MANAGING RESPONSIBILITIES

The formation of a Swedish MNC’s firm-society policies and practices

Niklas Egels-Zandén
Abstract

The role of multinational corporations (MNCs) in society is a frequently debated topic among academics and practitioners. Still, knowledge is lacking in how demands from MNCs’ stakeholders and corporate discretion combine to form MNCs’ firm-society policies and practices. Additionally, while firm-society issues have gone global, empirical research has rarely expanded beyond North America and Europe. To address these shortcomings and improve our understanding of how firm-society policies and practices are formed, I analyze how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices.

In analyzing this, the thesis draws on new institutional theory and an empirical study of a recognized global leader in firm-society issues – a Swedish multinational corporation anonymized as “Nordix” – and its operations in distant institutional environments. Based on interviews, document analyses and observations, four key settings that contributed to shaping Nordix’s firm-society policy and practices are described: i) Nordix’s historical experience in South Africa; ii) the process of adopting Nordix’s firm-society policy; iii) the extension of this policy to suppliers’ factories; and iv) the creation of a joint venture with a state-owned enterprise in China.

The findings in the Nordix study show that six different aspects have to be added to our existing understanding of how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices. By adding these, this thesis starts to address the need in the field of firm-society research to examine how institutional pressures and corporate discretion combine and the role of operating in distant institutional environments. More specifically, this thesis contributes to firm-society research by: i) introducing the concept “responsibility boundaries”; ii) adding labor unions and imagined institutional pressures to the list of stakeholders exerting institutional pressures related to firm-society issues; and iii) complementing the existing discrete campaign model of how institutional pressures are exerted with a bargaining model. It also contributes to new institutional literature by providing a more elaborate understanding of: iv) how companies respond to institutional pressures; v) how to divide an MNC to capture the entry points of institutional pressures; and vi) how legitimacy challenges stemming from operating in distant institutional environments manifest themselves.

Taken together, these six aspects of how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices show that an MNC is influenced by its home, host and transnational institutional environments. As such, it matters that Nordix is a Swedish company, which implies that there will be sustained variation in the firm-society policies and practices of MNCs from different home institutional environments.

Key words: multinational corporation, stakeholders, case study, new institutional theory, labor union, supply chain, joint venture, CSR, corporate social responsibility, sustainability.
Acknowledgements

The end. Of the writing process that is – not of the PhD thesis. With the writing process now finally coming to an end, I want to take the opportunity to thank those who have helped me during this journey. I would like to start by thanking my supervisor Rolf Wolff and assistant supervisor Olof Zaring, both of whom have made this thesis possible. They have guided me through the entire process of writing a PhD thesis, and without you this thesis would never have been written.

The foundation of the thesis is a study of how managers and employees at the company “Nordix” manage responsibilities. I am truly grateful for Nordix’s support – from the CEO all the way to its workers in China. Your willingness to discuss the issues and do so openly has been central to the realization of this thesis. All of you deserve to be mentioned by name, but as you represent an anonymized company I have to settle for a general “thank you”! I would like to extend the same sentiment to all of the stakeholders that shared their experiences with me during these years. I would especially like to thank the many union representatives that have taken the time to talk to me.

A special thanks also goes to those who have constructively read earlier drafts of this thesis. Gideon Kunda, who from early on provided very helpful comments, and Tim Bartley, Ola Berström, Lars Norén, Roger Schweizer and Karolina Windell, whose comments have greatly improved the quality of my work.

During the years, I have had the fortune to work both at the Gothenburg Research Institute (GRI) and the Department of Business Administration at the School of Business, Economics and Law at University of Gothenburg. I have made many friends in both places and I look forward to continue working with you. My warmest thanks also go to my friends in what for many years comprised a small research group: Magnus Eriksson, Karl Palmås and Magnus Rosén.

Last, but certainly not least, I am forever thankful for the unconditional support that my friends and family have provided me during these years. I appreciate your patience with my all-too-frequent absent-mindedness. To my wife Johanna – your remarkable ability to continuously remind me what life is all about has kept me somewhat sane during this journey. I love you now and forever.
Contents

CHAPTER 1
INTRODUCTION
Nordix: A Swedish MNC operating across the globe ........................................... 4
Conceptualizing firm-society issues ........................................................................ 6
Research into firm-society issues: Shortcomings and possibilities ................... 8
Research purpose ..................................................................................................... 13
Outline ...................................................................................................................... 14

CHAPTER 2
NEW INSTITUTIONAL THEORY AND FIRM-SOCIETY ISSUES 17
Policy and practice .................................................................................................... 18
Institutional pressures ............................................................................................. 20
Corporate discretion ................................................................................................. 24
Institutional pressures entry points into an MNC ............................................. 31
Institutional distance ................................................................................................. 33
Strengths and shortcomings ..................................................................................... 34

CHAPTER 3
METHOD 37
Why Nordix, China and South Africa? ................................................................. 39
Collection of material ............................................................................................... 42
Analysis of material ................................................................................................ 48
Presentation of material ............................................................................................ 50

CHAPTER 4
NORDIX IN SOUTH AFRICA 51
The Swedish anti-apartheid movement ............................................................... 52
The Swedish union movement ............................................................................... 58
Nordix in South Africa ............................................................................................ 63
Summary and discussion ......................................................................................... 72
# Chapter 5

**Nordix's Firm-Society Policy**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordix’s firm-society policy</td>
<td>79</td>
</tr>
<tr>
<td>The road to Nordix’s code of conduct and IFA</td>
<td>80</td>
</tr>
<tr>
<td>Summary and discussion</td>
<td>94</td>
</tr>
</tbody>
</table>

# Chapter 6

**Extending the Policy Beyond Nordix's Organizational Boundaries**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial extension to larger suppliers</td>
<td>100</td>
</tr>
<tr>
<td>Continued extension to small suppliers</td>
<td>103</td>
</tr>
<tr>
<td>Beyond suppliers: Extension to other stakeholders</td>
<td>118</td>
</tr>
<tr>
<td>Summary and discussion</td>
<td>120</td>
</tr>
</tbody>
</table>

# Chapter 7

**A Nordix Joint Venture in China**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Nordix joint venture in China</td>
<td>124</td>
</tr>
<tr>
<td>The 2008 Olympic Games</td>
<td>143</td>
</tr>
<tr>
<td>Summary and discussion</td>
<td>144</td>
</tr>
</tbody>
</table>

# Chapter 8

**Managing Responsibilities**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boundary placement: Central to firm-society policies and practices</td>
<td>151</td>
</tr>
<tr>
<td>Labor unions and imagined pressures</td>
<td>159</td>
</tr>
<tr>
<td>Nordix’s responses to institutional pressures</td>
<td>166</td>
</tr>
<tr>
<td>Opening the black box: Staff and operative functions</td>
<td>172</td>
</tr>
<tr>
<td>Managing responsibilities: Four central aspects</td>
<td>178</td>
</tr>
</tbody>
</table>

# Chapter 9

**The Influence of Different Environments: Home, Host and Transnational**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A continuous bargaining model of institutional pressures</td>
<td>182</td>
</tr>
<tr>
<td>The experience of institutional distance in the home environment</td>
<td>191</td>
</tr>
<tr>
<td>How do institutional pressures and corporate discretion combine?</td>
<td>193</td>
</tr>
<tr>
<td>Home, host and transnational environments matter simultaneously</td>
<td>196</td>
</tr>
<tr>
<td>Future research</td>
<td>199</td>
</tr>
</tbody>
</table>

# References

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>203</td>
</tr>
</tbody>
</table>
1. Introduction

What responsibilities do multinational corporations (MNCs) have with regard to workers’ rights, community issues and political issues? Non-governmental organizations (NGOs), labor unions, media, shareholders, governments and other stakeholders all give different answers to this question. Corporate managers stand in the midst of these often vague and conflicting stakeholder demands, struggling to grasp what their responsibilities are and how far these responsibilities extend. Managers not only attempt to grasp what these stakeholders demand, but must also decide whether or not to comply with these demands and – if they do decide to comply – how to translate these demands into concrete “firm-society” policies and practices.

In this thesis, I examine how managers at “Nordix” struggle with the challenge of managing these responsibilities, and analyze how Nordix’s policies and practices in terms of workers’ rights, community involvement and political involvement are formed. Nordix is a Swedish MNC that is commonly ranked (by, for example, the Dow Jones Sustainability Index) as a world leader in firm-society issues. While it has production and sales all over the globe, I place particular focus on its operations in institutional environments distant from Nordix’s Swedish home environment. To provide a flavor for how managers at Nordix manage responsibilities, short extracts from four different settings are presented below.

Angry protesters have gathered in the large parking lot outside Nordix’s Swedish headquarters. They hand out flyers to passers-by stating that: “The liberation movement ANC and others in opposition demand that foreign firms leave South Africa. ANC

1 Firm-society issues in this thesis comprise workers’ rights, community involvement and political involvement issues. Other commonly used concepts for describing these issues are corporate social responsibility (CSR), corporate citizenship and sustainability.

2 “Nordix” is an anonymized name that has no reference to either the studied MNC’s name or any firm and/or organization actually named “Nordix.”
Chapter 1

says: ‘It is not our work but our lives that are at stake’. Terminate Swedish investments in South Africa!’ It is the mid-1980s and the anti-apartheid debate is raging. Newspapers are filled with stories of how black South Africans are mistreated and the corporate sector is portrayed as supporting the apartheid regime. Representatives from Nordix’s enterprise-level union approach the protestors attempting to convince them that Nordix supports positive development in South Africa rather than upholding the apartheid regime. In a meeting room on the tenth floor of Nordix’s headquarters, Nordix’s senior managers look out over the parking lot. Intense discussions emerge about how Nordix will be able to defy the demand to withdraw, since although the protestors want Nordix to withdraw, Nordix’s senior management team is determined to remain in South Africa.

Ten years later, in the mid-1990s, the sweatshop and child labor debate has replaced the anti-apartheid debate. Nike is under attack in the United States, and in Sweden everyone is talking about H&M and IKEA’s child labor scandals. Over a cup of coffee in a modern conference hall a few blocks from the Champs-Élysées in Paris, the workers’ rights debate starts to involve Nordix. A representative from the Global Union Federation asks the chairman of Nordix’s enterprise-level union whether or not Nordix is interested in adopting a firm-society policy. The chairman is intrigued by the possibility of becoming one of the first Swedish companies to sign a so-called International Frame-work Agreement. Later that week, he raises the question with Nordix’s human resource and public relations managers. These managers turn down the idea, pointing to the dangers of adopting a firm-society policy and how it clashes with Nordix’s less formalized way of working. Soon, however, shareholders and journalists begin posing the same demands to these Nordix managers, and in a meeting back at Nordix’s Swedish head-quarters they reluctantly realize that they must adopt a firm-society policy. But what to include in this policy, how to conceptualize Nordix’s responsibilities and how far should the policy extend beyond Nordix’s organizational boundaries?

As Nordix’s headquarters managers are discussing whether or not to adopt a firm-society policy, Nordix’s operative managers enter a grand meeting room in central Beijing. The room is furnished exclusively with traditional Chinese art hanging on the walls. In black three-piece suits, representatives from the Chinese government greet the managers and ask them to take a seat. Negotiations
begin, with interpreters on both sides doing their best to translate Mandarin to English and English to Mandarin. At the heart of the negotiation is a joint venture between Nordix and a state-owned Chinese enterprise. However, the Chinese government is not only the owner of the joint venture company, it is also the joint venture’s sole customer; as such, elaborate negotiations emerge regarding ownership structures, product prices, market shares and so on. After a few hours, negotiations shift to the question of how to handle the factory’s social functions. The proposed joint venture comprises schools, hospitals, housing and other social functions. Should Nordix assume ownership of these functions or should Nordix managers break with the traditional corporate role in this Chinese community and solely focus on production? Nordix managers are clear about their position – they want to avoid ownership at any price. However, the Chinese side requests financial support for running the social functions, and even suggest that Nordix should consider taking ownership of the social functions. Months of negotiations are about to follow.

Ten more years later (in the mid-2000s), Nordix’s supply chain manager is going through his emails at Schiphol airport in Amsterdam. He opens an email entitled “Dow Jones Sustainability Index score” from Nordix’s firm-society function and is struck by the bad news. While Nordix scores well overall, his own function scores poorly. Just before boarding his plane, he gets a hold of one of his colleagues in the supply chain function. They suspect that the poor score is due to Nordix’s operative managers having shifted Nordix’s supplier base to Asia without considering workers’ rights issues, and now the supply chain and firm-society functions have to handle the consequences. Once in Sweden, he arranges a meeting with Nordix’s firm-society manager and they initiate what evolves into a working group for workers’ rights at Nordix’s suppliers. In the years to come, the working group engages in elaborate discussions of, for example, how many tiers of suppliers Nordix should assume responsibility for, if Nordix is responsible for small as well as large suppliers, what workers’ rights issues Nordix are responsible for, and what responsibility Nordix has for its distributors and customers.

The scenarios outlined above illustrate that in order to understand the formation of Nordix’s firm-society policy and practices, it is necessary to understand how stakeholder demands and corporate strategies combine to form policies and practices. In all four settings, stakeholders attempted to
influence how Nordix managers formed Nordix’s practices; Nordix managers responded by both resisting demands and translating demands into concrete policies and practices. This thesis is about how the combination of institutional pressures and corporate discretion formed Nordix’s workers’ rights, community involvement and political involvement policies and practices. To capture how this played out in the Nordix study, I will show that it is necessary to add to both existing firm-society research and new institutional research.

The rest of this chapter sets the scene for the study of Nordix’s firm-society policies and practices by discussing the role of Nordix’s home institutional environment, how firm-society issues can be conceptualized, shortcomings in existing firm-society research, suitable theoretical frameworks for addressing these shortcomings, the study’s purpose and research question, and the outline of the thesis.

**Nordix: A Swedish MNC operating across the globe**

Nordix was founded in Sweden before the Second World War and by 2009 was represented in over 100 countries across the globe. It produces high-precision technological products that are sold to many different types of customers, and organizes its activities based on its business segments. Nordix has three different headquarters staff functions that handle firm-society issues: i) a human resources function that mainly handles workers’ rights issues; ii) a public relations function that handles workers’ rights, community involvement and political involvement issues; and iii) a specific firm-society function that, after it was formed in the mid-2000s, has come to assume more and more responsibility for firm-society issues from a headquarters perspective. The managers of these three staff functions report directly to Nordix’s CEO.

The story of Nordix is thus one of a Swedish multinational corporation. While Nordix is a multinational corporation operating in multiple geographic locations and facing diverse and potentially conflicting sets of institutional pressures (cf. Kostova and Zaheer, 1999), it is founded in Sweden and maintains its headquarters there. There are different views as to whether or not this matters for the formation of an MNC’s policies and practices.

Some authors argue that ongoing globalization has limited the role played by MNCs’ home country institutional environments.³ For example,

---
³ In the public press, the position that neither home nor host environments are important is often linked to Thomas Friedman’s (2005) argument that the world is
Drori et al. (2003:1) claim that with “globalization, much human activity has spawned a growing set of universalized rules and standards” and “the older protective armor provided by the sovereign national state and society has weakened, so much local activity become linked into the global web or organizations and institutions”. Kostova et al. (2008:998) make a similar claim specifically related to firm-society issues in stating that “MNCs across countries and industries belong to an institutional class or field that operates according to particular rules, logic, and norms” and that “this is consistent with recent trends in the practice of the global management of establishing guidelines and expectations for MNC behavior on a worldwide bases, primarily in the area of social responsibility”. Hence, some authors claim that Nordix’s home institutional environment will have only a marginal influence on the formation of its firm-society policy and practices.

On the other hand, other authors claim that it is reasonable to assume that an MNC’s home institutional environment and headquarters location influence its firm-society policies and practices (cf. Cole, 1989; Campbell, 2007; Marquis et al., 2007; Wetterberg, 2007; Jensen et al., 2009). A key argument in support of this position is that the institutional environments exerting pressures on companies are country-specific (Kostova, 1999; Kostova and Zaheer, 1999; Scott, 2003; Schneiberg and Clemens, 2006; Schneiberg, 2007; Özen and Özen, 2009).

As Gardberg and Fombrun (2006:340) state, MNCs are “more likely to engage in citizenship activities consistent with those it would pursue in its home institutional environment.” Similarly, Detomasi (2008) argues that the political conditions in companies’ home market influence MNCs’ firm-society practices, and Matten and Moon (2008:404) argue that there are “remarkable differences between companies on each side of the Atlantic” (cf. Brammer and Pavelin, 2005). Despite this claim that a MNC’s home institutional environment matters, there is still limited theoretical research (Campbell, 2007; Detomasi, 2008; Matten and Moon, 2008) and, even more so, empirical research on the implications of this factor for companies’ firm-society policies and practices (cf. Midttun et al., 2006; Gjølberg, 2009; Tengblad and Ohlsson, 2009). As Campbell (2007:947) puts it, “socially responsible corporate behaviour varies across countries” and “much more research is needed to understand why”.

Therefore, studying the Swedish MNC Nordix provides an opportunity to understand if – and, if so, how – an MNC’s home institutional environments influence the formation of firm-society policies and practices in a
specific case. The focus on a Swedish MNC is useful since Nordix might differ from the mainly American MNCs studied in previous firm-society research (cf. Maignan and Raston, 2002) – making it possible to complement and potentially challenge previous research findings (cf. Wetterberg, 2007; Haunschild et al., 2008).

Studying the formation of Nordix’s firm-society policies and practices in distant institutional environments not only allows for discussions of home institutional environments but also of host and transnational institutional environments. Somewhere, the influence of the home environment might end and the influence of the host and transnational environments might begin. Research into issues other than firm-society issues have, for example, shown that the home, host and transnational environments matter in different ways in different settings (Rosenzweig and Nohria, 1994; Ferner, 1997; Mohan, 2006). The study of Nordix allows for similar discussion in relation to firm-society issues and for improving our understanding of the conditions under which the home, host and transnational environments, respectively, are important for the formation of an MNC’s firm-society policies and practices.

**Conceptualizing firm-society issues**

The traditional view of firms’ role in society is succinctly captured in a statement by William Ruckelshaus, the first head of the US Environmental Protection Agency (EPA):

```
Sustainability [a commonly used concept for firm-society issues] is as foreign a concept to capitalist managers in the West as profits are to managers in the former Soviet Union.4
```

The situation in 2009 is radically different. Some illustrations of this shift are that British Petroleum (BP) was becoming “Beyond Petroleum”, that Jeffrey Immelt, the CEO of General Electric was claiming that “the world has changed”, and that the former CEO of HP-Compaq was stating that “a new reality of business” has emerged (Lee, 2007). More generally, numerous academic researchers have argued that the idea that firms can positively contribute to society has become accepted within the business community (e.g., Waddock et al., 2002; Hart and Milstein, 2003). Similarly, international macro-organizations such as the United Nations, the World Bank, and the Organization of Economic Co-operation and Development (OECD) now embrace the idea of firms positively contributing to society.

---

4 Cited in Hart and Milstein (2003:56).
Hence, the previous perception that concepts such as corporate responsibility and business ethics were jokes or oxymorons (Lydenberg, 2005; Lee, 2007) has now been replaced (or at least complemented) by the perception that firms have an important role to play in society. One illustration of this shift is that, while less than half the Fortune 500 firms mentioned firm-society issues in their annual reports in 1977, by the end of the 1990s close to 90% of the annual reports of Fortune 500 firms mentioned these issues (Boli and Hartsuiker, 2001, cited in Lee, 2007).

The question of how to conceptualize firm-society issues is subject to intense academic debate (Wood, 1991; Carroll, 1999; van Marrewijk, 2003; Whitehouse, 2006; Schwartz and Carroll, 2008). Many authors have highlighted this conceptual diversity and confusion, and have opted for more precise and coherent conceptualizations of firm-society issues (e.g., Margolis and Walsh, 2003; Lee, 2007; Hull and Rothenberg, 2008). I employ a complementary approach in this thesis, believing that the lack of a coherent conceptualization of firm-society issues is not the sole (or potentially not even the main) problem in research into firm-society issues. An equally significant problem is that the search for such unified concepts has led to a neglect of how practitioners handle the conceptual confusion and diversity, and how practitioners themselves conceptualize firm-society issues.

I thus join the few recent authors that have stressed the fruitfulness of shifting focus from theoretical debates of how to conceptualize firm-society issues to studies of how practitioners add content to firm-society issues (cf. Rowley and Berman, 2000; Newton, 2002). The work by Tim Bartley (2007) serves as a good example of such research. Bartley (2007:303-305) first notices that “private regulation – and [firm-society] certification in particular – is not the only way to govern globalization; nor was its emergence inevitable.” Other alternatives in Bartley’s (2007) study included govern-mental and inter-governmental regulations, purely symbolic commitments without any certification, and no regulation at all. Bartley (2007:305) then asks: “[i]f several outcomes were possible, why did private [firm-society] regulation through certification become a prominent vehicle for governing globalization?” Although Bartley (2007) does not make the connection, his article could be seen as an empirical response to the call by Rowley and Berman (2000), Newton (2002), and others for more research into how existing conceptualizations of firm-society issues are created. Another example of research that has examined how companies determine their responsibilities is Ahlström and Egels-Zandén (2008), who studied how Swedish garment retailers’ responsibilities for their suppliers’ operations were determined and

5 For an interesting analysis of this transformation see Lee (2007).
re-determined between 1996 and 2004. Finally, the work by Windell (2006) is worth mentioning. Windell studied how the term Corporate Social Responsibility – a popular term for defining firm-society issues – has proliferated and how it has been constructed, demonstrating which actors participated in its shaping, how it has been described in the European business press, and how it has been constructed at conferences in Europe.

These studies take a direct interest in the diversity and confusion of how to conceptualize firm-society issues, recognizing that different conceptualizations serve different actors’ interests in the same way as different institutional set-ups serve different actors’ interests (cf. Fligstein 1991; Barley and Tolbert, 1997; Seo and Creed 2002; Maguire et al., 2004). These studies also show that the processes of conceptualizing firm-society issues are filled with political contestations (Bartley, 2007) and battles over the right of interpretation (Åhlström and Egels-Zandén, 2008). These conclusions are perhaps not surprising given that previous research into changes of concepts more generally have shown that changes can be expected to be “rife with conflict, contradictions, and ambiguity” (DiMaggio and Powell, 1991: 28), and that the individual actor’s ability to achieve change will be constrained by others who are “likely to resist reopening previously negotiated agreements” (Barley and Tolbert 1997:102).

This thesis joins this emergent literature by following how Nordix managers struggled with conceptualizing firm-society issues. The conceptualization of firm-society issues in this thesis is based on three central issues described in Nordix’s firm-society policy (i.e., workers’ rights, community involvement and political involvement). By analyzing and using a specific firm’s policy conceptualization of firm-society issues as the basis for the conceptualization of firm-society issues in this thesis, the thesis complements the more macro-oriented studies of Windell (2006), Bartley (2007) and Åhlström and Egels-Zandén (2008) regarding how practitioners conceptualize firm-society issues.

Research into firm-society issues: Shortcomings and possibilities

Although firm-society issues have been discussed since the emergence of the firm, during the last few decades they have received increasing interest from practitioners and academics. Staying up-to-date in this veritable flow

---

6 Much of the firm-society research has been published in specialized journals such as: the Journal of Business Ethics, Business Ethics Quarterly, Business Ethics: A European Review, Business & Society, Business & Society Review, Society and Business Review, the Journal of Corporate Citizenship, Corporate Social Responsi-
of research is challenging, and providing a comprehensive review of existing firm-society research is a difficult task. This is also evident in the existing reviews of research into firm-society issues, which have been more focused on identifying themes and gaps than on providing complete reviews of published research (e.g., Carroll, 1999; Garriga and Melé, 2004; Lee, 2007; Secchi, 2007). In the same spirit, no attempt is made here to review all existing firm-society research. My focus, rather, is to direct attention to general research needs.

It is worth stating that in this thesis firm-society issues are treated as an empirical rather than theoretical field. Hence, research into firm-society issues is treated here as research taking an interest in an empirical phenomenon rather than outlining a theoretical framework. Evidently, some research into firm-society issues contribute to theories such as new institutional theory, although it still treats firm-society issues as an empirical setting suitable for theory testing and development. The discussion below, therefore, is based on research shortcomings and possibilities related to the empirical field of firm-society issues.

The importance of firm-stakeholder interaction

In an interesting review of firm-society research, Lee (2007) showed that firm-society research from the 1970s onwards has moved from an ethical theoretical framework with an explicit normative orientation to a managerial theoretical framework with an implicit normative orientation. However, Lee (2007) still argued that the normative orientation remained in firm-society research. There is ample support for the claim that the normative orientation still dominates firm-society research, with much of the research being conducted from a normative perspective (Donaldson and Preston, 1995; Jones, 1995; Jawahar and McLaughlin, 2001; Mellahi and Wood, 2003; Garriga and Melé, 2004; Secchi, 2007). Lee (2007) also argues that a large part of the existing non-normative firm-society research has been focused on the link between firms’ financial performance and performance regarding firm-society issues (cf. Rowley and Berman, 2000; Margolis and Walsh, 2003; Campbell, 2007; Marquis et al., 2007).
This normative and financial performance focus in firm-society research has recently been questioned by numerous authors, with these authors calling for more research into companies’ firm-society policies and practices. As Marquis et al. (2007) put it, focus should be shifted from financial performance studies to studies aimed at understanding the focus, form and level of companies’ firm-society practices. Similarly, Lee (2007:13) argues that “it is about time to renew the basic research in CSR [a commonly used concept for firm-society issues]. By basic research, I mean the kind of research that attempts to explain what CSR is and how and why certain CSR-related changes in organizational behaviors take place … I argue that investment in basic research will even enable the field of CSR to propel the applied research beyond the current state of seeking evidence for the financial rewards of CSR.”

In a review of research that has shifted focus from financial effects to companies’ firm-society policies and practices, Lee (2007) identified an overall gap in existing research. Lee (2007:12) noted that the “interactions between businesses and society and the organizational changes occurring as a result of corporate adoption of CSR are immensely rich and dynamic phenomena, but they have not been adequately explored yet”. More specifically, Lee (2007:14) argued that “the corporate perspective on CSR and the resulting behavioral change are often products of the corporation’s interaction with other external stakeholders” and that “future research in CSR can and should attempt to unravel the intricate web and dynamics of social interactions between corporations and their direct or indirect stake-holders, including government, consumers, employees, communities, competitors and investors.” Hence, the view that corporations are autonomous actors, which has so often characterized firm-society research, has to be complemented by an open systems view that describes firms as susceptible to institutional pressures (cf. Scott and Davis, 2007). The same conclusion is reached in two other recent papers published in the Academy of Management Review. Both Marquis et al. (2007) and Campbell (2007) identify the same gap in previous firm-society research and argue that infusing firm-society research with reasoning from new institutional theory provides an under-developed and promising avenue for filling this gap. Interestingly, Lee (2007) reaches the same conclusion, strongly advocating more research from a new institutional theory perspective (cf. Doh et al., 2009).

The conclusion that an open system view of organizations is fruitful in firm-society research is reasonable given the conclusions of previous research. For example, Bartley (2007) shows that firms’ decisions to adopt labor rights certifications were to a large extent influenced by stakeholders
such as NGOs, governments and unions. Hence, the content of firms’ firm-society practices was largely dictated by stakeholders rather than the firms themselves (for a similar description in the Swedish setting see Åhlström and Egels-Zandén (2008)). More generally, numerous authors have emphasized the importance of external demands in shaping firms’ firm-society practices (Diller, 1999; Sethi, 1999; van Tulder and Kolk, 2001; Guillén et al., 2002; Nijhof et al., 2003; O'Rourke, 2003; Roberts, 2003; Graafland, 2004; Esbenshade, 2004; Frenkel and Kim, 2004). Additional support is provided in studies by Edelman (1990), Galaskiewicz (1997), Campbell (2007) and Marquis et al. (2007), with all of their findings echoing what Post had argued as early as 1978—that “any theory that would deal with this field [of firm-society issues] must ultimately confront the reality of extensive and continuing corporate-society interaction” (cited in Lee, 2007:15).

While the previous research described above shows that institutional pressures shape companies’ firm-society practices, it also shows that companies actively participate in the formation of their policies and practices. For example, both Bartley (2007) and Åhlström and Egels-Zandén (2008) show how companies actively participated in the creation of workers’ rights policies (cf. Delmas and Toffel, 2008; Yin and Schmeidler, 2009).

Hence, it is necessary to understand how institutional pressures and corporate discretion combine to understand the formation of firm-society policies and practices, and the lack of knowledge about this is problematic. Without an enhanced understanding of how institutional pressures and corporate discretion combine, firm-society research simply establishes that stakeholders demand firms to change and that these demands influence firms’ policies and practices without spelling out the nuances of how and to what extent this is done. In line with recent suggestions (Campbell, 2007; Lee, 2007; Marquis et al., 2007), I believe that new institutional theory provides a promising theoretical framework for addressing this shortcoming in previous research and for enhancing our understanding of how institutional pressures and corporate discretion combine to form firm-society policies and practices.

The importance of institutional distance

In addition to the need for more research into how institutional pressures and corporate discretion combine to form firm-society policies and practices, it is also evident when reading through any of the existing reviews of firm-society research that the cited articles almost exclusively stem from American and European settings (e.g., Garriga and Melé, 2004; Helin and Sandström, 2007; Lee, 2007; Secchi, 2007). This is the case in terms of the
origins of the researchers conducting the study but also, and even more importantly, in terms of the empirical setting of the studies. This means that most firm-society research has been conducted in uniform institutional environments. Hence, while there have been some conceptual attempts to expand the scope of firm-society studies (e.g., Campbell, 2007; Gugler and Shi, 2009), the empirical research has only rarely been expanded beyond North America (Maignan and Raston, 2002) and even less so beyond North America and Europe (e.g., Frynas, 2006). Evidently, there are some empirical studies that add to our knowledge of firm-society activities outside North America and Europe, such as those related to supplier responsibilities (Frenkel, 2001; Frenkel and Scott, 2002; Graafland, 2002; Wang, 2005; Egels-Zandén, 2007a), and firm projects in low-income markets in developing countries (London and Hart, 2004; Prahalad, 2005). However, firm-society research has yet to go global (cf. Lee, 2007). As, for example, Marquis et al. (2007:941) argue in relation to future research, there is a need to study how companies’ firm-society practices “change as the scope of firms’ venues and activities expands from local to national to global”. Similarly, Lee (2007:17) argues that there is a need for research into how firm-society issues are “conceived and practiced differently under diverse institutional contexts”.

The importance of adding the international aspect to firm-society research is also evident if we consider that perceptions of firms’ roles in society can vary significantly between different countries (cf. Hall and Soskice, 2001; Lee, 2007), and that companies’ firm-society policies and practices are highly influenced by institutional pressures at both the international and local levels (cf. Bartley, 2007; Marquis et al., 2007). As Lee (2007:17) concludes his review and discusses directions for future research, he notes that the “differences in social and institutional contexts, in turn, determine how corporations interact and cooperate with other actors in society. Corporate social responsibility researchers are yet to delve into this critical dimension of CSR.”

This research gap is problematic considering the increasing internationalization of firm-society issues. Many of the pressing problems related to firm-society issues take place outside Europe and the United States. This is the case both from a societal perspective, (i.e., the most severe problems in 2009 are located outside Europe and the US), and from a corporate perspective (i.e., the strategically most important problems to manage are located outside Europe and the US). Well-known examples of such pressing problems include sweatshops in Asia, where children receive below less-than-legal minimum wages for producing cheap products for the European
and US markets, and MNCs’ roles in terms of political and human rights development in China. While workers’ rights problems and problematic corporate political involvement are certainly discussed in relation to the European and US markets, the discussions among corporate managers, activists in non-governmental organizations, journalists and so on often relate to other (mainly Asian) markets. Since research into firm-society issues has failed to go global and consider the impact of MNCs operating in distant institutional environments, it risks losing its relevance in describing and analyzing ongoing corporate practices (cf. Johnson and Kaplan, 1987; Egels-Zandén, 2009a).

**Research purpose**
To better understand how firm-society policies and practices are formed, I have demonstrated that there is a need for firm-society research on: i) how institutional pressures and corporate discretion combine; and ii) the role of operating in distant institutional environments. In addressing these needs, I concur with the suggestion in previous research that it is fruitful to infuse research on firm-society issues with concepts from new institutional theory (Campbell, 2007; Lee, 2007; Marquis et al., 2007).

The research question that this thesis aims to answer can be derived based on this reasoning:

*How do institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices?*

To answer this question, I conduct an empirical study of the formation of the Swedish MNC Nordix’s firm-society policies and practices in relation to distant institutional environments. Based on an analysis of the Nordix case, the findings are linked to a new institutional theory framework. I show that to capture how institutional pressures and corporate discretion combined in the Nordix case, previous firm-society and new institutional literature has to be complemented.

With its foundation in an empirical study of Nordix, this PhD thesis contributes to two research streams. It contributes to firm-society research by both improving the understanding of how institutional pressures and corporate discretions combine to form an MNC’s firm-society policies and practices, and widening the empirical scope of firm-society research beyond the US and Europe. It also contributes to new institutional theory by further developing existing ideas on how MNCs respond to institutional pressures, where institutional pressures enter into MNCs, and how legitimacy chal-
Challenges stemming from operating in distant institutional environments manifest themselves.

Outline

Chapter 2 outlines a new institutional framework for understanding how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices. I identify three shortcomings in existing new institutional literature: i) there is limited research into how firms respond to institutional pressures when simultaneously facing different so-called predictive factors; ii) there is limited research into how to intelligently divide an MNC so as to capture how institutional pressures enter them; and iii) there is a need to move beyond the conceptual idea that MNCs’ legitimacy challenges stemming from operating in distant institutional environments only manifest themselves as conflicts between home and host institutional pressures.

Chapter 3 discusses the research method used in this study. I demonstrate why I have focused on a single firm, why it is relevant to study Nordix specifically, and why I have chosen four different settings to study the formation of Nordix’s firm-society policies and practices. After this, I explain how I collected material from interviews, documents and observations, how I analyzed the collected material by coding it in Atlas.ti software, and how I chose to present the material.

Chapters 4, 5, 6 and 7 describe how institutional pressures and corporate discretion combined to form Nordix’s firm-society practices in four different settings. Chapter 4 describes how Nordix operative managers’ attempts to protect the company’s South African market position were integral to both why and how Nordix was present in South Africa during the apartheid period. It also describes how Nordix – and in particular the public relations manager responsible for Nordix’s firm-society practices in South Africa – was under intense pressure from the Swedish anti-apartheid movement to withdraw from South Africa, and that Nordix’s ability to survive this pressure was closely related to the Swedish Technology Union’s decision to support Nordix’s presence in that country.

Chapter 5 describes how institutional pressures and corporate discretion combined to form Nordix’s firm-society policy. For example, initial demands for a firm-society policy came from the union movement. Moreover, the union movement was involved in the drafting of Nordix’s policy, and the Nordix policy covered the following three areas: workers’ rights, community involvement, and political involvement.
Chapter 6 describes how institutional pressures and corporate discretion combined to form Nordix’s firm-society practices vis-à-vis suppliers. Nordix was pushed into expanding its responsibilities to include suppliers by Western stakeholders such as ranking organizations, the media and NGOs. However, once the expansion of Nordix’s responsibilities beyond its organizational boundaries had begun, Nordix’s firm-society function continued the expansion to include distributors as well.

Chapter 7 describes how institutional pressures and corporate discretion combined to form Nordix’s firm-society practices in China. By entering into a joint venture with the Chinese government as the partner and sole customer, Nordix entered the Chinese political system. While the close links to the Chinese government was advantageous from an operational perspective, this also meant that Nordix’s operative managers faced demands from representatives of the Chinese government to contribute to social functions in the joint venture community. Among other things, I describe how Nordix’s operative managers handled this by narrowly delineating Nordix’s formal organizational boundaries, and how Nordix managers avoided political issues in their interaction with Chinese government representatives.

Chapters 8 and 9 analyze the findings from the Nordix case and link these findings to existing firm-society and new institutional literature. To capture the findings from the Nordix case, six different aspects have to be analyzed to understand how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices. By identifying and analyzing these aspects, I start to address the need in firm-society research to examine how institutional pressures and corporate discretion combine, and the role of operating in distant institutional environments. Taken together, these six aspects also allow for a discussion of if – and if so how – the formation of an MNC’s firm-society policies and practices is influenced by its home, host and transnational institutional environments.
2. New institutional theory and firm-society issues

How do institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices? To deepen the understanding of what this research question comprises, this chapter will outline a new institutional framework that will be used throughout the thesis.

This chapter starts by discussing the new institutional argument that policies and practices are not necessarily tightly coupled. This is done both to demonstrate why it is useful to study firm-society policies and practices and to lay the foundation for the analysis of the couplings between Nordix’s policies and practices. After this, I discuss the institutional pressures that companies face, placing particular focus on what stakeholders can be expected to exert pressures in relation to firm-society issues and how these pressures are exerted. Focus is then shifted from institutional pressures to corporate discretion, showing how firms have been proposed to respond to institutional pressures in new institutional theory. Subsequently, I discuss the entry points of institutional pressures into companies and how entry points influence how institutional pressures and corporate discretion combine. Finally, an international layer is added to the discussion, to show how operating in distant institutional environments has been argued to influence firms’ policies and practices.

Institutional theory has an extensive history and is often used as an umbrella concept under which numerous divergent theories are located (e.g., Campbell, 2004). This thesis focuses on what Campbell (2004) labels organizational institutionalism, and even more specifically on what is referred to as new institutional theory. As discussed in Chapter 1, this is done because new institutional theory provides a promising theoretical framework for addressing the shortcomings in previous firm-society research regarding how firms and stakeholders interact.


Policy and practice

The emergence of new institutional theory is often linked to the publication of Meyer and Rowan’s (1977) and DiMaggio and Powell’s (1983) founding texts (Scott and Davis, 2007). A cornerstone of these articles and of new institutional theory more generally is the separation of corporate policies and practices (e.g., Meyer and Rowan, 1977; Brunsson, 1989). The reason for this is that policy is theorized as often being decoupled from practice – that there is a discrepancy between what firms say and what they do. Firms’ tendency to decouple policies and practices is also a central part in the debate on MNCs’ firm-society policies and practices among academics and practitioners (Greening and Gray, 1994; Weaver et al., 1999; Kärnä et al., 2001; Sethi, 2002; Laufer, 2003; Egels-Zandén, 2007a; Karnani, 2007). Specific concepts have even been developed to describe these tendencies in relation to firm-society issues, such as “blue-washing”, which implies that firms present themselves as respecting principles of the United Nations Global Compact while not actually doing so in practice (the “blue” referring to the color of the UN logo).7

The original new institutional concept is that corporate policies and practices develop as responses to different pressures. Firms develop polices based on rationalized, generalized, simplified and impersonal institutional pressures, while practices are developed as responses to complex and context-dependent realities (Meyer and Rowan, 1977). Since following policies would lead to unsatisfactory solutions to the firms’ day-to-day problems, it is argued that policies and practices become decoupled.

This original conceptualization has led to new institutional theory being presented as interested in the non-rational (or non-efficiency-based) corporate adoption of policies that fulfill “symbolic rather than task-related requirements” (Tolbert and Zucker, 1983:26). Over time, this division between efficiency- and non-efficiency-based corporate adoption of policies and practices has been replaced in new institutional theory with a recognition that both efficiency and legitimacy effects motivate firms to adopt policies and practices (Scott, 2001; Oliver, 1997; Aguilera and Cuervo-Cazurra, 2004; Lounsbury, 2008; Combs et al., 2009). Several authors have also pointed out that efficiency (i.e., task-related) criteria are shaped by institutionalized ideas (Friedland and Alford, 1991; Lounsbury, 2002; Love and Cebon, 2008; Scott, 2008). For example, Ashwood et al. (2007) show

---

7 The UN Global Compact comprises ten principles on human rights, workers’ rights, environmental protection and corruption. These ten principles are the most recognized principles in the world in relation to firm-society issues (e.g. Cavanagh, 2004; Fussler, 2004; Kuper, 2004).
that both core and peripheral policies and practices are influenced by institutional pressures. Additionally, the initial focus on rationalized and impersonal institutional pressures has been broadened to include other type of institutional pressures as well (e.g., Aaltonen and Sivonen, 2009).

Even with these modifications, new institutional literature stresses the unclear relationship between policies and practices. Researchers have, for example, shown that early adopters of ideas are more likely than late adopters to tightly couple policies and practices (Westphal and Zajac, 1994, 1998), that seemingly superficial policies can gain significance over time (Scott, 2008), that the formalization of ideas has effects by “creating reference points that limit room for divergent interpretations” (Terlaak, 2007:973), and that formalization increases the internal institutional pressure for conformance (cf. Hasselbladh and Kallinikos, 2000). Hence, new institutional literature still emphasizes the necessity of studying both corporate policies and practices and of keeping an open mind regarding their relationship.

In relation to firm-society issues, there are several types of formal, written policies, from short mission statements to detailed certifications. The two main types of firm-society policies are codes of conduct and international framework agreements (IFAs) (cf., Long and Driscoll, 2008; Egels-Zandén, 2009b). Codes of conduct and IFAs serve the same purpose – to define and operationalize firm-society issues (cf. Gallin, 2000; Compa, 2004; Connor, 2004). Codes of conduct are unilaterally adopted written policies that outline the responsibilities of a corporation. IFAs are written policies that are negotiated and signed by MNCs and labor unions. IFAs can be seen as a first step towards collective agreements at a transnational level, but should not be understood as a collective agreement. Rather, IFAs and codes of conduct are very similar policy documents, with the difference being that labor unions have been involved in the development and signing of an IFA.

Codes of conduct have become commonplace among MNCs, and the majority of MNCs had a code of conduct by the late 2000s (e.g., Kaptein, 2004). While codes of conduct are common and have been, so far, the preferred way of operationalizing firm-society issues in policies by MNCs and NGOs (Gallin, 2000; Compa, 2004; Connor, 2004; Egels-Zandén and Hyllman, 2006), they are not the only way of doing so. Labor unions have been skeptical about such “given rights”, instead promoting negotiated firm-union IFAs (Gallin, 2000; Compa, 2004; Connor, 2004; Egels-Zandén and Hyllman, 2006). Still, very few MNCs have agreed to sign IFAs by the late 2000s.
Institutional pressures

Another cornerstone of new institutional theory is that firms face institutional pressures and that conformity to these pressures enhances corporate legitimacy (e.g., DiMaggio and Powell, 1983; Deephouse, 1996).\(^8\) Legitimacy, in turn, is assumed to be vital for organizational survival (Meyer and Rowan, 1977; Suchman, 1995; Deephouse, 1996). The best-known formulation of this is that firms face regulative, normative and cultural pressures that constrain and constitute organizations and organizational fields (Scott, 2001). This is captured in Scott’s (2001:48) definition of institutions as “composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life.” Scott’s (2001) definition of institutions highlights three different ways in which firms are influenced by pressures from institutional environments (cf. DiMaggio and Powell, 1983).

First, firms face regulative pressures that coerce them to comply in order to garner rewards or avoid sanctions. Here, corporate practice is legitimate if it is consistent with existing rules and laws. Interpreted more broadly, this can be linked to what Suchman (1995) calls “pragmatic legitimacy”, where firms gain acceptance by serving the interests of specific stakeholder groups and meeting their expectations (cf. Vidaver-Cohen and Brönn, 2008). As Suchman (1995:585) puts it, “audiences base pragmatic assessments largely on self-regarding utility calculations”.

Second, firms also face normative pressures that define what is appropriate – providing a moral framework for practice. Here, corporate practice is legitimate if it is consistent with widely shared norms defining appropriate behaviour. This can be linked to what Suchman (1995) labels “moral legitimacy”. Moral legitimacy extends beyond the directly concerned stakeholders and refers to congruence between firms’ policies and practices and societal expectations for appropriate moral conduct. As Suchman (1995:579) puts it, moral legitimacy does not rest “on judgments about whether a given activity benefits the evaluator, but rather on judgments about whether the activity is ‘the right thing to do’.” Moral legitimacy can be achieved by accomplishing goals that serve the public interest, adopting procedures that reflect shared moral values, creating structures that ensure compliance with prevailing ethical standards, and demonstrating integrity and trustworthy behaviour (Suchman, 1995).

---

\(^8\) Legitimacy is commonly defined as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995:574).
Third, firms face cultural-cognitive pressures that define cognitive frameworks and similar understandings of the state of affairs – providing a cognitive roadmap for actors and organizations. Here, corporate practice is legitimate if it is consistent with widely shared cognitive frameworks defining how the world is and how it works. As Suchman (1995:582) puts it, cognitive legitimacy is achieved by conforming to ideas that are perceived as “necessary or inevitable based on some taken-for-granted cultural account” (Suchman, 1995:582).

With numerous firms experiencing similar institutional pressures, new institutional theory proposes that institutional pressures constrain and homogenize firm practices (DiMaggio and Powell, 1983). In other words, firms become similar since they experience similar institutional pressures. However, institutional pressures not only constrain firms’ actions, they also facilitate actions by providing a limited number of templates for action (DiMaggio and Powell, 1983; Love and Cebon, 2008). These templates for action are often presented as recipes for action, simultaneously providing firms with the problem and the solution (Love and Cebon, 2008).

Who exerts institutional pressures?

Much new institutional literature assumes that institutional pressures are exerted by an “institutional environment” (e.g., Oliver, 1991), a “community” (Marquis et al., 2007), and so on. In other words, these researchers do not identify or distinguish between the actors that make up the “environment” or “community”. However, as Rowley (1997) and others note, institutional environments are made up of stakeholders, and institutional pressures stem from these stakeholders. Although it might be difficult in practice to pinpoint exactly who exerts institutional pressures, it is useful to discuss which stakeholders can be expected to exert institutional pressures in relation to firm-society issues. While this is an empirical question, previous empirical and theoretical literature can provide some initial guidance.

Previous research into firm-society issues as well as previous new institutional literature has empirically shown that governments can be expected to pressure firms in relation to firm-society issues (cf. Meyer and Scott, 1983; Galaskiewicz, 1985; Baum and Oliver, 1991; Windell, 2006; Bartley, 2007). This is linked to both European and the US governments (cf. Bartley, 2007), transnational government structures such as the UN (cf. Egels-Zandén and Wahlgqvist, 2007), and governments in distant institutional environments such as China (cf., Luo and Peng, 1998, Frynas et al., 2006; Tian et al., 2009).
Trade associations and professional organizations have also been presented as influential in new institutional literature, both generally (e.g., DiMaggio and Powell, 1983; Greenwood et al., 2002; Scott, 2008), and in relation to firm-society issues (e.g., Galaskiewicz, 1991; Campbell, 2007). These organizations’ influence stems from their establishment of networks through which norms and ideas spread. Windell’s (2006) empirical study shows that there are emerging professional networks regarding firm-society issues, implying that institutional pressures can be exerted through both traditional trade and professional organizations, as well as specific organizations related to firm-society issues (cf. Stranne-gård, 2000; Vidaver-Cohen and Brönn, 2008).

Recent new institutional literature (often in relation to firm-society issues) has highlighted the ability of non-governmental organizations to exert pressures (e.g., Lousbury, 2001; Child and Tsai, 2005; Doh et al., 2009). This influence is argued to stem from their ability to mobilize other actors and shape public opinion (cf. Meyer and Rowan, 1977; Meyer and Scott, 1983; Galaskiewicz, 1985; Elsbach, 1994; Boli and Thomas, 1999; Deephouse and Carter, 2005; Doh et al., 2009). This recent attention to NGOs is related to the fact that the number of NGOs addressing firm-society issues has increased drastically during the last few decades (Boli and Thomas, 1999; Braun and Gearhart, 2004; Riisgaard, 2005), and that NGOs have increasingly shifted focus from pressuring governments to pressuring MNCs (Hartman et al., 1999; Teegen et al., 2004; Åhlström and Sjöström, 2005).

The media has also been presented in the new institutional literature as exerting pressures both generally (e.g., Greening and Gray, 1994) and in relation to firm-society issues (cf. Kolk and Pinkse, 2006; Windell, 2006). As with NGOs, the media’s influence stems from its ability to shape public opinion (e.g., Trullen and Stevenson, 2006).

Although shareholders’ influence is rarely discussed in the new institutional literature, it is certainly consistent with the new institutional argument that stakeholders on which companies depend exert pressures (cf. Oliver, 1991). It is also consistent with the emerging literature that claims that socially responsible investors pressure firms to alter their firm-society policies and practices (cf. Schueth, 2003; Guay et al., 2004; Sparkes and Cowton, 2004; Sobczak, 2007). Although many of these socially responsibility investors only control minor portions of firms’ shares, in addition to being shareholders they also serve as raters of companies’ firm-society status. Hence, socially responsible investors can be expected to be more influential than would otherwise be expected given their resources as shareholders (cf. Frooman, 1999), due to their complementary status as raters.
Furthermore, rankings of MNCs’ firm-society practices are readily available. The emerging literature is also starting to stress the importance of the ranking organizations that produce these rankings (Fowler and Hope, 2007; Deephouse and Heugens, 2009; Consolandi et al., 2009; Doh et al., 2009; cf. Durand et al., 2007; Wedlin, 2007). Since it is difficult for stakeholders themselves to evaluate an MNC’s firm-society practices, these ranking organizations act as intermediaries between firms and different stakeholders, providing a readily available assessment of a company’s firm-society policies and practices (Doh et al., 2009; cf. Scott, 2001). However, while previous research convincingly argues in favour of the influence of ranking organizations, there are no empirical studies to date that show if and how ranking organizations influence an MNC’s firm-society policies and practices.

Finally, citizens in communities close to firms’ factories have also been shown to exert pressures (e.g., Child and Tsai, 2005; Dacin et al., 2007). For example, Marquis et al. (2007) credibly argue (based on new institutional theory) and provide empirical data showing that citizens residing in firms’ headquarters communities in particular can be expected to be influential. The argument that citizens living close to a firm’s headquarters are disproportionately influential on the firm provides an interesting complementary answer as to who the influential stakeholders are, with stakeholder influence stemming not only from stakeholder type but also from geographic proximity to firms’ headquarters. Hence, the “central idea is that standards of appropriateness regarding the nature and level of corporate social action are embedded within local communities, and organizational conformity to these institutionalized practices yields systemic patterns that vary by community” (Marquis et al. 2007:926). I will return to this argument below when discussing the importance of where institutional pressures enter into an MNC.

The multifaceted list of stakeholders above shows that firms face institutional environments consisting of multiple stakeholders. This implies that firms will likely face inconsistent and conflicting pressures from different types of stakeholders (e.g., Scott, 2001; Kostova et al., 2008), forcing firms to find ways of handling these inconsistencies (e.g., Oliver, 1991; Hoffman, 1999; Reay and Hinings, 2009). Ultimately, the stakeholders that exert pressures in relation to firm-society issues and the stakeholders that are most influential is an empirical question. Hence, the above list of stakeholders should be treated as a list of potential and expected influential stakeholders and not as a definite answer as to who exerts institutional pressures.
How are institutional pressures exerted?

To describe the dominant idea of how institutional pressures are exerted in relation to firm-society issues, I provide examples from the extensive literature on institutional pressures and firm-society policies. In this literature, it is stressed that companies adopt firm-society policies to restore and/or improve corporate legitimacy (Sethi and Sama, 1998; Diller, 1999; van Tulder and Kolk, 2001; O’Rourke, 2003; Roberts, 2003; Graafland, 2004; Miller, 2004; Riisgaard, 2005; Wright and Rwabizambuga, 2006; Bartley, 2007; Åhlström and Egels-Zandén, 2008). For example, van Tulder and Kolk (2001:268) claim that in “the 1990s, a wave of voluntary company codes appeared, triggered by attention for developments which posed great legitimacy problems to firms”. The legitimacy threat pushing companies to adopt firm-society policies is mainly argued to be exerted by NGO consumer campaigns (van Tulder and Kolk, 2001; Roberts, 2003; Graafland, 2004; Riisgaard, 2005; Åhlström and Egels-Zandén, 2008), although such pressure also comes from other stakeholders such as financial investors (Schueth, 2003; Guay et al., 2004; Sparkes and Cowton, 2004; Sobczak, 2007).

When these authors refer to institutional pressures and legitimacy, they mainly refer to pressure in the form of consumer campaigns, media tactics and “scandals”, and legitimacy in the eyes of the public. This dominating idea of how institutional pressures are exerted is well captured in Vidaver-Choen and Brönn’s (2008:443) statement that “the super-ordinate motive for businesses to engage in citizenship activities may indeed be to preserve legitimacy in the public eye” (emphasis added), or in Capriotti’s (2009:226) argument that “the growing importance of CSR is marked by the fact that it is considered to be an activity that legitimizes the organization in the eyes of society” (emphasis added). This emphasis on the public arena and legitimacy in the eyes of the public in research on firm-society policies and practices is consistent with new institutional literature more generally, which mainly focuses on pressures generated within the public arena (Greening and Gray, 1994; cf. DiMaggio and Powell, 1983; Oliver, 1991). Hence, in relation to firm-society issues, institutional pressures have traditionally been envisioned to be exerted in highly public campaigns focusing on a specific firm-society issue that threaten companies’ legitimacy in the eyes of the public.

Corporate discretion

Initially, new institutional theory framed firms as passively bending to institutional pressures (Oliver, 1991; Bansal and Roth, 2000; Marquis and Lounsbury, 2007). As Scott (2008:430) puts it, “a monolithic framework was posited, imposing homogenous requirements on passive organizations”.

24
While this was particularly true in the early development of new institutional theory (Scott and Davis, 2007), recently published new institutional literature on firm-society issues (sometimes consciously and explicitly, and sometimes implicitly) also downplays the role of corporate discretion (e.g. Campbell, 2007; Marquis et al., 2007). Still, much of the new institutional literature over the years has realized that to frame firm responses as being solely passive restricts our understanding of how institutional pressures and firm responses combine to shape policies and practices (cf. Oliver, 1991; Scott, 2003; Scott and Davis, 2007; Tsamenyi et al., 2006; Terlaak, 2007). Studies have also highlighted the importance of intra-organizational processes for how ideas are diffused (Greenwood and Hinings, 1996; Kim et al., 2007; Combs et al., 2009), indicating the importance of studying organizational responses to institutional pressures.

Much of the contemporary new institutional literature recognizes that firms have discretion in responding to institutional pressures, but that this discretion is exercised within constraints imposed by the institutional environments (Greening and Gray, 1994). By focusing on firm responses to institutional pressures, the new institutional literature has started to develop a more nuanced understanding of how organizational variety emerges and is sustained (Greenwood and Hinings, 1996; Marquis and Lounsbury, 2007). Still, the number of studies on how institutional pressures and corporate discretion combine is not extensive (Kim et al., 2007).

It is worth noting that the increased focus on firms’ responses to institutional pressures has occurred in parallel with an increased interest in variation and change in new institutional theory (Lounsbury, 2001; Scott, 2003; Maguire et al., 2004; Marquis and Lounsbury, 2007; Marquis et al., 2007). This shift has augmented the focus on actors in new institutional theory – not just firms but also states, professions, non-governmental organizations, etc. (e.g. Schneiberg and Clemens, 2006; Delbridge and Edwards, 2007, 2008). In particular, numerous articles have recently been published on how actors, or so-called institutional entrepreneurs, shape institutions and organizational fields (DiMaggio, 1988; Rao et al., 2000; Greenwood et al., 2002; Sherer and Lee, 2002; Maguire et al., 2004; Garud et al., 2007; Khan et al., 2007). The focus in this thesis, however, is restricted to understanding the formation of an MNC’s policies and practices, disregarding the potential effects of these policies and practices for shaping institutions and organizational fields.
Corporate responses to institutional pressures

There have been numerous different attempts to bring active organizations into new institutional theory. For example, some authors have combined Gidden’s (1984) structuration theory and new institutional theory, with Barley and Tolbert (1997) and Cooney (2007) serving as good examples of this tradition. Similarly, a political perspective has been introduced into new institutional theory in the human resources literature, with authors claiming that this perspective is needed for highlighting the fact that powerful individuals and groups within organizations moderate the effects of institutional pressures (e.g., Edvards et al., 2005; Farndale and Paauwe, 2007). There are many other streams of literature that similarly critique the framing of organizations as passive in new institutional theory, but the two mentioned above serve as indicators of a more general awareness of the potential for organizations to actively respond to institutional pressures.

Perhaps the best-known and most influential attempt to bring interest-driven actors into new institutional theory is Christine Oliver’s (1991) article. Oliver (1991) develops a typology of organizations’ potential responses to institutional pressures, and argues that in addition to “acquiescence” (the corporate response assumed by early new institutionalists), companies could also seek “compromises”, use “avoidance” tactics, practice “defiance” or attempt to “manipulate” stakeholders. McKay (2001) added to this, stating that organizations can also support the stakeholder exerting pressures by adopting a “safeguarding” response, and Rivera et al. (2009) argued that organizations can extend beyond compliance by doing more than what stakeholders demand. Table 1 summarizes the five different ways in which Oliver (1991) argues that companies can respond to institutional pressures.9

---

9 It is possible to argue that acting as institutional entrepreneurs can be seen as a sixth type of corporate response to institutional pressures in addition to the five types Oliver (1991) proposed (cf. Child and Tsai, 2005), but I here interpret it as part of companies’ “manipulation” response.
Table 1: Corporate responses to institutional pressures (cf. Oliver, 1991:152)

<table>
<thead>
<tr>
<th>Response</th>
<th>Tactics</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiesce</td>
<td>Habit, Imitate, Comply</td>
<td>Follow taken-for-granted norms</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mimic institutional models, Obey rules and accept norms</td>
</tr>
<tr>
<td>Compromise</td>
<td>Balance, Pacify, Bargain</td>
<td>Balance multiple stakeholder demands, Obey with some resistance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Negotiating with stakeholders</td>
</tr>
<tr>
<td>Avoid</td>
<td>Conceal, Buffer, Escape</td>
<td>Decouple policy from practice</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Loosely couple parts, Exit the pressure domain</td>
</tr>
<tr>
<td>Defy</td>
<td>Dismiss, Challenge, Attack</td>
<td>Ignore explicit rules and values, Contest rules and requirements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Assault the sources of the pressure</td>
</tr>
<tr>
<td>Manipulate</td>
<td>Co-opt, Influence, Control</td>
<td>Internalize stakeholders, Shape stakeholders’ demands, Dominate stakeholders</td>
</tr>
</tbody>
</table>

Oliver (1991) then linked these organizational responses to five “predictive factors”, arguing that these five factors were central for understanding organizations’ responses to institutional pressures. Table 2 summarizes the five predictive factors.
<table>
<thead>
<tr>
<th>Predictive factor</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cause</strong></td>
<td><em>Why</em> is the organization pressured to conform?</td>
</tr>
<tr>
<td>Legitimacy</td>
<td>Demands that will improve the acceptance of the organization</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Demands that will improve the efficiency of the organization</td>
</tr>
<tr>
<td><strong>Constituents</strong></td>
<td><em>Who</em> is pressuring the organization?</td>
</tr>
<tr>
<td>Multiplicity</td>
<td>Multiple stakeholders pose different (and inconsistent) demands</td>
</tr>
<tr>
<td>Dependence</td>
<td>High degree of dependency on the pressuring stakeholders</td>
</tr>
<tr>
<td><strong>Content</strong></td>
<td>To <em>what demands</em> is the organization pressured to conform?</td>
</tr>
<tr>
<td>Consistency</td>
<td>In line with the organization’s goals</td>
</tr>
<tr>
<td>Constraint</td>
<td>Highly restraining the organization’s freedom (e.g., defining means)</td>
</tr>
<tr>
<td><strong>Control</strong></td>
<td>By <em>what means</em> are the pressures being exerted?</td>
</tr>
<tr>
<td>Coercion</td>
<td>Legally enforced pressures</td>
</tr>
<tr>
<td>Diffusion</td>
<td>Diffusion of voluntary demands posed on the organization</td>
</tr>
<tr>
<td><strong>Context</strong></td>
<td>Within what context are the pressures exerted?</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>The organization is operating in uncertain conditions</td>
</tr>
<tr>
<td>Interconnectedness</td>
<td>Stakeholders are highly interconnected</td>
</tr>
</tbody>
</table>

Table 2: Factors central for understanding organizations’ responses (cf. Oliver, 1991:160)

Oliver’s (1991) article has been followed by a veritable flood of research supporting and complementing her claims of how organizations respond to institutional pressures. Overall, several studies have found empirical support for all of the predictive factors (Etherington and Richardson, 1994; Goodstein, 1994; Ingram and Simons, 1995; Clemens and Douglas, 2005; Aaltosen and Sivonen, 2009). Support for and complements to Oliver’s claim have also been found in relation to specific predictive factors.

Regarding the *cause*, authors have shown that if compliance with institutional pressures increase organizations’ legitimacy or efficiency, organizations are likely to adopt an acquiesce response (Ingram and Simons, 1995; Clemens and Douglas, 2005; Chang, 2006). More generally, authors have
also shown that organizations are more likely to comply with institutional pressures when these pressures fit the organizations’ internal values and culture (Stensaker and Dahl Norgård, 2001; Cooney, 2007; Love and Cebon, 2008). Additionally, several authors have argued that highly visible firms are more likely to adopt acquiescence responses, since legitimacy is more central to these firms (e.g., Clemens and Douglas, 2005; Julian et al., 2008).

Regarding the constituents, several authors have shown that the more dependent the firm is on the stakeholder, the more likely it is to comply with the stakeholders’ demand (Goodstein, 1994; Ingram and Simons, 1995; Montgomery and Oliver, 1996; McKay, 2001; Modell, 2002; Clemens and Douglas, 2005). New institutional literature has also provided convincing arguments for the fact that when firms experience conflicting demands from multiple stakeholders, they have more discretion in responding than when the demands are uniform (Greening and Gray, 1994).

Regarding the content, researchers have shown that the greater the consistency between institutional pressures and the firms’ goals, the more likely firms are to comply (Ingram and Simons, 1995; Clemens and Douglas, 2005; Chang, 2006). Trullen and Stevenson (2006) argue that this is particularly the case when it is financially beneficial to comply. Strannegård (2000:171) shows that, in addition to institutional pressures being congruent with internal goals, it is important that managers consider them feasible to implement, arguing that when managers “see potential solutions on how to handle the issues” they are more likely to comply with the institutional pressure. Researchers have also debated the role of clarity in the content of institutional pressures, with Phillips et al. (2004) arguing that coherent and structured content leads to greater compliance, but Dambrin et al. (2007) showing evidence for the opposite, with ambiguous ideas having the advantage of not conflicting with internal structures.

Regarding control, authors have shown that the more regulative the pressure is, the more likely firms are to comply (Ingram and Simons, 1995; Bansal and Roth, 2000; Modell, 2002; Clemens and Douglas, 2005; Chang, 2006). Linked to this is the finding that the greater the likelihood that the institutional pressures will be enforced, the more likely it is that firms will comply (Núñez-Nickel et al., 2006). Additionally, Nabatchi (2007) shows that the greater the diffusion of voluntary institutional pressures, the more likely it is that mimetic isomorphism will occur.

Regarding the context, researchers have shown that the more connected stakeholders are in firms’ institutional environments, the more likely it is that firms will comply with institutional pressures (Goodstein, 1994; Clemens and Douglas, 2005), and that uncertainly is related to corporate re-
responses in complex ways (Clemens et al., 2008). Goodrick and Salancik (1996) have also shown that corporate resistance is more likely when the appropriateness of the institutional pressure is uncertain.

Tempel et al. (2006) also show that corporate responses to institutional pressures are a continuous process (and not a one-off event as assumed in Oliver (1991)), and argue that previous corporate responses shape subsequent responses to similar institutional pressures. Finally, research highlighting the importance of intra-organizational factors for understanding corporate responses to institutional pressures indicate the parts of the organization that respond to the institutional pressures matters (e.g., Delmas and Toffel, 2008). Implicitly, and similar to that of Carpenter and Feroz (2001), this research critiques the assumption that it is the consistency with firms’ goals that influence firms’ responses, stressing the importance of specific organizational functions’ goals for firms’ responses. I will return to this below when discussing the entry points of institutional pressures into companies.

Compromise responses as translation

While the above framework of corporate responses stresses corporate discretion in responding to institutional pressures, it does not discuss what companies will do with this discretion. As Scott (2003:884) puts it, when ideas are pushed into organizations by institutional pressures, they are “de-coded by recipients who are necessarily embedded in different situations and possessed of different agendas” (Scott, 2003:884). Hence, “even if organizations refer to and draw from a certain institutionalized template to model and structure their action, they do so in an active and creative way” (Vaira, 2004:495). In other words, firms translate institutional pressures (Czarniawska and Sevón, 1996; Strannegård, 2000; Zilber, 2006; Bergström, 2007). As Westney (1987) shows, they do this both unintentionally (due to, for example, imperfect information) and deliberately (cf. Boxenbaum, 2006), and by both departing from and adding to the pressures (cf. Fiss and Zajac, 2006). Policies and practices resulting from translation processes thus resemble “hybrids, forms combining new and old elements” (Dacin et al., 2002:50).

Thus, when companies adopt a “compromise” response and translate institutional pressures, how can we expect the non-compliance part of the response to influence firms’ policies and practices? One potential way for firms to use their discretion when translating institutional pressures is to adjust the implications of the pressures to fit their interests, internal goals, and internal institutionalized structures and categories (Doorewaard and van
Bijsterveld, 2001; Boxenbaum, 2006; Bergström, 2007; Cooney, 2007; Love and Cebon, 2008). Some would refer to this as modifying the institutional pressures to fit existing management tools (Strannegård, 2000), historical experiences (Stensaker and Dahl Norgård, 2001; Nabatchi, 2007), organizational culture (cf. Cooney, 2007; Love and Cebon, 2008), strategic interests (Goodrick and Salancik, 1996; Chang, 2006), social status (Zilber, 2002), or previous ways of handling similar situations (Strannegård, 2000; Schwartz, 2009). In this way, the corporate representatives driving the change internally can gain internal legitimacy for the proposed change by linking it to materialized and sometimes taken-for-granted internal power relations (cf. Oliver, 1997; Kostova and Zaheer, 1999; Boxenbaum, 2006; Tsamenyi et al., 2006).

A second way of using discretion is to translate pressures to fit external conditions such as legal structures (Jensen et al., 2009), prevailing normative prescriptions (Greenwood et al., 2002; Dambrin et al., 2007), and support (or lack of support) from other organizations closely linked to the company (Westney, 1987). All in all, by combining literature regarding when companies will have discretion in responding to institutional pressures with literature regarding how companies will use this discretion, existing new institutional literature provides an overall framework for understanding how firms respond to institutional pressures.

What is generally missing in existing new institutional literature on how firms respond to institutional pressures is an analysis of how firms respond when simultaneously facing multiple predictive factors pointing to different responses (cf. Chang, 2006). Hence, while numerous studies have found support for Oliver’s (1991) predictive factors, there is a need to discuss the relative importance of different predictive factors. For example, how will firms act when facing legislation inconsistent with their organizational goals? How will firms act when a stakeholder that the firm is highly dependent on makes a demand that will decrease the firms’ efficiency and/or legitimacy? These and similar questions have so far been left unanswered in the new institutional literature.

Institutional pressures entry points into an MNC

By definition, MNCs are complex organizations consisting of “different activities, product divisions, and locations, which are integrated and interdependent to various extent” (Kostova and Zaheer, 1999:72; cf. Ghoshal and Westney, 1993). MNCs also comprise a specific type of organizational form, and they experience institutional pressures related to this specific form. Kostova et al. (2008) argue that these pressures are broad in the sense that
they encompass MNCs in general (i.e., not just MNCs in specific industries or communities), and narrow in the sense that they encompass a limited number of issues. The authors specifically highlight firm-society issues as one of the few issues where MNCs in general face similar institutional pressures.

With an MNC facing institutional pressures on multiple levels and consisting of complex organizational structures, it is important to understand where institutional pressures enter an MNC. In light of this, Delmas and Toffel’s (2008) study is interesting since it shows that different parts of companies interact with different stakeholders, have different goals, and have different levels of influence internally. Delmas and Toffel’s (2008) study particularly highlighted the difference between firms’ legal and marketing functions, showing how these differences influenced what type of environmental management initiatives companies adopt. Similar conclusions are also in line with the more general realization in new institutional literature that intra-organizational functions will have diverging values, priorities, taken-for-granted ideas and internal influence (Greening and Gray, 1994; Greenwood and Hinings, 1996; Townley, 2002; Zilber, 2002; Blackler and Regan, 2006; Hayes, 2008). Still, as Kim et al. (2007:288) argue, new institutional studies have “tended to assume that an organization is a tightly integrated entity”, providing limited insights into how the entry points of institutional pressures influence firms’ policies and practice (cf. Delmas and Toffel, 2008).

The above discussion shows that we need to open the corporate “black box” and discuss the points at which institutional pressures enter MNCs (Delmas and Toffel, 2008). As Delmas and Toffel (2008) argue, this is central to understanding how companies channel pressures from different stakeholders to different functional departments. Whether pressures enter MNCs’ headquarters functions or functions at other geographic locations matters. The function that responds to institutional pressures also matters, since different functions have different goals and influence. Still, the new institutional literature has yet to suggest how to intelligently divide MNCs in a way that captures these entry points and response differences. Delmas and Toffel’s (2008) study touches on this question by proposing a division be-

---

10 Many of these studies draw on both old and new institutional theory. For an overview of the relationship between these two strains of institutional theory see, for example, DiMaggio and Powell (1991), Greenwood and Hinings (1996) and Hirsch and Lounsbury (1997).
tween the marketing and legal functions, but the question deserves more empirical attention.

**Institutional distance**

Besides being complex organizations, by definition MNCs also operate in multiple institutional environments, “each with its own set of regulatory, cognitive and normative domains” (Kostova and Zaheer, 1999:70). Kostova et al. (2008:995) discuss such differences between countries as “institutional distance” that “is defined as the difference or similarity between the institutional profiles (i.e., regulatory, cognitive, normative) of two countries on a particular issue”. Hence, institutional distance should be discussed in relation to a particular issue (firm-society issues in this thesis) and in relation to specific countries (Sweden, South Africa and China in this thesis) (cf. Phillips et al., 2009).

Institutional distance is problematic for MNCs, since it is difficult to conform to conflicting institutional pressures (Kostova, 1999; Lu and Xu, 2006; Tempel et al., 2006). As Meyer and Scott (1983:202) put it, the legitimacy of an organization is “negatively affected by the number of different authorities sovereign over it and by the diversity or inconsistency of their accounts of how it is to function”. Consequently, the greater the distance between the institutional environments in which MNCs operate, the more difficult it is for MNCs to gain and maintain legitimacy (Kostova and Zaheer, 1999), and the more active MNCs need to be to find ways other than isomorphic conformance through which they can be perceived as legitimate (Kostova et al., 2008). Furthermore, the more dependent subsidiary managers are on being perceived as legitimate by local stakeholders, the more difficulties that institutional distance causes (Tempel et al., 2006). Similarly, the greater the distance, the more subsidiary managers can be expected to resist internal institutional pressures such as headquarters’ attempts to implement corporate policies (cf. Quintanilla et al., 2008).

The tension between institutional pressures in distant institutional environments is, for example, illustrated in Khan et al.’s (2007) study of child labor practices in Western MNCs’ supply chains. Khan et al. (2007) showed that when MNCs demonstrated, in response to highly visible NGO campaigns in their home institutional environments, that child labor was no longer occurring at its factories in Pakistan, these changes were not appreciated in the Pakistan host institutional environment. As Khan et al. (2007:1070) put it, what mattered “was that the sensibilities of western consumers had been soothed, as the reputation of the branded balls was restored … whether the stitchers approved of the means through which the
‘problem’ was solved or whether they welcomed the new practices was apparently of little interest to the companies and most of the NGOs … In institutionalist terms, the brands on the soccer balls, not the child stitchers, were the primary objects of reform and restitution”. Thus, with this thesis focusing on the formation of Nordix’s policy and practices in distant institutional environments, it is reasonable to expect Nordix managers to face conflicting institutional pressures from home and host institutional environments.

What is lacking in the existing new institutional literature on institutional distance is a discussion of different ways in which operating in distant institutional environments poses legitimacy challenges to MNCs. Clearly, conflicts between home and host pressures are one important challenge, but it is an empirical question as to whether or not this is the only legitimacy challenge stemming from operating in distant institutional environments.

**Strengths and shortcomings**

This chapter has shown that new institutional literature is helpful for developing a deeper understanding of this thesis’ research question. New institutional theory shows that policies and practices potentially develop as responses to different type of institutional pressures and, consequently, how institutional pressures and corporate discretion combine can be expected to differ between the formation of an MNC’s firm-society policies and practices.

New institutional literature combined with firm-society research also shows that the following stakeholders are likely to exert institutional pressures in relation to firm-society issues: governments, professional organizations, NGOs, the media, shareholders, ranking organizations and citizens. Combined, this literature also shows that institutional pressures related to firm-society issues likely are exerted via publicly visible campaigns that threaten companies’ legitimacy in the eyes of the public.

Additionally, new institutional literature improves our understanding of when MNCs can be expected to have discretion in responding to institutional pressures (i.e., when to expect MNCs to dictate the formation of their policies and practices), and when they can be expected to comply with institutional pressures (i.e., when to expect institutional pressures to dictate the formation of a MNC’s policies and practices). Furthermore, new institutional literature shows how MNCs can be expected to use their discretion in those instances where they dictate the formation of their policies and practices.

Recent new institutional literature also shows that it is important to complement an analysis of how institutional pressures and corporate discre-
tion combine on an overall level with an analysis of where institutional pressures enter into MNCs and which MNC functions respond to the pressures.

Moreover, new institutional theory provides definitions of institutional distance, shows why institutional distance causes legitimacy problems, and has recently started to discuss how MNCs handle institutional distance in relation to firm-society issues. Overall, previous research indicates that MNCs operating in distant institutional environments will face more conflicting institutional pressures and more difficulties in handling stakeholder demands in their home and host institutional environments.

There are also several shortcomings in the existing new institutional literature. First, there is limited theoretical and empirical research into how firms respond to institutional pressures when simultaneously facing predictive factors pointing to different responses. Hence, there is a need to discuss the relative importance of different predictive factors to fully understand corporate responses to institutional pressures.

Second, while previous new institutional literature shows the importance of where institutional pressures enter into MNCs, there is limited theoretical and empirical research into how to intelligently divide MNCs to capture these entry point and corporate response differences. This is central if we are to better understand how institutional pressures and corporate discretion combine.

Third, there is a need to move beyond the conceptual idea that MNCs’ legitimacy challenges stemming from operating in distant institutional environment only manifest themselves as conflicts between home and host institutional pressures, since there might be other important manifestations as well.

Finally, and in relation to the firm-society literature rather than the new institutional literature, there is a need to empirically study what stakeholders exert pressures in relation to firm-society issues. This is the case despite the ample existing research, since studies of MNCs in different home and host institutional environment might highlight stakeholders that have been neglected so far in the mainly US- and European-based empirical firm-society research.
3. Method

This chapter describes the empirical material that has been collected for this thesis. The conducted study can be seen as a single case study (Eisenhardt 1989; Yin 1994). The focus has been on a specific MNC (Nordix) and its firm-society policies and practices. This focus is well in line with Tempel et al.’s (2006) argument that qualitative studies are fruitful for improving our understanding of how institutional pressures and corporate discretion combine to form policies and practice (cf. McKay, 2001; Child and Tsai, 2005; Tsamenyi et al., 2006). However, treating the study as a case study inevitably leads to the question: a “case” of what? (Ragin and Becker 1992). Ragin and Becker (1992) argue that a case is about the phenomenon under study – in this case how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices. This makes it possible to argue that the study should be understood as four single case studies of different aspects of the formation of an MNC’s firm-society policies and practices or, if we like, a multiple case study. It is also possible to talk about the four studies as embedded cases, since they are studies of the same MNC. The above discussion shows the difficulties in labeling empirical studies. I will try not to dwell on these conceptual debates in this chapter; rather, I will try to explain what I have done and why I have done it.

Studying the formation of Nordix’s firm-society policy and practices presents several challenges. For instance, Nordix’s firm-society practices are being constantly formed and re-formed around the globe, involving numerous stakeholders and Nordix representatives. It is thus impossible to describe all of Nordix’s firm-society practices, making it necessary to focus on selected settings. In this thesis, I have studied how institutional pressures and corporate discretion combined to form Nordix’s policies and practices in four different settings: i) Nordix’s historical operations in South Africa; ii) the development of Nordix’s firm-society policy; iii) the extension of this policy to suppliers; and iv) a Nordix joint venture in China. These settings are relevant since they were central for Nordix’s firm-society policy and practices, involved a combination of institutional pressures and corporate
discretion, and related to distant institutional environments. The settings also allow for the analysis of differences between how institutional pressures and corporate discretion combine in relation to policies and practices, Nordix’s own factories and its supplier factories, and processes driven by staff and operative functions.

Figure 1 illustrates the time period during which Nordix’s firm-society policy and practices were formed in the four settings.

Figure 1: The four studied settings

A second challenge is that understanding how policies and practices are formed requires access to historical material that might be difficult to obtain and interpret. Therefore, to capture different viewpoints, I have collected empirical material through interviews, documents and, when possible, observations. Additionally, firm-society issues are sensitive and multi-faceted, sometimes making it difficult to collect material (especially in China). Therefore, interviews were conducted with a wide range of Nordix representatives and stakeholders, in order to capture different interpretations of the studied events as credibly as possible.

The rest of this chapter will explain why I chose to study Nordix, why I chose South Africa and China as distant institutional environments, and why I focused on the four selected settings. It will then be explained how I went about collecting empirical material for the four settings and discuss how I analyzed the collected material to produce this thesis.

Before getting to this, I will shortly comment on my relationship with Nordix. During the years in which I studied Nordix, I developed relationships with many Nordix representatives. This was especially evident during my study of the formation of Nordix’s practices vis-à-vis suppliers – in which I continuously participated in a specific working group’s meetings (see more details below). One year after I decided to study Nordix, Nordix also decided to finance my work. While I was aware that this could potentially influence the collection of material and analysis, as far as I can tell this
has not been an issue in my study. This is potentially due to Nordix representatives being exemplary in their view of this research, and not asking or demanding more than a relevant study of their firm-society practices, leaving research decisions to be handled by my supervisors and me. All in all, I perceive that the benefit in terms of good access to material as a result of my close relationship with Nordix has far outweighed any potentially negative aspects of lost “neutrality”.

**Why Nordix, China and South Africa?**

**Nordix: A world leader in firm-society issues**

The focus on Nordix was chosen for three main reasons. First, Nordic firms are generally regarded as front-runners in terms of firm-society issues (Morsing et al., 2007; Gjølberg, 2009), and Nordix in particular is ranked as one of the best global firms in terms of firm-society issues. Nordix is recognized as the leader in its industry by well-known rankings such as the Dow Jones Sustainability Index and FTSE4GOOD, as well as rankings conducted by NGOs. It is also a member of the UN Global Compact and the World Business Council for Sustainable Development.

Second, Nordix has an extensive global presence, with its products being represented in over 100 countries all over the world. Furthermore, this is not a recent development—from its start Nordix been a firm with a global presence. This is beneficial to the study since Nordix has operations in several distant institutional environments around the world.

Third, the global presence of Nordix’s manufacturing units makes it possible to study Nordix’s firm-society policies and practices in relation to its own factories as well as its suppliers’ factories. This is important because most firm-society front-runners such as H&M and IKEA only have supplier factories in distant institutional environments, making it impossible to study how institutional pressures and corporate discretion combine differently between the MNCs’ own factories and their suppliers’ factories in these environments. As this thesis will show, there are important differences between these types of factories, making it relevant to include both the MNCs’ own factories and supplier factories when possible.

Even considering these three criteria, there are obviously numerous MNCs to choose from. The reason for choosing Nordix from among all of these MNCs was that Nordix was willing to provide almost complete access to information (including highly sensitive documentation). Such complete access to information is rare and highly useful when studying a company’s
policies and practices. Given this, Nordix seemed to be a good choice for this study.

South Africa and China: Relevant distant institutional environments

Chapter 1 described why it is useful to study the formation of an MNC’s firm-society policies and practices in relation to distant institutional environments. The question then becomes what distant institutional environments to study. The focus here is on markets with two characteristics: the markets should be clearly distant from Nordix’s Swedish home institutional environment, and should also be of relevance for Nordix. For example, it is not enough that North Korea and Zimbabwe are distant environments, because these markets are of limited relevance to Nordix.

The first distant environment chosen was South Africa during the apartheid period (1948–1994). During this period, South Africa was unquestionably a distant environment, demonstrated, for example, by the controversy surrounding workers’ rights issues for firms operating there (cf. Thörn, 2006). It was also an interesting setting, since the public debate was related to whether MNCs should operate in South Africa at all. This represented the most extreme case of stakeholder criticism of an MNC’s presence in distant institutional environments. South Africa was also a highly important market for Nordix, in terms of both sales and symbolism. For example, South Africa was the only market in relation to which Nordix’s annual reports discussed firm-society issues, until the mid-1990s. Nordix also had a large factory in South Africa, and South Africa was one of Nordix’s largest markets during the apartheid period.

The second distant environment chosen was China. There are certainly markets that are equally distant as China in terms of firm-society issues, such as Burma. However, none of these other markets are of any significance to Nordix. With the 2008 Olympics debate in mind, it is obvious that China is different from Sweden. For example, China has not ratified all International Labour Organization (ILO) conventions, does not have a democratically elected government, and does not respect human rights as defined by the UN. Interestingly, the debate on MNCs in China is related to how MNCs operate in China rather than whether they should operate in China at all (as was the case with South Africa). As such, it represents a different type of setting than South Africa. In terms of importance to Nordix, there is no doubt that China is important both in terms of sales, production and suppliers.

In sum, focus has been placed on South Africa and China because they represent distant institutional environments and are important for Nordix.
Given these two criteria, the choice of controversial markets was fairly straightforward, since there were few alternatives that were equally distant and important.

**Selection of the four settings**

After having chosen Nordix, South Africa and China, the remaining questions had to do with what parts of Nordix’s operations to study. The focus here has been on describing in detail a few critical settings central for the formation of Nordix’s firm-society policy and practices. These critical settings featured formations of Nordix’s policy and practices that were influenced by both institutional pressures and corporate discretion. This presents a partial rather than holistic picture of Nordix’s policy and practices, focusing on instances where Nordix managers were influenced and/or challenged by stakeholders. This is done because, as several new institutional theorists have argued, competing ideas and conflicting positions often come to the surface in times of change – making them particularly interesting to study (e.g., Townley, 2002; Zilber, 2002; Hayes, 2008; Sonpar et al., 2009). These instances provide promising opportunities for studying how institutional pressures and corporate discretion combined to form Nordix’s policy and practices.

Two main ideas have guided the relevance of the settings. Inspired by insights from new institutional theory regarding the decoupling of policy and practice (e.g., Meyer and Rowan, 1977), it is relevant to include both firm-society policies and practices. This is covered by the policy-setting (Chapter 5) and the practice-related South Africa, supplier and China settings (Chapters 4, 6 and 7). Additionally, inspired by Delmas and Toffel’s (2008) article showing the importance of understanding what corporate functions drive firm-society issues (see Chapter 2 for more details), it is relevant to discuss firm-society practices driven by different functions. This is covered in the policy and supplier settings (Chapter 6) where Nordix headquarters staff functions were driving policies and practices, as compared to the South Africa and China settings (Chapters 4 and 7), where operative functions were driving practices. An additional advantage of including the supplier setting was that it allowed for a discussion of differences in Nordix’s firm-society policy and practices in its own factories as well as those of its suppliers.

In both the South African and China settings, focus has been on large production factories. While there were several factories to choose between in China, the joint venture around Beijing was especially interesting since, besides being a large production unit, it involved more intricate firm-stake-
holder interactions than the other factories. In some respects, the joint venture was an extreme case in China.

As shown in Figure 1 in the introduction of this chapter, the four settings, despite being discrete events, are to some extent sequentially linked. The formation of Nordix’s firm-society practices in the South African setting serves as the historical background, occurring before Nordix had adopted a firm-society policy. It is followed by the formation of Nordix’s policy, which was initiated soon after the fall of the South African apartheid regime. The policy was, in turn, followed by its extension to suppliers. Therefore, these three settings combined cover a time period that stretches from the 1950s until 2009. The formation of Nordix’s firm-society practices in the China setting also begins after the fall of the South African regime, but runs in parallel with the policy and supplier setting. Still, there are some links between the policy, supplier and China settings, such as Nordix’s firm-society policy being implemented in the Chinese joint venture factory and the joint venture factory’s supplier selection partly influencing the formation of Nordix’s firm-society practices vis-à-vis suppliers.

**Collection of material**

I started studying Nordix’s firm-society policy and practices in 2005 and completed the study in spring 2009. During this period, most the material was collected in 2007 and 2008, but I conducted interviews as early as 2005 and continued following one project regarding suppliers during spring 2009. The focus in the collection of material for all four settings has been on describing the processes through which Nordix’s firm-society policy and practices were formed, looking at how both institutional pressures and Nordix’s discretion influenced the processes.

Material has been gathered from interviews, written documentation and observations. In total, I conducted around 130 interviews with actors that have links to Nordix’s firm-society policy and practices. This includes Nordix top and middle management, Nordix’s firm-society function, Nordix workers as well as local and international stakeholders. Of the interviews, approximately 70 were conducted with Nordix representatives and 60 were conducted with different stakeholders. Most interviews were semi-structured and lasted between thirty minutes and six hours, and about an hour each on average. Many interviews were useful for multiple settings, and about 20 interviews were not useful for any setting, so the division of interviews below is a proxy rather than an exact number.

Nordix has numerous stakeholders and in this study the focus has been on interviewing mainly those that directly interacted with Nordix. These
stakeholders were often identified from interviews with Nordix representatives (which I ended by asking the interviewees about which Nordix and stakeholder representatives were involved in an overall process or a specific decision), or from the ample documentation that was made available. Since the stakeholders to interview was identified mainly from interviews and documents stemming from Nordix itself, there may have been stakeholders that have influenced Nordix’s policy and practices that were not interviewed. I believe, however, that most key stakeholders were captured in my material, since it is unlikely that central stakeholders would go unmentioned in the extensive collected empirical material.

In addition to the material collection discussed below, from fall 2006 to fall 2009 I also spent time at Nordix participating in meetings and social gatherings. I have, for example, participated in most departmental meetings of the firm-society staff function, and also shared an office at times with members of this function. This has been useful for generating a more in-depth understanding of Nordix’s operations, and has occasionally led to insights directly relevant for different settings. In those instances, I have normally followed these leads by conducting formal interviews with the relevant individuals.

Nordix in South Africa

In terms of how institutional pressures and corporate discretion combined to form Nordix’s firm-society practices in the South Africa setting, I had access to extensive written documentation. For example, several books have been published regarding the Swedish anti-apartheid movement. This includes Tor Sellström’s (1999a, 1999b, 2002) extensive volumes, Håkan Thörn’s (2006) recent book, and six books written by representatives from the movement itself (Björk, 2006; Norén, 2006; Forsbeck, 2007; Jonsson, 2007; Palmberg, 2007; Silén, 2007). Numerous interviews with representatives from the Swedish anti-apartheid movement are also posted online as a result of a previous research project on the Swedish anti-apartheid movement. Additionally, the key anti-apartheid organizations have their own archives and, similarly, the relevant national union has its own archives. The national union’s frequently published magazine during the apartheid period has also been very helpful in understanding the discussions and debates during the anti-apartheid struggle. In relation to Nordix, both Nordix and its enterprise-level union have archives containing highly useful documents.¹¹

¹¹ Some of the documents from Nordix and its enterprise level union were obtained through collaborations with the Department of Economic History at the School of Business, Economics and Law at Göteborg University. Associate Professor Birgit
This extensive written documentation was used to construct a rough case description detailing key decisions, debates and conflicts involving Nordix, the union movement and the Swedish anti-apartheid movement throughout the anti-apartheid struggle. Based on this description, interview guides were developed, focusing on obtaining more specific information regarding key decisions, debates and conflicts. The collected documentation was also used to identify an initial set of key actors to interview in the anti-apartheid movement, the union movement and Nordix, and asked these interviewees to name additional relevant persons to interview (cf. Warren, 2002). Nordix’s South Africa experience stretches over 50 years and involves Swedish, South African and international actors. Interviews, therefore, were limited to representatives in central positions in Nordix, unions and the anti-apartheid movement. In total, about 30 interviews were conducted.

Nordix’s firm-society policy
In comparison to the South Africa setting, the study of the formation of Nordix’s firm-society policy was easier to conduct. Here, all but two of the actors consistently involved in the process of drafting Nordix’s policy were interviewed (several of them on multiple occasions). The interviewees included Nordix representatives as well as enterprise, national, and global union representatives. The interviews focused on identifying key decisions, debates and conflicts throughout the policy creation process, and the findings from early interviews were used to improve the specificity of subsequent interviews. In total, about 20 interviews were conducted. In this setting, I had access to some documentation in the form of different policy drafts. These drafts were mainly used to identify changes to the policy throughout the process and to allow for detailed discussions in the interviews about how and why certain changes were made.

Nordix’s suppliers in China
Regarding the extension of the code of conduct to suppliers, interviews were mainly used to provide background information and discuss details. Hence, this study is different from the other studies in that it does not rely as heavily on interviews. When the material collection was initiated in 2007, I had already interviewed all but one of the actors involved. In total about

Karlsson and Professor Martin Fritz were very helpful in this, sharing the numerous documents they had collected. Associate Professor Birgit Karlsson also shared her working document on Nordix’s operations in South Africa, which was helpful when systematizing the material.
10 interviews were conducted for this study. Most of the material for this study has instead been obtained through observations, which were useful in that they allowed me to see the processes unfolding in action – before they became black-boxed or interpreted by interviewees. Obviously, this is not to say that my observations are neutral, since it is only possible to record part of all experiences during observations (e.g., Silverman, 2005).

All observations were related to a Nordix working group aimed at extending Nordix’s code of conduct to small suppliers (see Chapter 6 for more detail). I participated in one of the first meetings of this working group, which involved two Nordix representatives (one from the firm-society function and one from the supply chain function) and myself. Since this initial meeting, I participated in all but a handful of the working group’s meetings. Over time, the members of the working group changed, and by 2009 I was the only person to have participated in the working group meetings from the start in 2007. Evidently, the same key Nordix managers have been involved throughout the process, but more as a reference group than actually being involved in the work.

This fact, combined with the fact that the working group consisted of only a few individuals (approximately four or five at a time) posed some challenges in the collection of material. Although I tried to adopt the classic “fly on the wall” approach to observations, this has been difficult at times. When becoming involved in discussions in the working group, I have tried to raise questions rather than provide answers. At times, however, I have felt obliged to offer advice and suggestions. “Luckily”, many of my suggestions turned out to not be applicable to Nordix. For example, I suggested looking into multi-stakeholder and external auditing initiatives for suppliers, but upon closer investigation they were not applicable to Nordix’s industry. Although I evidently influenced the studied process in some ways, I believe that I have influenced the material presented in Chapter 6 only to a limited extent.

In total, I participated in about 40 meetings and discussions (lasting between one and eight hours). Many of these meetings and discussions were conducted over the phone, since the working group was geographically dispersed. Many meetings and discussions were taped and transcribed. During the non-recorded meetings I took extensive notes, in which I tried to document in a detailed manner as possible what the involved actors said and did, and without adding my interpretations. These field notes were then typed into a Microsoft Word document on either the same day or the next day. Over time, I became more selective in what I documented, allowing my preliminary analysis of the material to influence the documentation process.
I increasingly prioritized detailed documentation of selected aspects, sacrificing breadth in the documentation.

In terms of documents, complete access has been granted to email communication, internal documentation, presentations, Microsoft Excel calculations, etc. This has been useful for analyzing how discussions and decisions in meetings eventually became framed and how they materialized.

Nordix’s joint venture in China

In terms of how institutional pressures and corporate discretion combined to form Nordix’s firm-society practices in the Chinese joint venture, I interviewed the key individuals involved in establishing the joint venture (several of them on multiple occasions). All but one of the joint venture’s general managers were also interviewed, as well as several foreign managers working, or having worked, in the joint venture. Workers, local managers, union representatives and Communist Party Committee representatives were also interviewed at the factory in China. Additionally, representatives from the Chinese joint venture partner and the Chinese government were interviewed. Local villagers living in the area around the factory were also interviewed to capture their views on the joint venture. In sum, although this study involved interviews with over 60 individuals, it only covers a fraction of all involved actors. However, the interviewed individuals were both knowledgeable of the joint venture factory and represented the main actors involved in the processes of forming Nordix’s firm-society practices. Complemented by the extensive written documentation available for this study, these interviews provide a good picture of Nordix’s practices at this Chinese factory.

In this setting, I had access to extensive amounts of written documentation – everything from initial feasibility studies to fax communications, contracts and board meeting protocols. This documentation was made available by the Nordix manager responsible for the joint venture, who had a tendency to file almost everything. I photocopied and went through several thousand pages of documentation related to the joint venture. This written documentation was used in much the same way as in the South Africa setting – to construct a chronological case description and identify key decisions, debates and conflicts. This description was then used to develop initial interview guides. In this way, I was well informed when conducting interviews, allowing me to ask specific questions and follow-up questions regarding interesting aspects. This was particularly useful when conducting interviews in China, since this posed some methodological challenges (see below).
**METHOD**

**Interpreters in China**

In the South Africa, policy and supplier settings, all interviews were conducted in Swedish or English. Nearly all interviews were also taped and transcribed. Many interviews in the China setting were also conducted in Swedish and English, although some had to be conducted in Mandarin. This mainly concerned interviews with joint venture workers and villagers, but also some of the local managers and union representatives. In these interviews, two different interpreters that were fluent in both English and Mandarin were used. The first interpreter was a Nordix employee working in the firm-society function that was well informed of my research and the type of issues that I wanted to focus on. She had previously worked with managers from the joint venture factory and these contacts proved valuable in securing initial interviews. The other interpreter was normally working for the World Bank in Beijing and was used when conducting interviews with villagers and workers outside the factory. In these interviews, it was useful to have a non-Nordix employee as an interpreter when asking workers and villagers critical questions related to Nordix’s operations.

While all interviews were normally taped and transcribed, a conscious decision was made not to tape some of the interviews with workers, villagers and union representatives in the China setting. The reason for this was that it was very difficult to receive extensive responses, even when conducting interviews informally in Mandarin. After some initial attempts I realized that placing a tape recorder in front of the interviewees rendered the material from the interviews relatively useless. To overcome these difficulties, I also occasionally tried to have my interpreters informally talk to villagers and workers without me being present. While this sometimes yielded information that was useful, even the interpreters occasionally had difficulties receiving extensive answers. For example, on two occasions the interpreters were asked why they were posing these questions and had to remind the interviewees that they were only having a friendly conversation and nothing else. Given this, it would have been counterproductive to record all interviews with workers and villagers.

These difficulties in interviewing Chinese workers, villagers and union representatives illustrate that an “interview is more than a simple information-gathering operation” (Hostein and Gubrium, 2003:4). It is a well-known problem that interviewers that are perceived as outsiders and ask about sensitive topics have difficulties receiving elaborate answers and moving beyond politically correct and vague answers (e.g., Adler and Adler, 2003; Dunbar et al., 2003). In the China setting in particular, the written documentation that I had access to was therefore essential for the quality of
the interviews. Although I initially posed general questions in the interviews, most of my questions and follow-up questions were related to specific events that were described in the written documentation. In this way, the interviews moved beyond polite answers and came to complement and provide in-depth information on specific events. When having difficulties receiving elaborate answers, attempts were made to conduct interviews in informal settings and to be more observant of subtle cues that provided indications of answers to the questions posed (Adler and Adler, 2003; Dunbar et al., 2003). Still, there were most likely details of certain events – particularly in the China setting – that were not mirrored in the collected material. Overall, however, I am confident that the collected material allowed for rich descriptions of all of the studied settings.

In the China setting, the interviews in Mandarin had to be translated into English, which turned out to be more difficult than I expected. Initially, I used a professional company to transcribe the interviews in Mandarin and then translate them into English. However, the results were unsatisfactory, with large parts of the transcripts being unintelligible. Apparently, it was difficult to transcribe and then translate the interviews without an understanding of the topic at hand. As such, I used the Nordix interpreter to help me transcribe the interviews. By examining the Mandarin transcripts while listening to the interviews, she would translate the interviews into English while I wrote down her translations. This was the most accurate way for transcribing the interviews in Mandarin.

I expected inconsistencies between the information obtained from the interviews, the written documentation and the observations, but this was rarely the case in the four settings. When inconsistencies were occasionally identified between, for example, different interviews or between written and verbal sources, they were discussed with the relevant actors and, if still present after this, included in the case descriptions to transparently present divergences of opinions.

**Analysis of material**

The analysis of material can be described as a deconstruction of the empirical material that I have created. The purpose of this deconstruction is to allow for a reconstruction of the material into descriptions (Chapters 4 to 7) and analytical arguments (Chapters 8 and 9). The large amount of material collected for this study made it necessary to find a systematic way of doing this deconstruction and reconstruction. To analyze the interviews (both those transcribed and those for which I only had notes), the computer
program Atlas.ti was used.\textsuperscript{12} Atlas.ti was also used to analyze the written documentation available in electronic format (Microsoft Word documents, email communications, etc.) and notes from the observations. This proved to be a useful way of organizing and coding the collected material. The non-electronic written documentation posed more of a challenge, since it was not possible to use Atlas.ti for analyzing these documents. Here, the documents were used to create chronological representations, outlining key decisions, debates and conflicts. When writing the descriptions of the formation of Nordix’s firm-society policy and practices in the four settings (Chapters 4 to 7), I then combined these chronological descriptions with the material analyzed using Atlas.ti.

In terms of analyzing the material in Atlas.ti, I initially open-coded parts of the material for each of the four settings. The codes were either based on thematic ideas or chronological logic, with some thematic ideas stemming directly from the empirical material and some from existing theories. This was done to generate ideas and potential concepts for the analysis. After the open coding, the codes were “cleaned” by combining certain codes and deleting other codes. Based on this updated code list, I focus-coded the rest of the material. During the focused coding, new codes were occasionally developed to capture new insights from the material. In these instances, the previously coded material was re-coded using the newly developed codes. Using the coded material, I then (particularly in the supplier setting) wrote definitional memos using the constant comparison method for some of the central concepts I had identified (cf. Charmaz, 2006). In the memoing process, previous research was brought in to help understand and contrast the findings.

An important insight often stemming from the coding process was the need to collect additional specific information. To collect specific information, interviews were mainly used probing into specific concepts, events and relations. The collected material was analyzed throughout the material collection process, allowing the analysis of the material to inform subsequent material collection (cf. Alvesson and Sköldberg, 1994; Dubois and Gadde, 2002). The collection of new material was stopped when additional interviews provided little new information.

\textsuperscript{12} Atlas.ti is developed for the organization and analysis of qualitative material. The software allows researchers to code (and re-code) material, collapse multiple codes into one code, extract sections coded with one or more codes etc. Roughly speaking, the software serves as an advanced database. Hence, while Atlas.ti is useful for organizing material and identifying patterns, the researcher still has to conduct the relevant analyses. For more information about the software see www.atlasti.com.
The systematic approach of coding, memoing, saturating concepts, and theoretical sampling to obtain specific information was increasingly followed throughout my study. In analyzing the formation of Nordix’s policy and practices in the South Africa and policy settings, I was less stringent in the analysis of the collected material than in the supplier and China settings. Here, I worked more intuitively with the codes developed in Atlas.ti, while in the supplier and China settings (especially the supplier setting) I applied the systematic approach described above.

Finally, once descriptions of the formation of Nordix’s firm-society policy and practices in the four settings (drafts of Chapters 4 to 7) were developed, they were sent to some of the interviewed actors for their reactions. Some interviewees suggested minor changes to the text to clarify nuances of certain aspects. These suggestions have been incorporated into the final description of the four different settings.

**Presentation of material**

The last step after material collection and analysis was to present the material in a credible and transparent way. In presenting the empirical material, three choices were made that are worth commenting on. To start with, the studied MNC has been anonymized. This was a joint decision taken by Nordix representatives, my supervisors and myself when I initiated the Nordix study and in reference to my access to potentially sensitive information. Moreover, a choice was made to “clean” the quotes from interviews and documents. As anyone who has transcribed interviews knows, interviewees tend to speak in a grammatically incorrect form, forget words, jump between themes, etc. This obviously makes some quotes hard to read and the interviewees often sound unintelligent. Therefore, I have corrected the quotes to ensure they are grammatically correct. I have, however, tried to retain the interviewees’ own wordings wherever possible.

Finally, in all settings, I had access to extensive amounts of internal documentation. The initial versions of the descriptive chapters (Chapters 4 to 7) included references to these documents. For example, the description of the South Africa setting had about 70 additional footnotes to different documents supporting different claims in the text, and the description of the China setting had about 40 footnotes. However, with the MNC being anonymized and the titles of the documents being highly informative, it was not possible to retain the footnotes. I attempted to reference “internal document” initially, but this did not improve transparency and reduced the readability of the text. Much empirical material is therefore presented without any reference to the written sources supporting the claims.
4. Nordix in South Africa

Their idea was that companies magically appear. You bring out your hat and simply pull out a couple of companies. It was so black and white for them. [long pause] No, I do not want to talk more about South Africa today. I get upset just thinking about it! I am meeting with my son today and I do not want to be angry when I see him. Can we continue tomorrow instead?

As this quote from an interview with a Swedish union representative illustrates, more than 15 years after the fall of the South African apartheid regime, the anti-apartheid struggle still stirs up emotions. The heated debates and importance of the anti-apartheid struggle is also highlighted in the fact that South Africa is the only historical setting where firm-society issues are discussed in Nordix’s annual reports.

Nordix’s history in South Africa dates back to well before the anti-apartheid debate, and Nordix operative managers’ attempts to protect Nordix’s South African market position were integral to both why and how the company was present in South Africa during the apartheid period. From the late 1970s to the mid-1990s, this presence and Nordix’s close links to the South African government was increasingly criticized by the Swedish anti-apartheid movement, which claimed that complete corporate withdrawal from South Africa was the only responsible corporate practice. With the anti-apartheid movement dominating the Swedish public debate, Nordix – and in particular the public relations manager responsible for Nordix’s firm-society practices in South Africa – was under intense pressure. Nordix’s ability to survive this pressure was closely related to the Swedish Technology Union’s decision to support Nordix managers’ decision to remain in South Africa. While this support threatened the Swedish Technology Union’s legitimacy, it also gave them leverage in negotiations with, mainly, Nordix’s public relations manager.
This chapter will focus on the intense conflicts between three actors. The first was those associated with the Swedish anti-apartheid movement, which from the 1970s onwards was dominated by the Africa Groups in Sweden (AGIS) organization and the Isolate South Africa Committee (ISAC) (Thörn, 2006). Second, there was the Swedish union movement and the Swedish Technology Union in particular, which represented workers at most of the Swedish companies present in South Africa. The third group of actors was Nordix and its firm-society practices that, to a large extent, were developed by its headquarters staff functions as responses to the growing Swedish and international criticisms of MNCs operating in South Africa.

This order of introducing the main actors in the South Africa setting provides an extensive background of the Swedish anti-apartheid movement and the Swedish Technology Union. This is done because it is difficult to understand how institutional pressures and corporate discretion combined to form Nordix’s firm-society practices without an elaborate understanding of these key stakeholders. The formation of Nordix’s practices is then described and the chapter concludes with a discussion of what aspects influenced how institutional pressures and corporate discretion combined to form Nordix’s firm-society practices in the South Africa setting.

The Swedish anti-apartheid movement

Sweden had one of the world’s most influential anti-apartheid movements; it took off in the 1970s and was organized and led mainly by a small number of activists linked to the Africa Groups in Sweden (AGIS) organization and later the Isolate South Africa Committee (ISAC) (Thörn, 2006). However, the fascinating story of the Swedish anti-apartheid movement starts well before then.

Initiating the anti-apartheid movement with consumer boycotts (1950s–1960s)

In 1948, the political landscape in South Africa changed with the Nationalist Party coming into power and furthering laws on racial segregation. In Sweden, nearly all newspapers unanimously criticized this development; the

---

13 The Swedish government could also be included as an important actor, but in this chapter I will not in detail describe the Swedish government’s position. See, for example, Silén (2007) and Sellström (1999a, 1999b) for elaborate discussions of the Swedish government during the anti-apartheid struggle.

14 The information in this chapter stem from the collected and available material discussed in Chapter 3. For references to specific factual claims please contact the author.
Swedish reaction was so strong that South Africa even sent a press attaché to Sweden specifically to inform Sweden of the apartheid system.

In 1960, following the shootings in Sharpeville and Langa, Swedish and international criticisms grew even stronger. The same year, ANC\textsuperscript{15} and PAC\textsuperscript{16} representatives also visited Scandinavia, arguing for a Swedish consumer boycott of South African products. The newly founded Swedish South Africa Committee responded to this request by launching a consumer boycott campaign and Swedish retailers such as KF, ICA, Åhlens and the Swedish Alcohol Retail Monopoly soon also decided to stop selling South African products. The importation of South African products decreased drastically during what was considered as one of the most successful consumer boycotts at the time (a 64% decrease in imports during 1963, and an additional 12% decrease in 1964). Despite this success, however, many Swedish firms did not support the boycott and continued to invest in South Africa. As a result, while imports decreased, exports to South Africa increased by over 15%.

Even though, via the consumer boycott, the Swedish South Africa Committee had managed to place the anti-apartheid struggle at the centre of the national political debate in Sweden in the mid-1960s, over time organizational support for the boycotts decreased. This was partly related to the fact that many of the activists shifted their attention to solidarity projects related to Vietnam in the mid-1960s, and partly to the Africa-focused organizations turning their attention to the Portuguese colonies rather than South Africa.

\textbf{Reigniting the movement with the creation of AGIS (1969–1979)}

In 1970, several former members of the Swedish South Africa Committee re-established contacts and formed local Swedish Africa Groups and, in 1975, the national Africa Groups in Sweden (AGIS). From this stage onwards, AGIS was the key organization in the Swedish anti-apartheid movement. AGIS worked for the liberation of southern Africa and founded their analysis on an anti-imperialistic perspective. For example, the AGIS declaration adopted in 1976 stated that AGIS are “working groups that conduct anti-imperialistic solidarity work” with the purpose of exposing imperialism in Africa (especially Swedish imperialism), supporting anti-imperialistic liberation movements in Africa, and fighting apartheid.

\textsuperscript{15} The African National Congress (ANC) was a South African liberation movement that became the ruling political party in South Africa in the 1994 election.

\textsuperscript{16} The Pan Africanist Congress of Azania (PAC) was a South African liberation movement that is now a political party in South Africa.
AGIS’ underlying message was that there were only two positions that individuals or organizations could take in relation to apartheid: you were either part of the solution or part of the problem. In this way, AGIS, and later ISAC, rejected the separation of politics and other social fields. For example, AGIS members perceived that an apolitical corporate position in relation to South Africa was impossible, and that companies were exploiters in South Africa. The perception was that Swedish companies’ large investments in South Africa had created common interests between the companies and the South African government, as well as between Swedish and South African workers.

In 1972, AGIS attempted to “expose” Swedish companies in South Africa by listing and criticizing them. As one of the AGIS members retrospectively reflected,

> With our tradition to fight against the Swedish imperialism we were extra careful of Swedish corporations and those that in the public debate defended the firms’ interest of allowing things to be business as usual in South Africa (their main country for investments in Africa).

Their critique of the corporate sector remains in the late 2000s with, for example, the campaign secretary of ISAC (who also had close links to AGIS) writing:

> The Swedish companies in South Africa supported until the end the regime with its production, technological transfer and trade. An elaborate legislation never came. In retrospect voices in the corporate sector have claimed that it was advantageous for the new South Africa that they remained in the country. The dead and tortured during the 1980s would probably not agree with this. […] If the companies at least had used their presence to comprise a platform for progressive work, the damage would have been somewhat less. However, such signs were not to be seen.

Some AGIS members have, however, re-evaluated the importance of the corporate sector in development, claiming to have been too ideologically

---

driven and too categorical during the anti-apartheid struggle. This conclusion echoes the criticism that representatives of the Swedish Technology Union directed towards AGIS and ISAC. As the union’s international secretary explains,

The big conflict was the withdrawal of companies. It is easy to remove companies, but to get companies there is difficult and you need companies straight from the first day [after the fall of apartheid]. It is like cutting of the branch that you are sitting on. [...] For them [AGIS and ISAC] it was simple. Companies could easily be created and you could just order them to pop up. This was clearly not our view. They were people that had never negotiated with companies or anything like that. Rather they were activists that wanted to influence the political system and they had no experience of industries, competition etc.

Even if both the South African and Swedish corporate sector was in focus in the Swedish anti-apartheid campaign, the Swedish corporate sector’s role in South Africa was mainly approached via the indirect channels of pressuring the Swedish government. The reason for this was that leading AGIS members believed that it was useless to influence firms directly, since the corporations’ sole focus on profit would keep them in South Africa regardless of moral arguments. As one AGIS member recalled,

We believed that there was little use in trying to directly demand the Swedish firms to withdraw. This shaped our influence strategies in relation to the Swedish firms. [...] We worked against the firms, but we did this by making people aware of firms’ negative role in South Africa. Our main goal was to make the Swedish legislation more effective, not to persuade the firms directly to withdraw.

ISAC as the key Swedish umbrella organization (1979–1994)

A key event in the Swedish anti-apartheid movement was when AGIS, at the end of the 1970s, formed the Isolate South Africa Committee (ISAC) as a response to an ANC call to broaden Swedish support for the struggle against apartheid. ISAC’s purpose was to organize campaigns with the following messages: do not purchase South African products, Swedish investments in South Africa should be withdrawn, no trade with South Africa, freedom for political prisoners, no sport or cultural exchange with

---

20 Interview Dick Urban Vestbro, available at www.liberationafrica.se/intervstories/interviews
South Africa, support ANC, and South Africa should withdraw from Namibia. ISAC quickly grew into a highly influential umbrella organization with over 60 member organizations (many that themselves were large and influential), and from its founding ISAC became the voice of the Swedish anti-apartheid movement and dominated the Swedish public debate in relation to South Africa.

ISAC’s organization and focus both on a national and local level was highly influenced by AGIS. This was, for example, seen in the fact that ISAC’s office between 1979 and 1985 was located in AGIS’ office, and that AGIS members had written the ISAC platform. This meant that although AGIS’ clearly anti-imperialistic ideology was toned down in the founding of ISAC to broaden the number of organizations that supported ISAC, the platform and focus of ISAC was still based on AGIS’ ideological position.

It is worth noting that the point in ISAC’s purpose related to Swedish investments – that companies should withdraw from South Africa – stemmed from AGIS’ ideological position and its unconditional support to the ANC (with the ANC calling for corporate withdrawal from South Africa). An ISAC poster (developed by AGIS members) illustrates well the AGIS and ISAC position in terms of disinvestment:

Swedish company A is one of the companies that invest in South Africa due to the extensive profits that are available as a consequence of horrific working conditions for black workers. Foreign investments support the apartheid system. They contribute to its foundation by technological transfers and services to the white upper class. Even the smallest investment implies that we support and use apartheid for our own purposes. The liberation movement ANC and others in opposition demands that foreign firms leave South Africa. ANC says that: “It is not our work but our lives that are at stake”. Terminate Swedish investments in South Africa!

In 1979, the arguments for sanction and disinvestment gained political support, with the Swedish government passing a law banning Swedish investments in South Africa. Exemptions from the ban could be granted to Swedish subsidiaries that were established before the ban if the investment did not improve productivity or extend economic activity in South Africa. Sweden was, in 1979, one of the first countries to introduce sanctions towards South Africa and the law was strengthened further in 1985.

---

21 SFS 1979:487 “Lag mot förbud mot investeringar i Sydafrika och Namibia”.
Spurred by the success of the new law, in 1980 ISAC decided to call for yet another consumer boycott of South African products. The idea was to influence public opinion to force the Swedish government to impose even stricter legal sanctions and to influence Swedish companies to disinvest from South Africa. Several of the Swedish companies that were targeted by ISAC (mainly indirectly via media “scandals”) eventually also disinvested from South Africa. For example, the Swedish airline SAS stopped flights to South Africa and the stationary company Esselte withdrew.

The success of ISAC led to the Swedish public debate being almost totally dominated by the position that South Africa should be isolated. As the union chairman at the Nordix enterprise level union explains,

There was no point in entering this game [of public debates]. We had already lost. ISAC had support all over Sweden; there was no doubt about that. Most people thought that Swedish companies should not be in South Africa and that was an understandable position. For us, it was better to just keep doing our job.

Internationally, support for withdrawal was not as strong as it was in Sweden. An alternative to the withdrawal strategy was developed in the US, with the launch of the so-called Sullivan principles (Sethi and Williams, 2000; Seidman, 2003). Although the Sullivan principles were the most influential and well-known principles, similar principles were also adopted by the British Labour government in 1974 and by the EEC in 1977. The Sullivan principles were signed by numerous large American firms, with the intention of collectively acting as a force for dismantling the apartheid system from within South Africa. Despite what some researchers identify as positive effects on black South Africans’ rights (Sethi and Williams, 2000), corporate support for the Sullivan principles declined continuously. The final blow was delivered when Rev. Leon Sullivan himself abandoned the principles in favor of disinvestment.

The key argument in Sweden against the Sullivan code and more generally the idea of companies contributing to change from within South Africa was that the ANC (established by AGIS and ISAC as the main spokesperson for black South Africans) favored corporate withdrawal. Hence, to argue against withdrawal was to simultaneously question and criticize the ANC, which was not easily done in Sweden at this time. As an AGIS representative put it,

It is strange when leading representatives from the union movement argue against limitations of Swedish companies’ operations in South
Africa at the same time as the black resistance movement ANC (acknowledged by the Social Democratic Party and the UN) demands that all foreign firms leave South Africa.

The Swedish union movement

During the anti-apartheid campaign (especially from the mid-1970s onwards), there was heated conflict between the anti-apartheid movement (led by AGIS and ISAC) and parts of the union movement (mainly the Swedish Technology Union). The conflict was related to the preferred means of reaching the common goal of abolishing apartheid. While the anti-apartheid movement preferred investment bans and the withdrawal of Swedish companies’ operations in South Africa, the Swedish Technology Union, as well as Nordix management, preferred Swedish companies contributing to change from within South Africa. Since AGIS and ISAC members believed direct interaction with corporate representatives to be a lost cause, they instead attempted to influence the Swedish Technology Union to, in turn, influence Swedish firms to disinvest. As one AGIS/ISAC representative explains,

We were often outside the companies’ factories trying to influence workers to via the union act. We never had any contacts with corporate managers. [...] We had no chance of meeting the nice gentlemen upstairs. They despised us or thought that we were dangerous. We were after all threatening their business – that was our plan. During those years I never met a representative from any of the firms. No debates, nothing. But we made good contact with the unions.

The support from the Swedish Technology Union for corporate change from within South Africa was essential for the firms to survive the extensive public demands for withdrawal created by ISAC. Below is one of numerous available quotes highlighting this:

I am sure that if the Swedish Technology Union had not supported the idea that firms should remain in South Africa, the firms would have left. I am sure of this. If the Swedish Technology Union did not take the blame in all the debates, neither the companies nor the Social Democrats would have had the strength to resist the anti-apartheid movement’s influence.
South Africa becoming an issue (1977–1979)

Although there were some prior relationships between the Swedish Technology Union and South African labor unions, these mainly emerged in the mid-1970s. For example, in 1977, the South African situation was discussed at the Swedish Technology Union’s congress, with one proposed resolution claiming that Swedish corporations exploited the racial laws and discriminated black workers, and that the Swedish Technology Union should support SACTU\(^{22}\), that all Swedish investments should be stopped, that all Swedish companies should disinvest from South Africa, and that trade with South Africa should be stopped. In response, the Swedish Technology Union’s executive committee claimed that Swedish subsidiaries could serve as important platforms for promoting black workers’ union rights in South Africa and that the Swedish Technology Union supported other union organizations that had local presence (SACTU’s leadership was in exile) and that was not so closely connected to the political movement (mainly the ANC).

In short, the Swedish Technology Union was in favour of economic sanctions, implying that products should not be allowed to be exported to South Africa, that South African products should not be allowed to be imported to Sweden, and that Swedish firms should not be allowed to make new investments in South Africa (although still allowing replacement investments). However, the Swedish Technology Union was against disinvestment in the form of withdrawal of Swedish companies from South Africa, as well as divestment of shares owned in companies with operations in South Africa. In comparison, AGIS, ISAC and the ANC were in favour of economic sanctions, and the withdrawal and divestment of shares (i.e., total isolation of South Africa). It is worth noting that the Swedish Technology Union was well aware of the fact that Swedish economic sanctions and investment bans could affect employment both in Swedish subsidiaries in South Africa and in the parent company’s operations in Sweden; in other words, support for disinvestments risked hurting Swedish members’ interests.

---

\(^{22}\) In 1955, the South African Congress of Trade Unions (SACTU) was formed. SACTU was a non-racial trade union federation with clear political focus and close ties to ANC. This became problematic with arrests of SACTU leaders in the 1960s and its remaining leaders going into exile (Baskin, 1991).
Intensified conflicts between the union and anti-apartheid movement (1979–1984)

In 1979 (following the Swedish investment ban) and the early 1980s, Swedish companies including Nordix started to apply for investment exemptions. The Swedish Technology Union was, in accordance with the exemption regulations, expected to comment on investment proposals and after heated internal debates decided to support most of these proposals. This led to frequent conflicts with AGIS/ISAC, who wanted to dismiss all applications. Another point of conflict was whether or not to support the South African labor union SACTU (preferred by AGIS/ISAC) or FOSATU (preferred by the Swedish Technology Union), with SACTU being more in favor of disinvestment than FOSATU.\(^\text{23}\)

The SACTU vs. FOSATU debate was fundamentally about who was the legitimate representative of black South African workers’ interests and whether AGIS/ISAC or the Swedish Technology Union had the “right” contacts in South Africa (Silén, 2007:16). The debate was also about which union organizations within the FOSATU federation to support, and which individuals within the unions belonging to the FOSATU federation that were conveying the official position. Add to this the fact that representatives from both ISAC/AGIS and the Swedish Technology Union believed that key South African union representatives were sending mixed messages depending on the context, and that the questions about who were legitimate spokespersons and what these spokespersons wanted were tricky. As the chairman of the Nordix union explained,

> The local South African union never wanted Nordix to withdraw. They might have painted one picture in public in meetings showing that foreign firms generally should leave South Africa to bring about a new government. That official message is one thing and it was in general terms, but in our discussions no one wanted Nordix to withdraw. Nordix was among the best companies in that area. […] In our discussions they never wanted Nordix to withdraw, but told us instead to make improvement demands.

\(^{23}\) In 1979, the legalization of black labor unions led to the formation of the Federation of South African Trade Unions (FOSATU). FOSATU was not linked to the ANC or other political organizations, and had a more apolitical approach than, for example, SACTU, by focusing specifically on workers’ rights (Baskin, 1991; Beinart, 2001). FOSATU’s approach was criticized by parts of the South African and Swedish anti-apartheid movement, which wanted labor unions to be a revolutionary force rather than the reforming force.
However, AGIS/ISAC representatives also believed that South African union representatives were sending mixed messages, but in the other direction – officially supporting the Swedish Technology Union but unofficially supporting disinvestment.

In these debates between AGIS/ISAC and the Swedish Technology Union, AGIS/ISAC frequently criticized the Swedish Technology Union for betrayal and collaboration over classes. As a Nordix enterprise-level union representative recalled,

That Swedish firms were in South Africa was not [by the anti-apartheid movement] perceived as something strange. They were there to make profits and they liked apartheid. The companies were simply exploiters, so they were predictable. It would be stranger if they were willing to withdraw from their [the anti-apartheid movement’s] perspective. We [union representatives] betrayed our class and were the real bad guys in this. The companies were not seen as the worst in this – we were.

Criticisms laid against the Swedish Technology Union’s position (and, indirectly, Nordix’s position) also came directly from prominent South Africans, such as 1984 Nobel Prize winner Desmond Tutu and ANC representatives. On the other hand, several South African labor unions supported the Swedish Technology Union’s position. For example, although FOSATU was critical of MNCs, they opposed the extended Swedish sanctions of the early 1980s, and favored some investments so long as they benefitted workers. Specific FOSATU-affiliated unions with close links to Swedish companies (such as Nordix) were also clear in their support for a corporate presence in South Africa. Furthermore, throughout the entire anti-apartheid struggle, the executive committee of the Swedish Technology Union believed that there were no calls for disinvestment from the South African labor unions organizing workers at the Swedish factories. The executive committee also believed that Swedish disinvestment alone would have little effect. As the international secretary of the Swedish Technology Union put it,

"The discussions we have had with the black South African union movement during our trip strengthen our belief that Swedish companies should not today withdraw from South Africa. [...] The black union movement believed that it does not change anything if only Swedish companies withdraw from South Africa. But if the situation changes and the progressive forces wants Sweden to sharpen its political stance we will do it [...] Roughly speaking, the Swedish com-"
panies are doing reasonably well in terms of material conditions for workers. They are about average with some better and some worse, but there is still much to do. The Swedish Technology Union has developed a program that we will discuss with the Swedish Group managements.

Continued debates until the fall of the apartheid regime (1985–1994)

In 1985, the South African union federation COSATU was formed, and established a more positive position vis-à-vis sanctions and disinvestment than FOSATU (which was now included in COSATU) had. It seems as though COSATU was in favor of divestment of shares but against the withdrawal of foreign companies (cf. Joffe, 1990; Orkin, 1990). However, AGIS and ISAC representatives interpreted COSATU’s more critical stance on the corporate sector as a call for withdrawal. As one key AGIS member recalled,

COSATU favoured sanctions and disinvestments and we in AGIS and ISAC had direct contact with COSATU. They had a representative in Scandinavia that we worked closely with and it is absolutely clear that COSATU advocated isolation.

Again, this indicates the difficulty of understanding what the South African unions “really” wanted and “really” meant with their resolutions.

As the situation improved in South Africa with the release of ANC leaders and democratic elections approaching, at the end of 1992 the Swedish Technology Union started to actively work for the relaxation of the Swedish sanction legislation. The Swedish Technology Union was also approached by enterprise-level affiliates that, in turn, were approached by corporate management to work for the relaxation of sanctions. With the lifting of Swedish sanctions, the conflictual relationship between the Swedish Technology Union and the Swedish anti-apartheid movement came to an end, although, as illustrated in the introductory quote, the conflict still stirs up heated emotions.

\[24\] The Congress of South Africa Trade Unions (COSATU) was formed in 1985 and had 460,000 members at the start. COSATU had close links to the ANC and was more involved in political campaigns than FOSATU had been (Baskin, 1991; Beinart, 1994).
Nordix in South Africa

Initiating production through government negotiations (1948–1979)

Nordix was operating in South Africa before the Nationalist Party came into power in 1948, and during the 1950s when Swedish and international criticisms were being raised against the apartheid regime, the South African market was one of Nordix’s most important non-European markets. Although Nordix had an approximate market share of 40% in South Africa, it did not at this time have any production in South Africa. The reason for this was that Nordix managers believed South African demand was too diversified to allow for cost-efficient production. However, from the 1950s onwards, Nordix managers continuously negotiated with the South African government regarding the initiation of production in South Africa.

In 1961 (the same year as the initiation of the first Swedish consumer boycott), Nordix managers were well aware of the Swedish and international criticisms of South Africa’s racial discrimination policy. In fact, this was seen as a potential problem in Nordix’s interaction with the South African government. To ensure the South African government that Swedish MNCs had no “political skepticism whatsoever” regarding being in South Africa, in 1961 managers from several Swedish MNCs (including Nordix) discussed undertaking an unofficial visit to the country.

In 1962, negotiations between Nordix and the South African government regarding the establishment of local production intensified. This was due to the UN imposing a weapons embargo on South Africa in response to increasing international criticisms of apartheid – which led to a South African defence department demand that other South African government agencies ensure the establishment of local production of Nordix’s products. During these negotiations, the Nordix operative managers responsible for operations in South Africa realized that a competitor was also negotiating with the South African government on starting production in South Africa. This influenced their decision to purchase a factory in South Africa and, a few years later, to start production. At this time, Nordix’s top and operative managers expected restrictions against operations in South Africa, and were concerned that these regulations would hinder and/or stop the renovation of its factory. To manage this potential problem, Nordix Sweden entered into an agreement with two South African citizens and formed a holding company that controlled the shares of Nordix’s factory in South Africa. Nordix Sweden thus owned only 26% of the shares, but had the right to purchase the rest of the shares upon the completion of the factory. As a result, Nordix Sweden gave up formal control of the factory and could
thereby argue that the Nordix Group lacked influence over the factory prior to its completion.

Once production began, Nordix’s factory quickly experienced profitability problems due to the “inadequate” toll protection provided by the South African government. However, after negotiations with the South African government, a total import restriction was imposed on Nordix’s types of products, improving both sales and profitability to the extent that Nordix’s top management decided to make additional investments in the factory.

Even after the start of its South African operations, Nordix had never commented on firm-society issues in South Africa in its annual report. This changed in 1976, with South Africa becoming the only market between the 1950s and 1990s in relation to which firm-society issues were discussed in Nordix’s annual reports. From 1976 onwards, Nordix provided information on, for example, its provision of aid to black workers to purchase houses, support of black unions, criticism of the apartheid system, educational programs for black workers, and the building of joint leisure buildings and canteens for all workers. In 1978, the annual report also included extensive comment regarding the proposed Swedish ban on investments in South Africa. This comment summarizes well Nordix’s position vis-à-vis the proposed law.

Nordix operations in South Africa were questioned during the year, when the Swedish government prepared a law that would ban continued investments in South African subsidiaries. During the referral procedure, Nordix has at several occasions claimed that Nordix’s operations in South Africa have had nothing but advantages for customers, employees and shareholders. Therefore, the company has taken up a negative attitude to the Swedish government’s chosen method to attempt to influence the political climate in South Africa.

The proposed law clearly states that the purpose is not to phase out Swedish companies’ operations in South Africa. The law will therefore among other things be complemented by exemption rules. The exemption procedures will according to Nordix’s judgement make it possible for its South African subsidiary to retain its market leading position. This position has been reached via years of investments in South Africa, and further expansion is not currently necessary.

As indicated in the above quote, the Swedish government had attempted to influence Swedish companies’ operating in South Africa to voluntarily cease investments. As the Swedish minister of trade recalls, the firms’ negative
position seems to have also been related to the reluctance to strike a political deal, and not only for financial reasons.

The Prime Minister Ola Ullsten told me to take responsibility for achieving a stop of new Swedish investments in South Africa. He said: “Try primarily to reach a deal with the corporate sector. If this is not possible then we have to pass a law. There has to be results.” In the Chamber of Commerce we truly attempted to reach a deal with the corporate sector. We have numerous contacts on all different levels, but that approach finally turned out not to yield any results. It was not as much financial considerations but rather the principal reluctance to reaching a ‘political’ deal that was the corporate sector’s objection.25

Faced with the law, Nordix’s top management had a choice of either publicly announcing its intention to remain in South Africa or selling the majority of its shares. With regard to the first choice, management deemed it likely that sufficiently large investment exemptions could be obtained to retain adequate factory standards. However, support from both the Swedish and South African union movement was believed to be necessary for this. This support was seen as possible to obtain and Nordix decided to remain in South Africa. The company appointed its public relations manager to ensure that Nordix South Africa had a reasonable approach to the racial discrimination situation, and that a network of union and political contacts was established.

The situation at Nordix South Africa was investigated in a Swedish government analysis that preceded the 1979 decision to ban investments in South Africa (SOU, 1978). The evaluators found that the salary of both whites and blacks exceeded the average salary level in the industry, and that Nordix was among those Swedish firms that paid the highest salaries. There was a substantial discrepancy between the salaries of whites and blacks that Nordix representatives explained were related to education levels. In response to this educational differential, Nordix provided education to all employees, and also provided education in Xhosa (the language of most black Nordix workers) to white workers.

Even before the Swedish government analysis and the 1979 workplace reforms that allowed black workers to form unions, black workers in Nordix’s factory had been represented by a colored worker union and, since 1977, a black workers union (this was also recognized in Nordix’s annual

reports from this period). Although Nordix’s public relations manager was well aware of this being an illegal activity (cf. Baskin, 1991; Worden, 2000), he encouraged the black workers to organize, and helped them do so through funeral funds. In this manner, the unions received some financial means with which to create and run their organizations. As the public relations manager explained,

We encouraged the black workers to organize as well. The problem was that this was prohibited by South African law. So we helped them to arrange funeral funds, by which they accrued some income and could organize certain trade union activities. This was, of course, not completely in compliance with the legislation at the time, but I suppose it is statute barred by now.

According to Nordix’s public relations manager, these activities were initiated to allow for discussions with workers in a systematic fashion. The Nordix enterprise-level union commented on this positive (from their perspective) development of union rights in its annual report from this period.

We met representatives for black South African workers both in Sweden and in South Africa and believed this to be a fruitful collaboration. We also received evidence of the effects of our demands. For example, the black labor unions have been able to sign wage agreements with the company, which is seen as unique in apartheid South Africa. What the future holds for the Nordix factory in South Africa is dependent on the future political process, but as a union organization we have to improve our relationships with black South African workers’ representatives. Even if the issues that we can affect seem minor in the greater scope, we know that they are highly important for the workers.

While Nordix at this time was the only Swedish company in its industry that recognized black labor unions, local Nordix management had, according to Swedish and South African union representatives, initially prevented workers from forming a black labor union. It was only after the Swedish Technology Union had, via mainly the public relations and human resources managers, approached Nordix top management that a union with black

---

26 This position can be compared with the position vis-à-vis black South African labor unions of many American firms that “never recognized a union representing black workers”, including the Sullivan signatories (Seidman, 2003:398).
workers was created. Moreover, despite the existence of a black worker union at Nordix’s factory since late 1970s, it was only in 1985, at a joint lunch between Swedish and South African Nordix enterprise-level union representatives, that a black South African union representative ate in the cantina for white workers. A quote from white union representatives at Nordix’s factory the same year also illustrates that apartheid was, at least to some extent, still present within the Nordix factory.

There are no injustices in the company whatsoever. We [i.e., white and black workers] work well together; they on their side and we on ours. The oppression is viewed as something natural and there are no confrontations within the company.

However, despite these problems, the Swedish Technology Union still considered Nordix to be performing well relative to other international corporations in South Africa.

As noted above, the Nordix enterprise-level union came to support Nordix’s decision to remain in South Africa and its subsequent investment exemption applications. In this way, the union and Nordix position converged, creating an alliance in support of Nordix remaining in South Africa. The union position is well captured in, for example, the minutes from an enterprise-level union meeting in 1979:

The chairman presented his view of the situation in South Africa and the Swedish government’s position related to Swedish corporations in South Africa was discussed. The committee concluded that the most advantageous decision for coloured workers must be that Nordix retain operations in South Africa and some investments in social and environmental aspects must even be allowed.

**Investment exemptions and criticisms of the apartheid system (early 1980s)**

With Nordix deciding to remain in South Africa, it became important to apply for exemptions from the Swedish investment ban in the 1980s. Exemptions were only allowed if the investment did not lead to an expansion of operations and the relevant unions (mainly the Swedish Technology Union) supported the investment. While many Swedish companies applied for exemptions, only about half of the applications were granted. Positive evaluations by the Nordix enterprise-level union and the Swedish Tech-

---

nology Union were essential in the application process. As the chairman of the enterprise-level union put it,

If we said no [to the investment application], then it was no. It was as simple as that. If we said yes, it was not always a yes but the odds improved significantly.

The union’s importance to the process also meant that they were able to demand that Nordix altered its firm-society practices and made investments in firm-society issues not directly related to Nordix’s core activities. As the chairman of the enterprise-level union explains,

We held all the aces in the deck. But I do not think that we abused this situation. Rather we tied improvement for the workers in South Africa to all investment applications. [...] If they wanted to upgrade machines, we traded for investments in social programs such as electrified townships. We did not sit in their laps but said: ‘Ok, those investments are good, but so are these.’ When we agreed, we always agreed to the combined package of investments. There were never any real difficulties in getting our points across either. We all agreed that you had to do social investments if Nordix is to remain in South Africa, because everyone was watching us.

In 1985, Nordix concluded that 90% of its investment exemption applications had eventually been granted, and credited this success to its detailed submissions and the support they gained from the enterprise-level union. Nordix’s strategy to allow the Swedish Technology Union to engage the trade minister before the company made its own contacts (a strategy that was coordinated by the public relations manager) was also seen as a success.

The union’s influence can, for example, be seen in the 1980 Nordix investment exemption application. In this approximately SEK4 million investment, 37% of the budget was focused on production-related equipment, 34% on vehicles for sales, and 29% on improving the working environments in factories and offices. In addition to influencing Nordix’s investments, representatives from black unions at Nordix South Africa claimed that the collaboration with the Swedish Technology Union had influenced Nordix’s management to change its practices by, for example, reinstalling fired workers, further recognizing black unions, and providing additional information regarding financial compensation for military service for white employees. Evidently, the black unions also directly negotiated with local management on issues such as black workers not being promoted.
despite partaking in educational programs, educational issues, and the employment of black women.

The importance of the Nordix enterprise-level union for the formation of Nordix’s practices in South Africa was not only related to investment exemptions. South Africa-related issues were discussed monthly between the enterprise-level union, Nordix’s top management and representatives from Nordix South Africa. In these discussions, issues such as the racial effects of redundancies of workers, wage development, replacement of local management positions, improvement of local union rights, and increased investments in working conditions and community issues were discussed.

During the mid-1980s, Nordix also started to explicitly criticize the South African apartheid system. In 1985, Nordix’s top management sent the following letter to the chairman of the Nordix union:

We condemn the racial segregation policy in South Africa. It violates both those that are repressed and those that are forced to become its tools and witnesses. Furthermore, the apartheid system is disadvantageous for economic growth, a healthy market economy and improved welfare. For these reasons, we support the demands to dismantle the apartheid structure.

A Nordix annual report from this period also includes a lengthy section commenting on the situation in South Africa.

The social and political problems in South Africa grew worse during the year. The market weakened and industrial production declined with negative impact on Nordix sales results. In January this year, the Federated Chamber of Industries urged the South African government to implement fundamental political, social and economical changes in order to ensure democratic principles, human rights and economic progress. As members of chambers of industry, Nordix’s South African subsidiaries endorse this action.

Removal of apartheid is a prerequisite for achieving positive development in South Africa of business, service, assets, personnel, working environment and social welfare, which are all long-term demands that Nordix places on its investments abroad. By virtue of its presence in the country and the social and economic development of its subsidiaries, Nordix will be able to contribute to change in the society. In this respect, the prospects have now improved in view of the determination with which the business community stands unified.
In 1986, 90 American and South African corporations printed a one-page advertisement in a South African daily newspaper criticizing apartheid politics, and on February 12 of the same year, thousands of managers of corporations in South Africa (including Nordix) signed a letter to Prime Minister P.W. Botha calling for the end of apartheid. The main argument of the letter was an explicit concern about the degrading social and economic conditions in South Africa.

**Surviving mounting demands for withdrawal (late 1980s–1994)**

In 1985, the Swedish government strengthened its ban on investments, making it more difficult to receive investment exemptions. Despite union support, Nordix was even denied investment exemptions for replacement investments in its South African factory. In 1989, Nordix received an exemption, but this was solely due to the proposal for the electrification of a so-called “township” where Nordix’s workers lived. At this time, Nordix South Africa experienced profitability problems, decreasing market share, and reduced personnel. The company was in such need of investments that Nordix’s top management considered disinvesting, as other Swedish companies had already done.

In addition to these problems, Nordix faced extensive public relations problems, since the idea of corporate withdrawal dominated the Swedish public debate on apartheid during the 1980s. As the Nordix enterprise-level union chairman recalled,

> We hardly ever ran any campaigns on our own to try to convince people of our position. There was no point. We had already lost.

As with the enterprise-level union, Nordix’s management did not run campaigns trying to change public opinion. A rare exception to this approach was a campaign attempt in the late 1980s where Nordix top management requested its South African management to provide photos of employees and their families for use in a public relations campaign in Sweden to show that sanctions and disinvestment could harm black South Africans. However, after the South African union representatives contacted the Swedish chairman of the Nordix enterprise-level union, and with the chairman being critical of this campaign in his contacts with Nordix’s public relations manager, the campaign was eventually called off. The reluctance to support this campaign was related to union representatives’ belief that corporate involvement in the public anti-apartheid debate often worsened the credibility of the corporate sector. As the international secretary of the Swedish Technology Union recalled,
Occasionally, some of the chairmen and CEOs participated in the debate, but that often had negative effects. They usually just messed things up. Then we had to deal with the comments that this is the message from the corporate sector (including Nordix) and we said that this is absolutely not even close to Nordix’s message. They are not that dumb. These are the unintelligent statements of manager A and B, and not Nordix’s position.

At the end of the 1980s, ISAC’s criticism also came close to being expressed at Nordix’s general meetings, but the enterprise-level union managed to convince ISAC representatives not to do so. As the Nordix enterprise-level union chairman recalled,

The Social Democratic Youth Party bought shares and was going to make a scene at the general meeting, planning to hang the company and also us as the union that were backing Nordix up. They contacted me before the meeting and I asked them not to go to the meeting. I explained our position, our facts and told them that South African unions have one official message when they are out preaching and one unofficial when you sit and talk to them. I told them of our frequent interaction with the South African unions and in some way they understood that we were honest and we eventually agreed that they would not go to the meeting.

In 1990 (following the release of Nelson Mandela and the legalization of the ANC that year), Nordix once again applied for exemptions for investments to upgrade or change old machines and improve of working and safety conditions of its workers. This was the first application aimed at upgrading or replacing old machines since 1985. Nordix’s management believed that the political climate in South Africa had changed enough to allow for additional exemptions. The stated reason for the application was to improve safety and working conditions, based on technological innovations that had been employed in Nordix’s factories all around the globe (with the exemption of South Africa). The application also outlined Nordix’s involvement in social issues related to South Africa. Among other initiatives at this time, Nordix was investing the equivalent of 0.5% of its South African sales in social projects in the country. The application was eventually granted, marking the starting point for lifted economic sanctions and extensive Nordix efforts to regain its lost market share. By the time that South Africa held its first multi-racial election in 1994, Nordix was one of the few Swed-
ish firms that had remained in South Africa throughout the entire apartheid period.

**Summary and discussion**

South Africa was an important market for Nordix before the introduction of the apartheid system. With the introduction of apartheid, Nordix had to, through the 1950s and 1960s, manage conflicting institutional pressures in relation to its South African operations. The Swedish South Africa Committee’s consumer boycotts and the negative public debate in Sweden attempted to influence Swedish companies – including Nordix – to minimize their links to the South African government. In sharp contrast, the South African government, after having itself been affected by the UN weapons embargo, influenced Nordix to initiate production in South Africa. To retain its market position, Nordix’s operative managers, through their decision to stay in South Africa, effectively dismissed the anti-apartheid movement’s demands, and instead both ensured the South African government of Nordix’s non-involvement in politics and initiated local production. Nordix even managed to leverage the fact that the South African government needed local production to address the effects of an import restriction on its products.

In this way, the decisions – taken to protect Nordix’s market share and improve profitability during the 1950s and 1960s – created close links between Nordix and the South African government, and rested on the assumption that Nordix was not responsible for political development in South Africa. While these close links were initially advantageous, they became increasingly contested in the late 1970s to the 1990s, with Nordix being pushed to withdraw from South Africa by Swedish stakeholders such as NGOs (e.g., AGIS and ISAC’s campaigns), media (e.g., published articles criticizing Nordix’s operations), the Swedish government (e.g., the passing of investment bans), the parts of the union movement critical of Nordix’s presence in South Africa (e.g., those unions participating in ISAC), shareholders (e.g., those that threatened to criticize Nordix in general meetings), and citizens in the community where Nordix’s headquarters is located (e.g., those protesting outside Nordix’s headquarters).

As they had in the 1950s and 1960s, in later years the Nordix managers responsible for South Africa responded to these institutional pressures by attempting to protect its South African market position. Doing this, as well as remain in South Africa in general, meant that Nordix needed support from the union movement; this was also provided by the Swedish Tech-
 From this point forward, Nordix and the Swedish Technology Union’s South Africa strategies were interdependent. By acting as a buffer between Nordix and the Swedish anti-apartheid movement protecting Nordix’s legitimacy and influencing Nordix’s ability to receive investment exemptions, the Swedish Technology Union gained influence in its negotiations with (mainly) Nordix’s public relations managers regarding firm-society issues such as union rights, wages and community investments. Many of Nordix’s firm-society practices in South Africa were also initiated and influenced by the Swedish Technology Union and the public relations manager. Nordix’s headquarters public relations staff function was, via its links to the Swedish Technology Union, integral to the formation of Nordix’s firm-society practices in South Africa. It played this role through the alteration of existing local firm-society practices established by operative functions (e.g., advocating union recognition and non-discrimination), and the addition of new practices (e.g., community investments).

The importance of the Swedish Technology Union and the Swedish anti-apartheid movement for the formation of Nordix’s firm-society practices shows that the institutional pressures facing Nordix were embedded in Nordix’s Swedish home institutional environment. For example, the Swedish anti-apartheid movement was more critical of corporations contributing to change in South Africa from within than, for example, the US anti-apartheid movement (cf. Massie, 1997). Moreover, the Swedish Technology Union’s influence was related to labor unions’ strong position in the Swedish industrial relations system. The formation of Nordix practices in the South Africa setting thus supports the claim that MNCs’ home institutional environment matters (e.g., Campbell, 2007; Matten and Moon, 2008), challenging the claim that home environments play only a limited role in the formation of an MNC’s practices (e.g., Drori et al., 2003; Kostova et al., 2008).

However, it was not only the home institutional environment that mattered – the South African host institutional environment also had an impact on the formation of Nordix’s practices. For example, stakeholders such as the ANC (e.g., expressing criticisms in the Swedish media), the South African government (e.g., pressuring Nordix to establish production), national level unions (e.g., SACTU), and enterprise-level unions (e.g., in salary negotiations and investment exemptions) all influenced Nordix. This finding echoes what Rosenzweig and Nohria (1994) argued with regard to human resources issues – that home and host interplay to form an MNCs’ practices.
Based on the above discussion, several important aspects can be derived regarding how institutional pressures and corporate discretion combined to form Nordix’s firm-society practices in the South Africa setting. First, institutional pressures were exerted by numerous different stakeholders, with the Swedish Technology Union being among the most central of these. In relation to the stakeholders identified in previous research (discussed in Chapter 2), this is interesting since labor are unions rarely discussed in contemporary firm-society research. I will analyze this in Chapter 8 when examining the role of the labor union in the Nordix case.

Second, the Swedish Technology Union exerted institutional pressures differently from, for example, AGIS/ISAC. While AGIS/ISAC pressured Nordix via highly visible public campaigns, the Swedish Technology Union pressured Nordix via continuous bargaining, mainly with Nordix’s public relations managers. It is thus necessary to complement the traditional discrete model of how institutional pressures are exerted (e.g., van Tulder and Kolk, 2001; Vidaver-Choen and Brönn, 2008) with a model that captures how institutional pressures were exerted in the Nordix case. In Chapter 9 I will return to the nuances of such a complementary bargaining model of how institutional pressures are exerted.

Third, as expected in the new institutional literature (e.g., Kostova and Zaheer, 1999), Nordix faced conflicting institutional pressures due to its operations in the distant South African institutional environment. However, these conflicts did not only manifest themselves in conflicts between institutional pressures in Nordix’s home and host institutional environments, as postulated in existing research (e.g., Kostova, 1999; Khan et al., 2007). They also manifested themselves within Nordix’s Swedish home institutional environment. For example, the conflicts between the Swedish Technology Union and AGIS/ISAC mirrored the conflict in South Africa between the ANC and some South African labor unions. In Chapter 9, I will analyze how to understand these different ways in which legitimacy challenges stemming from operating in distant institutional environments manifest themselves.

Fourth, and shifting focus from institutional pressures to corporate discretion, Nordix actively responded to the institutional pressures. For example, Nordix “dismissed” the pressures to withdraw from South Africa and “bargained” with the Swedish Technology Union regarding which firm-society practices to introduce (cf. Oliver, 1991). The ability of Nordix to dismiss the pressure to withdraw from South Africa for such a lengthy period of time is particularly interesting, and I will return to this in Chapter 8.
Fifth, Nordix’s firm-society practices in the South Africa setting were developed via two different paths. Nordix’s operative managers initially created close links to the South African government via the initiation of production in South Africa. From the late 1970s to the mid-1990s, this led to intense pressures entering into Nordix, mainly via its headquarters public relations managers. The public relations managers, through negotiations with the Swedish Technology Union, also initiated workers’ rights practices (such as furthering the recognition of black labor unions) and community involvement practices (such as the electrification of a township close to Nordix’s factory). Therefore, institutional pressures entered Nordix via different channels (cf. Delmas and Toffel, 2008), leading to Nordix’s operative and staff functions initiating firm-society practices based on different priorities (cf. Greenwood and Hinings, 1996). I will return to this in more detail in Chapter 8.
5. Nordix’s firm-society policy

This chapter shifts the focus from Nordix’s firm-society practices to its firm-society policy. As discussed in Chapter 1, firm-society issues are in this thesis defined based on Nordix’s policy definition, and this policy definition is described in this chapter. The drafting of Nordix’s firm-society policy was initiated soon after the fall of the apartheid regime in South Africa. Although the timing coincided with the fall of the regime, there is little evidence in the collected data that the South Africa experience shaped the formation of Nordix’s firm-society policy. None of the involved managers or stakeholders made any reference to the South Africa experience and there are no references to South Africa in the written documentation. As the Nordix manager who wrote the first draft of Nordix’s policy stated when explicitly asked about links to South Africa,

As you know, I was involved in the South Africa debate arguing for Nordix’s position so I am very familiar with that discussion. This debate had a different focus. No, it was not relevant.

As this chapter will show, the impetus for formalizing firm-society issues at Nordix was the societal debate surrounding workers’ rights in Asia. To fully understand the formation of Nordix’s firm-society policy, some background is needed regarding the debate on sweatshops and the workers’ rights scandals that emerged in the late 1980s and early 1990s. The workers’ rights debate grew increasingly strong at this time, with NGO and labor union campaigns uncovering sub-standard working conditions at MNC and supplier factories (e.g., van Tulder and Kolk, 2001; Roberts, 2003; Frenkel and Kim, 2004; Bartley, 2007). Issues such as child labor and sweatshops

28 One potential influence from the South Africa experience could be that it strengthened the Nordix-union relationship. As I will show in this chapter, this was, in turn, important for the formation of Nordix’s firm-society policy. Still, South Africa was but one of the many experiences between the 1970s and 1990s that strengthened the Nordix-union relationship, so its importance should not be overestimated.
were regularly debated in Swedish and international media, intensely demanding MNCs to justify their operations.

In the early 1990s, MNCs such as Levi’s, GAP, Nike and Reebok responded to this criticism and embraced an extended responsibility for workers’ rights at their own factories and those of their suppliers (e.g., Braun and Gearhart, 2004). This extended responsibility was mainly operationalized through the corporate adoption of voluntary firm-society policies, or so-called codes of conduct (Schlegelmilch and Houston, 1989; Sethi, 1999; van Tulder and Kolk, 2001; Guillén et al., 2002; Nijhof et al., 2003).

The workers’ rights debate in Sweden started in the mid-1990s with the initiation of a Swedish Clean Clothes Campaign. This campaign comprised NGOs and unions, and had the explicit aim of increasing Swedish MNCs’ responsibilities for workers’ rights in mainly Asian countries. As in many of the international activist campaigns at the time, the initial target for the Swedish Clean Clothes Campaign was the garment industry. In 1997, following the campaign and media “scandals” on the subject, the largest Swedish garment retailers also adopted codes of conduct similar to those of international MNCs (Egels-Zandén and Hyllman, 2006; Ählström and Egels-Zandén, 2008). Since then, most large Swedish MNCs, especially in the consumer industries, have adopted codes of conduct (cf. Egels-Zandén, 2007a).

In parallel with the mainly NGO- and MNC-driven emergence of codes of conduct, labor unions began to develop an alternative type of firm-society policy called International Framework Agreements (IFA). Already in the mid-1980s, Danone and IUF had signed IFAs, and by the mid-1990s Accor, Statoil, IKEA and other companies began to sign IFAs as well (Fairbrother and Hammer, 2005; Hammer, 2005). In this way, two competing (or complementary) types of firm-society policies emerged, with NGOs and companies mainly promoting codes of conduct and labor unions mainly promoting IFAs (Gallin, 2000; Connor, 2004; Hammer, 2005; Riisgaard, 2005; Egels-Zandén and Hyllman, 2006).

It was in the turbulent setting of the mid-1990s that the idea of adopting a Nordix firm-society policy emerged. Before discussing the process of developing Nordix’s firm-society policy in detail, I will show that only two of Nordix’s existing policies – the Nordix code of conduct and the Nordix IFA – are relevant for the focus of this thesis. These two policies coincide in practice, making it possible to talk about Nordix’s firm-society policy. After having discussed Nordix’s existing policies and the process of drafting Nordix’s code of conduct and IFA, this chapter concludes with a discussion
of which aspects influenced the way in which institutional pressures and corporate discretion combined to form Nordix’s firm-society policy.

Nordix’s firm-society policy

In Nordix’s annual reports between 2006 and 2008, the following policies are described under headings such as sustainability and corporate social responsibility: i) the Environmental, Health and Safety policy; ii) the ISO 14001 management systems; iii) the Nordix code of conduct; and iv) the Nordix social policy. When discussing firm-society issues, Nordix uses the concept “sustainability” to include environmental and social issues, and “corporate social responsibility” (CSR) to include purely social issues. This thesis follows this Nordix division and bases the definition of firm-society issues on what Nordix labels as CSR issues. This includes workers’ rights, community involvement and political involvement issues, but does not include issues such as environmental protection and corruption. This means that the environmental, health and safety policy and the ISO 14001 management system fall outside firm-society issues in this thesis. The code of conduct and the social policy are the only Nordix policies that deal with workers’ rights, community involvement and political involvement.

The Nordix social policy is vaguely formulated, generally stating that Nordix shall be involved in community issues. When attempting to obtain a more detailed understanding of the content of the social policy, the only thing available in the 2006–2008 annual reports and on Nordix’s website are examples of projects that have been undertaken for less privileged people, and in support of education, sports, health and other volunteer work.

The main policy defining in detail what workers’ rights, political involvement and community involvement means for Nordix is, rather, the Nordix code of conduct. This policy, in contrast to the social policy, provides elaborate and detailed information on what issues Nordix includes in its responsibilities. The code of conduct also operationalizes Nordix’s commitments in terms of workers’ rights, political and community involvement in relation to external initiatives such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the ILO Declaration concerning multinational companies. An important difference between Nordix’s code of conduct and most other MNCs’ codes of conduct is that the section on workers’ rights in Nordix’s code of conduct is a signed agreement between Nordix and the labor union movement. This section is therefore a so-called International Framework Agreement (IFA).
The road to Nordix’s code of conduct and IFA

Process initiation: Unions propose an IFA

The initial focus in Nordix was on developing an IFA, an idea that was initiated by the Global Union Federation (GUF) responsible for Nordix. The GUF had recently made a policy decision to prioritize and promote IFAs, and as a step in implementing this strategy, GUF representatives raised the issue in the mid-1990s at one of Nordix’s corporate-union World Works Council meetings. As one of the Nordix enterprise-level union representatives noted, the timing of this GUF initiative was favorable, since the enterprise-level union was looking for a way to handle issues of workers’ rights globally in Nordix:

It all started in the mid-1990s. The reason was that at that time Nordix was being questioned regarding how Nordix handled issues mainly related to child labor, working environment, salaries, etc., in different countries. We [i.e., the enterprise-level union] wanted to have a general Nordix view of how to treat employees regardless of where production was located.

When discussing what he meant by “being questioned”, it became clear that the questioning mainly came from members of the Nordix enterprise-level union and the international union movement. At that time, few (if any) other stakeholders were discussing these type of workers’ rights issues with Nordix. The human resources and public relations Nordix managers that were then responsible for workers’ rights issues confirmed this, claiming that at that time there were no demands from customers, shareholders, media, or stakeholders other than the unions to adopt either a code of conduct or an IFA.

After some internal union discussion, representatives of the Nordix enterprise-level union then approached Nordix’s human resources and public relation managers with the IFA proposal. As one of these Nordix managers recalled,

In conjunction with a Nordix World Works Council meeting, the question about an agreement arose. It was probably the Global Union Federation that pushed for this and then the question came to me. The Nordix enterprise-union representatives posed the question:

---

29 World Works Councils are reoccurring meetings between different parts of the enterprise-level unions and corporate management.
NORDIX’S FIRM-SOCIETY POLICY

Shouldn’t Nordix have such an agreement that more formally regulates how we, the union, and you, Nordix management, work together? I responded: It is possible. Leave the issue with me and I will consider it.

Internal debate: Stopped processes

Shortly after this approach by the Nordix enterprise-level union, the human resources and public relations managers discussed the idea of an IFA. Although the managers saw few direct problems with having such an agreement, there was general skepticism toward codifying workers’ rights issues. The perception was that codification made issues and relations static and rigid. As one of these managers explained,

We discussed it internally, and my opinion was that there was nothing really stopping us from formalizing what we were doing anyway. There is always, however, a risk when you start formalizing, that things will become too rigid. I mean, it was not that the [Nordix enterprise-level] union was trying to fix something that was not working, and it was not that we wanted to fix something that was not working. Rather, I guess both parties felt that things were working very well. At that time, we had rules and agreements at the European level that regulated European corporate-union relations. If you really followed all these rules to the letter, it would become extremely bureaucratic and we felt that we had a more natural and productive way of working. So there was some fear or scepticism regarding what such an agreement would yield. But for some reason I felt that maybe we should have an agreement, because they [the Nordix enterprise-level union] would not let this idea go.

At this time, numerous international firms had already adopted unilateral codes of conduct that formalized their positions on firm-society issues. The Nordix managers started collecting such existing codes and discussed them with knowledgeable individuals outside Nordix. Once they had a fairly good idea of what a code of conduct and an IFA would mean, they presented the idea to top management. However, some key top managers were also concerned that codifying responsibilities would make them very rigid. As one of the involved Nordix managers recalled,

We talked to top management, who were skeptical about the code of conduct idea. They basically reasoned as we did, but as top management they could decide that we should not have such an agreement. It would become too rigid.
This halted the process somewhat. At the same time, the Nordix manager responsible for union relations believed that the enterprise-level union would simply not accept a negative answer regarding the development of an IFA. This assumption was correct, as union representatives continued to inquire regularly about whether it would be possible to develop an IFA.

**Moving forward: Media, shareholders and unions making demands**

The process regained momentum in the late 1990s with the creation of a working group to develop a code of conduct. The emphasis thus shifted at this time from a negotiated IFA to a unilateral code of conduct. The stakeholders that were demanding a formalization of Nordix’s firm-society position into a policy document had also broadened – from being mainly just the union movement to now including shareholders and the media (mainly those based in Sweden). As one Nordix manager recalled,

> In the late 1990s, there were more and more discussions about ethics, and I felt that this was no problem for us. We had handled these issues well already. Then I started receiving questions. ‘Do you have this in writing’, and I’d answer, ‘No, it is not necessary – we have worked this way for years’. The answer I got back, for example, from shareholders analyzing companies, was then, ‘How do we know that this [i.e., what you say] is correct when it is not documented? You say so, but we need something tangible’. […] The demands were not only raised by shareholders but also other actors, such as the media, who asked if there were any documents to look at. That was when I thought that we needed to document this. […] I received so many calls and had to spend so much time talking about this. And in the end I always got the comment, ‘But it is not documented! I don’t trust it, because it is only something that you are saying now’. That was when I decided that the external demands were increasing to such an extent that we had to document what we stood for. It was not enough to say it.

While the public relations manager responsible for the code of conduct process decided to formalize Nordix’s position, he had, at this time, no plan to turn the code of conduct into an IFA.

> I did not even consider turning the code of conduct into an agreement. My only idea was to publish a code of conduct that was consistent with what one would expect such a code to include.
In sharp contrast, the enterprise-level union representatives saw the process of developing a code of conduct as the first step toward reaching an IFA, and were convinced that the workers’ rights part of the code of conduct would eventually become an agreement.

They [i.e., Nordix] said that when the code of conduct had been developed, they would sign [an IFA]. They said, ‘Yes, we will sign – we promise to sign – but we have to do this first. When the code is adopted, we will continue with our process and sign [an IFA].’

The code of conduct working group consisted of two Nordix representatives, one external consultant, and a national-level union representative. While the union movement was represented in the process, this was not in the form of either the enterprise-level union or the Global Union Federation. This might be somewhat surprising, given that it was these two actors that had initiated the IFA question with Nordix up to that point. One of the Nordix managers explained why they had chosen a national rather than enterprise-level union representative:

Our idea was probably not to get into negotiations. If it had been the enterprise-level union representative, it would have turned into negotiations. He would have taken the Nordix union position, so in retrospect it feels like it was the right choice. The chosen national-level union representative was also the person responsible for Nordix in the national union.

The enterprise-level union representatives saw no problems with having this particular national union representative participate in the code of conduct process to represent the union movement’s agenda. As one enterprise-level union representative explained,

He [i.e., the national-level union representative] was our union expert. He had an impeccable reputation, was extremely knowledgeable, and had an outstanding network. From my perspective, he might as well have been at Nordix. We were supportive of having him in the working group. It was our relationship with him that made all the difference, so from our perspective there was no big difference if it was he or I who was involved in the process. […] We talked weekly about all sorts of issues, met at least monthly, and travelled around the world together three to four times a year.
Inspired by existing codes of conduct

At the working group’s first meeting, the responsible Nordix manager had already prepared a first draft version of a Nordix code of conduct, which was to a large extent based on what other European and American firms had already developed.

I started reading a fairly extensive amount of what was out there on codes of conduct. I looked at all European and US companies that I could find and looked at form and structure, identifying a specific division in four areas that one firm had used: customers, employees, society and shareholders. I felt that this was a good division. It is the four main areas. There are of course alternative divisions such as neighbours, politics, etc. There are many possibilities, but I felt that this was a good way. I then discussed with some other people and all agreed that this was a good division. It was like all processes of this type. You read all you can find, you look at sentences, and you highlight certain parts. You say: ‘this was well formulated, this was good, etc.’ To initiate the code of conduct process, I then sat down and wrote a draft to a policy or code of conduct. Of course the first draft was not very good and we re-wrote it and it became better and better.

Another manager had a similar copy-paste-change description of this stage of the process, where the working group met to discuss the draft and develop it further.

We discussed: How do you write? What have other companies done? We stole and borrowed sections and sentences from others. Copy and paste you might call it. Really, we were copying and pasting from the UN and the OECD, and that was not difficult. However, we did not simply copy passages without understanding what they meant. So we had to go into detail in all issues, to understand the meaning of what we were copying. We also added things that were appropriate from our perspective. […] In addition to other companies’ codes of conduct, the OECD was important, and after that it was the ILO conventions, the Global Compact, and the UN human rights agreements.

The copying and inspiration were not only from other companies’ codes of conduct, but also from the UN declarations and the OECD principles for multinational corporations. The enterprise-level union representatives were more specifically focused on the ILO conventions:
When we started to specify what an agreement should include, it was evident from the start to include the ILO conventions, since they regulate workers’ rights issues such as child labor, discrimination, etc.

In the end, the Nordix code of conduct and the IFA was built on the ILO conventions, although it does not specifically mention all of the conventions. The Nordix code of conduct also states that it “adheres” to the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. One manager explained why they decided not to join the UN Global Compact at this stage:

The reason why we wrote “adhere to” was that it was extra work associated with actually joining the Global Compact. They demanded that we have a webpage that has to be updated, etc. We were not out to brag and discuss this externally – our purpose was more internal. For us it was really only to formalize our commitments into a policy document.

When discussing what in the code of conduct was distinct for Nordix, the involved actors stressed two aspects. First, certain specific, detailed aspects not covered in the more general guidelines of the UN, OECD, ILO and other companies’ codes, such as individual development plans, were added to the Nordix code of conduct:

I think that the issue of individual development plans was something that we added ourselves. It is important to develop our employees and we must have a development plan for each of them. I do not think that I have seen this in other codes of conduct. It is probably fairly unique for us.

Second, certain issues that the working group believed should be covered in a code of conduct were not covered in the UN, OECD and ILO guidelines. For example, political issues were not covered in the general guidelines, but were dealt with in the Nordix code of conduct (similar to many other companies’ codes). The public relations managers explained Nordix’s position in relation to political involvement:

Companies should simply not be involved in politics – so long as it does not affect the company and then it is group management that should act. The company should not interfere in local politics. It is not our business. It is important to include this. If national legislation is discussed that severely affects our business, we have an obligation
to say what we think but we should not bet on any specific party. […] It is the relevance to the business that determines if we get involved in political issues and then it is group management that gets involved. No individual company management is allowed to make these decisions and they are certainly not allowed to enter into party politics. This has been our policy all the time. It was, for example, present during the 1960s with apartheid politics in South Africa and the 1970s with politics in Chile. […] As long as the UN or the Swedish government (since we are a Swedish firm) do not have any objections to doing business with a specific country, we will do business with them. If the Swedish government can do business with a country, why should we act any differently?

In the end, the content of the Nordix code of conduct ended up encompassing the principles of the key external initiatives identified by the involved actors: the UN Global Compact, the OECD guidelines and the ILO conventions. In addition to this, the code also included more detailed aspects regarding certain issues (for example individual development plans) and statements on issues that were not covered in the principles of the external initiatives (such as political involvement).

A code of conduct and an IFA

When the code of conduct process was completed with the adoption of the code, discussions of an IFA came to the fore again. Specifically, the discussions now concerned converting the section on workers’ rights into an agreement. However, as the Nordix manager responsible for the process explained, Nordix top management was not initially supportive of such an agreement.

The enterprise-level union kept asking if we could move forward and sign an agreement now that we had the code. I resisted because I knew that I would never get top management approval for this. One of the comments I got from top management was: Well, we can do this, but what will we get out of it? I responded that the question was probably not what we would get; it was more a question of retaining what we had. We had very good relations [with the enterprise-level union], so we really had nothing to be afraid of. But they [i.e., top management] thought that this was naïve, and said that we would not sign. It simply remained for me to inform the union that there would be no agreement.
NORDIX'S FIRM-SOCIETY POLICY

After changes in Nordix top management, the situation changed and an agreement was eventually signed. As the responsible Nordix manager explained,

Then we changed top management and the enterprise-level union came back and asked again. I raised the question with top management again, and said that to get some peace and quiet we should probably sign an agreement based on the code of conduct. This time my position was supported, and we eventually signed the agreement. It is a document that helped them [i.e., the enterprise-level union] achieve an agreement that was so important to them, and since the agreement was based on our code of conduct it meant no additional responsibilities for us and did not change our practices, for better or worse.

As another manager further clarified the importance of an IFA for the enterprise-level union,

After we had the code, the enterprise-level union wanted an agreement. The code was a unilateral statement really. Although union representatives had been involved in the process, it was our, and not the enterprise-level union’s, position. That was why they wanted it signed. I think it is a bit strange, because if we say that we have adopted this policy and put our company name on it, we will live by it – no doubt about that.

Nordix managers felt that an IFA – in addition to the already adopted code of conduct – had limited value to the company in terms of either external symbolic importance or changes to corporate processes. This point was further supported with reference to the lack of internal and external communication when the IFA was signed.

Well, we made an agreement with our union; it is not something that we wrote press releases about.

Before reaching the actual agreement, several difficulties had to be overcome. First, there was the issue of which actor within the union movement should sign the IFA. Second, there was the issue of specificity of the content of the IFA. The third issue was about the inclusion of suppliers' operations in the IFA, and the fourth was about how to monitor the IFA.
Issue I: Which union representative signs the IFA?

One key issue in developing the Nordix IFA was identifying which union representative should sign the IFA. The global union representatives believed that the IFA should be signed between the GUF and Nordix, potentially with the enterprise-level union co-signing the agreement. As one GUF representative explained,

The question was who should sign the agreement, whether it should be us [i.e., the GUF], the European union federation, or the enterprise-level union. But it was completely clear, to have an agreement that was legitimate worldwide, the only option was for us [i.e., the GUF] to sign such an agreement. This was the appropriate solution according to us. However, we also believed that the union organization at the company headquarters location that in practice had negotiated the agreement should be allowed to co-sign the agreement in order to give them recognition for their role.

The enterprise-level union recognized, and seemed to accept, this position by the GUF, understanding the symbolic importance of IFAs for GUFs. As one enterprise-level union representative explained,

If the GUF is to play a role in society and show its union strength, this [IFAs] was a good opportunity. If the GUF could establish a number of these agreements where the GUF was the signatory, then the GUF establishes itself as the instigator and driver of union issues on an international level. So signing IFAs would increase the GUF's influence in many, many other issues. It has to find legitimacy for its role. IFAs became a way for them to move beyond abstract discussions into bargaining at the enterprise level. GUFs have tried to influence national unions that in turn influence enterprise level unions, but even though GUFs have instigated initiatives they have not received credit for it because agreements are so local. Signing IFAs was a way to put the GUF on the map – a way to show that they are doing something.

At the same time, the enterprise-level union representatives also recognized the downside of an agreement that was not signed by the GUF, but still valued signing an agreement even without having the GUF sign it.

The GUF claimed to have the right to sign the agreement, because without their signature the document would not be worth anything. We had to try to explain to them that if we did not find a solution
there would no agreement at all, and this was not our aim and could not be the GUF’s aim either. The alternative was to have no agreement at all. It was that bad. We would then have had to move forward ourselves without the GUF.

The issue of who should sign the IFA was complicated even further by the fact that Nordix management was unwilling to sign an agreement with the GUF. As Nordix’s human resources manager explained,

We [i.e., Nordix management] did not want to sign an agreement with a global union. It was not that type of agreement. I mean regardless, it was never a possibility. But I know that they raised this matter. It was what they wanted. To this I responded, ‘Never’. Our agreements are for our employees, and this [the IFA] specifies a way to act towards our employees. This was not a cunning strategy to avoid any legal responsibility, but rather an emotional decision. Why should we make an agreement with a GUF? Implicitly, the GUF does not really have anything to do with what we do. If they [the GUF] feel that they have this, they can use their available channels. However, we are not going to encourage the GUF to step in to our operations with opinions regarding how we work. They can of course use their legal channels the way they want, but we are not going to sign anything with them. […] Our questions are our questions. And our [enterprise-level] union is a part of Nordix.

The enterprise level union was well aware of this corporate position. As one union representative put it,

We faced a dilemma as enterprise-level union representatives. We really wanted this agreement and Nordix refused to enter into an agreement signed by the GUF.

This apparent deadlock was innovatively resolved when the enterprise- and global-level unions identified the possibility for the enterprise-level union to sign the agreement as a representative of the Nordix workers and as a representative of the GUF. Since the Nordix enterprise-level union is, at least indirectly, a part of the GUF, it could be seen as representing both the enterprise and global levels. This was an acceptable solution from the enterprise-level union and Nordix perspectives, since it meant that the agreement would be between Nordix and its enterprise-level union. While this was not an optimal solution from the GUF perspective, it was an acceptable one.
We were very skeptical and unsure of whether to support the agreement or not, but we understand that the agreement is important. We would really have liked to see a different kind of agreement. […] That we allowed the enterprise level union to sign as a representative of the GUF was due to the fact that we had reached a point where we did not want to ruin our relationship with Nordix, which has an exemplary history regarding workers’ rights.

**Issues II - IV: Content, scope and control structures**

In addition to the negotiations regarding who should sign the agreement, there were other issues to be negotiated. One such issue was the level of detail of the IFA and here again there were differences of opinion during the process. As one enterprise-level union representative explained, GUF representatives wanted a more detailed agreement than the enterprise-level union did:

Representatives of the GUF argued that all the details should be regulated in the agreement. Everything that is not regulated is a restriction, while we saw it the other way. The agreement should include as little detail as possible, to give us as much freedom as possible. Their ideas were based on the notion that you [i.e., the company and the union] cannot trust each other so everything should be regulated. Our ideas were based on the notion that you should trust each other. If there are some problems, you have to sit down in a working group and solve them. I said that I would not approach the company representatives with such a detailed agreement that they [i.e., the GUF] proposed.

The global union representatives provided a similar recognition of the differences in perspective regarding the level of detail in the agreement between the enterprise and global levels:

We do not think that the Nordix agreement is a good agreement. It is good in principle, but to be a real agreement it should be more extensive and detailed regarding certain areas such as suppliers and have explicit references to all ILO conventions. This is why we were somewhat unsure of whether to sign this agreement or not. We would never have signed a similar agreement with any other company, but we know that Nordix has a history of not signing detailed agreements and I trust them.
As such, there was tension within the union movement, not necessarily regarding the content of the agreement, but rather its level of detail. Amid this tension, Nordix managers opted for a position in line with that of the enterprise-level union.

Short is good. Short and precise is to be desired. I think it stems from the fact that Nordix is not much for fancy statements and long texts about, for example, our employees are our most valuable resource. That kind of statements does not come naturally in our pragmatic corporate culture. [...] You read some of the other companies’ codes and think: ‘Oh, this sounds nice’. But what are they actually doing? I start looking for numbers, tables etc. [...] It was a conscious strategy to keep the text short and general rather than very detailed. If one wants to be mean, one could say that we only did what we thought was necessary. What we thought that we could get away with. But even more than that, I think that it [the level of detail] was an expression of our corporate culture and corporate-union relationship.

Similar to the outcome of negotiations regarding who would sign the agreement, the outcome in this issue favored Nordix and the enterprise-level union’s, as the Nordix agreement was ultimately fairly short and not extensively detailed.

The third issue regarded how strict the agreement should be in terms of suppliers’ operations. The GUF representatives opted for the strict inclusion of suppliers in the agreement. However, Nordix representatives were reluctant to include strict regulations regarding the applicability of the agreement to suppliers’ operations. The Nordix enterprise-level union occupied a middle position on this question, as one enterprise level representative explained:

I fully understand their [i.e., Nordix’s] position. To exert control over the largest suppliers is reasonable, because they buy so much and should then make demands. And they [Nordix] were not against that. But this was not the demand of the GUF: [they wanted] every supplier and sub-supplier to be included, and it should be possible for the GUF to monitor the working conditions at these suppliers. Of course, Nordix claimed: we are doing a good thing here, trying to sign and abide by these rules, and then someone would be able to enter through the back door, throwing more dirt at us than at any other company because we are in the front line. We will be one of the first companies with such an agreement. So there was fear from
the corporate counterpart. We [i.e., the enterprise-level union] were telling the GUF to tone down these supplier demands, because it is not going to happen. It was one of the biggest issues in the negotiations.

The outcome of this negotiation was an agreement close to the position of Nordix and the enterprise-level union. As one GUF representative phrases it,

> The problem is all the suppliers that Nordix is dependent on. We have not been able to include them in our work and therefore we have not been able to influence them. [...] If you look at other agreements, they are really tough regarding suppliers. The issue with suppliers really has to be much stronger regulated than in Nordix’s agreement.

Finally, there was also an issue about how the implementation of the agreement was to be controlled. Nordix representatives strongly felt that they and the enterprise-level union were to be responsible for the implementation of the agreement.

The GUF representatives involved in the discussions were of the opinion that there should be a working group with union representatives [i.e., including GUF representatives] that should monitor compliance globally. We [i.e., Nordix] basically said that this was never going to happen. Anyone from the enterprise-level union knows that they are allowed to go anywhere they want: Nordix has opened and will open all possible doors for them. They can look at whatever they want, whenever, but we are not going to create some sort of task force that attempts to expose non-compliances. This is not the way we want to run Nordix. The GUF representatives still felt that it had to be an external working group – this was the only way to provide trustworthy monitoring. And then we simply had to explain that if this was their absolute demand, we would not reach an agreement. Then we would not even have to discuss IFAs anymore, since it is we who decide how to run Nordix. We have nothing to hide, but we are not going to change our corporate culture into a culture of ambush.

This strong sense of implementation ownership residing within Nordix was to a great extent shared by the enterprise-level union, albeit in a more moderate version:
We [i.e., the enterprise-level union] felt that it was appropriate to use the already established structures within Nordix and expand these committees with issues related to the agreement. Both the company and us do continuous monitoring of the agreement mainly separately but we can also do it together. Our big advantage is that we already have established structures and an established global forum in our World Works Council.

Eventually, the chosen control structure was mainly based on existing Nordix structures, (i.e., in line with the corporate and enterprise-level union’s preferred option). In these existing structures, the GUF is partially included (mainly in the World Works Council); as such, the GUF remains a part of the advisory group for the monitoring of the agreement but plays a more limited role than it had opted for in the negotiations.

In sum, there were numerous issues on which Nordix, the enterprise-level union and the GUF did not share the same opinion regarding the content, scope and control of the Nordix IFA. In all of these issues, the outcome was an IFA closely linked to the corporate and enterprise-level union’s preferences.

**The code of conduct and IFA content**

The end result of these negotiations was a code of conduct and a signed IFA. The IFA is actually a signed version of the workers’ rights part of the code of conduct. The content of these policies thus comprised the Nordix headquarters policy conceptualization of workers’ rights, community involvement and political involvement in the mid-2000s.

Nordix’s policy included the following aspects in relation to workers’ rights issues: i) child labor (Article 32.1 of the UN Convention on the Rights of the Child, and ILO Conventions 182 and 138); ii) forced labor (ILO Conventions 29 and 105); iii) freedom of association (ILO Conventions 87 and 98); iv) discrimination (ILO Conventions 100, 111 and 135); v) remuneration (ILO Convention 100); vi) working time, which should be in accordance with local labor laws and industry standards; vii) individual development plans for each employee; and viii) internal and external recruitment based on competence.

Nordix’s policy included the following aspect in relation to community involvement issues: to positively contribute to the communities in countries and regions where Nordix operates; this was a vague statement identical to Nordix’s social policy discussed above.

Additionally, Nordix’s policy stated that the company is committed to not being involved in political issues in the countries where Nordix operates, and
to having the CEO be the only Nordix representative allowed to make political statements on behalf of Nordix.

When reflecting on the content of the code of conduct, several Nordix managers claimed that it represented European values and, even more specifically, Swedish values. The quote below from a discussion between two managers linked to Nordix’s headquarters staff functions illustrates this well:

- Our code of conduct is really a typical European code. Not even a North American code.

- You could even call it Swedish I guess. I think that if you talk to someone from Southern Europe they would say that this is a Swedish code.

Finally, while Nordix’s policy was applicable inside Nordix’s formal organizational boundaries, the policies also stated that Nordix’s suppliers are encouraged to adhere to a similar firm-society policy and that failure for suppliers to do so increases the risk of being excluded from the Nordix supplier list. This extension of the policy beyond Nordix’s organizational boundaries, led by the firm-society and supply chain functions, will be discussed in detail in Chapter 6. The implementation of the policy inside Nordix’s organizational boundaries, led by the firm-society, public relations and human resources functions, will be discussed in Chapter 7.

**Summary and discussion**

This chapter has showed how the ongoing international sweatshop and code of conduct debates of the early 1990s made its way into Nordix in the mid-1990s via demands from the union movement to adopt an IFA. These demands entered into Nordix via its public relations and human resources managers. Since these managers believed that the union movement would not abandon this idea, despite being skeptical about the utility of a firm-society policy, they responded by developing and presenting a policy proposal to Nordix’s top management. The management halted the process by challenging the idea of a firm-society policy, claiming that it could damage Nordix’s way of operating.

However, as the international code of conduct debate gained an increasingly strong foothold in Sweden during the late 1990s, stakeholders such as the media and shareholders also started (in addition to the union movement) to demand that Nordix adopt a firm-society policy. This time, Nordix’s public relations and human resources managers received support
from top management to respond to these demands through the development of a code of conduct. With the scope of stakeholders exerting institutional pressures broadening, both Nordix’s response and its focus shifted (from a negotiated IFA to a unilateral code of conduct). In developing this code of conduct, a working group consisting of two Nordix staff managers, a consultant and a representative from the union movement both imitated other MNCs’ codes of conduct and UN and ILO conventions, and transformed and added content that they believed to be important. In other words, the working group translated the general code of conduct idea into a specific Nordix code of conduct.

While stakeholders such as the media, shareholders and NGOs were satisfied that Nordix adopted a code of conduct, the union movement continued to demand that Nordix also adopted an IFA. This led to lengthy negotiations between Nordix’s public relations and human resources managers and union representatives. To retain its trustful relationship with the enterprise-level union, Nordix eventually adopted an IFA. However, it was a specific type of IFA, adjusted to fit the trustful Nordix-union relationship. To achieve this, Nordix (and the enterprise-level union) had to challenge the GUF demand to adopt a detailed IFA that would be signed by the GUF. In sum, institutional pressures forced Nordix adopt both a code of conduct and an IFA, but having accepted the idea to formalize its practices, Nordix’s staff managers actively shaped the policy’s form and content.

Nordix’s Swedish home institutional environment played an important role for the formation of its firm-society policy (cf. Campbell, 2007; Matten and Moon, 2008). Most notably, the institutionalized and trustful firm-union relationship – a feature of the Swedish industrial relations system – was central to both why Nordix chose to adopt an IFA and the content of the adopted agreement. Additionally, nearly all involved actors were Swedish – further indicating that the policy formation process was embedded in Nordix’s home institutional environment.

Based on the above discussion, several important aspects can be derived as to how institutional pressures and corporate discretion combined to form Nordix’s firm-society policy. First, regarding which stakeholders exerted institutional pressures, the union movement was one of the key stakeholders in this respect. The Global Union Federation initiated the code of conduct and IFA processes. The enterprise-level union consistently pressured Nordix’s top management to adopt an IFA, and the national-level union was part of the working group that developed the code of conduct. All told, the union movement was a central stakeholder in many different aspects of the formation of Nordix’s firm-society policy. The process of drafting the IFA
also shows the need to consider how tensions in the union movement – particularly those between the global-level unions and the enterprise/national-level unions – influenced the formation of Nordix’s firm-society policy. I will return to this in Chapter 8.

Second, the union movement exerted institutional pressures via continuous bargaining with Nordix’s public relations and human resources managers. This differed from journalists and shareholders, who were more sporadic in their pressure on Nordix to adopt a firm-society policy (cf. van Tulder and Kolk, 2001; Vidaver-Choen and Brönn, 2008). This shows that discrete institutional pressures combined with continuous bargaining pressures to form Nordix’s firm-society policy. I will return to how to conceptualize these different ways in which institutional pressures are exerted in Chapter 9.

Third, all institutional pressures in the policy setting stemmed from Western stakeholders. Nordix was not pressured by any stakeholders in distant institutional environments, and consequently did not face conflicting pressures from stakeholders in its home and its distant institutional environments (cf. Kostova, 1999). Still, the institutional pressures arose as a response to Nordix (and other MNCs) increasingly shifting their factories and suppliers from Europe and the US to Asia.

Fourth, and shifting focus from institutional pressures to corporate discretion, the Nordix managers’ decision to adopt an IFA despite seeing little or no benefits in doing so is interesting since it fits poorly with existing new institutional literature on corporate responses to institutional pressures (e.g., Oliver, 1991). I will return to this in Chapter 8 when discussing Nordix’s responses to institutional pressures. More generally, Nordix initially challenged both the pressures to adopt a code of conduct and an IFA. However, Nordix’s response over time shifted from a “challenge” to a “bargain” response (cf. Oliver, 1991).

Fifth, all institutional pressures entered Nordix via its headquarters staff managers – and principally the public relations and human resources managers – in the policy process (cf. Delmas and Toffel, 2008). Nordix’s staff managers formed Nordix’s firm-society policy based on their interaction with solely Western stakeholders. This is different from Nordix’s firm-society practices in the South Africa setting, which were formed by both staff and operative managers.

Sixth, Nordix’s firm-society policy is only applicable within its own formal organizational boundaries, with the sole exception being the workers’ rights aspects that are also applicable to Nordix’s suppliers. While Nordix initiated practices outside its organizational boundaries (i.e., community
involvement practices), its policy states that Nordix also assumes responsibility for its suppliers’ workers’ rights practices. This is an important difference, with Nordix having to establish systems for ensuring supplier compliance with the workers’ rights part of the policy, while no such systems are being set up for ensuring that other stakeholders, including communities, comply with workers’ rights. In Chapter 8, I will analyze how to understand Nordix managers’ placement of its organizational boundaries and what I call its “responsibility boundaries”.

6. Extending the policy beyond Nordix’s organizational boundaries

While Nordix’s code of conduct and IFA states that Nordix has some sort of responsibility for firm-society issues at its suppliers, it remains vague regarding the details of this responsibility. This vagueness is to some extent a reflection of the vague stakeholder demands facing Nordix, with stakeholders such as unions, NGOs, the media, shareholders and ranking organizations strongly demanding that Nordix assume responsibility for its suppliers but not detailing how far this responsibility should extend or in what way Nordix should turn general ideas of supplier responsibilities into concrete practices.

This chapter describes how Nordix headquarter staff managers struggle with managing the firm’s responsibilities for suppliers and other stakeholders. In essence, this is a struggle to determine how far beyond Nordix’s formal organizational boundaries the company should assume responsibility for firm-society issues; in other words, to determine where to place Nordix’s “responsibility boundaries”. With thousands of suppliers and with staff managers having only limited resources for ensuring compliance with firm-society issues, these managers have to develop tools for prioritizing what suppliers to actively work with. In so doing, the managers have to simplify reality, turning the multifaceted issue of supplier responsibilities into calculable scores. This, in turn, has consequences for how the managers set Nordix’s responsibility boundaries.

In terms of firm-society issues, Nordix’s practices vis-à-vis its suppliers and other stakeholders solely deal with workers’ rights issues. In other words, Nordix does not demand that actors outside its organizational boundaries engage in community involvement issues or avoid becoming engaged in political issues. Nordix managers had two main arguments for this sole focus on workers’ rights. They considered workers’ rights issues as more critical than community and political issues, and believed that key stakeholders such as NGOs, journalists, ranking organizations and unions shared this prioritization. They also believed it more important to ensure that suppliers do not engage in negative practices (i.e., violating workers’
rights) than to ensure that they engage in positive practices (i.e., supporting community projects). This chapter is solely focused on workers’ rights issues, since this has been Nordix’s focus.

**Initial extension to larger suppliers**

**The code of conduct as an initial influence**

Since the 1980s and 1990s, Nordix has influenced its suppliers to consider quality, environmental and health and safety issues. However, prior to the adoption of the code of conduct in the early 2000s, workers’ rights issues had not been included in Nordix’s supplier requirements. This changed when the code of conduct was adopted, with a recognition of Nordix’s responsibilities for workers’ rights at their suppliers. At first, the Nordix supply chain function was reluctant to accept this extension of the code of conduct to suppliers, at least without an information phase. As one supply chain manager put it,

> We started to think with the supply chain team how we could stop the expression in our code of conduct that suppliers have to adopt the same principles.

Despite these concerns, the code of conduct included the statement that suppliers should adopt the same principles as Nordix in relation to firm-society issues. Once the code of conduct was adopted, the supply chain function was forced to start informing suppliers of the new Nordix requirements. This was initially done only in relation to large suppliers (approximately 200). For example, the supply chain team included code of conduct information in the quality standards for suppliers, developed audit questionnaires for workers’ rights issues and started to audit suppliers. The audits were focused on whether suppliers had their own code of conduct and what type of internal systems suppliers had in place for controlling minimum age and minimum wage requirements. The workers’ rights issues in focus at this stage were the minimum working age (child labor) and minimum wage, even though other issues such as discrimination and overtime violations were also occasionally included in the supplier audits. The limited number of workers’ rights issues covered was explained by one supply chain manager in an internal Nordix meeting regarding the development of Nordix’s work with suppliers:

> We developed this strategy with Nordix’s environmental manager and said that the purpose is not to go through everything. We had no
intention to perform a complete audit. We would like to verify the effectiveness of the code of conduct. We would like to verify by two specific points, maybe not more. So do we want to add more? Why not? But then how far do we want to go? If we assume that the supplier has a complete code of conduct in line with our code of conduct plus two of the points very well controlled that we could verify, that should be sufficient. We trust them after that. An audit is always a sampling and not exhaustive.

The Nordix distinction between large and small suppliers is important, since Nordix imposes different demands on its large and small suppliers. Nordix has about 200 large suppliers, who collectively represent a large part of Nordix’s total supplier volume of direct material. It was a conscious choice to initially focus on large rather than small suppliers. As a Nordix manager in the firm-society function explained in 2005,

Nordix has thousands of suppliers around the world, but there are a number of suppliers who supply to more than one Nordix unit (in a few cases even to all Nordix units worldwide). These key suppliers have already for some years been audited by the supply chain team looking at both quality and environmental factors. We have now expanded the scope of the audits to also include compliance with our code of conduct. […] We start this year with large suppliers and we then look at making it more comprehensive. The scope will increase each year.

There were four main motives for focusing on large suppliers initially. First, Nordix has a long history of developing its large suppliers and workers’ rights improvement was thereby linked to existing supplier development programs for large suppliers. Second, large suppliers were believed to be more important, since they represent a large part of Nordix’s overall supplier volumes. Third, it was easier for Nordix managers to focus on large suppliers since the supply chain function was familiar with their operations and continuously visited them for other type of audits. The situation was trickier with small suppliers, since they were rarely audited. Introducing the requirements for small suppliers (which Nordix eventually did) demanded the development of new ways of working vis-à-vis the suppliers, while the requirements for large suppliers could be added to existing structures. Fourth, the limited number of large suppliers was also believed to be a manageable initial number of suppliers to start working with.

At this time, managers in the supply chain function felt that it was unlikely that their large suppliers violated workers’ rights. This was related to
the geographic location of Nordix’s suppliers, with almost all large suppliers being based in Western Europe, the US and Japan. For example, in 2002, Nordix had only about ten large suppliers in China, almost none in Eastern Europe and two in India. There was thus a perception among supply chain managers that workers’ rights-related problems were not present in the regions where Nordix’s suppliers were located. At least not with regard to child labor, which was the workers’ rights issue the supply chain managers focused on. When asked if they reflected on the mid-1990s and early 2000s workers’ rights media “scandals”, a supply chain manager responded that it had not been a concern for them.

Not so much because we did not find anything during the audits we did. Mainly I’m now talking about child labor. Of course if we think about other aspects such as discrimination, then, if we had dug, maybe we would have found things but children we did not find. It was not something that was to be found in our geographic locations. I think that if we had audited the suppliers of our large suppliers it might have been – and still is – a risk.

The Dow Jones Sustainability Index as a subsequent influence
In the early 2000s, Nordix supplier activities remained fairly constant, with some additional workers’ rights questions being included in the ongoing regular audit of large suppliers. At the same time, Nordix managers in operative functions started to shift Nordix’s large and small suppliers to Asia, both to lower costs and ensure supplier closeness to Nordix’s factories in the region. In this way, Nordix managers increasingly moved the firm’s supplier base from Europe and US to Asia without considering the workers’ rights implications of such a move. In 2005, these facts combined, and the firm-society and supply chain function received a poor Dow Jones Sustainability Index rating regarding Nordix’s workers’ rights activities vis-à-vis suppliers. As the responsible supply chain manager recalled,

We were a little bit shocked by the Dow Jones evaluation of our supply chain activities. […] At that time [in 2005], I thought we were good (laugh). We asked the evaluator to provide some more background on why we received such poor evaluation despite the fact that we were doing things. The answer was that the score is always relative to best in class in Dow Jones ratings and given the move of our suppliers to Asia the other companies were doing more than us to mitigate risks.
Additionally, numerous other stakeholders such as NGOs, journalists and shareholders began raising questions about how Nordix ensured that its suppliers complied with its code of conduct. Although the Dow Jones Sustainability Index scored Nordix poorly and several other stakeholders raised questions, stakeholder representatives were unwilling to discuss how Nordix should alter its practices to receive higher scores. As a result, the supply chain and firm-society function had to improve Nordix’s practices, but were given little help from the Dow Jones Sustainability Index and other stakeholders when deciding how to do this. The two most important changes following the Dow Jones Sustainability Index rating and the increasing stakeholder demands was that the Nordix supply chain and firm-society managers introduced a requirement that large suppliers should adopt codes of conduct similar to that of Nordix and that Nordix’s activities should be extended to small suppliers as well. At the end of 2007, over 50% of large suppliers had submitted compliant codes of conduct, and the percentage has risen continuously since then. With activities in place for large suppliers, the supply chain and firm-society functions turned their attention to small suppliers as a second step in the process of extending code of conduct compliance outside Nordix’s organizational boundaries.

**Continued extension to small suppliers**

**Limited resources and unlimited needs**

In 2007, the extended focus on small suppliers materialized in a working group created for small suppliers. The working group was made up of three to five representatives from both the supply chain and firm-society functions (the number and members changing somewhat over time), and had both phone and face-to-face meetings about once a month. In addition to this, subsets of the group met to prepare issues before the working group meetings. The group reported to Nordix’s supply chain and firm-society managers, who occasionally participated in the group’s meetings and, in turn, reported to the CEO. Within the assigned budget, the working group had the mandate to develop Nordix’s workers’ rights practices vis-à-vis suppliers. The focus of the group was, as the supply chain manager put it, “to identify risk even at the supplier who is not that important for us”.

The problem with small suppliers is that Nordix has thousands of them. A supply chain manager in the working group estimated that Nordix has about 14,000 suppliers in total. If we assume that each of these suppliers has 10 sub-suppliers this means that Nordix has over 100,000 first and second tier suppliers. Assuming that an auditor is capable of doing one code of
conduct audit per day on average and that each supplier is to be audited at least every three years, it would take 33,000 working days per year to complete this task – Nordix would need around 150 full-time auditors solely conducting code of conduct audits at first and second tier suppliers. The high number of small suppliers combined with the limited resources the working group had at its disposal put the working group in a dilemma of how to prioritize suppliers.

The quote below, by a member of the working group during a meeting, illustrates how the perceived resource limitation made the working group members decide that a prioritization model for small suppliers was necessary:

I do not know what to do, because we cannot imagine visiting all these suppliers. Of course we visit all the suppliers when we make business with them if we think of direct suppliers, but we also have to consider sub-suppliers of our suppliers. We discussed recently with a large supplier and if we want to reduce our price they would sub-contract a lot of the production and we would then completely loose control of this production. This could be very risky. So how to approach this? For the moment, this is my big point – my big head-ache. […] We need to have a tool to select suppliers. Otherwise there will be no way to choose what supplier to audit and with only limited resources we need a way to prioritize. […] A risk assessment model will also help us limit our resources, because we do not have the resources to perform audits at all suppliers.

Faced with the dilemma of unlimited needs and limited resources, the working group quickly focused on what the prioritization criteria should be. Put differently: why should Nordix invest resources into changing workers’ rights practices at its small suppliers?

**Brand risk: The prioritization criteria**

Initially, there were lengthy discussions of why Nordix should invest resources into firm-society issues at small suppliers. It was also initially unclear what the underlying motive was, with some working group members identifying, for example, ethical motives and others identifying media scandal motives. These motives were often combined, such as when, for example, the firm-society manager argued for investments for both ethical reasons and avoiding media scandals.
Coming back to the question of where we might just be left open for criticism, our own criticism and being exposed by a journalist or whatever is the thing that can happen to us.

Yet another motive was the Dow Jones Sustainability Index rankings, which required continuous improvements in terms of suppliers’ workers’ rights compliance. Working with small suppliers was a way of ensuring high scores in future rankings. Finally, an additional motive was the need to respond to increasing stakeholder expectations, now that Nordix was ranked as a firm-society world leader. This led the working group to believe that stakeholders such as NGOs expected Nordix to develop activities for its small suppliers. The document describing the purpose of the working group captures this diversity of motives well.

This work should help the Nordix supply chain function to avoid the exposure of Nordix to any of the following potential damages: reputation, brand value, negative publicity, stakeholders’ opinions, external demands, and negative sustainability performance ratings.

As the working group continued the discussions, this initial diversity of motives was successively replaced by an increased focus on brand risk as the main motive for investing in workers’ rights issues at small suppliers. This was both due to brand risk being perceived as the most important reason for working with small suppliers, and to the fact that the working group had access to a brand risk model (see below). A few quotes from the members of the working group illustrate the focus on brand risk.

The fact is that our brand could be destroyed by small suppliers using children or whatever. The risk we are talking about is Nordix being associated with a supplier that has workers’ rights violations and this is a risk to the Nordix brand. [...] The small suppliers have many problems. They might actually be the worst cases. But will Nordix really be damaged by this? Will it hurt the Nordix brand? We are doing this to protect the Nordix brand. [...] The risk should really be evaluated against our brand and not against suppliers’ compliance with local law.

The working group envisioned brand risk as stemming mainly from either media scandals (via journalists or NGOs), or negative evaluations in stakeholder rankings such as the Dow Jones Sustainability Index and those by Amnesty International. Although Nordix had not been exposed to any media scandals or poor ranking scores to date (aside from the Dow Jones
supplier workers’ rights score in 2005), the working group wanted to introduce activities to be proactive and in this way avoid future scandals. With brand risk as the principal motive, the focus was implicitly and explicitly placed on estimating how journalists, NGOs and other stakeholders would perceive different potential practices.

I guess, to put it bluntly, if a journalist walks in and checks a supplier, and let’s be honest, they will do that the moment we start to get recognition and [firm-society] awards and being written up. There will be enough journalists sitting around at least in Sweden who would want to say, is Nordix really as good as that?

With the motive being to minimize brand risk, this became the criteria against which decisions were to be evaluated. If it did not affect the brand risk, it was not relevant. As the supply chain manager stated in relation to the type of supplier audits to be conducted,

> Audits are always interesting, but we know that the scope in the future should be a very short audit to be able to detect whether we have a risk for Nordix’s brand or not.

Another telling example of the focus on brand risk is the reflections and decisions following the working group’s first supplier test audits. After having arrived at suppliers with an extensive list of questions inquiring into numerous workers’ rights issues, the working group decided that most questions were irrelevant and should be skipped in future audits. The reason for this was simply that the working group representatives did not believe that supplier violations in relation to several workers’ rights issues would influence Nordix’s brand risk. Even when recognizing that compliance with regard to the now deleted issues was important for workers and included in local labor laws, the working group dismissed them with regard to their effect on brand risk.

When we summarized the day of our test audits, we concluded that most of what we have been looking into is not relevant. In this summary, we reasoned based on a risk perspective. What can get Nordix’s brand into trouble? And it is not if there are showers, how the canteen looks, etc. if it is not extremely bad. Most of what we had looked at were mild issues. But this is not relevant and we concluded that the only issues we really have to look at are those that could damage Nordix good name so to say. That is if they have child labor and if they have forced labor. It is really those two things and the rest
we can skip because that is more for the suppliers’ own development. But since this work we are doing now is only based on Nordix’s reputation, we could take away most issues. [...] Violation of overtime regulation is a major problem in both India and China. We discussed this, but we did not perceive it as a risk for the Nordix brand. Therefore, we decided to delete those questions from future audits.

This emphasis on brand risk is also demonstrated in the working group’s discussion of a presentation made by another Swedish MNC. Several members of the working group believed that this company had a too wide a scope in terms of what suppliers they visited and in what questions they asked. This was attributed to the other company being less clear on its motive for working with its suppliers, incorporating elements related to supplier development as well as brand risk. As the supply chain manager expressed it,

I do not think that their approach was good from our perspective. It was too holistic in its focus. They were trying to both develop their suppliers and minimize the risk. We are clearly focusing on the brand risk. If we were developing suppliers, we would focus on large or key suppliers and do a very different type of audit. This is not our focus for small suppliers. They also do full code of conduct audits covering numerous aspects, but there is no risk related to most of those areas.

Interestingly, the brand risk focus for audits was challenged at the end of 2008 when a new project manager from the firm-society function joined the working group. Based on his suggestions, as well as suggestions from local Chinese supply chain auditors (having just attended externally-organized workers’ rights auditing training) the audit questionnaire once again grew to include most of the workers’ rights issues covered in Nordix’s code of conduct. When the questionnaire was applied in China, it also became clear that almost all of the workers’ rights questions were covered in Chinese labor laws. In other words, the code of conduct audits undertaken by Nordix were, in effect, audits of compliance with local Chinese labor laws. As one working group member put it,

We are really doing the job of the Chinese government, trying to make sure that our suppliers follow the local labor laws. We have to do this to protect our brand, but it is somewhat strange that we should audit local laws.
Thus, while the brand risk focus remained the criteria for prioritizing suppliers, other complementing criteria such as legal compliance with local labor laws were added when the audit questionnaire for small suppliers was finalized.

Risk modelling as the solution to the problem

With brand risk being identified as the key motive for prioritization, the working group searched for ways to evaluate small suppliers’ risk levels – to identify those small suppliers that were most likely to negatively affect Nordix’s brand. In fact, when the working group was first established, one of its members had already been involved in developing such a risk model with other large Swedish MNCs in an industry organization. As such, the conclusion that brand risk was the principal motive for supplier prioritization and the notion of conducting a supplier brand risk ranking occurred simultaneously.

The purpose of the risk assessment tool, according to the working group, was to be able to identify high-risk suppliers without having to visiting them. It was designed to leverage existing knowledge in a systematic way to minimize the likelihood that audits were conducted at low-risk suppliers; in other words, it was designed to minimize the risk of wasting limited resources. One of many similar quotes illustrates how actors in the working group perceived the purpose of the tool.

How can we first know from our office without starting to visit thousand of suppliers evaluate where we have a brand risk? This tool that is available to us is just a conceptual thing with no detail in it, but it struck me as an interesting way to try and highlight, in a more scientific way than just from feelings, suppliers who we really think we need to perhaps visit or focus more on. So, one task for us, as a group, would be to see if we can develop and deploy this tool in, for example, a developing economy. I would suggest China to see how the tool works and to see how we can adapt it to the specific requirements of Nordix.

Risk variables: Developing the risk assessment tool

The big question then became how to create a tool that predicts the brand risk posed by a specific supplier. The already available risk assessment tool provided some initial answers to this question, but was too general and vague to be directly applicable to Nordix’s supplier prioritization. Ultimately, the working group decided that the following factors were needed to predict a supplier’s brand risk: i) geographic location (suppliers in certain countries
will pose a greater risk than suppliers in other countries); ii) work tasks (suppliers performing certain work tasks and producing certain products will pose a greater risk than suppliers performing other work tasks); iii) level of control (suppliers lacking certain internal control structures will pose a greater risk); iv) size (the larger the supplier, the higher the brand risk); v) closeness (first tier suppliers pose a higher brand risk than second tier suppliers); and iv) importance (the more important Nordix is to the supplier as a buyer the higher the brand risk, and the more important the supplier is for Nordix the higher the brand risk).

These six factors can be grouped into three overall variables: the likelihood of a workers’ rights violation occurring at the supplier, the severity of a workers’ rights violation, and Nordix’s responsibility for a violation. The geographic location, work tasks and level of control factors belong to the variable of suppliers’ likelihood of violating Nordix’s code of conduct. These factors were included in the risk assessment tool because the working group believed they were able to predict the likelihood of a supplier violating Nordix’s code of conduct.

The size and work tasks factors belong to the severity variable. These factors were included in the tool because they were perceived by the working group as being able to predict how severe influential stakeholders will regard the violation to be. Finally, the size, closeness and importance factors belong to the variable of Nordix’s responsibility for supplier code of conduct violations. These factors were included in the tool because they were believed to be able to predict the degree of responsibility that influential stakeholders will assign to Nordix if a supplier violates Nordix’s code of conduct. The correctness, measurement and scoring of these variables became the subject of much debate in the working group. Table 3 summarizes the three variables in Nordix’s risk assessment model.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition</th>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Likelihood</td>
<td>The likelihood that a supplier violates workers’ rights.</td>
<td>Geographic location</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Work tasks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Level of control</td>
</tr>
<tr>
<td>Severity</td>
<td>The severity of the suppliers’ workers’ rights violation.</td>
<td>Work tasks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Size</td>
</tr>
<tr>
<td>Responsibility</td>
<td>Nordix’s responsibility for the suppliers’ workers’ rights violation.</td>
<td>Size</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Closeness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Importance</td>
</tr>
</tbody>
</table>

*Table 3: Summary of the variables in Nordix’s brand risk model*
Variable 1: The likelihood that a supplier violates workers’ rights

The likelihood variable comprises the geographic location, work tasks and level of control factors. Of these, the working group quickly agreed that geographic location was a key factor and gave it the highest weight of all factors in the risk assessment model. It was also clear that those countries the working group members initially believed to be risky were mainly located in Asia and Africa. Later on in the process, this belief was somewhat modified when the working group identified that Amnesty International’s human rights country reports were useful for scoring risks related to geographic locations. Given the importance of Asia for Nordix (as compared to Africa) and the importance of China and India in Asia, discussions often focused on suppliers in China and India. Some quotes illustrate these types of discussions.

We are looking into how to assess the risk and develop actions to reduce the risk of violations at our suppliers, particularly in the developing countries, really China and India. [...] If we are honest we will not monitor all of our suppliers. We are really talking about our suppliers in China and India. Chinese and Indian suppliers are much more risky than Swedish or German suppliers.

While agreeing on the importance and content of the geographic location factor was simple, discussions on the importance and content of the work tasks factor was more heated. One central debate was whether or not the work tasks factor was at all relevant or if workers’ rights issues were solely affected by the geographic location. After extensive discussions, the working group decided that suppliers in the same country performing different work tasks posed different brand risks. For example, suppliers performing unskilled and manual work tasks were assumed to be more likely to have child labor than suppliers performing automated high-skill tasks. An example from the discussions in the work group illustrates the debate preceding this decision.

Group member 1: I could rank health and safety and environment for work tasks but not workers’ rights. Workers’ rights are more dependent on country and region.

Group member 2: Not really. Capital intensive and high competence work pose lower risks in terms of child labor.
EXTENDING THE POLICY BEYOND NORDIX’S ORGANIZATIONAL BOUNDARIES

Group member 1: This makes it so vague that it is useless. The issues that are covered in the workers’ rights section are so general that it is impossible to discriminate between different factories in the same region. If you have no variation, then the risk assessment is useless and we might as well throw it away. We will simply be guessing and this is no good.

Group member 2: But we need to have a tool to select suppliers. Otherwise there will be no way to choose what supplier to monitor and with only limited resources we need a way to prioritize.

Group member 1: You can get a non-exact number for some tasks, but you cannot separate between other tasks. There are no differences between these tasks in terms of workers’ rights. This is based on country.

Still, several aspects remained before the group could score the work tasks factor. The group decided to score work tasks based on worst-case scenarios (in practice meaning that they scored work tasks based on how these tasks were performed at Chinese and Indian suppliers), but the European bias of the members of the working group then became clear with several members acknowledging that they knew little of how specific work tasks were performed by these worst-case suppliers. This was handled by involving other knowledgeable individuals in Nordix’s supply chain and firm-society functions and by settling for qualified estimations. The working group also had to decide how to deal with the fact that they did not perceive all workers’ rights issues as equally important. This manifested itself in, for example, the fact that whenever examples of abuses or media scandals were discussed, child labor was always the issue highlighted. To address this, child labor violations were ultimately given twice the weight in the scoring of workers’ rights violations in relation to different work tasks. As one group member put it,

The weighing of the criteria should be much higher on child labor, because this is much more important than other areas. If a journalist or an NGO finds child labor at our suppliers, it is much worse than if they find, for example, overtime violations.

The working group also had to decide on the scope of the work task scoring and decided to focus only on the work tasks performed by first tier suppliers. This meant that all products purchased via distributors were scored based on the work task “distributing” with a low risk of workers’ rights violations.
violations. In other words, the same product delivered to Nordix was scored differently if it was delivered directly by a supplier or via a distributor. The only exception to the rule of scoring first tier suppliers was for those second tier suppliers that Nordix required their first tier suppliers to use. These second tier suppliers were scored in the same way as first tier suppliers. As a result, Nordix’s existing purchasing structures greatly influenced the scoring of the work task factor in the risk assessment model.

Finally, in relation to the likelihood of a supplier violating workers’ rights, the working group included a level of control factor in the risk assessment model. Suppliers with credible internal and external control and auditing systems were thought to be less likely to have workers’ rights violations. The level of control was, together with the geographic location, given the highest score in the risk assessment model. As a manager argued,

In the end it is possible to minimize a high score if you have a good management system. The level of risk control is very important and should be given a high importance in the model. The supplier can really balance and reduce the total risk if he already has good control and management systems.

**Variable 2: The severity of the suppliers’ workers’ rights violation**

The second variable, the severity of the suppliers’ workers’ rights violation, comprises the work tasks and size factors. As noted above, different work tasks were scored differently depending on what workers’ rights issues the group members perceived as likely to be violated, with child labor being given twice the weight. In addition, the working group believed that there was a positive relationship between the size of the supplier and the severity of the workers’ rights violation. This was related to the assumption that the scale of potential violations was higher at large suppliers relative to small suppliers. For example, child labor violations at a supplier with three workers can only add up to three children, while in a factory of 1,000 workers hundreds could be children. As one group member put it,

If you were a journalist or a doing a ranking of companies, how would you score one child labor case versus ten cases? Or five instances of below minimum wage payments versus five hundred? If we just look at other companies’ scandals, it is clear that stakeholders perceive large-scale violations as worse than small-scale violations.

---

30 Work tasks were thus included in both the likelihood and the severity variables.
EXTENDING THE POLICY BEYOND NORDIX’S ORGANIZATIONAL BOUNDARIES

Variable 3: Nordix’s responsibility for the suppliers’ workers’ rights violation

In addition to the likelihood and severity of workers’ rights violations, the working group also developed measurements of Nordix’s responsibility for the violations. In relation to size, the working group felt that Nordix was less responsible for workers’ rights violations at small as compared to large suppliers, since it was easier for Nordix managers to not assume responsibility for workers’ rights violations at small suppliers. As one group member put it,

If there are only three workers in the factory, I could see the CEO saying in media that we did not know this and we have ended this relationship. If it was a supplier of say 500 employees, I think this is much more difficult to say.

In relation to importance, the working group believed that Nordix’s importance to the supplier and the supplier’s importance to Nordix was positively related to Nordix’s responsibility. The more important Nordix was for the supplier, the more the working group believed that Nordix was intertwined with the suppliers’ operations and that Nordix had the ability to influence the supplier’s operations. As one group member clarified,

You need to relate this to the risk of scandals and of journalists blowing it up in media. A bad supplier that is supplying most of its products to Nordix is perceived as carrying more moral weight and scandal value than if Nordix is only one of the suppliers’ 50 or 100 buyers.

For the same reasons, the supplier’s importance to Nordix was seen as positively related to Nordix’s responsibilities for supplier violations.

In relation to closeness, the closer the supplier was to Nordix the more the working group believed that Nordix was responsible for workers’ rights violations. In practice, this meant that the working group saw Nordix as more responsible for violations at first tier suppliers than at second tier suppliers, and to be more responsible for suppliers producing products with Nordix’s brand on it than suppliers producing non-branded products. There were two main reasons why the working group perceiving closeness as important: the closer the supplier is to Nordix the more influence Nordix can be expected to have over the supplier, and the closer the supplier the greater the likelihood that Nordix is aware of what the supplier is doing. As one group member put it,
If an NGO exposes a violation at one of our suppliers, I think the worst case would be a first tier supplier producing products with our brand on it. I think they will hold us morally responsible for such violations, severely threatening our brand.

**Managers’ thoughts of stakeholders’ views shaping scoring**

The above discussion shows that what the working group did in relation to both the severity and responsibility variables was to estimate influential stakeholders’ views of Nordix’s firm-society practices and those of its suppliers. In particular, the working group estimated what journalists, NGOs and ranking organizations viewed to be important. As indicated in the quotes above, working group members often referred to questions such as how a journalist would interpret the violation and how an NGO would act. Despite this extensive focus on journalists and NGOs in particular, the working group had few direct contacts with these stakeholders. Instead, they based their discussions on their general perceptions of how NGOs and journalists view certain practices, and on specific media scandals that continuously emerged during the process of creating the risk assessment model. A quote from the start of a working meeting illustrates this last point.

Group member 3: Did you watch the news last night?

Group member 4: You mean the workers’ rights report about Swedish MNC “Beta”? Child labor and everything.

Group member 3: Yes, it is the first time a company in our industry has been exposed in this way, isn’t it? I really thought that they were investing a lot in supplier audits.

Group member 4: I actually think they have more people working on this than we have, so I guess it might as well have been our CEO facing the reporters outside our headquarters.

Group member 3: Yes, we need to move quickly now. It won’t be long before they do a story about us.

By basing the scores for the severity and responsibility variables on what the working group thought that stakeholders viewed as important, the risk assessment model became an attempt to measure stakeholders’ perceptions (rather than those of Nordix managers) of Nordix’s responsibilities. In this way, Nordix managers did not have to define Nordix’s responsibilities and the relative importance of different workers’ rights violations themselves.
Extension to how many tiers of suppliers?

An issue frequently discussed in relation to the risk assessment model was how to handle second and third tier suppliers. Initially, second and third tier suppliers were meant to be included in the risk assessment model, being scored similarly to first tier suppliers (with the only difference being a lower score in the closeness factor of the responsibility variable). This was due to these suppliers being perceived as posing a high risk to the Nordix brand. The initial formulation of the purpose of the supplier working group also indicates this.

The purpose is to ensure that Nordix suppliers, including small local suppliers, sub-tier suppliers and subcontractors, perform according to Nordix expectations.

A quote from one working group member also illustrates this concern with second and third tier suppliers.

I think that if we audit subcontractors of our suppliers we might find negative things. We really have to think about what to do with these sub-sub-contractors.

However, due to both limited resources and the difficulties of obtaining data about what second and third tier suppliers Nordix was using, the working group decided to, at least initially, not include them in the model. Instead, Nordix added a requirement in its communication with first tier suppliers that they should assume responsibility for the second tier suppliers’ workers’ rights practices. As one group member argued in a meeting,

We cannot go all that way in the supply chain. Then there is no stop in it. We do not have the resources to do this and, even if we did, we do not know who our second and third tier suppliers are. We have to settle for first tier suppliers and try to make them assume responsibility for second tier suppliers and so on. Maybe this is not the perfect solution to minimizing our brand risk, but it is the best we can do given our resources and limited information about second and third tier suppliers.

As noted above, there is one exception to this rule and that is second tier suppliers that Nordix has been responsible for selecting.
Acceptable brand risk level

With the risk assessment tool being completed and decisions being made regarding how many supplier tiers to include, the question remained as to what risk level was ultimately acceptable to Nordix. While the underlying idea that Nordix should prioritize high-risk suppliers was clear, it was unclear what “high-risk” was. As the supply chain manager stated in one meeting,

This is about what risk level we want. We do not audit all suppliers in terms of quality either, so it is all about what risk level that is acceptable to us.

When this study was completed in 2009, the risk level had yet to be decided. However, some indications can be provided regarding how the working group framed the question. For example, the working group believed that the acceptable risk level was related to the type of industry that Nordix was in. With Nordix being a business-to-business company members felt that it was able to carry a higher risk tolerance than business-to-consumer companies. As one member of the working group stated in a meeting,

We are not a consumer company so we are not as exposed to media and NGO campaigns. I know that H&M has 50-100 people in China, but this is a very different company with a very different risk. We do not need the same amount of resources, because we do not have the same risk profile.

However, while the business-to-business nature of Nordix’s operations indicated that a higher risk level was acceptable, the recognition of Nordix as a world firm-society leader pointed the other direction. The working group believed that the fact that Nordix was recognized as a leader would increase the likelihood of stakeholder attention and consequently increase the risk that supplier non-compliance would be exposed.

Additionally, the importance of the brand also features into this equation. Although this was rarely explicitly discussed in the working group, it was clear that the group felt that the Nordix brand was highly important to the company. As such, a media scandal was deemed to be highly costly for Nordix, meaning that only a low risk level was acceptable from a cost-benefit point of view.

Finally, while all of the above arguments are part of a rational cost-benefit analysis of what risk level is acceptable, there is another aspect that in practice seems to be the decisive factor for Nordix’s risk level: the
amount of resources available for conducting audits and working with suppliers to improve their performance. With it being difficult to obtain additional resources (particularly after the financial crisis in 2008), the working group has in practice been forced to accept a higher risk level than desired (although it is difficult to pinpoint exactly what risk level the working group members desired). A discussion from one particular meeting illustrates the difficulty of obtaining resources for working with suppliers.

Group member 3: I am just trying to free one person. Maybe in the theoretical world we can have ten of them sitting waiting to be called into doing code of conduct audits, but I realize that is not the way we would do it.

Group member 5: I fully understand, but the thing is that we are today fighting to get a third auditor for the processes we already have, so sometimes I am also a bit frustrated with that.

Group member 3: If we really want to do this seriously, we need more resources. If we only want to say nice things, we can use what we have.

Group member 5: I do not want to go to top management and ask for additional resources. I know that they would like to see that this activity does not increase Nordix’s costs.

In practice, resource scarcity has meant that in 2009 only a few supplier audits have been conducted based on the risk assessment scoring of suppliers (all of the audits have been conducted in China). To date, the working group has had to accept a fairly high level of risk.

The questions now facing the working group – in addition to obtaining more resources for conducting audits – are who should audit Nordix’s suppliers in the future (Nordix themselves or a third party auditor), how to ensure that suppliers provide reliable responses, what to do with those suppliers that are non-compliant, how to act if purchasing prices increase due to changes in suppliers’ workers’ rights practices, and so on. As we leave the working group in 2009, these questions remain. At this stage, it is clear that Nordix will take action vis-à-vis its high-risk Chinese suppliers in the near future, and that the form of these actions will mainly be audits and working with existing suppliers to enable them to comply with Nordix’s code of conduct demands. However, the details of how this will play out remain to be seen.
Beyond suppliers: Extension to other stakeholders

In the late 2000s, Nordix’s code of conduct was changed to include a section on Nordix’s responsibility for distributors. The 2007–2008 Nordix annual report claimed that distributors were, as with suppliers, expected to adhere to Nordix’s code of conduct. This is interesting because it implies that Nordix is starting to request stakeholders besides suppliers to comply with its code of conduct. The extension of the code to distributors was initiated by Nordix’s firm-society function, which viewed it as a logical continuation of its work with suppliers. As one manager put it,

It is not only suppliers that can damage our brand risk. Think about distributors for example. What if a journalist finds workers’ rights violations at our distributors? They sell our products and are often a strategic part of our business. We had to start working with them as well in parallel with our work with suppliers.

The attempt to extend Nordix’s responsibilities to distributors initially met internal resistance. This was the case mainly from the Nordix functions responsible for sales and market development. One quote from an interview with a marketing manager illustrates the reluctance to extend Nordix’s responsibilities to distributors:

I think it is a dangerous path to take. If we start requiring that our distributors should follow our code of conduct and our competitors are not requiring this, we could be in big trouble. Not in Europe and the US of course, but in Asia and the Middle East for sure. I know that some say that this is a branding problem, but if we do this it will become a sales problem. […] And who should audit this? Will we get more resources for this or should some of our internal auditors start to audit distributors as well? They are not responsible for these relations and how do we ensure that this is done in a good way?

In addition, there were fewer stakeholder demands regarding the extension of these responsibilities to distributors as compared to suppliers. While the idea of MNC responsibility for suppliers has been widespread globally since the early 1990s and in Sweden since the mid-1990s, with stakeholders (such as NGOs, the media, shareholders and ranking organizations) frequently posing questions to Nordix representatives regarding workers’ rights at Nordix’s suppliers, questions related to distributors were rarely raised by stakeholders. Despite the lack of stakeholder demands and partial internal resistance, Nordix’s firm-society managers succeeded, via
EXTENDING THE POLICY BEYOND NORDIX’S ORGANIZATIONAL BOUNDARIES

decisions by top management, to initiate the expansion of Nordix’s responsibility to its distributors.
At the time of writing this thesis in 2009, it is unclear exactly how Nordix will extend its responsibilities for distributors. It appears as though the initial focus is on large distributors, as they had done in the initial focus on large suppliers, but whether this will be followed by extending responsibilities to small distributors and whether a similar brand risk approach will be used remains to be seen.
Finally, in addition to extending responsibility to suppliers and distributors, representatives from Nordix’s firm-society function have also started to discuss extension to other stakeholders as well. As the firm-society manager put it,

The next thing after suppliers and distributors are maybe our joint venture in, for example, China. How do they conduct their business? Do they have a code of conduct and what is our position in relation to this code or the lack of a code? We clearly have a business relationship with these companies, so is this interesting for us? Does it affect our brand or not? Maybe it does and maybe we should care. If we jointly own a factory, can we then escape responsibility for how our partner behaves? Maybe not. I would really say that we cannot escape this, but then comes the next step. What about our customers? Should we start classifying customers in good and bad customers? Where does this end?

The quote illustrates well the current state of discussions among Nordix managers, with questions rather than answers being posed in relation to stakeholders other than suppliers and distributors. Judging from the ongoing discussions, the next potential extension seems to be to large customers. As a representative from Nordix’s firm-society function explained,

We already work with our suppliers and distributors and I think the next step is our customers. It will be a tricky future with someone like us in the middle of the chain being responsible both backwards and forwards. But somehow it is likely going to be us that end up with the responsibility. […] We have to work with at least the large customers, because their behaviour could cause us scandals and problems. It is more difficult with minor customers. When a person walks in from the street and wants to buy one of our products, should we then ask for his name, address, what he is going to use the product for, etc.? We are a company – we cannot do this.
Summary and discussion

Nordix’s workers’ rights practices vis-à-vis its suppliers developed as responses to stakeholder demands. The initial push for extending Nordix’s firm-society practices to suppliers came from the adoption of the code of conduct, which led Nordix’s supply chain function to demand that large suppliers complied with the workers’ rights part of Nordix’s code of conduct. An additional push subsequently came from stakeholders such as the Dow Jones Sustainability Index, which that started to question Nordix’s supplier activities as a consequence of the company’s operative functions increasingly shifting the existing European and US supplier base to Asia. In response, Nordix’s supply chain and firm-society functions expanded these practices to small suppliers as well.

Expanding Nordix’s practices to small suppliers turned out to be challenging due to the firm’s extensive number of suppliers. To handle this, the working group responsible for developing practices vis-à-vis suppliers decided to frame the expansion as a brand risk issue. This allowed the working group to calculate, using a sophisticated tool, suppliers’ brand risk levels, which in turn shaped what suppliers the working group prioritized for a compliance audit. The risk assessment tool stemmed from an industry association and was modified by the working group to accommodate the working group’s thoughts and assumptions regarding stakeholders’ views. As a result, even though the working group did not interact with any actual stakeholders in developing the risk assessment tool, the tool was highly influenced by the working group’s thoughts regarding stakeholders’ (particularly journalists and NGOs) views of Nordix’s responsibilities. Nordix’s work with small suppliers thus developed as a way of proactively protecting Nordix’s brand from potential future media scandals by improving Nordix’s suppliers’ compliance with its code of conduct.

Once Nordix staff managers had been influenced to expand the company’s workers’ rights practices beyond its organizational boundaries, managers in the firm-society staff function continued the expansion to include distributors as well. In relation to distributors, Nordix had faced little institutional pressures to do this; as such, this expansion can be seen as a sign of Nordix initiating practices without experiencing institutional pressures. I will return to this in Chapter 8 when discussing corporate discretion.

Based on the discussion above, several important aspects can be derived regarding how institutional pressures and corporate discretion combined to form Nordix’s workers’ rights practices in the supplier setting. First, institutional pressures were exerted, mainly by ranking organizations, the media,
EXTENDING THE POLICY BEYOND NORDIX’S ORGANIZATIONAL BOUNDARIES

NGOs and shareholders (cf. Greening and Gray, 1994; Lounsbury, 2001; Doh et al., 2009). These stakeholders strongly demanded that Nordix ensure that their suppliers complied with Nordix’s code of conduct but were vague about how Nordix should operationalize this responsibility. Interestingly, the labor union movement that had been involved in the formation of Nordix’s code of conduct was not involved in the expansion of the code of conduct to suppliers. I will discuss reasons and consequences of this in Chapter 9. In addition to institutional pressures exerted by actual stakeholders, Nordix managers created “imagined” institutional pressures in an attempt to proactively predict how journalists and NGOs would view workers’ rights violations at different type of suppliers. I will analyze these imagined institutional pressures in detail in Chapter 8.

Second, the actual stakeholders exerting institutional pressures did so in a discrete way in the supplier setting. Similarly, the imagined institutional pressures created by Nordix managers comprised highly visible NGO and media campaigns threatening Nordix’s brand (cf. van Tulder and Kolk, 2001; Vidaver-Choen and Brönn, 2008). I will return to this in Chapter 9, when discussing the ways in which institutional pressures are exerted.

Third, all institutional pressures in the supplier setting stemmed from Western stakeholders. In this setting, Nordix was not pressured by any stakeholders in distant institutional environments, and consequently did not face conflicting pressures from stakeholders in its home and distant institutional environments (cf. Kostova, 1999). Instead, Nordix ultimately demanded suppliers in distant institutional environments (mainly China) to comply with its code of conduct. Having said this, the institutional pressures exerted by the Dow Jones Sustainability Index and other stakeholders arose as a response to Nordix’s operative managers shifting the company’s supplier base from Europe and the US to Asia.

Fourth, since Nordix supply chain and firm-society managers faced vague institutional pressures, they had ample corporate discretion in forming Nordix’s practices vis-à-vis suppliers (cf. Oliver, 1991). Based on a brand risk model, they used this discretion to translate institutional pressures into a supplier risk assessment tool (cf. Czarniawska and Sevön, 1996). This supplier prioritization, in turn, shaped which suppliers Nordix assumed responsibility for and which suppliers Nordix did not assume responsibility for. Additionally, Nordix translated institutional pressures based on existing supplier categorizations of large and small suppliers, and first, second and third tier suppliers (cf. Cooney, 2007; Love and Cebon, 2008). I will discuss this in greater detail in Chapter 8 when analyzing how Nordix managers
responded to institutional pressures and determined the company’s responsibilities by placing responsibility boundaries.

Fifth, all institutional pressures in the supplier setting entered Nordix via its firm-society and supply chain headquarters staff functions. Nordix’s staff managers formed Nordix’s workers’ rights practices vis-à-vis suppliers based on their interaction with solely Western stakeholders (cf. Delmas and Toffel, 2008).

Sixth, Nordix managers’ struggle to determine the firm’s responsibilities for stakeholders outside its organizational boundaries highlights the expansion of Nordix’s responsibility boundaries beyond its organizational boundaries (cf. Bartley, 2007). I will discuss this expansion in detail in Chapter 8, showing that how responsibility boundaries are placed is central for understanding Nordix’s firm-society policy and practices.
7. A Nordix joint venture in China

A high wall. Behind the wall a factory. Nordix’s joint venture factory. We come closer and closer as we drive through the small community surrounding the factory. I look out the window and see vendors selling vegetables on the side of the road, small mechanic shops and an eight-storey hospital. The driver points to the right and explains that most Nordix workers live in the three-storey apartment buildings that I see close to the road. As we stop outside the guarded gate leading into the factory, I see children from the nearby school playing just outside the factory walls. The driver seems to know the guard and soon he has parked the car inside the gates. There are hardly any parking spaces, since nearly all workers live in the nearby community and walk to work. Instead of parking spaces there is a badminton court, where some workers are playing skilfully. A Chinese Nordix manager greets my interpreter and I, and hands us some protective equipment. We go for a tour of the factory. The factory is darker, and looks older and less well-maintained than the Nordix factories I have visited in Sweden. Still, with workers all wearing the familiar green Nordix uniform, it is not too different from Sweden. At the end of the tour we walk by the human resources manager and the union chairman, who are seated in offices next to each other. We are also introduced to the deputy general manager. I later realize that the deputy general manager is also the chairman of the factory’s Communist Party Committee. I have interviews scheduled the same day so my interpreter and I quickly get ready for our first interview with the joint venture’s marketing manager.

This is my first encounter with Nordix’s joint venture in the Beijing area in 2007. Nordix’s Chinese joint venture story, however, starts well before that. The joint venture was initiated in the mid-1990s, about the same time as the development of Nordix’s firm-society policy described in Chapter 5; its development thus runs in parallel with the development of the policy and its extension to Nordix’s Chinese suppliers. Still, there are few links between these different settings. The most interesting one is that after Nordix’s code of conduct was adopted it was implemented in the Chinese joint venture.
Another link worth noting is that the joint venture managers’ decision to increasingly source material and components locally from low-cost Chinese suppliers was one of the contributing factors in the decision to move Nordix’s supplier base from Europe and the US to Asia, which subsequently contributed to the poor Dow Jones Sustainability Index score discussed in the previous chapter. Still, there are relatively few links between the previously described South Africa, policy and supplier settings and the current China setting.

Nordix’s joint venture has over 500 employees and was initiated by Nordix operative managers, who were attempting to establish production in China. By selecting a joint venture partner with close links to the Chinese government and producing products for a regulated Chinese infrastructure industry of critical importance to the economic development of China, Nordix operative managers entered the Chinese political system. In their interactions with Chinese government officials, Nordix managers do not discuss political issues but do get pushed into discussing community involvement issues – due to the fact that social functions such as schools and hospitals are owned and operated by Nordix’s selected joint venture partner. Through negotiations with Chinese stakeholders, Nordix managers minimized Nordix ownership of social functions, but find it necessary to financially contribute to these functions. This leads Nordix to challenge the prevalent idea in the local community of corporations’ role in society, which is mirrored in community citizens’ views of Nordix’s joint venture.

This chapter is structured as a mixture of chronology and themes, starting from the initiation of the joint venture but then moving into different themes. The chapter concludes with a discussion of the aspects that influenced how institutional pressures and corporate discretion combined to form Nordix’s firm-society practices in the China setting.

A Nordix joint venture in China

High-level government involvement

The Chinese joint venture was first discussed in the early 1990s, when a Chinese delegation visited Sweden to learn about one of the industries that Nordix was supplying products to. This visit was followed by several Nordix visits to China, including visits with the Chinese ministry responsible for Nordix’s industry (referred to in the subsequent text as the Ministry). During these discussions, it was agreed that it would be interesting to look into the possibility of forming a joint venture between Nordix and the
A Nordix Joint Venture in China

Chinese producer, “Chinix”. An important step in the discussions was a four-hour meeting between Nordix’s CEO and the Premier of the People’s Republic of China. This was followed up with numerous meetings between Nordix representatives and high government authorities. As several of the interviewees (mainly from the Chinese side) commented, it was rare that such high-level officials were involved in joint venture negotiations. The high level of government involvement was due to the fact that the joint venture concerned an infrastructure industry of critical importance to the development of the Chinese economy.

The involvement of high-level government officials meant that close links between Sweden and China were advantageous for Nordix with, for example, Sweden being the first country to recognize China in 1949. Several interviewees also stated that the fact that Nordix was Swedish was particularly advantageous in relation to other potential foreign joint venture partners from the US and Japan – countries with which the Chinese government had tense relations. The high level of involvement also influenced the negotiation process, with negotiations being between “the Chinese government and Nordix rather than between Nordix and Chinix” as one representative from the Chinese side put it. The importance of governmental involvement is also illustrated in a quote from one key negotiator on the Chinese side:

It was very important that the Premier of China met with the CEO of Nordix at the China People’s Hall. At the meeting, the Premier stated that if Sweden wanted 51% ownership then you will get this, it is not a problem. Second, a portion of workers will lose their employment, so the Premier said that this is also acceptable but both parties must have a very good settlement condition. All this the Ministry could accept according to the Premier. The reason why I wanted to explain this background to the JV (joint venture) was that this JV involved high leaders in China. It is not in all JVs that the high leaders would personally participate in the discussions. Under such circumstances, it was very quick. […] We later had a press conference with the chair of the Ministry, the Beijing municipality and the district government that had given this investment a very high level of focus with the preparation work being done very quickly.

Similarly, one of Nordix’s key negotiators was “convinced that these contacts [Swedish-Chinese governmental contacts] made high politicians in

31 “Chinix” is an anonymized name that has no reference to either the studied firm’s name or any firm and/or organization actually named “Chinix”.

125
Beijing prefer Sweden and you should not underestimate the importance of this [for the joint venture].”

Identifying a joint venture partner

Before deciding to partner with Chinix, Nordix considered several other potential partners. The decisive factor for selecting Chinix was its close relationship to the Ministry, which was considered so important as to outweigh some negative aspects such as heavy “social burdens” (discussed more below). The strong relationship to the Ministry was the result of Chinix being the only Chinese producer in that industry owned by the Ministry and of the Ministry being the sole customer in the Chinese market (these ties were seen as critical for sales development). The Ministry was both the joint venture partner and the sole customer. As one of Nordix’s key negotiators put it, “we are not going into a joint venture with an ordinary partner. We are going into the political system.”

The powerful influence of the Ministry was illustrated by, for example, discussions of Nordix’s Chinese market share, during which the Ministry asked why they should give the Nordix joint venture a high market share (it was the Ministry that assigned market share to different producers). Furthermore, when Nordix experienced problems with receiving the Ministry’s agreed upon market share, Nordix managers expressed that they needed to have contacts with the Ministry that “have to go to the very top, and possibly the political establishment as well”. In the end, influential ministers in the Chinese governments were involved in ensuring that Nordix received the market shares stated in the joint venture contract. Similarly, when the Nordix joint venture wanted to increase prices (due to improved quality), a representative from the Ministry recalled that “Nordix needed help from us because otherwise the customers would not buy it”; in other words, the Ministry required its companies to purchase Nordix’s products at a higher price.

Nordix managers were well aware of the critical role of the Ministry for the joint venture’s success. Indeed, without a close relationship with the Ministry, Nordix managers did not want to enter the Chinese market at all. Nordix managers also expected that the fact that the joint venture was the Ministry’s first foreign joint venture increased the odds that the Ministry would work to ensure its success. However, good relations with the Ministry were not seen to be enough. Nordix also sought support from Chinese government officials more generally with multiple meetings between the Nordix CEO and chairman and high-level Chinese government officials such as the finance minister. As one Nordix document explains, “in China,
major projects are not possible without political support, as the real decision power rests at high bureaucracy levels. It is therefore significant that Nordix’s chairman has met with several ministers.” As one of the former general managers of the joint venture factory summarizes,

We had a partner that owned 49% of this factory and simultaneously guaranteed that we had customers because it was the customer. This meant that we really built the entire joint venture contract on the peculiar situation that we expected China to continue to be a planned economy. It is a fairly interesting observation I think. We do not enter into this joint venture unless our partner guarantees a market share and a specific product price. […] The real partners were Nordix and Chinix, but we knew that we were totally dependent on the Ministry to secure the promise that we would receive our volumes and prices.

The close links to the Ministry and the Chinese government led to Nordix managers “very frequently being at the Ministry, meeting different individuals and pressuring them to ensure that Nordix received the agreed upon market share and price”. In these meetings and negotiations between Nordix and Chinese representatives, Nordix managers avoided discussions of the Chinese political system. This was due both to some of Nordix’s key managers “not being interested in politics” and to conscious attempts to avoid discussing politics. As the Nordix manager responsible for the joint venture put it,

I would never, ever in any situation at any time discuss politics in China. It is the one thing that I do not talk about. We are not in China to engage in politics. We are in China to engage in business. This is Nordix’s very clear policy position.

Another joint venture manager further explains this apolitical position in relation to perceived duties:

We are clear and careful not to discuss so-called political issues. We do not see it as our duty to have and express opinions about, for example, human rights in China. […] We do not move outside the Nordix sphere so to speak.

This apolitical position is not solely valid in relation to China. As Nordix’s public relations manager explains, Nordix will operate in any country that the UN has not introduced sanctions against.
When I get the question of why we operate in China, I answer that we cannot have our own foreign policies. There is the UN that is perceived to drive these issues and if they decide to introduce sanctions vis-à-vis Rhodesia or Yugoslavia then we follow it. We do not value countries ourselves. We have chosen this path and one could question it. Fair enough, but it is our chosen path. […] Of course the Swedish government’s recommendations are also important. The Swedish government could ban businesses with China, but they have not done that so far. Why should we boycott China, when Sweden does not? On the contrary, Sweden works to stimulate business with China and the UN has not introduced sanctions either, so for us this is a no-brainer.

At the same time, several Nordix managers believed that the mere fact that Nordix was operating in China would likely lead to positive long-term effects. This underlying idea was used by one Swedish manager working in the joint venture to explain Nordix’s apolitical position:

I think that we all justified our [apolitical] position by saying that there were certainly aspects of the way things are done in China that are unsatisfactory. But, by being a part of the industrialization and the increased wealth we are having a positive, long-term influence.

The Communist Party Committee
In addition to the Ministry being a minority owner in the joint venture and the customer, representatives from the Chinese government were also present in the joint venture via the Communist Party Committee and its chairman – the joint venture’s deputy general manager (DGM). The Communist Party Committee accounts for over 25% of the joint venture employees (nearly all of them managers), and arranges meetings, visits to other factories, celebrations of Party days, etc., both during and after working hours. The committee also took decisions on different community projects to support and collected donations from joint venture employees for this purpose. Nordix subsequently matched these donations, which were used for purchasing equipment that is donated to different projects such as orphanages.

Although the purpose of the Communist Party Committee is to secure the interests of the Communist Party, it does not seem to get involved in business decisions. As one Nordix top manager of the joint venture explained,
The Party committee is supposed to protect the interests of the Communist Party. They are there to ensure that nobody challenges the power of the Communist Party and the State. It is more a political role so that things do not get out of hand. The Party has in a way no role in business. Their role is to ensure the people’s loyalty and continued respect for the Party and to ensure that they accept the rules of the Party.

Some interviewees argued that the limited involvement of the committee in the day-to-day operations of the joint venture made links to the Party less important nowadays for activities such as promoting managers (as compared to the situation in the factory prior to the joint venture). More generally, it has been difficult to grasp the influence of the Communist Party Committee. Several Nordix managers and workers claim that the Committee (including the DGM) has limited influence, arguing that it is mostly a social club without any real power. On the other hand, some of the previous joint venture general managers claimed that the committee and the DGM in particular could severely threaten the business. Throughout the history of the joint venture, there have also been occasional conflicts between the general manager and the DGM, with the DGM having used the legal system and direct communication to workers to influence the general manager into making changes. In these instances, the DGM and the Communist Party Committee are described as an internal influence group in addition to and closely linked to the labor union. The view that the committee is influential is strengthened by several workers, who provided examples of when they have directly contacted the committee and used this channel (rather than the union channel) to influence the general manager and Nordix managers to make changes. One example of the influence of the committee and the DGM is provided by the joint venture’s former production manager:

To my surprise, I also found that somebody is directing the workers and managers behind my back. I am the person responsible but it is someone else directing them and protecting them. It is the Party secretary – our deputy general manager – and without his agreement to do something those guys whom I instructed would do nothing. It took me three months to realize this, and I had to go to my boss to discuss how we could overcome this.

Similarly, a Nordix sales manager stressed the importance of the Communist Party Committee.
If you play it right they [the committee] help us as a partner. If they stick to the status quo and say look I am the authority, then you are in trouble. That is exactly what happened in our joint venture at that time.

The DGM is also the chairman for the joint venture’s environment, health and safety committee, which is a forum where company and union representatives discuss, among other things, workers’ rights and community issues. For example, during these meetings the union has suggested the construction of a badminton court outside the factory and demanded improvements to air quality in certain departments. Both of these suggestions were approved and implemented. As such, the DGM is not only important for influencing community projects outside Nordix (e.g., the donations to orphanages discussed above), but also for influencing community projects in close relation to Nordix’s factory.

Due to Nordix’s apolitical policy position, the company does not finance the Communist Party Committee’s activities. The DGM perceives this as positive, since Nordix “should not interfere with the communist concept and politics”. Rather, Nordix “should focus on conducting successful business”. Given this division, the DGM also believes that the Communist Party Committee has “no problems to spread the values and statements of the Party to their members within the factory”. The committee’s financial needs are instead covered by channelling resources from the enterprise-level union that, in turn, receives its financing from the joint venture company (in accordance with Chinese legislation). Consequently, the joint venture indirectly finances the committee’s operations via the union (all in accordance with Chinese legislation).

The labor union

As with the Communist Party Committee, the influence of the labor union is difficult to evaluate. Several Nordix managers claim that the union has little, if any, influence. There are numerous examples supporting this claim, such as salary systems and working hours being changed on multiple occasions without union negotiations (the union was always informed of the forthcoming changes, but this was information and not negotiations). As one joint venture manager with experience from numerous countries put it,
before any major decision we have to seek the permission of the union.

Several workers in the joint venture made similar comparisons, stating that “the union is not as in Sweden—it is not as strong”. The explanation provided for this weaker position is often that the union is closely related to the joint venture management and the Communist Party. As one of the Nordix managers responsible for the joint venture put it,

The management has very important influence in the union, so the union becomes much more of a social club in reality, rather than a real union that negotiates on behalf of the employees. [...] If it were in a Chinese state-owned enterprise, then the union would be an instrument of the Party and the management to keep workers obedient. But in the joint venture, they are used [by the Party] as a tool to keep the foreign company honest.

The strong link between the union and the Communist Party is, for example, illustrated by the fact that the union chairman reports to the DGM. As one Nordix manager put it, “there is no real labor union, there is a Party, there is a Communist Party.” The union chairman not only reports to the Communist Party Committee, he also has to be a member of the Communist Party. To become a Party member, individuals generally need to have advanced to a management level within the joint venture. Moreover, the union chairman can in practice only be selected from factory managers, since only these managers are eligible to become members of the Communist Party. Add to this the fact that nearly all managers in the joint venture are union members, and it becomes clear that it is “unclear who the union represents”, as a former general manager of the joint venture put it. An example from another Nordix factory in China further illustrates the reality of union organizing in China, with the human resources manager of this factory claiming that “the central ACFTU organization [the sole Chinese union organization] in Shanghai has on multiple occasions contacted me to make me set up a union”. Hence, national union representatives encourage corporate management representatives – in addition to or instead of workers – to form unions.

All this indicates a weak role of the labor union in the joint venture. At the same time, several interviewees highlighted the relative strength of the joint venture enterprise-level union in comparison to other Chinese local unions. For example, the joint venture union has two full-time representatives organizing union activities and more than ten elected union repre-
sentatives, was one of the first unions in the Beijing area to sign a collective agreement, and allows union representatives to participate in board meetings. Furthermore, the union has successfully demanded changes to working conditions in the past. For example, it has increased the temperature in the factory after having shown that it was below the legally allowed temperature, improved air quality in parts of the factory, increased the use of protective equipment, initiated the construction of a badminton court, and lowered overtime violations, via complaints to the local labor bureau. In most of these instances, the union has based its demands on existing Chinese laws (mainly the labor laws). As the joint venture human resources manager put it, “when the union pushes for changes, they are often related to the labor law”.

In addition to the actions described above, the union and workers also gain influence in other ways. This includes workers lowering the pace of production, not co-operating with regard to changes, occasionally damaging machines, reporting incorrect working hours, sending poor quality products to customers, and even on one occasion sending pictures of nude women in product packages to customers. There are numerous examples throughout the history of the joint venture of how workers have used these tactics to influence decisions. For example, in the above mentioned changes to salary systems, the union might not directly have been involved, but Nordix managers were very careful in making changes, as they were highly mindful of potential worker reactions. Several proposed salary changes had also been stopped by the Nordix managers themselves. As the human resources manager of the joint venture put it,

> We were trying to change the salary system but there are such strong powers in the factory so we did not dare to do it. Just in case of the potential turbulence. We had cases where people were slowing down at work, and given that we have a huge market demand that is definitely not something a manager wanted to see.

Further strengthening the position of the workers is Nordix’s high dependence on the Ministry (i.e., the customer). As one sales manager of the joint venture put it, “the Ministry wants to avoid unrest and strikes so this is also why Nordix is so scared of workers’ reaction so as to not damage relations with the Ministry”. Additionally, many workers (and the union) have close contacts in the Ministry, making it possible to use the Ministry as a threat in negotiations. For example, during some management-worker conflicts, representatives from the Ministry suddenly showed up to conduct unannounced sample product quality checks, singling out specific product
boxes that, not coincidentally, had very poor quality products (so poor that they could not have been produced through the regular production process). This, in turn, caused repercussions from the Ministry.

All in all, it seems as if the enterprise-level union is both influential and not influential, depending on the issue. The union also seems to have limited formal influence, but more informal influence. More generally, the union seems to have a dual goal. It is part of the management and the Communist Party and, as such, is weak in negotiations. At the same time, however, it represents the workers, promoting workers’ rights in negotiations with management. These negotiations could be both direct and indirect via other channels (such as involving the Ministry). Several Nordix managers and workers also recognized this union duality. As the first general manager of the joint venture recalls from the first company-union negotiation,

In our first salary negotiation, I told him that you represent the workers and I represent the company. I asked: “What are your demands and expectations?” Confused he just looked at me and eventually said: “What do you think?” He could not understand the idea to fight with management, but was rather thinking how can we keep workers happy and calm. Before the joint venture they had a booklet describing the union’s activities and the first paragraph said that the most important union task is to support management to retain stability in the company. I could have really abused this, but I guess I tried to educate him in our view of a union. Actually, I was the one initiating the formation of the union and it was a big thing at this time with representatives from Beijing, etc. being present. […] I needed someone to speak for the workers, because I got people walking in to my office telling me what needed to be changed. This was not appropriate. We needed to have some sort of representative democracy to make this work. […] In my last negotiation, I remember that they tried to make demands so I guess they had learned something.

During the initial years described in the quote above, the Swedish part of Nordix’s enterprise-level union was also involved in union relations in the joint venture factory. For example, Swedish union representatives assisted in the creation of the first collective agreement. However, much of this initial work inspired by Swedish union representatives was lost over the years and in 2007–2008 the human resources manager and the union chairman barely even knew of the collective agreement and did not use it.
Code of conduct implementation

A few years after the joint venture was established, Nordix adopted its code of conduct and IFA. A process for implementing the code of conduct was then established in the joint venture factory. In practice, this meant that all newly recruited workers have received a copy of the code, that the code has been posted in different parts of the factory and that most workers have participated in firm-society training, including discussions of the content of the code of conduct. Furthermore, the code of conduct is audited internally within the factory, nationally by an auditor from another Nordix factory, globally by an auditor from Nordix’s firm-society function, and by external consultants.

Interviews with Nordix managers and workers also clearly indicate that almost all joint venture employees know of the code of conduct, even though hardly any worker can provide examples of what the code includes. In terms of code of conduct compliance, the joint venture factory is highly compliant. In fact, this factory is more compliant than Nordix managers are expecting its Chinese suppliers to be (see Chapter 6). This higher level of compliance is likely not only related to Nordix’s existing audit and information systems but also to the nature of the operations performed in the factory, which require skilled workers. As one auditor from Nordix’s firm-society function put it,

The type of operations we are running demands technical competence. This automatically excludes certain problems. For example, we would not even want children or forced labor in our factories even if we had the opportunity. It is not the type of workers we need. This eliminates numerous problems even before the entrance of audits. We also pay three to four times the legal minimum wage, further reducing potential problems.

The only real code of conduct-related problem in the joint venture is violations of legal overtime limits. Despite auditors having identified violations of Chinese labor law regulations and the code of conduct requirements, the joint venture still has difficulties complying with legal limits. In addition to overtime violations, another potential violation relates to freedom of association (i.e., union rights), since China only allows one union organization – ACFTU. However, whether or not Nordix violates freedom of association requirements is not audited in China. One Nordix auditor linked to the firm-society function explains his view of this:
Internally we have discussed union issues and I guess it is a weakness that we do not handle in a good way. The union is a part of the state in China. Regardless, we do not audit workers’ freedom to join unions in China.

Despite this high level of code of conduct compliance, the code seems to be of limited use to different actors in the joint venture. For example, managers directly responsible for code of conduct implementation (such as the human resources managers and the environment, health and safety manager) could not cite any cases in which they had used the code. Similarly, the union chairman talked positively about the code, but could not give any examples of how it had influenced local practices.

When discussing the code of conduct and concrete examples, the interviewed managers, union representatives and employees emphasized that the role of the code of conduct is more to state the importance of complying with Chinese labor laws than to impose additional standards. Their perception was also that all workers’ rights issues outlined in the code of conduct were already covered in existing Chinese labor law. Since legal compliance is of highest priority for both Nordix’s joint venture managers and union representatives, workers’ rights practices are therefore established without it being necessary to refer to the code of conduct. For example, the human resources manager and the union chairman closely follow ongoing changes to the labor law, spending days reading the preparatory work on forthcoming changes in relation to, for example, temporary workers. The union also frequently use Chinese labor law – rather than the Nordix code of conduct – in negotiations with the joint venture management regarding, for example, overtime regulations, and even occasionally involve the local labor bureau to improve compliance. Thus, while the code of conduct was rarely used in practice, Chinese labor law played an important role in influencing the joint venture’s workers’ rights practices.

Carving out a factory

Leaving the inner workings of the joint venture aside for a moment and moving into the community surrounding the factory, it is clear that several community functions are located within the factory area. When Nordix representatives initially visited Chinix to decide whether or not to enter into a joint venture with them, they similarly concluded that there was a whole community built around and belonging to the existing Chinix factory. For example, there was a fire brigade located in the factory, a hospital that employed over 200 persons, a training centre of 300 people, a group of over 300 people managing the residential houses of the employees, a security
department of over 150 individuals, and a school that had an unknown number of employees. In total, Chinix had over 7,000 employees, with 1,500 employed in Nordix-related activities, 2,500 employed in other business activities, and 2,000 involved in social activities such as the hospital, school and housing. As one of the Nordix manager visiting Chinix put it,

There are amazing similarities with factories in Eastern Europe: oversize, poor buildings and infrastructure, too many employees, disorder and lack of cleanliness, little or no attention to manufacturing stock, low productivity, and a whole society created around the factory.

Nordix’s entrance into a joint venture with Chinix would imply extensive changes in both Chinix and the surrounding community. With the entire community being built around the Chinix factory and large parts of the community belonging to it, a joint venture would radically change the community’s situation. As one of the Nordix managers negotiating the establishment of the joint venture stated, Chinix “includes complete social structure (school, hospital, apartments), and is the foundation for the community’s existence in all respects.” Initially during the negotiations, the Chinese side did not feel that Nordix’s managers understood why they wanted Nordix and the joint venture to contribute to social services. As one of the Chinese negotiators explained,

In the beginning, Nordix did not quite understand why they should pay. “We are here to have the factory and these are your issues. These are societal issues and welfare issues. They are not company issues.” When it comes to the community everything is related to the factory. First the infrastructure, schools, houses, etc. were built, then comes the factory. […] Chinix owns the school, houses, hospitals etc. It is like factory departments that they manage and operate.

A former Chinix manager further explained that “the factory was not just a factory, it was a community”, and that the main role of Chinix prior to the joint venture was “not only to supply products, but also to provide employment.” With Chinix and the surrounding community being tightly connected and Chinix comprising multiple operations, the issue of which parts of Chinix’s operations should be included in the joint venture came to the fore. From the beginning, Nordix’s management strongly believed that the joint venture should purchase services such as health care, a workers’ campus, housing, schools, and dentistry from the non-joint venture parts of
A Nordix Joint Venture in China

Chinix. As one manager put it when informing Nordix top management about the joint venture discussion, “only activities related to our product are involved in the joint venture concept”. Another Nordix manager negotiating the establishment of the joint venture elaborated:

We quickly realized that this was a large complex bulk to deal with. We did not want to own houses, schools etc. We wanted to have a factory. We wanted to build a fence around the factory and then live a modern life, so to speak, inside the fence. It was actually fairly tricky to legally move employees to the joint venture, while still allowing them to live in Chinix houses.

Yet another Nordix manager involved in the negotiations further explained that to run social functions was never even up for discussion.

Initially they [Chinix] wanted to push as much as possible on the foreigners. But here Nordix had a very clear and minimalist position that, for God’s sake, do not get pulled into the social system. Let us stay as clean as possible. This was a clear work policy that we established very early in the negotiations. […] If we wanted we could have become both involved and joint owners of dental clinics, schools, daycare centres, etc. I remember very well one time when I discussed all this with our Nordix lawyer and he just said: “No, no, no, we should not even discuss this!”

Two Nordix managers linked to the company’s firm-society staff function made a similar point regarding how Nordix’s operative managers view ownership of social functions in general:

We have a ‘stay inside and manage your business’ kind of culture among our managers. […] Operative managers simply do not see the benefits of engaging in community activities.

Nordix’s position posed some challenges to Chinix, which had to start restructuring its operations to distinguish between workers involved in the production of Nordix’s type of products and other workers. At this time, the entire Chinix factory of over 7,000 employees was one legal unit. Nordix demanded the separation of all social functions from the joint venture part of Chinix. As a former general manager of the joint venture factory put it,
CHAPTER 7

In Chinix there were no clear distinctions between production and community workforce. They had almost equal status. While when we came in, of course, we only focused on the production workforce.

Prior to the joint venture, the joint venture part of Chinix had covered more than 70% of Chinix’s costs for social activities despite only employing about 25–30% of the workers. This was due to Chinix’s way of distributing costs based on capital employed by different departments rather than based on number of employees. With the joint venture employing most of Chinix’s capital, this part had traditionally been assigned the bulk of the social service costs for hospitals, housing, schools, etc. As the Chinix CEO stated in the negotiations,

Nordix-related production activities today carry 70% of Chinix’s administrative cost, including the social burden. When the JV is established, the parties must consider this fact, as the remaining part of Chinix cannot carry this burden alone.

In the end, Nordix also decided to purchase social services from Chinix. As one of the Nordix managers responsible for the joint venture explains,

The entire community revolved around the company, but when we took over we got out of all this. We pay a fee for the services to our partner that takes over these responsibilities. [...] We cut all of that out. We do not understand this! We will not be able to handle this. We buy our way out of this. We pay for our employees, but we shall not manage this. I think this was a very sound and important decision. We would never have been able to manage this. It was complicated enough to take over the rest of the company.

When agreeing that Chinix should supply “the social service package”, Nordix and Chinix also agreed that “a guiding principle shall be that the JV pays in relation to number of employees”. Contributions to social services changed from being based on capital employed to being based on the number of employees. With the envisioned joint venture only taking over about 25–30% of the previous workforce and cutting two-thirds of this, it meant that the joint venture would pay about 10% of the social costs when based on number of employees (as compared to 70% prior to the joint venture). Additionally, this cost was not expected to increase because while the joint venture’s productivity was expected to increase radically through organizational changes and investments, the number of employees was expected to remain the same. The effect of this is seen in cost calculations.
for the joint venture, which has a budgeted constant cost for social services throughout a ten-year period, while the total cost for the joint venture was expected to increase by over 50% during the same period.

The cost for social services actually decreased over time. For example, during the initial years of the joint venture (when it experienced poor profitability), the contribution to social services was renegotiated and cut by about 20%. Additionally, over time the Chinese government has taken over responsibility for the hospitals and schools from Chinix, meaning that Nordix no longer has to pay for these services. All this has decreased total costs, since Nordix has not added any new community-related projects (beyond those initiated by the local enterprise-level union, such as donations to orphanages) since the launch of the joint venture.

At the end of 2000s, Nordix’s main contribution to the community is an indirect contribution to Chinix via dividends that are, in turn, used for many social services. Given Chinix’s financial problems and the high profitability of the joint venture, the dividend is necessary for Chinix to be able to retain its employees and invest in social services such as the new sports stadium that was built in the mid-2000s.

Overall, it seems reasonable to conclude that Nordix’s managers have paid limited attention to community issues in relation to the joint venture. As one general manager put it, “the focus has been on success in business and not in understanding success for the community. For example, I believe that there is too little space for social activities such as badminton courts in and around our factory, but other Nordix managers believe that we should even reduce our total space.” Several interviewed Nordix managers responded similarly when asked about the community aspects of their operations: “this is actually very interesting, but in fact I do not believe that we have really thought about this.”

When asked, some Nordix managers were somewhat critical about the limited community involvement in the joint venture.

Maybe we forget the social aspects when we enter into these countries that are on the path to industrialization. Maybe they are where we were decades ago and Nordix then supported social infrastructures such as schools, hospitals and houses. Maybe we should think of a different strategy. We have become used to this not being our responsibility any more. We are raised in our world, the Western world, where these issues are handled by the society and not by us. [...] When we then enter other markets maybe we should not minimize our role as we do today. I do not have the answer, but I think that we should really think about this.
While some managers are potentially rethinking Nordix’s strategy, other managers claim that the Chinese partners have come to understand Western companies’ preferences for solely production units. As one manager put it,

I think the Chinese have learnt that companies thinking about buying a factory will say: ‘we will buy this, but we will not take this and this [social function].’ So nowadays the companies on sale have already been restructured before the negotiations.

Community relations
The limited connection between the joint venture and the community is readily noted by the villagers living near the factory. None of the interviewed villagers feel that Nordix was a part of the community. Some quotes serve as examples of the villagers’ perceptions.

Nordix management is not involved in the community. They are only here to make money. […] Nordix has a very limited scope and is only looking for profits. It is like the summer palace that took 50 years to build and then the French came and burnt it down and got rich. The Chinese did the work, but did not receive the benefits. […] Nordix management have little contact with locals in the community. […] They are only here to do business and are not a part of the community. […] Nordix does not care about the community. […] There are hospitals in Beijing that are built by US-Chinese companies. They are giving back to society and creating improvement, but Nordix has not done this.

Interestingly, most villagers are unaware of Nordix’s contributions to hospitals, schools and houses. Not even the teachers knew of Nordix’s contributions to the school. This is due to Nordix paying Chinix for social services and there being no transparency regarding how Chinix uses these funds. As the financial manager of the joint venture put it, “we do actually not know if they [Chinix] channel the money to the school or if they find other ways to spend it.”

Despite these negative feelings, villagers have not directly confronted or interacted with Nordix. Instead, when trying to influence the joint venture, this is done indirectly via links between villagers and representatives of the Ministry or joint venture employees. The villagers have, at least occasionally, used such links to negatively influence the operations of the joint venture by making the Ministry damage the joint venture in different ways.
Redundancies and recruitments

Related to the issue of carving out a part of Chinix’s operations for a joint venture is the issue of redundancies. Nordix managers believed that the suggested joint venture part of Chinix’s operations employed about three times too many workers (approximately 1,500 instead of the estimated 500 workers needed). When deciding which of these workers should join the joint venture, Nordix managers argued that recruitment should be strictly based on competence. Although this was well before the launch of the code of conduct, this reasoning mirrors Nordix’s policy position on workers’ rights. As one Chinese human resources manager explained more generally (i.e., not related to the joint venture recruitment),

We have a clear code of conduct. We do not need to discuss whether this is right or wrong, because it is clearly stated. For example, when it comes to hiring people we should not hire this person because of maybe personal relations.

As with how the community issues were resolved, Nordix managers wanted Chinix to assume responsibility for redundancies. In return, Nordix would provide a one-time payment to help cover the costs; this payment was made directly to Chinix without any transparency or assurance that it would actually reach the employees. As the first joint venture general manager stated,

Simply put, Nordix solved the social situation by taking out the wallet. […] By signing a legal agreement and paying, we got away from the responsibility and this was also our explicit aim. Sadly I think that Chinix did not use the money for redundancies because they had so many other black holes to put money into. There is a big risk that at least part of the money disappeared into other parts, but there is no transparency in this so we actually do not know. […] We understood that there would be no transparency, but the decision was that we do not need to influence this because it was a strict legal agreement. I actually remember that I got a visit by about 20 workers that had lost their employment and they were upset saying that they had no money, no food, no support from Chinix, etc. I responded: “It is actually not my problem, because we have made a deal with Chinix and you must talk to these managers. I have signed a legal contract not to discuss this agreement.” They left devastated, because they were convinced that Chinix’s management would never discuss the settlement with them. If the workers would have known what was in the contract with us paying such large sums, then there would be
massive protests so still today I do not think they know how much they should have gotten. [...] To put it bluntly, all this did not affect Nordix to any great extent. There were no official protests, etc.

Ultimately, the joint venture employed less than half of the original workforce and as negotiations came closer to their end, tensions rose among the employees, with people feeling insecure about their future employment. In a fax to headquarters, a Nordix manager captured the insecurity and uncertainty around what changes the joint venture would bring:

Rumours are currently flourishing in the community, with over 1,000 persons wondering about their future. The mere fact that we are discussing candidates for management in the joint venture has spread the word that specific persons will be elected to become this or that. Rumours also have it that Nordix easily fires people, and pensions and other “rice bowl policies” are no longer guaranteed.

The Nordix operative managers responsible for recruiting decided to first recruit a management team, then allow this team to recruit their managers, and finally allow these managers to recruit workers. The idea was justified as a mix between a Swedish way of trusting managers to make informed decisions and an attempt to use the importance of relationships in China (“guanxi”) to Nordix’s advantage. The actual result, however, was that managers and workers were recruited based on family and personal connections. The reason for this was fairly straightforward – since joint venture workers received high salary raises and redundant workers received hardly any money at all, managers were attempting to secure the future of their relatives and friends.

In relation to the layoffs, there were some initial protests in the village. As one Nordix manager remembers,

Those that could not join the joint venture protested. Some workers went to our managers and went into to the kitchen and said “Feed me! We have no food, so now you feed me!” I had no idea that it would come to this. I would probably have taken the same decision [in terms of layoffs] anyway, but that was how they protested. Quiet but very clear.

The consequence of this approach to recruiting was that there are close personal relationships between different workers and between workers and managers in most departments. Additionally, most workers live in houses in the same community and it is evident that there are close connections
between the employees. Consequently, it is difficult to undertake organizational changes and receive information about misconduct (e.g., information about who destroyed a machine). Even at the end of the 2000s, it is difficult to move away from recruiting based on personal ties in the joint venture factory. As one joint venture manager points out,

I said that I wanted to recruit someone. Human resources gave me a list and told me to choose from these. It actually then turned out that one on the list was the human resources representative’s nephew.

In sum, Nordix’s joint venture managers invested more in redundancies and social functions than they initially wanted. The reason for this was twofold: the fact that Nordix managers believed that these investments were useful for making the Chinese government accept Nordix’s majority ownership, product price, market share and other demands, and that stakeholders initiated, for example, donations to orphanages and Nordix’s joint venture managers decided to support these practices.

The 2008 Olympic Games

Before concluding this chapter it is worth shortly describing the firm-society discussions surrounding the 2008 Olympic Games in China. At this time, the Nordix joint venture was a financial success, and the factory was one of Nordix’s largest and most profitable in China. However, while it was a financial success, the joint venture’s close links with the Chinese government (i.e., as owner and customer, and through the Communist Party Committee and the union) was seen as a potential vulnerability with regard to stakeholder criticisms – particularly in the context of the 2008 Olympic Games and the anticipated increase in the number of questions from journalists, NGOs and shareholders about Nordix’s role in China.

As the 2008 Olympic Games approached, stakeholders in Sweden (mainly media and NGOs) also posed questions to Nordix’s firm-society and public relations functions about whether or not Nordix contributed to the dismantling or upholding of the Chinese communist system. It was clear that a few of these stakeholders aimed to expose what they believed to be Nordix’s support for the Chinese system, but none of the stakeholders were sufficiently informed about Nordix’s Chinese factories to tie this criticism to the establishment of the joint venture; in the end there was little actual public criticism of Nordix’s operations in China. The actual stakeholder criticism was both less severe and less detailed than Nordix’s firm-society and public relations functions had expected.
In 2007–2008, Nordix’s firm-society function felt that more community projects should be undertaken in China. This led to investments financed by the firm-society function in, for example, a school for underprivileged children in a remote area of China. In other words, while Nordix’s joint venture management showed little interest in becoming involved in the local schools located just outside the joint venture factory (one of these schools even provides education for positions in the industry), Nordix’s firm-society function was involved in the establishment of a school in a remote area far from any Nordix factory.

**Summary and discussion**

In the mid-1990s, Nordix initiated a joint venture with the Chinese partner Chinix. The selection of Chinix was related to its close links to the Chinese government and thus through this joint venture Nordix entered the Chinese political system. The close links to the Chinese government were advantageous from an operational perspective, but also meant that Nordix operative managers faced demands from representatives of the Chinese government (the Ministry, Chinix, and the Communist Party Committee) to contribute to social functions in the joint venture community. While succeeding in delimiting Nordix’s responsibilities for the surrounding community by narrowly placing Nordix’s formal organizational boundaries, Nordix managers were obliged to financially contribute to the community. These contributions were channelled via Chinix, with Nordix operative managers not having any information regarding whether or not the contributions actually reached the community. This outsourcing of operational responsibilities for community involvement to Chinix meant that citizens in the community around the joint venture factory knew little of Nordix’s contributions. Instead, they perceived Nordix to be solely interested in running a profitable business.

The joint venture’s close links to the Chinese government also led to frequent contacts with Chinese government officials. In these contacts, Nordix operative managers stayed clear of political issues – a position receiving little, if any, criticism from Chinese stakeholders. Still, the close links to the Chinese government led Nordix’s headquarters firm-society and public relations functions to discuss potential questions that journalists and NGOs could raise as the 2008 Olympic Games approached. Ultimately, while Nordix did face some questions about its involvements in China, they were not as critical of the company as Nordix’s firm-society function had prepared for.
When Nordix’s code of conduct was adopted in the early 2000s, the code was implemented in the Chinese joint venture. While Nordix managers, union representatives and employees of the joint venture all knew of the code of conduct and saw it as desirable, there were hardly any examples of instances where the code of conduct had been used to alter the workers’ rights, community involvement or political involvement practices. Instead, workers’ rights practices were driven by Chinese labor law (which covered most of the workers’ rights issues outlined in the code of conduct), Nordix operative managers, and the local joint venture labor union. Similarly, community involvement practices were driven by the initial joint venture contract and the local joint venture labor union. Thus, in practice the code of conduct added little to the joint venture’s existing firm-society practices.

Based on the discussion above, several important aspects can be derived regarding how institutional pressures and corporate discretion combined to form Nordix’s workers’ rights practices in the China setting. First, a wide range of stakeholders exerted institutional pressures on Nordix. Most importantly, stakeholders closely linked to the Chinese government (i.e., the Ministry, Chinix, the Communist Party Committee and the joint venture labor union) were influential in the China setting (cf. Meyer and Scott, 1983; Frynas et al., 2006). This was the case both in relation to these stakeholders directly interacting with Nordix’s operative managers, and with the Chinese labor law being central to the formation of the joint venture’s workers’ rights practices.

Second, the stakeholders closely linked to the Chinese government mainly exerted institutional pressures via ongoing discussions and negotiations with Nordix. This was somewhat different from the way in which Western stakeholders such as journalists and NGOs exerted pressures in discrete and publicly visible ways (cf. van Tulder and Kolk, 2001; Vidaver-Choen and Brönn, 2008).

Third, institutional pressures in the China setting came from both Chinese and Western stakeholders. In relation to political involvement, there were some conflicts between the Chinese institutional pressures and the actual (and, even more so, the imagined) Western institutional pressures (cf. Kostova, 1999). In contrast, there were few conflicts on workers’ rights issues since the Western institutional pressures coincided with Chinese labor laws. The main conflict in relation to workers’ rights issues was the Chinese restriction regarding employees’ freedom to join labor unions; here, auditors linked to Nordix’s firm-society function decided not to require compliance with Nordix’s code of conduct. I will discuss this in more detail when
CHAPTER 7

discussing the implementation of Nordix’s firm-society policy in Chapter 8, and the role of institutional distance in Chapter 9.

Fourth, and shifting focus from institutional pressures to corporate discretion, Nordix actively responded to institutional pressures in the China setting. For example, Nordix “challenged” the pressure to assume ownership for social functions and “bargained” to minimize their financial contributions to these social functions (cf. Oliver, 1991). This resistance and narrow placement of Nordix’s organizational boundaries was based on Nordix operative managers’ taken-for-granted idea that social functions should fall outside Nordix’s organizational boundaries. As one manager put it, they wanted to “build a fence around the factory”. For example, the managers neither attempted to obtain any financial information regarding the social functions nor conducted any cost-benefit analyses. Rather, they had an a priori idea of what Nordix (or any Western MNC) does, and this did not include social functions (cf. Bansal and Roth, 2000). As such, when placing the joint venture’s organizational boundaries, Nordix operating managers resisted a competing, more inclusive idea of what comprises a “firm” in favor of an idea of the “firm” as having minimal corporate ownership of social functions. The rationale favored certainty, stability and predictability by minimizing risks, rather than using cost-benefit analyses to take a potentially different decision (cf. Oliver, 1991, 1997; Kondra and Hinings, 1998), since “it was complicated enough to take over the rest of the company” as one manager put it. I will return to this in Chapter 8 when discussing the placement of Nordix’s formal organizational boundaries and Nordix’s responses to institutional pressures.

Fifth, Nordix’s firm-society practices in the China setting were developed via two different paths. Via interactions with Chinese stakeholders Nordix operative managers initiated the joint venture, minimized ownership of social functions, recruited employees, helped initiate a labor union, and so on. Subsequently, via interaction with Western (mainly Swedish) stakeholders, Nordix staff managers justified their operations in China and initiated community projects such as funding a school for underprivileged children. This led to the perplexing situation where, while Nordix’s operative managers were not involved in schools just outside the joint venture factory’s gates, the Nordix firm-society function was involved in establishing a school in a remote area in China far from any Nordix factory. As in Delmas and Toffel’s (2008) study, institutional pressures thus had distinct entry points into Nordix in the China setting, with Nordix functions also responding differently to the pressures.
Sixth, the formation of Nordix’s firm-society practices in the China setting shows the importance of where Nordix placed its formal organizational boundaries for understanding how the managers determined Nordix’s responsibilities. By narrowly placing Nordix’s organizational boundaries, Nordix operative managers delimited the scope of activities where the code of conduct was to be enforced. As a result, by delineating organizational boundaries and the applicability of the code of conduct solely inside these boundaries, violations of workers’ rights, community involvement and political involvement issues at functions located outside the joint venture’s organizational boundaries became framed as outside Nordix’s responsibilities. I will return to this in Chapter 8 when discussing the placement of Nordix’s organizational boundaries.
8. Managing responsibilities

In this and the following chapter, I analyze how institutional pressures and corporate discretion combined to form Nordix’s firm-society policy and practices in the four settings described in Chapters 4 to 7. In all four settings, Nordix was pressured by different stakeholders to alter its practices, and these pressures shaped Nordix’s policy and practices (cf. Graafland, 2004; Esbenshade, 2004; Bartley, 2007). In all four settings, Nordix also actively responded to the institutional pressures and even formed practices without being directly pressured into doing so. These two chapters spell out the nuances of this managerial struggle of managing Nordix’s responsibilities, showing that there are six central aspects to understanding how institutional pressures and corporate discretion combine to form an MNC’s policies and practices. To capture the nuances of these six aspects, I demonstrate that it is necessary to add to both the existing firm-society and new institutional literature.

First, a useful foundation for a discussion of how institutional pressures and corporate discretion combine is a more elaborate understanding of Nordix’s firm-society policy and practices themselves. While Nordix attempts to comply with its workers’ rights policy, invests in community activities, and pressures suppliers to comply with its workers’ rights policy, it also actively refrains from influencing political issues, does not make its suppliers invest in community activities, nor pressures joint venture partners and customers to comply with its policy. To bring some order to this scattered picture, this chapter starts by showing that a central part in managing Nordix’s responsibilities is the placement of Nordix’s organizational boundaries and its responsibility boundaries, which delineating the firm’s responsibilities. The placement of these boundaries is not only central for understanding Nordix’s firm-society policy and practices, but institutional pressures and corporate discretion also combine to form Nordix’s firm-society practices in different ways inside and outside of these boundaries.

Second, I then discuss which stakeholders pressured Nordix to alter its policy and practices both inside and outside its organizational and responsibility boundaries. The findings in the Nordix study show that, in addition to
the stakeholders identified in previous research, labor unions and imagined stakeholders have to be added to the list of stakeholders pressuring MNCs in firm-society issues. That labor unions are neglected in previous firm-society research is surprising given their prominent influence in the Nordix study; potential reasons for this neglect are discussed. I then examine how and why Nordix managers created imagined stakeholders and argue that while imagined stakeholders and taken-for-granted ideas both reside in managers’ heads, they are distinctly different concepts.

Third, after this analysis of institutional pressures, focus will shift to Nordix’s responses to the institutional pressures, showing how Nordix both resists and translates institutional pressures. The findings in the Nordix study show that the existing literature on corporate responses to institutional pressures needs to be expanded to capture the relative importance of different predictive factors. Based on the discussions of which stakeholders exert pressures and Nordix’s responses, I then discuss which stakeholders were most influential in pressuring Nordix and find support for the new institutional argument that different stakeholders have different influence (e.g., Meyer and Scott, 1983; Deephouse, 1996).

Fourth, this chapter concludes by demonstrating that institutional pressures had distinct entry points into Nordix and that different parts of Nordix’s organization – rather than “Nordix” in general – responded to these pressures (cf. Delmas and Toffel, 2008). The study adds to existing new institutional literature by indicating that the crucial division for capturing these entry point differences in relation to firm-society issues is that between MNCs’ headquarters staff functions and their operating functions.

All told, this chapter shows that to understand how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices, it is necessary to understand: i) where organizational boundaries and responsibility boundaries are placed; ii) which stakeholders exert pressures; iii) how MNCs respond to these pressures; and iv) institutional pressures’ entry points into MNCs.

The next chapter adds to this discussion by showing that it is also important to understand how institutional pressures are exerted, and the effects of MNCs operating in distant institutional environments. Taken together, these six aspects allow us to understand how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices. Furthermore, based on this understanding, it is possible to return to the debate introduced in Chapter 1 about how firm-society policies and practices are influenced by an MNCs’ home, host and transnational institutional environments.
Boundary placement: Central to firm-society policies and practices

To understand Nordix’s firm-society policy and practices, it is useful to understand its placement of boundaries in order to delimit its responsibilities. The first boundary is that between inside and outside the company—Nordix differentiates between what it does inside and outside its formal organizational boundaries. This formal organizational boundary is central, since Nordix’s firm-society policy and practices apply to all internal operations but only to a limited range of external operations. For example, Nordix has a policy and an auditing system applicable inside its organizational boundaries for ensuring that it pays minimum wages, complies with legal working hours and that each worker has an individual development plan; it does not have any such policy or system for residents in surrounding communities or for employees at its joint venture partners. As a result, Nordix’s firm-society policy and practices are distinctly different inside and outside its organizational boundaries.

The second boundary is that between inside and outside Nordix’s responsibility boundaries—Nordix differentiates between what they do inside and outside its responsibility boundaries. This boundary, which I choose to call Nordix’s “responsibility boundary,” is relevant because Nordix places workers’ rights demands on some organizations performing operations linked to Nordix, but not others. For example, Nordix has a policy and an auditing system for ensuring that large suppliers comply with the workers’ rights part of Nordix’s code of conduct, while it has no policy or auditing system for ensuring that customers comply.

---

32 In this thesis, Nordix’s “organizational boundaries” refers to Nordix’s legally defined formal organizational boundaries. The discussion of the placement of Nordix’s organizational boundaries can be linked to the extensive research into organizational boundary placement focused on transaction costs, capabilities, etc. (e.g., Coase, 1937; Williamson, 1975; David and Han, 2004; Kogut and Zander, 1996; Jacobides and Hitt, 2005; Safizadeh et al., 2008). The difference is that while these researchers focus on the classical make-or-buy decisions, in this study I focus on boundary placement vis-à-vis mainly “non-market” stakeholders.

33 I have not seen this concept used in previous research, but it is useful since it extends beyond the existing dyadic discussions of supplier responsibility, distributor responsibility, customer responsibility, etc., to comprise the whole range of potential stakeholders.
Organizational boundaries: Shaping conditions for stakeholder interaction

In both South Africa and China, Nordix actively chose its host institutional environment by establishing factories at particular locations. In China, Nordix was particularly active when carving out what should be included in the Nordix joint venture, and resisting pressures to incorporate social functions in the joint venture. What came to be inside and outside Nordix’s formal organizational boundaries in the joint venture was the result of extensive negotiations between Nordix managers and (mainly) Chinese government representatives. In this way, local schools, hospitals, dentists, etc. became part of Nordix’s institutional environment rather than part of Nordix itself. The firm’s managers not only delimited Nordix’s responsibilities by placing it within organizational boundaries, they also shaped the conditions for Nordix’s interactions with certain stakeholders.

Nordix’s active role in shaping the conditions for stakeholder interaction via its boundary placement differs from the dominant assumption in firm-society research that there is an a priori distinction between firms and stakeholders. Much of the new institutional literature makes a similar assumption with, for example, DiMaggio and Powell (1983) and Marquis et al. (2007) arguing that corporations conform to the dominant practices within their already existing institutional environments. Nordix’s actions in the China setting, however, have more similarity with the emerging literature on institutional entrepreneurship (e.g., Maguire et al., 2004), since via the placement of organizational boundaries, Nordix’s managers shaped their institutional environment. It is worth noting that Nordix managers did this not only when placing organizational boundaries but also when participating in the founding of labor unions in South Africa and China. As such, Nordix managers actively participated in shaping the conditions for their future interaction with stakeholders.

Organizational boundaries: Minimizing responsibilities

As described in Chapter 7, Nordix operating managers’ placement of organizational boundaries and their resistance to including social functions in the China setting was based on a taken-for-granted idea that social functions should fall outside Nordix’s organizational boundaries. The consequence of this was that Nordix, a world leader in firm-society issues,

---

34 See the extensive literature on stakeholder theory for an example of firm-society research making this assumption (e.g., Donaldson and Preston, 1995, Mitchell et al., 1997; Agle et al., 1999; Driscoll and Crombie, 2001; Rowley and Moldoveanu, 2003).
outsourced responsibility for social functions to the Chinese joint venture partner, paying the partner to handle these functions. Additionally, since Nordix managers framed the social functions’ operations as beyond Nordix’s responsibility, they did not attempt to obtain information about the workers’ rights situation at the social functions (or even information about whether Nordix’s financial contribution to the joint venture partner actually reached the social functions). In this way, the placement of organizational boundaries became central for Nordix’s firm-society practices in the China setting with Nordix financially contributing to social functions in the community (both in accordance with the initial joint venture contract and voluntarily), but not working to ensure that these functions comply with the workers’ rights, community involvement or political involvement aspects of its firm-society policy. Had the social functions been placed inside the joint venture’s formal organizational boundaries, the situation would have been different, with Nordix demanding that these functions comply with its firm-society policy.

This corporate practice of minimizing responsibility by narrowly placing its organizational boundaries meant that Nordix imposed a more restricted idea of the “firm” and “corporate responsibility” in relation to social functions than was the norm in the community surrounding the joint venture. This was also reflected in the community citizens’ view that Nordix was only there to maximize profits and that the firm did not care about the community.

Responsibility boundaries: Multifaceted for suppliers

Nordix not only determined its responsibility by placing organizational boundaries, but also by placing responsibility boundaries. Nordix attempted to influence some actors outside its organizational boundaries (such as suppliers and distributors) to comply with the workers’ rights aspects of its policy while not attempting to influence others. Nordix’s responsibility for firm-society practices outside its organizational boundaries can be understood based on the idea of “guilt by association”. As Young (2003:40) puts it, guilt by association “involves an argument that agents are responsible for injustice by virtue of their structural connection to it, even though they are not to blame for it.” Thus, regardless of whether it is reasonable to blame Nordix for its suppliers’ workers’ rights violations, Nordix is held responsible for these violations (both by themselves and by US and European stakeholders such as NGOs, the media, ranking organizations and shareholders). The notion of guilt by association also highlights the fact that Nordix’s firm-society policy and practices outside its organizational bounda-
ries focus on negative aspects, with Nordix taking responsibility for its suppliers not violating workers’ rights, but not taking responsibility for its suppliers, for example, helping local communities.

The fact that MNCs’ responsibility boundaries have, since the late 1980s, started to extend beyond their formal organizational boundaries is frequently noted in previous research (e.g., van Tulder and Kolk, 2001; O’Rourke, 2003). The Nordix study shows that a more detailed picture and an improved understanding of MNCs’ firm-society policies and practices can be achieved by also analyzing how far these boundaries have expanded and through what processes.

It is straightforward to conclude that Nordix places stakeholders such as joint venture partners, customers and competitors outside its responsibility boundaries, and that in some regard it places suppliers and distributors inside of them. In terms of large first-tier suppliers, Nordix clearly places them inside its boundaries both in its policy and in the practice of auditing them. Small first-tier suppliers and distributors are also inside according to the policy, but with only a limited number being audited the non-audited small suppliers and distributors fall in a grey area. This area expands when one considers that some second tier suppliers are included in the supplier brand risk assessment (i.e., they have the potential to be audited) while most second tier suppliers are excluded. Regarding suppliers, some clarity comes back in relation to third tier suppliers, which are placed outside Nordix’s responsibility boundaries, with Nordix not intending to audit these suppliers at all.

The placement of some suppliers inside and some outside Nordix’s responsibility boundaries was shaped by the existing categorizations of suppliers. Consequently, the existing supplier categorization (which was developed for other purposes) shaped how Nordix managers in the supply chain and firm-society staff functions placed Nordix’s responsibility boundaries (cf. DiMaggio, 1997; Scott, 2001; Lounsbury and Rao, 2004). This managerial discretion as to where to place its responsibility boundaries vis-à-vis suppliers stemmed from stakeholders pressuring Nordix to assume responsibility for workers’ rights at suppliers but not detailing how the company should actually operationalize this responsibility. By using Nordix’s existing categorization of suppliers separating large and small suppliers and first, second and third tier suppliers, Nordix managers could link their workers’ rights demands to existing quality audits and supplier development programs for large suppliers, their demands on small suppliers to existing supplier data bases, and their demands on only certain second tier suppliers to the fact that Nordix requires some first tier suppliers to use specific
second tier suppliers. Moreover, by not focusing on third-tier suppliers, Nordix managers avoided having to tackle the problem of not knowing who their third tier suppliers actually were. Nordix’s placement of its responsibility boundaries thus illustrates the importance of existing organizational structures for understanding how firms translate institutional pressures into actual firm-society practices (cf. Doorewaard and van Bijsterveld, 2001; Boxenbaum, 2006; Cooney, 2007; Love and Cebon, 2008).

Responsibility boundaries: Risk assessment and commensuration
With the placement of small suppliers inside and outside Nordix’s responsibility boundaries, the risk assessment model plays a crucial role by calculating which small suppliers to audit and which ones not to. Simply put, this calculation is done by transforming the vague institutional pressures for Nordix to take responsibility for workers’ rights at suppliers into a measurable brand risk issue (cf. Espeland and Stevens, 1998). The consequence of this is that the normative pressures exerted by, for example, NGOs, unions and the media (i.e., that workers’ rights have intrinsic value and that Nordix ought to take responsibility for suppliers) are translated into descriptive issues (i.e., influential stakeholders perceive that workers’ rights are important and that Nordix is responsible for suppliers), which in turn could be linked to potential damage to the brand.

This meant that suppliers with characteristics that Nordix managers believed to be important to the media and NGOs were more likely to be subject to their compliance system of auditing. For example, if Nordix purchases a high percentage of the suppliers’ volume, or suppliers are producing products with Nordix’s brand name on them, it was more likely that the suppliers would be placed inside Nordix’s responsibility boundaries. In this way, the risk assessment model rendered the seemingly incommensurable ideas of workers’ rights having intrinsic value and profit maximization commensurable via the common matrix “brand risk” (cf. Espeland and Stevens, 1998; Espeland, 2001), and in so doing allowed brand risk calculations to shape the placement of Nordix’s responsibility boundaries (cf. Espeland and Stevens, 1998; D’Agostino, 2000).

Responsibility boundaries: Internal change agents
While Nordix’s extension of its responsibility boundaries to suppliers was initiated by institutional pressures, its extension to distributors was initiated by its firm-society staff function. Managers in this staff function saw the inclusion of distributors as the logical next step for Nordix’s responsibility boundary expansion. As with the expansion of these boundaries to sup-
pliers, this was motivated both by brand risk considerations and a sense of moral responsibility for workers’ rights at distributors. As a result, once the expansion of Nordix’s responsibility boundaries beyond its organizational boundaries started (by institutional pressures), continued expansion was driven by internal staff functions. This is similar to the “beyond compliance” response to institutional pressures proposed by Rivera et al. (2009), emphasizing the ability of corporations to move beyond an “acquiesce” response.

The specialized Nordix firm-society staff function that acted as an internal change agent emerged in the mid-2000s; in a new institutional spirit this could be interpreted as a corporate response to the increased institutional pressures related to firm-society issues at this time (cf. Edelman, 1992; Dobbin and Sutton, 1998; Strannegård, 2000; Aragón-Correa et al., 2004; Kim et al., 2007; Nabatchi, 2007). This type of formalization and reshaping of intra-organizational roles is even argued by some authors to be one of the more common organizational responses to institutional pressures (Hoffman, 1999; Scott and Davis, 2007; Scott, 2008). With most MNCs at the end of the 2000s having specific firm-society staff functions (Vidaver-Cohen and Brönn, 2008), and there being emerging firm-society professional networks (cf. Strannegård, 2000; Windell, 2006), this finding of internal change agents linked to firm-society staff functions likely applies to other MNCs as well.

The interesting thing with the Nordix study is that it shows that these internal change agents in staff functions not only serve to translate institutional pressures into internally legitimate terms and push for change internally (as they did when translating pressures into a brand risk calculation in the supplier setting) (cf. Edelman, 1992; Scott, 2008), but they also subsequently initiated further changes without facing institutional pressures. Thus, Nordix extended its responsibility boundaries both by translating institutional pressures and through internal staff functions that proactively initiated these extensions.

**Politics is not the business of business**

While Nordix’s policy outlines the company’s responsibilities inside its organizational and responsibility boundaries, the policy also states that Nordix should not be involved in political issues – political issues are explicitly framed as falling outside its responsibility boundaries. In practice, this means that Nordix representatives do not comment on political issues when interacting with stakeholders around the globe. Thus, if the Chinese government violates human rights, bans free labor unions and does not enforce existing labor laws, Nordix managers do not interfere with this because it is
outside Nordix’s responsibility boundaries. Importantly, Nordix managers do not define business-related issues as political issues, meaning, for example, that it does not consider itself to be involved in political issues despite forming a joint venture with a state-owned enterprise that has a Communist Party Committee and an ACFTU-affiliated union, and producing products purchased by the Chinese government in an industry highly regulated by that government. It is beyond the scope of this thesis to debate whether this is a reasonable definition of non-political involvement. Instead, I simply conclude here that this is Nordix managers’ definition of political involvement and that this concept of non-involvement is not unique to Nordix, with several other large Scandinavian MNCs making similar claims of neutrality with regard to politics.36

Nordix managers defend this non-involvement position by arguing that political issues are beyond the role of MNCs. Thus, as with the placement of organizational boundaries, the placement of political issues outside Nordix’s responsibility boundaries is driven by Nordix managers having to a large extent a taken-for-granted idea that Nordix, and MNCs more generally, should not be involved in political issues. Palmås (2005) refers to a similar assumption among managers regarding the separation of business and politics (although he defined politics more broadly than is done in this thesis), linking the separation to the modern idea of the firm (cf. Latour, 1993). Here, it is enough to conclude that Nordix explicitly placed the practice of government organizations outside its responsibility boundaries and that this meant that managers, in their frequent interaction with government officials, did not criticize or even discuss the policies and practices of government organizations in countries such as China.

At least implicitly, this separation of business and politics is shared by contemporary key stakeholders’ perceptions in Nordix’s institutional environment, with Nordix rarely being criticized for its non-involvement in politics. Evidently, this differs from Nordix’s historical South Africa experience, where the anti-apartheid movement severely criticized Nordix’s non-involvement position. How this non-involvement influences development in China, and influenced development in South Africa during the apartheid period, is beyond the scope of this thesis to analyze.37 What the Nordix study shows, however, is that Nordix will protect workers’ rights inside its

35 On the close link between ACFTU and the Chinese government see, for example, Yu (2008).
36 This conclusion was reached after reading through numerous Scandinavian MNCs’ codes of conduct.
37 See Egels-Zandén (2007b) for a further discussion of this.
organizational and responsibility boundaries in China (arguably leading to “positive” development), while also participating in improving the efficiency of the Chinese economy without questioning the ways of the Chinese government (arguably leading to “negative” development). As such, understanding Nordix’s organizational and responsibility boundary placement allows us to understand how Nordix will (and will not) influence development in China.

Boundary placement as central for managing responsibilities

The discussion above shows that the placement of organizational and responsibility boundaries is central for the formation of an MNC’s firm-society policies and practices, and thus for managing Nordix’s responsibilities. By actively participating in placing organizational boundaries, Nordix managers delimit where they will enforce compliance with their policy. Similarly, by placing responsibility boundaries, Nordix managers determine which stakeholders they will influence to comply with their policy. While organizational boundary placement is a fairly straightforward process, responsibility boundary placement is more complex, involving, for example, elaborate risk assessment calculations. The Nordix study indicates that the initial expansion of an MNC’s responsibility boundaries will be initiated by institutional pressures, but that continued expansion can be led by internal MNC firm-society staff functions. The study also indicates that responsibility boundary expansion will occur on workers’ rights issues, but not community or political issues, since stakeholders and managers focus on harmful practices and managers have a taken-for-granted idea that companies should not be politically involved.

Combined, Nordix’s placement of its organizational and responsibility boundaries shows how its managers determined the firm’s responsibilities. This is most vividly illustrated in the China setting. Here, Nordix managers’ narrow placement of its organizational boundaries led to a more restricted idea of responsibility than was the norm in the community surrounding the joint venture. At the same time, Nordix’s enforcement of its firm-society policy inside its formal organizational boundaries and its placement of Chinese suppliers inside its responsibility boundaries led to a more expanded idea of responsibility than was the norm in the community surrounding the joint venture. Thus, in the China setting, Nordix managed its responsibilities in a manner that was distinctly different from how its joint venture partner managed its responsibilities.
Labor unions and imagined pressures

Based on this overall understanding of how Nordix managed its responsibilities, the remaining portion of this chapter and the following one will discuss the nuances of how institutional pressures and corporate discretion combined to form Nordix’s policy and practices inside and outside their organizational and responsibility boundaries. I start by discussing where institutional pressures stemmed from in the Nordix case, highlighting the fact that to capture the findings in the Nordix study, labor unions and imagined institutional pressures have to be added to the list of stakeholders exerting pressures in relation to firm-society issues. I start, however, by discussing the pressures exerted by the main stakeholders identified in previous research (see Chapter 2 for details).

The expected stakeholders

In line with previous research, institutional pressures stemmed from the following expected stakeholders in the Nordix case: i) government organizations; ii) trade associations; iii) non-governmental organizations; iv) the media; v) shareholders; vi) ranking organizations; and vii) local citizens. Governmental organizations were highly involved in the both the South Africa and China settings, influencing community investments (South Africa and China), compliance with workers’ rights issues (China) and, arguably, Nordix non-involvement in political issues (South Africa and China) (cf., DiMaggio and Powell, 1983; Meyer and Scott, 1983; Galaskiewicz, 1985; Baum and Oliver, 1991; Oliver, 1991).

Trade associations and professional organizations were influential with, for example, the supplier risk assessment, stemming from a network of representatives from Swedish industrial corporations and initial drafts of the firm-society policy being copied from other MNCs’ policies (cf. DiMaggio and Powell, 1983).

Additionally, the Nordix study further strengthens the claim in recent new institutional literature that non-governmental organizations (NGOs) exert pressures (e.g., Lousbury, 2001; Doh et al., 2009), and that NGOs’ influence stems from an ability to shape public opinion (as shown in both the South Africa and supplier settings).

The Nordix study also strengthens the new institutional argument that the media exerts pressures (e.g., Greening and Gray, 1994; Kolk and Pinkse, 2006), by both magnifying other stakeholders’ pressures (as in the South Africa setting with media magnifying AGIS/ISAC’s pressures) and exerting pressure in its own right (by, for example, publishing stories about workers’ rights scandals).
Moreover, in both the policy and supplier settings, shareholders exerted pressures. In particular, so-called socially responsible investors pressured Nordix managers to, for example, adopt a code of conduct and assume responsibility for workers’ rights at suppliers. Sixth, in the South Africa and China settings, Nordix was also pressured by citizens in its Swedish headquarters community (South Africa) and the local community (China).

Finally, the forming of Nordix’s firm-society practices in the supplier setting provides initial empirical support for the so far solely theoretical claim that ranking organizations’ questionnaires and scoring influence MNCs’ firm-society policies and practices (Fowler and Hope, 2007; Deephouse and Heugens, 2009; Consolandi et al., 2009; Doh et al., 2009). For example, the Dow Jones Sustainability Index score triggered Nordix’s work with small suppliers, the managers involved in the supplier working group consistently referred to the importance of scoring highly in indexes, and Nordix’s firm-society function paid close attention to different firm-society rankings. With representatives from these indexes not willing to enter into discussions with Nordix representatives regarding how to improve their ranking scores, ranking organizations seem to shape MNCs’ willingness to work with certain firm-society issues such as workers’ rights at suppliers more than shaping how MNCs work with these issues.

**Labor unions: A neglected stakeholder in contemporary firm-society research**

That all of the above stakeholders exert pressures has already been identified in previous research. However, the pressure exerted by one of the most important stakeholders in the Nordix case – the labor union movement – is rarely analyzed in contemporary firm-society literature (cf. Michalos, 1997; Leahy, 2001; Riisgaard, 2005; Provis, 2006; Haunschild et al., 2008).38 Leahy (2001:34–35) phrases this nicely in relation to research into firm-society issues: “it seems odd that one could turn to these texts on managerial ethics for information on labor/management and be left with the impression that unions did not exist, that managers did not have to negotiate with them”. Leahy (2001) exaggerates the situation since many articles on firm-society issues mention labor unions (cf. Provis, 2006), but he is correct in the sense that these articles rarely discuss how labor unions influence companies’ firm-society policies and practices.

---

38 With contemporary firm-society literature I refer to internationally published research from the 1990s and onwards in journals such as Journal of Business Ethics, Business Ethics Quarterly, and Business & Society.
When labor unions are brought into the discussion on firm-society issues it is often in relation to normative analyses of union-related issues (Meel and Saat, 2000; Nielsen, 2000; Lippke, 2004; Lam and Harcourt, 2007; van Buren and Greenwood, 2008). In these normative articles, as well as in most existing descriptive articles, the authors’ arguments rarely extend beyond the descriptive statement that unions likely exert influence (e.g., Lämsä and Takala, 2000; Crane et al., 2004). McWilliams and Siegel’s (2001:122) statement that there is “a positive correlation between unionization of the workforce and the provision of CSR” serves as a good example of this research strain. There is also some discussion in the firm-society literature of how firms handle union issues, particularly related to MNCs’ supply chains (Wang, 2005; Barrientos and Smith, 2007; Yu, 2008, 2009; Koçer and Fransen, 2009). However, in terms of unions exerting pressures, these articles simply conclude that unions (focusing on local unions in Asia) have limited influence. In the European setting, Tony Royle (2005) makes a similar claim of limited union influence based on a study of McDonalds.

The only articles that I have found that deal with unions exerting pressures in relation to firm-society issues are the result of an ongoing research project by Preuss, Hauschild and Matten (Preuss et al., 2006; Preuss, 2008; Haunschild et al., 2008), and to some extent the work by John Campbell (2007). The work by Preuss, Hauschild and Matten show how unions struggle with the firm-society – or, as they call it, the Corporate Social Responsibility – trend (cf. Frundt, 2004). They also highlight the fact that unions occasionally initiate the process of developing firm-society policies and practices, much the same way as in the creation of Nordix’s policy. Still, this research only scratches the surface of how unions influence MNCs’ firm-society policies and practices with relatively short empirical cases.

When shifting attention from the firm-society literature to the industrial relations literature, there is ample discussion about how labor unions pressure firms, but these discussions are rarely linked to firm-society issues other than workers’ rights in firms’ own factories, ignoring topics such as workers’ rights at suppliers, political involvement and community involvement (cf. Kaufman, 2004; Riisgaard, 2005; Preuss et al., 2006; Seeber and Lipsky, 2006; Waddington, 2006). Thus, the role of unions in influencing companies’ firm-society policies and practices seems to have fallen into a vacuum between the firm-society and industrial relations research streams. For

---

39 There might be more articles on union pressures in the firm-society literature, but I have not been able to find any in the core firm-society journals, i.e., Journal of Business Ethics, Business Ethics Quarterly, Business Ethics: A European Review, Business & Society and Business & Society Review.
academics in Northern Europe this omission is difficult to understand, but perhaps this can be explained by the US dominance in the firm-society literature and the skepticism of voluntary corporate initiatives in the industrial relations literature (cf. Preuss et al., 2006; Haunschild et al., 2008). Regardless, the Nordix study shows that bringing unions into firm-society research is an urgent matter.

Furthermore, the formation of Nordix’s policy and practices in the South Africa, policy and China settings shows that labor unions should not only be added to the list of stakeholders exerting pressures, but should, at least in certain settings, be placed at the top of the list. In the Nordix policy setting, the Global Union Federation initiated Nordix’s process of adopting a policy, the enterprise-level union continuously pressured Nordix managers to adopt a policy, and the national-level union was involved in the working group developing the policy. The South Africa setting also highlights the importance of union pressures and both the South Africa and China settings illustrate that pressures from the union movement is not restricted to workers’ rights issues but extend to community issues as well. For example, in South Africa many of Nordix’s community practices were suggested and demanded by the Swedish enterprise-level union, and in China some of Nordix’s community practices were driven by the Chinese enterprise-level union. Thus, it is vital to include labor unions in the analysis of firm-society issues, and not only in relation to workers’ rights but to firm-society issues more generally.

The Nordix study also shows that it is necessary to move beyond simplistic pictures of the “union movement” and “labor unions” to consider the influence of different parts of the union movement. In particular, the formation of Nordix’s policy shows that there are tensions within the union movement, created by the fact that firm-society issues extend beyond national boundaries – with the traditionally strong national-level union organization losing bargaining influence to either the enterprise or global levels, which are organized on a transnational level (cf. Katz, 1993; Bean, 1994; Jeong, 2001). Firm-society issues thus provide a potential way for Global Union Federations to increase their influence. With GUFs historically having been under-funded and having limited resources and capacity (Fairbrother and Hammer, 2005; Garver et al., 2007; Lerner, 2007), this opportunity is highly valued by GUFs. The creation of Nordix’s policy, however, shows that both Nordix and the enterprise-level union resisted the centralizing influence of the GUFs and instead shifted influence towards the enterprise-level union, furthering the ongoing process of decentralizing

Thus, the Nordix study shows that national-level unions and, in particular, enterprise-level unions need to be recognized as influential stakeholders. The Nordix study also indicates that GUFs may act as initiators of negotiation processes regarding an MNC’s firm-society policies, but that national- and enterprise-level unions may negotiate the details of these policies. This finding contradicts previous research claiming that GUFs are central to firm-society policy negotiations (Hammer, 2005; Riisgaard, 2005; Sobczak, 2007). These different findings are likely due to the importance of the trustful relationship between Nordix managers and the enterprise-level union representatives (combined with a somewhat distrustful relationship between Nordix and the GUF), which helped increase Nordix’s willingness to sign an IFA. More generally, the Nordix study indicates that the enterprise level will be the most influential part of the union movement when there is a trustful corporate-enterprise level union relationship, there is a distrustful corporate-global level union relationship, and the corporate enabler for adopting firm-society policies and practices is fostering relations with its enterprise level union. I will return to the role of the labor union in the next chapter.

Imagined institutional pressures

In addition to these actual stakeholders exerting pressures, the supplier and China settings illustrate a different way in which institutional pressures are exerted – via “imagined” institutional pressures (cf. Anderson, 1983). Nordix managers actively constructed imagined pressures (mainly based on the assumed interests of NGOs and journalists), and created scenarios where these stakeholders forcefully pressured Nordix into altering its firm-society policy and practices. In the supplier setting, for example, few stakeholders directly pressured Nordix. Still, much of Nordix’s practices were developed to reduce brand risk – to pre-empt potential future stakeholder pressure in the form of, for example, media scandals. The creation of imagined institutional pressures, therefore, can be understood as a corporate response to institutional pressures that is designed to anticipate future institutional pressures.\(^\text{40}\)

Imagined institutional pressure in the supplier setting was central not only for Nordix managers’ willingness to work with workers’ rights at

\(^{40}\) I chose to discuss imagined institutional pressures in relation to who exerts institutional pressures, although it could also have been discussed in relation to corporate responses to institutional pressures.
suppliers, but also for the outcome of that work. For example, Nordix managers scored several variables in the supplier risk assessment model based on the assumed prioritization that their imagined journalists and NGOs would make in the future. For example, child labor scored higher than minimum wage violations because Nordix managers believed that journalists and NGOs would see this as a more serious violation, and first tier suppliers were scored higher than second tier suppliers for the same reason. Thus, rather than actually being pressured by journalists or actually investigating what journalists judged as central, Nordix managers created imagined pressures in an attempt to proactively predict how these journalists would act were they to investigate Nordix in the future. How would a journalist interpret this? Would an NGO perceive a violation at first tier supplier as more serious than at other suppliers?

Imagined institutional pressures are similar to taken-for-granted ideas, in that both reside in the heads of managers. However, their influence is exerted in distinctly different ways. Managers actively create imagined institutional pressures to develop pre-emptive responses to future pressures—not because they have a latent idea of how to act. For example, in the supplier setting, Nordix managers expended considerable effort attempting to determine how journalists or NGOs would perceive and react to different scenarios. In other words, imagined institutional pressure is exerted in almost the opposite way than taken-for-granted ideas.

The finding that managers construct imagined institutional pressures and then are influenced by these pressures can be seen as an extension of the argument that firms’ responses to institutional pressures are affected by managers’ subjective interpretation of these pressures (cf. Melin, 1987; Milliken et al., 1998; Zilber, 2002; Delmas and Toffel, 2004). Managers do not initially respond to “actual” institutional pressures but to their perception of these pressures, although over time discrepancies between actual and perceived pressures might be difficult to sustain. The realization that managers create imagined institutional pressures takes this argument one step further, in that managers not only subjectively experience institutional pressures, they also actively create imagined institutional pressures.

They do this by picking up cues (Weick, 1995) about institutional pressures, combining these cues into representations of institutional pressures and then discussing these representations among themselves to arrive at a collective idea of what the stakeholders demand and how they prioritize. For example, when journalists exposed workers’ rights violations at a company similar to Nordix, Nordix managers altered their imagined pressure from journalists to increase the likelihood that Nordix would feature in similar
media scandals in the future. Thus, as with discrepancies between actual and perceived pressures, discrepancies between actual and imagined institutional pressures might be difficult to sustain over time, since examples of actual pressures are used to redefine imaginary pressures. The realization that managers create imagined institutional pressures based on cues in the institutional environment thus extends Greening and Gray’s (1994) argument that firm-specific institutional pressures are positively related to compliance by showing that institutional pressures exerted on firms similar to a specific firm increases the likelihood of compliance by producing cues that shape managers’ imaginary institutional pressures.

While the creation of imagined institutional pressures is most evident in the supplier setting, it also existed in the China setting. With the 2008 Olympic Games in China approaching, Nordix’s firm-society function anticipated journalists pressuring them regarding the company’s presence in China. This led to internal discussions about firm-society issues in China and increased their willingness to invest in firm-society practices in China. Before and during the 2008 Olympic Games, Nordix was occasionally asked to describe their firm-society practices in China, but the pressure from actual stakeholders was much less than the imagined institutional pressure created by Nordix firm-society and public relations managers.

The formation of Nordix’s firm-society practices in both the China and supplier settings indicates that the creation of imagined institutional pressures serve as a way for companies to be proactive and pre-empt negative pressures. As Greening and Gray (1994:459) put it, “managers who anticipate severe crises may take steps to prepare for them and therefore experience fewer crises”. Similarly, Kolk and Pinkse (2006) argue that by anticipating pressures firms could avoid future pressures to some extent. In both the supplier and China settings, Nordix managers clearly used imagined institutional pressures to develop pre-emptive responses to anticipated future pressures. Thus, the creation of imagined institutional pressures can be seen as an integral part of managers’ strategy development.41

More generally, the Nordix study indicates that managers create imagined institutional pressures to translate vague institutional pressures into concrete pressures. This implies that managers are more likely to create imagined institutional pressures when stakeholders exert vague but strong pressure as compared to instances when stakeholders exert weak pressures (managers may then ignore or resist the pressure) or clear pressures (managers would then have no need to use imagined pressures to make pressures

41 See, for example, literature on scenario planning or strategy formation (e.g., Porter, 1991) for similar ideas unrelated to firm-society issues.
concrete). Furthermore, the Nordix study indicates that managers create imagined pressures in instances were they do not have close relationships to actual stakeholders. Managers are more likely to create imagined institutional pressures when they lack close relations to influential stakeholders, since managers with close relationships could be expected to contact the stakeholders directly. Nordix managers will thus not create imagined union pressures but will create imagined NGO pressures, while a company with several NGO partnerships (e.g., H&M and IKEA) likely will not create imagined NGO pressure but would potentially create imagined union pressures.

**Nordix’s responses to institutional pressures**

In all of the studied settings, Nordix did not passively bend to the institutional pressures exerted by the stakeholders listed above. Instead, Nordix managers actively responded to the pressures, even occasionally resisting the pressures by, for example, resisting calls to withdraw from South Africa. Thus, to understand the formation of Nordix’s firm-society policy and practices, it is necessary not only to understand the institutional pressures but also Nordix’s responses. A categorization of Nordix’s responses based on the framework of corporate responses to institutional pressures originally developed by Christine Oliver (1991) clearly confirms Chang’s (2006) argument that firms simultaneously face pressures that include several of the predictive factors that are proposed to influence corporate responses. This makes the existing literature on how companies respond to institutional pressures difficult to apply in the Nordix case. The Nordix study thus highlights the need to discuss the relative importance of different predictive factors.

For example, Nordix dismissed, challenged and attempted to influence the pressure exerted by numerous stakeholders to withdraw from South Africa, adopting a “defy” and “modify” response. This was done despite withdrawal being a highly diffused norm expressed by a highly interconnected institutional environment and that compliance with the pressure would improve Nordix’s legitimacy (all indicating an “acquiesce” response). Some other predictive factors thus had more weight in Nordix’s decision to not withdraw from South Africa. The relative importance of different predictive factors will be analyzed below, expanding existing new institutional frameworks of corporate responses to institutional pressures to include how firms respond when faced with several predictive factors simultaneously.
Dependence and coercion: key factors

In analyzing Nordix’s responses, it becomes evident that when Nordix was highly dependent on the pressuring stakeholders it adopted an “acquiesce” or “compromise” response regardless of what the other predictive factors indicated. For example, Nordix was highly dependent on the South African government when deciding to establish production in South Africa, on the Swedish union movement when deciding to invest in workers’ rights and community issues in South Africa, and on the Chinese government when deciding to accept not to form free labor unions and to assume financial responsibility for redundancies and social functions. The Nordix study thus indicates that stakeholder dependence is one key factor for understanding an MNC’s responses to institutional pressures; when MNCs are dependent on stakeholders this outweighs factors pointing to other response strategies.

In addition to dependence, the Nordix case also shows that how institutional pressures are being exerted is key, with Nordix adopting an “acquiesce” response to all legally enforced institutional pressures. This is so even when legal compliance was conflicting with Nordix’s goals, such as when Nordix complied with the investment bans in relation to South Africa. Whether the pressure is legally enforced or not is central for understanding firms’ responses, and is in line with Chang’s (2006) findings. Indeed, the Nordix study indicates that dependence and legal enforcement are the two key predictive factors for understanding corporate responses to institutional pressures.

Goal consistency

The reasoning above implies that most of the predictive factors only become relevant when MNCs are not highly dependent on the stakeholder that is exerting pressures, or when the pressure is not in the form of enforced legislation. When this is the case, the Nordix study indicates that consistency with organizational goals is the next central factor. In all situations where institutional pressures were inconsistent with Nordix’s goals (and Nordix was not highly dependent or the institutional pressure was not legally enforced), the company adopted “avoidance”, “defy” or “manipulate” responses. For example, it challenged pressures to withdraw from South Africa, challenged pressures to adopt a detailed IFA and concealed/dismissed the idea of becoming involved in political issues. Similarly, in all situations where the institutional pressures were consistent with Nordix’s goals, it adopted an acquiesce or compromise response by, for example, imitating the content of other codes of conduct, investing in
community projects in China, and complying with its adopted code of conduct.

Nordix managers’ actions in the policy setting show that goal consistency should not be conceptualized as only whether or not the pressure is consistent with the organization’s goals, but has to be expanded to include how managers believe that the organization will reach these goals. In Nordix, the top managers initially believed that adopting an IFA was inconsistent with their goals, expressing fears that the union movement would use the IFA to negatively affect the company. When the top management cadre changed, this perception was replaced with the notion that signing an IFA would further the already trustful firm-union relationship which, in turn, would positively influence Nordix’s performance. Thus, while both of the top management teams wanted to improve Nordix’s performance, they believed that adopting an IFA affected this performance in opposing ways. The argument that managers’ perception of how to reach goals matters could be seen as an extension of Kostova and Roth’s (2002) argument that it is managers’ beliefs about the value of the ideas being pressured onto the organization (not the “objective” value) that influence the tendency to comply with these pressures (cf. Etherington and Richardson, 1994; Goodstein, 1994; Milliken et al., 1998).

Goal consistency also needs to be related to goal importance. MNCs have numerous goals and managers can trade off goal consistency in certain issues to gain influence in other issues. This is best illustrated in the China setting, with Nordix complying with the Chinese government’s pressure to finance social functions while it secured majority ownership of the joint venture, high market shares and advantageous product prices. The Nordix study thus indicates that managers are willing to trade off goal consistency on firm-society issues (i.e., taking more responsibility than initially desired) to gain influence in more strictly business-related issues. In Dacin et al.’s (2007) terms, managers attempt to gain market legitimacy and obtain the rights to operate in specific markets by investing in social legitimacy and assuming responsibility for firm-society issues. This implies that MNCs involved in critical business negotiations with stakeholders can be expected to be particularly susceptible to these stakeholders’ pressures in firm-society issues.

**Inter-organizational trust influencing compliance**

Most of Nordix’s responses can be understood based on the dependence, legal coercion and goal consistency predictive factors. The only response that remains difficult to understand is Nordix’s decision to adopt an IFA
despite the managers seeing little or no benefits to doing so. Nordix’s expected response would be “avoid”, “defy” and/or “manipulate”; in practice, however, Nordix adopted a “compromise” response. There are two main reasons for this. After the change in the top management cadre, Nordix managers felt that adopting an IFA would not influence Nordix to any real extent. The managers had already adopted a code of conduct and adopting an IFA with similar content would not change much (especially since the managers had defied all pressures to give the Global Union Federations more influence in the implementation process); why not comply if compliance does not involve altering existing policy and practices?

Additionally, and conceptually more interesting, research into inter-organizational trust has shown that when inter-organizational trust exists, organizations tend to comply with each others’ pressures (Dirks and Ferrin, 2001; Kostova and Roth, 2002; Brower et al., 2009). Therefore, the type of relationship between the firm and the stakeholder that is exerting pressure could be added to the predictive factors, with institutional pressures exerted in high trust inter-organizational relationships more likely leading to “acquiesce” and “compromise” responses. Campbell (2007:960) makes a similar point when arguing that institutionalized firm-stakeholder relations (such as those between firms and unions in Sweden) compel both actors to consider the other actor’s preferences, since “patterns of interaction affect how actors perceive and define their situations”. The effects of trustful relationships seem to be moderate, as compared to the dependence, coercion and goal congruence factors. Nevertheless, the way institutional pressures and corporate discretion combined in the creation of Nordix’s policy indicates that inter-organizational trust could make firms comply with institutional pressures in instances where managers perceive that goal congruence is of limited importance. The role of trust in the Nordix study is discussed further in the next chapter.

**Capability to resist institutional pressures**

In terms of Nordix’s response to institutional pressures, the South Africa setting is particularly interesting since it is the only setting in which Nordix, over an extensive period of time, adopted a “defy” and “manipulate” response. While these responses can be understood based on the dependency, legal coercion and goal consistency factors, they are still responses that were difficult to sustain, given that withdrawal from South Africa was such a publicly debated issue. In other words, Nordix had to create a capacity to resist institutional pressures (cf. Cooney, 2007). This seems particularly difficult to do in firm-society issues, with numerous previous studies
showing how MNCs fail to resist pressures (Frenkel, 2001; van Tulder and Kolk, 2001; Bartley, 2007; Ählström and Egels-Zandén, 2008). MNCs normally lack the resources/capital (cf. Leblebici et al., 1991; Maguire et al., 2004; Greenwood et al., 2002) and legitimacy (cf. Maguire et al., 2004) needed to successfully challenge intense institutional pressures in relation to firm-society issues. Evidently, MNCs may avoid compliance by decoupling policies and practices (cf. Weaver et al., 1999; Sethi, 2002; Laufer, 2003), but adopting a “defy” or “manipulate” response requires a capacity to resist institutional pressures far beyond what is needed for symbolic compliance.

More specifically, MNCs need the capacity to retain their moral legitimacy when challenged by different stakeholders (cf. Townley, 1997). In the South Africa setting, Nordix had to retain some of its moral legitimacy despite not withdrawing from South Africa. As Palazzo and Scherer (2006) convincingly argue, moral legitimacy is particularly important in firm-society issues, since pragmatic legitimacy is difficult to rely on in the context of moral issues and cognitive legitimacy rarely exists in publicly debated topics. The problem for MNCs is that they are rarely among the actors that can control the normative signals for moral legitimacy (cf. Galaskiewicz, 1991; Scott, 2001; Suchman, 1995). For example, Amnesty International and the UN are more morally legitimate than Nike, Nestlé or Nordix in discussions of human rights. It would thus be difficult for these MNCs to challenge Amnesty International and UN claims about human rights. In the South Africa debates, the ANC and ISAC were highly legitimate with regard to how to abolish apartheid, making it difficult for Nordix to challenge their claims that the morally legitimate practice would be to withdraw from South Africa. Still, it was exactly this that Nordix needed to do to keep damage to its moral legitimacy at an acceptable level (cf. Townley, 1997; Trullen and Stevenson, 2006).

Given this reasoning, the importance of the union movement for understanding the formation of an MNC’s firm-society policies and practices is once again illustrated. The union movement had the moral legitimacy to challenge the ANC and ISAC claims, drawing on their position as representatives for workers’ interests in Sweden and South Africa. This is also why the Swedish South Africa debate was between AGIS/ISAC and parts of the Swedish union movement (and not the corporate sector), since these were the actors able to have a moral debate on how to abolish apartheid.

---

42 These other studies are based on contemporary empirical data of MNCs attempting to resist pressures, while Nordix’s South Africa experience is an historical event. Hence, even though there are conceptual similarities between these previous studies and the South Africa setting, this is not a straightforward comparison.
When corporate managers occasionally entered the debate, they usually faced difficulties, with AGIS/ISAC/ANC claiming that their interests were too intertwined with the South African government and too profit-oriented to make credible claims in a moral debate.\textsuperscript{43} Thus, one of the central benefits that labor unions provide to MNCs in the context of conflicts related to firm-society issues is their moral legitimacy – making it possible for MNCs to resist institutional pressures that are inconsistent with their organizational goals. In exchange for moral legitimacy, labor unions could demand changes to MNCs’ firm-society policies and practices, as seen in, for example, the South Africa setting.

\textbf{Institutional pressure or corporate discretion}

The discussion above brings us back to the question of how institutional pressures and corporate discretion combined to form Nordix’s firm-society policy and practices. In instances where Nordix was dependent on stakeholders and stakeholders exerted coercive institutional pressures, Nordix’s practices were mainly influenced by institutional pressures. Thus, when government organizations and labor unions (which created dependence by offering moral legitimacy) exerted pressures, there was limited room for corporate discretion. Government organizations and labor unions were also the only stakeholders that were capable of pressuring Nordix adopt practices regardless of whether they were consistent with Nordix’s goals.

In instances where the institutional pressures were consistent with Nordix’s goals (such as the pressures exerted by trade associations, the media, shareholders, NGOs and ranking organizations), these pressures made Nordix do more on issues where the managers were prepared to act and/or believed that the cost of complying was limited (such as in adopting a code of conduct). Here, both institutional pressures and corporate discretion was central for understanding the formation of Nordix’s policy and practices.

Finally, in instances where the institutional pressures were inconsistent with Nordix’s goals, such as the voluntary pressures exerted by local citizens in the South Africa and China settings and NGOs in the South Africa setting, these pressures had limited impact. In other words, in these instances, there was ample room for corporate discretion. Still, institutional pressures in these instances were important because they created space for other stakeholders’ demands (as was the case, for example, in South Africa).

\textsuperscript{43} Again, the situation might have changed somewhat with MNCs today being more credible than in the 1970s-1990s in public moral debate, making it important to be careful when generalizing from the historical South Africa experience.
with AGIS/ISAC creating space for the union movement’s demands for community investments).

Thus, institutional pressures and corporate discretion have different weights, depending on which stakeholders are exerting institutional pressures and how the pressures fit into the MNCs’ goals. In other words, stakeholder influence stems not only from stakeholder characteristics (as is sometimes assumed, cf. Mitchell et al., 1997), but also from the consistency between the institutional pressures exerted by the stakeholder and the MNCs’ goals.

Opening the black box: Staff and operative functions

Entry points: Headquarters staff functions vs. operative functions
So far, I have argued that Nordix faced and responded to institutional pressures. However, as illustrated in each the four settings studied, stakeholders exerted pressures on specific parts of Nordix’s organization, and specific Nordix functions and managers responded to these pressures. In other words, the institutional pressures discussed so far had distinct entry points into Nordix. For example, the pressure exerted by the Nordix enterprise-level union entered Nordix via its human resources and public relations managers. Pressures from rating organizations entered Nordix via the firm-society function, and pressure from the Communist Party Committee, the Chinese labor union and the Chinese Ministry entered Nordix via its Chinese joint venture subsidiary management.

An important question therefore is how to conceptually divide MNCs to capture these differences in entry points. The Nordix study shows that a useful division in relation to firm-society issues is that between MNCs’ headquarters staff functions and their operative functions. Headquarters staff functions (from now on referred to as staff functions) are Nordix functions with a global responsibility for issues such as firm-society issues, public relations, human resources and the supply chain, while operative functions refer to business units responsible for initiating and managing production and sales. As shown below, these functions both interact with different types of stakeholders and respond differently to firm-society related institutional pressures. While the Nordix study provides additional support to Delmas and Toffel’s (2008) claim that institutional pressures have distinct entry points into MNCs (cf. Laurila and Lilja, 2002), it stresses the difference between operative and staff functions, rather than Delmas and Toffel’s (2008) focus on marketing and legal functions.
The formation of Nordix’s firm-society policy and practices in all four settings show that pressures from European and US stakeholders (e.g., NGOs, unions, the media, shareholders and rating organizations) in relation to firm-society issues entered into Nordix via their staff functions, while firm-society pressures from stakeholders in distant institutional environments (e.g., local governments, the Communist Party Committee and local unions) entered via operative functions. It is hard to find even a single instance in any of the four settings where firm-society pressures from European and US stakeholders entered Nordix via operative functions. Perhaps the closest is the citizens protesting outside Nordix’s headquarters in the South Africa setting, which likely caught the attention of both operative and staff managers (although all actual negotiations with the anti-apartheid and union movement were conducted by Nordix’s staff managers).44

Similarly, there are few instances in any of the four settings where pressures from stakeholders in distant institutional environments entered Nordix via staff functions. It is really only in the South Africa setting where this is found, when pressures from the ANC and local labor unions partially entered Nordix via the staff functions. Nordix’s staff and operative functions thus interacted with distinctly different stakeholders.

This means that pressures from those host country stakeholders that are perceived to be most controversial in Sweden in relation to firm-society issues – such as the South African and Chinese governments – enter Nordix via operative functions, while pressures from the less controversial stakeholders (in Sweden) – such as NGOs, unions, rating organizations and the media – entered Nordix via staff functions. This difference stems both from operative managers being more present in distant institutional environments than staff managers, and operative managers being more involved than staff managers in establishing structures in distant environments, such as a joint venture in China and a factory in South Africa.

Responses to institutional pressures: Staff functions vs. operative functions

Nordix’s staff and operative functions not only interact with different stakeholders, they also respond differently to firm-society related institutional pressures. Managers in operative functions pay limited attention to firm-society issues, as illustrated in the South Africa, supplier and China settings. For example, in the China setting operative managers shifted

44 Of course, institutional pressures also occasionally enter via Nordix’s CEO and top management, which can be said to represent both operative and staff functions.
Nordix’s supplier base to China without considering the workers’ rights implications, and did not consider community issues and how Nordix would be perceived in the community around its factory. When occasionally confronted with firm-society issues, Nordix’s operative managers attempted to minimize the firm’s involvement. For example, Nordix managers narrowly defined the joint venture’s formal organizational boundary so as to exclude any social functions, and attempted to minimize financial contributions to these functions.

Nordix’s operative functions also attempted to create competitive advantages by leveraging tight local government relationships in distant institutional environments. In both South Africa and China, Nordix’s business model was dependent on government support in the form of toll protection, restricted market access for competitors, market shares and product prices. Nordix’s operative managers acted in line with existing research findings, which highlight the importance of government relations for achieving competitive advantages in emerging economies (Luo and Peng, 1998; Frynas et al., 2006), framing their tasks as establishing production, ensuring sales and creating a profitable subsidiary. As will be discussed below, those choices had consequences for Nordix’s firm-society practices, which were subsequently questioned by stakeholders in Nordix’s home institutional environments.

In sharp contrast to the operative functions, firm-society issues were central for several of Nordix’s staff functions. In response to institutional pressures from mainly Swedish stakeholders, staff functions created a firm-society policy, invested in community projects in South Africa and China, initiated workers’ rights auditing for suppliers, etc. This led, for example, to the perplexing situation where Nordix’s staff function is financing a school in China far from any Nordix factory, while Nordix has no involvement in the vocational school educating students for future positions in Nordix’s industry, only 200 meters from the joint venture factory. While operative functions were driven by the need to establish efficient production, ensure sales, create a profitable subsidiary, etc., staff functions were driven more by the need to protect Nordix’s brand, form trustful relationships with labor unions, doing the right thing, etc.

Not only do operative and staff functions interact with different stakeholders, due to being driven by different logics, they also respond differently – with managers in operative functions attempting to minimize Nordix’s firm-society practices and managers in staff functions attempting to increase these practices. This finding is in line with the emerging new institutional literature, which emphasizes that different intra-organizational groups
respond to institutional pressures differently (Greening and Gray, 1994; Greenwood and Hinings, 1996; Townley, 2002; Zilber, 2002; Blackler and Regan, 2006; Hayes, 2008), without necessarily considering the implications of their decisions for the entire company (cf. Greenwood and Hinings, 1996). Nordix should thus be understood as a hybrid model, comprising both an operative and staff function logic.

**Timing: Operative functions forming practices**

With Nordix’s operative and staff functions both interacting with different types of stakeholders and responding to institutional pressures based on different logics, it is interesting to discuss the links between these functions’ practices. Nordix’s operative managers are usually the ones establishing Nordix’s initial firm-society practices in distant institutional environments as either a by-product of other decisions or an attempt to minimize Nordix’s responsibilities. Occasionally, these firm-society practices catch the attention of European and US stakeholders, who subsequently pressure Nordix’s staff functions. For example, Nordix’s operative managers’ decision to establish business models in South Africa and China with close links to the South African and Chinese governments led to AGIS/ISAC’s pressure to withdraw from South Africa, and both actual and imagined pressures during the 2008 Olympic Games. These pressures entered Nordix via its firm-society and public relations staff functions. Similarly, the operative managers’ decision to shift Nordix’s supplier base to China triggered the poor score in the Dow Jones Sustainability Index, which the supply chain and firm-society staff functions addressed by initiating activities for small suppliers.

When institutional pressures from European and US stakeholders entered Nordix via staff functions, it was often as a response to the firm-society practices established by Nordix’s operative functions. Furthermore, Nordix’s operative functions have at this point already established structures restricting the staff functions’ options. Once the factory was established in South Africa, once the supplier base was shifted to China, and once the joint venture was initiated with the Chinese government, the staff functions’ options vis-à-vis each of these situations decreased drastically. To put it bluntly, if Nordix’s operative functions had given more consideration to firm-society issues when deciding where and how to initiate production and source materials, Nordix’s staff functions would have faced less pressure for changes to Nordix’s firm-society practices.45

45 This is not to say that Nordix’s operative functions made the wrong decisions (this is beyond the scope of this thesis to evaluate), but simply to say that the operative functions’ business logic created a need for Nordix’s staff functions to
The Nordix case can thus be interpreted as in line with much of the new institutional literature that claims that organizations buffer their operative core from institutional pressures (Scott, 1987; Greening and Gray, 1994). The Nordix study emphasizes that the ability to do this is facilitated by institutional pressures having distinct entry points into MNCs. While the idea of buffering is generally linked to the idea of decoupling policies and practices (e.g. Meyer and Rowan, 1977), this resonates poorly with the findings in the Nordix case. Staff functions initiated firm-society practices such as community investments and workers’ rights audits at suppliers. The key point is that these practices are loosely coupled from the practices driven by the operative functions (cf. Weick, 1976; Orton and Weick, 1990). Nordix’s firm-society practices are thus better understood as stemming from the division of labor and loosely coupled practices than from deception. There is support for schools in China, but not in regions close to Nordix’s factory, and there is support for a local orphanage close to the joint venture factory, but this is unknown to the staff functions. While Kim et al. (2007) and Delmas and Toffel (2008) stressed that conflicts between different internal functions and the functions’ individual strength shape firms’ responses to institutional pressures, the Nordix study shows that intra-organizational conflicts are not necessarily that central, since staff and operative functions are loosely coupled from each other within MNCs.

While the loose coupling leads to the emergence of firm-society policies and practices, it also limits changes to how Nordix operates. Despite Nordix’s position as a global firm-society leader and its newly introduced policy and practices, it is still business-as-usual for Nordix’s operative managers – with the twist that staff function representatives introduce new firm-society policy and practices, and occasionally even demand that the operative functions contribute and comply with the policy and practices (cf. Dambrin et al., 2007; Cooney, 2009). However, keep in mind that business-as-usual at Nordix’s operative functions is not equated with ruthless capitalism, but rather with a positive view of labor unions and a willingness to support firm-society practices.

**Timing: Staff functions forming policies**

While Nordix’s firm-society *practices* in distant institutional environments were initially formed by operative functions, its *policy* was initially formed by staff functions. In the policy setting, pressures from unions, the media and shareholders entered Nordix via its human resources and public relations increase Nordix’s firm-society practices in South Africa and China in order to protect Nordix’s legitimacy.
managers. These managers then adopted a policy and auditing systems to ensure that operative functions were complying with the policy. In line with the above reasoning, Nordix’s staff functions interacted with stakeholders based in Sweden or Europe when creating the policy. The content of Nordix’s code of conduct and IFA is also in line with European and US notions on workers’ rights and development (cf. Renteln, 1988, 1990; Donnelly, 1989, 1998; Tomuschat, 2003). This is most clearly illustrated in the focus on universally applicable individual rights in Nordix’s policy, and the fact that several Nordix managers claimed that the foundation of Nordix’s policy is European (perhaps even Swedish).

Given the “Swedishness” of the policy and the institutional distance between Sweden and China, it is reasonable to expect that staff functions’ attempts to tightly couple Nordix’s policy with its practices in China would face difficulties. Put another way, it is reasonable to expect Nordix’s staff functions’ Western bias to clash with Nordix’s operative functions’ responsiveness to local stakeholders in distant institutional environments. Interestingly, there is little evidence of this in the China setting. Managers, union representatives and employees linked to operative functions could hardly provide any examples of when the policy had been used to achieve changes in terms of workers’ rights, community involvement or political involvement. Still, local practices in China were in line with the policy (except for occasional overtime and recruitment non-compliance).

The high level of compliance stemmed from workers’ rights issues being already addressed by Chinese labor laws (i.e., coercive institutional pressure on a local level, taken seriously by Nordix’s operative managers and local union representatives), community issues being covered by the initial joint venture contract and driven by the local enterprise-level union, and Nordix’s policy being in line with the position of non-involvement in political issues. As a result, the perception among local actors was that Nordix’s policy requirements coincided with Chinese labor law and common practices.

This finding is interesting since it implies that, at least in terms of workers’ rights, the elaborate academic and practitioner discussions of firm-society policies with heated debates on codes of conduct and/or IFAs have

---

46 For a more elaborate discussion of the link between the content of international firm-society initiatives such as the UN Global Compact and the European and US notion of workers’ rights and development see Egels-Zandén and Kallifatides (2009).

47 I have tried to determine if the perception that Nordix’s firm-society policies and labor laws coincided is correct; to the best of my knowledge it seems correct, with Nordix’s policies requiring no more than legal compliance in terms of workers’ rights.
limited meaning beyond stating the importance of following local labor laws in China. Academics often define firm-society practices as those practices that extend beyond complying with the law (e.g., McWilliams and Siegel, 2001; de Bakker et al., 2005; Lepoutre et al., 2007), while the Nordix study indicates that firm-society practices (at least as defined by MNCs themselves in relation to workers’ rights) are aimed at following local labor laws. Given this, it is not surprising that there were no apparent conflicts between Nordix’s staff functions’ policy and its operative functions in China.

The only instance where Nordix’s workers’ rights policy extended beyond Chinese labor laws (protecting the employees’ right to join labor unions), Nordix’s staff representatives and auditors did not pressure operative managers into following this policy since they did not want to put managers and employees in a position where they would be committing a crime by violating local laws. Thus, when Nordix’s policy conflicted with legal compliance, Nordix’s staff representatives did not attempt to tightly couple the policy and practice, to avoid conflicts between Western ideas and Chinese labor laws. Nordix’s world-leading firm-society status is thus at least partly based on its responsible practice of following local labor laws (even when these laws contradict its firm-society policy). Moreover, its unique IFA – identified by the union movement as a symbol of hope for MNC responsibility across the globe – is, in practice, equated with complying with Chinese labor law.

Managing responsibilities: Four central aspects

This chapter has begun to examine how institutional pressures and corporate discretion combined to form Nordix’s firm-society policy and practices. It has showed that four aspects are central for understanding how Nordix managed its responsibilities, and for understanding how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices. First, as illustrated in the Nordix case, institutional pressures and corporate discretion combine differently both inside and outside an MNC’s organizational and responsibility boundaries. The placement of these boundaries was, in the Nordix case, influenced by both institutional pressures and corporate discretion. Nordix’s organizational boundaries were placed by operative functions in order to delimit Nordix’s responsibilities, while responsibility boundaries were placed by staff functions so as to start to expanding Nordix’s responsibilities for workers’ rights at suppliers and distributors.

Second, institutional pressures shaped Nordix’s practices, and were exerted by different stakeholders. In addition to the stakeholders identified in
previous research, the Nordix case shows that labor unions and imagined institutional pressures should be added to the list of stakeholders exerting pressures. In particular, the enterprise-level of the union movement was central for the formation of Nordix’s firm-society policy and practices. The fact that labor unions have been neglected in contemporary firm-society research so far is surprising, given their prominent role in the Nordix case. I will return to the role of the labor union movement in Chapter 9.

Third, Nordix managers not only adopted “acquiesce” responses to institutional pressures, they also translated and resisted them. To understand MNC managers’ responses to institutional pressures, the Nordix case shows that it is necessary to complement existing new institutional literature with an analysis of the relative importance of different predictive factors and add the factor “type of firm-stakeholder relationship”. Together, the discussion of institutional pressures and Nordix’s responses shows that: i) institutional pressures were the most central for the formation of Nordix’s firm-society policy and practices when Nordix was highly dependent on the stakeholder exerting pressures and when pressures were legally enforced; ii) institutional pressures and corporate discretion were both central when institutional pressures were consistent with Nordix’s goals; and iii) corporate discretion was most central when institutional pressures were inconsistent with Nordix’s goals.

Fourth, to capture the fact that institutional pressures have different entry points into an MNC, the Nordix case shows that, in relation to firm-society policies and practices, it is useful to distinguish between an MNC’s operative and staff functions. In the Nordix case, these functions not only interacted with different stakeholders, they also responded based on different logics. Nordix’s operative managers were usually the ones establishing Nordix’s initial firm-society practices with staff managers, and subsequently establishing practices based on these initial structures. This led to staff functions buffering Nordix’s operative functions, and to Nordix’s firm-society practices being loosely coupled from each other.

The discussion in this chapter has also shown that it is difficult to establish where institutional pressures end and corporate discretion begins. For example, Nordix managers actively resisted local institutional pressures when establishing a factory in China based on their taken-for-granted idea of what comprises a company. Is this a sign of corporate discretion or a sign of Nordix managers’ perceptions being shaped by their home institutional environment? And what about the extension of Nordix’s responsibility boundaries to include distributors? This was initiated by Nordix’s firm-society staff function without any direct institutional pressures, indicating
corporate discretion. However, the creation of the staff function in the first place could be seen as a classic organizational response to mounting institutional pressures related to firm-society issues – making the staff representatives’ actions a logical consequence of the institutional pressures.

I will not attempt to answer the question of where institutional pressures end and corporate discretion begins. It is beyond my scope to analyze where stakeholders’ and managers’ rationale stemmed from. Instead, I will settle for having shown that the above four aspects of how institutional pressures and corporate discretion combine are important for understanding how Nordix’s firm-society policy and practices were formed.
9. The influence of different environments: home, host and transnational

Two additional aspects are important for understanding how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices. First, institutional pressures and corporate discretion combined in different ways in the Nordix case, depending on how stakeholders exert pressures. To understand how stakeholders (mainly the labor unions) exerted pressures in the Nordix case, the existing discrete campaign model of how institutional pressures related to firm-society issues are exerted needs to be complemented by a continuous bargaining model of institutional pressures. This finding re-emphasizes the embeddeness of Nordix in a Swedish industrial relations system.

Second, how institutional pressures and corporate discretion combined was shaped by Nordix operating in distant institutional environments. Being embedded in its Swedish home institutional environment, Nordix should, according to the new institutional literature, face conflicting institutional pressures from home and host institutional environments when operating in distant institutional environments (e.g., Kostova, 1999). While this hypothesis is supported and Nordix faced legitimacy challenges due to operating in distant institutional environments, the challenges manifested themselves both as a clash between home and host institutional pressures and as clashes in Nordix’s home institutional environment. This adds to the new institutional literature by demonstrating an additional way in which institutional differences create legitimacy challenges.

Taken together, these two aspects and the four aspects discussed in the previous chapter provide an understanding of how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices. Based on this understanding, this thesis concludes with a discussion of when and how Nordix’s home, host and transnational institutional environments mattered for the formation of its firm-society policies and practices, and returning to the question of whether firm-society practices are formed by “guidelines and expectations for MNC behavior on a worldwide basis” (Kostova et al., 2008:998) or if they vary across countries (e.g., Campbell, 2007).
A continuous bargaining model of institutional pressures

The most basic idea of how institutional pressures are exerted is that stakeholders directly interact with the firm, expressing demands directly or indirectly threatening the firm’s legitimacy. There are numerous such examples in the Nordix case: AGIS and ISAC demanded Nordix to withdraw from South Africa, and threatened to launch public campaigns against Nordix if it did not; shareholders demanded that Nordix adopt a written firm-society policy, and indirectly threatened Nordix legitimacy if it did not comply; and representatives of the Dow Jones Sustainability Index gave Nordix a poor score for its supplier activities, thereby threatening Nordix’s ranking in the Index. However, the formation of Nordix’s firm-society policy and practices, especially in the South Africa and policy settings, also illustrate other ways in which institutional pressures are exerted. To capture these ways, it is necessary to develop a complementary bargaining model of how institutional pressures are exerted.

A bargaining model of how institutional pressures are exerted

As described in Chapter 2, the traditional model stresses that pressures are exerted in discrete, visible campaigns that challenge companies’ legitimacy in the eyes of the public (e.g., van Tulder and Kolk, 2001; Vidaver-Choen and Brönn, 2008). The Nordix study illustrates a very different dynamic. While Nordix’s firm-society practices in South Africa and its adoption of a policy were driven and shaped by labor union pressures, this pressure did not take the form of discrete campaigns. Moreover, the main expected corporate gain from signing an IFA and initiating community projects in South Africa was not improved legitimacy in the eyes of customers or the public. Instead, union pressures were embedded in a long-term continuous corporate-union relationship, and Nordix’s motivation in complying with these pressures was to maintain this trustful relationship. These findings thus imply a different model of how institutional pressures are exerted from that identified in previous research.

The fact that previous research into firm-society issues has not identified the possibility of using a complementary bargaining model of institutional pressures is likely due to the reality that most empirical processes for adopting firm-society policies and practices in response to institutional pressure have been initiated and driven by NGOs rather than by labor unions (van Tulder and Kolk, 2001; Roberts, 2003; Graafland, 2004; Wright and Rwabilzambuga, 2006; Åhlström and Egels-Zandén, 2008). This is the case even though labor unions often are involved in NGO-driven campaigns (e.g., Werre, 2003; Riisgaard, 2005; Åhlström and Egels-Zandén,
THE INFLUENCE OF DIFFERENT ENVIRONMENTS

2008). As such, the empirical basis on which conceptual frameworks of institutional pressure have been developed has been fairly homogenous (at least in this respect).

Although NGOs and labor unions often share the objective of improving MNCs’ workers’ rights practices (and potentially also community involvement) (cf. Braun and Gearhart, 2004; Compa, 2004; Egels-Zandén and Hyllman, 2006), there are central differences between how NGOs and unions operate, leading to differences in how institutional pressures are exerted. NGOs usually have relatively unstable financial resource bases, with financial support from governments and other financiers being determined on a yearly basis. This creates a dynamic wherein NGOs concentrate on influencing corporations in discrete, highly visible campaigns (cf. Braun and Gearhart, 2004). Furthermore, NGOs have not traditionally been involved in ongoing negotiations in industrial relations systems, making NGOs outsiders when it comes to workers’ rights issues (cf. Dunlop, 1958; Bamber and Lansbury, 1998). Hence, researchers studying processes led by NGOs find and conclude that stakeholders exert pressure in the form of discrete (and often highly visible) activist campaigns, and companies comply to retain or restore their legitimacy in the eyes of consumers and the public.

In contrast, when institutional pressure comes primarily from the union movement – particularly from influential parts of the union movement, as was the situation in the South Africa and policy settings – it has a different character. Unions, together with corporations and governments, are the key actors in industrial relations systems (Dunlop, 1958; Bamber and Lansbury, 1998), and are consequently involved in long-term continuous relationships with corporations. In addition, unions have relatively stable financial resource bases stemming from their memberships, and union officials are held accountable to their constituents over a longer time period. Add to this the fact that Swedish corporate-union relations in general (e.g., Bamber and Lansbury, 1998; Piazza, 2002), and Nordix-union relations in particular, are characterized by a continuous bargaining logic, and this leads to union pressures being embedded in a well-established tradition of continuous bargaining regarding many local, national, and international issues – of which firm-society policies and practices are often not even among the most important.

These differences lead to two different conceptual models of how institutional pressures are exerted. Table 4 illustrates the differences between: i) a model dominating previous research (e.g., as illustrated in the research into how institutional pressures influence MNCs to adopt firm-society policies), which stresses that stakeholder pressure stems from discrete, highly visible
activist campaigns evoking corporate responses aimed at restoring or improving corporate legitimacy in the eyes of customers, investors and the public; and ii) a proposed model stressing that stakeholder pressure is embedded in long-term, continuous bargaining corporate-stakeholder relationships.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Traditional model of institutional pressure</th>
<th>Bargaining model of institutional pressure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issues</td>
<td>Single issues</td>
<td>Multiple issues</td>
</tr>
<tr>
<td>Frequency</td>
<td>Discrete campaigns</td>
<td>Continuous bargaining</td>
</tr>
<tr>
<td>Public visibility</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Corporate reason for complying</td>
<td>Improved legitimacy</td>
<td>Retained trusting relations</td>
</tr>
</tbody>
</table>

Table 4: Differences between a traditional and a bargaining model of institutional pressure.

As seen in Table 4, there are four main differences between these conceptual models of how institutional pressures are exerted. First, the traditional model frames institutional pressure in relation to single issues, such as the adoption of firm-society policies and withdrawal from South Africa. In comparison, the proposed complementary bargaining model frames institutional pressure in relation to multiple issues; firm-society policies and practices are but a few of the many issues covered in the firm-stakeholder relationship, and are not necessarily among the most important matters in the relationship. In the policy setting, this difference is illustrated by the fact that shareholders and media pressure (in relation to firm-society issues) focused on forcing Nordix into adopting a code of conduct and, even more specifically, developing a policy regarding child labor in developing countries. In contrast, labor union movement pressure focused on codes of conduct, IFAs, and many other labor issues (e.g., staffing, workers’ shifts, working hour regulations and salaries) in both developing and, even more importantly, developed countries (such as Sweden).

Second, the traditional model conceptualizes institutional pressure as discrete activist campaigns, while the proposed bargaining model conceptualizes such pressure as long-term continuous bargaining. In the policy and South African settings, this difference is illustrated by the discrete (and sometimes cyclical) attention paid to firm-society issues by the media and shareholders. Although firm-society issues have been a “hot topic” since the late 1990s (e.g., Waddock et al., 2002; Hart and Milstein, 2003), it still only
receives sporadic attention, at least in relation to specific companies. In comparison, union movement pressure had been ongoing and systematic since the founding of Nordix. An institutionalized bargaining relationship has developed over the years, allowing the matter of, for example, an international framework agreement or investments in community projects in South Africa to be consistently discussed.

Third, in the traditional model of institutional pressure, public campaigns, media coverage and “scandals” are important, while in the proposed complementary bargaining model, conflicts are often kept out of the spotlight. A quote from an interview with Nordix enterprise-level union representatives phrases this best:

> Our [the corporate-union] relationship builds on [the assumption] that you nurture the relationship and do not discuss conflicts externally. We would never ‘trash talk’ the corporation externally or in the media. Internally, there could be extremely heated debates, but externally never, ever. We could be furious with them, but if the media called, we would say nothing of our conflicts.

Fourth, as noted above, the traditional model of institutional pressure conceptualizes firms’ reason for complying with institutional pressures as the need to protect the legitimacy of the firm in the eyes of its customers and the public. The complementary bargaining model emphasizes the endeavor to maintain a trusting relationship (in this case, a trustful corporate-union relationship) as the main reason for complying. In such firm-stakeholder relationships, the firm can see the relationship itself as a valuable resource. Several Nordix managers also claimed that the trustful corporate-union relationship was key to Nordix’s ability to do business successfully, and the relationship was seen as a source of competitive advantage vis-à-vis Nordix’s competitors. Furthermore, in the bargaining model of institutional pressure, the boundaries between the firm and the stakeholder are less clear than traditionally envisioned. This is especially so in relation to enterprise-level unions made up of the corporation’s employees. As one manager put it, “The enterprise level union is absolutely an integral part of us [i.e., Nordix].”

**The bargaining model: Predominantly in Scandinavia**

With the bargaining model of institutional pressures being based on institutionalized firm-union (or other stakeholder) relationships, it is not found in all settings. Regarding the union movement, institutionalized firm-union relationships are particularly common in Northern European countries. In
many of these countries, including Sweden, the union movement is also influential relative to, for example, the US (cf. Brewster, 2004), other European countries (cf. Gooderham et al., 1999), and countries in Asia (cf. Wang, 2005; Yu, 2008, 2009). The unions are thus central actors both in terms of influence and institutionalized relationships with firms in the national industrial relations systems in countries such as Sweden (cf. Dunlop, 1958), while they lack this status in many other countries.

However, it is not only strength and the institutionalized relationships that determine whether unions are likely to exert pressures in the way described by the bargaining model. Germany, for example, has strong labor unions, but this strength rests on extensive legal frameworks and fairly distrustful firm-union relations (cf. Gooderham et al., 1999; Preuss, 2008). It is thus more likely to find the bargaining model in industrial relations systems similar to those of the Nordic countries, which rely on firm-union bargaining with strong but passive government involvement rather than in countries such as Germany (cf. Emery and Thorsrud, 1969; Hedlund and Otterbeck, 1977; Bamber and Lansbury, 1998; Gooderham et al., 1999; Piazza, 2002). In countries such as Germany, unions can certainly be expected to exert pressures via long-term bargaining, but companies’ reasons for complying with these pressures would be less related to maintaining a trustful firm-union relationship than was the case with Nordix. The bargaining model of institutional pressures is most likely to be found in Scandinavia, demonstrating once again the importance of considering an MNC’s home institutional environment to understand how firm-society policies and practices are formed.

The bargaining model: Predominantly inside organizational boundaries

While the labor union and the complementary bargaining model were central in the South Africa and policy setting, they were not, as noted above, present in the supplier setting despite its focus on workers’ rights issues. In other words, the labor unions’ continuous bargaining pressure is exerted inside but not outside Nordix’s organizational boundaries. This is surprising given that the union movement was one of the key stakeholders pressuring Nordix to adopt a firm-society policy that included support for the protection of workers’ rights at suppliers. It is even more surprising given that previous research has emphasized the inability of MNCs’ to implement the freedom of association paragraph of their firm-society policies at suppliers (Wang, 2005; Barrientos and Smith, 2007; Yu, 2008, 2009; Koçer and Fransen, 2009), and has stressed the importance of including representatives

Therefore, while Nordix managers are uniquely positioned to leverage a trustful firm-union relationship when extending Nordix’s responsibility boundaries, they instead end up imitating MNCs in consumer industries with weak firm-union relationships and set themselves up to play the media-driven scandal game. In other words, they willingly enter into a traditional model of institutional pressures with discrete public campaigns rather than building on the complementary bargaining model of long-term trustful relations using (like in South Africa) the union movement as a moral legitimacy buffer if workers’ rights violations occur at suppliers. From an external perspective, Nordix looks like a hypochondriac trying to cure its perceived supplier illness by imitating other MNCs and developing elaborate risk assessment models while it already has the cure for its supplier illness embedded in the firm-union relationship.

There are two main reasons for this somewhat surprising difference in the development of Nordix’s firm-society practices inside and outside its organizational boundaries. While there is an institutionalized trustful relationship between Nordix managers and the enterprise-level (and Swedish national-level) union, there is no such relationship between Nordix managers and the Global Union Federation. As shown in the policy setting, Nordix dismissed and challenged several of the GUF’s demands, often with reference to a lack of trust regarding the GUF’s legitimacy. With Nordix’s enterprise-level union not representing workers at supplier factories and the GUF being the only part of the union movement that could claim to represent these workers, it is thus difficult to extend Nordix’s unique trustful firm-union relationship beyond its own organizational boundaries. The Nordix study thus empirically supports Campbell’s (2007) theoretical argument that institutionalized firm-stakeholder relationships are central for how companies’ firm-society practices develop, by showing that the continuous bargaining type of institutional pressure was difficult to extend beyond Nordix’s organizational boundaries.

Additionally, Nordix managers (as with most researchers interested in firm-society issues) frame workers’ rights at suppliers as a firm-society issue rather than a human resources issue. Moreover, it is framed as a brand risk issue or philanthropic issue rather than a human resources issue subject to ongoing firm-union negotiations. Existing legislation supports this framing, allowing MNCs to unilaterally attempt to alter workers’ rights issues (such as salaries and working hours) at suppliers, alterations that would have been subject to firm-union negotiations had they been done internally. In much
the same way as Boxenbaum (2006) shows how diversity management became framed as a firm-society issue rather than human resources one, the Nordix case shows how workers’ rights at suppliers became framed as a firm-society issue rather than human resources one. This, in turn, had consequences for which actors Nordix managers (and union representatives) considered relevant when developing practices vis-à-vis suppliers. The lack of an institutionalized firm-union relationship beyond Nordix’s organizational boundaries and the framing of workers’ rights at suppliers as a firm-society issue thus led Nordix managers to forego the promising possibility of leveraging the unique characteristics of Nordix’s history and the Swedish home institutional environment by collaborating with the union movement.

**Co-existing models of institutional pressures**

If we extend the reasoning regarding how institutional pressures are exerted beyond stakeholders directly interested in firm-society issues, it is clear that the bargaining model of institutional pressures better captures how, for example, the Chinese government in the joint venture negotiations pressured Nordix than does the traditional model. Similarly, the Communist Party Committee and the labor union in the joint venture factory continuously pressured Nordix’s subsidiary managers. The important conclusion here is not the placement of each stakeholder in either a traditional or bargaining model (this conclusion could certainly differ in other studies), but rather the recognition of the co-existence of two different models of institutional pressures that broadens our understanding of how institutional pressures are exerted.

As shown in the Nordix study, these two models can co-exist in practice. For example, the AGIS and ISAC public campaigns influenced the passing of laws banning Swedish investment in South Africa, and increased the necessity for Nordix to use unions as a buffer between the company and the activists. The effects of discrete and public institutional pressures increased Nordix’s willingness to conduct firm-society practices and collaborate with the union movement. Simplified, the discrete pressure affected Nordix’s *willingness* to conduct firm-society practices, while the continuous bargaining pressure affected the *content* of these practices. Similarly, in the policy setting, the discrete pressure from journalists and shareholders increased Nordix’s willingness to adopt a firm-society policy, while the continuous bargaining pressures both increased willingness and influenced the content of the policy.
Legitimacy vs. Trust: Similar but yet different

The identification of two conceptually distinct ideas about how institutional pressures are exerted reveals an underlying tension between the concept of legitimacy (traditional model of institutional pressures) and trust (complementary bargaining model of institutional pressures). Several new institutionalists use these concepts as synonyms when discussing firm-society issues. For example, Schwartz (2009:195) states that “companies try to achieve legitimacy through their actions, striving for consistency between themselves, their actions and the surrounding world in order to be trustworthy in their organization fields” (emphasis added). Legitimacy and trust also have several similar features, with both being assessments of a firm by its stakeholders and influencing firms’ ability to acquire resources and survive. However, there are important differences between the concepts.

One important difference is that nearly all definitions of trust emphasize that the trustor accepts vulnerability based on positive expectations of the intentions or behavior of the trustee, despite the trustor being uncertain of the trustee’s dependability (McEvily et al., 2003; Inkpen and Currall, 2004; Maguire and Philips, 2008; Kim et al., 2009). Definitions of legitimacy, however, do not include a vulnerability component (cf. Suchman, 1995). In the Nordix study, this difference is, for example, visible in the fact that the Nordix enterprise-level union was vulnerable when defending Nordix’s decision to remain in South Africa while pressuring Nordix managers to initiate community projects in South Africa; Nordix was vulnerable when signing an international framework agreement with the union. In comparison, AGIS/ISAC, the Dow Jones Sustainability Index, and journalists were not vulnerable when pressuring Nordix in the South Africa and supplier settings.

The debate between the Global Union Federation and the enterprise-level union in relation to the formation of Nordix’s firm-society policy further illustrates the implications of vulnerability, with the GUF certainly perceiving Nordix as a legitimate and even reputable MNC (cf. Deephouse and Carter, 2005). However, since some GUF representatives did not hold positive expectations about the intentions of Nordix, they wanted to sign a very detailed IFA to avoid vulnerability. On the other hand, enterprise-level union representatives had positive expectations of how Nordix managers would act, and preferred a less detailed IFA. As such, the difference in willingness to accept vulnerability led to very different views within the union movement of how firm-society policies should be formulated.

An extension of this argument is that actions aimed at retaining legitimacy could be at odds with actions aimed at retaining trust. The pressure on
Nordix to adopt a code of conduct could be seen as pressure to introduce more formal modes of governance (cf. Gulati and Nickerson, 2008). This would, in turn, enhance Nordix’s legitimacy by making it more transparent, accountable and similar to the large number of MNCs that had already adopted codes of conduct. Nordix managers’ initial resistance to adopting a code of conduct (claiming that it would make Nordix more rigid and that it was an attempt to fix something that was not broken) could be understood as Nordix managers resisting a formal mode of governance in order to retain the existing internal trust-based model. Similarly, the resistance to adopting a detailed IFA could be understood as a wish to retain the trustful and trust-based Nordix-union relationship. Hence, Nordix managers reasoned along the line of Rodgers (2010), who states that when formal modes of governance are adopted, practices dependent on trust are likely to decline (cf. Gulati and Nickerson, 2008). With many of the policies and practices adopted to improve legitimacy implying formalization (cf. Power, 1999), the examples from the Nordix study point to a more general conflict between legitimacy and trust, with actions aimed at retaining legitimacy potentially having detrimental effects on intra- and inter-organizational trust.48

A third difference is that legitimacy in new institutional theory refers to generally held beliefs about a company and conformity to societal expectations (e.g., Meyer and Scott, 1983; Suchman, 1995), while trust (at least in some strains of the extensive trust literature) refers to a relation bond and psychological contract between specific actors (e.g., Rodgers, 2010). This is linked to legitimacy, which deals with the acceptability and survival of organizations by being similar to other organizations (e.g., Deephouse, 1996; Deephouse and Carter, 2005), while trust deals with not only the organization being accepted but also potentially being distinctly different from other organizations. For example, the GUF’s decision to allow Nordix to sign an IFA with its enterprise-level union stemmed from the fact that the GUF chairman trusted Nordix based on his prior experience with the company, and claimed that Nordix was distinctly different from other Swedish MNCs. Thus, while differentiation is argued to diminish legitimacy in new institutional theory (e.g., Deephouse, 1996, 1999), differentiation seems to be able to increase inter-organizational trust. Consequently, while legitimacy is vital

---

48 The relationship between trust and control is complicated (e.g., Das and Teng, 2001; Reed, 2001). This is even shown in the Nordix study, where adopting an IFA (increased control) improved the inter-organizational trust between Nordix and the enterprise-level union, while adopting a detailed IFA (increased control) would have damaged this inter-organizational trust.
for survival, trustful relations could be a source of competitive advantage (e.g., Wicks et al., 1999) – which Nordix managers also claimed about the trustful Nordix-union relationship. Therefore, the seemingly superficial difference between emphasizing legitimacy in the traditional model of institutional pressures and trust in the complementary bargaining model of institutional pressures identifies an interesting conceptual tension in new institutional theory.

**The experience of institutional distance in the home environment**

The above discussion has clearly illustrated the importance of Nordix’s Swedish home institutional environment in influencing how Nordix’s firm-society policy and practices were formed. Labor unions were influential stakeholders, institutional pressures were exerted in continuous bargaining ways, Nordix managers attempted to retain trustful firm-union relationships, and so on. With the home institutional environment influencing Nordix’s firm-society policy and practices, new institutional reasoning would expect Nordix to face conflicting institutional pressures from distant home and host institutional environments (e.g., Kostova, 1999).

Nordix faced conflicting pressures as expected, but this was manifested both in conflicts between home and host institutional environments and within the Swedish home institutional environment. Phrased differently, Nordix did not only face making a trade-off between legitimacy in home and host institutional environments (as claimed in the new institutional literature), but also between legitimacy in the eyes of different stakeholder groups.

The Nordix study thus supports the argument that operating in distant institutional environments makes MNCs face conflicting institutional pressures, but modifies this argument by showing that conflicting institutional pressures stemming from operating in distant institutional environments also sometimes manifest themselves in the home institutional environment. Nordix would not have faced the conflicting pressures of withdrawing and remaining in South Africa had it not operated there. However, the conflicting institutional pressures were exerted in Sweden as well as in South Africa.

**Translating host pressures into home institutional pressures**

One reason why institutional pressures travel from host to home institutional environments is that stakeholders in the home institutional environment act as spokespersons for stakeholders in host institutional environments. This occurred in all four settings and is most vividly illustrated in the
South Africa setting. At the core of the Swedish anti-apartheid debate was the question of how to abolish apartheid, with AGIS/ISAC demanding change from the outside (i.e., corporate withdrawal) and the Swedish Technology Union demanding change from the inside (i.e., companies remaining in South Africa). To a large extent this was a debate about who had the right contacts in South Africa – about who were the legitimate South African spokespersons. While AGIS/ISAC argued that the legitimate spokesperson was the ANC, the Swedish Technology Union argued that the legitimate spokespersons were the relevant South African unions.

In this way, conflicts between local South African organizations were mirrored in conflicts between NGO and union pressures in Sweden. Swedish stakeholders thus assumed the role of spokespersons for South African stakeholders, who in turn assumed the role of spokespersons for South African citizens (cf. Czarniawska and Sevón, 1996). This finding echoes Rowley (1997), who argued that companies respond to networks of stakeholders rather than individual stakeholders, with the addition that the formation of global stakeholder networks makes host institutional pressures travel to MNCs’ home institutional environments.

While this was clearest in the South Africa setting, in the China setting NGOs, investors, ranking organizations, etc. also acted as spokespersons for workers and Chinese citizens in pressuring Nordix to adopt a code of conduct, extend it to suppliers, and influence political development in China. The Nordix study indicates that in relation to firm-society issues there are conflicting institutional pressures in most institutional environments, and that it is consequently more relevant to discuss conflicts between different stakeholders’ pressures around the globe than to discuss conflicts between home and host institutional pressures.

The reason why institutional distance manifests itself somewhat differently in the Nordix study compared to most other studies of institutional distance is likely due to the fact that the Nordix study deals with firm-society issues. Few other issues comprise such conflicting stakeholder demands and can boast such an extensive number of stakeholders in Europe and the US that are willing to act as spokespersons for stakeholders in Africa and Asia. This is particularly so with workers’ rights and human rights being described as universal norms. The willingness of European and US stakeholders to act as spokespersons for African and Asian stakeholders is, for example, seen in workers’ rights “scandals” in Asia (cf. Frenkel, 2001; Frenkel and Scott, 2002; Graafland, 2002; Wang, 2005; Bartley, 2007; Egels-Zandén, 2007a). These scandals are driven by European and US organizations that

49 For example, the 1948 Universal Declaration of Human Rights.
are claiming to represent workers in mainly Asia. Global stakeholder networks have formed around firm-society issues in a way that is rarely found regarding other issues (cf. Kostova et al., 2008) – making it easy for institutional pressures to travel from host to home institutional environments.

**Conflicting home and host institutional pressures**

Although some host country conflicting institutional pressures travelled to Nordix’s home institutional environment via spokespersons, there were also some conflicting pressures between Nordix’s home and host institutional environments. These pressures mainly concerned Nordix’s level of political involvement. Here, the Chinese governments (including the Communist Party Committee in the joint venture in China) pressured Nordix not to influence local political developments (or at least explicitly praised Nordix’s apolitical position). At the same time, no local stakeholders interacting with Nordix were pressuring the firm to attempt to influence local political developments (although it could be argued that some Chinese citizens not directly interacting with Nordix, such as Chinese human rights activists, would want Nordix to influence political developments). This host institutional pressure of non-involvement partly conflicted with Swedish institutional pressures, which were occasionally pressuring Nordix to influence political developments in China.

In terms of political involvement in China, Nordix faced the expected trade-off between legitimacy in the host or home institutional environment (cf. Kostova, 1999). Here, Nordix managers did not attempt to influence political developments in China, and risked being perceived as illegitimate in the Swedish institutional environment. However, stakeholders such as NGOs, unions and the media have so far not presented more than vague insinuations or general questions regarding Nordix’s political involvement in China. Nordix managers’ decision to assume an apolitical position has thus, to date, not threatened its legitimacy in the Swedish institutional environment.

**How do institutional pressures and corporate discretion combine?**

In this thesis, I have shown how managers at Nordix struggle with managing responsibilities. They attempt to grasp what stakeholders demand of them, balance conflicting demands, decide whether to comply or resist stakeholder demands, initiate firm-society practices without being directly pressured, and so on. This ongoing process of managing responsibilities involves both institutional pressures and corporate discretion, and there are
six central aspects for understanding how institutional pressures and corporate discretions combine to form an MNC’s firm-society policies and practices. In showing this, I have begun to address the need in the field of firm-society research for a better understanding of how institutional pressures and corporate discretion combine and the role of operating in distant institutional environments. Figure 2 summarizes these six aspects in relation to the thesis’ research question.

Figure 2: Aspects central for understanding how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices.

As illustrated in Figure 2, it is necessary to understand which stakeholders exert institutional pressures. By adding labor unions and imagined institutional pressures to this list of stakeholders, this thesis contributes to firm-society research with regard to identifying which stakeholders exert pressures. Second, it is necessary to understand how an MNC actively responds to institutional pressures. By discussing the relative importance of different predictive factors and adding the predictive factor “type of firm-stakeholder relationship”, this thesis contributes to the new institutional literature with regard to understanding how companies respond to institutional pressures. I have shown that in the Nordix case: i) institutional pressures were most central to the formation of Nordix’s firm-society policy and practices when Nordix was highly dependent on the stakeholder exerting the pressures and when the pressures were legally enforced; ii) institutional pressures and corporate discretion were both central when institutional pressures were
consistent with Nordix’s goals; and iii) corporate discretion was most central when institutional pressures were inconsistent with Nordix’s goals.

Third, it is necessary to understand how institutional pressures enter an MNC. The Nordix case showed that institutional pressures had distinct entry points into Nordix and that different Nordix functions responded differently. By showing that this is a difference between Nordix’s staff and operative functions, this thesis contributes to the new institutional literature by starting to examine how to intelligently divide an MNC to capture differences among entry points. Institutional pressures and corporate discretion thus combined to form Nordix’s firm-society policy and practices in two different locations. The consequence of this was that Nordix’s firm-society practices became loosely coupled from each other.

Fourth, it is necessary to understand that institutional pressures are exerted in two conceptually distinct ways. By complementing the existing discrete campaign model of how institutional pressures are exerted with a bargaining model, this thesis contributes to firm-society research with regard to understanding how stakeholders exert pressures. Institutional pressures and corporate discretion thus combined to form Nordix’s policy and practices via two different ways of Nordix-stakeholder interaction.

Fifth, it is necessary to understand that operating in distant institutional environments increases the amount of conflicting institutional pressures that a MNC faces. By showing that these conflicts manifested themselves both in clashes between home and host institutional pressures and by travelling to the MNC’s home institutional environment, this thesis contributes to the new institutional literature with regard to understanding the consequences of operating in distant institutional environments.

Sixth, it is necessary to understand how managers place organizational boundaries and responsibility boundaries. Boundary placement is central for understanding an MNC’s firm-society policies and practices, and because institutional pressures and corporate discretion combine differently inside and outside these boundaries. By showing the importance of boundary placement and introducing the concept of “responsibility boundaries”, this thesis contributes to firm-society research by providing concepts that are useful for obtaining a more elaborate understanding of firm-society policies and practices.

Taken together and returning to this thesis’ research question, these six aspects provide an elaborate understanding of how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices. In relation to Nordix, the formation of Nordix’s firm-society policy was initiated by institutional pressures that were exerted by Western
stakeholders and had entered Nordix via managers in staff functions. The existence of the institutional pressure was, in turn, related to Nordix operating in distant institutional environments, and was exerted both in a discrete and continuous bargaining manner. Nordix staff managers adopted “compromise” and “defiance” responses to these pressures, shaping the policy to fit Nordix’s goals and internal structures.

In short, Nordix’s firm-society practices developed in two distinctly different ways. Nordix’s staff managers initiated practices via interaction with Western stakeholders. Here, labor unions were central stakeholders exerting pressures with regard to practices inside but not outside Nordix’s organizational boundaries. Nordix’s staff managers adopted mainly “compromise” responses and added firm-society practices to the existing structures that Nordix’s operative functions had established. This resulted in these firm-society practices being loosely coupled from the firm-society practices initiated by Nordix’s operative functions. Additionally, Nordix’s operative managers initiated practices via interaction with stakeholders in host institutional environments. These managers adopted responses ranging all the way from “compliance” to “defiance”, attempting to delimit Nordix’s responsibilities. In this way, firm-society practices were often established as by-products of business-oriented decisions. The firm-society practices driven by operative managers were influenced only to a limited extent by Nordix’s firm-society policy, since the content of the policy was largely addressed by existing local legislation.

Home, host and transnational environments matter simultaneously

Based on the above analysis of how institutional pressures and corporate discretion combine to form an MNC’s firm-society policies and practices, it is possible to show that an MNC’s home, host and transnational institutional environments all mattered simultaneously. It mattered that Nordix was founded and has its headquarters in Sweden (cf. Marquis et al., 2007; Wetterberg, 2007; Haunschild et al., 2008; Matten and Moon, 2008), it mattered that Nordix operated in South Africa and China (as compared to other institutional environments), and it mattered that Nordix is an MNC (cf. Kostova et al., 2008).

The home institutional environment effects are most clearly seen in the prominent role of the labor unions in the Nordix case, exerting pressures differently than traditionally envisioned in firm-society literature. The host institutional environment effects are, for example, vividly displayed in the China setting, with the Chinese government both directly and indirectly (via
the labor law) influencing Nordix’s firm-society policy and practices. The MNC effects are shown in, for example, the influence of the Dow Jones Sustainability Index and the pressure to adopt a code of conduct exerted by Nordix’s home and transnational institutional environment (cf. Kostova et al., 2008).

The Nordix study shows that an MNC’s home institutional environment influences firm-society policies and practices in three different ways. First, it influences the diffusion rate of practices and policies around the globe (cf. Orru et al., 1991; Delmas, 2002; Guler et al., 2002). For example, Nordix initially resisted adopting a code of conduct (a type of policy stemming from the US setting) (Hauschild et al., 2008), suggesting that it would fit poorly with Nordix’s trust-based model (a trait particularly prevalent in the Swedish institutional environment). At the same time, Nordix was one of the first MNCs to adopt an IFA, which is consistent with the overall finding that, in comparison to other countries, many Swedish MNCs have adopted IFAs (with almost no US MNCs having adopted IFAs) (e.g., Hammer, 2005). In other words, codes of conduct appear to fit better in the US institutional environment than in the Swedish one, IFAs appear to fit better in the Swedish environment than the US one, and both codes of conduct and IFAs would appear to fit well in the German institutional environment of strong labor unions and a high degree of formalization (this is supported by the fact that German MNCs very quickly adopted both codes of conduct and IFAs).

Second, the home institutional environment influences how an MNC translates firm-society policies and practices (cf. Westney, 1987; Woywode, 2002). For example, Nordix’s code of conduct and IFA were vaguer than most US and German MNCs’ codes of conduct/IFAs. This was the result of Nordix managers and enterprise- and national-level union representatives’ translation of the general code of conduct and IFA idea into a specific Nordix policy based on a desire to protect the trustful Nordix-union relationship (a prominent feature of the Swedish institutional environment).

Additionally, the home institutional environment also more generally shapes how MNC managers use their discretion. For example, in the China setting, Nordix managers participated in creating a labor union to ensure there was a legitimate spokesperson representing workers, viewing this as a potential competitive advantage. This could be interpreted as the consequence of community institutional pressures (Marquis et al., 2007), corporate culture (e.g., Schein, 2004), or other theoretical concepts. Regardless, it is most certainly a consequence of Nordix’s Swedish heritage and its institutionalized and trustful firm-union relationships.
Third, the home institutional environment does not only influence the diffusion of policies and practices around the globe and their translation, it also generates specific firm-society policies and practices. For example, in the South Africa setting, the enterprise- and national-level unions pressured Nordix to initiate community involvement projects — pressures that were different from union pressures in other institutional environments at that time. Indeed, the South Africa setting illustrates that the influence of the home institutional environment is due both to stakeholders having different influence in different home environments (for example, unions being influential in Sweden) (cf. Gooderham et al., 1999), and the “same” stakeholders placing different demands in different home environments (for example, Swedish unions posing different demands than US unions in relation to South Africa).

The Nordix study thus shows that the embeddedness of an MNC in its home institutional environment shapes the formation of its firm-society policies and practices. Consequently, existing differences between MNCs’ home institutional environments hinder the homogenization of MNCs’ firm-society policies and practices, and counteract the spread of the dominant American form of firm-society policies and practices around the globe (cf. Ferner, 1997; Hauschild et al., 2008). This means that there will be sustained variation in the firm-society policies and practices of MNCs based in different home institutional environments, despite the emergence of transnational institutional pressures related to firm-society issues (Kostova et al., 2008).

With the Nordix study complementing and challenging previous firm-society research by, for example, showing the importance of labor unions in the formation of firm-society policies and practices, it is likely that studies of MNCs from other non-US institutional environments (such as the Netherlands, Switzerland, India and China) will be valuable as well. For example, by analyzing the strength and content of different stakeholders’ pressures in these different home institutional environments, hypotheses could be developed regarding differences in how MNCs’ firm-society policies and practices are formed.

As noted above, the Nordix study not only shows that an MNC’s home institutional environment matters — it also demonstrates that the host and transnational institutional environment matter as well (cf. Rosenzweig and Nohria, 1994; Geppert et al., 2006; Mohan, 2006). Thus, to understand the formation of an MNC’s policies and practices, it has to be contextualized in the home, host and transnational dimensions. This finding echoes Scott’s (2001) argument that “it is difficult if not impossible to discern the effects of
The influence of different environments

institutions on social structures and behavior if all our cases are embedded in the same or very similar context”.

The Nordix study provides some important insights into when the home, host and transnational institutional environment can be expected to matter. The Nordix study indicates that while inside an MNC’s organizational boundaries, the home, host and transnational institutional environments all are central, while inside an MNC’s responsibility boundaries the home institutional environment loses importance because it is difficult to extend home characteristics (in the Nordix case the trustful Nordix-union relationship) beyond the MNC’s organizational boundaries. Some of the “Swedishness” ends at Nordix’s organizational boundaries, at which point Nordix’s global characteristics take over.

The Nordix study also indicates that home and transnational institutional environment influences will mainly manifest themselves in an MNC’s firm-society policies and practices driven by staff functions, while practices driven by operative functions can be expected to be more influenced by institutional pressures in the host institutional environment. Related to this, firm-society policies can be expected to be more influenced by the home institutional environment than firm-society practices. Finally, the Nordix study indicates that home and host influence is dependent on the type of firm-society issue at play, with community involvement being the most influenced by the host institutional environment, workers’ rights being the most influenced by both home and host environments, and political involvement being the most influenced by the home institutional environment.

To conclude, the Nordix study challenges the literature that argues that an MNC’s home and host institutional environments has lost its importance (cf. Drori et al., 2003; Kostova et al., 2008). However, it also challenges the literature that focuses solely on the influence of the home institutional environment (cf. Detomasi, 2008; Matten and Moon, 2008), showing that host and transnational institutional environments matter as well. Nordix should thus be understood as a hybrid or semi-global firm comprising logics from multiple institutional environments.

Future research

The Nordix study highlights several promising avenues for future research. By showing that organizational boundary placement is central for the formation of an MNC’s firm-society policies and practices, the study highlights the need to analyze organizational boundary placement in relation to social functions and not just in relation to classical make-or-buy decisions. Consequently, future studies adopting a broader stakeholder perspec-
ative on organizational boundary placement could complement the extensive existing research into boundary placement focused on transaction costs, capabilities, etc. (e.g., Coase, 1937; Williamson, 1975; David and Han, 2004; Kogut and Zander, 1996; Jacobides and Hitt, 2005; Safizadeh et al., 2008). When doing this, particular attention should be given to managers’ decision-making process and rationale (such as the taken-for-granted ideas in the Nordix study), since this has been neglected in previous studies of organizational boundary placement (Kay, 2000).

The concept of “responsibility boundaries” introduced in this thesis holds the potential to integrate and expand much existing research into firm-society issues. While extensive previous research has noticed that MNCs assume responsibility for suppliers’ operations and has even described the multi-stakeholder negotiations leading to the extension of MNCs’ responsibilities (e.g., Bartley, 2007), few studies have started to systematically theorize how far and by what processes MNCs’ responsibility boundaries extend. The fundamental question of why some stakeholders are placed inside MNCs’ responsibility boundaries and some outside is poorly understood. While the Nordix study provides some initial guidance, much more research is needed.

Nordix’s supplier brand risk assessment model shows how managers attempt to make normative institutional pressures of responsibility commensurable with financial measures – how they attempt to create win-win situations. In this process, workers’ rights become a means to an end, or as Espeland and Stevens (1998:321) put it, “qualities are quantified”. Hence, when translating workers’ rights into brand risk, aspects that are hard to assimilate into a brand risk matrix are lost (cf. Espeland and Stevens, 1998; D’Agostino, 2000). It is thus interesting to study the consequences of MNCs’ risk assessments of suppliers and also whether or not stakeholders will challenge MNCs’ commensuration attempts based on the common matrix “brand risk” (cf. Espeland and Stevens, 1998; Morrell, 2004).

While labor unions were highly influential in the Nordix study, more research is needed to theorize under what conditions labor unions could be expected to influence MNCs’ firm-society policies and practices (cf. Campbell, 2007). I have indicated that union influence is likely in studies of Northern European MNCs, but this picture needs to be further nuanced by linking it to industry differences, differences in industrial relations systems, and so on. Similarly, more research is needed to further theorize under what conditions stakeholders will exert pressures in line with the traditional and complementary bargaining model of institutional pressures.
Although not examined in this study, it would be interesting to study how managers address uncertainty when creating imagined institutional pressures. For example, when managers cannot find relevant cues about how journalists would interpret a scenario, do they then make their own interpretations based on their own moral perceptions? If so, the creation of imagined institutional pressures would comprise a hybrid between institutional pressures and corporate discretion; in other words, the creation of imagined stakeholders would serve as a tool for translating institutional pressures to fit managers’ perceptions.

The Nordix study also starts to examine the relative importance of Oliver’s (1991) predictive factors. To further improve our understanding of how companies respond to institutional pressures, an empirical and theoretical continuation of this reasoning is needed.

Additionally, the Nordix study indicates that there is a need for future research to distinguish legitimacy from trust and theorize the implications of these differences. The ongoing attempt to distinguish legitimacy from reputation (e.g., Deephouse and Carter, 2005; Doh et al., 2009) needs to be extended to include trust as well.

Finally, while the Nordix study showed that legitimacy challenges stemming from operating in distant institutional environments traveled to Nordix’s home institutional environment, more research is needed to theorize under what conditions legitimacy challenges can be expected to travel (and not travel) to MNCs’ home institutional environments.
References


REFERENCES


REFERENCES


REFERENCES


REFERENCES


REFERENCES

REFERENCES


REFERENCES


REFERENCES


