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Corporate Social Responsibility and institutional theory: new perspectives on private governance

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Corporate Social Responsibility (CSR) has become a pervasive topic in the business literature, but has largely neglected the role of institutions. This introductory article to the Special Issue of *Socio-Economic Review* examines the potential contributions of institutional theory to understanding CSR as a mode of governance. This perspective suggests going beyond grounding CSR in the voluntary behaviour of companies, and understanding the larger historical and political determinants of whether and in what forms corporations take on social responsibilities. Historically, the prevailing notion of CSR emerged through the defeat of more institutionalized forms of social solidarity in liberal market economies. Meanwhile, CSR is more tightly linked to formal institutions of stakeholder participation or state intervention in other advanced economies. The tensions between business-driven and multi-stakeholder forms of CSR extend to the transnational level, where the form and meaning of CSR remain highly contested. CSR research and practice thus rest on a basic paradox between a liberal notion of voluntary engagement and a contrary implication of socially binding responsibilities. Institutional theory seems to be a promising avenue to explore how the boundaries between business and society are constructed in different ways, and improve our understanding of the effectiveness of CSR within the wider institutional field of economic governance.

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1. Corporate Social Responsibility research and its strange neglect of institutions

Talking to the participants of doctoral workshops on Corporate Social Responsibility (CSR) research at major conferences these days, it is quite striking to discover how many young scholars have discovered institutional theory as a framework for their work. Institutional theory seems all the rage these days. This, however, has not always been the case. Despite its recent growth, the application of institutional theory to understand CSR-related phenomena is a rather recent development. Only in the mid-2000s did a literature emerge which broadened the array of conceptual tools used in CSR research (Aguilera *et al.*, 2007; Campbell, 2007; Matten and Moon, 2008). Given that C'S'R includes the aspect of 'society' already in its very label, one would have thought that institutional theory would have been a core conceptual lens in understanding the 'social' responsibilities of business all along. After all, in its very definition, institutional theory appears to be right at the centre of what CSR is all about, as this quote from the introduction to *The Oxford Handbook of Comparative Institutional Analysis* shows (Morgan *et al.*, 2010, p. 3):

> The field [in which] we are interested can be defined in how the forms, outcomes, and dynamics of economic organisation (firms, networks, markets) are influenced and shaped by other social institutions [...] and with what consequences for economic growth, innovation, employment, and inequality. Institutions are usually defined [...] as formal or informal rules, regulations, norms, and understandings that constrain and enable behaviour.

It is fair to say that the literature on CSR, most of it published in management or business studies journals, has neglected the societal aspects of CSR by and large. Most of the literature has treated the 'social' element as a black box, as a set of external requirements which are translated into a functionalist, instrumental and business case rationale for social engagement by companies (Margolis and Walsh, 2003). This is certainly reflected by some of the meta studies of the CSR literature (De Bakker *et al.*, 2005; Lockett *et al.*, 2006) as well as more critical analysis of CSR as a subfield of management (Banerjee, 2007; Hanlon, 2008). As Campbell (2007) argues, the CSR literature has been mostly either descriptive or normative. In this vein, the bulk of empirical research has investigated the relationship between CSR and its impact on the financial performance of the firm (Orlitzky *et al.*, 2003). The strong fascination with the business case for CSR is a noteworthy phenomenon in itself—to the extent that social science would be able to demonstrate the existence of a market for virtue (Vogel, 2006), this evidence would also be a powerful normative argument for firms and their managers to behave in more responsible ways.

The focus on the firm as the pivotal actor in initiating socially desirable behaviour on the part of business has been institutionalized into the way of conceptualizing and studying CSR, particular within business schools. While common definitions of CSR include mandatory responsibilities, such as legal compliance, or make reference to societal expectations (Carroll, 1999), a recurring theme in the CSR debate is its grounding in the *voluntary* behaviour of companies. For example, Vogel (2006) describes CSR in terms of 'practices that improve the workplace and benefit society in ways that go above and beyond what companies are legally required to do' (p. 2). This view reflects the dominance of agency theory as a way of understanding the nature of the firm in business/management studies (Garriga and Melé, 2004) and the relegation of business ethics to the sidelines (Khurana, 2007). This same emphasis on voluntarism is something that recurs in policy documents of leading business associations (Kinderman, 2012). Indeed, even major public policy initiatives have not challenged this core assumption. For example, the European Commission (2001, p. 6) *Green Paper* defines social responsibility as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis'.

Over the last decade, the scholarly debate on CSR has slowly but steadily registered a growing unrest about this rather limited approach to understanding the social responsibilities of business. A first reservation has to do with the rather limited value of a business-centred approach to CSR research. As a number of studies have suggested, the results of this strand of research are, at best, inconclusive (Orlitzky, 2008). The argument that businesses engage in CSR just as one of many other ways of increasing the firm's performance seems patently unfit to explain why businesses engage or disengage in socially desirable outcomes.

This is closely related to a second aspect, namely the advent of globalization and its influence on business studies. If CSR is just another way of increasing profits, it begs the question of why forms of CSR differ so vastly among regions and countries globally. Furthermore, it raises the question of why CSR as a mostly North American or, at best, Anglo-Saxon idea has only rather recently spread to other parts of the global economy. To explain this with a rather limited set of arguments around efficiency and profit maximization appears to have rather limited purchase, since many highly successful companies in Japan and Western Europe continue to thrive without much serious 'explicit' (Matten and Moon, 2008) attention to CSR and related concepts.

A third aspect, however, has to do with a growing scrutiny of the role of private corporations in the public sphere over the last two decades. Interest in CSR has been sparked by questions around the impact of corporations on indigenous people (Banerjee, 2000), working conditions in developing countries (Radin and Calkins, 2006), the environment (Jermier *et al.*, 2006) and political campaigns in developed democracies (Crouch, 2004). These issues have demonstrated that the private firm is something much more than just a profit-driven economic actor in society. Corporations are not just passive players in a global economy whose social impacts follow a simple profit-maximization rationale with little relevance beyond the confines of the corporate sphere.

The corporation has always been a political creation—the state granted the corporation the benefit of limited liability in order to facilitate the accumulation of capital. Early corporations received limited liability initially to pursue the public interest but slowly spread throughout the economy (Roy, 1997). This extension of limited liability created a fundamental issue of corporate governance. But it is not simply a matter of how managers are to be made accountable to the more diffuse group of shareholders as agency theory tells us, but a more fundamental issue of what responsibilities society places on the corporation itself in exchange for the legal privilege of limited liability. Corporate power and responsibility are matters of public concern (for an excellent conceptual overview, see Parkinson, 1993). Corporations have a decisive impact on outcomes of employment, consumption, environmental quality, social inequality and a host of other issues. The influence of corporations penetrates into the very fabric of modern cultural understandings and practices, as documented by the debates surrounding 'McDonaldization', 'Starbuckization' (Ritzer, 2010) and 'Disneyization' in the sphere of consumption (Bryman, 1999) as well as surrounding understandings of gender (Orenstein, 2011). Indeed, the post-2008 era of financial crisis has taught an important lesson: the limited liability of the privately owned corporation has re-emerged as the collective liability of society.

The attempt to broaden the lens on understanding business behaviour is, however, not confined to the study of CSR. As Barley (2007, p. 214) argues, the management literature in general has yet to take such a broader understanding of the relationship between business and its (economic, social, political, technical, etc.) environments seriously:

> Since the 1960s, organizational theorists have spent most of their time developing theories of how environments affect organizations and, more recently, how organizations affect each other. It is time for organizational theorists to pay much closer attention to how organizations alter and even create their environments, especially institutional sectors that lie outside the economy and that get little attention.

It is therefore not surprising that a growing interest in institutional theory among CSR scholars has coincided with a growing influence of institutional theory on management research in general. Most notably, international business studies have seen a steep rise in adapting institutional theory to understanding the way multinational corporations (MNCs) manage their operations globally (Westney and Zaheer, 2001; Geppert *et al.*, 2006; Jackson and Deeg, 2008). This growing interest in institutional theory in this subfield of management studies is by no means coincidental. Rather, it echoes some of important benefits this theoretical lens may bring to the study of CSR.

2. CSR as an interface between business and society: broadening the debate

Rather than seeing CSR purely as a realm of voluntary action, institutional theory suggests seeking to place CSR explicitly within a wider field of economic governance characterized by different modes, including the market, state regulation and beyond. While CSR measures are often aimed at or utilize markets as a tool (e.g. fair trade, eco-branding, etc.), institutional theories of the economy also see markets themselves as being socially embedded within a wider field of social networks, business associations and political rules. In particular, many of the most interesting developments in CSR today play themselves out in a social space of private, but *collective* forms of self-regulation. This development has broadened the debate on CSR.

Rather than being a limited subfield of management or business scholars, the interest in CSR has widened to other disciplines, such as politics (Moon, 2002; Crouch, 2009), economics (van Oosterhout and Heugens, 2008), law (Mullerat, 2005) and sociology (Brooks, 2010). These perspectives share the insight that CSR is far more than yet another way of enhancing corporate performance, as much of the management literature on CSR could have us believe. Yet so far, the cross-disciplinary interest in CSR has not led to more interdisciplinary inquiry and cross-fertilization of research agendas. In answering the calls for a more integrated study of the interface between business and society (Crouch, 2006), we see institutional theory as a rather strong candidate for a conceptual framework. Institutional theory is not only well established in a number of those social sciences, but also offers a promising avenue towards the integration of those diverse perspectives.

Applying the lens of institutional theory to the study of CSR allows for a better understanding of business responsibilities in two chief aspects: the *diversity* of CSR and the *dynamics* of CSR. This corresponds largely with the two dominant schools of thought in institutional theory (Tempel and Walgenbach, 2007, p. 2):

> New institutionalists tend to emphasize the global diffusion of practices and the adoption of these by organizations, but pay little attention to how such practices are interpreted or 'translated' as they travel

> around the world [. . .]. The business systems approach highlights how business continues to be influenced by the national institutional frameworks in which it is embedded, but tends to play down the effects of transnational developments on national patterns of economic organization.

Turning to the aspect of *diversity*, quite a number of publications which have applied institutional theory to the study of CSR are interested in understanding cross-national variations of CSR practices (Gjolberg, 2009; Blasco and Zolner, 2010; Jackson and Apostolakou, 2010). A comparative perspective sheds light on the very understanding of CSR as a management concept to begin with. CSR, in its original North American form (Carroll, 2008), can hardly be explained without an understanding of the institutional conditions under which this idea was conceived. Similarly, an understanding of the social responsibility of business in different regions and countries is contingent on the institutional framework of business (Doh and Guay, 2006; Deakin and Whittaker, 2007). This pertains not only to formal institutions, such as laws, business associations, civil society groups or trade unions, but far more important, to informal institutions such as religious norms, customary practices or tribal traditions. Conspicuously, some of the business ethics literature (under whose label considerable CSR research has been published) has studied these aspects. However, these analyses have rarely transcended the level of understanding differences in individual decision-making (see as a rare exception in this literature, Donaldson, 2001).

Part of why CSR research has gained interest and momentum over the last decade has to do with the *dynamics* in which the concept and its applications have changed recently. This pertains, foremost, to the way CSR (and its equivalent labels such as sustainability, corporate citizenship, business ethics, etc.) has changed through imitation and adaptation by corporations outside the Anglo-American system of capitalism. Institutional theory provides a formidable lens for understanding and explaining how and why CSR assumes different forms in different countries. It also provides insights into why this concept is now part and parcel of business practices in nearly every major country globally (e.g. Visser and Tolhurst, 2010). But even if we try to understand and predict changes in CSR within just one geographic context, such as Europe or North America, institutional theory helps to conceptualize these changes, as Hoffman's work on changes in environmental management practices in the USA has shown (Hoffman, 1999, 2001; Hoffman and Jennings, 2011).

For the study of CSR, institutional theory thus contributes on various levels. *Descriptively*, it allows for a more accurate grasp of what CSR in a specific institutional setting actually means. This is no small point—it is fair to argue that even after 30 years of research into CSR, a commonly accepted definition of the concept is still outstanding (Crane *et al.*, 2008). Rather than assuming that the Herculean task of one day obtaining a widely accepted definition of CSR is worth pursuing, institutional explanations reveal the following simple truth: in as much as the 'S' in CSR differs in terms of societal institutions, we will also end up with different definitions and understandings of the concept. Institutional analysis also helps on an *instrumental/managerial* level: companies such as Nestlé, which for three decades has remained the most boycotted in the world, have ignored at their peril the way in which the institutions that enable their business differ starkly between Switzerland and, say, Malawi—which, in turn, assigns different responsibilities to private corporations in those different contexts. Finally, in a time when capitalism and its basic institutions face considerable questioning after the financial turmoil starting in 2007, institutional theory might provide some insights into pressing *normative* questions: which institutions, historically and comparatively, have led to the most desirable, efficient and stable ways of organizing business activities, in particular with regard to the modalities in which business discharges its basic responsibilities to society.

3. Institutional dynamics of CSR: emerging themes

By the word 'institution', we usually have in mind certain 'typifications' where under certain conditions *X*, a particular type of actor *Y* is expected to do *Z* (Berger and Luckmann, 1966). A particular way of doing things can be considered institutionalized to the extent that deviant action has a reasonable expectation of 'enforcement' in the sense of facing social sanctions or loss of legitimacy (Streeck and Thelen, 2005). This observation applies to both formal and informal types of institutions. Neo-institutional theory goes beyond this general notion to distinguish among regulative, normative and cognitive dimensions of institutions, as well as specifying different mechanisms of institutional isomorphism that tend to emphasize one or another of these dimensions (DiMaggio and Powell, 1983; Scott, 1995).

While these ideas are well-rehearsed in the literature, an oft-forgotten insight is the fact that the process of institutionalization is tied to history. Institutions are the result of historical struggles over prevailing understandings and rules of the game (Thelen, 1999). To understand a particular institution, it is rarely sufficient to look at its current economic function or even its meaning. Looking back to the historical origins, institutions are often shaped by contestation, conflict and compromises. Institutions thereby reflect the particular power relationships at a particular point in time. But once established, institutions can take on a life of their own. Institutions often sediment power relationships by defining rights and responsibilities, and thus shape the identities of social actors in ways that are durable over long periods of time (Jackson, 2010). Such processes of institutionalization can be very rapid and episodic, or sometimes emerge very slowly. The resulting institutions may provide scripts for action that are very broad and tolerate variation on a theme, or may be quite specific and binding within a certain field of action. Institutions constrain certain types of action, but in so doing always also enable other new types of action.

3.1 Historical and political origins of CSR

CSR itself has become a strongly institutionalized feature of the contemporary corporate landscape in advanced industrial economies. The idea that corporations should engage in some form of responsible behaviour has become a legitimate expectation. The institutionalization of CSR can be seen in the diffusion of CSR departments within companies, the spread of stock market indices related to sustainability, the proliferation of branding initiatives and even an ISO standard on CSR. These activities are often associated with an understanding that a business case exists for CSR—namely, corporations will enhance or protect their reputations by visibly engaging in social or other initiatives. But anyone in the CSR field knows that its meaning remains contested (Okoye, 2009). Some might even say that CSR rests upon a paradox between a liberal notion of voluntary engagement and a contrary implication of socially binding responsibilities.

In exploring the origins of CSR as a contested institution, this Special Issue highlights the two key cases of the UK and USA. Both countries are widely known as exemplars of liberal market economies, which rely strongly on market-based forms of organization (Hall and Soskice, 2001), and where the governance of companies reflects a strong notion of property rights, orientation towards shareholder value and subordinated role of claims made by other stakeholders (Aguilera and Jackson, 2003). It is somewhat ironic that the two countries known for institutions that support the notion of shareholder value should emerge as pioneers in the field of CSR. But taken from a historical perspective, the notions of CSR and liberal markets are not opposites—in fact, they go hand in hand as part of a particular political compromise over the institutional nature of the corporation.

In his analysis of the UK, Kinderman (2012) shows how the emergence of business activity promoting CSR was deeply bound together with the rise of neo-liberal economic policies associated with Margaret Thatcher in the 1980s. During this period of deregulation and privatization, business leaders from the largest UK corporations put out a distinct call for business to take on new social responsibilities. Kinderman shows how the notion of responsible business played an important role in legitimating the institutional transformation of the UK economy towards neo-liberalism, as the institutions of the post-war compromise were breaking down. A recurring theme propagated by business leaders is the unmistakable idea of corporate responsibility as being a domain of voluntary activity, which must be free of state regulation. Perhaps even more interesting is the related exclusion of wider stakeholder groups, particularly labour unions, from participating as equal partners in these new initiatives for social responsibility. Consequently, organized labour greeted CSR with a deep ambivalence that has carried through to today.

Many of the ideas implicit in the British CSR debate of the 1980s were influenced by debates in the USA. In fact, the political struggles and origins of CSR had to some extent been fought out decades earlier, even going back to the 1920s. Marens (2012) shows how the challenge and eventual defeat of the American labour movement left an indelible imprint on the understanding of CSR in the USA and shaped its institutionalization within contemporary management practice. In dealing with the social question, it is widely known that US industrial relations took a rather different path than many European countries. In America, corporatist institutions never fully flourished, despite wartime flirtations. In this context, unions continued to develop more strongly upon occupational lines and were largely excluded from having a collective voice in the workplace. One consequence of this history was that American corporate executives were able to preserve their authority in managing their workforces and establish a relatively unilateral style of management, combined with an important role for the external labour market. But Marens shows that this victory came at a price, bringing a stronger sense of responsibility for enhancing efficiency and winning public acceptance. By the 1920s, executives responded by claiming to manage according to principles of social responsibilities. Rather than rights for labour, Americans got responsibility on the part of managers—of a purely self-designated kind. Moving onto the post-war era and the rise of MBA-trained professional managers, a parallel story took place in US business schools, where business ethics also became an institutionalized area of study, albeit largely as a sideshow to the dominant influence of financial economics on modern understandings of the nature of the firm (Khurana, 2007).

The political construction of CSR as a field of voluntary activity helps explain how the paradox of shareholder value and social responsibility is institutionally reconciled today. CSR adoption is closely aligned with the business case and market logic of individual firms—it is more strongly shaped by the instrumental motives relative to moral or relational demands for CSR (Aguilera *et al.*, 2007). As such, CSR has become part of a wider conception of 'enlightened' shareholder value (for an excellent critical discussion, see Parkinson and Kelly, 2001; Parkinson, 2003). This concept was written into the UK Companies Act of 2006, which was a major project of the New Labour government of Tony Blair. Article 172 requires that a director of a company must act in good faith to promote the benefit of the companies' shareholders, but 'in doing so have regard to' employee interests, other business relationships, impacts on the environment and community and long-term consequences, among others. Margaret Hodge, Minister of State for Industry and Regions, described this new concept of the company in the following terms:

> There was a time when business success in the interests of shareholders was thought to be in conflict with society's aspirations for people who work in the company or in supply chain companies, for the long-term well-being of the community and for the protection of the environment. The law is now based on a new approach. Pursuing the interests of shareholders and embracing wider responsibilities are complementary purposes, not contradictory ones. (UK Department of Trade and Industry, 2007, p. 2)

Legal scholars agree that enlightened shareholder value does not actually create a direct channel of accountability to non-shareholders (Harper Ho, 2010). It poses no challenge to the idea that ultimate control of the corporation rests with the shareholders. However, this legal norm does suggest a subtle modification in the notion of what constitutes shareholder wealth, and thus what objective the company should pursue. Shareholder value in its enlightened form views social and ecological responsibilities as legitimate and even plausible means to the end of shareholder benefits. By permitting directors to consider stakeholders, the law gives considerable discretionary scope for firms to pursue CSR when it exists in a clear positive sum relationship with shareholder value. But at the same time, enlightened shareholder value reveals its limits, since it offers little guidance for decisions where trade-offs exist between the interests of competing stakeholder constituencies, and even less so when shareholders directly benefit from negative externalities.

While preserving the primacy of shareholders, UK corporate law has created a social space for CSR, albeit a small one, as its institutional corollary. In this sense, the UK concept very much echoes the so-called constituency statutes in the corporate law in some 40 US states (Keay, 2010). While many investors argue that CSR remains a guise for managerial opportunism and dilutes accountability to shareholders, many stakeholder constituencies see corporate efforts to engage CSR as attempts to bypass more binding frameworks for stakeholder empowerment and participation. Within these historically and politically defined bounds, the meaning and scope of CSR continues to be contested. We expect many variations on this important theme in the future.

3.2 Comparing CSR: the role of institutional diversity

As a set of management practices, CSR has spread globally, far beyond its origins in the USA and UK. Given the different political institutions and historical legacies involved, CSR has come to take on very different meanings across different institutional settings. The liberal concept of CSR as something voluntary and subordinate to shareholder interests reflects the institutional make-up of the USA and UK. Yet this concept exhibits a stronger tension with institutions characterized by mandatory forms of institutionalized social solidarity. If Marens (2012) finds the origins of CSR in the *defeat* of corporatism in the USA, to what extent and in what forms has CSR emerged in countries where corporatist institutions or strong traditions of state intervention *prevailed*?

As noted above, a number of innovative studies have started to adopt comparative perspectives on the emergence and diffusion of CSR across countries in recent years. One of the most influential arguments suggests that unlike the explicit forms of CSR found in liberal economies, CSR is likely to be more 'implicit' within other institutional settings (Matten and Moon, 2008). Put another way, the social responsibilities of business are more strongly defined by law or subject to binding negotiations with labour unions. Here, the scope for voluntary and explicit CSR measures by corporations may be limited. This view suggests broadly that CSR and institutionalized social solidarity may act as imperfect substitutes for each other (see discussion in Jackson and Apostolakou, 2010). However, an alternative conceptualization suggests the opposite may be true. To the extent that institutions empower stakeholders, corporations may face greater relational pressures to adopt CSR measures to legitimate their activity (Aguilera *et al.*, 2007; Campbell, 2007). For example, strong labour unions may use their influence to pressure companies to adopt better labour standards throughout their supply chain or adopt programmes supporting diversity in the workplace. Here CSR is a reflection within the broader institutional mirror.

Empirical evidence on the substitution and mirror hypotheses is mixed. To some extent, the difficulty reflects the challenges in measuring CSR, given its complex and multidimensional nature. Many commonly available CSR indicators are biased towards the measurement of explicit CSR, which tends to be reflected in market-oriented disclosure of information and branded programmes. Indeed, membership in leading CSR rankings has a very low correlation with more formal institutions of worker participation, such as works councils (Vitols and Kluge, 2011). Meanwhile, implicit CSR may remain undetected and can easily be mistaken for an absence of responsibility. At the end of the day, most prevailing CSR indicators do not capture the quality of outcomes in a sufficient and comparable manner to draw conclusions as to whether explicit and implicit CSRs provide functionally equivalent outcomes. Ultimately, important questions remain as to what institutional environments are associated with more socially desirable outcomes.

In furthering the debate on these issues, Kang and Moon (2012) offer a theoretical framework for examining how national institutions associated with different 'varieties' of capitalism influence CSR, as well as investigating the nature of this influence. Using the idea of complementarities, the authors explore whether CSR is influenced by corporate governance institutions based on logics of similarity or contrast—or what have sometimes been called reinforcing or compensating forms of complementarity (Campbell, 2011). Their theoretical arguments generalize the argument made by Kinderman (2012) regarding the affinity between shareholder-oriented corporate governance and competitive forms of CSR. However, they go beyond this to detail the comparative cases of coordinated market economies with stakeholder-driven forms of corporate governance, such as Germany and France, and add a third category of state-led market economies, such as France or South Korea. Here, the authors provide evidence that CSR takes different forms, either a more socially cohesive or a developmentalist form, respectively. This categorization goes beyond the broad notion of 'implicit' CSR and suggests that more corporatist or state-centred forms of social solidarity have a strong influence on the emergence of CSR. These relationships are explored further in relation to recent shifts in corporate governance institutions—suggesting that to the extent that countries move towards more liberal or shareholder-oriented forms of corporate governance, companies are increasingly adopting market-oriented and competitive forms of CSR along Anglo-American lines. A good example is the case of Germany, where explicit and business-driven forms of CSR have become increasingly popular, leading to heated discussions with unions and NGOs that favour more mandatory approaches to social standards (Hiß, 2009).

The way that CSR, as an Anglo-American construct, has spread to and become embedded within different societies can be seen as a source of institutional innovation and a phenomenon that continues to generate variety. Witt and Redding (2012) contribute to the comparative conversation regarding how managers in different institutional contexts think of their social responsibilities. They provide an analysis of how senior executive managers in five countries conceive of CSR. Significantly, their analysis confirms the importance of the distinction between implicit and explicit CSRs, but also suggests that there are variants of each form. In particular, their analysis indicates significant variety among different kinds of 'implicit' CSR, distinguishing between stakeholder-oriented notions of CSR (Japan, South Korea) and production-oriented CSR (Germany). This variety reflects not just a broad degree of social solidarity in a given society, but highlights more fine-grained variations in the salience of different stakeholders within their respective countries—for example, the centrality of employees in Japan versus the relatively greater salience of the state/society nexus in South Korea.

One implication of the foregoing analysis is that the way in which CSR is shaped by institutionalized forms of stakeholder participation or welfare provision may depend strongly on the specific ways in which these are institutionalized. Here Koos (2012) introduces two innovations to the comparative analysis of CSR by, first, unbundling the institutional characteristics of countries to recognize the possibly distinct importance of corporatist, statist and welfare systems for firms' engagement with CSR and, second, by focusing on CSR among smaller and medium-sized businesses rather than larger companies. This approach enables the analysis of how institutions influence firms' CSR at multiple levels and allows for the investigation of interactions between different institutions in shaping patterns of CSR. Koos's analysis shows that patterns of companies' civic engagement can be understood as *both* an institutional mirror and substitute, contingent upon the nature of institutional complementarities within particular countries.

3.3 CSR as an institution of transnational governance

CSR has arguably gained the greatest attention at the transnational level. In fact, the emergence of new CSR-related institutions at the global level now shapes the practices and policies of corporations—multinational and local alike (Waddock, 2008). Following Geppert *et al.*'s (2006) categorization of how MNCs engage in building transnational institutions, we can locate CSR within three levels of governance.

Most obvious is the role CSR plays within *transnational* or *global institutions* themselves. Here we refer to private, semiprivate and public regulations, standards or self-commitments, which have been rather influential on the CSR agenda. Institutions such as the United Nations Global Compact (Rasche and Kell, 2010) and the International Standards Organization, with its 2010 release of ISO 26000 (Henriques, 2010), are some prominent examples. These frameworks seek to institutionalize CSR on a global level through the creation of norms, rules and standardized procedures for CSR. Since transnational regulatory bodies lack the direct force of national law, many of them seek to build rules through negotiated frameworks through which companies engage in self-regulation. Put another way, these frameworks seek to institutionalize particular elements of CSR. These can be issued by governmental or public bodies (such as the UN Global Compact or the OECD Guidelines on MNCs), industry associations (such as the Responsible Care Programme), individual companies (such as the Global Business Coalition on HIV/AIDS) or in partnerships between business and NGOs (such as the Marine Stewardship Council) or business and governments (such as the Extractive Industry Transparency Initiative).[1] This new

[1]A comprehensive overview of most transnational institutions of CSR can be found in Visser *et al.* (2010).

'public domain' (Ruggie, 2004) with 'global public policy networks' (Detomasi, 2007) is arguably one of the most powerful sources of isomorphic pressure to institutionalize CSR in business.

The role of MNCs in institutionalizing CSR at a transnational level is explored by various papers in this Special Issue. Fransen (2012) explores the evolution of voluntary forms of private regulation for social and environmental issues, paying particular attention to the different forms of governance of these programmes. His analysis highlights the processes of competition between business-led initiatives and multi-stakeholder initiatives. In particular, the existence of programmes that lack broad stakeholder representation in their governance often destabilizes programmes with multi-stakeholder involvement in governance. For example, the case of European retailing shows how multi-stakeholder initiatives are threatened by competition from business-led programmes. But at the same time, business-led programmes are often and increasingly dependent on the involvement of external stakeholder groups in order to bolster their external legitimacy. These competitive efforts of legitimation politics are shown by documenting the political strategies and tactics employed by business-led initiatives in their attempts to build and maintain legitimacy in the eyes of societal stakeholders. This insight demonstrates a source of paradox: CSR needs stakeholder involvement to attain legitimacy, but greater stakeholder involvement in the formulation and implementation of programmes threatens to make them more mandatory in character.

The article by Conzelmann (2012) also examines tensions in the private regulation of social and environmental issues. The emphasis here is on the challenges of building and maintaining support for such initiatives among distinct national industry associations. The case study is based on a particular business-led programme, the chemical industry's Responsible Care initiative. The important role of business associations here recalls well-known dilemmas based on different logics of membership and influence (Schmitter and Streeck, 1999). The analysis reveals the political difficulties that business-led CSR initiatives face in establishing and enforcing credible engagement with social and environmental issues, on the one hand, and striving for inclusiveness of members, on the other. The constraint of including a diverse membership base can easily threaten the dilution of standards. Within the context of a global initiative such as Responsible Care, Conzelmann shows the sharp differences across countries in the emphasis national industry associations place on CSR and how this limits the extent to which such programmes can offer concrete solutions.

In looking at CS'R' at the transnational level, both the necessity and limits of corporate involvement in building institutions can be clearly seen. Quite substantial criticism is directed towards private corporations for institutionalizing practices which exploit the absence of hard law, nation-state governments and other coercive institutions in favour of a 'business friendly environment' which, in fact, institutionalizes far-reaching 'irresponsible' practices and policies (Frynas, 2005; Banerjee, 2009). But at the same time, getting corporations on board with such initiatives is essential given the absence of state power with global enforcement capabilities. Understanding CSR as an institutional form of private governance, however, shows that corporations are pivotal actors in this arena. The tools of institutional analysis can indeed provide an analytical framework for identifying and assessing corporate involvement in transnational institution building—for better or for worse.

Looking at the transnational sphere highlights further levels of institution building as well. Going back to the firm level, MNCs seem to institutionalize CSR *within their transnational organizational structure*. As it has often been argued 'C'SR originates from and is dominated by larger MNCs. Many of these larger MNCs have fairly widespread CSR activities which have led to institutional mechanisms by which these companies govern their global operations. Most obvious are so-called codes of conduct/ethics/practice, sets of rules and norms by which responsible practices throughout the organization are governed (Sharfman *et al.*, 2004). Examples are Wal-Mart's recent adoption of sustainability practices, Coca-Cola's and Nestlé's respective global water stewardship programmes and Siemens' recent implementation of anti-corruption policies throughout their global operations.

A third, slightly more sophisticated element of transnational governance and CSR focuses on how *national institutions in the home or host country of an MNC* shape and institutionalize CSR practices. Drawing on the 'country-of-origin-effect' in institutional theory (Harzing and Noorderhaven, 2003), it is evident that quite a number of CSR practices reflect norms and values of Western democracies, but have led to wide-ranging changes in institutions in so-called developing countries (Muthuri and Gilbert, 2010). If Western oil companies implement revenue-sharing or enhanced accountability mechanisms for local governments in Africa, or if they build schools and hospitals there, they change CSR-related institutions on the ground by dint of norms and values of their country-of-origin (Escobar and Vredenburg, 2011). One of the areas where this can most clearly be seen is the fair trade movement, which in its recent, more mature stage has led to fairly wide-ranging changes in institutions in developing countries based on the institutional context of the home country of those at the consumer end of a global supply chain (Nicholls and Opal, 2005).

4. Just fluff or a new era of accountability? Rethinking the public and the private

The legacy of CSR is ambiguous, but its future is open. By emphasizing the role of institutions, we have sought to re-situate the analysis of CSR within the wider context of the dynamic transformations of capitalism. By looking variously at the institutional determinants of CSR, this Special Issue highlights the fact that each element of CSR is still highly contested terrain—how much corporations ('C') should set the agenda, what standards for social ('S') responsibility are acceptable and to whom the company is ultimately responsible ('R'). The answers to these questions not only shape the governance of companies, but define the wider boundaries between business and society, private and public.

4.1 From an 'Inside Job' to 'occupywallst.org'

While a market for virtue may exist under certain conditions, effective markets are likely to require a very particular constellation of institutional supports. Consumers must reward companies for doing good and punish companies for doing bad. Shareholders must hold stocks for the long-term and avoid companies engaged in less sustainable models of business. Employees have enough voice and representation in the enterprise to reward responsible behaviour or withdraw their loyalty from irresponsible firms. NGOs must have sufficient access to information and engagement from companies to play an effective role in promoting accountability. None of these things are likely to happen at the level of single companies; all require collective forms of self-governance or even a judicious role for binding mandatory regulation. To the extent that CSR lacks institutional supports, stakeholders are unlikely to reward good behaviour or sanction bad behaviour.

In order to understand how institutions support more responsibility, scholars would be wise not to neglect how and why prevailing economic institutions also support corporate irresponsibility. As long as companies have opportunities to externalize the costs of CSR (Aguilera *et al.*, 2008), a compelling business case for corporate irresponsibility will remain (Lynch-Wood *et al.*, 2009). Indeed, several studies now show that the adoption of CSR measures is highly correlated with simultaneous engagement in irresponsible behaviour (Mattingly and Berman, 2006; Chatterji *et al.*, 2009).

The excess of greed and hubris in cases such as Enron and Worldcom at the beginning of our century gave only a glimpse of the future. The Enron collapse related to failures of corporate governance and proliferation of unregulated trading in derivatives (Partnoy, 2009). The use of derivative transactions fuelled by Ponzi-like schemes, high leverage and transactions based on mark-to-market valuation created a virtuous cycle that created benefits for stakeholders. In this context, what lawyer Bill Lerach famously described as the 'synergistic corruption' of checks and balances designed to control corporate power thrived. Shareholders, managers, auditors, lawyers and employees of Enron, as well as politicians, all benefited from this system—for a certain period of time.

Enron was an interesting case of what criminologists call 'control fraud'—whereby the control over corporate decision-making is systematically used to perpetuate financial fraud (Black, 2005).

Fast forwarding to the contemporary financial crisis that started in 2007–2008, the evidence for the synergistic corruption in the world of finance abounds. The 2010 documentary film *Inside Job* powerfully captures this nexus between investment banks, regulatory agencies and top business schools for the popular imagination. A basic institutional feature of the crisis has been the strongly interlinked or complementary sets of incentives that lead to self-reinforcing cycles of risk-taking and opportunistic behaviour (Campbell, 2011). Indeed, financialization and its dominance over corporate activity (Baud and Durand, 2012) have created new types of opportunities for irresponsibility, and have leveraged its scale. It is irresponsibility on a grand scale, exemplified by the web of institutional investing using 'other people's money', the incredible leveraging of financial transactions, the use of unregulated derivatives, the governance of markets based on the ratings and audits of an oligopoly of financial institutions and the payment of huge bonuses to bankers based on these transactions. All these issues create new questions for understanding how markets work, but also about the role of financial markets within society (Davis, 2009).

At the time of writing this piece, a growing social movement is seeking to challenge the dominance of finance within the political system and dislodge the entrenched sets of financial interests. In its 'Declaration of the Occupation of New York City', the campaign Occupy Wall Street articulates a long list of concerns about irresponsible corporate behaviour with the following preface: 'We come to you at a time when corporations, which place profit over people, self-interest over justice, and oppression over equality, run our governments'. Regardless of our normative stance on this development, a sociologically interesting aspect of this movement is the renewed demand for corporate accountability by a wide constituency of citizens. Rather than facing pressure from their shareholders or markets, corporations are facing a crisis of legitimacy that centres on very basic questions about the responsibility of companies and go to the very heart of limited liability as a concept. CSR grounded in voluntary action and enlightened shareholder value will not solve this crisis. At issue are the basic regulatory, normative and cognitive pillars that underlie the question of *to whom the corporation should be accountable.*

4.2 From business research to political science, and back?

This Special Issue has perhaps unwittingly omitted a key question. At the end of the day, do the various activities that we observe under the mantle of CSR actually promote fairness and sustainability? Will they make a substantial contribution to solving the great challenges of our lifetimes, such as climate change and global inequality? Or, are these activities essentially corporate window dressing and, in the end, just fluff?

A serious social scientific answer to such questions will require a shift in focus. The scholarly agenda must go beyond the link between CSR and economic performance, however important this might be. Rather, CSR must be studied as part of a wider field of institutions for governing the corporation and the economy. A key focal point for any analysis should be the societal checks and balances on the exercise of corporate power. Here 'explicit CSR' in the form of voluntarism is but one mode of governance, and its effectiveness in reaching social, ecological or other objectives is likely to depend very strongly on its linkages to other institutionalized forms of governance. CSR at the firm level must be understood within the wider dynamics of business and trade associations, social networks and state regulation. In disciplinary terms, business scholars must engage more deeply with the political science literatures on governance, including aspects of transnational institutional building and comparative capitalism.

These observations amount to a call to rethink the private/public boundary within economic institutions, both in scholarly and in practical terms. The last decades have seen the growing role of private actors within the public domain. Self-regulatory initiatives have become an increasingly important instrument within corporate governance in different countries (Aguilera and Cuervo-Cazurra, 2004) and have sought to fill a regulatory gap by interfacing between the law and the market. However, an institutional view of CSR suggests the importance of a latent historical alternative—namely, bringing the public interest back into the private domain of the corporation. While this alternative was defeated in the early development of CSR in the USA and UK, it has never fully gone away. Recent evidence of this direction is the proliferation of mandatory rules on social or ecological disclosure. But the limits and forms in which society can ask business to be responsible in exchange for the legal gift of limited liability remain a perennial question of institutional design in the future. For this task, political scholars will conversely require greater understanding of what goes on within firms and how the norms and ideas of regulatory institutions become anchored within the organization or thereby changed, avoided or subverted. Business scholars seem well positioned to make important new contributions to understanding how firms implement new institutional rules and gathering new types of evidence about CSR that are more closely related to social or ecological outcomes. There is plenty to do, in theory and in practice.

5. Conclusion

Our foray into institutional theory raises important questions for the received wisdom about CSR. There is hardly a textbook, an overview article or a review piece on CSR (certainly in the management literature) which does not refer to Milton Friedman's (1970) trenchant critique of the then emerging practice of CSR. This debate has ignited, fuelled and fanned what now increasingly appears to be something of a 'creation myth' of CSR: that CSR is a set of practices which is largely at the discretion of companies or individual managers. The implication of this myth is that CSR can either be chosen as a field of corporate endearment to all sorts of constituencies or shunned as a potential detractor of management from its initial brief. From an institutional perspective, CSR, as a voluntary, *ad hoc* and discretionary set of practices, is just a fraction of corporate activities at the interface of business and society.

Institutional theory alerts scholars to the simple fact that corporate agency is largely shaped by the dominant intuitions of the 'business system' or 'organizational field' within which firms operate. In the 'Anglo-Saxon' context, this might in fact result in mostly voluntary policies and programmes, but in other contexts, the 'R' in CSR is more evidently shaped by legal, customary, religious or otherwise defined institutions. The fact that CSR is 'voluntary' is less a defining feature of business–society relations and more a reflection of the institutional context of its initial inception. In some instances, institutions may support a 'business case' for activities through which business lives up to these expectations—resulting in what (certainly in the management literature) is commonly referred to as CSR. But more often than not, business responds to these expectations by reflecting and shaping those wider institutions which govern the broader economic, social and political systems.

Seeing CSR through the lens of institutional theory highlights its contested and contingent nature. The lack of an established definition of CSR is sometimes lamented as an indicator for the immaturity of the field or the pointlessness of its underlying ambitions in the first place. But corporate responsibility to society is defined by the expectations of 'society' that are entrenched and embodied in institutions. The historical and political nature of institutions suggests that a universally valid definition of CSR is not only unlikely, but in some ways not even desirable. Rather than being the generic label for a particular field of corporate action, CSR may become a more limited label for a particular form of business–society interaction. For example, Matten and Moon (2008) talk about most forms of CSR in the Anglo-Saxon context as 'explicit CSR', and other forms of business responsibility witnessed mostly beyond that context as 'implicit CSR'. The latter, however, only makes sense when we acknowledge CSR as the dominant label of the field. Further inquiry into business–society interactions might ultimately come up with more refined and differentiated conceptualizations in which the very lingo of 'CSR' only characterizes a rather limited subset of phenomena.

Understanding CSR as an institution of wider societal governance seems to be a promising avenue of research at a time when longstanding rules, actors and markets which have governed the global economy appear to be more and more in an ongoing state of crisis. Even as individual and corporate 'greed', 'misconduct' and 'failure' have been argued to be at the root of the current financial crisis, the debate in the media, in politics and wider society has time and again focused on the 'system' which invited—or at least tolerated—the practices responsible for the crisis (Campbell, 2011). Many of the discussions currently popularized by movies such as *Inside Job* or *Too Big To Fail* are questioning the institutional set up in which responsible or irresponsible business behaviour is enacted. Institutional theory offers a promising way of investigating exactly those questions which currently lie at the heart of the public's concern and, thus, offers a framework for scholarly work with the potential of bearing relevance beyond the confines of the ivory tower.

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