships, most of which were established at the personal level. This position largely corresponds to a “relational identity orientation” (Brickson, 2005, 2007).

By the same token, Mexfruco built an organizational structure congruent with the culture and identity that it was forging. It deployed semi-formal structures (commissions, committees) that closely resemble “autonomous elites” (Selznick, 1957/1984), which protected and developed values oriented to serving workers and customers. The company was, as of early 2001, attempting to create similar elites focused on growers. In addition, there were formal internal (departments) and external (commitments with government agencies and third-party certifying bodies) structures supporting the company’s CSA. In this way, Mexfruco displayed a structure with enough redundancy and requisite variety for its worker-, customer-, and grower-oriented CSA (Husted, 1993, 2000).

The company’s work routines regularly involved personal relationships between Mexfruco members (both top and middle managers) and its primary stakeholders. In a way, for many at Mexfruco such work routines precisely consisted of building or strengthening those relationships. Therefore, the firm commonly integrated CSA into its decision-making and normal business activities, similarly to what has been reported for medium-sized enterprises in other environments (e.g. Graafland, Van de Ven, & Stoffele, 2003; Russo & Tencati, 2007; Spence et
This integration resulted in a repertoire of organizational routines constitutive of moral/social capabilities (Costello, 2000; Nelson & Winter, 1982), i.e. social, cultural, and moral capital. Some of those capabilities were, for instance, receptive dialogue with stakeholders, attunement of values with the organization’s culture and structure, and stakeholder-oriented teamwork (i.e. responsiveness to stakeholder issues in the style of Total Quality Management).

In short, Mexfruco seems to have been internally changed by its CSA and in possession of the competence of being an effective mediating institution with its primary stakeholders, which in my view, as discussed in chapter 5, represents a high level of CSP in the real domain.

A summary of Mexfruco’s CSP profile. In the previous paragraphs I explained how, through processes of socio-cultural elaboration, Mexfruco’s CSA had outcomes that increased the company’s stock of social, cultural, and moral capital, which accumulated to the point of gaining different types of legitimacy for the company. While most of that capital was appropriated either by Mexfruco or jointly by the company and its main stakeholders (workers, growers, and customers), part of it ended being a sort of public good.

Although all the firm’s CSA initiatives had strategic, value-based, and isomorphic ingredients, it seems clear that the lines of action which were predominantly strategic (i.e. those directed to customers and growers) yielded, for the most part, pragmatic legitimacy; i.e., exchange and influence types of legitimacy in the form of stakeholder satisfaction, and dispositional legitimacy in the form of company reputation. Analogously, the lines that were more isomorphic or value-based in nature (e.g. worker-oriented CSA) led to primarily gaining cognitive and moral legitimacy.

Throughout its first morphogenetic cycle, Mexfruco not only changed its relations with stakeholders. The company was also transformed. It developed a stakeholder culture oriented to a narrowly-defined group of constituencies, a relational identity orientation, a distinctive structure
supporting its CSA, and a number of social/moral capabilities. This evolution corresponds to a company with a high level of structural CSP.

**8.2.6.- Competitive Advantage.**

As discussed in chapter 5, competitive advantage may emerge, under certain conditions, as an outcome of CSA and its interplay with emergent CSR properties (Burke & Logsdon, 1996; Castelo Branco & Lima Rodrigues, 2006; Gardberg & Fombrun, 2006; Husted, 2003; McWilliams & Siegel, 2000, 2001, among others). If and when this occurs, there is an observable correlation between the firm’s CSP and its financial performance. However, this link is neither causal (Preston & O’Bannon, 1997) nor mutually causal (e.g. Waddock & Graves, 1997). More likely, as in Mexfruco’s case, multifinality takes place, i.e. both CSP and financial performance emerge from the same causal configuration.

Some of Mexfruco’s CSA initiatives were clearly of a strategic nature, even if they were supported by or based on value-based rationality or isomorphic trends. This was the case, in particular, of customer-oriented CSA, which fundamentally consisted of the implementation of quality and food safety standards, as well as of a highly proactive posture to respond to customers’ needs. These initiatives were founded on the firm’s cultural capital, objectified in manuals and working papers, institutionalized in third-party certifications, and embodied in its employees through extensive training (Bourdieu, 1979). However, such knowledge was necessary but not sufficient, since many other factors contributed to its implementation, as explained by the corresponding causal configuration (see section 8.2.4, above). Thus, this configuration became a valuable, rare, inimitable, and non-substitutable strategic resource for the company (Barney, 1991; Wernerfelt, 1984).
Fresh fruit products are difficult to differentiate from those of competitors. After all, an avocado is an avocado. Nevertheless, the effects of Mexfruco’s cultural capital could be perceived by its customers, not precisely in the product’s appearance, but in the consistency and timeliness of supplies; appropriateness of communications; low rate of quality problems on fruit arrival; the company’s responsiveness to identify, and eventually correct any problem; and the comparison of these factors with those of other suppliers. Although quality and food safety standards were customarily implemented by many fruit suppliers in Europe, no avocado or mango supplier from Mexico was doing it at that time. Hence, the configuration became a factor of strategic differentiation for Mexfruco (Porter 1980, 1985). What was different from others (i.e. heterogeneous) was the process, not necessarily the product (McWilliams & Siegel, 2001; Rumelt, 1984).

As explained above, importers’ categories of perception and appreciation recognized the symbolic value of Mexfruco’s knowledge (Bourdieu, 1986) and exchanged it for social capital in the form of reputation and trust (Burton et al., 2008). Reputation is the most typical way in which CSA creates competitive advantage. It includes cost and differentiation attributes (Roberts & Dowling, 2000) but is not reducible to them, and it emerges in a way distinctively related to CSA (Husted, Allen, & Coduras, 2003; Quevedo-Puente, De la Fuente-Sabaté, & Delgado-Garcia, 2007). Once created, reputation became another hardly imitable, non-substitutable strategic resource for Mexfruco (Castelo Branco & Lima Rodrigues, 2006; Rumelt, 1984).

In short, Mexfruco’s customer-oriented CSA, based on knowledge resources but not reducible to them, constituted a strategic resource on which the company built differentiation from competitors and reputation. It became the source of the company’s competitive advantage. Such advantage was not necessarily exhibited in Mexfruco’s financial performance because, as explained, the parent company appropriated much of the created value through income-shifting.
8.2.7.- Elaboration of the Subsidiary-Parent Company Relationship.

The relationship between Mexfruco and Interfruco, which was described in section 7.3.5 (chapter 7), underwent the morphogenetic phases of socio-cultural conditioning, interaction, and elaboration. The substantial changes that defined the end of Mexfruco’s first morphogenetic cycle can be explained by reference to the elaboration of this relationship. In this section I briefly outline such explanation.

Interfruco and Mexfruco likely received the influence of their respective cultural systems, which were contrasting in many ways. What communitarianism is as an ideational property for Michoacán culture, is individualism for the Anglo-American culture. Mexican nationalism/regionalism involves limitations to, or plainly exclusion of, foreign interests; while American nationalism involves dominance and extension of its socio-cultural system into other cultures. Whereas traditional Michoacán culture values moderation in profit-seeking behaviors, the Anglo-American system endorses the doctrine of profit-maximization.

In the structural realm the contradictions were not less. Although changing in recent times, Michoacán people have long tended to adopt associative systems of exchange, while the American system is the hallmark of market or price exchanges. Social inequalities challenge the conscience of thoughtful Mexicans, which is not necessarily the case for American business people. Whereas Mexfruco managers had strong local ties to their local community and, specifically, to the aguacatero group, Interfruco managers were free from that type of ties both at home and abroad.

Interactions between Interfruco and Mexfruco took place in this context. Regardless of those contradictions, there was initially, for some 18 months, a confluence of desires and interests around customer service and reputation building. On this basis, both Interfruco and Mexfruco began to routinely communicate with customers to receive feedback, provide information on
shipments, exchange information on market conditions, report on food safety and quality progress, etc. The predominantly technical content of many of these communications put Mexfruco at the forefront of customer relations. At the same time, Interfruco left Mexfruco free to deal in the local task environment, i.e. to interact with growers, workers, competitors, industry organizations, and the local government. Consequently, the subsidiary became largely autonomous and very influential on its parent company decisions. According to Archer (1995), as long as there were confluence of desires and interests, both parties mutually granted legitimacy, which added to the social capital that there already existed between the founders of both companies.

Starting in early 1999, as it hired new managers and the company grew, Interfruco began to display a managerial logic of profit maximization, which was consistent with (i.e. concomitantly complementary to) many of the properties characteristic of its larger socio-cultural system, as well as with the personal properties of some of its managers. At the same time, it increasingly showed a trend towards centralizing management. In contrast, as explained above, Mexfruco was already implementing several lines of CSA founded on (i.e. CSA concomitantly complementary to) properties characteristic of the Michoacán socio-cultural system and the personal abilities and inclinations of its managers. The subsidiary’s managerial logic was one of “getting things done”, along its values of professional excellence, which did not necessarily care much for cost-benefit ratios. Consequently, while Interfruco adopted a financially-based orientation to decision-making, Mexfruco embraced an operationally-based orientation. The confluence of desires and interests had largely disappeared. In its place, a situation of reciprocal exchange emerged.

In a situation of reciprocal exchange, agents often tend to focus on pragmatic issues and to disregard the contradictions that may exist in their relationship. This type of interaction “mutes
but never transmutes the contradiction” (Archer, 1996: 256). In fact, pragmatic issues provided some stability to this configuration. As shown in Table No. 5 (chapter 7), Mexfruco regularly earned high profits since its startup and until mid-2000. These profits, which were added to whatever profits Interfruco might have had from its re-selling operations and to the income that was being shifted out of Mexfruco, likely satisfied Interfruco’s profitability requirements.

Interfruco also demanded complete, timely, and accurate financial information. Mexfruco exerted significant efforts to satisfy these Interfruco’s needs. The hiring of Juan Sánchez as Director of Finance and Administration was a compromise between the parent company interests and those of its subsidiary. Juan Sánchez hired additional accounting staff (two more people) and reorganized the area. Moreover, accountants were trained in international issues, such as the reconciliation of Mexican and American GAAPs61. In other words, Mexfruco assumed significant cultural and structural commitments to respond to Interfruco’s needs for financial information, although the process was neither its initiative nor under its control.

At the same time, income-shifting gained importance as a topic of conflict between headquarters and its subsidiary. The issue involved strong ideational and material necessary contradictions. On the one hand, significant sums were shifted, at the expense of the interests of minority shareholders (who also were Mexfruco managers), workers (because of profit-sharing legal obligations), and the local government, all of which was considered unfair by Mexfruco managers. On the other hand, U.S. tax regulations on foreign sales represented an important economic incentive for Interfruco to shift income into the U.S. The conflict was important in 1998; lost some relevance in 1999 as income-shifting significantly diminished; but exploited in 2000 upon Interfruco’s application of frequent, arbitrarily-decided, and large discounts (see Table No. 7 in chapter 7). According to the categories of perception and appreciation of Mexfruco

61 Generally Accepted Accounting Principles.
managers, these actions were ethically unjustifiable. A symbolic exchange took place; Interfruco shifted economic resources but lost much of its moral and cognitive legitimacy.

During the 2000 fiscal year, a number of external and intra-firm factors combined to put an end to Mexfruco’s first morphogenetic cycle. On the external side, the task environment lost much of its munificence, as intra-industry competition substantially increased. On the one hand, the number of exporters increased from 4 in the 1997-98 season to 14 in the 1999-2000 season. On the other hand, total export volume only grew 7% in the same period. This situation created more competition to obtain fruit. Growers, through its cartel-like mechanism, kept pushing for higher prices. At the same time, there was more competition when selling to importers, which tended to decrease selling prices. Consequently, margins diminished for all packer-exporters.

On the internal side, Interfruco trimmed its customer list and cancelled Mexfruco’s program in the domestic market. These decisions reduced the subsidiary’s scale of operation by 60% (J. Pérez, letter to John Reed, August 7, 2001), which increased its unitary costs. In addition, Interfruco adopted a rigid policy of charging a markup of 8% in every sale. In markets with weak prices caused by the operation of many new competitors, that markup was often obtained by reducing Mexfruco’s selling price to Interfruco. As a result of all these factors, Mexfruco faced losses in 8 of the 12 months of the 2000-2001 season (going from July 2000 to June 2001), as shown in Table No. 10. Concomitantly, Interfruco had to reduce its income-shifting.

The contradictions between Mexfruco and Interfruco moved to the forefront of their interaction. Mexfruco insisted in recovering a larger scale of operation through increased sale efforts, in order to maintain its CSA programs. This was consistent with the fact that the subsidiary had built its culture, structure, and identity around those programs. In doing so, it had accumulated social, cultural, and moral capital, and it had chosen a path dependent, lock-in process of strategic commitment. But that line of action required a reconsideration of Interfruco’s
costs and margins, as well as a more flexible marketing policy. Research shows that, after a highly export performing year, like the 1999-2000 season, headquarters tend to repeat their behavior and lose their ability to change its selection of customers and markets as well as their flexibility to modify their pricing policies and margins (Lages et al., 2008). Interfruco was no exception and, consequently rejected the proposals of its subsidiary.

### Table No. 10 - Mexfruco's Monthly Profits in the 2000-2001 Season (Current Mexican Pesos)

<table>
<thead>
<tr>
<th>Month ending on</th>
<th>Before-Tax Profits</th>
<th>Shifted Income</th>
<th>Total Earned Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>31/07/2000</td>
<td>860,071</td>
<td>557,534</td>
<td>1,417,605</td>
</tr>
<tr>
<td>31/08/2000</td>
<td>-554,950</td>
<td>602,019</td>
<td>47,069</td>
</tr>
<tr>
<td>30/09/2000</td>
<td>226,236</td>
<td>136,907</td>
<td>363,143</td>
</tr>
<tr>
<td>31/10/2000</td>
<td>-1,261,236</td>
<td>71,214</td>
<td>-1,190,022</td>
</tr>
<tr>
<td>31/12/2000</td>
<td>-205,322</td>
<td>22,889</td>
<td>-182,433</td>
</tr>
<tr>
<td>31/01/2001</td>
<td>-421,246</td>
<td>7,385</td>
<td>-413,861</td>
</tr>
<tr>
<td>28/02/2001</td>
<td>197,994</td>
<td>0</td>
<td>197,994</td>
</tr>
<tr>
<td>31/03/2001</td>
<td>-265,155</td>
<td>37,457</td>
<td>-227,698</td>
</tr>
<tr>
<td>30/04/2001</td>
<td>-542,756</td>
<td>441</td>
<td>-542,316</td>
</tr>
<tr>
<td>31/05/2001</td>
<td>-1,163,526</td>
<td>39,222</td>
<td>-1,124,304</td>
</tr>
<tr>
<td>30/06/2001</td>
<td>21,798</td>
<td>0</td>
<td>21,798</td>
</tr>
</tbody>
</table>

On its side, Interfruco managers, strongly oriented to progressive decision making, acted consistently with contemporary management trends and insisted in making radical adjustments to correct the financial situation of its subsidiary, such as significant downsizing and the reduction of most CSA programs in a way consistent with the reduced scale of operations and the new reality of tighter margins. Mexfruco managers were reluctant to apply these measures because, for them, complying with its headquarters directions meant significant psychological and economic costs and the loss of a good part of the subsidiary’s intangible capital.

The categories of perception and appreciation of Interfruco managers led them to interpret Mexfruco’s reluctance in various, negative ways. For instance, Interfruco CEO wrote to Mexfruco Managing Director to tell him that “the company is totally out of control… there is a lack of judgment on your part… you are not taking your job seriously…” (J. Reed, letter to J.
Pérez, November 24, 2000). What parent company managers perceived was a lack of capacity to manage the company and disregard for Interfruco’s directions on the part of Mexfruco managers. That meant a significant risk of losing the business on which Interfruco survived. The remaining social capital between the companies was lost and the legitimacy of Mexfruco managers quickly vanished.

The contradictions were not resolved. Interfruco established a number of centralizing policies that Mexfruco was forced to adopt. In other words, Interfruco took over Mexfruco’s management. The situation of “power-induced compliance” (Archer, 1996) which had been looming for some time finally became apparent. As Archer predicts, Interfruco began to use sanctions and refusal for exchanges to contain the contradictions (e.g. it rejected Mexfruco’s attempts to exercise its voice, restricted cash transfers, etc.). In this way, the parent company advanced its interests, which were consistent with its socio-cultural background, but at the expense of its remaining legitimacy.

It is my conclusion that Mexfruco’s first morphogenetic cycle ended at about this time, in late 2000 and early 2001, when both local and headquarters managers lost their last reserves of mutual legitimacy and Interfruco centralized the subsidiary’s management. In the next section I explain the evolution of Mexfruco’s CSA and its resulting CSP profile after this change, that is, during the subsidiary’s second morphogenetic cycle.

**8.3.- MEXFRUCO’S SECOND MORPHOGENETIC CYCLE**

According to morphogenetic theory (Archer, 1995, 1996), the phase of socio-cultural elaboration with which one cycle ends largely overlaps with the phase of socio-cultural conditioning with which the next cycle begins. After all, action is a continuous flow over time,
and things do not just begin and end. Let us recapitulate the prevailing conditions at the end of the first morphogenetic cycle, which conditioned Mexfruco’s CSA in its second cycle.

8.3.1.- Socio-Cultural Conditioning.

As of late 2000 and early 2001, Mexfruco finds itself in a context in which distal CSR emergent properties, i.e. those arising from the larger cultural and structural systems (ideologies and beliefs at the societal level, institutions and regulation, systems of exchange, etc.), had changed little since the company’s startup. However, more proximal properties, emerging from the task environment, the firm’s relationships with its stakeholders, and the organization itself, had been transformed in an important way, as I summarize in the following paragraphs.

Mexfruco’s environment had become less munificent as a result of changes in both the intra-industry intensity of competition and the kind and quality of relations between the subsidiary and its parent company. At the same time, Mexfruco’s relationships with stakeholders had become the loci of significant stocks of social capital and legitimacy. They had evolved towards models of stewardship (Davis et al., 1997) with customers and workers, and towards a working form of stakeholder-agency relations (Hill & Jones, 1992) with growers. In addition, the company was attempting to modify the model of relations with growers, with little success until that point in time.

At the organizational level, Mexfruco had been internally changed by its CSA and the concomitant accumulation of social, cultural, and moral capital. It now had a defined stakeholder culture (Jones et al., 2007), a relational identity orientation (Brickson, 2005), internal and external structural arrangements supporting its CSA programs, a managerial logic of professional excellence (Whittington, 1992), and a number of moral/social capabilities (Black, 2006), all of which constituted lock-in commitments that conditioned the company’s subsequent actions.
These organizational characteristics seemed to be congruent with distal CSR emergent properties, stakeholder demands, and the company managers’ personal emergent properties.

Interfruco, in turn, had developed a shareholder-oriented culture, an individualistic identity orientation, a structure specialized in accounting and sales, and a managerial logic of profit maximization. These organizational properties seemed to be congruent with properties emerging both distally from the larger Anglo-American socio-cultural system and proximally from the parent company managers’ personal emergent properties. However, they were in a position of contradiction or incompatibility with many of the corresponding properties of Mexfruco.

The relationships between the subsidiary and its parent company had gradually transited from an early and short-living situation of “confluence of desires and interests”, in which Mexfruco enjoyed a high level of autonomy, to a situation (in early 2001) of “power induced compliance”, in which the parent company had adopted an increasingly centralizing posture. Throughout this transit, a number of conflicting ideas and interests had arisen in the relationship, i.e. the relation was characterized by several necessary (or constraining) contradictions. The parties had not been able to correct the incompatibilities or to negotiate any compromise, which resulted in the parent company’s exercise of power to advance its position. The conflict had depleted the stock of social capital that existed in the relationship and destroyed much of the mutual legitimacy of the parties.

These conditions set the stage for the phase of socio-cultural interaction in Mexfruco’s second morphogenetic cycle. For purposes of analysis, I will divide this phase in two parts: managerial agency, and the changes in CSA causal configurations.
8.3.2.- Managerial Agency.

The situation of unresolved conflict between Interfruco and Mexfruco, and its subsequent elaboration into a situation of power-induced compliance, led to significant changes in the composition of Mexfruco’s managerial team at the beginning of the company’s second morphogenetic cycle. Since managerial agency mediates the conditioning effect of socio-cultural CSR emergent properties and shapes CSA, these changes had implications for Mexfruco’s CSA, which I discuss in section 8.3.3, below.

**Founding managers’ exit.** There is body of evidence showing that the new situation was increasingly being seen as procedurally, interactionally, and distributively unfair by Mexfruco managers. Consider, for instance, some of their expressions:

“I am getting very tired of our impossibility (yours and mine) to talk about serious problems without your extreme reactions and attacks” (J. Pérez, letter to John Reed, November 25, 2000).

“We argued all the time [for prices], and at the end they anyway paid us whatever they wanted” (S. Medina, interview, June 9, 2005).

“We had to source, pack, and ship fruit, at the will of [Interfruco], and at the prices they mandated…” (L. Espinoza, interview, June 11, 2005).

“I am offended by acts from [the parent company] such as unannounced discounts, unjustified withholding and delays in payments…… jokes about our complaints, serious lack of respect … We have often been not well treated by [parent company] staff” (J. Pérez, letter to John Reed, August 7, 2001).

Mexfruco managers, who were used to having a significant degree of autonomy, were now confronted with increasingly centralized conditions and lower status within the Interfruco/Mexfruco dyad. Consequently they complained about the impossibility of expressing opinions, providing input for decision-making, or challenging parent company decisions or evaluations. In other words, they were unable to exercise voice, which is one of the key determinants of procedural justice perceptions (Bies & Shapiro, 1988; Greenberg, 1990). They also felt treated inappropriately, without respect, which likely led them to judgments of
interactional unfairness (Bies 2001; Bies & Moag, 1986). Moreover, these judgments were likely aggravated by Mexfruco managers’ perception that Interfruco was not providing any explanations for actions and decisions affecting them, i.e. there was a lack of justification (Bies & Shapiro, 1988), a crucial element of interactional fairness.

Perceptions of distributive unfairness were widespread as well. Consider these excerpts from the letter, already cited many times, which Pérez wrote to Reed in early August 2001:

“The profits from our endeavors stay in [Interfruco], while many of the risks have stayed with [Mexfruco] … I believe that a fair share of the profits must go to where most of the value is added…

If the business fails, local people will look for me, not for you or for the company… I also have the tax risk of illegally transferring profits out of the country… [which] is a criminal fraud…

…economically I do not have a better position now…

…after 4 years of working for the company… I do not see myself as a better person” (J. Pérez, letter to John Reed, August 7, 2001).

It was clear that income-shifting practices were causing some of these perceptions, as reflected by both the concern with the subsidiary’s seemingly purposeful low profitability and the concern, as minority shareholder, with personal income. But there appeared other criteria of distributive unfairness. On the one hand, several kinds of risk at the personal level are mentioned, like the risk of business failure and a corresponding risk of damage to professional and social relations; and legal risks derived from tax avoidance. On the other hand, there is a normative concern for not having become “a better person” after years of working for the company.

There is a significant body of literature that shows that people respond to perceptions of fairness by translating them into attitudes and behavior (e.g. Cohen-Charash & Spector, 2001; Colquitt, Wesson, Porter, Conlon, & Ng, 2001). These responses can be broadly summarized in Withey & Cooper’s (1989) alternative behaviors of voice, neglect, loyalty, and exit. Mexfruco managers had tried to exercise voice, unsuccessfully. José Pérez had already indicated his course
when he wrote: “I would like to discuss a way to put an end to my involvement with this project” (J. Pérez, letter to John Reed, August 7, 2001).

On August 21, 2001, at a formal assembly of Mexfruco shareholders, Interfruco’s Reed and Kleber mandated the termination of the contracts of 11 Mexfruco managers and technicians, from fieldmen to accountants to the dismantling of the Quality Control Department, the Food Safety Committee, the Department of Grower Relations, and the Growers’ Club. In the same meeting, José Pérez and Jorge López decided to rescind their contracts too (Minutes of the “Asamblea General Ordinaria de Accionistas de [Mexfruco]”, August 21, 2001). Four of the six members of Mexfruco’s founding team were among the leaving group. Another member of that team, G. Rodríguez, who was the Quality Control manager, was assigned to a position in the Dominican Republic. He left the company a couple of years later. Only M. Martínez, Packinghouse Manager, remained on board. The subsidiary was now in the hands of Juan Sánchez, who, up to that point, had been Mexfruco’s Director of Finance and Administration.

A profile of the new Mexfruco Managing Director. As it has been the case of other Interfruco and Mexfruco managers, in this section I introduce some of the personal properties emerging from Juan Sánchez’s professional roles, social identity, and personal background. As it was for other managers, I had no access to data on his psychological traits. Hence, I cannot identify any personal CSR properties emerging from his moral reasoning skills or self-regulatory mechanisms. I was able, though, to assess his corporate ideology and his CSR profile.

The social identity of the new Mexfruco Managing Director was emergent from local socialization. He was born and raised in Uruapan, Michoacán; he had only lived out of town for the few years in which he attended university. His parents were also locals. He held a degree in accountancy, and was one of the three Mexfruco managers who completed a masters’ program in management.
Juan Sánchez worked for more than 20 years in one of Michoacán’s largest avocado farming companies, which also operated a packinghouse, several outlets in Mexico’s fruit terminal markets, lumber mills, and other diversified businesses, although with only limited activity in exports. His role initially was as an accountant, but he was gradually promoted until he reached the top management position. After quitting that job, Sánchez worked for around one year as Assistant General Manager in a foreign-owned packing-exporting company, subsidiary of a medium-sized California avocado handler. All these positions and relations had placed him within a dense network in the avocado industry, which was enriched during his time as Mexfruco’s Director of Finance. However, he had almost no experience in sales, particularly at the international level.

Measurement of Sánchez’s corporate ideology (Goll & Zeitz, 1991) shows a high score for progressive decision-making (3.49 points of a maximum of 5) and CSR (3.48), while a relatively low score for organicity (2.43). Thus, he was oriented to make decisions based on as much information as possible and to adopt advanced managerial techniques. He was also oriented towards CSR, and to a rather mechanistic view of organizations. His CSR profile (Aupperle, 1984) showed an average orientation to the economic domain (35.25%), and a moderate orientation to social domains (49%), which was lower than Reed’s and Perez’s (close to 60%), but higher than Kleber’s (41%). Interestingly, among the social dimensions (legal, ethical, and discretionary), Sánchez exhibited a high orientation to the legal factor (29%, out of a total of 49%). From these results, it can be inferred that Sánchez was likely concerned with legal compliance, oriented to top-down authority, and sensitive to CSR issues.

The degree of managerial discretion that Juan Sánchez had was very different from that of his predecessors. Mexfruco was now a subsidiary dependent on its parent company and, consequently, its managers had a highly constrained level of discretion. In this context, the
concepts of social responsibility and social action were less meaningful for Mexfruco’s new management team (Hemingway & Maclagan, 2004; Wood, 1991). As any manager, they were exposed to the need of controlling the transformation of labor potential into actual labor (Tsoukas, 1994), but with a significantly reduced ability and discretion to increase employees’ capacity (self-development, learning, etc.). Similarly, they faced the need of continuing to pursue the support of the company’s external stakeholders (mainly growers and customers), but with a constrained ability and discretion to elicit their active cooperation.

In short, Mexfruco continued to be largely in charge of the Interfruco/Mexfruco dyad’s responding to forces for both global integration and local responsiveness (Prahalad & Doz, 1987), but without the repository of knowledge and relationships that the company had during its first morphogenetic cycle, and with little ability to influence headquarters’ decisions (Birkinshaw, 1996; Luo, 2005).

8.3.3.- New CSA Causal Configurations and CSP Profile.

Let us next study how the new conditions of the socio-cultural environment and those of the new Management Team interplayed to change or reproduce Mexfruco’s CSA causal configurations. I also explain how the modified CSA was elaborated into the different dimensions of a new CSP profile. As in previous sections, the analysis focuses on Mexfruco’s three main stakeholder groups: workers, customers, and growers.

**Worker-oriented CSA and CSP.** Throughout its first morphogenetic cycle, Mexfruco had displayed a worker-oriented CSA with a causal configuration which included a number of socio-cultural, organizational, and personal emergent properties. Many of them did not change for the second cycle. For instance, the socio-cultural system showed the same properties with respect to within-group communitarianism, paternalism, legal labor norms, weak labor law
enforcement, various social inequalities, and industry patterns of in-house employment in packinghouses and outsourced harvesting activities.

By the same token, although the managerial team had changed, the new team shared some personal properties with the previous one, which were also part of this causal configuration, such as solidarity with local groups and CSR-orientation. Mexfruco also continued to exhibit internal structural and cultural features (commissions, Human Development Department, value statements, etc.), now part of its culture, structure, and identity; as well as some external anchorages for its worker-oriented programs, such as agreements with government agencies for self-regulation and audits.

There were, however, four properties of that causal configuration that showed important changes. Three of them had clearly diminished. First, the munificence of the subsidiary’s task environment, affected by new external and intra-firm conditions, which reduced organizational slack. Second, the support of the parent company CEO, whose main focus was now the company’s profitability. And third, the autonomy of the subsidiary. In addition, managerial agency was a fourth changing property: on the one hand, as a consequence of the loss of autonomy, the degree of Mexfruco managers’ discretion to implement worker-oriented programs decreased. On the other hand, as compared to his predecessor, the new Managing Director was more oriented toward legal compliance and less oriented to discretionary, value-laden activities.

Facing the new situation, Sánchez displayed two lines of action. On the one hand, he contained Interfruco’s requests to cancel worker-oriented programs by referring to the obligations that Mexican Labor Law imposed on companies, as well as to the commitments that Mexfruco had signed with the Labor Department. In other words, as Turner (2006) argues, the subsidiary mobilized sources of power emanating from institutional structures in its environment, the political power of government, and previous commitments. In this way, Mexfruco reached a
compromise with Interfruco, which was an action congruent with the situational logic faced by
the subsidiary (Archer, 1995).

On the other hand, the new Managing Director displayed, internally, a discourse of
continuity with respect to the company’s commitment to its workers. For example, when
interviewed, he indicated that worker-oriented CSA had been important in the past “and we have
continued considering it so” (J. Sánchez, interview, June 11, 2005). The new Director of
Operations had a similar, but less optimistic view: “His discourse shows support for workers’
programs, but his deeds somehow show the contrary…” (L. Espinoza, interview, June 11, 2005).

As Chreim (2005) notes, what Sánchez was doing was to frame the meaning of the past as
consistent with the present. She points out that “the affirmation that selective organizational
values will be held on to in times of major change” (Chreim, 2005: 587) is a discursive strategy
for establishing continuity and maintaining legitimacy.

Consistent with the lower environmental munificence, the new properties of Mexfruco’s
managerial agency, and the compromise reached with Interfruco, the subsidiary’s worker-
oriented CSA changed. Budgetary constraints and an orientation to legal compliance diminished
the intensity of such CSA to the isomorphic level mandated by law. As the Human Development
Manager explains, “proposals were heard but not supported and not implemented; justification
for this was based on a lack of resources… we are now at the same level of competitors, or
perhaps some of them are already ahead of us” (V. Gutiérrez, interview, June 13, 2005). This
posture corresponds to the “accommodative” level in Clarkson’s (1995) RDAP scale because,
though these programs were reduced to legal compliance, the company was doing all that was
required (V. Gutiérrez, interview, June 13, 2005).

Another isomorphic response, devoid of value-laden considerations, was the change in the
model of relationship with harvesting workers. In a matter of few months, Mexfruco dismantled
its picking crews and began outsourcing these operations, as everybody else in the industry (H. Torres, interview, December 24, 2005). It is not clear whether Mexfruco managers could not, or did not want to, maintain the status of these workers as formal Mexfruco employees.

In general terms, the “confluence of desires and interests” between Mexfruco and its employees diminished. The new situation was closer to a “reciprocal exchange” with concomitant complementarities. Managers perceived some inconsistencies between the discourse of continuity and actual actions (M. Martínez, interview, December 21, 2005; L. Espinoza, interview, June 11, 2005). Budgetary constraints and inconsistencies notwithstanding, a relatively high level of job satisfaction was maintained among workers. A survey conducted by the Department of Human Development in early 2005 showed that 100% of the workers were satisfied with their jobs, although only 52% considered the working environment to be good.

In this way, throughout Mexfruco’s second morphogenetic cycle, the company and its workers were able to maintain most of its accumulated social capital. Mexfruco workers were satisfied, while the company was complaint with legal norms. This situation led the parties to mutually acknowledge their legitimacy (Archer, 1995). In short, with respect to workers, Mexfruco maintained its cognitive legitimacy and most of its pragmatic legitimacy (as exchange legitimacy, or worker satisfaction).

**Customer-oriented CSA and CSP.** Analogous to the case of worker-oriented CSA, some of the properties constitutive of the causal configuration of Mexfruco’s customer-oriented CSA showed no change between the first and the second morphogenetic cycles.

However, some other properties underwent substantial change, which radically modified the company’s customer-oriented CSA. Most of these were personal emergent properties. To begin with, in the words of the Packinghouse Manager, “there is nobody here, now, talking to clients, discussing with them how we are doing, asking how we can best serve them” (M.
Martínez, interview, December 21, 2005). None of the managers that remained at Mexfruco was positioned in operative networks of customers. On the one hand, those positions had been established on the basis of personal relationships between customers and the previous management team. On the other hand, after the changes in management, Interfruco centralized all communications with importers. In short, Mexfruco lost much of the bridging, relational social capital that it “co-owned” with its customers.

Another set of lost properties were related to Mexfruco’s organizational culture. The team that had promoted and developed technologizing, professional excellence, and customer-oriented values was the team who left the company. Several of them had constituted the “autonomous elite” in charge of protecting and developing those ideals. The company was not only deprived of such elite. Its counterparts in Mexfruco’s structure, i.e. both the Department of Quality Control and the Committee of Food Safety, were also cancelled. Shaw Duffy, Johnson, & Lockhart (2005) argue that losses of social capital caused by managerial turnover not only affect companies by damaging their relationships or reducing their knowledge reserves but, more dramatically, by altering internal organizational meanings. The changes that Mexfruco experienced signaled a decline of its traditional values. As the new Director of Operations put it: “now nothing matters; if we do a good job, fine; if not, well… we will see whether customers complain” (L. Espinoza, interview, June 11, 2005). In this way, Mexfruco lost many of the internal ideational and structural anchorages which had given direction and persistence to its customer-oriented programs.

Concomitantly, the managers and technicians that left the company were the holders of much of the knowledge with which Mexfruco had built its food safety and quality programs. Mexfruco lost most of the embodied form of knowledge on which quality decisions rested. As explained above, quality decisions were dependant on the type of incoming fruit and the
circumstances of the moment. Many of these decisions were judgmental and continuous. The same was true with respect to the analysis that, when needed, was made of claims and the design of corrective measures. Mexfruco’s deficit of cultural capital became manifest in the inconsistent quality of its products and services (Burton et al., 2008), which seriously harmed the customers’ trust in the company and diminished its cognitive social capital (K. Kawabe, interview, July 7, 2005; S. Glancy, interview, February 3, 2006).

However, the company maintained a significant part of the institutionalized and objectified cultural capital related to its food safety programs, i.e. its manuals, certifications, and routine sanitization procedures. Food safety programs were also supported by an elite of one who stayed on board with his share of embodied cultural capital: The Coordinator of the now extinct Committee for Food Safety had been named new Director of Operations. In this way, Mexfruco was able to maintain and renew its food safety certifications.

Another property that changed was the autonomy of the subsidiary, which impacted on the quality of supplies. Up to mid-2001, Mexfruco made all decisions with respect to the purchases and inventory management of packing materials (e.g. cardboard boxes, labels, etc.). Mexfruco also decided the type of fruit to buy, according to the requirements of customers; fruit price was negotiated afterwards, according to the desired fruit quality. Upon the change in administration, Interfruco centralized these decisions. It mandated the prices at which fruit should be purchased; on that basis, Mexfruco fieldmen went out and tried to get the best fruit they could, whether appropriate for customer requirements or not (S. Medina, interview, June 9, 2005).

Similarly, Interfruco instructed Mexfruco to seek the lowest-cost supplier for packing materials, without controlling its quality standards. The parent company also mandated to minimize inventories of these materials, which at times caused shortages of some of them (L. Espinoza, interview, June 11, 2005). There were several occasions in which customers received
products different from what they had ordered. For instance, it was customary that a particular type of pack with one of the company brands was assigned and regularly supplied only to a given importer; it happened that such pack and brand ran out of stock; in those cases, Mexfruco packed and shipped a different type of pack and/or a different brand, which could be confused in the marketplace with the product of another importer (L. Espinoza, interview, June 11, 2005). This kind of problem with the quality of fruit and packing materials compounded the importers’ negative perception about Mexfruco’s lack of either technical ability or dedication to customers.

Research shows that the exit of founders tends to be a disruptive event, particularly for small and medium-sized companies, precisely because of the loss of social and cultural capital. This loss can be minimized if other managers, who remain on board after the founders’ exit, had shared the pertinent contacts, relationships, and knowledge (Bamford, Bruton, & Hinson, 2006; Shaw et al., 2005). This was not the case for Mexfruco’s customer relations. The top and middle level managers who shared most of the company’s social and cultural capital with customers were also gone.

In short, Mexfruco lost the customer relations that it had built on a logic of cooperation, long-term vision, and trust. It also lost most of the ideational and structural anchorages that internally supported its customer orientation. Although it maintained much of the cultural capital related to its food safety programs, the company lost most of the knowledge which supported its programs of quality assurance and improvement. Consequently, the customer-oriented CSA (or lack of it) that the firm displayed during its second morphogenetic cycle was not congruent with the situational logic posited by the emergent CSR properties which pre-dated and conditioned such CSA. The “confluence of desires and interests” with its customers had largely disappeared.

A new situation emerged, one of “reciprocal exchange” in which constraining contradictions existed between the ideas and interests of Interfruco/Mexfruco and those of its
customers. According to Archer (1995), this configuration is inherently fragile but can be temporarily sustained if the parties are pragmatically able to conduct successful exchanges, even if the contradictions are not resolved. However, the exchanges between Interfruco/Mexfruco and their customers were neither ideationally nor materially satisfactory anymore (S. Glancy, interview, February 3, 2006; K. Kawabe, interview, July 7, 2005). Consequently, Mexfruco lost much of the pragmatic legitimacy that it had gained with its customers, i.e. its clients were not satisfied (low exchange legitimacy), and the company’s reputation had decreased (low dispositional legitimacy). It maintained, however, the cognitive legitimacy emanated from its compliance with food safety standards which, as discussed in chapter 5, usually obtain passive acquiescence but not active support from stakeholders.

Archer argues that, when a pragmatic solution has not been worked out, the parties may decide to pursue actions like exit or active opposition. Several of Mexfruco’s most significant customers chose the former action and abandoned the relationship.

**Grower-oriented CSA and CSP.** The causal configuration of Mexfruco’s grower-oriented CSA underwent little change in the second morphogenetic cycle, except with respect to managers’ ability and discretion to elicit the growers’ cooperation. The distal properties emerging from the socio-cultural environment were fundamentally the same: an emerging trend towards “theories” of individualism and profit-maximization; nationalism and regionalism among locals; and a price system of exchange with short-term transactions. The more proximal properties emerging from the task environment were also similar to those of the first cycle: a turbulent task environment; packers’ low power and appearance of illegitimacy in the eyes of growers; and a very active cartel-like mechanism, pushing for increasingly high fruit prices. In other words, the constraining contradictions characterizing the relations between growers and packers continued to be in place.
After several years of operation, Mexfruco had overcome the liability that it might have had, if any, in light of its foreignness and newness. Although a number of growers deserted from the relationship upon the company’s restructuring (L. Espinoza, interview, June 11, 2005; S. Medina, interview, June 9, 2005), many others continued transacting with it, some of the deserters soon returned, and new suppliers were contacted (H. Torres, interview, December 24, 2005). In contrast to the case of customer-oriented CSA, the managers that remained at Mexfruco held much of the social capital that the company had with respect to growers. Although the new Managing Director was not an *aguacatero*, he was well-known and respected in the industry and able to interact and transact with the grower collectivity. In addition, most of the members of the Fruit Sourcing Department remained on board.

Furthermore, Interfruco’s financial resources continued to be available to support Mexfruco with respect to short payment terms.

There was, however, a significant difference in the ability and discretion of Mexfruco managers to elicit growers’ cooperation. On the one hand, Mexfruco managers lost a good deal of their discretion to negotiate prices with growers. They constantly had to request Interfruco’s approval for any price increase. Mexfruco lost competitiveness because “we take too long in making [pricing] decisions” (H. Torres, interview, December 24, 2005). On the other hand, Mexfruco had reduced its market diversification (i.e. it had trimmed many customers from its portfolio and had cancelled operations in the Mexican market). This implied that the company was less able to commercialize the variety of fruit sizes and qualities that any orchard produces. Mexfruco fieldmen were able to buy only a limited part of any grower’s crop, which reduced their negotiating strength and the grower’s satisfaction (S. Medina, interview, June 9, 2005).

In summary, Mexfruco had lost some negotiating strength, but it continued displaying actions congruent with the prevailing exchange system and the apparent interests of growers for
price and payment terms. In this way, the company maintained its pragmatic legitimacy, although in a weaker position with respect to its negotiating strength.

**Mexfruco’s CSP profile.** In its second morphogenetic cycle, Mexfruco’s CSA had outcomes that generally maintained its stock of social capital with its workers and growers. However, the decreased ability and discretion of its managers, caused by Interfruco’s centralizing policies, as well as budgetary constraints, led the company to a position less oriented to the proactive end of Clarkson’s (1995) RDAP scale and more oriented towards its accommodative or defensive levels. Yet, Mexfruco was able to maintain a significant level of cognitive and pragmatic legitimacy in its relations with workers, and of pragmatic legitimacy in its relations with growers.

Nonetheless, the company, and the Interfruco/Mexfruco dyad in general, lost most of the social and cultural capital associated with its relations with international customers. This situation severely destroyed much of the pragmatic legitimacy that Mexfruco had gained with them in the previous cycle. Although the firm maintained most of the cognitive legitimacy derived from its food safety programs, it was not sufficient to obtain the importers’ active cooperation.

Internally, the second morphogenetic cycle implied the elimination of its formal and semi-formal customer-oriented structures, but not of those oriented to workers. Its stakeholder culture weakened and shifted towards a more instrumental stance, particularly void of values such as customer-orientation and professional excellence. Compared to its first cycle, the company exhibited a lower level of structural CSP.

**8.3.4.- What Happened to Competitive Advantage?**

In section 8.2.6, above, I explained how Mexfruco’s customer-oriented CSA constituted a strategic resource on which the company built differentiation from competitors and reputation. It
had become the source of the company’s competitive advantage. Such CSA configuration included knowledge resources on quality and food safety and a clear orientation to customer service, but it was not reducible to them.

Towards the end of the first morphogenetic cycle (2000 fiscal year) and throughout the second cycle (2001-2004), food safety activities were gradually adopted by other packer-exporters, as international importers and markets increasingly required customary compliance with these standards. In addition, this change was facilitated by the compulsory norms and practices that packinghouses had to adopt in order to export to the U.S. market. Although these norms and practices were not exactly the same that food safety protocols required, there were many overlapping areas that helped packers to comply with the latter\(^{62}\). Thus, food safety programs were not a source of differentiation anymore, but a source of isomorphic compliance.

Quality management programs were different. Although they also shared many routines with food safety and U.S.-mandated protocols, quality programs were based on judgmental decisions on a day-to-day and lot-to-lot basis, which required tacit knowledge and managerial discretion (e.g. for decisions on types of fruit to purchase, fruit rejections, specifications of packaging materials, etc.). As discussed above, exiting managers and technicians had taken much of this embodied cultural capital away with them, and managerial discretion had been constrained.

Furthermore, as already explained, much of the social capital existing between Mexfruco and its international customers was lost too with the exit of several managers. The company’s restructuring also meant a change in the way customer relations were conducted, now directly by parent company salespeople. The dismantling of company structures for customer-oriented CSA,

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\(^{62}\) For example, the regulations mandated by the U.S. government included the implementation of a detailed traceability system, that is, a protocol to maintain the identification of every fruit lot all the way from field to market. Those regulations also required packers to update their buildings and adopt routines for pest exclusion; they had to totally close the building, with walls or mesh screen covers; install anti-insect lights, etc. Such traceability system and pest exclusion practices were also required for compliance with food safety standards.
such as the Quality Control Department and the Food Safety Committee, constituted additional
signals of a diminished orientation to customer service. All of this, through symbolic exchange,
was understood by importers as a loss of the company’s orientation to and commitment with
customers (K. Kawabe, interview, July 7, 2005; S. Glacy, interview, February 3, 2006).

In this way, Mexfruco’s customer-oriented CSA causal configuration was severely
disrupted. Consequently, this configuration was not a resource on which to maintain
differentiation anymore, and it actually worked to destroy the firm’s reputation. Furthermore,
Mexfruco did not only lose the social and cultural capital on which it had built its differentiation.
Its competitors gained much of it, since several of the managers and technicians gone from
Mexfruco were soon hired by other packer-exporters in the industry.

In conclusion, the changes that Mexfruco underwent in its customer-oriented CSA causal
configuration during its second morphogenetic cycle constituted a “factor-subtractive” process
for the company, which created a form of “lock-out commitment” characterized by a persistent
“difficulty of recalling discarded opportunities” (Ghemawat, 1991: 20). In fact, even when it
reestablished its Quality Control Department in May 2003, as of late 2004 and early 2005 the
company had not been able to reinitiate transactions with its former customers or to rebuild those
relationships. Other Michoacán exporters had taken over.

8.4.- SUMMARY AND DISCUSSION OF THE CASE STUDY

In this chapter I have presented an explanatory narrative of Mexfruco’s CSA, along the
lines of what Archer calls an “analytical history of emergence” (1995: 327), or what Van de Ven
& Poole call a “local theory of immediate action” (1989/2000: 48). This account constitutes a
“plausibility probe” of the “typological theory” (George & Bennett, 2004) of corporate social
responsibility, action, and performance that I outlined in chapters 3 thru 5.
In the first part of the chapter I address the question of which are the sources and nature of corporate moral and social responsibilities. Based on the systemic perspective of critical realism and morphogenetic theory, I postulate a number of properties, or causal factors, that emerge from the socio-cultural system in which Mexfruco was embedded. In this way, causal factors of diverse nature are incorporated in one model, i.e. religious or philosophical motivations, institutional forces, patterns existing in the task environment, etc., add or subtract from each other to outline the complex causality of CSA.

Accordingly, I postulate several properties that emerge from the Michoacán cultural system. Some of them are within-group communitarianism, paternalism, nationalism/regionalism, a restricted concept of private property, moderation in profit-seeking behavior, and some more recent ideologies of individualism and profit maximization. I argue that these properties reside deep in the real domain and, though distally, they set a context, or “collective unconscious” (Jung, 1934-55/2002), which likely conditioned Mexfruco CSA toward value-based and traditional (or isomorphic) forms.

I also propose a number of properties that emerge from the various structural systems in which, to a higher or lower degree, Mexfruco was embedded. I refer, from the Mexican structural system, to properties like labor, tax, and corporate laws, which led Mexfruco to isomorphic CSA initiatives; as well as to the relative weakness of the Mexican system to enforce its laws, which opened the possibility of either opportunism or ethical constraint.

With respect to U.S. structures, I point out the tax incentive system that was in place until 2004, which provided an effective stimulus for income-shifting practices. This incentive, which was not discretionally constrained, led Interfruco to behavior that was considered as locally irresponsible from the perspective of the subsidiary.
Other institutional emergent properties arose from protocols specifically applicable to Mexfruco’s core activity, such as U.S. regulations ruling the importation of Mexican avocados, or European standards for food safety and quality management. Eventually, these properties led to isomorphic CSA responses. However, during Mexfruco’s early years, European standards represented an opportunity for strategic CSA because the company pioneered these kinds of programs in México and introduced them in other markets.

Mexfruco was also confronted with different systems of exchange, as defined by Biggart & Delbridge (2004). Most international customers leaned towards associative systems. Local workers preferred a system close to the communal type. Michoacán growers had established a market system, but with monopolistic imperfections. Finally, Mexfruco had the opportunity of entering moral systems of exchange (e.g. organic fruit markets). Each system had particular implications for the company’s CSA.

The need of contributing to palliate the most urgent inequalities of Mexfruco’s social environment was another emergent property in the real domain (e.g. illiteracy, housing, addictions, etc.), which contributed to value-based CSA.

Consistent with Goll & Rasheed (2002, 2004), I have proposed that two properties emerging from Mexfruco’s task environment conditioned its CSA. On the one hand, the high dynamism, or turbulence, of the environment motivated some strategic CSA in order to contain the power of growers and to neutralize production shifts caused by the biological nature of the avocado production process. On the other hand, the munificence of the environment determined the company’s slack that could be used in CSA; this property changed during the period of study, from high to low munificence.

Finally, other properties emerging from the company’s environment were the patterns that other industry players had developed in their relations with stakeholders. Notably, the situation of
conflict and distrust between growers and packers; the law-compliant relations of packers with their packinghouse workers, as well as the controversial outsourcing alternative on which they relied to contract harvesting workers; and centralized management in the case of foreign-owned exporting firms.

All the aforementioned emergent properties stood in positions of complementarity or contradiction with one another. Such positions constitute second order relations that defined a situational logic which pre-dated, conditioned, and in turn, was confronted by managerial actions. This approach to CSR necessarily implies that subsequent CSA has complex causality. It attempts to make explicit any assumptions, beliefs, doctrines, exchange systems, etc., and correspondingly, it does not take for granted that everybody in business acts out of the same assumptions.

The second part of this chapter explains the dynamics of CSA. It explains how Mexfruco managers faced and understood the company’s environment, its emergent properties, and the situational logic arising from their mutual relations of complementarity or contradiction. In this part I also explain the consequent company’s actions. I identified two distinct morphogenetic cycles for Mexfruco during the period of study; the first one running from its startup until late 2000 or early 2001; and the second, from that date on. The analyses of both cycles begin with a study of managerial properties. I postulate the existence of a number of CSR properties emerging from Mexfruco managers which interplayed with the properties emerging from the larger socio-cultural environment and shaped CSA. This is consistent with the view, underlying this dissertation, that corporate moral and social obligations are defined by environmental forces, but that it is managerial agency which makes sense of and respond to them (Kleinfeld-Wernicke, 1992). However, I had no access to data on the psychology of the managers (e.g. their moral reasoning, self-regulation characteristics, etc.), which weakens my analysis of managerial agency.
In studying CSA, I first discussed the pattern of Mexfruco’s decision making and implementation to show how, from human agency, some other properties emerge, this time from the firm itself (e.g. strategic commitment, new organizational structures, external anchorages, etc.), which may support a certain line of CSA while internally transforming the organization. In this way I illustrate another crucial point in my argumentation, i.e. that organizations, in the process of responding to moral and social forces arising from their environment, transform themselves, along a process that Archer (1995) calls double morphogenesis.

Afterwards, based on this analysis, I propose three causal configurations of the company’s CSA, corresponding to its actions oriented to workers, growers, and customers, respectively. The argument that I present shows that CSA is a phenomenon whose causality is complex. A number of factors (or emergent properties) combined to create a given form of CSA. The postulated causal configurations ideographically explain the observed CSA, and therefore, they exhibit properties that are valid for understanding other cases, despite the particularities of Mexfruco (Ackroyd & Fleetwood, 2000b; Easton, 2000). By virtue of this, these causal configurations constitute hypotheses amenable to verification or modification in other cases or contexts.

The analysis of causal configurations shows that, as Weber (1922/1978) postulated many years ago, any form of social action is motivated by a combination of different causes, some of them instrumental, some others value-based, and still others traditional or isomorphic. However, one of them seems to be prevalent over, though somehow moderated by, the others in each configuration. The analysis of causal configurations also supports the concept, which is fundamental in morphogenetic theory, that human agency is indispensable as a mediator of the effect of socio-cultural forces. In fact, all the postulated causal paths share a common feature, i.e. managerial agency is always a necessary condition for CSA to occur. Moreover, if we compare these causal configurations with one another, it becomes clear that managerial agency becomes
more relevant (i.e. more managerial properties intervene) as CSA gets closer to the strategic form. In the present case, none of the causal configurations seems to be predominantly value-based. They are either strategically oriented or isomorphic. However, value-based properties seem to moderate such causal configurations.

The fact that managerial agency is always a necessary condition for CSA supports the contention of Garcia-Pont & Noboa (2004) that, independently of their degree of autonomy on strategic or operational issues, all subsidiaries need autonomy and slack to respond to their multiple needs for legitimacy, i.e. those emerging locally, globally, or from within the multinational organization (Kostova & Roth, 2002). Otherwise, local managers lack discretion on moral/social issues, and consequently, they can neither respond to nor be held responsible for deficits of legitimacy or low CSP. In fact, the causal configurations of Mexfruco’s CSA show that, as Muller (2006) argues, subsidiary autonomy and local managers’ discretion increase their engaging with socially responsible actions both locally and globally.

The next step involved the discussion of processes of socio-cultural elaboration, by which CSA produces certain outcomes. From the moral/social perspective, the desirable outcome of CSA is the creation of the various forms of legitimacy for the company (see section 5.2.2, chapter 5), which can be measured along a CSP profile. At the same time, another desirable outcome is competitive advantage, which under certain conditions (as discussed in section 5.2.3, chapter 5), may emerge from the same causal path as legitimacy. The possibility of multifinality from a single causal path underlies the notion of such a dual outcome.

The analysis of socio-cultural elaboration starts with a study of the situational logic defined by the relations of complementarity or contradiction between the ideas and interests of the parties to a relationship; in this case, between Mexfruco and its stakeholders. Those situational logics may be either the “confluence of desires and interests”, “power induced
compliance”, or “reciprocal exchange”. In the first situation, legitimacy emerges straightforwardly insofar as the parties maintain their complementary positions and act congruently. Mexfruco faced this kind of situation in its relationships with customers and workers during its first morphogenetic cycle.

In the second situation, of power induced compliance, legitimacy emerges to the extent to which the powerful party exerts its dominance in a way congruent with the socio-cultural and personal emergent properties which condition the relationship, and to the extent to which the dominated party corrects any contradiction existing in the real domain. Since any of this solutions is hardly possible (otherwise, there would be no need of exercising power to achieve compliance), mutual legitimacy does not emerge or, if it already existed, it is likely destroyed. Mexfruco faced a situation of power induced compliance in its relations with its parent company during its second morphogenetic cycle, in which mutual legitimacy was destroyed. Consequently, the relation became unstable (Zelditch, 2001).

With respect to the third possibility, of reciprocal exchange, there may be two alternative situations. On the one hand, the relationship is based on complementarities. The various forms of legitimacy may emerge, in this case, from the conduction of satisfactory exchanges and the conservation of the complementarities. Mexfruco’s relations with its workers in the second cycle resemble this situation. On the other hand, when the relationship is characterized by constraining contradictions, pragmatic legitimacy may be gained from the conduction of favorable exchanges, even if the contradictions are not resolved. Mexfruco had this type of situation with growers, in both cycles, and with customers, during its second cycle. The company was generally able to have successful exchanges with its growers, which gained pragmatic legitimacy for it. However, exchanges with customers during its second cycle were not satisfactory for them, which destroyed the firm’s legitimacy and even the relationships.
Archer (1995) points out that social systems rarely change in the direction anybody wants. Her arguments suggest that this is so because of the autonomous variation of the different emergent properties that are part of a causal configuration, which makes the outcome of their interplay highly unpredictable. This is why a critical realist and morphogenetic approach focus on explanation and not on prediction. I think that the explanatory narrative herein presented for the case of Mexfruco confirms the usefulness of the theoretical framework developed in earlier chapters of this dissertation for building ideographic explanations of a firm’s CSA and CSP.
Chapter 9

DISCUSSION AND CONCLUSIONS

The departing point of this dissertation has been the assessment, by a number of scholars, of the current status of CSR theorizing as a field in crisis (e.g. Frederick, 2006; Margolis & Walsh, 2003; Van Oosterhout & Heugens, 2006), in need of new approaches capable of addressing the corporate social dimension in a systemic way (Margolis & Walsh, 2003). That crisis is aggravated in international settings because much of the business-and-society literature has been developed in an Anglo-American context and is ethnocentric (Crane & Matten, 2004; Küng, 1997/2000; Lozano, 1998/1999; Pesqueux & Biefnot, 2002, among others), which precludes seeing the influence that various belief and value systems, and diverse institutional and task environments, have on the content of CSR and the assessment of CSP.

Consequently, the dissertation’s objectives have been twofold: First, to develop a general theoretical framework on which to base ideographic explanations of the nature, causes, dynamics, and consequences of corporate social responsibility and corporate social performance, with a focus on subsidiaries of multinational companies. Second, to apply it to the case of a particular subsidiary organization operating in Mexico, with the purpose of developing an explanatory account or “local theory” of its CSR, CSA, and CSP. This account has served as both a plausibility probe and a building block of the general framework (George & Bennett, 2004).

In order to reach these objectives, I decided to rely on a critical realist philosophy. The reasons to do so arose from my conviction that social scientists have a doxastic responsibility, i.e.
they are intellectually responsible for the beliefs and assumptions with respect to the nature of human beings and the world which underlie their scientific endeavors (Montmarquet, 1993). I am dissatisfied with the naïve realism of positivistic science, the ontological indifference of postmodernism (Reed, 2005), and the frequent “agnosticism” on these matters of much contemporary social research (Archer, 1995; Tsang, 2006). In contrast, I find the principles of critical realism as compelling and convincing. Thus, I axiomatically adopted them for this dissertation and made them explicit in the second part of chapter 2. This decision led to the selection of morphogenetic theory (Archer, 1995, 1996), the most advanced social theory based on critical realism (Fleetwood, 2004, 2005), as the overarching theoretical basis of the dissertation.

In chapters 3, 4, and 5, I have developed a general framework for explaining and understanding CSR, CSA, and CSP in international settings, along the lines of what George & Bennett (2004) call “typological theories”, i.e. theories that identify causal mechanisms (as they are understood in critical realism), specify their conjunctions or configurations, and provide contingent generalizations on the pathways through which and the conditions under which the causal mechanisms produce certain results. This general framework has been formulated as a meso theory, which integrates micro and macro levels of analysis (House, Rousseau, & Thomas-Hunt, 1995). Its intended use is as a “global model” or “motor” (Van de Ven & Poole, 1989/2000), which describes and explains general trends, overall processes, formal causes, and final outcomes of corporate social action; but which requires “local theories of immediate action” for describing and explaining the processes, interactions, and mechanisms that operate in particular local and temporal contexts. The case study presented in chapters 7 and 8 is such a local theory.
I do not claim, in any way, that the general framework presented in chapters 3 thru 5 is an original model or a brand new theory of the corporate social dimension. Rather, it constitutes an initial reformulation of the CSR/CSP literature according to critical realism and morphogenetic theory, within an international perspective. In other words, as explained at the beginning of chapter 3, my theoretical proposal is an attempt to philosophically embed much of the current CSR/CSP literature, which I see as compatible with and amenable to rearrangement according to critical realism and morphogenetic social theory. I already argued why, philosophically speaking, this rearrangement is necessary for someone that explicitly adopts the ontological and epistemological stance of critical realism and, on that basis, wants to obtain rich ideographic explanations of the causes, dynamics, and consequences of CSA, as I do in this dissertation. In addition, as I discuss each part of the dissertation, below, I will point out why, in my view, such reformulation is useful.

A first, general argument on the usefulness of critical realism and morphogenetic theory is that they allow for a systemic approach that has been rarely used in CSR studies (see Strand, 1983, for an early exception). This is somehow paradoxical, because the relationships of businesses with their social environment involve many dimensions; different levels of analysis; various agents; phenomena such as complex causality, equifinality, and multifinality; and an obvious conception of the firm as an open system. This is even clearer in the case of multinational companies and their subsidiaries which operate in various societies and cultures. Therefore, in my view, a systemic approach is both needed and notoriously lacking in the field.

The morphogenetic approach is not only systemic, but based on analytical dualism. This methodological tool provides a powerful resource for deep and rich explanations of organizational (and CSR) phenomena, and importantly include time in each explanation. Analytical dualism first focuses on the socio-cultural forces that pre-date and condition social
phenomena. However it does not assume that those forces determine actual outcomes. Morphogenetic theory asserts that the effect of socio-cultural forces is necessarily mediated by human action. Actual outcomes are the result of the interplay of preexisting socio-cultural forces and human agency. Therefore, this theoretical approach gives social forces, human agency, and time, their proper place in shaping social phenomena. In this way, the morphogenetic approach differs from other systemic perspectives which focus mainly on human action, or the social system, or both as a simultaneous confluence of forces (a sort of “social hydraulics”).

Analytical dualism also sets morphogenetic theory apart from conflationary social theories which, in Archer’s (1995, 1996) view, fail to adequately explain social phenomena. For instance, upwards conflation is associated with individualism. Social structure is viewed as the aggregation of individuals and their actions, as they make up present-day society. In organization theory, this perspective is assumed by approaches such as strategic choice and the economic theory of the firm (Astley & Van de Ven, 1983; Scott, 1998). The understanding of CSR/CSP from perspectives akin to this view largely ignores that businesses are embedded in a social context which has social structures and systems of belief (Granovetter, 1985), and that managers may have other legitimate reasons for acting in addition to or instead of profit maximization. The theory outlined in this dissertation acknowledges the importance of the economic orientation to the study of CSR/CSP and includes its views, but it is not limited to or by it.

By the same token, downwards conflation reifies structure. It considers the behavior of individuals to be determined by social forces, and human action is seen as marginal. In organization theory, this stream of thought is represented by all the theories that lean towards environmental determinism (Astley & Van de Ven, 1983; Scott, 1998). For example, neo-institutional theory can explain broad, isomorphic types of CSR/CSP, but it offers no help to explain non-isomorphic types of CSR/CSP. While it helps us to understand differences in
CSR/CSP between countries (Matten & Moon, 2008), it has difficulty to explain differences between individual companies in moral/social practices, because external, institutionalized pressures are often insufficient to explain CSA (Howard-Grenville, 2007). Neo-institutional views also fail to explain the micro-processes by which any type of CSA is adopted and implemented by organizations. Other than creating and shaping new institutions, there is little room for managerial agency in the neo-institutional perspective. The model proposed in this dissertation is not deterministic; it includes institutional forces and pressures as sources of CSR, but it gives human agency an important, mediating role.

In chapter 3, I address the following question: What defines the corporate social and moral responsibilities of a subsidiary of a multinational company? In other words, what is the nature and sources of corporate moral/social responsibilities? I propose that the causal factors of CSR are the set of obligations (e.g. normative principles, social expectations, etc.) that emerge from both the cultural (ideational) and structural (relational and material) systems of each society. In the case of multinational companies and their subsidiaries, these causal factors emerge from both global socio-cultural structures and the different local systems in which these companies operate. These responsibilities include universal ethical principles and structural global factors, and also many and more proximal factors that are idiosyncratic to each society. In addition to their first-order (direct) causal influence, these emerging causal factors have second-order relations of congruence or incongruence with one another. Their interplay generates specific configurations in each time and place which define the expected content, direction, and modality of CSR. These configurations set the context for action; i.e. they condition, but do not determine, corporate social responses.

The critical realist notion of a stratified reality, with some domains located at more superficial levels than others, allows integrating different streams of scholarship in business
ethics and CSR into one conceptual framework like the one presented in chapter 3. I refer, specifically, to two major research perspectives in the field: the normative/ethical and the economic/managerial, which have had little communication with one another and even less integration (Graafland & Van de Ven, 2006; Windsor, 2006). Most social scientific perspectives have limitations to approach topics such as religion- and philosophy-based CSR. Yet, for critical realists, ethical propositions cannot be rejected or ignored (Sayer, 2004). To the extent to which agents adhere to or perceive compliance with ethical norms, these norms are considered to be part of causal chains, i.e. emergent properties that condition human behavior.

In addition, realist social scientists assume that the knowledge of deeper levels (e.g. philosophical) may correct as well as explain knowledge of more superficial ones (Bhaskar, 1998). If human acts are implicated in the reproduction of certain social structures and relations falsely based, critical realists are in a position to consider alternative structures and relations that may overturn that state of affairs, and promote genuine human flourishing (Ackroyd & Fleetwood, 2000b). Thus, according to the framework advanced in chapter 3, a normative proposition emerging from the cultural system (e.g. an assessment or judgment of a given business practice, based on moral philosophy) may contradict and challenge other emergent properties. That proposition, if and when adequately mediated by human thinking and action, may eventually correct an unjust practice. In my view, this characteristic of critical realism is fundamental if we want to reintroduce ethical concerns into CSR scholarship. Much of contemporary CSR analyses, based on standard organization theory, are deprived of moral dimensions (Frederick, 2006; Margolis & Walsh, 2003) because they acritically take morality for granted (i.e. they assume that it is somehow defined by “society”) and do not address the ethical quality of stakeholder interests and firm responses. Throughout my proposal, both social and ethical concerns are always present.
The conceptual framework presented in chapter 3 also allows seeing the influence that various belief and value systems, and diverse institutional environments, have on the content of CSR. In this way, it offers a position critical to mainstream scholarship on CSR/CSP, which by virtue of its ethnocentrism, may be inadequate, insufficient, or inapplicable in many international contexts. The morphogenetic approach that I have adopted in this dissertation explicitly addresses the characteristics and properties of different belief and value systems and institutional environments; defines their position of complementarity or contradiction with one another and with those of other systems; and allows the analysis of the situational logic that they create as a context for human agency. This helps to better understanding the sources of CSR in cross-cultural settings.

Consistent with chapter 3, in the case study (chapter 8) I postulate several properties that emerge from the cultural and structural systems of Michoacán, México, where Mexfruco was located. I made explicit the assumptions, beliefs, doctrines, exchange systems, institutions, social patterns, etc., which reside deep in the real domain and set a context which likely conditioned Mexfruco CSA toward value-based and traditional (or isomorphic) forms. This approach to CSR necessarily involves a historical and cultural perspective, and it implies that subsequent CSA has complex causality.

Chapter 4 focused on the actual level of reality, in which managers, other organizational members, and stakeholders, through their actions and interactions, mediate the conditioning influence of CSR principles and concepts and shape CSA. This is a crucial part of the morphogenetic argument. The fundamental point here is that morphogenetic theory allows analyzing CSR as business obligations that emerge from the socio-cultural environment, i.e. that firms are held responsible by society by ascription, but which only managers can act according to such attributed responsibilities by acknowledging, accepting, assuming, and responding to them.
(Hemingway & Maclagan, 2004; Kleinfeld-Wernicke, 1992). During the process of actual interaction, the personal characteristics of managers with respect to CSR come into play. Those characteristics (e.g. managerial power, identity, experience, education, moral agency) constitute causal CSR powers or, in Archer’s (1995) terms, personal emergent properties.

Although critical realism and morphogenetic theory strongly emphasize the analytical distinction between and equal importance of structure and agency, they tend to focus more on the former than on the later (Zeuner, 1999). In the words of some of their critics, “critical realists have comparatively little to say about agency” (Contu & Willmott, 2005: 1654). In chapter 4, I overcome this weakness by relying on Bandura’s (1986, 1988, 2001; Wood & Bandura, 1989) social cognitive theory. Bandura’s study of human agency, and particularly of moral agency, allowed the identification of personal causal properties related to CSR and the enactment of CSA.

In the case study (chapter 8), and consistent with chapter 4, I outlined some of the personal emergent properties of Interfruco and Mexfruco managers on the bases of their identity and professional background. However, I was not able to observe many of the psychological characteristics of those managers (e.g. their moral reasoning and self-regulating mechanisms). Consequently, the analysis of human agency in the case study is at least incomplete. Nevertheless, the comparison between the two morphogenetic cycles that Mexfruco underwent clearly shows that managerial changes had an impact on the firm’s CSA, since there were not substantial changes in the broader socio-cultural environment.

I have been able to offer a detailed analysis of Mexfruco’s CSA within a context larger than mere stakeholder relations. After identifying the main lines, or tracks, of the company’s social action, I proposed several causal configurations that led to the specific forms of CSA that the firm displayed. Each configuration included several emergent properties. However, none of those properties was sufficient by itself to produce the CSA outcome. Rather, they combined to
create it. While all the properties included in each of the causal configurations were present in the Mexfruco case, it was the presence of some, but not necessarily all of them which might be a necessary condition for the occurrence of a specific form of CSA. The only property that, by itself, represented a necessary condition was managerial agency and its two basic elements: ability and discretion.

The condition of necessity or not of the properties that constituted the causal configurations of Mexfruco’s CSA (other than managerial agency) remains unclear in my analysis. Which of them are necessary? Which of them were present only contingently, or contributed only marginally to the outcome? This is a limitation of my explanatory account, derived of a weakness of critical realism. This perspective claims that actual outcomes occur through the interplay of real and contingent properties; however, the status of necessity or contingency of a given emergent property is difficult to clarify (Contu & Willmott, 2005).

The analysis of CSA showed that Mexfruco underwent two morphogenetic cycles during the period of study. Strategic forms of CSA were implemented with customers and suppliers (growers) during the company’s first morphogenetic cycle, and isomorphic CSA was implemented with workers. In all cases, value-based properties moderated the final form of CSA. This confirms the Weberian notion that, to various degrees, actual corporate social action usually presents a combination of different orientations, i.e. strategic, value-based, or isomorphic. During its second cycle, the company dismantled much of its customer-oriented CSA. Worker-oriented CSA was reduced to strictly isomorphic levels, and supplier-oriented CSA remained strategic.

In chapter 5, I discuss the outcomes of the interplay between cultural and structural CSR emergent properties, managerial agency, and CSA, i.e. corporate social performance (CSP). I argue that, through social elaboration, corporate social actions may contingently end up being logically congruent and structurally consistent with the situational logic defined by the principles
and concepts of CSR that emerge from the broader cultural and structural system, as well as those emerging from organizational members. The main point is that, by being congruent with that situational logic, the organization may gain moral and social legitimacy, i.e. it may reach a high level of corporate social performance in the real domain.

Consistent with much of the sociological and psychological literature on legitimacy, and in contrast with mainstream literature on business-and-society, I assumed that legitimacy is a valuable and desirable organizational attribute in and by itself, independently of its relation with financial performance. I proposed different types of legitimacy that companies may gain through their CSA, and outlined a socio-psychological process by which legitimacy develops from stakeholders’ perceptions of fairness and attributions. I also discussed how and under which conditions competitive advantage may emerge from CSA, through the same causal path by which legitimacy arises.

Based on chapter 5, in the case study (chapter 8) I explained how Mexfruco’s CSA was consistent, or not, with the situational logic that the company faced in its stakeholder relations. Since I had no access to data on longitudinal fairness perceptions, I explained the processes of legitimacy building on the basis of the accumulation and exchange of intangible forms of capital (Bourdieu, 1986, 1994). Through this analysis I explained how and why Mexfruco achieved high levels of CSP during its first morphogenetic cycle, when it also developed competitive advantage. I also explained how the company lost its competitive advantage and diminished its customer-oriented CSP during its second morphogenetic cycle, while basically maintaining its legitimacy with workers and suppliers.

A social capital approach has been used to analyze CSP in small and medium-sized enterprises (Carlisle & Flynn, 2005; Habish, 2004; Spence & Schmidpeter, 2003; Spence, Schmidpeter, & Habish, 2003), which are built on personal relationships. In this dissertation I
expand this approach by including other forms of intangible capital, namely cultural and moral, which can also be accumulated and exchanged. Legitimacy increases to the extent to which these forms of capital accumulate and are exchanged with stakeholders.

Throughout the dissertation, organizations are presented as intermediate cultural and structural systems (Reed 1997, 2005) that both condition and are changed by CSA. This notion derives from Archer’s (1995) concept of double morphogenesis, Selznick’s (1957/1984) process of institutionalization, and Fort’s (2001, 2002) view of the firm as a mediating institution. The company’s culture, structure, and identity are shaped as it enacts its CSA. I argue that these changes constitute a form of CSP which prepares the company for subsequent CSA and provides it with moral/social capabilities. The case study illustrated this process of organizational change.

Summarizing the previous discussion, this dissertation emphasizes the doxastic responsibility of social researchers, the relevance of making explicit the ontological and epistemological assumptions and beliefs that underlie research efforts, and the necessary congruence that should exist between those efforts and assumptions. In addition, it offers the following contributions to theory:

- It presents a systemic model for ideographically explaining the nature, causes, dynamics, and consequences of the corporate moral/social dimension, which is currently lacking (Margolis & Walsh, 2003). This model is useful for the crucial task of explaining the extent to which a firm’s CSA is appropriate for (congruent with) the situational logic defined by distal and proximal cultural, structural, and personal emergent properties and their second-order relations with one another; and how this degree of appropriateness leads to gaining different levels and types of legitimacy.

- The model and its philosophical underpinnings entail the possibility of integrating different perspectives, such as the normative (philosophical) and descriptive (social
scientific) streams of research on CSR/CSP (Swanson, 1999). This is of fundamental importance if we aim at reintroducing ethical considerations in CSR social scientific scholarship.

- It also allows the integration of the CSR/CSP literature with organization theory, by virtue of its epistemic pluralism (Reed, 2005). In this way, a given theory may be used to explain a certain phenomenon in which the theory’s assumptions hold (e.g. explaining strategic CSA from the perspective of strategic choice, or isomorphic CSA from the view of institutional theory) without necessarily granting universality to those assumptions.

- The model explicitly acknowledges the existence of diverse socio-cultural systems in different societies. Thus, it offers a way to account for socio-cultural differences among various international contexts. In this way, it may help to define the scope of application of some organizational theories and to improve the understanding of organizational behavior in environments in which the assumptions of those theories might not apply (Hamilton & Biggart, 1988; Tsang, 2006).

- By rejecting social determinism, this dissertation grants international managers a crucial role in acknowledging, accepting, assuming, and responding to moral and social responsibilities. To have an effect, all socio-cultural CSR causal forces must be mediated by human agency.

- It introduces the organization as a mediating cultural and structural entity that both conditions and is modified by CSA. The extent to which the organization is institutionalized, in the sense of Selznick (1957/1984), is considered to be a dimension of CSP (i.e. structural CSP).
• It advances a conceptualization of CSP as a profile of different types of legitimacy, and proposes two convergent ways in which legitimacy is gained or maintained: One, psychologically oriented, involves the formation of fairness judgments and attributions and their socio-cultural elaboration. The other, sociologically oriented, is based on the accumulation and exchange of intangible capital (social, cultural, and moral).

Theoretically, this dissertation is limited by the difficulty to recognize the status of necessity or contingency of particular emergent properties. This limitation is reflected in the causal configurations of the case study. Only managerial agency (ability and discretion) could be identified as a necessary condition in and by itself for the occurrence of CSA. The other properties included in the configuration are assumed to be necessary in a combined way. By studying new cases and making cross-case analyses, future research may be helpful to overcome this limitation.

The case study has two additional limitations. On the one hand, it exclusively reflects the view of the subsidiary. It was impossible to have access to data from the parent company. Although this fact implies a bias that is apparent in the descriptive phase of the study (chapter 7), it does not seem as relevant in the explanatory phase presented in chapter 8. On the other hand, the case study presents an incomplete study of managerial agency, because it was not possible to have data on some psychological traits of managers, particularly with respect to their moral reasoning and self-regulatory mechanisms.

With respect to managerial implications, this dissertation highlights the importance, for international managers, of understanding and assessing the belief systems and social pressures of societies and cultures different from their own. In particular, the framework presented in chapter 3 may constitute a “consulting kit” or guideline useful to study and analyze new socio-cultural environments. Consequently, it may help managers to overcome the difficulties which they often
find for knowing and interpreting those systems, and to better identify the moral and social expectations existing in the countries where they establish subsidiaries.

This study also emphasizes the importance of managerial discretion and subsidiary autonomy in achieving high CSP, which should be taken into account when designing international organizations. The fact that managerial agency is always a necessary condition for CSA supports the contention of Garcia-Pont & Noboa (2004) and Muller (2006) that, independently of their degree of autonomy on strategic or operational issues, all subsidiaries need autonomy and slack to respond to their multiple needs for legitimacy and CSP, i.e. those emerging locally, globally, or from within the multinational organization (Kostova & Roth, 2002). Otherwise, local managers lack discretion on moral/social issues, and consequently, they can neither respond to nor be held responsible for deficits of legitimacy or low CSP.

The findings of this dissertation have some implications for managerial education. First, they underline the need of providing managers with tools for historical, cultural, and philosophical analyses. The various socio-cultural systems in which a multinational company may operate have emerged from particular historical, ideational, and structural conditions. Moreover, at times, the situation and practices common in a system might be amenable to ethical improvement. International managers must be able to grasp the particular conditions of a socio-cultural system and to judge the ethicality of its practices if they want to be economically effective in a morally and socially responsible way. Second, this need is a two-way street: Parent company managers should be able to understand and critically assess the socio-cultural context of their subsidiaries, while subsidiary managers should be able to do the same with respect to the context of the parent company and its home country. Forming “cultural translators” emerges as an intriguing and interesting possibility.
Third, it is important that international managers critically know the assumptions, limitations, and scope of application of the theories they learn. People (and managers) tend to adopt as true the theories they are taught (Ferraro, Pfeffer, & Sutton, 2005; Ghoshal, 2005). Yet, some theories may be adopted in a given socio-cultural system and other theories in another system. Therefore, managerial and organizational theories are often not universal. For instance, both Hamilton & Biggart (1988) and Davis, Schoorman, & Donaldson (1997) suggest that the economic theory of the firm is probably well suited only to Anglo-American contexts. Consequently, a successful international manager (i.e. someone who is strategically/economically effective in a morally/socially responsible fashion) should understand the limits of his/her theoretical knowledge and the extent to which it is appropriate in a foreign environment.

As usual for typological theories, future research involves case studies of CSR, CSA, and CSP in various socio-cultural systems, different organizations, and in general, diverse contexts, in order to accumulate a repertoire of causal mechanisms or “local models of action”, and to refine contingent generalizations. For instance, it may involve testing my theoretical framework in economic and cultural contexts different from those of this dissertation’s case study, namely agribusiness, and particularly the recently modernized Michoacán (México) avocado industry. Future research may also involve assessing the effect of physical and cultural proximity between parent company and subsidiary on the subsidiary’s CSA and CSP. Another possibility is to compare headquarters-subsidiary systems managed according to the more centralized supply chain paradigm versus those managed according to the mode decentralized industrial network model (Faria, 2004). Furthermore, comparing subsidiaries of one MNC located in different socio-cultural systems, or MNCs whose headquarters are based in contrasting socio-cultural systems, should also be useful to better understand CSR, CSA, and CSP in international settings.
In addition to creating a repertoire of causal mechanisms, the eventual accumulation of case studies will allow cross-case analyses. In this way, conditions which are necessary for a causal configuration will likely be differentiated from those that are contingent (something that has been difficult to achieve in this dissertation’s single-case study). Such repertoire of causal mechanisms and the refinement of its contingent generalizations will likely allow researchers to formulate rich, ideographic explanations of a company’s moral and social dimension, and practitioners to make clear diagnoses of emerging CSR situations in new socio-cultural contexts.


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Snyckers, T. 2006. Evading corporate social responsibility through tax avoidance In W. Visser, M. McIntosh, & C. Middleton (Eds.), *Corporate citizenship in Africa: lessons from the past; paths to the future*. London: Greenleaf Publishing.


Tyler, T. R. 2001a. A psychological perspective on the legitimacy of institutions and authorities. In J. T. Jost & B. Major (Eds.), *The psychology of legitimacy: emerging perspectives on


emerging perspectives on ideology, justice, and intergroup relations: 103-134. Cambridge, UK: Cambridge University Press.


Appendix No. 1

CASE STUDY RESEARCH PROTOCOL

I) INTRODUCTION

Research Questions

General question: What are the causes of CSR, dynamics of CSA, and consequences as CSP?

Specific questions:

4. What defines the corporate social responsibilities of a subsidiary of a multinational company?

5. What factors determine the corporate social performance of a subsidiary of a multinational company?

6. How can that subsidiary reach a high level of corporate social performance?

II) QUESTIONS TO ASK / DATA TO COLLECT IN THE CASE

1.- General information about the MNC and its Mexican subsidiary

<table>
<thead>
<tr>
<th>Question /Issue</th>
<th>References</th>
<th>Sources of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Company history and general information</td>
<td>• Clarkson (1991)</td>
<td>• Subsidiary managers (interviews).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Company brochures.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Company’s annual reports.</td>
</tr>
<tr>
<td>Topic</td>
<td>Description</td>
<td>References</td>
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</tbody>
</table>
| **b) Mission, purpose, and strategic objectives** |  - Find out and understand the reasons and circumstances that lead to the establishment of the subsidiary.  
- Obtain one copy of both parent company and subsidiary mission statements. Have they changed over time?  
- List the strategic objectives that guide the subsidiary’s activity. Have they changed over time? |  - Clarkson (1991)  
- Subsidiary managers.  
- Mission statement. |
| **c) Size and growth** |  - Find out the historical levels of total sales, total assets, and number of employees of the subsidiary, up to date.  
- Find out and/or calculate the evolution of the subsidiary’s market share (share of Mexican fresh avocado exports), in total and per each major importing country. |  - Subsidiary financial statements.  
- Subsidiary tax declarations.  
- Other subsidiary records.  
- APEAM (industry) statistics. |
| **d) Organizational structure** |  - What is the legal status of the subsidiary?  
- Confirm the structure of ownership of the subsidiary and the nationality of foreign capital.  
- Is it inscribed in any export incentive programs of the Mexican government? In which (Pitex, Altex, Maquila, etc)? For how long?  
- What is the composition of the subsidiary’s board? Which changes have it experienced over time?  
- Who controls major decisions of the subsidiary?  
- Obtain organizational charts of both the parent company and the subsidiary.  
- To whom does each member of the subsidiary’s management team report?  
- Are there any structures specifically designed for CSA purposes? How did they get started? How have they evolved through time? |  - Clarkson (1991)  
- Subsidiary managers.  
- Charter of the subsidiary  
- Minutes of subsidiary’s annual meetings of shareholders.  
- Certificates of inscription in export incentive programs.  
- Organizational charts of both parent company and subsidiary.  
- Job descriptions and similar internal manuals. |
| **d) Organizational culture** |  - Identify the stakeholder culture of the subsidiary.  
- Identify the cultural style of the subsidiary. |  - Jones et al. (2007)  
- Cooke & Rousseau (1988)  
- Subsidiary managers. |
### 2.- Strategic performance of the subsidiary

<table>
<thead>
<tr>
<th>Question /Issue</th>
<th>References</th>
<th>Sources of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Strategic performance</td>
<td></td>
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<tr>
<td>- How has the overall performance of the subsidiary been over time and up to date?</td>
<td></td>
<td></td>
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<tr>
<td>- How has the quality of their products evolved over time?</td>
<td></td>
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<tr>
<td>- How has the labor productivity of the subsidiary evolved over time and up to date?</td>
<td></td>
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</tr>
<tr>
<td>- How has the management development of the subsidiary been over time and up to date?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Evolution of the subsidiary’s market share</td>
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<tr>
<td>- Obtain the accounting profits of the subsidiary for the period of study.</td>
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<tr>
<td>• Geringer &amp; Hebert (1989)</td>
<td>• Subsidiary managers.</td>
<td>• Subsidiary manager’s immediate superior (parent company).</td>
</tr>
<tr>
<td>• Subsidiary manager’s immediate superior (parent company).</td>
<td>• Company’s annual reports.</td>
<td>• Financial statements.</td>
</tr>
<tr>
<td>• Company’s annual reports.</td>
<td>• Tax declarations.</td>
<td>• APEAM statistics.</td>
</tr>
<tr>
<td>• Financial statements.</td>
<td>• APEAM statistics.</td>
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### 3.- General information about the industry

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<thead>
<tr>
<th>Question /Issue</th>
<th>References</th>
<th>Sources of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Industry background</td>
<td></td>
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<tr>
<td>- Which is the industrial sector in which the subsidiary participates?</td>
<td></td>
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<tr>
<td>- Obtain a description of the competitive structure of the industry, <em>a la</em> Porter.</td>
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<tr>
<td>- List key competitors of the subsidiary and the parent company.</td>
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<tr>
<td>- Evolution of the subsidiary’s share of Mexican avocado exports.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Clarkson (1991)</td>
<td>• Subsidiary managers.</td>
<td>• Competitors</td>
</tr>
<tr>
<td>• Porter (1980)</td>
<td>• Company’s annual reports.</td>
<td>• APEAM (industry) records.</td>
</tr>
<tr>
<td>• APEAM (industry) records.</td>
<td>• Competitors</td>
<td></td>
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</tbody>
</table>

b) Industry type

- Assess which type of competition (global vs. local) predominates in the industry.
- Identify the predominant strategy in the industry (local differentiation vs. economies of scale).

• Harzing (2000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Subsidiary managers.</th>
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<tbody>
<tr>
<td>c) Task environment</td>
<td>• Subsidiary managers.</td>
<td></td>
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<tr>
<td>- Assess the dynamism and munificence of the subsidiary’s environment.</td>
<td>• Competitors</td>
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<tr>
<td></td>
<td>• Company’s annual reports.</td>
<td>Company’s annual reports.</td>
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<tr>
<td></td>
<td>• APEAM (industry) records.</td>
<td>APEAM (industry) records.</td>
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</tbody>
</table>
4.- Intra-firm operations

<table>
<thead>
<tr>
<th>Question /Issue</th>
<th>References</th>
<th>Sources of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Type and magnitude of intra-firm transactions</td>
<td></td>
<td></td>
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<tr>
<td>• Obtain the share of subsidiary’s operations (sales of products/purchases of inputs) conducted with parent or sister companies over time.</td>
<td></td>
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<tr>
<td>• Identify intra-firm “invisible transactions”: interests, rents, fees, royalties, etc. Assess their magnitude over time.</td>
<td></td>
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<tr>
<td>b) Transfer pricing policy</td>
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<tr>
<td>• Identify the base on which transfer prices are set.</td>
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<td></td>
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<tr>
<td>• Confirm whether this base has been used consistently throughout the years.</td>
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<tr>
<td>• Learn how costs are calculated and/or market prices are identified.</td>
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<tr>
<td>• Obtain an explanation on how transfer pricing policy decisions are made, i.e. who makes them.</td>
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<tr>
<td>• Identify the criteria for setting intra-firm interest rates, rents, fees, royalties, etc. Have they been consistent throughout the years?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Income-shifting effect</td>
<td></td>
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<tr>
<td>• Find out the market prices for the subsidiary’s products over time.</td>
<td></td>
<td></td>
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<tr>
<td>• Find out the actual intra-firm transfer prices over time.</td>
<td></td>
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<tr>
<td>• Obtain the historical volume of sales of the subsidiary in physical, not monetary units.</td>
<td></td>
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<tr>
<td>d) Alternative ways of resource allocation</td>
<td></td>
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<tr>
<td>• Are there any mechanisms in place by which the subsidiary receives resources, different from intra-firm sales, financing, and property loans? (e.g. periodic contributions to fix costs, etc.)</td>
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5.- Sources of corporate moral/social responsibilities

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<tr>
<th>Question /Issue</th>
<th>References</th>
<th>Sources of data</th>
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</thead>
<tbody>
<tr>
<td>a) Cultural CSR properties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Religious precepts, beliefs, philosophical orientations prevailing in the subsidiary’s cultural environment.</td>
<td></td>
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<tr>
<td>b) Institutional environment</td>
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<tr>
<td>• Identify relevant laws, norms, and institutionalized rules.</td>
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</tbody>
</table>
### c) Systems of exchange
- Identify the system of exchange that prevails in the subsidiary relationships with growers, customers, and workers.

<table>
<thead>
<tr>
<th>References</th>
<th>Sources of data</th>
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### d) Social needs
- Identify social needs caused by or derived from insufficient levels of economic development.

<table>
<thead>
<tr>
<th>References</th>
<th>Sources of data</th>
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</table>

### e) Patterns of stakeholder relations
- Find out the patterns existing in the industry in the relationships between packer-exporters and their main stakeholders (growers, workers, customers, industry organizations, etc.). Characterize them in terms of power and legitimacy; modality of exchange; mediating structures; and their global or local condition.

<table>
<thead>
<tr>
<th>References</th>
<th>Sources of data</th>
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</thead>
<tbody>
<tr>
<td>Mitchell et al. (1997)</td>
<td>Subsidiary managers. Competitors</td>
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<tr>
<td>Frooman (1999)</td>
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<tr>
<td>Hill &amp; Jones (1992)</td>
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<td>Davis et al. (1997).</td>
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</table>

### 6.- Managerial agency

<table>
<thead>
<tr>
<th>Question /Issue</th>
<th>References</th>
<th>Sources of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Find out the extent to which subsidiary managers can exert managerial discretion.</td>
<td></td>
<td></td>
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<tr>
<td>b) Managerial ability</td>
<td>Tsoukas (1994)</td>
<td>Subsidiary managers.</td>
</tr>
<tr>
<td>- Find out the extent to which managers were able to elicit stakeholder cooperation.</td>
<td></td>
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<tr>
<td>- Identify the social identity, education, and functional background of parent company and subsidiary managers.</td>
<td></td>
<td></td>
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<tr>
<td>- Identify the corporate ideology and CSR orientation of parent company and subsidiary top managers.</td>
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63 The notion of “corporate ideology” (Goll & Zeitz, 1991) has been developed as a collective construct. However, these authors also propose its use at the individual level of analysis, for instance, to measure the ideological influence of a company’s founder. In this dissertation, nine managers and former managers of Mexfruco answered twice the corporate ideology questionnaire, one with respect to the top manager’s ideology during the subsidiary’s first cycle, and the other, during the firm’s second cycle. This questionnaire was applied in Spanish. I initially translated the original questionnaire from English into Spanish; afterwards, two American MBA students fluent in Spanish translated it back to English. We discussed and reconciled the differences. I also applied the questionnaire, in its original English version, to five managers and former managers of Interfruco, with respect to the ideology of that company’s CEO and CFO.
### 7.- Subsidiary’s social action

<table>
<thead>
<tr>
<th>Question /Issue</th>
<th>References</th>
<th>Sources of data</th>
</tr>
</thead>
</table>
| **a) Employees** | • Clarkson (1991, 1995) | • Subsidiary’s top manager.  
• Subsidiary’s manager of human resources.  
• Subsidiary’s accountant.  
• Some tenured workers.  
• Internal records (payroll records, salary schedules, payment to labor contractors, etc.).  
• Reports of internal committee on education and development.  
• Survey to workers.  
• Liquidations to IMSS  
• Reports of internal committee on health and safety.  
• APEAM (industry) statistics. |
| • Total number of workers throughout the years. | | |
| • Results of employee satisfaction surveys throughout the years. | | |
| • How do subsidiary’s salaries and compensation have compared to the industry over time? | | |
| • How do the scale and scope of programs for workers’ health and safety have compared to the industry over time? | | |
| • Amount of pesos (or dollars) per fiscal year spent in health and safety programs over time. | | |
| • Composition, programs developed, and performance of the internal committee on workers’ health and safety, over time. | | |
| • How do the scale and scope of programs for workers’ training and development have compared to the industry over time? | | |
| • Composition, programs developed, and performance of the internal committee on workers’ education and development, over time. | | |
| • Amount of pesos (or dollars) per fiscal year spent in employees’ training and development programs over time. | | |
| • Number of employees/year involved in training and development programs over time. | | |
| • Ask for results of government reviews of the work of internal committees. | | |
| • Find out the percentage of the subsidiary’s labor force actually registered in the Mexican social security institution (IMSS) over time. | | |
| • Obtain the salary base used for payments to IMSS over time. | | |
| • Obtain evidence of the incidence and outcomes of IMSS audits throughout the years. | | |
| • Find out the percentage of the subsidiary’s workers who have direct contracts with the company (as opposed to “outsourced” workers, i.e. contracted by a third party), over time. | | |
| • Obtain the frequency with which workers have had profit-sharing income. | | |
| • Which percentage of the workers’ annual income comes from profit-sharing? | | |
| • Are there any unions in the firm? | | |
| • If there are unions, how can they better be described (red/white)? | | |
b) **Minority/local shareholders**
- Identify any minority/local shareholders.
- Find out the permanence/turnover of these shareholders.
- Have there been any complaints, issues raised, or legal procedures with respect to the rights of minority/local shareholders over time?
- Have minority/local shareholders occupied positions in the Board of Directors or management?
- How satisfied have minority/local shareholders been over time?

| Subsidiary’s minority shareholders.  
| Minutes of shareholders’ annual meetings  
| Firm’s registry of shareholders. |

c) **Customers**
- Obtain the number of customers’ complaints over the years.
- Find out the outcome of such complaints in terms of costs for the subsidiary and customers’ satisfaction rates.
- Obtain the spending levels on food safety programs over time.
- Find out whether the subsidiary has achieved and maintained third-party food safety certifications.
- Overall, how satisfied are customers with their business experience with the firm over time?
- Has the subsidiary a reputation of fair dealing, relative to its competitors?
- To the eyes of international fruit importers, is this the right type of company for the business?

| Customers.  
| Subsidiary’s sales manager.  
| Records of customers’ complaints.  
| Accounting records on the cost of complaint settlement.  
| Accounting records on the cost of food safety programs. |

d) **Suppliers**
- Have fruit growers been paid fair prices, on time, as agreed before the harvest, etc., as compared with other packer-exporters?
- Has the subsidiary supported growers in their broader political, social, and economic interests?
- Overall, how satisfied are fruit growers with their business experience with the firm over time?
- Has the subsidiary a reputation of fair dealing, relative to its competitors?
- To the eyes of fruit growers and relative to competitors, is this the type of company that the industry needs to develop its exports?

| Subsidiary’s top manager.  
| Subsidiary’s field operations manager. |

e) **Industry and competitors**
- Has the subsidiary a reputation as a fair competitor?
- Find out whether competitors see the

| APEAM officers.  
| APEAM records and minutes. |
has the subsidiary supported the industry in their broader political, social, and economic interests?
• Obtain the records of the participation of the subsidiary in industry associations, their boards, committees, task forces, etc. over the years.

### f) Local communities
- How much has the firm spent on donations or sponsorships to local communities over time?
- Is there any policy to give priority to local suppliers when buying inputs?
- Is there any policy to give priority to the local population when hiring?

<table>
<thead>
<tr>
<th>Subsidiary’s top manager.</th>
<th>Subsidiary’s human resource manager</th>
<th>Accounting records</th>
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</table>

### g) Government
- How satisfied have government officers been with the actions, investments, and general performance of the subsidiary?
- Find out the income tax paid by the subsidiary throughout the years.

<table>
<thead>
<tr>
<th>Subsidiary’s top manager.</th>
<th>Subsidiary’s accountant.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tax declarations of the subsidiary and competitors.</td>
</tr>
<tr>
<td></td>
<td>Tax audit closing reports.</td>
</tr>
</tbody>
</table>

### h) Natural environment
- Has the company adopted programs for energy conservation?
- If so, annual spending in energy conservation programs.
- Has the subsidiary developed any environmentally friendly products (e.g. organic fruit).
- If so, evolution of sales (in pesos and units) of such products.
- Has the company adopted waste management/recycling programs?
- If so, which has the reduction in wastes been?

<table>
<thead>
<tr>
<th>Subsidiary’s top manager.</th>
<th>Packinghouse manager.</th>
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### 8. Subsidiary managers’ perceptions of fairness

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<thead>
<tr>
<th>Question /Issue</th>
<th>References</th>
<th>Sources of data</th>
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</thead>
<tbody>
<tr>
<td>• Find out the extent to which subsidiary managers feel that, when making strategic</td>
<td>Kim &amp; Mauborgne</td>
<td>Internal communications</td>
</tr>
</tbody>
</table>
decisions, parent company management:
  - Has taken into account the conditions and interests of the subsidiary over time.
  - Has been consistent across subsidiaries.
- Find out if subsidiary managers have been able to express opinions, appeal, challenge, or refute strategic decisions.
- Has there been agreement over time on the criteria and procedure for measuring and evaluating the performance of subsidiary managers?
- Do subsidiary managers feel that they have enough authority to influence the outcomes for which they are responsible?

| (1993) | between parent and subsidiary managers (e-mail, memoranda, etc.).
| - Minutes of management meetings |

b) Interactional justice
- How has the communication between subsidiary managers and their parent company counterparts been (e.g. polite, respectful, proper, honest, etc.)
- Have subsidiary managers received appropriate explanations, reasons, arguments, and justifications for decisions?

| - Internal communications between parent and subsidiary managers (e-mail, memoranda, etc.).
| - Minutes of management meetings |

c) Distributive justice
- Do subsidiary managers consider that their monetary rewards have reflected their effort and contributions?
- Do subsidiary managers consider that their status and the recognition they get within the company have reflected their effort and contributions?
- Have there been any outcomes of the subsidiary business threatening the status and reputation of subsidiary managers in their professional and local communities (outside the firm)?

| - Internal communications between parent and subsidiary managers (e-mail, memoranda, etc.).
| - Minutes of management meetings |

9.- Relational quality

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<tr>
<th>Question /Issue</th>
<th>References</th>
<th>Sources of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Initial conditions:</td>
<td>Ariño, De La Torre &amp; Ring (2005)</td>
<td>Subsidiary’s top management team.</td>
</tr>
<tr>
<td>- Which was the reputation of the parent company (for subsidiary managers) and subsidiary managers (for the parent company) at the beginning of their relationship?</td>
<td>Parent company managers</td>
<td></td>
</tr>
<tr>
<td>- Obtain a description of any prior experiences of the parties with each other.</td>
<td>Internal communications between parent and subsidiary managers (e-mail, memoranda, etc.).</td>
<td></td>
</tr>
</tbody>
</table>
- Find out what the parties perceived, at the beginning of their relationship, of similar relations (e.g. between managers in the 2 countries, between subsidiaries in the industry, etc.).

<table>
<thead>
<tr>
<th>b) Cumulative experiences:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Obtain a description of the career track of subsidiary managers in the company.</td>
</tr>
<tr>
<td>• Why have they been promoted?</td>
</tr>
<tr>
<td>• What do parent company and subsidiary managers think of the competence and business judgment of each other?</td>
</tr>
<tr>
<td>• Obtain a description, in terms of confidence, reliability, transparency, and fairness, of the status of the relations between parent company and subsidiary over time.</td>
</tr>
</tbody>
</table>

| Ariño, De La Torre & Ring (2005) |
| Subsidiary’s top management team. |
| Parent company managers |
| Internal communications between parent and subsidiary managers (e-mail, memoranda, etc.). |

<table>
<thead>
<tr>
<th>c) External events</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Have external actions (i.e. not related to the subsidiary) of the parent company or its managers impacted the relationship with the subsidiary?</td>
</tr>
<tr>
<td>• Find out the inconsistencies and dissonances between the norms and expectations of the parent company and those of the local social environment of the subsidiary. How have they affected the relationship over time?</td>
</tr>
</tbody>
</table>

| Ariño, De La Torre & Ring (2005) |
| Subsidiary’s top management team. |
| Parent company managers |
| Internal communications between parent and subsidiary managers (e-mail, memoranda, etc.). |

### III) DISCOURSE ANALYSIS: CODIFICATION AND CATEGORIZATION

Discourse analysis included the processes of conceptualization, and categorization and coding (Mayntz, Holm, & Hübner, 1969/1975). The linguistic unit of analysis was the sentence. Sentences that reflected an element of the reality being investigated were selected for analysis.

**1.- Conceptualization**

Conceptualization involved the identification and classification of the different ideas contained in the text, along a list of concepts defined by the theory presented in chapters 3 thru 5. The sentences were categorized as pertaining to one of the following concepts or tracks:
1 Beliefs, ideologies, and theories accepted in society
   1.1 Religious precepts (through role expectations)
   1.2 Ethical (philosophical) orientation
   1.3 Social theories
      1.31 Managerial ideology
      1.32 Role of the firm in social development

2 Institutional framework
   2.1 Legislation
      2.11 Labor law
      2.12 Environmental law
      2.13 Tax law
      2.14 Other laws
   2.2 Norms/Institutionalized rules
      2.21 Individual freedom vs collectivities
      2.22 Role of the State
      2.23 Balance competition/cooperation
      2.24 Strength of legal system
      2.25 Role and duties of managers

3 Systems of exchange (type prevailing)
   3.1 Local suppliers
   3.2 International customers
   3.3 Local customers
   3.4 Workers
   3.5 Other stakeholders

4 Socio-economic development
   4.1 Social needs (e.g. literacy & education; housing; food intake; income; health; etc.)
   4.2 Actions at the bottom of pyramid (producers/consumers)
   4.3 Employment creation
   4.4 Tax compliance

5 Task environment
   5.1 Dynamism
   5.2 Munificence

6 Stakeholder relations
   6.1 Bargaining power
      6.11 Capacity to reward/punish
      6.12 Small numbers advantage
      6.13 Degree of resource dependence
      6.14 Centrality in networks
      6.15 Network density
   6.2 Legitimacy of stakeholders' claims (perceived), and type
   6.3 Relational quality
      6.31 Perceived trust
      6.32 Durability
   6.4 Exchange modalities
      6.41 Agency
      6.42 Stewardship
   6.5 Global or local condition
   6.6 Mediating structures
      6.61 Type of ownership
      6.62 Industry
### 7 Organizational structure for CSA

7.1 Functional, collegial or representative
7.2 Integrated / decoupled
7.3 Informal structures

### 8 Organizational culture

8.1 Values
   - 8.11 Economizing / economic rationality
   - 8.12 Power-seeking
   - 8.13 Technologizing
   - 8.14 Moral/social (duty, collectivism, etc.)

8.2 Corporate ideology
   - 8.21 Progressive decision-making
   - 8.22 Orientation to social responsibility
   - 8.23 Organicity
   - 8.24 Orientation to profits and individualism
   - 8.25 Risk taking
   - 8.26 Government involvement

8.3 Components of social responsibility
   - 8.31 Economic
   - 8.32 Legal
   - 8.33 Ethical
   - 8.34 Discretionary

8.4 Stakeholder culture (self- to other-regarding)

8.5 Cultural style
   - 8.51 Humanistic
   - 8.52 Market-oriented
   - 8.53 Competitive

### 9 Identity orientation

9.1 Self-interested
9.2 Relational
9.3 Collectivistic

### 10 Managerial Discretion

### 11 Managerial logics of action

11.1 Profit-maximization
11.2 Professional excellence
11.3 Political positioning
11.4 Solidarity with local communities
11.5 Care/paternalism
11.6 Anomie

### 12 Emergent powers of managers

12.1 Drive to efficiency and effectiveness
12.2 Ability to elicit active cooperation from stakeholders
12.3 Ability to control the transformation of labor power into actual labor
12.4 Social affiliations (e.g. ethnicity, family, religion, professional groups)
12.5 Level and type of education
12.6 Executive experience and functional background
12.7 Discursive penetration
12.8 Perceptions of self-efficacy
12.9 Self-directedness (moral agency)
   - 12.91 Individual values and beliefs: shareholder-, stakeholder-, community-oriented
   - 12.92 Degree and type of moral development
   - 12.93 Self-regulatory skills (exonerative moral reasoning, moral disengagement)
<table>
<thead>
<tr>
<th>13 Subsidiary's CSA and its type</th>
<th>14 Subsidiary’s performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.1 Employees</td>
<td>14.1 Subsidiary managers’ assessment</td>
</tr>
<tr>
<td>13.1.1 Comparative / relative level of salaries</td>
<td>14.2 Parent company managers' assessment</td>
</tr>
<tr>
<td>13.1.2 Compliance with IMSS regulations</td>
<td>14.3 Quality of products</td>
</tr>
<tr>
<td>13.1.3 Profit-sharing</td>
<td>14.4 Sales growth</td>
</tr>
<tr>
<td>13.1.4 Training and development</td>
<td>14.5 Development of managers</td>
</tr>
<tr>
<td>13.1.5 Safety and hygiene</td>
<td>14.6 Market share</td>
</tr>
<tr>
<td>13.1.6 Employability</td>
<td>14.7 Liquidation, closing, or major reorganizations</td>
</tr>
<tr>
<td>13.1.7 Housing</td>
<td>14.8 Major changes of ownership</td>
</tr>
<tr>
<td>13.1.8 Turnover</td>
<td>14.9 Financial returns</td>
</tr>
<tr>
<td>13.1.9 Women’s job conditions</td>
<td>14.9.1 Return on equity</td>
</tr>
<tr>
<td>13.1.100 Overall job satisfaction</td>
<td>14.9.2 Return on sales</td>
</tr>
<tr>
<td>13.2 Minority shareholders</td>
<td>14.9.3 Return on total assets</td>
</tr>
<tr>
<td>13.2.1 Existence / permanence</td>
<td></td>
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<td>13.2.2 Returns on investment</td>
<td></td>
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<tr>
<td>13.2.3 Transparency / Information disclosure</td>
<td></td>
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<tr>
<td>13.2.4 Participation in Board of Directors</td>
<td></td>
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<tr>
<td>13.2.5 Overall satisfaction</td>
<td></td>
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<tr>
<td>13.3 Customers</td>
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<tr>
<td>13.3.1 Food safety</td>
<td></td>
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<tr>
<td>13.3.2 Customer complaints</td>
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<td>13.3.3 Quality management systems</td>
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<tr>
<td>13.3.4 Marketing controversies (e.g., advertising)</td>
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<tr>
<td>13.3.5 Overall customer satisfaction</td>
<td></td>
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<tr>
<td>13.4 Government</td>
<td></td>
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<tr>
<td>13.4.1 Tax compliance</td>
<td></td>
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<tr>
<td>13.4.2 Compliance with FDI regulations</td>
<td></td>
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<tr>
<td>13.4.3 Capital formation in Mexico</td>
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<tr>
<td>13.4.4 Employment generation</td>
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<tr>
<td>13.5 Community</td>
<td></td>
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<tr>
<td>13.5.1 Consideration of local community</td>
<td></td>
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<tr>
<td>13.5.2 Donations and sponsorships</td>
<td></td>
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<td>13.6 Environmental issues</td>
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<tr>
<td>13.6.1 Environmentally friendly products</td>
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<td>13.6.2 Environmentally friendly processes</td>
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<tr>
<td>13.6.3 Waste management</td>
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<td>13.6.4 Energy conservation</td>
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<td>13.7 Suppliers</td>
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<tr>
<td>13.7.1 Payment terms</td>
<td></td>
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<tr>
<td>13.7.2 Prices</td>
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<tr>
<td>13.7.3 Support of growers’ agenda</td>
<td></td>
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<tr>
<td>13.7.4 Overall satisfaction</td>
<td></td>
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<tr>
<td>13.8 Industry and competitors</td>
<td></td>
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<tr>
<td>13.8.1 Reputation as fair competitor</td>
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<tr>
<td>13.8.2 Support of industry's agenda</td>
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<td>13.8.3 Participation in industry organizations</td>
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<tr>
<td>14 Subsidiary’s performance</td>
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<tr>
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<td>14.9.2 Return on sales</td>
<td></td>
</tr>
<tr>
<td>14.9.3 Return on total assets</td>
<td></td>
</tr>
</tbody>
</table>
### 15 Perceptions of justice

15.1 Perceptions of procedural justice
- 15.11 Headquarters informed of the subsidiary’s situation
- 15.12 Use of consistent procedures
- 15.13 Expression of opinions
- 15.14 Challenging/refuting views
- 15.15 Agreement on performance evaluation
- 15.16 ITPP is consistent with decision rights

15.2 Perceptions of interactional justice
- 15.21 Justification / explanation
- 15.22 Open and honest communication

15.3 Perceptions of distributive justice
- 15.31 Rewards and compensation is fair
- 15.32 Subsidiary managers’ exposure
- 15.33 Status of subsidiary managers

### 16 Subsidiary managers attitudes and behaviors

16.1 Overall job satisfaction
16.2 Trust in parent company
16.3 Compliance with parent company decisions
16.4 Organizational commitment
   - 16.41 Loyalty
   - 16.42 Willingness to exert effort
   - 16.43 Acceptance of organizational values
16.5 Neglect
16.6 Unethical behaviors
16.7 Productivity
16.8 Managers’ tenure/Turnover

### 17 Firm legitimacy (CSP)

17.1 Pragmatic legitimacy
   - 17.11 Stakeholder satisfaction
   - 17.12 Reputation
17.2 Cognitive legitimacy (Compliance with institutionalized norms)
17.3 Moral legitimacy

### 18 Control variables

18.1 Subsidiary size
   - 18.11 Number of employees
   - 18.12 Sales
   - 18.13 Total assets
18.2 Origin of capital
18.3 Parent company size
   - 18.31 Number of employees
   - 18.32 Sales
   - 18.33 Total assets
18.4 Proportion of intrafirm operations
   - 18.41 For the subsidiary
   - 18.42 For the parent company
18.5 Type of industry
18.6 Reward systems, based on
   - 18.61 Contributions (to subsidiary or parent company)
   - 18.62 Financial/non-financial results
18.7 Operation of own facilities (i.e. packinghouse)
18.8 Sophistication of financial reports
2.- Categorization and Coding

After conceptualizing each selected sentence, they were categorized along two dimensions. On the one hand, on the basis of their correspondence to one of the three realms of morphogenetic social theory, namely social structure, culture (ideas), or human agency. On the other hand, according to their nature as a cause (i.e. as belonging to the phase of socio-cultural conditioning), a process (phase of socio-cultural interaction), or a consequence (phase of socio-cultural elaboration).

In this way, selected sentences were coded. Each record included the track and sub-track number that indicated the concept contained in the sentence, and its detailed description. It also included the date of occurrence; qualitative and/or quantitative indicators (presence/absence, posture as per Clarkson’s RDAP scale; monetary measures, etc.); the type of reality which it reflected (structure, culture, or agency); the stage of the morphogenetic cycle to which it corresponded; and the source of the data.

For instance, the record of a donation appears as follows:

Track number: 13
Sub-track number: 135
Sub-sub-track number: 1352
Date of occurrence: 01/Aug/2000
Description: Donation to the local fire department
Amount: Mex$ 4,000.00
Type of reality: (1) Agency
Stage of morphogenetic cycle: (2) Social interaction
Data source: Mexfruco’s accounting records
Appendix No. 2

MEXFRUCO’S VISION, MISSION, VALUES, AND OTHER DOCUMENTS

VISION

En [Mexfruco] creemos en la posibilidad de:

1. Ser una empresa diversificada que pueda manejar diversas actividades tales como el cultivo, empaque y comercialización de diferentes frutas frescas incluyendo el establecimiento de alianzas estratégicas entre productores y empacadores, tanto a nivel nacional como internacional. Tener métodos de cultivo, una planta de empaque y en general una infraestructura y métodos modernos, eficientes, con tecnología avanzada.

2. Lograr que las compañías comercializadoras y los consumidores prefieran los productos de [Mexfruco] por su consistente calidad. Ser la empresa líder en aguacate y otras frutas por su seriedad y su forma de ver el negocio, la más respetada por clientes, proveedores y competidores.

3. Ser una empresa de muy alta calidad humana por el trato a sus trabajadores, clientes, proveedores y socios. Sólida en sus valores, agente de cambio. Con un equipo de colaboradores integrado y armonizado que tenga la posibilidad de desarrollarse y lograr metas personales y profesionales tanto en lo individual como de grupo. Con programas formales de desarrollo social y familiar.

Una empresa que cuente con condiciones de trabajo que permitan elevar el nivel de vida de todos los que aquí laboramos, Ser la empresa con personal entusiasta, calificado, comprometido y enfocado hacia la mejora continua. En la que los errores individuales sean respaldados y corregidos por el equipo de trabajo; que mantenga el ánimo siempre adelante. Lograr que los integrantes de la empresa estén satisfechos laborando por el reto que significa la realización de su trabajo. Lograr un compañerismo total en todos los departamentos para que la comunicación sea muy eficiente.
4. Empresa fuerte, financieramente independiente. Que tenga la oportunidad de establecer sus propios objetivos y metas, mediante proyectos a mediano y largo plazo generados por su propia gente.

5. Ser una empresa que cuente con sistemas de información que nos permitan estar actualizados con el mejor esfuerzo y la mayor confiabilidad, proporcionando a nuestros clientes y proveedores el mejor servicio y a los directivos información útil y oportuna para la toma de decisiones.

6. Ser una empresa vanguardista y certificada en seguridad alimentaria. Con ello contribuiremos a preservar la salud y mejorar la nutrición de la población mexicana y mundial.

7. Ser una empresa que participe directamente en el desarrollo y cuidado de nuestras riquezas naturales. Por el respeto que tenemos del medio ambiente, pondremos en marcha los mecanismos y medios necesarios para mejorarlo.

8. Ser la empresa que genere empleos en la región, con programas de compensación competitivos. Que se tenga la posibilidad de apoyar en forma más activa al desarrollo del sector(es) donde se participa (industria aguacatera, mango, etc.) y la población donde se establezca. Que marque la pauta en avances y propuestas para el sector, que desarrolle programas de capacitación y de investigación. Ser una empresa responsable socialmente que contribuya al desarrollo de la región y del país.

MISION

En [Mexfruco] nos dedicamos a producir, empaatar y comercializar frutas de manera competitiva a nivel global, de modo que seamos la empresa preferida por nuestros clientes y mantengamos un crecimiento sostenido.

Para ello:

- Respondemos a las necesidades de nuestros clientes proporcionando calidad sin precedentes en nuestros servicios y productos, utilizando tecnología y herramientas de comunicación efectivas, y creando una atmósfera gratificante de crecimiento y competitividad; ya que buscamos lograr su satisfacción, preferencia y confianza.

- Integramos un equipo humano, responsable y con un espíritu de superación que actúa de acuerdo a los valores de la empresa. Promovemos el desarrollo personal y profesional de nuestros colaboradores, en el marco de un ambiente de trabajo agradable; buscamos su satisfacción personal, económica, familiar y de vida integral.
Buscamos lograr relaciones comerciales y profesionales duraderas con clientes y proveedores, maximizando los beneficios de los integrantes de las cadenas productivas a las que sirvamos, en particular de los agricultores, construyendo con ellos relaciones de confianza y crecimiento.

Ofrecemos a nuestros accionistas utilidades satisfactorias provenientes de trabajo benéfico para la región y sus habitantes.

Aceptar el reto de la competencia como un estímulo para nuestro perfeccionamiento. Buscamos el respeto de nuestros competidores a través de la innovación y la mejora contínua de nuestro trabajo.

Tenemos una auténtica preocupación por la salud de nuestros clientes y colaboradores, y por el medio ambiente, por lo que implementamos sistemas avanzados de seguridad alimentaria, seguridad e higiene, y conservación del medio ambiente en nuestros procesos y prácticas de trabajo.

**VALORES**

**HIGIENE:** Auténtica preocupación por la salud física y emocional de clientes, colaboradores y proveedores, además del cuidado del medio ambiente.

**COMUNICACIÓN:** Mantenimiento de un estado en que la información se genere y fluya de manera veraz, correcta, útil y oportuna, y en el cual todos los integrantes de la empresa actúen con apertura para compartir ideas, emociones y experiencias.

**HONESTIDAD:** Actuar con base en la verdad, de manera consistente, en todas las situaciones, actividades y relaciones.

**HUMILDAD:** Aceptar los logros como algo susceptible de ser mejorado y los tropiezos y fracasos como una oportunidad de aprendizaje y de mejora: mantener la mente abierta para dar y recibir consejos y comentarios de todas las personas; actuar con sencillez de manera consistente.

**RESPETO:** Desarrollar la capacidad de aceptar a las personas como son y disposición para interactuar con ellas con amabilidad, compañerismo, espíritu de cooperación y anhelo de servicio.

**COMPROMISO:** Actitud convencida, convincente, voluntaria, entusiasta, continua y responsable que permite la entrega de nuestro mejor esfuerzo, individual y colectivo para el logro de la misión de la empresa.
LEALTAD: Entregarse de manera entusiasta en todas y cada una de las actividades aún en las más difíciles que requiera la empresa.

PERTENENCIA: Sentir satisfacción personal y profesional al saberse parte de [Mexfruco].

LIBERTAD: La potencialidad de, a través de decisiones responsables, pensar, crear y actuar de manera autónoma, con base en los principios, conocimientos, valores y experiencias individuales y del grupo.

SUPERACION: Proceso contínuo de buscar y lograr el desarrollo y el crecimiento de la empresa y sus integrantes, tanto en el ámbito profesional como en el personal.

CONSTANCIA: Capacidad de perseverar en el esfuerzo para alcanzar la misión de la empresa; incorporando los logros y fracasos en su justa dimensión.

SERVICIO: Empatía, ir más allá de lo que espera el cliente, el colaborador o el proveedor, conquistar su lealtad a través de mantener nuestra capacidad de sorprenderlo satisfactoriamente.

SEGURIDAD: Brindar a clientes, proveedores y colaboradores un ambiente de certidumbre y confianza económica, laboral, social y de salud.

RESPONSABILIDAD: Hacer las cosas conscientes de su trascendencia.

PROFESIONALISMO: Realizar el trabajo diario con eficiencia y eficacia.

HUMANISMO: Ayuda y preocupación por el bienestar de los demás.

AMABILIDAD: Actitud siempre accesible hacia los demás.

ORDEN: Mantener un tiempo y un lugar para cada actividad.

ENTUSIASMO: Impregnar todas nuestras actividades y relaciones con pasión, alegría y optimismo, "encontrándoles el gusto"

CALIDAD: Actuar bien a la primera vez, con el objetivo de servir de la mejor manera posible a nuestros clientes internos y externos.

RESPONSABILIDAD SOCIAL: Actuación orientada a respetar, y mejorar en lo posible, el medio ambiente físico y social en que la empresa está inmersa. Anhelo de dejar el mundo mejor de como lo encontramos.
FILOSOFÍA DE CALIDAD

En [Mexfruco] creemos que es indispensable **hacer de nuestro trabajo cotidiano, la fuente primordial de satisfacción** de quienes integramos la empresa. Sólo de esta manera realizaremos consistentemente un trabajo de calidad, y podremos mejorarlo continuamente. A fin de lograr lo anterior, nuestro trabajo debe reunir las siguientes características:

- Debe significar un reto que ponga a prueba y fortalezca nuestras capacidades.
- Debe promover nuestro desarrollo personal y profesional.
- Debe fundamentarse en el compromiso de servir a nuestros clientes, para lograr su plena satisfacción, y en consecuencia, su lealtad.
- Debe contribuir al cumplimiento de nuestra responsabilidad social: entre otras: ser agentes de cambio en nuestro medio, cuidar el medio ambiente y la salud humana.
- Debe permitirnos sentir orgullo por haber realizado un trabajo bien hecho.
- Debe promover y facilitar la integración del grupo que forma la empresa.

Todas las tareas y relaciones de [Mexfruco] habrán de considerar lo anterior, tanto en su diseño como en su realización.

CÓDIGO DE ETICA

En la relación con nuestros **clientes y proveedores**, en [Mexfruco]:

- Decimos la verdad; ¡no hay sustituto para la honestidad!
- Estamos atentos a identificar y resolver problemas o diferencias.
- Negociamos con el criterio de ganar-ganar.
- ¡Nos esforzamos por exceder sus expectativas!

En la relación con nuestros **empleados y colaboradores**:

- Los consideramos la fibra de nuestra compañía. ¡No los desgastaremos!
- No contrataremos empleados de corta edad, ni haremos negocios con nadie que explote a las personas.
- Mantendremos un ambiente de trabajo seguro, higiénico y satisfactorio.
Apoyamos la capacitación y la educación continua, en todos los niveles de la empresa.  
Explicamos a nuestro colaboradores el por qué, y entonces les decimos cómo.  
No discriminamos; la mejor persona para un puesto es simplemente una persona.

En relación al **medio ambiente**: 

- Apoyamos la conservación del medio ambiente global, probándolo con nuestros actos; cuando tenemos duda...usamos menos.  
- Promovemos el uso de materiales reciclados; cuando tenemos alternativa... lo usamos dos veces.  
- Somos un catalizador para cambiar la manera en que nuestros colegas piensan sobre los recursos naturales y la manera en que los usan.

**DECÁLOGO DE LAS RELACIONES INTERPERSONALES**

1) Ante la empresa y el personal, independientemente de su nivel jerárquico, actuar siempre con humildad, honestidad, lealtad y aprecio.

2) Contribuir para hacer de la empresa una organización cálida y cordial para todos los que aquí laboran.

3) Entender los niveles jerárquicos únicamente en función del organigrama, y el trabajo realizarlo como un verdadero equipo, donde la comunicación fluya en todas direcciones.

4) Respetar y apreciar las diferencias individuales y la diversidad de opiniones: en ello radica la riqueza y efectividad del equipo.

5) Eliminar permanentemente las críticas negativas y mostrar actitudes que destaquen lo positivo de las personas.

6) Reconocer el buen desempeño y las cualidades de las personas y retroalimentarlas sobre su actuación laboral de manera oportuna.

7) Mostrar disposición para atender y escuchar a la gente, por muy pequeña que sea su inquietud.
8) Hacer por mis compañeros lo que me gustaría que hicieran por mí. Jamás hacerles lo que no deseo que me hagan a mí.

9) Confiar en que la gente puede desempeñar bien su labor si se le indica la forma correcta de hacer las cosas.

10) Propiciar cotidianamente la colaboración y ayuda mutua y evitar la competencia y rivalidad entre personas y departamentos.
Appendix No. 3

LONGITUDINAL SCATTERPLOTS OF MEXFRUCO'S CSA INITIATIVES

This appendix contains the scatterplots of each of the CSA initiatives implemented by Mexfruco during the period of study (1997-2004). They are presented in the same order in which they appear in Table No. 9 (chapter 7). The observed points have been connected with a trend line in order to make the charts more readable.
No. of Houses Awarded to Workers

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<tr>
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</tr>
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<td>2003</td>
<td>6</td>
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<td>2004</td>
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<td>2005</td>
<td>2</td>
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Mexfruco's Posture on Workers' Family Development Issues

RDAP Score

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<td>3.5</td>
</tr>
<tr>
<td>2005</td>
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</tbody>
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Fiscal Year

- No. of Houses Awarded
- Family development
Index of Expenditure in QC and Food Safety Programs

Fiscal Year

RDAP Score

Semester

Posture on Environmentally Friendly Products (Organic Fruit)

Fiscal Year

RDAP Score

Organic products
Posture on Payment Terms to Growers

![Graph showing the RADP score for payment terms from 1996 to 2005.]

Posture on Competitive Fruit Price

![Graph showing the RADP score for competitive fruit price from 1996 to 2005.]

- Short payment terms
- High fruit price
Posture on Labor Law Compliance (Picking Crews)

Posture on growers' tax compliance
Minority Shareholders’ Lost Value by Income-Shifting

Income Tax Evaded by Income-Shifting
BIOGRAPHICAL SKETCH

Ramón Paz-Vega was born in Uruapan, Michoacán (México), on February 1, 1960. He attended Marist Brothers’ schools in Uruapan (Elementary and Jr. High School) and Mexico City (High School). His bachelor’s degree in agriculture and agri-business was granted by the Instituto Tecnologico y de Estudios Superiores de Monterrey, campus Monterrey, in 1981. He got a Master in Administration degree from Universidad La Salle Morelia in 2002.

Between 1981 and 2002, he worked in the Michoacán avocado industry, in several companies, some of them owned by local growers and packers, and some others owned by foreign investors. He held different positions: farm manager, packinghouse manager, director of export sales, and general manager. He was also member of the board of directors of a credit union and an association of packer-exporters. After 2002 he has been offering consulting services on agricultural exports to customers in Mexico and other Latin American countries.

He was a lecturer at the Universidad Don Vasco, in Uruapan, Mich., from 1986 thru 2002, and Secretary General of this institution between 1990 and 1993.

Ramón has been married to Edith Mendoza-Bolio since May 1988. They have two daughters: Edith Gabriela (born in 1992) and Lorena (born in 1995).

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