2. Defining a research model for embedding human rights within a MNC

This chapter sets out the research model in order to answer the questions of this research, as defined in the previous chapter. In the first section, the field of literature on business and human rights management is briefly explored. Sections 2.2, 2.3 and 2.4 respectively define drivers, the objective of embedding human rights, i.e. business responsibilities regarding human rights, and the resulting dilemmas. Thereafter, a general direction for embedding human rights is developed from further defining the concept of embeddedness in section 2.5. The subsequent sections present the base for the research model (section 2.6) and complement it (section 2.7). Section 2.8 identifies the potential mechanisms of embedding human rights, after which each of these mechanisms is further explored for the first two research questions (sections 2.9 – 2.11). Subsequently, section 2.12 deals with provides a theoretical perspective of the third research question, i.e. explaining the degree in which these mechanisms are embedded. Finally, section 2.13 summarises the research model.

2.1 Exploring the emergent field of business and human rights management

In recent years, academics started to research the link between business and human rights (see e.g. Welford, 2004; Behrmann, 2001; Krumsiek, 2003; Clohesy, 2004; Crane, 2004; Pegg, 2003) with some early researchers, such as O'Mahony (1980). Most of the academic work on MNCs ignored the subject of human rights and most of the academic work on human rights has tended to overlook the role that MNCs can play in promoting or violating the human rights (Pegg, 2003). The empirical research on the connections between MNCs and human rights has produced results that are, at best, mixed (Meyer, 2003).

Testing this assumption, the top five management journals as identified by ISI Web of Knowledge (with quotes > 6000 times in 2005) are analysed in the area of business management for research on human rights: Academy of Management, Academy of Management Review, Administrative Science Quarterly, Management Science and Strategic Management Journal. Although these journals are running for decades, the keywords 'human rights' result into very few articles. If these articles are analysed in more depth, they do not deal with the management side of human rights nor do they even research the link between human rights and business. These articles only mention human rights as an illustration of the changing world for business in the introductions. This seems to confirm the notion that there is a gap in literature in business management on human rights.

Furthermore, in the field of international management, a scarcity of studies still exists on diffusion processes within MNCs (Veser, 2004). Moreover, the research in this field concentrated on 'traditional' subjects, such as finance, marketing, human resources, etc. Human rights constitute many ethical considerations, which may pose different and new questions and research areas in the field of international business management. For example, Kumar & Steinmann (1998) stipulate that the explicitly ethical dimension of dealing with the tension of 'local-central' orientation has become more important only in the recent past. Muller (2006) also indicates that research on the diffusion of CSR related practices within MNCs has only recently begun to address organisational issues.

Literature in the area of business ethics has paid more attention to human rights and business. However, the analysis of leading journals in the area, such as Journal of Business Ethics and Business ethics: a European Review, shows that the research focused more on the responsibility of business organisations regarding human rights and identifying ethical dilemmas (e.g. Brenkert, 1992; Cragg, 2000). Schierbeck (2000) stipulates in this context that much focus has been directed at explaining, from an academic point of view, what corporations should and should not do in this respect, but that critics and academics sometimes forget that a human rights responsibility has to be made operational and credible by the man on the ground, not only by corporate headquarters. Only since 2000, some authors have focused on the business management of human rights (e.g. Frankental & House, 2000; Sullivan, 2003; Arkani & Theobald, 2005) in books or articles.

Thus, the field of research on business and human rights has only focussed on defining the responsibilities of business regarding human rights and ethical dilemmas. The field of research how business is, can or should be embedding human rights is only emerging. This research can therefore be typified as an exploratory research, aiming to contribute to literature of international business management. The model comes from a traditional field in international business management, which is applied to the process of embedding human rights. The question is then whether the 'traditional research' of international business management also applies to embedding human rights within a MNC.

Before the research model is discussed, the *drivers, objective* and *dilemmas* of embedding human rights are described first. This way, it is better understood what motivates companies to embed human rights, where this should lead to and what are the resulting problems.

2.2 Business drivers to commit to human rights

The research of Sullivan & Seppala (2003) indicates that all of the companies with human rights policies can be classified into one or more of the following categories:

- the company has had at least one major issue with human rights,
- the company has exposure to particularly sensitive countries. In this context, having a policy may be seen either as a management tool (i.e. to provide guidance on how to behave in such difficult operating environment) or as a legitimisation tool (e.g. to deflect criticisms of the company for operating in such countries),
- The company is part of the oil, gas or mining industries. The extractive industries have been particularly criticised for their role in or proximity to human rights violations,
- A human rights policy is a source or potential source of competitive advantage,
- A commitment to protecting and promoting human rights is a feature of the business climate in their home countries.

Kaptein & Van Tulder (2003) add that also having an high 'icon' rating and a direct relationship with the markets for end consumers leads to more best practices in the field of social and environmental reporting. In other words, if the company is highly visible and is regarded as a high performer, the company is more likely to show that it is operating according to the demands of society. This is also confirmed by Werther & Chandler (2006): *'different industries also evoke different stakeholder emotions. For example, a company operating within the apparel industry may face a higher CSR threshold if it sells unbranded clothing* *based on low costs'.* In general, five categories of business drivers to commit to human rights can be identified, as described in the following table:

Drivers	Explanation
Legal	Comply with international law
Social	Live up to society's expectations
Business	Safeguarding the continuity of business
Peer pressure	Conform with industry norms
Moral	Adhere to ethical norms and values

Table 1 Business drivers to take or commit to voluntary human rights initiatives

Legal liability to comply with international law can be a driver to commit to human rights, although this liability in reality is limited (see previous chapter). A second driver is to live up to society's expectations. As explained in the introduction, stakeholders are increasingly posing demands on companies, which leads to the trend of CSR. In this regard, Kline (2005) recognises that a global social contract appears to be merging between companies and their stakeholders, wherein international enterprises are held increasingly responsible for upholding ethical standards that go beyond, and may even conflict with, prevailing norms in a particular nation. These conflicting norms, however, can lead to serious dilemmas for business organisations, as will be described in section 2.4.

The third driver is the so called 'business case' to commit to human rights. Part of that business case is to safeguard the company's reputation. Human rights scandals can tarnish reputation and jeopardise customer, investor and employee loyalty. An example can be found in box 3.

Box 3 Anti-Nike campaign
Whether for reasons of political awareness, retail price, market saturation or fashion whimsy, Nike is a company in trouble. One month ago, the world's leading athletic footwear corporation announced that quarterly profits were down 69 per cent from the previous year. Footwear sales globally are the slowest they've been in a decade. Nike was forced to lay off 1,600 of the 22,000 people it employs directly. Company spokesperson Vada points out that Nike's quarterly revenues are still well over $2 billion. The manager admits that the anti-Nike campaigns, like the letter-writing campaign organized by Bertrand that resulted in 147,000 letters of protest flooding Nike headquarters, are a factor in Nike's recent troubles, but says the impact is "unquantifiable." Perhaps, but the political campaigns have been remarkably effective in raising awareness of Asian sweatshop practices. *Source: Montreal Mirror, 1998.*

Next to safeguarding reputation, Amis et al (2005) have identified several other business case related drivers: gaining a competitive advantage, improving recruitment and staff loyalty, fostering greater productivity, reducing cost burdens, securing and maintaining a license to operate and meeting investor expectations. The human rights NGO Amnesty International (2003) also recognises the business case for respecting human rights in prudent risk management policies and better prospects of surviving and prospering over the long run than those that do not. On the other hand, the business case can also be a driver that puts the commitment to respect human rights under substantial pressure. The commitment to human rights can mean that companies sometimes have to refrain from taking commercial opportunities, as Lohr & Steinmann (1998) indicate:

> *'we would need an idea of reasoning that is strictly independent of economic calculation, and that leads to convincing results which oblige to act accordingly. This is, however, only possible by committing oneself in those situations as well where deviating from the morally correct norm would bring predictable advantages, or meeting the norm seems to be disadvantageous. Otherwise, values and norms would be sacrificed without hesitation on the altar of utility, or, to put it another way, would be subject to the constraints of economic rationality'.*

The fourth driver that can be identified is the pressure that a company experiences from peer companies. As Lehrer (1998) observes in motivating companies to adhere to human rights in China: *'If a few key companies would* *agree to do this, other companies are likely to follow, since the formation of these coalitions often has as much to do with peer pressure as anything else: once one company signs on, other companies are likely to do so as well*'. If a company does not participate, it runs the risk of creating a competitive disadvantage.

Finally, another driver is an intrinsic motivation to adhere to ethical norms and values, such as human rights ((Weaver 1999) et al, 1999, Amis et al, 2005). As a survey of Doove et al (2004) amongst small and medium sized enterprises in Europe indicates, these 'silent leader' companies have a longstanding commitment to CSR that have achieved high levels of performance in CSR and business (see section 1.5 for link between human rights and CSR). The findings of the study suggest that leadership and values play a crucial role in practising CSR within these companies. Often these companies are founded on core values that are strongly anchored in the company's culture.

The latter leads to the question whether one driver results in a more sustainable commitment to human rights than the other. One can imagine that moral drivers yield the best result, since relatively unstable external forces (development of international law, pressure from society and business considerations) influence the other drivers. However, MNCs exist of many people with different moral values, which can also be problematic. Although it is not the subject of this research, the influence of different drivers remains an important question. In this research, the different drivers are used to put the internal process of embedding human rights into context.

2.3 Business responsibilities regarding human rights

If companies commit to human rights, what is expected of them exactly? In other words, what is the *objective* of embedding human rights? Even though states have the primary responsibility to implement human rights, the potential negative and positive impacts of business on human rights have lead to the question, as Sullivan (2003) puts it, '*of what companies could or should do, and how far their responsibility extends in such situations'*. In this research, the ultimate result of embedding human rights within MNCs is defined as the adherence of MNCs to their responsibilities regarding human rights.

While some corporations do not recognise their responsibilities regarding human rights, others might even take up too many responsibilities, as explained by Ruggie (2006a). He states that especially in some developing countries, where there may not be effective public institutions in place, this authority vacuum may compel responsible companies, faced with some of the most difficult social challenges, to perform governmental roles for which they are ill-equipped, while other firms take advantage of the asymmetry of power they enjoy. On the same grounds, some governments may try to transfer their human rights responsibilities to MNCs. Furthermore, the bigger a company's multinational profile, the further its responsibilities seem to stretch (Wilson, 2001).

In defining the responsibilities of a company regarding human rights, we have to start at the UDHR. The preamble to the UDHR calls on '*every individual and every organ of society*' to respect and promote the rights set out in the UDHR. It is widely argued that these requirements to respect and promote human rights apply to companies as 'an organ of society'. Although human rights is the primary responsibility of nation states, Clohesy (2004) argues that as all persons have duties to uphold the human rights of those with whom they interact, so do the organizations they form such as corporations. Besides, the duty to uphold human rights has not been a long tradition for governments nor is it always practicably feasible. Pegg (2003) also indicates that there is no logical reason that corporations cannot bear human rights-related obligations. To some extent, they already do. Nevertheless, Ruggie (2006a) nuances the responsibility of business regarding human rights by mentioning that corporations are specialized organs that perform specialized functions and not a microcosm of the entire social body. One important difference is that corporations are not democratic public interest institutions and therefore do not have a general role in relation to human rights as do states. Ruggie even argues that holding companies accountable for the broad spectrum of human rights may undermine efforts to build indigenous social capacity and to make governments more responsible to their own citizenry.

Apparently, the UDHR can be interpreted in different ways as well. A traditional dissection of human rights law can be used to identify the different human rights duties of business. Most human rights give rise to four complementary duties: respect, protect, promote and fulfil. The distinction between these duties is that respecting human rights is about the 'negative' duty to avoid violating the right; protecting, promoting and fulfilling human rights are more 'positive' duties which under certain circumstances require the provision of essential services (Jungk, 2004), as shown in figure 1. For example, a MNC is not respecting the right to organise when the company does not allow a labour union. Financing a building for the labour union to have meetings would be promoting human rights.

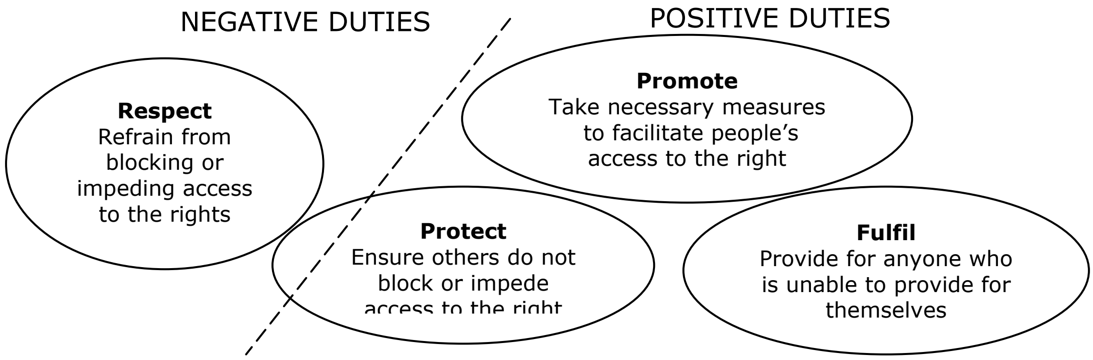

Figure 1 Negative and positive duties of business responsibilities regarding human rights

The distinction between negative and positive duties can be used to determine the extent of business responsibilities. One could argue that the minimum responsibility of business regarding human rights is to bear the negative duty, so to respect human rights. However, the line between the negative and positive duties is not very clear, since it is debatable whether the duty of corporations to protect human rights is a negative duty or more a positive duty. Clohesy (2004) feels that this protection duty is an important part of the minimum duties of a company, as he argues:

> *'were someone to stand by passively rather than come to the aid of someone in trouble, with no one else there to help, we would criticize this person as failing in the duty to act when it was morally crucial to do so. This is especially true of multinational corporations because in developing countries these organizations often have resources with which to act on behalf of the members of the community unequalled by anyone else or by any institution, even the local government itself'.*

Defining the business responsibilities regarding human rights is even more complex when another party commits human rights violations, which a company influenced or could have influenced. In other words, when the company is seen to be complicit in human rights violations. The complicity in human rights abuses has been the subject of heated debates (see e.g. Business & Human Rights seminar 2005 or Global Compact conferences 2004 and 2005).

From a legal perspective, the following criteria are used to define complicity (based on Clapham-Jerbi, 2001):

1. *Direct complicity***:** deciding to participate through assistance in the commission of human rights abuses and that assistance contributes to the commission of the human rights abuses by another. So, when a company knowingly assists a state in violating human rights. The primary perpetrator (e.g. State) does not necessarily have to have been found responsible in order for the corporate accomplice to be found liable for having contributed to those same human rights abuses. And even if the corporation does not necessarily actually want these results, it is enough if the corporation or its agents knew of the likely effects of their assistance. Examples: assisting forced relocation of people not according to international standards, producing chemical gas for the Nazi's.
2. *Indirect/beneficial complicity***:** when a company benefits directly from human rights abuses committed by someone else. The corporation need not cause the harm for it to become tainted by the abuses. Examples: violations committed by security forces, e.g. the suppression of peaceful protest against business activities or use of repressive measures while guarding company facilities.
3. *Silent complicity***:** a company fails to raise the question of systematic or continuous human rights violations in its interactions with the appropriate authorities. Remaining silent while a company enjoys regular contact with the authority that has allowed the violations to take place. Examples: companies doing business in South Africa during apartheid or in Myanmar (see box 4).

Box 4 IHC Caland and Burma
In 1998, the MNC IHC Caland wanted to invest in a system for storage of oil off the coast of Burma. It was clear that the regime of Burma, which is using penal servitude on a huge scale and recently has been refused by the ILO because of continuous misconduct, has a direct financial interest in such an investment. Dutch or European legislation did not foresee in a prohibition of investment in Burma, so that IHC Caland could simply proceed. There was enormous public pressure on IHC Caland to undo the investments. Many social organizations have protested. They have negotiated with IHC Caland to comply with their policy. As yet, without any results. *Source: Kaag, 1999.*

Unfortunately, there is no (judicial) agreement yet on the complicity of MNCs in human rights violations. For example, the Danish Institute for Human Rights argues that ‘silent complicity’ is not complicity but a responsibility of a corporation. Several lists of criteria have been developed to determine the extent of complicity. The following table describes some of these lists:

Source	**Criteria to determine complicity**
Amnesty International and Pax Christi (1999)	• a company has direct control and can be held responsible for the realisation of human rights • a company can exert influence over a situation and thus can contribute to the realisation of human rights by or in conjunction with others • a company can contribute to the creation of an enabling environment for the realisation of human rights. Therefore, corporations are complicit when it: • failures to punish or prevent the abuses • the absence of legal prohibition or other measures to eradicate the abuses • failures to provide remedies or compensation to victims.
Jungk (1999)	• the degree of human rights violations in the country (varying from sporadic, random, isolated violations to planned, systematic, continuous abuse) • conditions / nature of the human rights violations in the country (varying from violations to denial) • the type of rights being breached (fundamental rights or cultural relative rights) • the proximity (no connections, indirect connection or direct connection).
Kline (2005)	• Causation: corporations whose actions cause harm are more responsible than firms not causally connected to the harm. Do results stem from corporate action or inaction (commission or omission)? • Capability: corporations have the capability to act • Awareness: corporations are aware of the need for action (good-faith efforts must be made to stay alert)

	• Knowledge: the more the corporation possesses knowledge, the more it is expected to act ethically • Proximity: actors closest to a case situation are likely to be more cognizant of than groups operating on a greater distance (subsidiarity principle).

Table 2 Criteria to assess the complicity of a company in human rights violations

Proximity is one of the criteria that is mentioned by some sources, which means the nearness in space, time or relationship (Oxford, 2005) between a business and other individuals. Proximity is also referred to as the 'spheres of influence' of the corporation (see OHCHR, 2004). According to Professor Ruggie (2005), spheres of influence can be portrayed as:

> *'a set of concentric circles: with the firm's employees at the core; suppliers, customers and other parts of their value chains in the next circle; then the communities surrounding their operations; and finally society as a whole. And they tend to see their obligations as being highest in relation to their employees and decreasing through the outer circles, although the precise ordering and magnitude of responsibilities beyond the core may differ depending on the specific industry sector and issue. Leading companies have readily adopted this concept'.*

Frankental (2000) has worked out these spheres of influence more and is represented in the following figure:

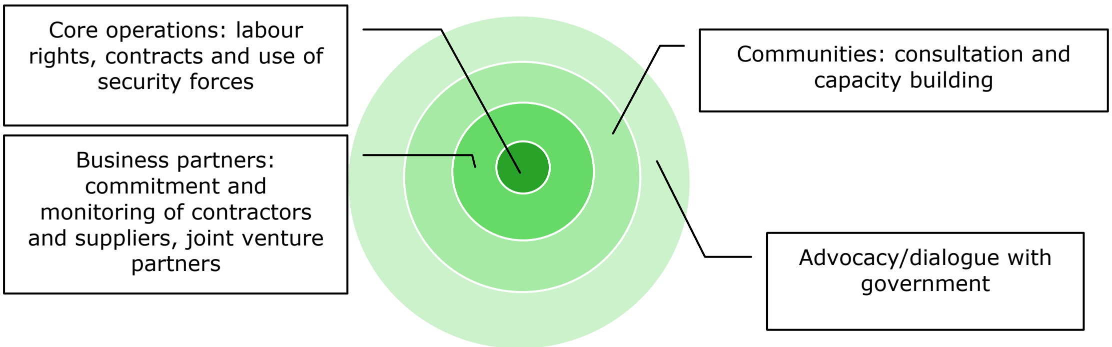

Figure 2 Spheres of influence of a company regarding human rights responsibilities

The wider the spheres of influence, the less control the company has over the situation giving rise to human rights abuses. For example, the company has less control regarding the sub-contractors of their contractors when they are violating their employees' labour rights. According to the OHCHR and the UN Global Compact (2007), the more control, authority or influence a business has over a situation giving rise to human rights abuses (or the means to improve respect for human rights), the greater the business responsibility to act. The question then is to determine what this 'control, authority or influence' exactly is, so the need for action can be determined.

In sum, embedding the commitment to human rights ultimately leads to, as Amnesty International (2003) state: '*companies ought to respect human rights, avoid being complicit in human rights abuses, and, within their sphere of influence, do what they can to promote human rights principles*'. Nevertheless, the boundaries of these concepts are still under debate and need to be developed further. As a result, an MNC is confronted with many different dilemmas, which is the subject of the next section.

2.4 Human rights dilemmas for business

As a result of the lack of globally agreed standards, defined responsibilities and accountabilities for business regarding human rights, MNCs are confronted with many dilemmas for which there simply are no clear solutions (Wilson, 2001). Wilson argues that this stems from a lack of understanding about what is meant by the term human rights. This section therefore aims to develop a framework in which human rights dilemmas facing MNCs can be identified. What are human rights dilemmas exactly? The body of literature that has traditionally researched ethical dilemmas for business revolves around business ethics. Although this research does not aspire to contribute to business ethics literature as such, a number of dilemmas that have been identified before are discussed to build this framework.

Business ethics comprises the rules, standards, principles or codes that give guidelines for morally right behaviour and truthfulness in specific situations. In other words, business ethics studies the morality of business. Business ethics as a discipline has taken flight in the last decennia and comes from the view that when acting ethically begins at the source (within companies), probable problems can be prevented. In the context of corporate social responsibility, business ethics is about organising a company in a socially and ethically responsible way, which can lead to business advantages (Jeurissen, 2000). A dilemma is generally referred to as a situation requiring for a choice between equally (un)favourable alternatives. There are several types of dilemmas that can be identified.

A first type of dilemma is when national laws conflict, forcing enterprises to choose to follow one legal standard while violating the other (Kline, 2005). In the context of human rights, a dilemma will occur for a MNC when one or more human rights conflicts with the national legal laws. A situation like that can for example occur when the local law prohibit trade unions.

A second type of dilemma is explained by Donaldson (1996), who indicates that MNCs find themselves confronted with new and diverse, sometimes even contradicting, ethical demands. Moral values, which were taken for granted in the home market, may get questioned as soon as corporations enter foreign markets. Bird (2004) argues that these dilemmas occur especially in less developed countries. Duncan (1998) also indicates the many issues or dilemmas that a MNC faces evolve around *'the balance between the cultural values of different societies, or even parts of the same society. Whatever one does, there are ethical 'rights' and 'wrongs' with it and one has to compromise somewhere'*. In short, there can be a conflict of moral values. In the context of human rights, this means a conflict between the values that underpin human rights and local values. An example is when a woman is not accepted as a manager; the human rights value of equality between the sexes conflicts with the local value of non-equality. Another example is that whilst Europeans tend to regard child labour as strictly unethical, some Asian countries might have a more moderate approach (Crane & Matten, 2004). Values underlie a specific culture and local culture can therefore create difficult human rights dilemmas for MNCs. The influence of local context on a MNC will be explained more in section 2.12.

Another type of dilemma can occur when two human rights are conflicting. Human rights are typically understood to be of equal value, each right is conceived of as equally important as every other. On this view, no potential for conflict between fundamental human rights can exist. One is simply meant to attach equal moral weight to each and every human right. This prohibits arranging human rights in order of importance. However, conflict between rights can and does occur. For example, if an employee expresses his/her opinion about the Islam (right to freedom of expression), but this opinion offends another employee who practices the Islam (right to freedom of discrimination).

As indicated by Maclagan (2003), a dilemma can also involve self-interest. In the context of this research, self-interest comes into play when pressure from outside the company demands to respect human rights. The primary objective of a company is survival by making profits and investments. So, a company clearly operates from self-interest. When a MNC can make more profit by using child labour, it can be tempted to violate this human right. The position of using child labour is not defendable on moral grounds, but can still be explained from market economic thinking.

Many human rights dilemmas arise when MNCs are confronted with violations of human rights committed by another party. This leads to the question whether and to which extent the company is complicit. The degree of complicity of MNCs in human rights violations leads to many difficult human rights dilemmas. The extent of complicity has been explained in the previous section.

All in all, in the interface with the global and local contexts, several types of human rights dilemmas can be identified:
1. Human rights – business value: when the commitment to human rights conflicts with increasing business value, such as making profits.
2. Human rights – local legislation: when human rights conflicts with the local laws in the specific country.
3. Human rights – local values: when the values underlying human rights conflicts with local values and practices.
4. Human rights – human rights: when two or more human rights are conflicting.
5. Human rights commitment – complicity: when other parties conduct human rights violations, but the company is indirectly involved and it is not clear what the exact responsibility is of the MNC.

Analysing dilemmas this way, dilemmas are better understood and lead to a clearer view of *what* exactly should be managed. It is important to note that the industry structure and experience influence the type of human rights dilemmas a company faces. In this regard, Ewing (2004) explains that the extractive industry face a different set of human rights issues than companies sourcing labour-intensive, low wage goods. The next question is how to manage these dilemmas? The next section further defines the concept of embeddedness that may give some direction on the principles that are important in the process of embedding human rights.

2.5 The concept of weakly re-embeddedness

One of the causes of the negative effects of the investments of MNCs is that one cannot oversee all consequences of decisions on a global level. Members of MNCs have difficulty to overview the consequences of their policies and actions and are therefore less aware of these consequences. When you ask an entrepreneur of an international retail company if he wants that people that make the company's products in the developing world be abused, he will surely deny.

Somehow, the globalised market economy thinking lost touch with important, non-tangible dimensions, which have to do with humanity, ethics, values and social-cultural aspects, as illustrated by Gardner (2001):

> *'not all spheres of life are best run on a market model. We also stress that the market is as much a consequence as a cause of many phenomena. Still, we feel the need to sound an alarm when any valued human sphere threatens to be overwhelmed by the search for profit, when the bottom line becomes the only line that matters'.*

This is also recognized by Marrewijk & Timmer (2002). This separation of classic market economic thinking and non-tangible dimensions results in two movements in science literature, as described by Bruel & Colsen (1998): *'in the mainstream, there are discussions about shareholder value, business and bottom-line results. In the undercurrent, there are discussions about how life can develop meaning, values and business ethics'*. The notion of De Geus (1997) about two different companies is similar; he distinguishes the economic company (maximum results with minimum resources, people are assets, hierarchical controls) and river company (ongoing, flowing community, optimisation of people). Cohen & Prusak (2001) indicate that *'mainstream economists and many 'new economy' writers seem to believe that firms and the individuals who run them exist in a social vacuum, devoid of ties, histories, loyalties, or values that might influence their actions'.* According to Popkes & Rieger (1998), the result is that *'many individuals no longer see any transcendental of moral basis for their actions and things which had previously been taken for granted, such as rights, culture, customs and conventions, have lost their validity. The results are enormous difficulties in finding orientation'.*

Polanyi (1944) analyses the reasons why this separation of market thinking and human dimensions occurred, when he analyses the course of economic history. He argues that the market economy is based on the assumption of self-interest:

> *'such an organization of economic life is entirely unnatural, since man's economy, as a rule is submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, and his social assets. He values material goods only in so far as they serve this end'.*

Koslowski (1998) calls for an 'ethical approach to economics', in which not only the pursuit of self-interest as the principle of economics is recognized, but demands that all motives of action, even those beyond merely economic motivation, have to be taken into consideration in the theory of economic action. The consequences of this false assumption of self-interest motivation and the rise of the Industrial Revolution, which is based on the market economy, is that instead of economy being embedded in social relations, social relations are embedded in the economic system. The Industrial Revolution was causing a social *dislocation,* which results in that people find themselves '*working havoc with their social environment, neighbourhoods, standing in the community, crafts; in a word, with those relationships to nature and man in which his economic existence was formerly embedded*' (Polanyi, 1944). Koslowski (1998) confirms: 'economic order and organization is part of the cultural and ethical order, economy is a central aspect of the culture of a society'. Lohr & Steinmann (1998) call this the 'cultural and normative embeddedness of economic action'. Hence, there is a need to *re-embed* economy or business in existing social relations. According to Koslowski (1998) this means that economy has to be regarded as an ethical and cultural discipline because the economic order is built on the ethical-mental-cultural sense of a people or nation.

Cragg (2005) links this re-embeddedness of business to human rights:

> *'human rights have a constitutive role to play in ensuring that the expectation of public benefits resulting from the economic activity of corporations are realized as public benefits or goods. A commitment to respect and to advance respect for human rights on the part of corporations doing business in market economies can therefore be seen to be a constitutive element of a public corporate commitment to work toward ensuring that public benefits flow from its economic activities'.*

The society therefore needs to grant or permit corporations their right to exist, as Kline (2005) explains. This 'permission' of society for existence is also called a 'licence to operate'. On the other hand, Kline also argues that companies need to be able to trust society as well in order to operate efficiently and effectively. At a minimum, enterprises must be able to assume that contracts will generally be honoured and employees will not continually steal from the firm. Hence, this re-embeddedness works both ways.

Thus, the perspective taken in this research is that linking business and human rights is a way to *re-embed* business into the existing social relations. The concept of 'embeddedness' means that economic action and its consequences, like all social action and its consequences, are influenced by actor relationships and by the structure of the whole network of relations (Granovetter, 1992). In sociology and economics, the word embedded conveys the idea that economic and social activities are not 'pure' transactions but are strongly influenced by the past and present social and cultural environment of the actors (Cohen & Prusak, 2001). The degree of embeddedness defines the measure of success of a relationship (Evans, 1996). Because of this effect of embeddedness on the potential of a relationship, it can be said that the stronger international business organizations are embedded in local societies; the more trust is generated between the society and business and the more successful this relationship. Hence, when a MNC makes the commitment to human rights, the company has to live up to the global minimum ethical norms that define the way people deal with each other (social relationships). In that sense, MNCs are re-embedded into the global network of social relations.

However, this is not as straightforward as it seems. First of all, MNCs operate in many different countries, which make managing a MNC very complex, even without considering adhering to ethical norms. Through the process of globalising technologies, products and services, MNCs are challenged by the enormous complexity to manage people from different cultures and backgrounds, and operating in many countries, each with different habits and regulations. Management of the commitment to respect human rights can be even more complex. As was described in the previous chapter, human rights is subject to many different interpretations and there are no globally agreed standards for business regarding human rights. Adler (1997) explains: *'MNCs still face the challenge of how to determine what constitutes ethical conduct in different countries simply because what is ethically right and wrong is culturally determined'*. In the words of Donaldson (1996b): 'when is different just different and when is different wrong? What works in a company's home country can fail in a country with different standards of ethical conduct'. Donaldson & Dunfee (1999) call this the 'moral free space', which is the situation when one finds norms that are inconsistent with at least some other legitimate norms existing in other economic cultures.

Another issue that MNC face is that human rights policies can be seen as a domination of Western standards or, in other words, a form of neo-colonisation. This is also indicated by Van der Putten et al. (2003) when they analyse the historical relationship between developing countries and MNCs:

> *'it was under and largely due to colonialism that MNCs first became active in developing countries. Even though these countries have now gained formal independence, a general sense of suspicion continues to exist towards the former colonialist or imperialist countries in large parts of the developing world. While most human-rights related action is already political in nature, certain human rights activities might easily be interpreted as mere excuses for political domination'.*

They recommend therefore that MNCs choose their human rights aims and methods with great care for local political and cultural views. If MNCs do not take these local views into account, the company runs the risk that local relationships, crucial for starting up or continuance of operations, can be damaged. For example, a national government that forbids the right to form independent labour unions is unlikely to favour MNCs who grant that right to their local employees to do business in that particular country.

Besides, if these local contexts are not taken into account, the human rights policy is not accepted within the subsidiary itself, which affects the degree of the ways in which human rights are embedded. A clear example appeared when I researched the compliance with labour rights in local offices of MNCs in Guatemala. Guatemala has a strong culture of conflict and employees are not aware of their rights. The result was that the policy was interpreted as an instrument of ethnocentric imperialism, which was used by the Guatemalan elite to obtain more power over the workforce. Besides, employees were not informed, could not read and understand the norms, were not aware of the possibilities and last, but not least, were afraid to take action because of previous experiences which ranged from discharge to even murder. The result was that the global policies were not effective (Schouten, 2002). Hence, two levels of re-embeddedness are important to take into account: the global network of social relations (in short, global context) and the local network of social relations (in short, the local context).

Hence, with the lack of a global standard, the challenge for MNCs is to develop and implement global guidelines on human rights, valid for all local subsidiaries, while at the same time meeting the local contexts of its subsidiaries in different cultures. Not developing such global standards leads to a variety of human rights performances across the company, which is a disaster for internal management and potentially damages international reputation. Not meeting the needs of subsidiaries or their local context will lead to a lower degree of embedding and potentially damages the local reputation. In the words of Donaldson (1996b): *'the organisation should be guided by three principles in deciding what to do: respect for core human values, which determine an absolute moral threshold; respect for local traditions and the belief that context matters when deciding what is right and wrong'.*

Next to different levels of embeddedness, two types of embeddedness are distinguished in literature: 'strong-embeddedness' and 'weak-embeddedness'. Granovetter (1992) indicates that 'strong-embeddedness' occurs when group values prevail over personal values. Weak-embeddedness is the opposite: individual norms and values can prevail over the norms and values of a group of which the individual is a member. When the concepts of strong- versus weak-embeddedness are applied to this research on the level of the MNC, strong-embeddedness into a global or local context means that those norms and values prevail over the norms and values of the MNC. Weak-embeddedness into a global or local context means that the norms and values of the MNC can prevail over the norms and values of the norms and values of those contexts.

Granovetter is an advocate of weak-embeddedness, just like several other authors, such as King (1991), Cohen & Prusak (2001), Portes & Landholt (1996) and Gabbay & Leenders (2001). Granovetter argues that strong-embeddedness is dangerous because the voluntarity of the relationships could disappear. If individuals cannot engage in voluntary relationships, the dependency on these relationships can be so great that it is disadvantageous for an individual and, on the long-term, organisations as well. Also, Cohen & Prusak argue that strong-embeddedness is not always a good thing: *'It can breed unthinking loyalty and unquestioned shared beliefs, too strongly identifying with a group sometimes means mutually supporting ideas that are narrow or wrong. Too much warm and fuzzy gemutlichkeit can prevent people from challenging each other'.* In the context of this research, this means that a MNC should be weakly re-embedded in the global context *and* in the local context. This way, the norms and values of the MNC can still prevail over the local and the global norms and values in which a MNC is re-embedded. In other words, according to this theory, the MNC should still have the flexibility to deviate from any local or global norms and values in order to align them properly.

Hence, a general direction on the principles for embedding human rights is to weakly re-embed the commitment to human rights by adapting an approach to the local contexts and stay within the international framework of human rights at the same time. How a MNC is managing that challenge and the factors influencing it is the subject of this research. The model below presents what has been described in this section and forms the base on which the research model will be built.

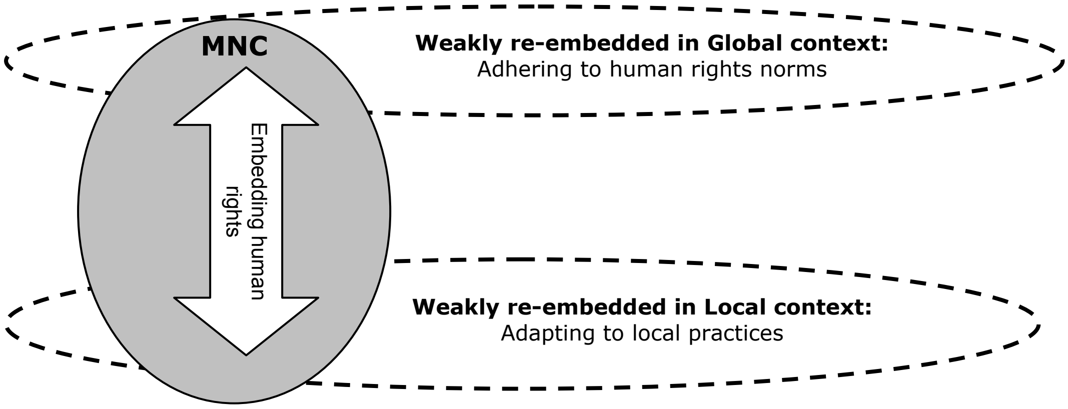

Figure 3 Initial research model to embed human rights within a MNC

The next section introduces the model of Tatiana Kostova (1999). This model is taken as a base for this research and further defines this research model.

2.6 Kostova's model of embeddedness

Two strata of international management research have developed which focus either on the 'transfer success' and its determining factors (Kostova, 1999) or on the variation of practices across countries in MNCs (Gooderham et al, 1999; Mohan, 2004). Kostova researched the success of the transfer of organisational practices in MNCs. She has developed a theoretical model that is based on the idea that the process of transfer does not occur in a social vacuum, but is contextually embedded. Hence, her model fits this research since it is based on the concept of embeddedness.

Kostova defined a number of factors that influence the success of a transfer. The success of transfer of the practice at the subsidiary level depends strongly on the institutionalisation of the practice at the subsidiary. Institutionalisation is conceptualised in two levels:

a) implementation: degree to which the subsidiary follows the formal rules implied by the practice and
b) internalisation: state in which the employees at the subsidiary attach symbolic meaning to the practice through: commitment to the practice, satisfaction with the practice and psychological ownership of the practice.

In Kostova's model, three types of contexts factors define the degree of implementation and internalisation (and success of a transfer):

1. social (national or country level): institutional distance on regulatory, cognitive and normative aspects;
2. organisational (business level): organizational culture through favourability for learning & change and compatibility with practice;
3. relational (individual level): attitudes of 'transfer coalition' through commitment to parent, identity with parent and trust in parent and dependency on parent company[1].

These levels will be discussed below.

[1] This coalition exists of a core group of subsidiary managers and focal points that are 'in charge' of the transfer and expert members who are experts in the functional area of the practice.

1. Social context
Kostova conceptualises context related factors using a country's institutional profile (CIP). The main reasons are that countries differ in their institutional characteristics, organizational practices reflect the institutional environment of the country where they have been developed and established and therefore, when practices are transferred across borders, they may not 'fit' with the institutional environment of the recipient country, which, in turn, may be an impediment to the transfer. In order to capture the institutional characteristics of a national environment, she uses three pillars defined by Scott (1995):

1. Regulatory: the existing laws and rules in a particular national environment that promote certain types of behaviours and restrict others;
2. Cognitive: the nature of reality and the frames through which meaning is made;
3. Normative: the values and norms held by the individuals in a given country.

2. Organisational context
Kostova defines the organisational context as organizational culture. Organizational culture is defined as a set of values widely shared among organizational members (O'Reilly, Chatman, Caldwell, 1991). She defines two types of effects on the success of practice transfer:

- General: a cultural orientation of that unit toward learning, innovation, and change likely will result in more positive attitudes toward the transfer process and will lead to its eventual success
- Practice specific: the success of transfer will be affected by the compatibility between the values implied by the particular practice and the values underlying the culture of an organizational unit.

3. Relational context
The relational embeddedness reflects the quality of the relationship between the subsidiary and parent company, which affects the motivation of the subsidiary to engage in the process of transfer. Two types are distinguished:
1. Attitudinal relationships

- commitment of subsidiary to a parent company: degree to which the transfer coalition members are willing to exert considerable effort on behalf of the parent company and have a strong desire to maintain membership in the parent company;
- identity of subsidiary with the parent company: degree to which members of the transfer coalition experience a state of attachment to and identify with the parent company;
- trust of subsidiary in parent company: common belief among the members of the coalition that the parent company (1) makes good-faith efforts to behave in accordance with any commitments, both explicit or implicit, 2) is honest in whatever discussions precede such commitments; and 3) does not take excessive advantage of the recipient unit, even when the opportunity is available.

2. Power/dependency relationships: a recipient unit will try to become internally legitimate with the parent company and the corporate headquarters will try to gain their favourable judgments. This will only have an effect on the implementation of the practice, not on the internalisation. Integrating Kostova's model into the initial research model leads to the figure 4. Before adopting this model, it needs to be explored for applicability further and complemented if needed.

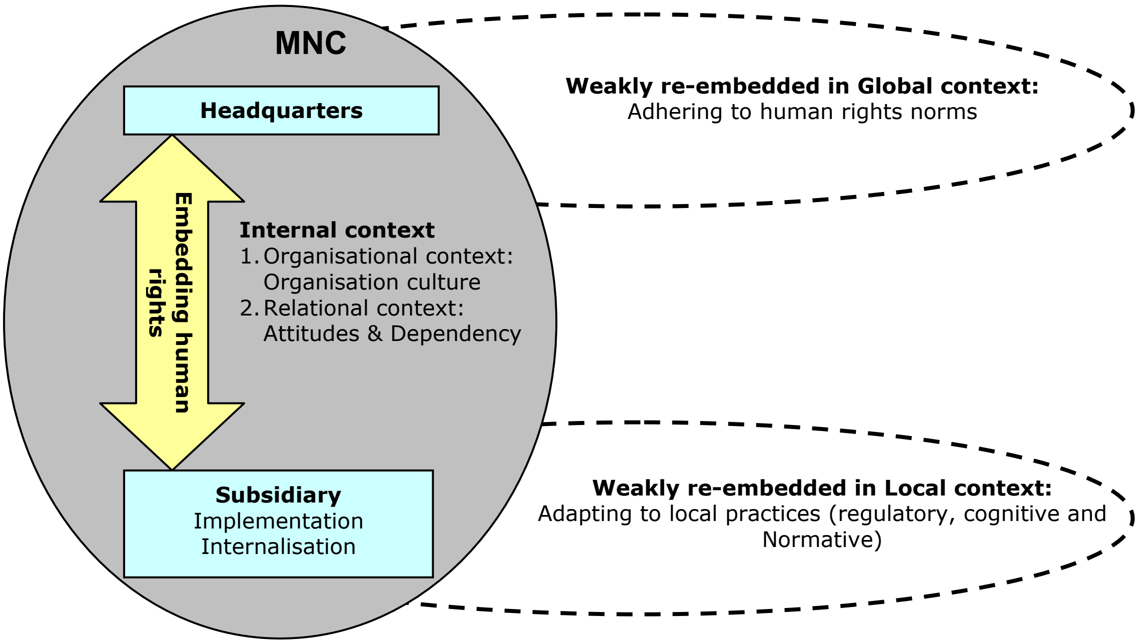

Figure 4 Initial research model integrated with model Kostova

2.7 Discussing Kostova's model

When Kostova's model is compared with the initial research model, as presented in figure 4, it appears to be complementary. Kostova's model points out the indicators for measuring the success of the mechanisms used to manage a practice (the success of transfer), i.e. the degree of implementation and internalisation at the subsidiary level. She also points out the potential factors that explain the degree of implementation and internalisation of a certain practice (e.g. stakeholder management), i.e. the social, organisational and relational contexts[2]. Nevertheless, a number of comments can be given on the model.

A general comment on Kostova's model is that it is rather static. The transfer of management practices usually takes some time and the ways the practice is transferred can change over time. When researching the transfer of knowledge management, Fink & Holden (2005) found that the pace of implementation and internalisation differs over time, as *'the global transfer of management knowledge has to be seen as a form of experimentation with people and processes. In the early phases, newly introduced international knowledge transfer systems rapidly meet resistance. This can be followed by a period of socialization..'.* (Voelpel 2005) et al (2005) found five stages in transferring a practice: the conceptual phase, the global roll-out, bringing momentum into the system, expanding group-wide and consolidating and sustaining performance.

Regarding the degree of implementation and internalisation of the mechanisms that are used to embed human rights, the first point that can be made relate to the definitions of Kostova that are used to determine the success of the transfer of a practice. These definitions assume that a practice fails to be transferred if the subsidiary does not follow the formal rules implied by the practice and employees do not attach symbolic meaning to the practice.

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[2] Based on the model of Kostova, the 'implementation of a mechanism' will be expanded to the 'implementation and internalisation of a mechanism' from this point onwards.

Schierbeck (2000) confirms its importance relating to embedding human rights:

> *'creating basic understanding of the issues involved has proven a necessity in order to enable management to pass on the understanding and motivation to the key players in the process and to the organization at large. Often the operational level will worry about this new 'monster' which they fear may jeopardize their possibilities of meeting economic and technical targets, and the motivation and ability of this level must therefore be give primary priority to avoid 'loosing' these key players in the process'.*

However, these definitions disregard the possibility that the practice may be adapted and altered by the subsidiary, which still allows the practice to be transferred but fits more with the local context. In this context, Blazejewski (2006) found that practices should be better understood as 'hybrid' practices than as either 'success' or 'failure' of parent company practices adoption, as the transfer of practices across different local contexts without alteration is rather impracticable. Practices are hardly ever successfully transferred to a foreign environment in their original outlay but are translated, mediated, refined and sometimes ignored in the process of implementation of management practices (Sharpe, 2001). Hence, this research also needs to create insight if, why and in what way the subsidiary adapts the formal rules implied by the practice and the symbolic meaning to the practice to fit the local context.

With this in mind, determining the degree of following formal rules exactly (e.g. in the form of a percentage) may prove to be difficult, because these rules may have been adapted to fit a local context. Besides, this research aims to use the degree of implementation and internalisation only as a way to find explanations for the process of embedding human rights, not to pinpoint the degree of embedding exactly. The definition of the degree of implementation is therefore changed to 'the *state* in which subsidiaries follow and/or adapt formal rules implied by the practice'. For the same reasons, the definition of the degree of internalisation needs to be altered to fit the purpose of this research. The state in which employees 'attach symbolic meaning' to human rights practices can also mean that the employees adapt these practices to fit the local context. These words can be left out of the definition, as Kostova already defined what attaching symbolic meaning is.

Another point worth making is that the success factors as defined by Kostova do not only apply to a subsidiary level, but also to the headquarters level. Headquarters often exists of many different departments and levels, which have to work together in implementing and internalising the practice. In this context, Hoffman (2000) mentions that a lack of integration between departments can be a major obstacle to implementing environmental issues, which he attributes in part to communication failure between environmental managers and general business managers. In the context of human rights, Schierbeck (2000) concluded that having a 'human rights catalogue' in hand has proven very useful, since the corporation and its stakeholders are then in agreement on the human rights targets and KPIs to be implemented, and makes planning the practical implementation much easier. In other words, the mechanisms to embed human rights should also be implemented, internalised and adapted within headquarters itself. Kostova considered the headquarters as a black box, whilst this research will also explore the internal dynamics in headquarters as well.

This leads to another comment on Kostova's definition of the relational context. Her definition of attitudinal relationships only reflects what commitment to, identity with and trust the subsidiary has in headquarters, whilst a relationship is shaped by the interactions between two parties. Thus, the commitment to, identity with and trust of headquarters in the subsidiaries is as important as the other way around.

Additionally, the definition of embeddedness states that actions are also influenced by the 'structure of the whole network of relations'. Hence, this whole network of relations (local context) influences or governs the interactions between stakeholders and the MNC. Kostova uses country institutional profiles, including regulatory, cognitive and normative pillars, to define this local context. However, as Noorderhaven & Harzing (2003) explain: *'the institutional profiles used by Kostova have the danger of tautological explanations, i.e. the institutional characteristics are very specific to the organisational phenomena. Besides, using institutional profiles use very abstract impressions and perceptions of respondents'*. This research therefore does not only focus on the direct environment of the subsidiary, but comprise a country with all its levels of society. Besides, Kostova does not take relationships with stakeholders into account, which shape the influence of these external contexts on the company. This makes her definition of a social context very abstract.

Furthermore, in order to avoid the tautologies and abstractness of these institutional profiles, a complementary system will be followed. To that end, Whitley (1999) developed a 'national business system', which conceptualises national institutions influencing business in four areas: cultural system, political system, financial system and labour system. The financial system can be distinguished into the regulatory and economic system. Kostova & Zaheer (1999) introduced the concept of 'institutional distance', which is the distance between the home country and the host country (local) contexts in which a MNC is embedded. Only then, the influence of these external contexts on the mechanisms used to implement and internalise human rights can be established. In this respect, Van Tulder & Van der Zwart (2006) defined geographical, cultural, ethical, development, institutional and stakeholder distances. The economic system can be compared with the development distance, which means the level of development of the host economy relative to the home economy. This normative distance is related to cultural distance: the extent in which the norms and values of a host country diverge from the home country. This is also confirmed by Stajkovic & Luthans (1997), who found that ethics is grounded in culture. The geographical distance is interpreted as a political distance and the stakeholder distance is about the extent in which local stakeholder interests diverge from the interests of international stakeholders. This will be discussed further later in this chapter.

Besides, another relevant factor that needs to be taken into account is history. Bartlett & Ghoshal (2000) established that a nation's history, infrastructure, and culture influence all aspects of life within the country, including the norms, values and behaviours of managers in its national companies, which in part become an ingrained part of each company's way of doing things and shape its international organisation structure and processes. Matten & Geppert (2004) also come to the conclusion that the organisational implementation of global standards faces strong resistance from constraints based on the history of the company or based on the national business system.

The approach of Tulder & Van der Zwart does not only cover all the elements of Kostova's profiles, but also clarifies and complements them. The regulatory system is the same in both approaches. The cognitive and normative pillars also have some similarities; these pillars are similar to culture related factors. The norms and beliefs of a person, for example based on religious tradition, determine the way people think about human rights and influence the ethical distance. The developmental, historical, political and labour distances are not mentioned in Kostova's country institutional profiles, but can be of importance to the context of human rights, as will be described later in this chapter. This research will not aim to cover and describe all of these distances for every local context in which a subsidiary operates. Instead, the analysis of the different distances serve as a list of elements in which possible explanations can be found for the degree in which human rights mechanisms are embedded.

A MNC is embedded in different local contexts through its subsidiaries, as Kostova described. However, a MNC is also embedded in the global context through its corporate headquarters. In the context of this research, this global context is relevant since the demand that business adheres to human rights stems from this particular context. In her model, Kostova only takes the context of the subsidiary into account. Unlike the local country context, there are no defined systems that mark out this context. In the framework of this research, the global context is defined as the international norms and rules of engagement in which the interactions between the MNC and its global stakeholders are embedded. These norms are shaped by the international conventions on human rights. The rules of engagement become visible at the places of interactions, such as international conferences on business and human rights or other related subjects. Again, headquarters may also adapt the human rights expectations and practices developed in the global context to fit its internal context.

Next to the global context, the ways MNCs use to embed human rights are also influenced by the context of their home countries. According to Eide (2000), in the context of human rights, there are at least four actors or partners involved whose responsibility has to be addressed: the host government, the transnational corporation, the home government and the international community. The 'host government' is embedded into the local context and the transnational corporation is the MNC. The home government and the international community represent the 'global context'. Since the home government is not necessarily 'global', this is another context in which a MNC is embedded.

All of these comments complement Kostova's model and represent possible explanations for the degree in which the mechanisms to embed human rights are implemented and internalised within a MNC. These comments are integrated in the research model:

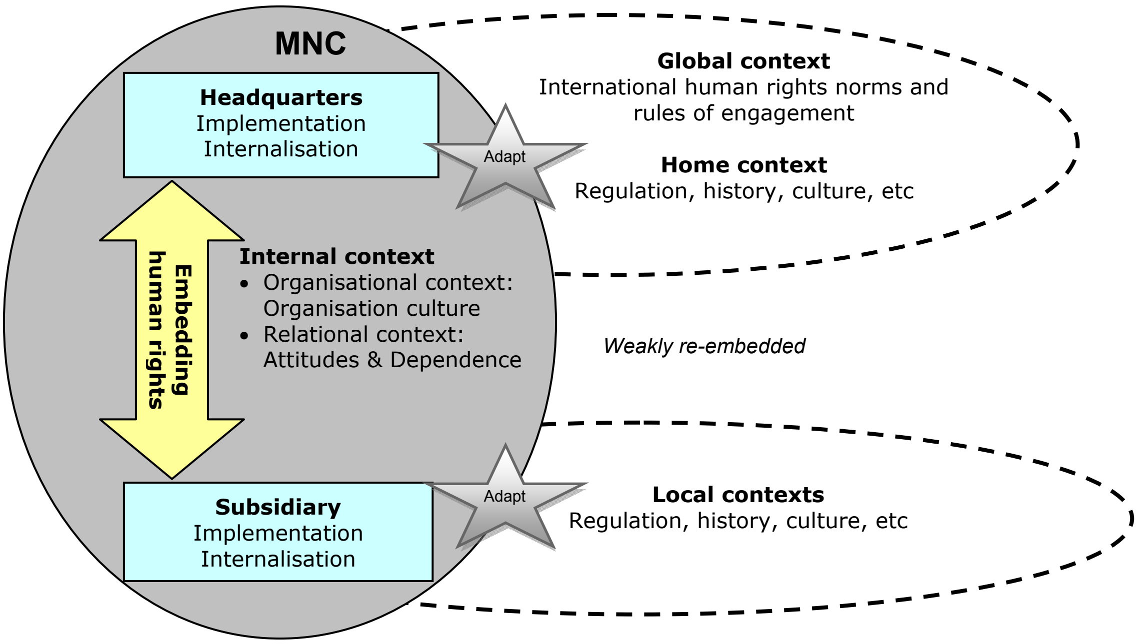

Figure 5 Research model with comments integrated

Consequently, the definitions for the degree of implementation and internalisation are also adapted:
- The degree of implementation: state in which the subsidiary and headquarters follow and/or adapt to the formal rules implied by the practice.
- The degree of internalisation: state in which the employees at the subsidiary and headquarters are committed to, satisfied with and have psychological ownership of the practice.

Kostova's research is, however, based on the transfer or practices related to information technology within a MNC. The mechanisms to embed human rights can be defined as organisational practices as well, but because of the ethical nature of human rights, it may change the explanations for the degree in which these mechanisms are embedded or other explanations may be found. This may lead to other and/or complementing conclusions regarding Kostova's research model. The next section defines these mechanisms to embed human rights for this research.

2.8 Mechanisms to embed human rights

Now that a research model has been defined to embed human rights, what mechanisms does a MNC use to embed human rights? These mechanisms can be divided in internal and external mechanisms.

External mechanisms
Embeddedness was defined as 'economic action and its consequences, like all social action and its consequences, are influenced by actor relationships and by the structure of the whole network of relations'. Hence, through the relationships that the MNC has with other actors and the network of actors is the MNC re-embedded again. These actors are called 'stakeholders'[3].

Kolk & Van Tulder (2004) stipulate the importance of interactions with stakeholders for re-embedding the company: *'the nature of leadership involves an open attitude towards stakeholders in different countries and settings, in which a universal, standardized approach does not really fit. This also means a perspective of an embedded (rather than a discrete) organization, which focuses on cooperation and dialogue'.* Hence, when global and local contexts conflict and human rights dilemmas occur, MNCs can engage their stakeholders in order to jointly find a way to satisfy them. In the words of Chandler (2000): *'companies will have no defence if their activities are not transparent. Mistakes will be made, but if they are openly acknowledged; if they are made in the context of policies and practices which reflect the breadth of their responsibilities, they will be accepted as mistakes, not condemned as crimes'*. So, Andriof & Waddock (2002) conclude after their extensive analysis why a company should engage with its stakeholders that stakeholder engagement can be viewed as a process for managing a company's social risk. Crane & Matten (2004) call this 'legitimisation' by stating that MNCs have to define and legitimise the 'right and wrong' of their behaviour.

In the context of human rights, Lawrence (2002) points out that companies who face a human rights crisis reputation requires winning the support of representatives of stakeholder interests. Veser (2004) emphasises that the interests of both global as well as local stakeholders should be taken into account. Thus, managing global and local stakeholders' interests forms one of the

[3] It is recognised that there are internal and external stakeholders, but this research uses the term 'stakeholder management' in the context of external stakeholders only.

mechanisms to embed human rights. The elements of stakeholder management will be described in section 2.9.

Internal mechanisms
A MNC exists of a headquarters, steering several subsidiaries based in different countries. Organisational practices are transferred from the headquarters to the subsidiaries. Human rights can also be defined as such an organisational practice, which is transferred to subsidiaries. The degree of decision power that these subsidiaries have can influence the embeddedness of human rights. If subsidiaries are required to accept the practice (decision power is low), the practice may not be embedded, since it potentially does not fit with the local context. If subsidiaries can decide to ignore the practice (decision power is high), the practice may not be embedded either, since it potentially does not fit with the global commitment to human rights. Whether subsidiaries have a high or low level of autonomy within the MNC is called the degree of (de)centralisation or *management strategy*.

Muller (2006) researched the Corporate Social Responsibility (CSR) practices of MNC subsidiaries in host countries and the question arose whether subsidiaries tend to adopt CSR practices of the home country of their parent firm (embedded in a global corporate CSR strategy) or tailor their CSR responsiveness to the host-country context in which they are located (local CSR strategy). If companies follow such a global CSR strategy and are able to effectively transmit these practices to their foreign subsidiaries, MNCs have the potential to function as mechanisms for 'upward harmonisation' of CSR standards internationally (Tsai and Child, 1997). If companies value endogenous CSR development at the subsidiary level through dialogue with local stakeholders and responsiveness to local institutions, the potential exists for a truly 'responsive' CSR strategy, yet one that could also be classified as reactive and potentially aimed at the minimum level required by law (Meyer, 2004). Muller indicates that the risk for a MNC of choosing to take a local strategy is that internal tensions are created and that the MNC will be criticized for a lack of consistency. Moreover, Muller states that *'it increases the complexities of managing this whole set of diverging approaches from the range of subsidiaries'*. Hence, the *management strategy* forms another mechanism to embed human rights. The question is then which strategy is suitable to embed human rights, which is discussed in section 2.10.

Next to choosing a management strategy, MNCs use a framework of processes and procedures to ensure that it can fulfil all tasks required to embed human rights. In other words, MNCs use a *management system* to coordinate and control all efforts on human rights within the organisation to ensure that the goal is reached. The research of Mohan (2004) reveals extensive use of formalization and standardization in the management of values-based practices across international operations. Human rights can be classified as such a values-based practice.

The steps of a management system follow the logic of a 'plan-do-check-review model', where companies define their corporate vision through a policy, identify the key issues that need to be managed, set objectives and targets, implement systems to achieve these objectives, and monitor, report and review performance. The reviewed performance feeds again into the planning, so there is a continuous improvement. In every step, different mechanisms can be used to embed human rights, which determine the capability of the MNC to live up to its commitment to human rights. For example, if the performances are not properly monitored, it will distort future decisions on the actions required to reach its commitment to human rights. The different elements of a human rights management system and how these elements influence the process of embedding human rights are discussed in section 2.11.

In sum, the following mechanisms were discussed that can be used to embed the commitment to human rights:
- External: stakeholder management
- Internal: management strategy and system

The following figure puts these mechanisms in the research model:

It should be noted, however, that these mechanisms are not exclusive: there may be other mechanisms available to MNCs to human rights. Thus, this research will primarily focus on the three identified for the reasons as described above, but this will not prevent other mechanisms to be recognised in practice as well.

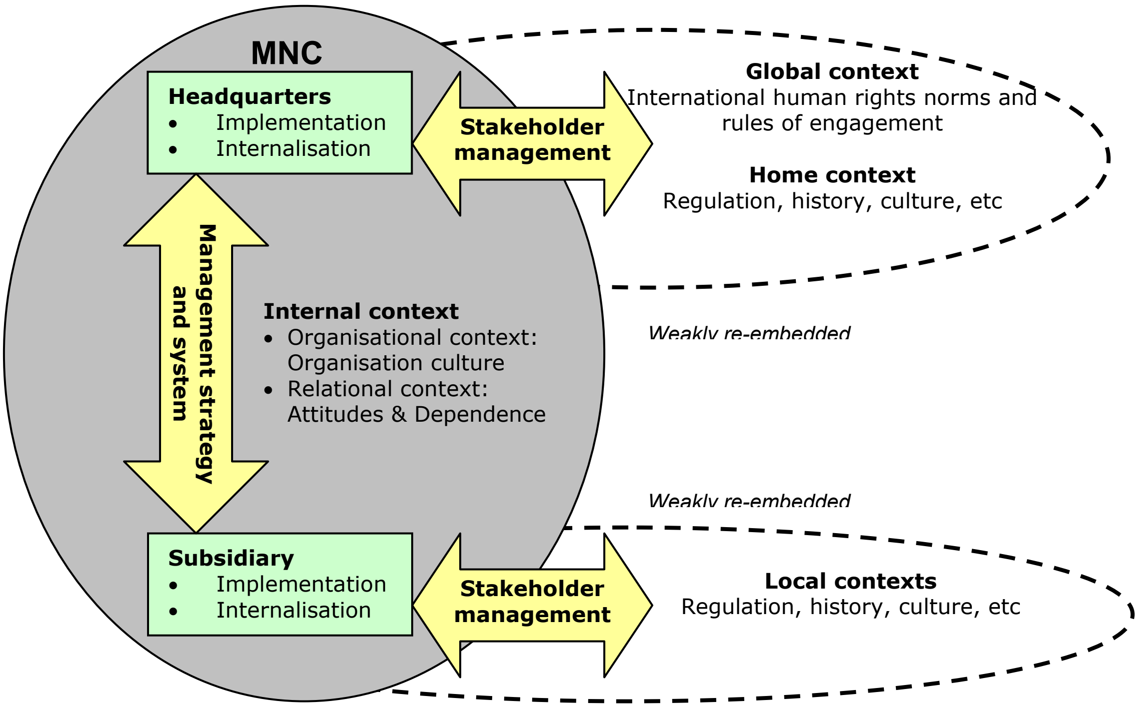

Figure 6 Final research model

The figure above represents the final research model with the defined mechanisms. Possible mechanisms for embedding human rights (research question 1) are indicated in the yellow arrows: stakeholder management in global and local contexts and the management strategy and system. The green boxes indicate the degree in which these mechanisms are implemented and internalised at the subsidiary and headquarters (research question 2). The contexts that can potentially explain the degree in which these mechanisms to embed human rights are implemented and internalised within a MNC (research question 3) are indicated in the (dotted) circles of figure 6: the global, home and local context and the organisational and relational contexts. All of these elements are further explored from a theoretical perspective.

2.9 Stakeholder management

In every article on stakeholder management, the name Freeman is mentioned. According to Preble (2005), the stakeholder concept was first introduced in the 1960s, but it was not until the mid-1980s that the concept started to gain widespread acceptance with the publication of Freeman's book in 1984 with the title 'Strategic Management: a stakeholder approach'. Much attention has been paid to demonstrating the importance of stakeholders for the performance of the firm (Mellahi & Wood, 2003; Caulkin & Black, 1994; Kotter & Heskett, 1992, Donaldson & Preston, 1995, Berman et al, 1999). All of these studies have found that this relationship is a positive one. Little attention, however, has been paid to the actual practice of stakeholder management within contemporary organisations. This research focuses therefore on the latter area by providing more insight into how stakeholders that are concerned around human rights are managed within a MNC.

2.9.1 Elements of stakeholder management

What constitutes stakeholder management? Lawrence (2002) defines a stage model in which individual firms increase their level of engagement with stakeholders over time: (1) identifying and mapping stakeholders and their interests, (2) manage stakeholders and the social issues of concern to them, (3) engaging stakeholders for long-term value creation. Thus, the first stage revolves around monitoring of stakeholders and not engaging them, the second stage is about the short-term management of issues and the third stage is aimed for long-term engagement with stakeholders to build up a relationship. This does not say anything, however, about *how* to identify, manage or engage stakeholders. Preble (2005) built on recent literature in stakeholder management to identify a more detailed model to manage stakeholders, which includes six steps:

1. Stakeholder identification
2. Assess general nature of stakeholder claims and power implications
3. Determine performance gaps and influence strategies
4. Prioritise stakeholder demands
5. Develop organisational responses
6. Monitoring and control

This model will be used as the base for stakeholder management.

1. Stakeholder identification

Freeman (1984) defines a stakeholder of a corporation *as 'an individual or group which either is harmed by, or benefits from, the organisation or whose rights can be violated, or have to be respected, by the organisation'.* Thus, this is a two-way relationship, which can turn out to be negative or positive. The following table lists examples of the different stakeholders of a company (based on Donaldson & Preston, 1995, in random order and not exhaustive):

Stakeholders of a company	
Employees	International governmental organisations
Shareholders	Non-governmental organisations
Labour unions	Local communities
Governments (national, regional, local)	Industry associations
Suppliers and distributors	Investors
Competitors	Customers
Academic/research institutions	Media

Table 3 Possible stakeholders of a company

Freeman's definition is often criticised to be too broad, since it can include anyone. Mitchell et al (1997) have identified over twenty-five other definitions of stakeholders in literature. In that respect, Clarkson (1995) makes a distinction between primary and secondary stakeholders. Primary stakeholders are those that are crucial for a corporation's survival. These include private stakeholders, such as shareholders and investors, employees, customers and suppliers as well as public stakeholders, such as the government and communities. Secondary stakeholders are those, which are not essential for the survival of a corporation, e.g. the media and special interest groups. Nevertheless, Preble (2005) found that these secondary stakeholders can still strongly influence how the organisation is perceived by the public. This research therefore takes the categorisation of Werther & Chandler (2006):

- Organisational stakeholders (employees, shareholders, unions),
- Economic stakeholders (customers, creditors, distributors, suppliers) and
- Societal stakeholders (communities, government and regulators, nonprofits and NGOs, environment).

2. Assess general nature of stakeholder claims and power implications
Assessing what the identified stakeholders claim from the company and the size of their stake (power) is the next step. Claims can be deducted from the drivers of stakeholders. In other words, what do the stakeholders ultimately want from the company? The drivers of stakeholders should therefore be studied more closely. In general, the human rights criticism of stakeholders falls into six main categories (Schierbeck, 2000):

- Involvement in countries known to seriously violate human rights irrespective of the corporation's own ethical behaviour in that country;
- Manufacture of products or semi-products by the corporate or its suppliers through human rights abusing methods;
- Lack of control of the intended or potential use of the corporation's products and services;
- Negative impact of corporate activities, decisions and relations;
- Lack of protection for the end-user of a product, which causes danger for the user if not properly applied;
- Lack of will to assume responsibility for the way products are manufactured or used and lack of will or ability to account for a human rights policy or approach.

Next to these drivers, Kostova & Zaheer (1999) also found that the larger and more visible MNCs and their subsidiaries are, the more vulnerable they are to attacks from stakeholders.

In addition, the drivers of a company to interact with its stakeholders should not be left out of this analysis. This will help to determine the degree of implementation and internalisation of stakeholder management: does stakeholder engagement ultimately lead to the achievement of goals of both parties? The table below portrays the different drivers why companies and its stakeholders interact on human rights, based on different typologies (SustainAbility, 1996; Bendell, 2000; Kaptein & Van Tulder, 2003).

Stakeholders	**Drivers stakeholders**	**Drivers companies**
Organisational stakeholders		
Employees	Good labour conditions, Good career opportunities	Attracting and motivating employees through being a good employer
Shareholders	Reducing investment risks by investing in company with good reputation, Improving human rights situation	Attracting more investment in company by satisfying shareholders demands on human rights
Labour unions	Negotiating and agreeing on good labour conditions	Stability workforce, Motivating employees
Economic stakeholders		
Customers	Healthy and safe products, Improving human rights situation	Increasing turnover and profitability through satisfying customer demands, New product and market development
Investors	Reducing investment risks by investing in company with good reputation, Improving human rights situation	Attracting new and more investment in company by satisfying investors demands on human rights
Competitors	Cross-fertilization of thinking, Spreading risks by developing industry standards	Cross-fertilization of thinking, Spreading risks by developing industry standards, Cost reduction
Industry associations	Increasing industry reputation, Cross-fertilization of thinking, Satisfying member demands	Cross-fertilization of thinking, Developing industry standards, Cost reduction
Suppliers and	Increasing turnover and profitability	Production chain organising, Increasing

distributors	through satisfying customer demands New product and market development	reputation, Cost reduction and productivity gains, Risk management and reduction
Societal stakeholders		
Governments	Compliance with national standards, International reputation	New market development, Increasing reputation, Cost reduction and productivity gains
Intergovern-mental organisations	Compliance with international standards, Improving human rights situation	Increasing international reputation, Cross-fertilization of thinking, Risk management and reduction
Non-governmental organisations, Academic/research institutions	Improving human rights situation, Disenchantment with government as provider of solutions and credibility of business with government, Access to e.g. supply chains, Resources	Stakeholders' credibility with public on issues, Desire to head off negative public confrontations, Cross-fertilization of thinking, Risk management and reduction, Cost reduction and productivity gains, Creativity and change
Local communities	Benefiting from presence of company in community, Mitigating negative consequences from company's presence	Desire to head off negative public confrontations, Risk management and reduction, Cost reduction and productivity gains, Creativity and change
Media	Provide transparency to public about actions companies on human rights	Desire to head off negative public publicity, building reputation with public

Table 4 Drivers of a company and stakeholders to interact on human rights

These stakeholders have not the same degree of power to realise their claims they put on the company. According to Preble (2005), the nature of a stake in a company can range from an equity stake to that of an influencer with groups in the middle of the continuum having an economic or market stake in the firm. Stakeholders can have a financial equity stake through voting power (in the case of shareholders), an economic stake (e.g. customers), a political stake (e.g. government) and a social stake (e.g. local communities).

If this is related to the subject of human rights, especially NGOs have an important stake in the company, because NGOs often carry weight with the wider public (Amis et al, 2005). Also, Teegen et al (2004) explains that NGOs have substantial impacts on governments (both host and home) and on MNCs in local, national and global contexts. However, others think the opposite (e.g. Florini, 2003) and question their legitimacy as governing actors. Challenges that NGOs face influence their efficacy and viability, such as divergent needs and preferences of their principals, restriction of NGO activities by governments, difficulties in interacting between international and local NGOs, lack of accountability, lack of resources, inaccuracy of information (Teegen et al, 2004). The NGOs themselves are often not satisfied about their own influence, as Amis et al (2005) indicate: *'frustration exists in some NGO circles over the pace of the business response on human rights'*.

Nevertheless, multinational brands have been acutely susceptible to pressure from activists and from NGOs. They do not only include highly visible brands that are feeling the pressure, but also customers and shareholders (IISD, 2006). According to Schepers (2006), NGOs have emerged as a powerful force on the government and business landscape. More than 2500 NGOs operate as registered advisors at the United Nations. Ruggie (2006a) quotes the research of Khagram et al (2002) and indicates that civil society actors in many ways have become as transnationalised as firms; more than 30.000 non-governmental organisations operate international programmes, roughly 1000 have memberships drawn from three or more countries, while purely national and local NGOs are often supported by international counterpart institutions. Nevertheless, Teegen et al (2004) explain that the international business discipline appears to lag behind other disciplines in considering e.g. NGOs and the broader societal interests they represent. Special attention will therefore be paid to NGOs in each of the following steps.

3. Assessing performance gaps and influencing strategies
This step involves assessing expectations of each stakeholder on human rights and comparing them to an organisation's behaviour on human rights to see if performance gaps exist. The influencing strategy of stakeholders to close the perceived gaps should also be assessed. This way, a proper response can be determined in order to close the gaps. The stakeholder expectations changed over time, as Kaptein & Van Tulder (2003) explain: *'in the past, companies were able to satisfy stakeholders questions with the simple response of 'trust me'. However, nowadays, stakeholders are demanding, in unison, 'show me'*. Hence, the expectations of stakeholders increased, as trust diminished.

Furthermore, the attitudes of stakeholders towards a company can vary, e.g. from one of confrontation and competition to one of consultation and cooperation (Kaptein & Van Tulder, 2003; Frooman, 2005; Fineman & Clarke, 1996). Thus, stakeholder can be adversarial or cooperative towards companies. Kaptein & Van Tulder worked out the characteristics of these two different attitudes further in the table below.

Adversarial	**Cooperative**
Competition with a single winner or only losers	Cooperation where everyone is a winner
Egocentric where the other party is a threat or a means to personal profit	Empathetic where the other party is an opportunity and represents an intrinsic interest
Putting yourself in a better light	Being yourself
Speaking, to which others have to listen	Listening to others before speaking yourself
Influencing	Convincing
Confronting, combative and destructive, whereby the weaknesses and wrongs of the other party are sought out and the similarities are negated	Constructive and, from a point of mutual understanding and respect, looking for similarities from which to consider the differences
A closed and defensive attitude because you personally know the truth	A vulnerable attitude because there are many truths and where parties are open to criticism about their own performance and they can use this to learn from each other
Taking and keeping	Giving and receiving
Divide and rule	Share and serve
Separate/isolated responsibilities	Shared responsibilities

Table 5 Characteristics attitudes of stakeholders and companies

Related to NGOs, Elkington et al (2003) noticed a shift from adversarial to cooperative, as they think this would be more effective in achieving their goals. At the same time, however, there is concern that such a move could compromise the independence of NGOs and draw criticism that they are 'selling out'. Chandler (2000) also states that cooperating with MNCs may be risky for NGOs, since colleagues and supporting members can accuse NGOs of consorting with the enemy. But it has proved essential for protest and dialogue to go hand in hand. Thus, even though NGOs may be keen to cooperate with companies, it may not always be possible because their members or sponsors are against it. The question remains whether adversarial or cooperative attitudes and strategies are better to close the gaps between the company performance and the expectations of stakeholders. Van Tulder & Van der Zwart (2006) point out that NGOs are increasingly struggling with the question of the degree to which their current roles are effective in achieving their objectives. A move towards adopting a multitude of roles can be discerned.

Heap (2000) distinguishes three attitudes of NGOs and community groups towards companies: adversarial, neutral and co-operative. Although Heap focuses on societal stakeholders in particular, these attitudes can also be applied to the company and other stakeholders as well. The drivers, the attitudes and the perceived gaps with the company performance result into different influence strategies of stakeholders. Examples range from boycotts to active partnerships and are further described in appendix 5. The actions of stakeholders influence the company differently, e.g. the influence of a massive boycott of a company's customers can be different from a local demonstration of a community. Frooman (1999) assumes that a firm's managers may be better able to predict which type of strategy a stakeholder might use by trying to get a sense of the stakeholder (media) repertoire and its resource relationship with that stakeholder. He identified two types of influence strategies through which a stakeholder can enact their power: a withholding strategy (stakeholders stop providing a resource with the intention of making the firm change certain behaviour) or usage strategies (stakeholder continue to supply a resource, but with some strings attached). If the stakeholders and the company are highly interdependent, the strategies are direct. If they are low interdependent, the strategies are indirect. For example, if a local community is highly dependent on a company for its income and the company is highly dependent on the community for its human resources, the influence strategies can be direct.

4. Prioritise stakeholder demands
Managers and organisations have limits on their time, cognitive information processing capabilities and resources. Because of these limits, taking into account all interests of all stakeholders equally is practically not possible, as indicated by Mitchell et all (1997). The theory does also not imply that all stakeholders (however they may be identified) should be equally involved in all processes and decisions (Donaldson & Preston, 1995). Stakeholder literature therefore has also focussed on identifying criteria for prioritising stakeholder demands or selecting stakeholders.

Mitchell et al (1997) have identified three criteria to prioritise stakeholder demands, which are widely used in stakeholder literature:
- Legitimacy: claim, based upon a contractual or legal obligation, a moral right, an at-risk status, or a stakeholder having a moral interest in the harms and benefits generated by a company's actions;
- Power: ability to influence a firm's behaviour, whether or not the stakeholder has a legitimate claim;
- Urgency: degree to which a stakeholders' claim calls for immediate attention.

Using these criteria, the same authors developed several stakeholder types based on whether they possessed one, two, or three of these attributes:
- Latent stakeholders: dormant (have power, but they do not use it), discretionary (have legitimacy but no power or urgency), demanding (have urgency, but no power or legitimacy);
- Expectant stakeholders: dominant (have power and legitimacy), dependent (have legitimacy and urgency), dangerous (have power and urgency);
- Definitive stakeholders: have power, legitimacy and urgency;
- Non-stakeholders: have none of these attributes.

The salience of particular stakeholders to the firm's management is low if only one attribute is present, moderate if two attributes are present and high if all attributes are present.

In selecting stakeholders, the difficulty arises that there are many differences within stakeholder groups (Harrison & Freeman, 1999). A special difficulty exists with selecting stakeholders who are NGOs and/or community groups, as Kline (2005) expresses:

> *'even with the best intentions, multinational enterprises face difficulty knowing how to select potential partners from among the variety of civil society groups whose self-defined mandates often overlap in terms of core issues and/or geographic focus. A related problem arises from questions regarding whether such groups represent the views and interests of the*

people most affected by particular issues. Multinational enterprises still lack clear public standards on how to evaluate and select the most legitimate and representative civil society group as partners for cooperative actions'.

The term NGO is used to describe a bewildering array of groups and organisations, from activist groups to development organisations. Other NGOs are research-driven policy organisations. Still others see themselves as watchdogs. They hail from north and south and from all points in between, with the contracting levels of resources, which such differences often imply (IISD, 2006). Schepers (2006) researched the differences, similarities and links of NGOs who aim to engage with business. He defines NGOs as standing apart from the state and other quasi-governmental organisations and forming and functioning on the basis of ideals be it environmentalism, human rights, etc. NGOs exist in elaborate networks. In these networks, NGOs link with one another either through mutual agreement or through membership in a third, independent NGO. An example is the 'CSR platform' in The Netherlands, in which 30 NGOs join their efforts to engage with companies.

A gap exists in stakeholder literature regarding the differences between NGOs in the developed world (Northern NGOs) and the developing world (Southern NGOs). There are differences between these NGOs, as Schepers (2006) found out. Northern NGOs influence MNCs primarily through consumer or investor pressure in the first world and hold power over MNCs through political actions Southern NGOs, in a lack of funding, are often funded by Northern NGOs and often the wishes of the Northern NGOs take precedence over the wishes and needs of the Southern NGO or their constituents. A MNC is based in both the global and local context and is therefore confronted with both Northern as well as Southern NGOs. This can make stakeholder management extremely complicated. This research will hopefully give insight in how a MNC deals with these linking and conflicting stakeholder demands.

5. Develop organisational responses

Stakeholder literature has also dealt with the necessary organisational responses to stakeholder demands. Using the typology used by Heap, as described earlier, the following table shows three categorisations of company responses, often quoted in literature:

Authors on company responses	**Adversarial strategies**	**Neutral strategies**	**Co-operative strategies**
Savage et al (1991)	Defend	Monitor	Involve, Collaborate
Oliver (1991)	Defy, Manipulate	Avoid	Compromise, Acquiesce
Rowley (1997)	Commander (influence behaviour, co-opt stakeholders)	Solitary (neglect stakeholders)	Subordinate (complying with stakeholder expectations), Compromiser (negotiate with stakeholders)
Jawahar & McLaughlin (2001)	Defence	Accommodation	Reaction, Pro-action

Table 6 Company responses to stakeholder influence strategies

In the context of human rights, some companies may choose a defensive (or adversarial) strategy. Others may collaborate with stakeholders to minimise the negative human rights impacts of their activities (Amis et al, 2005). Each strategy includes a variety of tactics (e.g. tactics such as lobbying, testifying before government bodies and publishing technical reports are within the information strategy). These tactics can be divided in (1) those aimed at reducing the concentration of stakeholder power, and (2) those aimed at increasing the concentration of management power (Hills & Jones, 1992). In the context of human rights, Frankental (2000) states that the company is confronted with the choice to speak out publicly or quiet diplomacy related to the complicity dilemmas. Quiet diplomacy can prove effective in improving a situation, but under some circumstances, such as extortion and hostage taking, it may be in a company's interests to make its concerns publicly known.

Thus, next to NGOs, the government (whether home or host country government) is also an important stakeholder of a MNC, since it sets the laws and regulations in which the local interpretation of human rights is integrated. In the local context, maintaining good relations with the host government is of great importance to a MNC, because the MNC aims to avoid any negative effects of changes in government policy; seeks the assistance of the government to address any difficulties it experiences in the host country; and to build up a web of contacts and influences that would immunise it from hostility from host country firms and other interested groups (Sanyal & Guvenli, 2000). In the home country context, Ganesan (2000) explains that the relationship between transnational corporations and home government has a significant effect on human rights, because it can alter a home government's approach to human rights in bilateral and multilateral dealings with abusive governments when they are also hosts and partners to transnational corporations.

In support of the possible responses, Preble (2005) recognises that companies are setting performance goals and targets in stakeholder management and designing specific programs and tactics to be employed in achieving those objectives, e.g. through customer service departments, long-term contracts with suppliers, competitive price cutting, government relations departments, community relations officers, financial donations to activist groups, etc.

Developing an organisational response may also depend on the tactics of the stakeholders. According to Genugten et al (2004), international NGOs (INGOs) have an increasing number of instruments available to influence the actions of a MNC: mobilise public opinion, national judicial procedures and participation in international implementation procedures. Parker (2003) classifies INGOs who use these means as advocacy NGOs, who work on behalf of others who lack the voice or access needed to promote their own interests. The means INGOs use to advocate their concerns are: lobbying, serving as representatives and advisory experts to decision-making for a, conducting research, holding conferences, staging citizen tribunals, monitoring and exposing the actions (and inactions) of others, disseminating information to key constituencies, setting/defining agendas, developing and promoting codes of conduct and organising boycotts (Hudson, 2002). And, as described earlier, NGOs also engage with MNCs directly through dialogues.

6. Monitoring and control

According to Friedman & Miles (2002), the relationship between an organisation and its stakeholders is dynamic and changes over time. Demands and the organisation of stakeholders change. The issues that a company face can also change when the human rights situation changes. Stakeholders should therefore be monitored constantly and, if necessary, responses adjusted, as well as the performance of the stakeholder management system itself (Preble, 2005).

Hence, from what was described above follows that managing stakeholders on global and local levels potentially can enable MNCs to adapt to local contexts and stay within the international framework of human rights at the same time. In order to exploit that potential, there are several ways a MNC could use stakeholder management that may influence its degree of implementation and internalisation. The next section deals with this subject.

2.9.2 Degree of implementation and internalisation of stakeholder management

In a MNC, stakeholder management takes place on different levels of the organisation; at subsidiary as well as headquarters level. Issues arise when stakeholders on different levels pose diverging demands on the company, which arises especially when development levels differ (Muller, 2006). Stakeholder management can help managers resolve ethical dilemmas (Harrison & Freeman, 1999). Thus, the challenge for a MNC is to balance these different stakeholder demands in such a way that international human rights standards are respected and local stakeholder demands are met as well.

1.Degree of implementation
The degree of implementation is defined as the degree to which the subsidiary and headquarters follow and/or adapt to the formal rules implied by the practice. Hence, what are the formal rules that can be followed in relation to stakeholder management and how do they influence its implementation and internalisation? As a general rule, Donaldson & Preston (1995) explain that stakeholder management requires the integration of stakeholder management in the structures, policies and decision-making processes of the company. Stakeholders should not be managed only by public relations, as that can neutralise the possibility of protest and consumer boycott, rather than actively prompting internal organisational commitment to real change (Parker, 2004). Looking at the process of engaging stakeholder itself, i.e. the stakeholder dialogue, Kaptein & Van Tulder (2003) identified several rules for stakeholder dialogues, so it can take place in a more structured and targeted manner. These rules include 1) to know and be understood, 2) trust and reliability, 3) clear and agreed rules for the dialogue, 4) a coherent vision on the dialogue, 5) dialogue skills, 6) expertise in the subject matter, 7) valid information as a basis, 8) clear dialogue structure, 9) consecutive meetings and 10) feedback of results. This research does not aim to determine whether headquarters or subsidiaries exactly follow these rules, but this serves as an inventory of possible explanations for the degree of embeddedness.

Next to these general rules, Lawrence (2002) analysed the stakeholder dialogue between a MNC and several human rights organisations. She found that engagement between a business firm and stakeholder(s) will be most likely to emerge under the following conditions:

- The firm:
  - faces a crisis reputation;
  - perceives that it cannot improve its reputation unilaterally. Rather, this requires winning the support of representatives of stakeholder interests. Moreover, these representatives are organised and are perceived by the firm as legitimate;
  - possesses sufficient organisational capacity to engage with stakeholders. This may include support from top leadership and an adequately funded external affairs or similar department with a reporting relationship to top executives. It may also include a managed change process that provides an opportunity for leaders to identify and respond quickly to shifts in the external environment.
- The stakeholder(s):
  - perceives that a core goal cannot be met without the active participation of the business firm;
  - possess sufficient organisational capacity to engage with the business firm. This may include leadership or a significant faction that supports dialogue and an organisational unit with expertise in working with the business community;

- Both sides share a cultural affinity, recognise the other side's fundamental legitimacy, are able to dedicate considerable time to the process of building trust, and are willing to accept incremental progress towards their goals.

Thus, a high degree of implementing the practice of stakeholder management does not only depend on whether the company follows the formal rules, but also whether the stakeholders do the same. In that respect, Kaptein & Van Tulder (2003) indicate that *'there is no one best way to conduct stakeholder dialogue, it will be defined by the extent of urgency, the legitimacy and power of the stakeholders and the issues that arise, the stakeholders' willingness to cooperate, and the competencies of the company'.* In the end, they advocate a co-operate strategy, as stakeholders' trust in a company can be achieved in particular by involving them in the dilemmas the company is faced with. Savage et al (1991), however, do not advocate this, but recommends to aim to fit the company response to the attitude of the stakeholder: a defensive response when the stakeholder is non-supportive, monitoring a stakeholders actions when the stakeholder is marginal, involving stakeholders when they are supportive and collaborating when stakeholders are supportive and powerful. In any case, Kolk & Pinkse (2006) recently found that ongoing avoidance or neglect of stakeholder interests appears to have led to a disturbance in the balance of power between managers and stakeholders and initiated a backlash. This means that avoiding stakeholders is presumably never a good response.

2. Degree of internalisation

The degree of internalisation is defined as the state in which the employees are commitment to the practice, are satisfaction with the practice and/or have psychological ownership of the practice. Hence, the ways of managing stakeholders need to be aimed at reaching commitment, satisfaction and ownership of human rights within headquarters and subsidiaries.

Wadell (2004) suggests that the ways of stakeholder management, in order to influence its degree of internalisation, should be adapted to time: at first, business responses to NGO pressure follow a cycle of initial resistance to NGOs and a response only as a public relations strategy, followed by a stage of a more proactive framework adopted by business such as CSR, which is finally leading to a stage of proactive identification of how to respond to the concerns put forward by NGOs in ways that recognise them as new business opportunities. Successful stakeholder management involves learning, because stakeholder characteristics and interests change over time (Post et al, 2002). Apparently, a learning process is needed within the company to commit to and take ownership in stakeholder management around human rights.

Furthermore, Veser (2004) concluded that the behaviour of a subsidiary depends on the perceived attractiveness of stakeholder management principles and practices transferred from the headquarters, as well as the strength of the respective cultural values in support of these principles and practices. In the worst case, the principles and practices are denied, whereas in the best case they will have already been anticipated by the prevailing cultural values. And, following the arguments of the previous chapter, the principles and practices can be adapted to fit with the context. In other words, the very practice of stakeholder management should fit with the local context of the subsidiary and the global context in which headquarters is embedded. In that context, Hillman & Wan (2005) found that the degree of internalisation of stakeholder management depends on the '*relationships between the subsidiary's tenure in a host country, subsidiary size, host country degree of pluralism/corporatism, and parent's level of international diversification'*.

Thus, several ways of using stakeholder management determine its degree of implementation and internalisation within a MNC. However, there is no indication as yet that these ways are very specific to human rights. The next section deals with another human rights management mechanism: the management strategy.

2.10 Human rights management strategy

In international management literature, organising a MNC between global and local contexts is called the 'global-local dilemma'. Since the eighties, much research has been conducted on this theme, because it is known to be constitutive for every problem of international management and has been dealt with in theory and practice as a classical problem (Lohr & Steinmann, 1998; Fayerweather, 1969; Prahalad & Doz, 1987; Bartlett & Ghoshal, 2000[4]). Prahalad et al (1981), for example, map industries along two dimensions, global integration versus local responsiveness, reflecting the pressures for and benefits of integration and responsiveness. This dilemma of global integration or local responsiveness concerns the degree to which MNCs can be sensitive to local conditions at the same time as integrating units abroad to a cohesive corporate whole (Prahalad & Doz, 1987).

Although issues of local responsiveness versus global integration and the accompanying organisational processes and structures (decentralised versus centralised) have received considerable attention in the international management literature, this is not the case in relation to Corporate Social Responsibility, despite growing recognition that CSR is gaining importance as a dimension of strategic decision-making (Muller, 2006). He indicates the same dilemma in the literature on CSR:

> *'perspectives differ on whether multinationals should develop centrally coordinated, integrated CSR strategies, or whether they should stimulate decentralized CSR strategies that develop locally in consultation with respective host-country stakeholder groups. While centralization can be more efficient, it can lead to a lack of ownership and reduced legitimacy at the local level. At the same time, decentralized strategies, while locally responsive, may also be fragmented and ad hoc'.*

Next to centralised and decentralised strategies, Zarsky (2002) defined three broad strategies that MNCs have tended to adopt in less developed countries. The first is to follow local standards and to highlight their compliance with national law or custom in response to any ethical criticisms. The second is to adopt company-wide, global standards for production processes (which often include environmental, health and safety measures). The reasons for this are that it is easier to manage one set of standards rather than a patchwork of standards, and that several types of business risk can be reduced. Moreover, global company standards are generally an improvement over following national standards. The third approach is to adopt a voluntary code of conduct outlining conduct in areas of ethical concern and pledging company commitment to best practice in social and/or environmental management.

What influences the choice for a particular strategy? Choosing a particular strategy may be defined by the home country context, as Levy and Kolk (2002) found. Others indicate that the firm size is an important determinant of MNC strategy standardisation (Yip et al, 1997). The larger the company, the more the MNC is tended to centralise practices. Again others relate the choice for a decentralised strategy to the value that the subsidiary adds locally and the dominance of local managers in the organisation (Rosenzweig & Singh, 1991). And some state that vertically integrated companies are more subject to

[4] The typology of Bartlett & Ghoshal (1989) on different internationalization strategies of MNCs is an important contribution to international management, but is relevant in the context of this research.

centralised strategies to create economies of scale (Christmann, 2004). Others even state that the management strategy differs per business unit function and task (Kumar & Graf, 1998).

Whatever the reasons for choosing a particular strategy, this research deals with the question of the outcomes of these strategies on the process of embedding human rights. These different strategies each have their (dis) advantages and consequences. Christmann (2004) is in favour of a centralised strategy, because '*firms with a relatively centralised organisation are more likely to engage in self-regulation through corporate-wide environmental policy standardisation and thus have the potential to exceed local government regulation in countries with a lower level of environmental regulation*'. However, in the case of human rights, a company's reputation can be damaged with the host government when international standards (respecting human rights) would be regarded as superior to local standards. In this context, Ewing (2004) explains that host governments can be offended by strictly following international standards. On the other hand, following local standards in the context of human rights, as Kumar & Graf (1998) argue, is not ideal either, as local practices may go against human rights.

Following local standards strategy implies that there are few global rules to follow for subsidiaries. On the other hand, subsidiaries may tend to follow formal rules more when a global standards strategy is taken in which subsidiaries have little decision power on the standards to be followed. This suggests that adopting global standards strategy yields the highest degree of implementation. Internalisation, however, suggests the opposite, i.e. that following local standards yields the highest results. Subsidiaries may be committed, be satisfied and feel that they own the practice (degree of internalisation) more when standards coming from the local context may be followed. This suggests that the third strategy, developing a voluntary code of conduct, could be a good alternative.

The concept of strong- versus weak-embeddedness can also be applied to the strategies identified by Zarsky; following local standards means the company is strongly embedded into the local context, following global standards means the company is strongly embedded into the global context and the voluntary code of conduct means a weak-embeddedness in both. As noted earlier, however, strong-embeddedness into the local context could lead to problems in the process of embedding human rights within the company. When the MNC lets local norms prevail over human rights norms, subsidiaries might develop approaches that fit the local context, but might not fit the required global human rights norms. Besides, managing the commitment to human rights as a MNC will be difficult when many different approaches are taken. On the other hand, strong-embeddedness into the global context might mean the human rights approach does not fit the local context and therefore decrease the degree of embeddedness of human rights.

Following the third strategy (developing a voluntary code of conduct) may not have any of these disadvantages. Nohria and Ghoshal (1994) also found in their research that '*an approach that achieves high levels of differentiation and integration simultaneously is likely to yield the best performance*'. In the area of environmental standards, Christmann (2004) found that MNCs are already following this strategy by setting high internal global environmental performance standards but not standardising the content of their environmental policies globally. So, this policy allows country subsidiaries flexibility to choose the most appropriate environmental practices to comply with the MNCs' environmental performance standards, given the prevailing national environmental regulations. In addition, when Muller (2006) researched the CSR practices and subsidiary autonomy in Mexico, he found that subsidiaries that perceive themselves to be autonomous in their overall activities tend to be more proactively engaged in CSR. Muller therefore advocates a '*soft hand approach that induces subsidiaries to adopt practices, which they might resist under duress'*. However, management in this soft hand approach may be complex and labour intensive, as different interpretations by subsidiaries of the global framework need to be assessed and guided by headquarters. The table below summarises these management strategies and how they influence the degree of embeddedness of human rights.

Strategy	**Advantages**	**Disadvantages**
Follow local standards (strong-embeddedness in local context)	Human rights approaches that fit the local context better	Potentially less in line with global human rights standards; management difficulties because of patchwork standards
Adopt global standards (strong-embeddedness in global context)	More in line with global human rights standards; easier management, reduction of risks	Human rights approach may not work because of mismatch with local context
Voluntary code of conduct (weak-embeddedness in global and local contexts)	May be more in line with global human rights standards and fit with local context	May be complex to manage and labour intensive

Table 7 Advantages and disadvantages of management strategies regarding human rights

The focus of this research will therefore lie on how the internal and external contexts influence Zarsky's voluntary code strategy or Muller's soft hand approach and how it influences the process of embedding human rights. Some of these, potentially human rights specific, influences are derived from theory and discussed in section 2.12. The next section deals with the final management mechanism, i.e. the human rights management system. It aims to identify the different ways that are used to implement and internalise human rights across a MNC. Some of these ways may fit the soft hand approach better than others.

2.11 Human rights management system

Since the topic of embedding human rights in a MNC is relatively new, there is no literature available yet that describes well-founded and extensively tested management systems for human rights. A handful of authors have published practical guidance, articles or book chapters about human rights management systems (Jungk, 1999; Frankental, 2000; Schierbeck, 2000; Sullivan & Seppala, 2003; Ewing, 2004; Amis, Brew and Ersmarker (2005); BLIHR, Global Compact, OCHCR, 2006), which are used throughout this section. The next section explains the different elements of a human rights management system (section 2.11.1) and how these different elements can influence the degree of implementation and internalisation (section 2.11.2).

2.11.1 Elements human rights management system

The question that needs to be addressed here is whether a 'traditional' management system is suitable to embed human rights. In this respect, Sullivan & Seppala (2003) argue that the approach to human rights management follows a similar model to that of other issues such as health and safety, environment and production. However, there may be special characteristics of a human rights management system that distinguishes it from management systems used to manage health and safety, quality, etc. To that end, the steps of a management system are compared with the steps of a human rights management system, as suggested by the different authors, as represented in the table below.

Sources	Plan	Do	Check	Review
BLIHR, Global Compact, OCHCR (2006)	Integrate human rights in strategy & policies	Integrate human rights in processes and procedures, communications and training	Integrate human rights in measuring impact and auditing and reporting	Review outcomes of policies
Amis, Brew and Ersmarker (2005)	Define and publish clear policies on human rights	Assign management responsibility and devise implementation procedures; conduct human rights impact assessments	Establish monitoring mechanisms and be transparent	
Frankental[5] (2000)	Develop a corporate human rights policy and strategy	Build human rights into business processes, e.g. project or product cycle to the end-user, trouble-shooting.	Incorporate human rights criteria and monitoring	
Schierbeck (2000)	Defining scope of human rights policy	Implementation	Catalogue success factors and KPIs	
Sullivan & Seppala (2003)	Explicit human rights policy; set objectives and targets	Implementation	Monitor and report on performance	Manage-ment review
Ewing (2004)	Business case, identify issues, set standards and scope	Making program operational	Measuring and reporting results	
Jungk (1999)	Set minimum standards; identify the basis of human rights policy	Create a human rights policy-unit to deal with issues in a systematic manner; Human rights impact assessments, Trouble-shooting		

Table 8 Comparing ways of using human rights management system

Hence, so far a human rights management system appears to follow the same steps as a traditional management system. The step of management review is not often mentioned explicitly, but is sometimes integrated into the term of 'impact assessments' or 'business processes'. The different elements and ways of using a human rights management system will be further elaborated below, using the authors as mentioned above and others.

1. Plan: human rights policy and objectives

The relevance of having a human rights policy is explained by Ewing (2004): 1) policy helps to define the company's own commitments, 2) it guides company relationships with business partners and host governments, 3) it provides the basis for assessing company performance, and 4) it can serve as the vehicle for demonstrating its commitment to external stakeholders. Frankental (2000) also states that a clear human rights policy and framework for implementation will help a company navigate the challenges of operating in a climate of human rights suppression. Hence, a human rights policy helps to deal with the local contexts in which a company is embedded. In addition, a human rights policy demonstrates the commitment to human rights (Sullivan & Seppala, 2003) and hence helps to deal with the global context.

How to develop such a policy? Several authors indicate that it is important to define a company's responsibilities towards human rights as early as possible by listening to stakeholders. For example, Frankental (2000) states that wide-

[5] Also based on introductory checklist of Amnesty International on human rights principles for companies (1998).

ranging internal and external consultation with management and employees should be conducted, local and international NGOs, community groups, and other stakeholders in developing the human rights policy. Amis et al (2005) also stipulate to understand the concerns and expectations of key stakeholders in order to develop a human rights policy. Other aspects mentioned that should feed into the development of a human rights policy are the scale and extent of the company's activities and operations, the associated risks of violating human rights in particular external contexts, the company's strengths and weaknesses to deal with those risks and its spheres of influence. Finally, the company's human rights record (internally and externally) should also be recognised and dilemmas and problems identified, so lessons can be drawn from those experiences.

The next step is to set specific objectives regularly to meet the human rights policy. In this regard, Sullivan & Seppala (2003) explain that objectives and targets can relate to specific human rights issues (e.g. to eliminate child labour within a certain time) or to management systems as a whole (e.g. to commence public reporting on human rights performance). According to Frankental (2000), a company can set a number of objectives:

- demonstrate an active commitment to human rights
- support projects to promote human rights at ground level
- quiet diplomacy or speaking out publicly
- act collectively with other companies

Additionally, Amis et al (2005) point out that it is important for a company to lead by example in order to head off calls for further human rights regulation. The next step is to implement these objectives.

2. Do: embedding human rights

What are the different ways in which human rights policy can be embedded? The instruments to embed human rights can be many. Basically, there are two main elements of embedding (Sullivan & Seppala, 2003). The first relates to human resources, specifically the role and responsibilities of employees in managing human rights issues. The second aspect is the development of management tools, including procedures for operations. As this distinction is similar to the distinction between the degree of implementation and internalisation, the first will be called 'internalisation instruments' and the second 'implementation' instruments. Based on the literature used for this section, the following table gives an overview of the instruments used for embedding the human rights policy:

Implementation instruments	**Internalisation instruments**
Procedures for identifying human rights related risks and opportunities	Appoint a senior manager with responsibility for developing and mainstreaming the human rights strategy
Conduct human rights impact assessments	Internal communications of strategy and implementation to all parts of business and partners, including sharing understanding of why human rights are important
Update and complement existing procedures with human rights as much as possible, such as risk management, project management, purchasing, product or service development, manufacturing, customer relationship management, marketing, etc	Integrate human rights in external communications
Integration of human rights elements in decision-making processes, job descriptions and performance appraisal processes and control and assurance processes, e.g. annual letter to the Board, code of conduct. This includes integration in contractual relationships, e.g. supplier qualification process with a mandatory risk review of customer projects.	Provide training to employees in headquarters and country staff on awareness, requirements and monitoring procedures.
Practical guidelines for staff on implementation, e.g. checklist and instructions for business operations in sensitive areas.	Provide training to first tier sub-contractors on awareness, requirements and monitoring procedures.

Set up monitoring and reporting of human rights issues and policies across the company	Learn from sector-wide business initiatives
Express and enforce sanctions against those business partners and employees who do not meet the requirements of the policy	Establish on-going dialogue with relevant NGOs or local authorities where possible on the question of improving human rights protection[6].
Clearly defined policies and procedures on handling of employees grievances to ensure effective non-compliance reporting and whistle-blowing	Develop competencies on trouble-shooting, such as examining and addressing complaints and how to react when procedures are not enough.
Verify implementation process by independent verifiers and communicate it to public	

Table 9 Instruments for embedding the human rights policy

None of these instruments appear to be highly specific for embedding human rights. However, some instruments may yield higher results than others. This will be discussed in sub-section 2.11.2.

3. Check and review: human rights monitoring and reporting

The human rights performance of the company needs to be monitored and reported, so it can be reviewed again, in order to ensure an on-going improvement and results are obtained. This involves tracking performance, assessing the effectiveness of management controls, ensuring that the management system is functioning as intended and implementing mechanisms to identify, record and address any deficiencies in the system (Sullivan & Seppala, 2003). Hence, not only the outcomes of embedding need to be monitored, but also the mechanisms themselves. Furthermore, Frankental (2000) mentions that two types of monitoring are important: a) pre-emptive monitoring with a view to anticipating and preparing for situations where the company’s operations might conflict with human rights considerations; b) operational monitoring on an ongoing basis to assess whether all the company’s operations, including those run by subsidiaries and partners, have complied with the company’s guidelines on human rights, and to recommend targets for improvement.

The steps to follow in order to monitor and report performance of the management system and human rights performance are basically (BLIHR et al & Amis et al):

- set relevant performance indicators for measuring and evaluating human rights impact against key policy objectives across the different functions of your business
- undertake human rights-based audits
- analyse the results of audits
- publish results
- use results to inform strategic development and raise the awareness of local managers
- provide mechanisms to protect employees from illegal reprisals

According to Kaptein & Van Tulder (2003), developing Key Performance Indicators (KPIs) provides the essential translation of ambitions and responsibilities contained in human rights policy into measurable objectives for management and staff, as well as external stakeholders. However, the development of KPIs for sustainable business practice, and human rights, is still in its infancy. Besides, Ewing (2004) indicates a dilemma in the degree of public reporting on human rights: the advantage of reporting the results is greater credibility with stakeholders and critics; the downside is that competitors benefit

[6] Mechanisms of establishing an on-going dialogue with stakeholders can also be categorized in terms of formal processes and procedures.

from the disclosed information or becoming a target of critics or damaging corporate reputation.

Many MNCs use the guidelines of the 'Global Reporting Initiative' (GRI). These guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations (GRI, 2002). In terms of the contents of human rights reporting, a number of indicators have been developed, including strategy and management, non-discrimination, freedom of association and collective bargaining, child labour, forced and compulsory labour, disciplinary practices, security practices and indigenous rights (see GRI website for full overview: www.globalreporting.org). The next sub-section will discuss how the different ways of using these instruments influences the degree of implementation and internalisation of a human rights management system.

2.11.2 Degree of implementation and internalisation of human rights management system

The steps of a human rights management system as identified in the previous section are used to discuss how the different ways in which these steps are used influence its degree of implementation and internalisation.

1. Plan: the influence of human rights policy and objectives

Regarding the influence of human rights policy, two elements are important: the scope of the policy and whether to make the policy explicit. The degree of implementation indicates that formal rules should be present to be followed by subsidiaries. Hence, this means that an explicit policy on human rights is preferred above an implicit one. The authors used in this section confirm this. As described in the introduction, many companies already include an explicit reference to the UDHR. Frankental (2000) and Sullivan & Seppala (2003) also recommend incorporating an explicit commitment to support the UDHR and core ILO standards in the company's business principles and operations. Similarly, Amis et al (2005) recommend explicit reference based on international recognised instruments in a human rights policy. BLIHR et al (2006) and Schierbeck (2000) stipulate the integration of human rights into existing policies, but do not deny incorporating an explicit reference either. This could make ways focused on internalising human rights easier, since everybody within the company has one reference point.

However, as the previous chapters explained, this reference point is interpreted in different ways. This can influence the degree of implementation and internalisation: if the formal rules to be followed are not clear, subsidiaries may not feel compelled to follow them. Most authors therefore highlight that the contents of a human rights policy should set a standard for the degree of complicity and spheres of influence. Regarding the scope of a human rights policy, all operations of a company should be taken into account, but also expectations of stakeholders, such as customers, NGOs, etc. In reality, however, the policies of MNCs are not always consistent with the UDHR and are more focused on social expectations, as Ruggie (2006b) found in his survey.

Finally, regarding the objectives, the authors indicate that companies should establish a management programme defining how they will achieve their objectives and targets (including resources, specific measures, time-frame for implementing, responsible people, and performance assessment). And, as described in section 2.5, choosing objectives should fit with the local contexts in which a MNC operates, since one activity might work in one context and in the other not.

2. Do: the influence of mechanisms to embed human rights
The authors used in this section identified criteria for using implementation and internalisation instruments to accomplish the highest degree of implementation and internalisation:

Criteria implementation instruments	**Criteria internalisation instruments**
Publish clear policies on human rights internally and externally	Demonstration of personal commitment of company top leaders and support senior managers
Policy in place before entering a new country and applied on an ongoing basis	Consistent and well-presented top-down communication within a company
Local policies to meet local situations	Personal commitment of local managers
Develop strategy and management system through a circle of continuous improvement	Motivation of staff (an interactive approach may generate greater understanding and a flow of innovative ideas and proposals)
Make policy and strategy available in local languages	Efficient lines of communication with employees to ensure effective non-compliance reporting and whistle blowing.
Agreement should be done before implementation on operational level	Engage relevant NGOs, human rights experts to provide input in the training and in agreement on the human rights targets and KPI's to be implemented
Take into consideration in the manner in which finance and infrastructure, technology, information and knowledge are managed	Demonstrate a willingness to talk to critics. A defensive response attracts more criticism
Assign management responsibility and authorities. Clear lines of accountability within business strategies and policies make necessary flexibility possible and transparency. Also, provide clear contact points in the organisation.	Realise that reaching all human rights targets overnight is impossible / process is an on-going process which on basis of lessons learned will repeat itself and update and expand measures involved
Make human rights criteria and KPIs explicit in cooperation with local internal and external stakeholders, but also inspired by international stakeholders	Available knowledge and resources to act quickly, professionally and in ways that provide a just solution.
Make sanctions clear	
Sufficient resources	

Table 10 Criteria for using instruments to embed human rights management system

Another issue that relates to the degree of implementation is to design separate procedures or whether human rights can be integrated into existing procedures. In this respect, Sullivan & Seppala (2003) argue that integrating human rights into existing management systems and frameworks offers the advantages of: a) ensuring that human rights are integrated into existing systems and procedures, b) avoiding duplication, c) ensuring management and employee support. The disadvantage is that there is no specific locus for human rights. The consequence is that human rights may be seen as a lower management priority or as '*something to be done once everything else is addressed*'. Jungk (1999) therefore suggest creating a human rights policy-unit to deal with issues in a systematic manner in conjunction with other departments. Thus, human rights should always be linked to existing processes, but a specific locus for human rights should be maintained within the organisation to coordinate and drive efforts.

Regarding the degree of internalisation, human rights may pose specific challenges, such as a lack of familiarity with the language of human rights or its legitimacy in a business context; anxieties over where the boundaries lie between government and private sector responsibility; worry that if they concede any ground to NGOs on human rights they will be confronted with an ever-increasing list of demands (Amis et al, 2005). They further mention competing managerial priorities, senior management buy-in, staff resources and awareness of human rights. Further, Clohesy (2004) states that human rights are necessarily abstract and requires that people work out concrete meaning for themselves within their own cultural circumstances. Moreover, using a common language plays an important role making the business case for human rights (Ewing, 2004).

In international business management, a general debate exists about the importance of implementation instruments. Many researchers have found that formal structures work, but only to a limited extent. Kostova demonstrated the limited capacity of formal structures and mechanisms to control and coordinate foreign activities and increasingly have emphasized the importance of informal approaches (Kostova & Roth, 2003). Additionally, Blazejewski (2006) states that formal, bureaucratic mechanisms are limited in their capacity regarding MNC coordination and control across international subsidiaries. Internalisation approaches such as coordination by socialization and informal networks have gained considerably in importance in both MNCs and the corresponding research.

Nevertheless, Mohan (2004) argues that formal structures and instruments are still relevant: '*while the existing research on co-ordination mechanisms takes the view that subtle, informal, social-cultural mechanisms are used for the management of softer behaviours, and shared values, this research reveals extensive use of formalization and standardization in the management of values-based practices across international operations'*. Besides, critiques of internalisation mechanisms include that they are not transparent and their effectiveness cannot be easily measured. Besides, the management strategy is not necessarily affected by the type of implementation instruments that is used, as Hennart (2005) states: *'researchers typically measure autonomy as the locus of decision-making: if headquarters makes the decisions, the subsidiary is said to have little autonomy. However, decisions made by a perfectly socialised manager may be indistinguishable from those made at headquarters'*. Thus, both implementation and internalisation instruments are used within MNCs and therefore have the potential to influence the degree of embeddedness of a human rights management system, although the implementation approach may have its limitations.

However, some argue that internalisation instruments are better suited for 'value-based practices', such as human rights (e.g. Muller, 2006). Besides, Parker (2004) indicates that the company needs to win the 'hearts and minds' of all employees and contractors regarding human rights issues. Also being in favour of an informal approach, Watson & Weaver (2003) argue that '*autonomous subsidiary practices can still be linked to the corporate vision if those subsidiaries are integrated using informal control mechanisms, such as selection or socialisation as a substitute for direct (hierarchical) control*'. Nevertheless, Hennart (2005) expects to see a mix of both hierarchical and socialisation control techniques in the relationships between headquarters and subsidiaries.

3. Check and Review: the influence of human rights monitoring and reporting
Sullivan & Seppala (2003) worked out the principles for undertaking a human rights-based audit. In their opinions, monitoring must be independent of the business and government, ongoing, involve local people who live in the country or area where human rights are being monitored and as open as possible. The monitors should therefore have the right to communicate information without corporate pre-screening or control, trusted by the workers and have track record within the country, need to have independent authority and sufficient resources and need to understand the work practices in question and what is common practice and what is not. Other authors used in this section also stress the importance of independent monitors, since that could enhance the credibility of the results to the external context. In relation to reporting, the GRI gives eleven reporting principles, which some of the authors used in this section bring forward

as well. These principles are transparency, inclusiveness, auditability, completeness, relevance, sustainability context, accuracy, neutrality, comparability, clarity and timeliness.

Nevertheless, monitoring and reporting on human rights is not always embedded in the best way, as Kaptein & Van Tulder (2003) conclude:

> *'it is clear that sustainability reporting and codes of conduct have a long way to go with respect to objective external verification. In reality, sustainability reports contain little hard data and are often anecdotal. Most of these reports do not state how the information was gathered, and only rarely are objectives included in the reports. These reports are actually quite 'soft'. For example, there is generally only isolated information provided and there is very little integrated information'.*

Besides, trustworthiness lacks of the reporting on human rights performance, because of a low comparability of results and the limited external assurance. Thus, the same debate of implementation versus internalisation instruments comes up with reporting as well. Internalisation approaches to reporting human rights are used more since that may be easier to collect, whilst the external stakeholders expect more formal approaches.

2.12 External and internal contexts

This section briefly explores the third research question from theory, i.e. how the external (section 2.12.1) and internal (section 2.12.2) contexts can explain the degree of implementation and internalisation of the mechanisms to human rights. Hence, the elements discussed below do not serve as a list that need to be proved in this research, but as a list where potential explanations might be found.

2.12.1 Influence of external contexts

In general, external contexts can influence different mechanisms, such as stakeholder management, as Werther & Chandler (2006) indicate:

> *'the sociocultural-legal-stakeholder environments, along with markets and technology, limit the firm's actions. The tactics society and stakeholders expect and permit (a key component of CSR) determine the environment in which the firm pursues its strategic goals and which, in turn, enable it to perform its mission and strive toward its vision'.*

- *Influence of global context*

The whole network of relations (definition embeddedness) or the global context influences or governs the interactions between stakeholders and the MNC. All stakeholders of a company play a role in the global context. Industry associations, governments, investors, etc can operate on a global level through their member organisations. For example, employees are represented through their labour unions, which are then represented through the international labour union bodies. Even local governments and local communities can belong to the international community, e.g. local authorities and groups such as farmers and indigenous peoples represented their interests on the World Summit on Sustainable Development in 2002. The strategies that these stakeholders use and their drivers to influence a MNC are described earlier. NGOs, however, are important stakeholders of a company in terms of human rights in the global context (Mathews, 1997; Genugten et al, 2004; Teegen et al, 2004).

The strategies of stakeholders to influence MNCs in the global context can be subject to certain rules. An example is the rule of the British organisation 'Chatham house' where many international issues are discussed: *'when a meeting, or part thereof, is held under the Chatham house rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any participant, may be revealed'.* This means that NGOs cannot target individual companies with information that they heard in the conferences organised by Chatham house. In addition, in the fora where NGOs and businesses interact, there are certain procedures to follow that will enable or constrain the way these interactions take place.

These rules may influence the way a MNC manages stakeholders or choosing a management strategy and system. However, Bartlett & Ghoshal (2000) indicate that the degree of (de)centralisation follows from developments within the home country context, such as regulation, rather than the global context. Van Tulder & Van der Zwart (2006) also indicate strong country-of-origin effects as well as the structure (family owned, profit/not-for-profit, state-owned, etc) of the organisation as determinants for the management strategy rather than general global processes.

- *Influence of home country context*

In international business management literature, a considerable body of research has identified a 'country-of-origin' effect showing that MNCs from different home countries behave in distinctive ways in managing human resources and other areas. MNCs are embedded in their parent national business system that influences their behaviour (Frener et al, 2001). Van Maanen (2005) indicates that *'MNCs bear something of a cultural stamp that originates in the society where the organisation was first designed. The greater the economic power of this society, the larger and older the organisation, the more obvious the stamp'.* As mentioned before, Van Tulder & Van der Zwart (2006) also confirm a strong country of origin effect in implementing CSR. So, what constitutes this stamp then?

Firstly, the home country context influences the drivers of business to commit to human rights, as was also described in section 2.2. According to a study of Nordskag & Ruud (2000) on 80 transnational oil companies, only oil companies who come from the United States and Europe adopt a human rights policy. Of the American companies, 15% expressed concerns towards human rights. The European companies (coming from United Kingdom, The Netherlands, Norway and France) represented a bigger share, namely 28%. Nordkag & Ruud also made a distinction between companies coming from Anglo-Saxon countries and Latin countries, which demonstrated that Latin oil companies are reluctant towards expressing human rights policies. These results show clearly that the context of the home country of a MNC influences the way a company approaches human rights. Van Tulder & Van der Zwart (2006) confirm this, because they found that Asian firms tend to adopt relatively inactive (indifferent) responsibility strategies, American firms tend to favour reactive (responsiveness) strategies and European firms are inclined towards more (pro)active (responsibility) strategies. Apparently, MNCs who are embedded in European home countries are more tended to commit to human rights. The reason may be that stakeholders based in European countries exercise more pressure on MNCs or because of the normative settings in these countries. This will be further explored below.

Secondly, Van Maanen (2005) suggests that the home country context influences the management strategy of MNCs: *'MNCs headquartered in small countries are apt to be less ethnocentric than those from large countries'*. Hence, the smaller the home country, the less centralised may the management strategy be. Thirdly, Westney (2005) indicates that the home country context also influences the control instruments used within MNCs:

> *'states that rely on arms-length, formal and largely statutory modes of dealing with non-state organisations tend both to provide and important model for inter-organisational relationships within MNCs and to reinforce that model through regulation (e.g. US). States that themselves rely heavily on non-formal, densely interactive modes of influencing the behaviour of non-state organisations tend to have regulations and laws that mirror this mode of coordination (e.g. Japan)'.*

The home country context can even influence the organisational context. Lau & Ngo (1996) show that the home country context had an impact on the organisational culture, even in the local contexts (in this case, Hong Kong) in which a MNC is embedded: *'it was found that American firms were more developmental and rational, British firms were more hierarchical, whereas mainland Chinese firms were group-oriented, and local Hong Kong Chinese firms were developmental in nature'.* Organisational structure can also be influenced by the home country context, as Buck & Shahrim, 2005 explain: *'corporate governance operates differently in two broadly distinct worlds (Anglo-American and welfare capitalism such as in Germany)'.* However, Noorderhaven & Harzing (2003) and Frener et al (2001) state that conflicting findings exist, and it seems that there are many factors influencing both the manner in which the country of origin effect manifests itself and its strength.

- *Influence of local contexts*

The influence of national contexts on MNCs and its subsidiaries has been researched in international management literature. In their extensive analysis of literature in subsidiary management research, Paterson & Brock (2002) found that the cultural environment, legal conditions and economic conditions form determinants of subsidiary development. Ghoshal & Westney (2005) found that business networks in which subsidiaries are embedded influence the performance of subsidiaries as well. Overall MNC strategies can even be influenced by national contexts of subsidiaries. Van Tulder & Van der Zwart (2006), for example, indicate that the influence of host country stakeholders on the corporate strategies of MNCs will increase should the host countries represent bigger markets and should they at the same time represent institutionally distant countries. Hence, the larger the distances between home and host countries and the larger the market, the larger is the influence of host country stakeholders on the MNC's strategy. Besides the dilemmas discussed in section 2.4, examples of how the earlier defined cultural (normative), political, regulatory, developmental, labour and historical distances can play an influencing role on embedding human rights mechanisms in a MNC is explained in the table below.

Global-local context distance	**Characteristic of the local context**	**Potential influence on subsidiaries of MNC**
Political	Dictatorship	Employees feel restricted to speak, little awareness of rights, few (legal) NGOs or labour unions present, strict control international information
	Instability (violence, crises, parliament changes, etc)	Potential damage to assets and people, difficulties to built up constructive relationships with stakeholders
	Corruption	Undermining implementation national legislation, impunity
	Oppression of minorities	Difficulties in dealing with minorities in transparent way
Cultural (normative)[7]	Poor position of women in labour market	Difficulties of employing women
	Predominance of low-power distance, low-uncertainty avoidance, individualism, femininity, or long-term orientation	Easier to cooperate with stakeholders. Subsidiary is more accommodative or proactive level of acceptance and implementation of stakeholder management (Veser, 2004).

[7] A definition of culture is *'shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives and are transmitted across age generations'* (Koopman, 1991). In order to identify values, Hofstede (2001) explored a model of four levels of culture. At the most basic level, culture consists of two levels: an invisible level of values, and a visible level of resultant behaviour or artefacts of some form. In this research, Hofstede's definition of culture is complemented with a normative dimension, since human rights are international norms with underlying values.

Developmental	High unemployment	Different priorities, e.g. little understanding for eradicating child labour
	Poor investment in public infrastructure	Local stakeholders may be more concerned of social and economic rights than civil political rights
	Little resources available for civil society	Difficulties in setting up equal partnerships with local stakeholders
Labour	Poor access to education and training	Potential low awareness employees and stakeholders of human rights and difficulties in engaging them on human rights.
Regulatory	Death penalty often executed	Difficulties in balancing complying with national legislation and protection of employees
	Conflicts between human rights and local legislation	Difficulties in following local legislation and human rights norms at the same time
	Ineffective judiciary	Difficulties in resolving conflicts with stakeholders, impunity
Historical	Historically rooted conflict between stakeholders	Difficulties in setting up cooperative stakeholder relationships (Schouten, 2002)
	Long history of subsidiary in host country	More difficult to change practices of subsidiary (Van Maanen, 2005)

Table 11 Examples influence local contexts on embedding human rights mechanisms in subsidiaries

The host country stakeholders also influence the ways of using stakeholder management in the local context. For example, would it make sense to speak out publicly on the poor human rights situation in a country, when that would damage the relation with the local government in such a way that the company would be banned from the country? Kostova & Zaheer (1999) also expect that the greater the distance is between the home country of a MNC and a particular host country, the greater the challenges a MNC subsidiary will face in establishing and maintaining its legitimacy in that host country. Hence, the greater the difference between global / home country context and local country context, the more human rights dilemmas the MNC will face. The possible response strategies may primarily depend on the power of the industry in that country, e.g. when a country depends strongly on the production of oil, an extractive MNC may have a major influence on the government of the country. Besides influence on subsidiaries, variations in national context also have important implications for stakeholders of MNCs, such as NGOs (Teegen et al, 2004). Certain governments restrict the range of activities open to NGOs. International NGOs, particularly those headquartered in the North, face challenges when interacting with Southern NGOs and elites owing to concerns of allegiance, sovereignty and solutions that fail to respect local conditions.

Next to influence on stakeholder engagement, the local context may also have an influence on the management strategy of a MNC. In this context, Bartlett and Ghoshal (2000) and Ghoshal and Nohria (1997) argue that control instruments, formal as well as more informal, used by headquarters must be adapted to the local context of the different subsidiaries. Van Tulder & Van der Zwart (2006) suggest that the developmental distance has an influence in particular: *'MNCs affiliates in the least developed countries have less chance to ally with local companies, face bigger uncertainties and thus require more control from headquarters'*. Thus, headquarters might focus its control efforts on particular subsidiaries embedded in a local context with a relatively large developmental distance with home contexts.

Influence of the local context on the third mechanism, i.e. the management system, has also been found in literature. For example, Gooderham et al (1999) found that particularly legal regulations and political structures have a strong effect on management practices. Rosenzweig & Nohria (1994) argue that subsidiaries of MNCs are most likely to attend to the demands of their local, host country environments and that their organisational practices will tend to become similar to the practices of local firms. And Newman & Nollen (1996) found that the fit between national culture and management practices increase the performance of subsidiaries. Furthermore, Matten & Geppert (2004) concluded that national business systems explain different patterns of work-system design.

2.12.2 Influence of internal context

As described in section 2.6, Kostova (1998) operationalised the internal context to organisational culture and relational context. Starting with organisational culture, many researchers confirm its strong influence on the performance of firms or teams (see e.g. Deal and Kennedy, 1982; Sorenson, 2002; Erickson, 2000; Galbraith and Lawler, 1993; Goold and Campbell, 2002). In relation to management mechanisms to embed ethical practices such as human rights, organisational culture was found to influence the objectives, policy, strategies and implementation (Kumar and Graf, 1998; Ewing, 2004).

How does the organisational culture influence the degree of embedding human rights in subsidiaries? As described earlier, Kostova (1999) operationalised the influence of organisational context to organisational culture as the degree of the subsidiary's cultural orientation toward learning, innovation and change on the one hand and the compatibility between the values of the practice and the organisational culture on the other hand. Thus, the less the subsidiary is willing to learn and change and the less compatible the values of the human rights mechanism are with the organisational culture of the subsidiary, the less likely the subsidiary will adopt the human rights mechanism. Blazejewski (2006) argues that these (value-infused) mechanisms are much more complex and prone to conflictual adaptation processes than practices based on technological standards or bureaucratic procedures because they retain a high symbolic or cultural value for the actors involved.

One could argue that a MNC should work towards a common culture across all of its subsidiaries, because of this potential of embedding human rights mechanisms to create conflictual processes with subsidiaries. However, some authors (e.g. Carroll, 1993; Tushman and O'Reilly, 1997; Williams & Geppert, 2006) argue that having a 'strong' culture within an organisation is not always beneficial, since it can pose great difficulties in responding to changes occurring in the different contexts in which a MNC is embedded. Van Maanen (2005) explains the downsides of a strong culture: *'strong culture is achieved only by great efforts, and even then it is problematic, since strong culture flowing from the top may embargo progress, retard change, deny differences, and by filtering out undesirable elements, create a kind of collective blindness'.* The latter resembles the description of strong-embeddedness, as described in section 2.5. Following the principle of weak-embeddedness, an organisational culture within the MNC where subsidiaries have the freedom to make their own choices in adapting the human rights mechanisms to fit their organisational culture, might prevent these conflicts. Veser (2004) stipulates this:

> *'although MNCs should set and follow the standards throughout its worldwide operations, their subsidiaries ought to have enough flexibility to adapt these standards to their local environment, without changing the core of the respective principles and practices, to make them meaningful and effective in their given country'.*

Moving on to the influence of the relational context, as was described in section 2.6, Kostova (1998) operationalised this to attitudes (commitment, identity and trust in headquarters) and the degree of dependency determine the motivation of the subsidiary to adopt the practice. Thus, the less the subsidiary's commitment, identity with, trust in and dependency on headquarters, the less the subsidiary's motivation to adopt the human rights mechanism. As people based in subsidiaries and headquarters shape the relationships between the entities, this research looks at the influence of attitudes and dependency of people working in subsidiaries towards the mechanisms used by headquarters to embed human rights.

Following the principle of weak-embeddedness again, people working in a subsidiary should enjoy a certain degree of autonomy in the interaction with headquarters in order to be able to adapt the process of embedding mechanisms to fit the subsidiary and its local context. This approach is also advocated by Muller (2006), Bird (2004), Donaldson (1995b) and De Geus (1997), who gives an example of his personal experience as a senior manager of Shell: *'… joining a corporation did not mean surrendering my capacity for judgment or critical opinion. It meant that I would have to learn to exercise my judgment as a participant in a large, collective endeavour'.* Expatriate employees may play an important role in the attitude towards headquarters, because Duncan (1998), Bouquet et al. (2004) and Doz et al. (2001) found that *a* subsidiary with many expatriate employees adopt mechanisms from headquarters differently from a subsidiary where mainly local people work. What this difference constitutes exactly remains to be seen in this research. Finally, as was discussed in section 2.7, the attitudes of people in subsidiaries may change over time. Thus, the interaction between managers from headquarters (whether working as expatriates or not) has to be frequent in order to change attitudes. In those relationships, personal trust, sufficient available resources and anticipation, Fink & Holden (2005) found, is crucial.

2.13 Summary: the research model

This chapter first established that literature in the field of business management of human rights is only emerging and therefore is of an explorative nature. Subsequently, the goal of embedding human rights was discussed by defining the responsibilities of business regarding human rights. The conclusion was that these responsibilities include respect human rights, avoid being complicit in human rights abuses, and, within their sphere of influence, do what they can to promote human rights principles. Nevertheless, the boundaries of these concepts are still under debate and need to be developed further. As a result, a MNC is confronted with many different dilemmas.

Hence, embedding human rights is a challenging task. A research model was developed to identify factors that can potentially explain the degree in which the mechanisms to implement and internalise human rights are used within a MNC. The research model is based on the concept of (re-) embeddedness, which means that economic action and its consequences are influenced by actor relationships and by the structure of the whole network of relations. From theory, a general direction of how to implement and internalise human rights was derived, i.e. to *weakly re-embedding* a MNC's commitment to human rights by adapting their approach to the local contexts and stay within the international framework of human rights at the same time. In doing so, a MNC should have the flexibility to deviate from any local or global norms and values when necessary. Figure 6 represents the final research model. The table below summarises the different elements of the mechanisms and how these mechanisms can be used to maximise the degree of implementation and internalisation within a MNC.

Mechanism to embed human rights	Elements	How to use mechanisms to maximise degree of implementation and internalisation
Stakeholder management	1. Stakeholder identification 2. Assess general nature of stakeholder claims and power implications 3. Determine performance gaps and influence strategies 4. Prioritise stakeholder demands 5. Develop organisational responses 6. Monitoring and control	• Implementation: integration of stakeholder management in structures, policies and decision-making processes, commitment top-management, adequate funding, time and capacity, sharing cultural affinity with and recognising legitimacy stakeholders, response fitting with attitude stakeholder. • Internalisation: stakeholder management should fit with local values and context.
Management strategy	Possible strategies: 1. Adopt global standards, 2. Follow local standards, 3. Develop voluntary code of conduct	Develop voluntary code of conduct / soft hand approach to stay in line with global standards (implementation) and fit with local context (internalisation) at the same time.
Management system	1. Plan: human rights policy and objectives 2. Do: mechanisms to embed human rights 3. Check and Review: human rights monitoring and reporting	1. Plan: explicit policy referring to UDHR, clearly defining spheres of influence and complicity, develop management programme, objectives fit local context; 2. Do: right balance between implementation and internalisation instruments, developing clear common language, linking to existing processes with special locus on human rights; 3. Check and review: ongoing, transparent and independent monitoring, involving local people, right balance between qualitative and quantitative reporting based on GRI criteria.

Table 12 Summary elements embedding mechanisms and ways for using these mechanisms to maximise degree of implementation and internalisation

In section 2.12, the potential areas for explaining the degree of implementation and internalisation of human rights mechanisms in a MNC were identified. In terms of the external context, the distance between the local context and the home country/global contexts potentially explain the influence of the external contexts on the degree of implementation and internalisation of these mechanisms. In general, it can be assumed that the greater the distance is between the home country/global context and a particular host country in which a MNC is embedded, the more attention needs to be paid to adapting the mechanisms to fit the local context in order to increase the degree of implementation and internalisation. These distances include culture (normative), political system, regulation, development, labour system and history.

Other general elements found in literature from the home country context that potentially influence the ways mechanisms are used are stakeholder pressure and normative settings, size of home country, statutory modes of dealing with non-state organisations and corporate governance. Additional elements from the local context include the business networks in which subsidiaries are embedded, national business systems, the geographical distances and the size of the market. Finally, non-state actors in the global context, in particular international NGOs operating under particular rules of engagement, potentially explain the ways of using certain mechanisms.

Within the organisational context, an organisational culture can either enable or constrain the potential conflictual process of embedding human rights mechanisms used within a MNC. Aspects that might enable embedding the human rights mechanisms: a) a cultural orientation toward learning, innovation and change, b) compatibility of human rights mechanisms with the values of the subsidiary's organisational culture, c) an organisational culture within the MNC where subsidiaries have the freedom to make their own choices in adapting the human rights mechanisms to fit their organisational culture. Within the relational context, the attitudes and dependency of people working in subsidiaries towards the mechanisms used by headquarters might constrain or enable the process of embedding human rights. In this process, employees of a subsidiary should enjoy a certain degree of autonomy. It was also recognised that these attitudes may change over time through a process of resistance and socialisation.

All of these elements provide theoretical answers to the research questions. However, as stated before, it remains to be seen whether these answers concur with real practice. The next chapter discusses the method of approach.