# The political economy of corporate social responsibility (CSR)

Dissertation submitted for the degree of PhD in Political Science

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November 2011

*Series of dissertations submitted to the*
*Faculty of Social Sciences, University of Oslo*
*No. 321*

ISSN 1504-3991



Cover: Inger Sandved Anfinsen.
Printed in Norway: AIT Oslo AS.

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# Contents

**ACKNOWLEGEMENTS**

This dissertation could not have been written without the help of others. I am particularly thankful for the constant support of my supervisors, Professor Atle Midttun (BI) and Professor Dag Harald Claes (Department of Political Sciences, University of Oslo). Furthermore, I would like to thank the Centre for Development and the Environment (SUM), for funding the project, and for providing me with a stimulating academic home for almost 10 years. I would particularly like to thank my colleagues Professor Desmond McNeill, Benedicte Bull, Christopher Wright and Irja Vormedal for their constructive comments, as well as the incredibly helpful administrative staff at SUM for their practical support.

A sincere thanks to Professor Charles Ragin, for mentoring me for six weeks as a visiting scholar at the University of Arizona, and to my collaborators at the other Nordic business schools, Professor Mette Morsing, Steen Vallentin and Jonas Eder-Hansen at Copenhagen Business School, Professor Minna Halme and Arno Kourula at Helsinki School of Economics, and Professor Susanne Sweet at Stockholm School of Economics.

Finally, I want to thank my family and friends for supporting me in all possible ways, especially Joachim Gjølberg who encouraged me to pursue this topic and this degree in the first place, and our children, Magnus and Karin, who helped me to keep calm and carry on until the dissertation was completed.

# 1. Introduction

Corporate social responsibility (CSR) became a buzzword in business circles in the 1990s. High profile companies such as Shell, Nike, and Nestlé made public U-turns, reorganized their enterprise, and declared publicly their commitment to sustainable development. The UN, the World Bank, the IMF and the OECD all initiated programs to support and promote CSR, and business-NGO partnerships mushroomed. "The Big Four" consulting firms now all provide CSR services, and a plethora of standards, certification schemes and management tools are available to help companies improve their social and environmental practices through CSR initiatives.

In the academic community, CSR research has traditionally been the domain of business and management disciplines, analyzing the management aspects of CSR in terms of how CSR influences, for instance, brand value, reputation, employee relations, investor relations or financial performance (Lockett, Moon, & Visser, 2006). More recently, however, CSR has caught the attention of social scientists seeking to understand the preconditions and implications of this newfound corporate interest in social and environmental responsibility. These authors are highly critical of how the business and management disciplines approach CSR, claiming that the analyses fail to account for the structural causes and political consequences of CSR.

This dissertation aims to contribute to a more contextually informed analysis of CSR by studying how political-economic institutions influence CSR practices. Approaching CSR as a political phenomenon, the dissertation studies quantitatively whether political-economic institutions can explain variation in CSR practices across 20 advanced capitalist countries, as cross-national variation provides a key to understand the institutional foundations of CSR. However, the dissertation also seeks to provide a qualitative understanding of the mechanisms and processes by which political-economic institutions influence CSR. I therefore study in-depth the CSR approach of state, market, and civil society actors in the Nordic countries, which I argue to be critical cases to our understanding of the political economy of CSR. To guide this qualitative and quantitative analysis, I develop an integrated analytical framework based on three complementary perspectives – comparative political economy, international political economy, and new-institutional theory.

The key concept of this dissertation – CSR – proves hard to define. Definitions tend to vary significantly across academic disciplines as well as among CSR practitioners from companies, civil society organizations and governments. Most definitions, however, emphasize that CSR is "*beyond compliance*," referring to social and environmental activities or initiatives that companies undertake voluntarily. Furthermore, most actors define CSR as "*beyond charity*," emphasizing that CSR aims to promote responsible practices in core business operations, in contrast to traditional corporate philanthropy. The widely quoted EU definition of CSR captures these two aspects, by defining CSR 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*" (European Union, 2001, my emphasis). This definition signals first of all, that CSR departs from more paternalistic, philanthropic conceptions of corporate responsibility because it centers on responsible management of the day-to-day business operation itself. Second, the emphasis on voluntarism indicates that CSR is affiliated with policy models that advocate corporate self-regulation, in contrast to models advocating mandatory regulation to ensure responsible corporate practices. Thus, CSR is inherently connected to the larger debate on voluntary versus mandatory approaches to control corporate conduct, signalling that CSR is not just a business phenomenon, but also a political phenomenon. According to Sadler and Lloyd (2009), CSR assigns the roles and responsibilities of business in a way that has close affinity to the neo-liberal political model of of state–market–society relations. As Windsor (2006:112) claims, "It is difficult to entangle science, interest and ideology in CSR discourses." Crane et al. (2008) therefore conclude that defining CSR is not just a technical exercise, but a normative and ideological exercise, as it inherently concerns how the political economy should be organized to restrain corporate power. As such, CSR relates to a number of questions and insights fundamental to the disciplines of political science, and benefits from analysis within the wider debate on the role of business in society – as an arena of political contestation and negotiation (Ungericht & Hirt, 2010).

Despite the complex, political nature of CSR, the majority of CSR research devotes little attention to exploring *CSR* as a phenomenon. This analytical bias reflects the fact that CSR has mainly attracted scholarly interest from business and management disciplines. Consequently, the majority of CSR theory is derived from the premises of dominant theories within the business and management disciplines. For instance, authors within the marketing discipline develop theories of how CSR can improve a company's public relations, brand value, and reputation (Fombrun, 1996), while authors within the strategy discipline theorize on how CSR can improve a company's competitive position (Porter & Kramer, 2006). As a function of the these disciplines' utilitarian analytical interests, the majority of CSR theory focuses on managerial and instrumental aspects of CSR, aiming to identify how CSR can contribute to economic value creation (Lockett et al., 2006). These analyses treat CSR as the independent variable, investigating the consequences of CSR on the company's bottom line.

However, from a social science perspective, CSR inspires far more fundamental questions than those concerning its prospects for economic value creation: CSR implies a quite specific model for how to organize the relationship between state, market, and civil society, which is a fundamental political question in any society. In this respect, the dominance of business and management disciplines' within CSR theory is problematic, as it provides researchers with an insufficient theoretical starting point to analyze CSR. This led Blowfield (2005) to describe CSR as "a failing discipline," claiming that it is too preoccupied with prooving the business case and generating management tools, thus failing to question the discipline's own premises and ignoring the larger issues of how CSR relates to global governance, power and economic globalization. He concludes that there is a striking lack of contextually informed analyses of the social, political and economic antecedents of CSR as well as of the wider governance implications of CSR. Put simply, the academic interest and theory development in CSR has centered on what *CSR causes*, not on what *causes CSR*.

Recognizing that social sciences provide crucial insights and correctives to the largely business-dominated understanding of CSR, this thesis aims to contribute to a more contextually and structurally informed understanding of the political economy of CSR. As a consequence of the predominance of business and management disciplines, mainstream CSR analyses tend to focus on *firm- or industry-specific* factors. In contrast, this thesis focuses on factors at the *systemic level* by developing a framework to analyze the *institutional* antecedents of CSR, which will be outlined in the remainder of this chapter.

This introductory chapter is organized as follows: The remainder of Section 1 outlines the thesis's thematic delineation, its three specific research questions and its main theoretical perspectives and arguments. Section 2 reviews what I term "mainstream CSR literature," and on this basis, I argue the case for an institutional approach in the study of CSR. Section 3 describes the main theories in the analytical framework, while Section 4 describes how I use these theories in practice in the integrated analytical framework. Section 5 describes the findings in the four articles that constitute this dissertation, while section 6 discusses their methodological challenges and limitations. Finally, Section 7 discusses how the articles contribute to the field of comparative CSR, before concluding with comments on the practical and theoretical relevance of the dissertation.

### 1.1. Thematic delineation and research questions

The rise of CSR in the global business community poses several fundamental questions regarding the role of business in society and regarding the limits and potential of voluntary approaches to corporate responsibility. This dissertation seeks to contribute to this debate by exploring the political-economic, institutional antecedents of CSR, aiming to answer the floowing, overarching question: *To what extent, and how, do political-economic institutions influence CSR practices?*

To study the influence of political-economic institutions, the analysis centres on cross-national variation in CSR practices. CSR inherently implies a main focus on corporate actors, but as this study aims to understand the political-economic, institutional preconditions of CSR, the analysis also includes governments, labor unions, employer's associations and non-governmental organizations (NGOs) as part of the relevant set of actors. In a general sense therefore, I will study whether and how political-economic institutions influence the act of engaging in CSR to begin with, and whether they influence the types of CSR initiatives in which the actors choose to engage. For instance, companies can engage in CSR initiatives focusing on "softer" approaches like stakeholder dialogue, learning and exchange of ideas, in contrast to "harder" initiatives like trying to qualify for responsible investment indices or certification standards provided by independent third parties. Likewise, governments can choose to emphasize facilitating or partnering roles in their CSR promotion, or to adopt a stricter line aiming for agreements of a more binding nature. Furthermore, I will study two aspects of "CSR practices" more specifically. First, I will analyze cross-national variation in CSR *performance*, that is, variation in the actors' ability to succeed in their CSR efforts. Second, I will study specifically whether political-economic institutions influence the actors' *perceptions* of CSR, especially the actors regulatory preferences concerning voluntary versus mandatory approaches to corporate social and environmental responsibility. These two aspects of CSR practices, I argue, are key to understand the the more fundamental causes and consequences of CSR.

To operationalize the research agenda outlined above, I organize the study around three specific research questions:

1) Do CSR practices vary significantly across countries, and if so, to what extent do political-economic institutions explain this variation?

2) To what extent is CSR predicated upon a neoliberal political-economic model of business-society relations, and which conflicts arise when CSR is introduced in social-democratic societies?

3) How does CSR relate to soft law and hard law, and under which conditions will the actors favor mandatory versus voluntary approaches to corporate responsibility?

Cross-national variation provides a key to analyse the political economy of CSR, and Question 1) concerns the basic challenges of how to measure and explain patterns of cross-national variation in CSR. These questions are mainly anwerred in Article 1 and 2. To answer whether there are *significant, quantitative cross-national differences* in CSR practices, Article 1 develops a cross-national *index of CSR practices.* This index provides a measure of which countries are over-represented and under-represented in terms of the number of domestic companies represented in leading, global CSR initiatives. The index covers corporate participation from 20 nations in nine major, global CSR initiatives. Article 2 subsequently seeks to analyse whether cross-national variation in CSR practices can be explained by political-economic factors. Empirically, my analysis compares the countries' scores on the CSR index, to well-established indicators from comparative political economy (CPE) and international political economy (IPE), using a comparative method called fuzzy-set Qualitative Comparative Analysis (fsQCA). The analysis is limited to advanced, capitalist countries both for reasons of comparability and for theoretical reasons, because theory development in comparative political economy mainly focuses on these countries.

Questions 2) and 3) analyze more in depth the *mechanisms and dynamics* that link political-economic institutions to CSR practices. Both questions concerns the nature of the political-economic model implied by CSR, and provides a basis for the discussion of the wider implications of CSR. Question 2) mainly approaches CSR from a nation-state perspective, looking at how CSR is adopted, conceptualised and implemented by state, market and civil society actors in social-democratic societies. Question 3) mainly approches CSR from a global governance perspective, looking at the role of political-economic institutions in explaining the actors' regulatory preferences.

The analysis of Questions 2) and 3), is limited to the Nordic countries, reputed to be leaders both in CSR and in social and environmental regulation (Birkin, Polesie, & Lewis, 2009; McCallin & Webb, 2004). I argue that the Nordic countries are "critical cases" to study the political economy of CSR, due to the strong institutional embedding of companies in these countries. In contrast to the Anglo-American neo-liberal, political-economic model, the Nordic political-economic model is characterised by social democratic welfare states, corporatist industrial relations, and collaborative business systems (Esping-Andersen, 1990; Schmitter, 1981; Whitley, 1999). Because of this strong institutional embedding of the Nordic economies, I argue that political negotiation and conflict surrounding CSR will be more pronounced than for instance, in neo-liberal countries. Consequently, the Nordic countries may reveal more of the political-economic mechanisms and dynamics related to CSR and thereby proved insights as to whether CSR is predicated upon a neo-liberal model that might conflict with a social-democratic model of state, market and civil society relations. Moreover, the majority of CSR theory is based on Anglo-American empirical studies, potentially leading to blind spots in terms of how the institutional environment affects CSR practices. A Nordic empirical contribution will therefore balance the Anglo-Americal bias in current CSR research and provide interesting contrasts in terms of how business, government and civil society have approached CSR.

Empirically, the analysis of questions 2) and 3) mainly centers on business and government actors. However, corporatist and civil society actors are also included where relevant. The data material stems from two sources; The first source is a *quantitative survey of Nordic pioneers in CSR* that covers the 79 Nordic companies with the highest international CSR performance ratings. The survey asks questions both on how the companies practice CSR and on how they perceive CSR in relation to alternative modes of changing corporate practices. The second source is *qualitative case studies of the Nordic governments.* These case studies aims to provide an in-depth understanding of how Nordic governments have adopted CSR, interpreted it, and subsequently formulated CSR policies. The case studies comprise over 70 qualitative interviews, the majority being interviews with officials from Nordic government ministries and agencies, supplemented by interviews with Nordic trade unions, business associations, and NGOs,  as well as document analysis of key public policy documents.

The answers to these three research questions have important implications for CSR as an approach to solving social and environmental challenges both nationally and in global governance, as will be discussed in the final section.

## 1.2. Theoretical perspectives in comparative CSR

Social sciences had devoted little interest to CSR as a research topic when I developed this project in 2005. Analyses emerged mainly in two theoretical traditions: First, scholars within new-institutional theory approached CSR. Their analyses tended to view CSR as a global mega-trend which, with the diffusion of economic globalization, spread from its Anglo-American origin, throughout global business communities, in a way similar to that of other organizational trends such as New Public Management or Total Quality Management (Djelic & Sahlin-Andersson, 2006; Sahlin-Andersson, 2006). Second, *international political economy* (IPE) had taken an interest in CSR, mainly as an expression of the changing role of business in society that results from economic globalization. IPE authors often invoked the rapid economic globalization and its associated regulatory vacuum in their explanations of the rise of CSR. In particular, in explaining the newfound corporate interest in ethics, authors pointed to the strong public criticism of corporate power and unaccountability, increasing targeting of companies by NGOs and anti-globalization groups, as well as to challenges related to global production and value chains (Haufler, 2001; Mattli & Woods, 2009; Ruggie, 2003; Vogel, 2009).

While my general understanding of CSR is informed by IPE and new-institutional theory, the thesis aims to fill a gap in the existing literature. Both IPE and new-institutional theory tend to emphasize *convergence* in CSR practices; new-institutional theory predicts convergence based on their views on the dynamic of global organizational trends: Coercive isomorphism, mimetic processes, or normative pressures cause organizations to adopt similar practices in order to gain legitimacy (DiMaggio & Powell, 1983; Tempel & Walgenbach, 2007). IPE approaches also tend to expect convergence in CSR practices based on their view of CSR as response to the dictates of the global economy: In a globalised economy characterised by severe governance gaps, corporations must adopt CSR in order to obtain the "social license to operate" necessary for their global value chains to function smoothly. Thus, IPE and new-institutional theory lead us to expect convergence in CSR practices across nations, where business and governments increasingly adopt CSR as part of their corporate strategy or public policy.

In contrast, my ambition is to explain the increasing evidence of *divergence* in CSR practices. Despite the homogenizing pressures mentioned above, there is ample evidence of cross-national variation in CSR. Researchers demonstrate significant cross-national differences in how companies approach CSR communication, stakeholder prioritization, managerial processes related to CSR, corporate governance and corporate community contributions (Aguilera & Jackson, 2003; Brammer & Pavelin, 2005; Maignan & Ralston, 2002). The aim of this dissertation is therefore to complement IPE and new-institutional theory by contributing to more in-depth knowledge of cross-national *variation* in CSR. While new-institutional theory and IPE will inform the analysis, the main analytical framework is based on *comparative political economy* (CPE). CPE has a long tradition of examining how political and economic institutions vary cross-nationally and affect corporate behavior, analyzing how political-economic institutions like the welfare state, labor unions, employers' associations, central banks or education systems impact economic and political outcomes. The present project is mainly inspired by the firm-centered theories within CPE, such as the "Varieties of Capitalism" approach (Hall & Soskice, 2001) and the "National Business Systems" approach (Matten & Moon, 2008 ; Whitley, 1999). This literature studies how political-economic institutions influence *corporate* strategy and performance in various areas, and can therefore give a valuable theoretical perspective on how political-economic institutions influence CSR practices, in particular among business actors.

It is commonplace to claim that "institutions matter." The crucial questions are of course, *which* institutions matter, and *how* do they matter (Ponutsson 1995). I argue that in the specific subfield of CSR, the institutions that matter are those *institutions that contribute to a social embedding of the economy*. As will be argued in section 4, the key institutions are a) the welfare state, in particular the strength of social and environmental government initiatives, b) the tripartite system, in particular the strength of labor unions and employer associations, and c) NGOs and other civil society actors that influence public debate – not a political-economic institution per se, but captured by the notion of political culture in CPE.

In terms of *how* these institutions matter to CSR, I seek to identify the mechanisms and dynamics that link political-economic institutions to CSR practices. The key mechanism proposed is the idea of a *comparative institutional advantage*. I argue that strong institutional embedding of the economy constitute a comparative institutional advantage in CSR, which will affect the actors' CSR practices, and specifically improve their ability to succeed in their CSR efforts. Inspired by new-institutional analysis, however, I also argue that a mechanism based on a "*logic of appropriateness*" (March & Olsen, 2004) is necessary to fully account for the formation of CSR practices. This logic of appropriateness is a necessary complement to the more consequentialist logic implied in the idea of comparative institutional advantages, and is particularly important to explain the actors' perceptions of CSR. Furthermore, while CSR inherently implies a focus on corporate actors, political-economic theories argue for the inclusion of non-market actors/factors in analyses of corporate behavior. Thus, governments, and indirectly trade unions and NGOs, also form part of the empirical analysis.

# 2. The CSR literature and beyond

Most reviews of CSR literature conclude that CSR is not a unified academic discipline in terms of having a distinctive theoretical approach, assumptions or methods. Instead, CSR is classified as a "field of scholarship," which relies on more established disciplines for its theory and methodology (Crane et al., 2008). Researchers have developed various typologies in attempts to categorize the CSR literature. For instance, Garriga and Mele (2004) distinguish between instrumental theories, political theories, integrative theories and ethical theories. Carroll (2008) concludes, in his review of CSR theory decade by decade, that theory development has given way to empirical contributions at the turn of the millennium, leading to a splintering of research interest and a diffusion of CSR into related academic fields. None of the proposed typologies has managed to establish itself as definite, and the CSR literature seems notoriously hard to capture in a single typology.

The general lack of theoretical synthesis in CSR research is partly explained by the lack of a commonly accepted definition of *CSR*. Competing concepts, like "corporate citizenship," “corporate sustainability,” “corporate social performance,” “stakeholder management,” and “corporate accountability” are often used as alternatives but also as synonyms for “CSR.” De Bakker et al. conclude, from a bibliometric analysis covering 30 years of CSR scholarship, that theory development is hampered precisely by this continuous introduction of new concepts and linkages. Consequently CSR studies conceptualize, measure and operationalize CSR differently, making it hard to compare and evaluate findings across studies (Williams & Aguilera, 2008).

Without trying to establish a competing typology, I will, for the purpose of the present project, categorize CSR studies in three broad categories – normative, instrumental and descriptive – in order to identify the scope for an institutionally based approach to complement the existing CSR literature. In the following, I will therefore present what I term “mainstream CSR literature,” namely the literature that has CSR as its specific object of study, before presenting an integrated framework for a more institutionally based approach mainly derived from CPE, and complemented by insights from IPE and new-institutional theory.

## 2.1. Mainstream CSR literature

**Normative CSR theories**

The early scholarship on CSR is often *normative*, in that the analytical emphasis lies in developing moral arguments for why companies should assume social responsibilities. This normative orientation is evident in, for instance, Howard Bowen’s seminal book from 1953, *The social responsibilities of the business man*.” Normative arguments are also central to Freeman’s (1984) extensive work on stakeholder theory and are still prevalent in CSR writings that originate within the business ethics discipline. What unites these theories is a quest for the moral role of business in society, where authors construct arguments for how business *ought* to behave, often based on theories developed by moral philosophers such as Kant, Locke or Rawls (Marens, 2004). The close affinity between CSR and normative theory is reflected in the fact that CSR is often referred to as the “CSR movement,” illustrating that the line between the academic and the idealist can be hard to discern (Sahlin-Andersson, 2006).

However, several prominent authors within the CSR literature also raise normative arguments *against* CSR from utilitarian or neo-liberal perspectives. These authors see CSR as an undue distraction from profit-maximization, and as an unjustified intrusion in corporate affairs. In their opinion, CSR is counter-productive in that it will reduce the benefits of global capitalism by increasing companies' transaction costs, limit competition, reduce efficiency and restrict freedom of choice (Drucker 2004; Henderson 2001). In a similar vein, Milton Friedman (1970) argues that CSR is problematic from a democratic perspective: It is the role of governments to design the rules of the game within which business should be free to pursue profit maximization, and that, as often quoted, "the business of business is business."

While valuable in their own right, normative CSR theories have a qualitatively different ambition than my project, and cannot serve as a theoretical foundation for an understanding of the institutional antecedents, nor for an understanding of the governance implications of CSR.

**Instrumental CSR theories**

The dominant, contemporary CSR theories can be classified as *instrumental theories* in the sense that the authors analyze how CSR can be used strategically to increase profits. These theories are mainly derived from well-established theories within business and management disciplines, where authors theorize on how CSR can become a means to improve employee relations, investor relations, resource efficiency, branding and reputation management, etc. Notable examples are Porter and Kramer's argument for a link between competitive advantage and CSR (Porter & Kramer, 2006) and Elkington's theory of a triple bottom line (Elkington, 1998). In certain instances, these instrumental analyses have a normative motivation, because there is a perceived need to defend CSR from skeptics who claim CSR distracts managers from profit maximisation, as the quote of management guru Peter Drucker illustrates: *If you find an executive who wants to take on social responsibilities, fire him. Fast* (The Economist, 2005). Thus, these instrumental theories aim to document the existence of a business case for CSR, which has tended to result in quite narrow, profit-oriented analyses. For instance, McWilliams and Siegel's article (2001) illustrates this instrumental approach , concluding that *"there is an 'ideal' level of CSR, which managers can determine via cost-benefit analysis."*

Again, this group of theories has a different purpose from understanding the institutional antecedents and wider governance implications of CSR, as their main theoretical ambition is to analyze the managerial aspects of CSR.

**Descriptive CSR studies**

Finally, while not really constituting a theoretical category of CSR studies, there are so many purely *descriptive* CSR studies that they warrant a category of their own. These studies focus on mapping corporate practices and they do so without much reference to theory. However, they provide data-rich case studies that could be useful for comparative purposes. Several large-scale and ambitious cross-national comparative studies from international groups of researchers areparticularly interesting to my project, for instance, Habish et al.'s extensive mapping of CSR practices in Europe (Habisch, Jonker, & Wegner, 2005) and Visser et al.'s mapping of CSR in 58 countries in the *World Handbook of CSR*. Unfortunately, the utility of these studies for comparative purposes is limited, as it is hard to evaluate and compare across studies because of the general lack of consensus regarding concepts and operationalization (Margolis & Walsh, 2003; Williams & Aguilera, 2008). This lack of a sound conceptualization and analytical framework in descriptive CSR studies led Van Oosterhout (2010) to claim that CSR researchers merely have collected a "pool of data in search of a theory."

## 2.2. The scope for an institutionalist approach to CSR

Recent reviews of CSR scholarship envision a rather pessimistic future for CSR theory, because the authors identify fundamental theoretical and conceptual weaknesses in the current literature. In reviewing three key CSR approaches, Windsor (2006:11) describes CSR analysis as "embryonic and contestable," and claims there is little prospect of theoretical synthesis, because the authors tend to draw on multiple, partly overlapping, and partly conflicting research streams from different disciplines and traditions. Combined with the continuous introduction of new concepts and definitions of CSR (de Bakker, Groenewegen, & den Hond, 2005), theory development is severely hampered. Lockett et al. (2006) reach much the same conclusion, describing CSR research as a "field without a paradigm" in a "continuous state of emergence." However, critics point to not only the lack of theoretical synthesis. They also describe the analyses themselves as lacking in several aspects: Utting and Marques (2009:3) declare an "intellectual crisis of CSR," judging CSR analyses as "largely ahistorical, empirically weak, theoretically thin and politically naïve." In particular, they point to the lack of critical analysis of the effectiveness of CSR's voluntary form of embedding the economy, as opposed to traditional forms for embedding the economy, such as strong states, social pacts and civil society. To rectify this, Utting and Marques claim that CSR scholars need to acknowledge the importance of institutional factors and power relations, and to account for their relative influence under different "varieties of capitalism" (ibid:7). Drawing an even bleaker picture, van Oosterhout and Heugens (2008:198) conclude that CSR theory is "Much ado about nothing" and advise that "it would be prudent for the field to dispense with the notion of CSR altogether," claiming that other theories from, for instance, economics and sociology are better able to explain the types of phenomena CSR researchers study.

The criticism leveled at mainstream CSR theory appears quite fitting in relation to my project. The majority of existing CSR literature does not, from a political-economy perspective, provide a theoretical foundation for analyzing either the causes or the consequences of cross-national variations of CSR: The analytical purposes of normative and instrumental theories are not directed towards understanding CSR as a political phenomenon. Descriptive studies are potentially useful for their empirical contributions, but at the same time, their value is severely diminished because CSR is defined and conceptualized differently across these studies.

This project therefore aims to follow van Oosterhout and Heugens' advice (2008) by applying theories from political science to the analysis of CSR. In trying to achieve a more structurally and contextually informed approach to CSR, I base my analytical framework on three distinct, but interrelated, theoretical traditions that are specifically developed to understand political-economic and institutional phenomena: International political economy, new-institutional theory and comparative political economy. In the next section, I will detail how insights from these three theories can form an integrated analytical approach to CSR.

# 3. Theoretical framework

## 3.1. International political economy (IPE) – the logic of CSR

International political economy informs my basic understanding of *how and why* companies and governments increasingly engaged in CSR as an approach to improve corporate social and environmental practices in the 1990s. IPE authors claim that the rise of CSR has less to do with a newfound corporate interest in ethics, and more to do with fundamental changes in the global political-economic system.

IPE authors are concerned with explaining the shifting power dynamics between business, government and society. In particular, neo-pluralist and structuralist authors within IPE argued for "bringing the firm back in" to the analysis of international politics (Eden 1991), and for assigning a privileged role to business in understanding the formation of international politics (Cox 1996). Lately, this literature has increasingly given attention to political processes that take place *outside* the traditional, state-centered international politics, namely private-actor governance whereby business or civil society actors develop voluntary initiatives to regulate corporate social and environmental behavior. In their view, CSR is part of this larger trend towards private regulation, and needs to be analyzed critically in the context of a fundamental shift in political power between state, market, and civil society actors (Clapp & Utting, 2008; Fuchs, 2007; Hirschland, 2006; Jeremy Moon & Vogel, 2008).

The emergence of CSR is, in IPE writings, closely coupled with the processes of economic globalization and liberalization, and the governance gap resulting from these processes (Doremus et al., 1998; Pauly, 1999; Stopford & Strange, 1991). Historically oriented accounts usually begin with the post-war era, when the Bretton Woods system instituted what Ruggie termed "embedded liberalism" (Ruggie, 1998) by securing a balance between increased liberalization and free trade on the one hand, and the power of states to intervene and govern their national economies on the other hand. This balance came under pressure towards the end of the 1960s resulting in the dissolution of the fixed exchange rate system and a deregulation of the restrictions on capital mobility (Story, 1999; Strange, 1998, 2000). This opened for a dramatic increase in the transnationalization of companies, through foreign direct investments and short-term capital flows. The political implication was a reduction in governments' *ability* to control and regulate companies, and in particular the transnational companies (TNCs), because companies and investors now freely and quickly could relocate their investments (Stopford & Strange, 1991). In addition, governments' *willingness* to control corporations diminished due to a neo-liberal turn in the ideological landscape. Thus, IPE scholars often explain the "rolling in of CSR" by the corresponding "rolling back the state" characteristic of the Thatcher-Reagan era (Sadler & Lloyd, 2009).

The public anti-globalization upheavals of the mid- to late 1990s are of particular importance to IPE analyses of CSR. These demonstrations were not aimed primarily at governments, but directly at business. Transnational companies in particular were a favorite target for NGO campaigns, for organized groups such as “Attac,” and for less organized public upheavals like “The Battle of Seattle.” Demonstrators voiced strong anti-corporate sentiments in Seattle, Genoa, Gothenburg and other cities during the summits of World Economic Forum, EU, WTO, and other organizations associated with promoting economic liberalization. Public resentment was further fuelled by corporate scandals such as Shell’s perceived complicity in the execution of Ken Saro Wiwa and other political activists in Nigeria, MacDonald’s destroying rain forests for cattle production, and sweatshop conditions in Nike production plants to name a few. These loud demands for a more socially and environmentally responsible globalization posed a new set of challenges to business leaders, and signaled radically new expectations regarding the role of business in society. Companies operating in a global environment could not ignore these expectations unpunished.

In a globalised economy, then, a responsible profile is more than a nicety – it has a real effect on brand value, stock value, public relations, employee relations, investor relations, etc. While companies previously obtained sufficient legitimacy by following national rules and regulations, today they must go beyond legal requirements in order to be perceived as responsible and legitimate actors. As Newell (2000:38) frames it: “Social norms increasingly outstrip legal requirements on firms.” In this regulatory vacuum, with limited state control over global corporate practices, the corporations themselves must take steps to gain trust and legitimacy in the eyes of the public through voluntary CSR initiatives. IPE authors therefore portray CSR initiatives are a functional response to the external pressures caused by economic globalization. CSR becomes intrinsically linked to competitiveness because corporations need, for commercial reasons, to establish a new form of legitimacy and “social license to operate” in the global economy (Dicken, 2003; Sklair, 2001). Consequently, economic self interest is at the core of the CSR logic, where the main force motivating companies to engage in CSR is the business case for CSR, as detailed by instrumental theories of CSR (section 2.1).

However, IPE scholars point to the fact that this business case applies only to a quite narrow subset of companies, mainly those operating in high-risk markets, or to industries and companies dependent on brand image, sometimes also extending to these companies’ key suppliers further down their global value chain (Vogel, 2005). Thus, susceptibility to pressure is not evenly distributed among companies, and consequently, CSR does not promise a business case for all kinds of companies. IPE scholars, therefore, argue that we must acknowledge the business community's "political case for CSR" to fully account for the popularity of CSR. As Levy and Kaplan (2008) argue, the weakness of the business case for CSR suggests that one should not underestimate the political motivations for companies to engage in CSR. Many IPE scholars tend to be skeptical regarding CSR's effect on global social and environmental governance, and subscribe to a zero-sum model where CSR supplants rather than supplements hard law in international politics. Sadler and Lloyd (2009), for instance, claim that CSR is part of a wider neo-liberal agenda that tries to re-cast the boundaries between corporate-centered voluntarism and state-centered regulation. In an IPE perspective, CSR emerges as a political project whereby business tries to influence public perceptions and public policy in favor of voluntary, corporate self-regulation as opposed to mandatory regulation. Consequently, CSR cannot be understood in isolation from the wider debate on power and global governance (Blowfield, 2005; Fuchs, 2007; Moon & Vogel, 2008; Newell, 2000). This has important implications for our understanding of the limits and potential of CSR, as discussed in section 7.3.

To conclude, IPE scholars portrays CSR and other forms of private social and environmental governance as a functional response to the new challenges presented by economic globalization and the global governance gap. Furthermore, the IPE perspective highlights the political dimension, seeing CSR as a corporate political project with important governance implications, in terms of the effect CSR has on attempts to regulate corporate social and environmental behavior. Thus, this strand of research provides crucial insights into the structural conditions that frame CSR and thereby highlights both the causes and the potential consequences of CSR (Fuchs, 2007; Haufler, 2001; Mattli & Woods, 2009; Utting, 2000; Vogel, 2005).

Looking more specifically at the three research questions outlined in Section 1.1, one can derive certain hypothetical answers from the IPE theory. Regarding research question 1), IPE does not expect significant cross-national variation due to political-economic institutions. Instead, IPE expects any cross-national variation in CSR to mirror exposure to economic globalization. Consequently, countries with strongly globalised economies are expected to have a high proportion of companies with strong CSR performance. In terms of question 2), IPE certainly sees CSR as part of a neo-liberal agenda, but expects the dictates of global markets to overrule conflicts over CSR in social-democratic societies, leading to convergence in CSR practices. Finally, regarding the question of regulatory preferences in question 3), IPE sees CSR as affiliated with a business-led, neo-liberal and voluntaristic agenda, and expects corporate actors to favor CSR and self-regulation over soft law and hard law.

However, IPE does not directly address the topic of the thesis, namely how political-economic institutions affect CSR cross-nationally. The emphasis in IPE remains state-centered, and scholars focus mainly on explaining how business influences state bargaining and negotiating positions in international regimes. More critically, IPE scholars are accused of neglecting the importance of domestic institutions in international relations (Farrell and Newman 2010), and several authors argue that IPE theory would benefit from the inclusion of institutionalist perspectives from comparative political econmoy (CPE) (Chang, 2002; Kraphol, 2008). Consequently, IPE does not provide a complete theoretical starting point for explaining the observed cross-national differences in CSR nor for analyzing how political-economic institutions influence corporate social and environmental behavior more generally. For this, we must look to comparative political economy, with its traditions of systematically examining how political and economic institutions vary cross-nationally and affect corporate behavior.

## 3.2. Comparative political economy (CPE)

Comparative political economy comprises a wide variety of theories, and traces its roots to several of the nestors of the social sciences, such as Adam Smith, Karl Polanyi and Max Weber. The older works focus on the merits of different political-economic models, most notably the debate over capitalism versus socialism. More recent classics include Douglas North's theory of the firm, and the works of John Maynard Keynes, which profoundly influenced post-war public policy. What unites political economists is the assumption that institutions are fundamental to the functioning of the economy, as captured by Polanyi:

> The human economy, then, is embedded and enmeshed in institutions, economic and non-economic. The inclusion of the non-economic is vital. For religion and government may be as important for the structure and functioning of the economy as monetary institutions (…) (Polanyi 1968:127)

While the “grand debates” in political economy are outside the scope of this project, their institutional approach to economic behavior has inspired key recent literature in comparative political economy.

A common contention of CPE theories is the claim that political-economic institutions divide capitalist countries into fundamentally different country clusters. Older works, like those of Weber and Gramsci, portrayed one variety of capitalism as replacing other forms over time. One can also retrieve this line of reasoning in the more simplistic, hyper-globalist view of globalization as a homogenizing force that transforms all economies into more or less successful neo-liberal economies, as presented by for instance Fukuyama (1992) and Ohmae (1996) . Contrary to this unidirectional view of capitalist development, modern CPE refuses the idea of a necessary evolutionary development where one political-economic system outperforms and supersedes all others. Instead, different systems are seen as a response to different sets of social, political and economic challenges. Consequently, political-economic institutions reflect unique political and economic logics that are unlikely to converge around a single model in the future. Because of institutional complementarities and vested interests, CPE authors claim that political-economic institutions to some extent are self-reinforcing and of a relatively perpetual nature since they also shape how the actors respond to *new* challenges (Esping-Andersen, 1996:6).

Recent CPE classics study how different political-economic systems have developed their unique types of welfare states (Esping-Andersen, 1990), political cultures and constitutional systems (Arend Lijphart, 1999; Lijphart & Crepaz, 1991), industrial relations (Schmitter, 1981) and international orientation (Katzenstein, 1985). However, Hall and Soskice (2001) point to a lack of research on the role of the *firm* and on how political-economic institutions influence *corporate behavior*. Their aim is to analyze state, market and civil society relations from a firm-centered perspective, which has inspired authors to analyse how political-economic institutions affect corporate behavior (Amable, 2006; Crouch, 2005; Peter A. Hall & Soskice, 2001; Whitley, 1999). These analyses of how the institutional environment conditions the strategic behavior of firms are arguably highly relevant for my ambitions to explore whether and how political-economic institutions explain cross-national variation in CSR practices.

Consequently, my main analytical approach is informed by the firm-centered analyses from the "varieties of capitalism" literature within CPE, in particular, the concept of "comparative institutional advantage," as introduced by Hall and Soskice (2001). While the classic Ricardian concept of comparative advantage limits the analysis to a country's relative access to land, labor, and capital, Hall and Soskice claim we need to extend this reasoning to also include *institutions* as a source of comparative advantage. Different political-economic institutions can explain not just why production of some kinds of goods or services is clustered in some countries, but also why *this* exact product or service is produced in *that* country and not another country. Hall and Soskice claim that a country's political-economic system, and its corresponding institutional environment, offers the firm a particular set of opportunities and barriers which will influence firm strategy. Since these institutions are collective, often nationally framed and partly outside the influence of each individual firm, Hall and Soskice maintain that they will shape corporate strategies in a given nation. Based on a rational-choice perspective, firms will gravitate towards strategies that take advantage of the opportunities provided by the political-economic institutions:

> In short, there are important respects in which strategy follows structure. For this reason, our approach predicts systematic differences in corporate strategy across nations and differences that parallel the overarching institutional structures of the political economy (Hall and Soskice 2001: 15.)

While Hall and Soskice analyze how different political-economic institutions shape nations' *innovation* profiles, I argue that their reasoning can successfully be applied to my analysis of how these institutions affect CSR. In particular, their concept of "comparative institutional advantage" is highly relevant to my project, because it captures the *mechanism* that links political-economic institutions to corporate strategy and behavior. Furthermore, their theory is influenced by rational choice approaches within institutional theory, and is likely better positioned to capture corporate behavior than are the sociological or historical strands of CPE. Thus, this logic of a comparative institutional advantage informs my general argument for how institutions for strong embedding of the economy influence CSR practices, and in particular informs my explanations for cross-national differences in CSR performance. In this respect, Hall and Soskice distinguish between two broad types of political-economic institutional systems: liberal market economies (LMEs) and coordinated market economies (CMEs). The debate on the LME/CME distinction has raged since the authors launched it in 2001, and I concur with the critics who claim that this dichotomy is too coarse to capture important cross-national diversity (Hancké, Rhodes, & Thatcher, 2007). Instead, I use measures and typologies of a more detailed kind, as will be discussed in Sections 6.

This question of CSR's institutional antecedents has increasingly caught the attention of CSR scholars within the social sciences. However, authors disagree on the causal relationship between political economy and CSR practices. In their widely quoted article, Matten and Moon (2008) argue that CSR practices are more prevalent in liberal market economies (LMEs) than in coordinated market economies (CMEs). They explain this prevalence by referring to LMEs as having a weaker institutional embedding of the economy, thus increasing the need for companies to take on responsibility voluntarily and to explicitly communicate this through CSR initiatives. In contrast, corporate responsibility in CMEs is secured by state and corporatist institutions, and therefore remains "implicit," reducing the scope and need for companies to partake in CSR initiatives. Kinderman (2011) and Jackson and Apostolakou (2010) build on this research, arguing that CSR in liberal market economies functions as an institutional substitute for these economies' weaker welfare-state and corporatist systems. Consequently, these authors expect a strong embedding of the economy to lead to weaker CSR. However, there are equally plausible arguments for the opposite scenario: Campbell (2007) argues that responsible corporate behavior is partly determined by the institutions within which the companies operate. He argues that institutions provide companies with sticks and carrots that constrain and enable certain types of corporate behavior – an argument that corresponds closely to Hall and Soskice's (2001) argument on comparative institutional advantage. In describing what makes corporations behave socially responsibly, Campbell (2007) points to the importance of public and private regulation, the strength of monitoring organizations such as NGOs, activists and media, and to the institutionalized dialogue with stakeholders such as unions, community groups, investors and other stakeholders. Thus, Campbell claims that strong institutional embedding of the economy will foster more responsible behavior among companies.

Thus, authors within comparative CSR disagree on the effect of strong institutions for social embedding of the economy. This debate had not reached international journals at the time I developed my project. In hindsight, my analytical approach most closely resembles Campbell's, in that I expect a strong institutional embedding of the economy to lead to stronger CSR performance. Inspired by the Hall and Soskice's (2001) argument of comparative institutional advantages, I expect companies from strongly embedded economies to have higher standards and more experience in social and environmental issues when CSR hits the agenda, merely as a function of their having adapted to an institutional environment with bigger sticks and bigger carrots. Thus, this argument is the basis of my analytical framework detailed in Section 4. The alternative scenario – strong embedding leading to weak CSR – will be reviewed in depth in Section 7.1 where I discuss my contribution to this specific debate.

In relation to the three specific research questions outlined in section 1.1, I can now derive some hypothetical answers from CPE theory: Regarding research question 1), CPE theory predicts significant cross-national variation in CSR practices, and expects these differences to mirror the nations' political-economic institutions. Consequently, countries with strong institutions for embedding the economy are expected to have strong CSR performance in their domestic companies. Regarding research question 2, CPE sees CSR as having a close affinity to the neo-liberal model. Because of the actors' having developed their strategies in a way that takes advantage of the opportunities provided by the institutional structure, CPE predicts conflicts and resistance to CSR in social-democratic societies and expects continued divergence in CSR practices. Finally, in relation to question 3), CPE expects regulatory preferences to mirror political-economic traditions, because of vested interests and comparative institutional advantages developed in relation to these political-economic institutions.

However, the institutions themselves tend to remain something of a black box within both the IPE and the CPE approaches. Understanding the internal institutional dynamics is important to identify the mechanisms that link political-economic institutions to CSR practices, as specified in research question 1) in section 1.1. In the case studies of Nordic governments and businesses' approaches to CSR, I will therefore lean more on *new-institutional theory* to explore the internal institutional dynamics and mechanisms that link political-economic institutions to the actors' CSR practices, and in particular to explore their perception of CSR. Tempel and Walgenbach (2007) argue for such a combination of CPE and new-institutional theory. In their view, CPE approaches institutions from a structural-regulative perspective, whereas new-institutionalism approaches institutions from a normative-cognitive perspective, and both approaches are necessary to understand cross-national convergence and divergence in organizational practices.

## 3.3. New-institutional theory

New-institutional theory offers more of a cultural and socialization perspective on CSR by focusing on how organizations adapt to expectations in their environments. This perspective is well suited both to capture how CSR spreads globally as a "mega-trend" among state, market, and civil society actors, and to study the internal institutional processes that take place when CSR is adopted and implemented by these actors.

Theorizing on the institutional aspects of organizational practices takes many shapes; Peters (1999) identifies nine institutional approaches within political science alone. The following presentation is mainly inspired by normative and historical new-institutionalism, as these strands of new-institutionalism emphasize the role of norms and values in defining institutions and in influencing behavior (ibid). More specifically, normative new-institutionalism emphasizes the importance of legitimacy in understanding institutional behavior, and therefore offers a relevant perspective on how and why CSR diffuses globally, an on the processes that take place internally when organizations adopt and implement CSR. Historical new-institutionalism emphasizes the importance of the historical roots of the institution, focusing on how institutional behavior is path-dependent. By focusing more on the internal institutional dynamics, this approach complements CPE's approach to the influence of political-economic institutions in shaping organizations' behavior.

Beginning with the issue of the global diffusion of CSR, new-institutional theory emphasizes that organizations cannot comply only with expectations regarding the efficient production of their goods or services. As Brunsson and Olsen argue: "Organizations are also evaluated on the basis of whether they use structures, processes and ideologies that correspond to that which important actors in their environment consider rational, efficient, reasonable, just, natural and modern (1990:10, my translation from Swedish)." Thus, organizations must also comply with expectations from their *institutional environments* related to *how* their products or services are produced, by adopting the expected organizational structures and management practices (Meyer & Rowan, 1977). New-institutionalism thereby portray decision-making as not based only on a "logic of consequences" whereby actors behave according to cost-benefit calculations; decision-making in institutions is also based on a "logic of appropriateness" whereby actors behave according to what is considered legitimate in the institutional environment (March & Olsen, 2004). In terms of CSR, having the relevant social and environmental certificates, a CSR report, and an ethical code of conduct, and being a member of different CSR initiatives have become necessary components for companies wanting to be perceived as legitimate and modern, and have become prerequisites for being considered as an attractive employer, brand, or business partner (Sahlin-Andersson, 2006). Thus, the global diffusion of CSR parallels that of other organizational "mega-trends" like New Public Management and Total Quality Management, which popularity can be explained partly by the legitimacy that they confer upon the organization, rather than by their ability to improve the organization's capacity to produce its goods or services.

DiMaggio and Powell identify three ways in which organizational concepts spread (DiMaggio & Powell, 1983; Matten & Moon, 2008 ; 1991). First, they spread through *coercive* isomorphism, whereby organizations adopt a new organizational concept or trend because of direct pressure from other organizations. For instance, a company can adopt CSR because of demands from customers, business partners in their supply chain, governments, or watchdog NGOs. Second, organizational concepts can spread through *mimetic* isomorphism, whereby uncertainty leads actors to look to other organizations and to copy their structures and processes. For instance, the new and sometimes unpredictable expectations concerning a company's social and environmental responsibilities can lead the company to emulate the CSR practices of the bigger, successful companies, or to sign on to high-profile initiatives like the UN Global Compact to gain legitimacy. Finally, *normative* pressure through increasing professionalization can also cause convergence in organizational practices, whereby the educational system and professional associations develop common thought patterns and ways of thinking and talking about the appropriate way of organizing or managing an organization. As CSR increasingly becomes part of the agenda in business schools, industry associations, governments, and civil society organizations, CSR will spread as a normative blueprint for how a modern company should be managed. Meyer (1999) also points to the role of "consultants" – scientists, think tanks, and educators – in forming a global discourse whereby ideas and concepts are diffused globally. Such an "epistemic CSR community" is gradually consolidating as major international organizations like the UN, the OECD, the World Bank and the EU introduce CSR initiatives, and organizations like the ISO and the Global Reporting Initiative establish global guidelines and standards for CSR practices.

Crane et al. (2008:3) describe CSR's phenomenal rise to prominence in the 1990s and since as "a journey that is almost unique in the pantheon of ideas in the management literature." Thus, in combination with the structural conditions related to globalization emphasized by IPE (section 3.1), the new-institutional theories of coercive, mimetic, and normative processes of isomorphism provide a complementary explanation for the rapid global diffusion of CSR. However, a fast global diffusion of an organizational concept does not imply implementation without conflicts. Despite originally being an Anglo-American management idea (Matten & Moon, 2008), CSR has now spread far beyond Anglo-American societies. In light of how intertwined the role of business is with fundamental political-economic institutions and traditions, as discussed in CPE section (3.2), it is reasonable to expect a certain amount of institutional conflict when CSR is adopted in societies that are not predicated upon a neo-liberal model. New-institutional theory offers a valuable perspective on how these *internal* institutional processes unfold.

Brunsson (1989) claims that adopting organizational mega-trends like CSR often follows a "logic of fashion" driven by symbolic politics: The actors try to project a certain image outwards that conforms to the expectations in their institutional environment, by adopting popular organizational concepts – or "rationalized myths" in Meyer and Rowan's vocabulary (1977). Thus, organizations adopt such mega-trends because of the legitimacy that they confer upon the organization, regardless of whether they are effective or rational in terms of managing the actual production of the organization's goods or services. This "logic of fashion" can therefore cause organizations to adopt organizational concepts that are incompatible with their internal practices. In such situations of incompatibility, new-institutionalistss expect actors to resort to "double talk" or ceremonial adoption: They adopt the symbols and vestiges of the mega-trend outwardly in order to satisfy their institutional environments, but continue their internal practices unchanged in order to ensure operational efficiency within the organization (Brunsson, 1989; Kostova & Roth, 2002; Meyer & Rowan, 1977).

This "decoupling" between the externally projected image and the actual internal behavior is especially prevalent in situations where the adopted organizational concept is incompatible with existing norms and traditions of the organization. I argue that such incompatibility is a likely scenario in Nordic case material, because the Nordic tradition for a strong institutional embedding of the economy in many respects differs fundamentally from the Anglo-American, neoliberal model that underlies CSR. Thus, while a "logic of fashion" might compel Nordic companies and governments to adopt CSR, an institutional "logic of appropriateness" can lead to de-coupling, ceremonial adoption and resistance in the implementation, because CSR in many respects is incompatible or inappropriate in a context of Nordic institutional norms. Thus, new-institutional theory provides an approach to analyze the processes that unfold when a presumably “alien” organizational concept collides with the local “logic of appropriateness.” Understanding these processes is important to explain the complex mechanisms and dynamics that link political-economic institutions to CSR practices, as outlined in research question 2 (Section 1.1.). Normative and historical new-institutional theories will therefore inform the analysis of the Nordic variety of CSR, as a complement to CPE theories.

In relation to the research questions posed in Section 1.1., one can derive the following expectations from new-institutional theory: Regarding question 1), new-institutionalists expect no significant cross-national variation due to political-economic institutions, because they see CSR as a mega-trend that creates global convergence in organizational practices regardless of institutional background. Regarding question 2, new-institutionalists predict internal conflicts related to CSR in social-democratic societies, because of incompatibility with neoliberal norms implied by CSR. However, they expect outward convergence in CSR practices, because internal conflicts are resolved by double talk/decoupling. In relation to the final question, new-institutionalists expect the actors’ regulatory preferences for voluntary versus mandatory regulation to mirror the actors’ degree of exposure to CSR’s organizational field.

As can be discerned by the above discussion, both CPE and new-institutional theory analyze how organizations adapt to their institutional environments. However, they reach diametrically opposite conclusions: From a new-institutional perspective, CSR is the archetypical global mega-trend that organizations eagerly adopt to increase their legitimacy, whereas CPE predicts CSR to meet with little enthusiasm outside the neo-liberal countries. Thus, where CPE predicts *divergence* in organizational practices, new-institutional theory predicts global *convergence* in organizational forms and management practices. This disagreement must be discussed before I combine the theories in the analytical framework.

## 3.4. Global convergence versus divergence in organizational practices

In reviewing new-institutionalist and CPE approaches to global convergence versus divergence in organizational practices, Tempel and Walgenbach (2007) conclude that the two approaches successfully can combine in a way that moves them beyond the convergence-divergence dichotomy. In the following, I review how the two perspectives contrast and complement each other, and argue that theories from the so-called "Scandinavian institutionalism" provide an approach that can encompass the new-institutionalist arguments of convergence , as well as CPEs arguments for divergence, in a way that meets some of the criticisms raised against the two theories. In this respect, I argue that Nordic material provides an ideal testing ground.

CPE emphasizes how organizations adapt to *structural-regulative* institutions, such as the welfare state, the corporatist system or the financial system. These institutions are all anchored in the nation state, giving CPE a distinctly national approach. Furthermore, the firm-centered CPE theories approach organizational practices from a rational-choice perspective, and tend to focus on *strategic behavior* in the adaptation process, looking at how firms position their strategies in a way that takes advantage of their institutional environment (Hall & Soskice, 2001). The logical conclusion to this argument is that actors resist change: The actors have vested interests in retaining the structural-regulative institutions in their present form, because they have adapted their strategies and behavior according to these institutions. Consequently, CPE authors expect continued cross-national divergence in organizational practices, and see political-economic institutions as being self-reinforcing and of a relatively perpetual nature, because they also shape how the actors respond to *new* challenges (Aoki, 2001; Esping-Andersen, 1996). In particular, authors would not expect an organizational trend to be widely adopted in an institutional environment where it is not particularly compatible. In terms of CSR, with its close affiliation to the neo-liberal model, CPE scholars would not expect CSR to catch on in coordinated market economies, collaborative business systems, or social-democratic welfare states, such as the Nordic countries. However, this presumption of a rather closed feedback-loop between organizational behavior and political-economic institutions causes critics to claim that CPE theory is unable to account for institutional change, and also neglects agency and transnational influences on economic behavior (Tempel & Walgenbach, 2007).

In contrast, new-institutional theory is more directly concerned with institutional processes, and emphasizes the *normative-cognitive* aspects of institutions. The analytical focus is *legitimacy* in the adaptation process, looking at how organizations try to position themselves in a way that corresponds to institutionalized expectations and norms. Furthermore, new-institutionalists do not restrict their analyses to national institutions; they delineate their area of study to *organizational fields*. This is a much wider focus than CPE's focus on nation states. It covers those organizations which "in the aggregate, constitute a recognized area of institutional life" (Powell & DiMaggio, 1991:143). Within CSR, the organizational field extends to a global discourse involving multilateral institutions, multinational firms, think tanks, civil society organizations, academics and consultants. Consequently, from a new-institutional perspective, CSR is the ideal candidate to produce global convergence in organizational practices: CSR has a global organizational field and strong legitimizing power because of its popularity with high-profile companies, business associations, governments, civil society and multilateral organizations. However, new-institutionalism is often criticized for neglecting to study the influence of domestic political-economic institutions cross-nationally, which could uncover more divergence in organizational practices (Czarniawska & Sevón, 1996; Tempel & Walgenbach, 2007).

The Nordic countries offer an interesting testing ground for this convergence-divergence conundrum: CPE expects Nordic actors to resist CSR due to the strong Nordic institutional embedding of the economy, leading to continued cross-national divergence. In contrast, new-institutionalism expects Nordic actors eagerly to adopt CSR: These actors are heavily exposed to the global organizational field of CSR due to the strong global orientation of Nordic companies, as well as the strong international engagement in social and environmental politics among Nordic governments and NGOs. From a new-institutional perspective, it therefore seems that coercive, mimetic, normative processes will pressure Nordic actors to adopt CSR – at the same time as deeply rooted norms and traditions in Nordic political-economic institutions appear incompatible with CSR's neo-liberal heritage. In such situations of incompatibility between external expectations and the internal practices, new-institutional theory predicts the "logic of fashion" to pressure Nordic organizations to adopt CSR, while the "logic of appropriateness" causes the actors "decouple" of the externally projected image from their actual internal practices. In other words, new-institutionalism, like CPE, expects continued divergence in terms of actual internal behavior.

New-institutional theory is therefore liable to the same criticism of being unable to explain institutional change. In particular, the concept of "decoupling" reflects a rather deterministic view of organizations as being governed by the "iron cage" of their institutional environment. Critics therefore claim that new-institutionalism portrays organizational change in an overly simplistic way that disregards the roles of agency and institutional entrepreneurs. Instead, critics claim one needs to analyze how organizational mega-trends are interpreted or "translated," when they are adopted and implemented in different national contexts (Czarniawska & Sevón, 1996; Sahlin-Andersson & Engwall, 2002).

This thesis therefore draws on recent theory developments within new-institutional theory, often called "Scandinavian institutionalism" (Boxenbaum & Strandgaard, 2007; Scheuer, 2007). This strand of new-institutionalism builds on normative or historical new-institutionalism described in section 3.3., but analyzes more in-depth the complex twin processes involved in *global diffusion* and *national adaptation* of organizational mega-trends in a way that better incorporates CPE's insights to the role of political-economic institutions. In particular, authors emphasize the process of "translation" that takes place within an organization as it adopts and implements a new organizational idea. Global mega-trends are often highly abstract and general, leaving substantial leeway for national interpretations (Czarniawska & Sevón, 1996; Røvik, 2002). If incompatible with the existing institutional norms, traditions and practices, these global concepts are not necessarily destined to be rejected internally through double talk or decoupling: These global concepts can also go through a process of "translation" whereby the actors actively interpret, edit, and adapt the new organizational concept to the local institutional realities (Czarniawska & Sevón, 1996; Røvik, 2002; Sahlin-Andersson & Engwall, 2002). This perspective opens up for agency and institutional entrepreneurs in the processes of divergence and change *within* the globally diffusing management trends. This idea of an active local "translation," whereby actors adapt a global concept to their local logic of appropriateness, seems particularly relevant since CSR touches upon deep-seated perceptions of the proper role of business in society, as discussed in section 3.2. Thus, while retaining conformity with the global CSR-trend outwards, the actors' internal interpretation and practice of CSR can, through this process of translation, significantly diverge from the original CSR concept. Consequently, understanding how actors try to make CSR compatible with the existing institutional ethos, practices and expectations, can explain some of the observed cross-national variation in CSR.

To conclude, the question of CSR's institutional antecedents has increasingly caught the attention of CSR scholars within the social sciences, leading to a recognition of the role of political-economic institutions in explaining CSR practices. However, authors disagree on how to measure cross-national CSR practices, as well as in their conclusions regarding the causal relationship between political-economic institutions and CSR. Analyses at the time I conceptualized the project were either purely theoretical or based on case studies of a handful of companies or countries, which may explain some of their contradictory conclusions. Hence, there was a need for comparable company-level data from countries with different political-economic systems, combined with systematic, comparative analysis. In the following outline of the analytical framework, I argue how the political economy of CSR can be studied in practice.

# 4. Analytical framework – the political economy of CSR

Taking mainstream CSR theories within the business and management disciplines as a starting point, the important explanatory factors would be *firm- or industry*-specific, such as brand dependence, market segmentation, and production in high-risk markets or controversial industries. In parallel, the important explanatory factors in IPE, relate to *global* structural conditions. Seeing CSR as a functional response to criticism leveled at the global capitalist system, IPE literature leads one to expect globally oriented companies with a high public profile to be more susceptible to this criticism, and hence to have a stronger incentive to engage in CSR. In parallel, new-institutional theory would focus on factors related to the organizational field of CSR, which is also strongly global in character. Thus, neither IPE nor new-institutional theory sees national political-economic institutions as strong explanatory factors for cross-national divergence in CSR. Instead, they expect such divergence to be an aggregate effect of either the nation's proportion of actors that are highly susceptible to pressures from the global marketplace (IPE) or the nation's proportion of actors that are strongly exposed to the organizational field of CSR (new-institutionalism).

Recent studies in comparative CSR do to some extent refute this position, as they are able to demonstrate substantial national differences in CSR practices – differences which the authors relate to national institutional dynamics. For instance, Bammer and Pavelin report significant cross-national differences in corporate CSR communication (Brammer & Pavelin, 2005), Aguilera and Jackson (2003) find differences in corporate governance systems, and Midttun, Gautesen, and Gjølberg (2006) find cross-national differences in CSR practices that parallel the nations' political-economic institutions. Consequently, there seems to be sufficient evidence for the claim that nationally based institutions do matter to CSR (Campbell, 2007). There also seems to be consensus regarding *which* political-economic institutions matter, as these analyses tend to draw heavily on well-established theories within CPE, emphasizing the role of the welfare state, the nature of industrial relations system, and the strength of the civil society. Researchers also point to institutions more closely related to firm-centered factors derived from the varieties of capitalism literature, such as corporate governance, financial systems and vocational training systems. These political-economic institutions share the attribute that they all reflect different aspects of the *institutional embedding* of the economy. The underlying theoretical argument shared by these authors is that *the degree of institutional embedding of the economy influences CSR practices*. This argument is also the guiding principle in this dissertation's analytical framework.

However, while the CPE literature gives good directions as to which institutions might be relevant, there is no consensus on whether the *effect* of institutional embedding is positive or negative, and little attention is devoted to the *mechanisms* that link institutions to CSR performance. In order to address these issues, this dissertation develops an integrated analytical framework to study the institutional antecedents of CSR that combines perspectives from IPE, CPE and new-institutional theory . Figure 1 summarizes my main theoretical and empirical argument for the thesis as a whole, whereas the individual articles address more in depth the different aspects of the argument.

## ANALYTICAL FRAMEWORK:

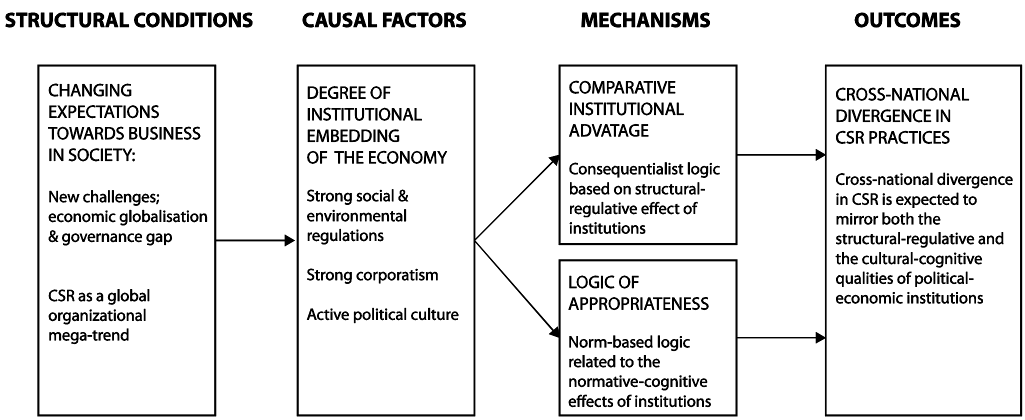


*Figure 1. Analytical framework*

## STRUCTURAL CONDITIONS

I emphasize two structural conditions as a background for why actors from business, government and civil society take an interest in CSR. Both revolve around the changes in society's expectations towards the roles and responsibilities of business. First, I use IPE theories on economic globalisation to explain why CSR emerges as a functional response to the new challenges of global value chains and to the criticism of corporate unaccountability in an increasingly liberalized business environment, as explained in section 3.1. Second, I use perspectives from new-institutional theory to explain how CSR gains status as a global mega-trend whereby coercive and mimetic isomorphism and normative pressures establish CSR as a "must" for companies wanting to be perceived as legitimate and modern. These structural conditions figure mainly as background factors to explain the rise of CSR globally, and they are not analyzed specifically in the empirical studies.

## CAUSAL FACTORS

The *degree of institutional embedding of the economy* is the key explanatory factor across all four articles. As outlined in section 3.4., I expect strong institutions for embedding the economy to strengthen the actors' CSR practices, due to these institutions' structural-regulative effects as well as their normative-cognitive effects. Three political-economic institutions are studied as causal factors in the embedding argument, as specified below.

The first factor is the welfare state, described as "the principal institution in the construction of different models of post-war capitalism" (Manow, 2001) and considered a crucial component in the creation of distinctive national business systems and capabilities in firms (Whitley, 1998; 1999). In line with Campbell's (2007) arguments, I expect strong welfare states to have stricter policies and enforcement that is more stringent in a broad range of policy areas relevant to CSR, such as environmental protection, health and safety, working conditions, discrimination and corruption. Strict policies consequently improve the performance of domestic companies in these areas, resulting by default in an objectively higher performance in the average domestic company. While improved performance due to mandatory action would not be classified as "CSR" in a national context, it might well be classified as "CSR" in the global marketplace, where these actions may not be mandatory. This discrepancy between national and global regulations thus makes it easier for actors from strong welfare states to excel in their CSR activities. Specifically, companies from strong welfare states are expected to have a high level of performance and experience in social and environmental issues when CSR hits the agenda, merely as a function of their having adapted to an institutional environment with bigger sticks and bigger carrots. In parallel, governments from strong welfare states are expected to show a stronger commitment to CSR, due to their generally stronger social and environmental political agendas. Furthermore, strong welfare states generally employ a broader range of “next-generation” policy instruments, such as incentive schemes, voluntary agreements, education schemes, etc. (Bemelmans-Videc, 1998). These kinds of policy instruments are characteristic of CSR policies, and I therefore expect governments from strong welfare states to have more experience in policy tools that are relevant to promoting CSR.

The *corporatist system* is a second institution that may be relevant to CSR practices. Labor unions as well as employers’ associations can have an important advocacy role in promoting higher labor standards and other social issues (Campbell, 2007), and stronger tripartite organizations will have a stronger influence. However, I argue that it is primarily the dialogue- and consensus-building effect of corporatism that influences CSR. Strong tripartite institutions teach, and to some extent force, business to integrate broader societal concerns into their business operations. Such traditions may enhance corporate competence in dialogue and consensus-oriented strategies, which are important “CSR-skills” in stakeholder management and in balancing the “triple bottom line”. Furthermore, the generally closer involvement of business and labor as well as NGOs in policy-making in corporatist countries holds business more accountable to the public. I therefore expect strong corporatist traditions to strengthen CSR practices.

Third, culture, norms and values are indispensable to the functioning of political-economic institutions (Rokkan, 1987), and the question of *political culture* is an integral part of CPE (Jackman & Miller, 1996). In relation to CSR, NGOs, active public debate and high consumer awareness are held as important drivers for CSR because they provide stronger incentives for business to include social and environmental concerns in their long-term strategies. Strong traditions for active engagement from civil society, NGOs and media can therefore lead to an early uptake of the CSR in both business and governments, because of stronger expectations in home markets and political constituencies respectively.

**MECHANISMS**

Moving on to the more qualitative aspects of the institutional processes and dynamics of CSR, I propose two kinds of mechanisms that influence the actors' approach to CSR and thereby link political-economic institutions to CSR practices. First, I argue that the concept of *comparative institutional advantages,* as outlined in section 3.2, is a mechanism that establishes a causal chain between political-economic institutions and CSR practices. This mechanism is based on consequentialist logic that mainly relates to the *structural-regulative* effects of institutions, as discussed in Articles 2 and 4.

Second, I argue that a norm-driven "*logic of appropriateness*" is a mechanism that establishes a link between political-economic institutions and CSR practices. Political-economic institutions are pivotal normative expressions of expectations towards the role of business in society (Kagan et al., 2003; Aguilera et al., 2007). I therefore also look at how institutionalized norms and expectations affect the actors' approach to CSR, from the perspective of a "logic of appropriateness," analyzing how the actors justify their actions and positions in terms of what the actors refer to as considered natural, appropriate, or just by their institutional environments. Compared to the mainly utilitarian concept of comparative institutional advantages, the "logic of appropriateness" opens for a more normatively driven motivation for the actors to engage in CSR, emphasizing the *normative-cognitive effects* of institutions. This mechanism is central to my reasoning in Article 3, and to a lesser extent in Article 2 and 4.

**OUTCOMES**

Based on the causal factors and mechanisms identified above, I specify expected outcomes as follows: In terms of CSR practices generally, the analytical framework leads one to expect the actors' CSR practices to parallel the strengths and weaknesses of their political-economic institutions. As outlined in section 3.4., I expect a strong institutional embedding of companies to strengthen the actors' CSR practices. More specifically, in terms of CSR *performance*, I expect higher CSR performance in companies emanating from countries with strong institutions for embedding of the economy, because of the proposed comparative institutional advantages stemming from strong embedding. These outcomes are studied in Articles 1, 2, and 4. In parallel, I expect governments in countries with strong embedding of the economy to adopt the CSR agenda early as part of their public policy, and to have high policy ambitions. Finally, in terms of *perceptions* of CSR, I expect the institutional environment of the actors from countries with strong institutions for embedding the economy to influence their perceptions of CSR, leading to support for regulatory, tripartite approaches, and potentially to skepticism towards voluntary approaches to corporate responsibility, as analyzed in Articles 3 and 4.

# 5. Findings

## Article 1:

**Gjølberg, Maria (2009): Measuring the immeasurable? Constructing an index of CSR practices and CSR performance in 20 countries. *Scandinavian Journal of Management* 25, 10–22**

An analysis of the political-economic antecedents of CSR requires a valid measure of cross-national variation in CSR practices. The first article therefore has a very specific goal: To develop a valid method to measure CSR practices at the national level, for use in comparative analysis. Based on a discussion of the numerous conceptual, methodological and technical challenges related to such a measure, the article develops an index of CSR practices and performance across 20 OECD nations.

As discussed in Section 1, CSR authors do not agree on a common definition of CSR. Consequently, there is no established method for measuring CSR at the company level, nor at the national level, which can serve as a basis to measure CSR practices cross-nationally. A further challenge is the lack of reliable and comparable data at the company level. Recognizing these definitional and empirical challenges, the article arrives at an alternative approach based on a *formative measurement model*: The index treats the most globally recognised CSR initiatives as proxies for "CSR", simply letting the selected CSR initiatives define CSR for the purpose of measurement construction. In doing so, the index construction sidesteps the many normative aspects of defining CSR. In practice, I use corporate adoption, qualification and membership in the most prominent global CSR initiatives as proxies, as detailed below.

The "Index of cross-national CSR practices" comprise corporate representation, by nation, in the following nine initiatives: The Dow Jones Sustainability Index, the FTSE4Good, the Global Reporting Initiative database, the UN Global Compact, the ISO14000, the KPMG survey of national CSR reporting practices, and membership in the World Business Council for Sustainable Development, the list of "100 Most Sustainable Corporations" and SustainAbility's "top 50 CSR reports."

The index measures the degree to which a nation is over- or under-represented in these nine initiatives, relative to the size of the nation's economy. I arrive at the national scores by calculating each of the 20 nations' proportion of companies represented in the nine initiatives, relative to the 20 nations covered. To correct for differences in economic size, I divide the scores by each nation's proportion of GDP, relative to the 20 nations covered. Based on all nine initiatives, this method produces an index that expresses the proportion of companies active in CSR per country. However, in order to get specific information on cross-national CSR *performance*, I used the same method to develop a second index where I include only the CSR initiatives that require documentable achievements in CSR.

Thus, notwithstanding Crane et al.'s claim that defining CSR is a normative exercise, this article is mainly a technical exercise dedicated to the discussion of definitional, conceptual and methodological solutions to ensure the validity of the indices. Nevertheless, both indices reveal striking differences in CSR practices and CSR performance across the 20 nations, thereby indicating a need to explore the influence of domestic institutions on CSR – the topic of Article 2.

## Article 2

**Gjølberg, Maria (2009): The origin of corporate social responsibility: global forces or national legacies? *Socio-Economic Review*. 1–33**

This article takes the findings in Article 1 as its starting point, and analyzes the relevance of domestic, political-economic institutions in explaining the observed differences in CSR performance. To do so, I formulate two alternative hypotheses regarding the determinants of national CSR performance as measured in the "Index of national CSR performance" developed in Article 1.

First, I derive a "globalist hypothesis" from theories within IPE and business and management literature. This literature sees CSR as a functional response to the challenges of an increasingly globalised economy: To respond to anti-corporate and anti-globalization sentiments, and to ensure the smooth functioning of increasingly global value chains, companies must go beyond legal compliance to be perceived as legitimate actors. Logically, it follows that if CSR is a response to the new challenges presented by a globalised economy, then the most globalised companies will have the greatest self-interest in investing in good

CSR practices. Aggregated to the national level, the globalist hypothesis predicts that the countries with the highest proportion of globalised companies will top the "Index of CSR performance."

As an alternative CPE-derived hypothesis, I derive an "institutionalist hypothesis," which proposes that strong institutions for embedding of the economy provide companies with a comparative institutional advantage in CSR. For example, a strong embedding of the economy implies stricter formal and informal control of corporate practices in a number of areas related to CSR, such as environmental protection, HSE, labor standards, discrimination, and corruption. Consequently, by default, one can expect the average company from strongly embedded economies to have more experience and higher performance levels in social and environmental areas when CSR hits the corporate agenda, simply because of their institutional environment. In empirical terms, I measure "strong institutional embedding of the economy" as countries with social-democratic welfare states and strong scores on environmental policy measures (Esping-Andersen, 1990; Ferrera, 1998, ESI 2005), strong corporatist traditions (Siaroff, 1999), and a strong score on political activism and environmentalism in measures of political culture (Inglehart, 2003). The institutionalist hypothesis predicts that countries with strong embedding of their economies will top the Index of CSR performance.

Methodologically, this article attracts several of the pervasive methodological challenges of CPE, especially those related to small-N and causal complexity. To address these issues, I tested the hypotheses using fuzzy-set QCA, which did indeed reveal causal heterogeneity in the material: The empirical analysis lends support to both the globalist and the institutionalist hypotheses, but for two quite different subsets of countries. While the globalist hypothesis seems to explain the high index scores of the Netherlands, UK and Switzerland, the institutionalist hypothesis seems to give a better explanation for the high scores of the Nordic countries. Thus, the analysis underlines the importance of a contextually informed approach to CSR: The degree of exposure to global markets as well as domestic, political-economic factors influence CSR performance.

## Article 3

**Gjølberg, Maria (2010): Varieties of corporate social responsibility (CSR): CSR meets the "Nordic Model."** ***Regulation & Governance*** **4, 203–229**

Intending to investigate the findings related to the institutionalist hypothesis (Article 2), Article 3 provides more in-depth knowledge of countries with strong institutional embedding of the economy. Arguing the Nordic countries as a critical case, the article explores how governments, but also trade unions, business associations and civil society organizations approach CSR across the four Nordic countries.

This article is inspired by new-institutional theory, and seeks to understand how pre-existing political-economic institutions and cultural norms affect the actors' interpretation of CSR. CSR, largely being a business-driven concept ideologically affiliated with the neo-liberal model, does in many ways conflict with the Nordic tradition for strong social embedding of the economy. Whereas CSR promotes corporate self-regulation and allocates significant discretionary powers to business, the "Nordic model" is known for its strong social and environmental regulation through the welfare state, strong corporatist systems and active governmental involvement in the business community. The Nordic countries represent an institutional context that differs substantially from the socio-political model that underlies CSR, and these countries are therefore ideal to highlight political-economic aspects of CSR.

The article focuses on the Nordic governments, and sets out by developing a typology of four possible government interpretations of CSR. The empirical analysis reveals that Nordic public policy on CSR spans three of the four categories. As such, there is no ground to claim that there exists a common Nordic public policy on CSR. Sweden and Norway feature a normative, humanitarian approach to CSR, which aims to promote sustainable development, human rights and good governance, led by their Ministries of Foreign Affairs. In contrast, Denmark and Finland feature an instrumental, business-minded policy model aiming to increase their business communities' innovation and international competitiveness.

However, looking beyond concrete policy formulations, the interviewees show a striking similarity in their conceptualization or "translation" of CSR. Regardless of nationality and affiliation, interviewees tend to explain their views of CSR by referring to "The Nordic Model," pointing to both its structural-regulatory aspects, as well as to its normative-cognitive aspects. The analysis uncovers three characteristics that define this "Nordic variety of CSR": First, the interviewees consider CSR as largely irrelevant and superfluous in their domestic contexts, where they see regulations and corporatist agreements as sufficient. A majority of interviewees also sees regulations and corporatism as clearly preferable to CSR, and describes

CSR as a "second best" solution mainly relevant outside the Nordic context. Many interviewees are skeptical of CSR as an alternative to state regulation and corporatist agreements. In this context, interviewees see CSR as an unwanted resort to paternalism and charity – an unacceptable abdication of fundamental and indivisible government responsibility for the welfare of the nation. Second, CSR is clearly filtered through traditional Nordic political-economic institutions and traditions. For instance the governments extensively use the tripartite system for corporatist consultation in their policy initiatives. Third, the strong internationalist traditions of the Nordic countries are evident in the striking emphasis on multilateral institutions and initiatives. In particular, there is strong support for international norm processes and juridification of CSR, in contrast to the Anglo-American CSR concept that focuses on voluntary action and business discretion.

The analysis concludes that CSR strongly interfaces with both political-economic institutions and the ideologies that underpin them. Consequently, my findings strengthen the call for a more contextually informed approach to CSR, as political-economic institutions clearly affect the practices and the perceptions of CSR in Nordic governments, labor unions, employers' associations, and NGOs.

## Article 4:

**Gjølberg, Maria (2011): Explaining regulatory preferences: CSR, soft law, or hard law? – Insights from a survey of Nordic pioneers in CSR. *Business and Politics*, Issue 2.**

Article 4 examines Nordic companies more closely and aims to understand how political-economic institutions influence their CSR practices as well as their regulatory preferences. The Nordic societies have a tradition of strong institutional embedding of the economy, and they might therefore provide a fresh perspective on CSR as a political phenomenon, in particular regarding the companies' perceptions of CSR, soft law, and hard law, which may differ from the perceptions of companies in societies with a more neo-liberal political economy.

The article is based on a survey of the Nordic companies with the highest scores in international performance-based CSR rankings. In terms of general CSR practices, the companies do not appear to diverge from what one would expect of other international pioneers in CSR. However, their *perceptions* of CSR reveal a surprisingly strong skepticism towards CSR, voluntary approaches and self-regulation, combined with a clear preference for mandatory regulation to ensure decent social and environmental standards. In parallel to their governments, (Article 3), the Nordic companies do not see CSR as either a viable or a legitimate alternative to state regulation. This preference for regulation can partly be explained by social norms and cultural expectations of Nordic society, and 78 percent consider their Nordic background to affect how they work with CSR. This finding indicates that the domestic context is strongly relevant to understand CSR practices. However, the respondents clearly indicate corporate self-interest as the prime cause of their support for increased regulation. Being pioneers in CSR, the companies perceive themselves as being above compliance with any conceivable future regulations. Consequently, such regulations would level the playing field to their benefit and strengthen their competitive position in domestic and international markets.

Furthermore, when asked to explain their high performance in CSR, the companies consistently point to three factors: 1) the strict domestic state-regulation of social and environmental practices, 2) the role of corporatist negotiations in securing a triple bottom line, and 3) strong normative expectations towards corporate responsibility in their home markets. For these reasons, 68 percent of the companies perceive their Nordic background as an advantage to CSR success, thus supporting the claim that strong institutions for social embedding of the economy constitute a comparative institutional advantage in CSR.

# 6. Methods

The PhD project comprises four articles using four methodological approaches. This multi-method approach was both a function of the nature of the research questions, as well as a desire to address the most pressing knowledge gaps in comparative CSR. The following sections will review the broader ontological basis that underlies the project, before detailing the specific methodological challenges and limitations of the individual articles.

## 6.1. The ontology of comparative analysis

The project as a whole is firmly rooted within the traditions of the comparative method, even though it also uses quantitative and qualitative methods. The comparative method occupies an intermediate position in social sciences. Ragin (2000) identifies two main methodological approaches: the case-oriented, qualitative approach, and the variable-oriented, quantitative approach, which are both frequently used in comparative studies. This division between qualitative and quantitative approaches, between ideographic and nomological approaches, has deep roots in the philosophy of science (Mjøset, 2006). Ragin, however, argues for a separate category for the "comparative method" in between the two main categories, as a "diversity-oriented," approach. This comparative method aims at middle range generalizations and theory, in the tradition of Merton and Boudon, but not at the expense of complexity in cases and causes.

Quantitative approaches have a strong position in comparative studies, and a regression-based analysis would be the standard approach, especially in relation to research question 1 regarding the extent to which political-economic institutions influence CSR practices across 20 nations. However, there are several problems with using the standard, quantitative approaches in comparative analysis, problems that run deeper than the pervasive technical problems associated with small-N comparative studies (Shalev, 2006). The primary shortcoming of most quantitative approaches in relation to my project is the assumption of linearity, additivity, and causal homogeneity. While these assumptions are justified in many quantitative studies, most theories in comparative political economy do not correspond to a linear model of reality. Simply put, one would not expect a 10-percent increase in the strength of labor unions to have the same effect in Sweden as in the United States. Instead, causal heterogeneity, elective affinities, path dependencies and reciprocal causation dominate the models proposed by most comparative researchers (Abbott, 1988; Shalev, 2006). Despite this, the standard regression models remain the dominant methodology in CPE. It is precisely this mismatch that Peter Hall addresses in his call for an alignment of ontology and methodology in comparative research, claiming that: "The ontologies of comparative politics have substantially outrun its methodologies" (Hall, 2002, p. 375). In other words, the rather restrictive assumptions of the established methods do not match the research community's view of the social and political world. Thus, alternative methods, which correspond to the ontological underpinnings of the analysis, are called for, especially in relation to research question 1.

Shalev (2006) argues for a return to more "low-tech" methods in comparative analysis, such as charts, tables, diagrams and typologies. The aim is to retain the identity of the cases throughout the analysis. In standard regression approaches the cases' identities "disappear into the magician's hat of variable-based causality, where they hide during the analysis, only to be reproduced with a flourish in the article's closing paragraphs (Abbott, 2001, p. 98)." In contrast, knowing the identity of the cases throughout the analysis allows for Ragin's (2000) "a dialogue between ideas and evidence." This is important, he claims, because knowing the identity of the cases keeps the analytical process more "grounded" (Glaser & Strauss, 1967). However, compared to the inductive ideals of grounded theory, Ragin introduces theory testing much more actively in the analytical process. My dialogue between ideas and evidence was secured primarily by using scatter plots and charts in the preliminary data analysis of research question 1) in Article 2[1] as well as by developing a typology in Article 3.

The most advanced comparative method is set forth in Charles Ragin's (2000) synthesis of qualitative and quantitative methods, called Qualitative Comparative Analysis (QCA). QCA approaches causation in terms of necessary and sufficient conditions, and depicts causation as conjunctural and heterogeneous. The basic idea of QCA is to identify *configurations* of causes, to allow for the fact that, "Causes may combine in different and sometimes contradictory ways to generate the same outcome" (Ragin 2000:14). This configurational approach is an explicit rebuttal of the standard quantitative, variable-oriented method and its ontology. Ragin's unique contribution is to combine a detached, formalistic analysis based on the logic of set-theoretic, Boolean algebra, with a much more qualitative and theory-infused categorization of the data material. While this is a contested method, it is highly relevant for my analysis in Article 2, given the data material's strong indication of causal heterogeneity and my theoretical ambition to identify whether different causal pathways can lead to the same outcome in terms of CSR performance.

## 6.2. Middle-range theories, mechanisms and causal processes

Most social scientists agree that a search for covering laws in comparative analyses is an unproductive imitation of the natural sciences. However, this does not mean that one has to revert to "mere" description. The most forceful arguments for this position are set forth by Robert Merton in his writings on "middle-range theories" and mechanism-based explanations (Boudon 1991). Merton attempted to locate a middle ground between the highly abstract deductive-nomological approaches, and the under-theorized empirical works of his contemporary American colleagues (Calhoun 2002). Instead, he argues for middle-range theories. By seeking to develop as generalized statements as possible within the empirical

[1] This preliminary analysis is not described in the published articles.

context, these theories are less ambitious than "grand theories," but still more ambitious than descriptive approaches.

Mayntz (2004) claim tha causal generalizations of social macro-phenomena are dominated by rational-choice approaches and by correlation approaches focusing on statistical associations, and that both approaches fail to explain the causal processes involved in situations where *institutions* play a decisive role – a highly relevant point in relation to my project. She argues that researchers should search for generative *mechanisms* in the study of social macro-phenomena. These mechanism-based explanations focus on the processes involved in the causal chain, and seek to identify the mechanisms that generate the phenomena under investigation (Manyntz 2004).

This concept of "mechanism" is crucial to middle-range theory. As Bunge (2004:202) puts it: "No law, no possible mechanism; and no mechanism, no explanation." A key ambition of my project is to identify the mechanisms that link political-economic institutions to CSR practices, and mechanisms are therefore a key explanatory component in my analytical framework. In this respect, my approach to mechanisms and causal reconstruction is inspired by Hall's "systemic process analysis" – a mechanism-based approach tailored specifically to analyses in which institutions play an important role (Hall, 2002). Hall's approach is an explicit effort to solve the mismatch between ontology and methodology in contemporary comparative research as outlined above. His central premise is that the essence of explanation lies in explicating the *mechanisms* that link one phenomenon to another, and that these mechanisms can be identified through "a three-cornered contest between one theory, as set of observations, and a second theory rival to the first" (ibid:21). This approach implies a positivist ideal of active confrontations between theory and data, but in the more grounded sense of a "dialogue between ideas and evidence," as advocated by Ragin (2000). In relation to my project, mechanisms are a key component to the explanations of both how and why political-economic institutions influence CSR practices cross-nationally (Article 2), and in the Nordic case studies (Articles 3 and 4). Specifically, I propose that political-economic institutions influence CSR practices through two mechanisms: First, I identify a normative mechanism whereby political-economic institutions create certain "logics or appropriateness" that influences the actors' CSR practices by defining the boundaries of legitimate behavior. Second, I identify an instrumental mechanism, explaining how political-economic institutions create certain "comparative institutional advantages" that influence the actors' CSR practices by providing them with a particular set of institutional opportunities and barriers.

In parallel to the "intermediate position" of comparative method and to the "middle-range" type of theories, the fundamental methodological view of my project is also placed in an intermediate position: As can be discerned from my analytical framework, my approach is inspired by authors who see individual behavior as strongly influenced by collective institutions. From this perspective, my approach seems closer to methodological collectivism, which is particularly evident in my arguments related to the mechanism based on a "logic of appropriateness," and in new-institutional theory more broadly. However, my reasoning related to the mechanism based on a "comparative institutional advantage" is based on the varieties of capitalism literature. This literature is inspired by rational-choice theory, which is firmly anchored in methodological individualism. My analytical framework therefore contains elements from both methodological traditions.

Finally, it is important to note that my use of hypotheses and deductive reasoning (especially in Article 2) does not reflect deductive approach. The main role of my use of modeling and hypotheses is inspired by Gibbard and Hal Varian's idea of using such simplifying models as a communicative aide (Sugden, 2000). Thus, the use of models and deductions in my project does not reflect a true deductive approach per se, but is intended as an instrument to create consistent and stringent arguments in order to communicate more clearly with the established theory in the research area.

## 6.3. Multiple methods

As outlined in the introduction to this section, the methods I use span qualitative, quantitative and comparative traditions. Such multi-method approaches are praised by some for providing triangulation and robust results, while others remain skeptical of mixing methods. Using several methods simultaneously in the research process is controversial since it may combine methods with incompatible epistemological and ontological premises, especially when mixing qualitative and quantitative methods. However, the present project is only a mixed-method project when analyzed as a whole. In each of the individual articles, I use one method only. In doing so, I avoid the pitfalls of multiple methods, but gain some of its benefits by approaching the same over-arching research questions from four methodological perspectives. My research design is therefore closer to what Tashakkori and Teddlie (2003) call *multi-method* research, meaning that different methods are used in parallel or in sequence at different stages of answering the research questions, hopefully leading to a more robust analysis. Thus, the multi-method approach aims to achieve methodological triangulation in parallel with the theoretical triangulation represented in the analytical framework. To do so, the project comprises a quite diverse set of methodological tools, which I will review separately below.

**Article 1 – Index construction**

The key methodological challenge in Article 1 was to find a valid measure, with reliable data of national CSR performance, in a field that provides no definite definition of CSR, no well-established method to measure CSR practices in companies, and certainly no established method to measure CSR practices at a national level. The solution was to rely on a formative measurement model by using the most recognized global CSR initiatives that also provided the nationality of their members. Nine initiatives met these criteria, as listed in section 5.

The index of CSR practices is by necessity a somewhat blunt measure of CSR practices, which contains several challenges, particularly related to language barriers. These biases are detailed along with the technical issues of index construction in the article and will not be repeated here. The most reliable results of the index will in my opinion be gained from replicating the index regularly to see how the national scores develop over time. Bluntness notwithstanding, the index does document substantial cross-national divergence in CSR practices that are highly relevant to the field of comparative CSR. In particular, it reveals interesting patterns when studying the sub-scores that lie behind the aggregate scores. To analyze these patterns, I develop a typology that categorizes the nine CSR initiatives according to their entry requirements and stated goals. Comparing national scores in the easy-access CSR initiatives versus the more demanding CSR initiatives reveals important cross-national variation, and based on this finding, I develop a second index, the "Index of CSR performance". This index is based on data that is more reliable: Even though the performance ratings to a certain extent rely on corporate self-reporting, the companies must go through a third-party screening process to qualify for these initiatives, and this is therefore the preferred index for further analysis in Article 2.

**Article 2: Fuzzy-set qualitative comparative analysis**

Article 2 aims to analyze the results from the index of CSR performance constructed in Article 1, by contrasting an "institutionalist hypothesis" with a "globalist hypothesis." This analysis involves many of the complex methodological challenges of comparative analysis.

The main methodological challenge was to find a quantitative method that corresponds to the ontology of CPE theory while also providing valid results on a data material with only 19 cases. In terms of ontology, the theories I draw on in Article 2 do not correspond to the linear model of reality implied in standard regression-based approaches, as discussed in Section 6.1. Moreover, initial data analysis of my material revealed multicollinearity and heteroskedastiticy in the dependent variables, several outliers and other technical problems associated with small-N studies. Consequently, multiple regression did not appear as a sound methodological choice. At the same time, the large number of cases, in combination with the quantitative nature of many of the CPE indicators used in the analysis, meant that qualitative case study was not a good choice either, because this approach would not have been able to utilize the data fully. Instead, I chose to use "qualitative comparative analysis" (QCA) as developed by Ragin (2000, 2008).

QCA does not approach causation in terms of net effects, but rather looks for sufficient and necessary causes according to a set-theoretic logic. Furthermore, QCA allows for quantitative analysis of the data, but retains some of the qualities of qualitative methods, because of the researcher's role in coding the data prior to the analysis. Here, QCA builds on the set-theoretical logic, meaning that a case is either a member or not a member of a set. To exemplify: If one wants to analyze whether strong corporatism causes strong CSR performance, one codes each country as either member or non-member of the set of "strongly corporatist countries," and as either member or non-member of the set of "countries with strong CSR performance." The QCA program then analyzes, using Boolean algebra, whether strong corporatism is a necessary or sufficient condition for strong CSR performance. The "qualitative" element in QCA is introduced in the coding of the data: The researcher him/herself must decide where to draw the line between membership and non-membership. The weakness of this coding is that the researcher's own biases can influence the coding. It is therefore imperative that the researcher disclose the coding in order for readers to be able to evaluate its validity. The strength of this approach is that the researcher can draw on his or her knowledge of the whole field of corporatism and CSR performance in coding the data, and thereby increase its precision and relevance. My approach was to combine analysis of the relevant CPE literature with quantitative analysis of the countries' distributions on each variable, to decide the cut-off points between members/non-members, as disclosed in the appendix to Article 2.

Traditional QCA uses only dichotomies, also known as "crisp sets" (member/non-member dichotomy) whereas "fuzzy-set" QCA uses multichotomies – a more fine-grained scale from "fully in," to "fully out" of the set of members/non-members. Thus, fuzzy-set QCA retains more data richness than crisp-set QCA.[2] More importantly, the QCA analysis allows not only for single causation, but also for multiple causation by identifying whether a combination of variables constitutes a sufficient or necessary condition for the outcome to occur. To conclude, fuzzy-set QCA proved to be the method that corresponded best to the underlying assumptions in CPE theory, avoided many of the technical difficulties in quantitative analysis of small-N samples, and made maximum use of the data richness.

**Article 3: Qualitative interviews**

Article 3 aims to gain insights into how the content and meaning of CSR are adapted and transformed when CSR is introduced in social-democratic societies. The empirical material consists of over 70 interviews with government officials, labor unions, employer's associations and NGOs. The key methodological challenge relates to qualitative interviewing and the use of qualitative data in forming generalizations.

The first challenge was the fact that different researchers performed the interviews. I took part in all interviews is Norway and Denmark, but not in all interviews in Finland and Sweden. This is not an ideal situation in qualitative interviewing, but was necessary because of the large number of interviews. I nonetheless believe I have sufficient familiarity with the Swedish and Finnish material. All interviews in Sweden were taped and distributed, while all interviews in Finland were fully transcribed and translated into English or Swedish[3]. In order to improve my own familiarity with the Swedish and Finnish cases, I also conducted several follow-up interviews by phone and e-mail. The benefit of this larger group of involved researchers was that it allowed for the joint discussion of the material among researchers with extensive knowledge of their national cases.

[2] Fussy-sets can be three-value, five-value, seven-value, or continuous. In Article 2, I use five-value fuzzy sets.
[3] Finnish is not part of the Scandinavian language group, and is therefore not understood in the other Nordic countries.

Regarding the interview process, the main challenge concerned the quality of the data. The interviews were conversational interviews structured according to a joint interview guide. In practice, however, the interview guide had a limited influence on the interviews, because the interviewees were all professionals with long experience and at times quite strong opinions on CSR. The involved researchers therefore to some extent abandoned the traditional ideal of a low-key, even passive researcher who lets the interviewees guide the conversation (Andersen, 2006). Instead, after an initial passive phase in each interview, we chose a more active interview approach, asking critical questions and challenging the interviewees to respond to statements. This approach allowed for more information of direct relevance to the aim of getting a qualitative understanding, not only of concrete policies, but also of the interviewees' perspectives, justifications, and ways of talking and framing CSR. Thus, a combination of passive and active interviewing proved to increase the relevance of the data, because this approach encouraged the interviewees to also discuss the values, norms, and beliefs they held in relation to CSR.

Finally, there is a challenge related to generalizations based on qualitative data. My approach is close to the ideals advocated by "grounded theory," although I did not perform the extensive coding prescribed by Glaser and Strauss (1967). My interpretations of the material are based on inductive reasoning, where I construct generalizations based on patterns in the interviews. Here, I approached the material from a constructivist position, as I was mainly interested in identifying the "logic of appropriateness" guiding the actors' approach to CSR. The aim was to gain an understanding of how the actors adapt and translate CSR in order to fit the Nordic Model, as discussed in Section 3.4. In particular, I generalize the material into typologies, and derive the dimensions of the typology inductively based on the normative justifications of the interviewees.

**Article 4: Quantitative survey**

Article 4 aims to explore whether and how Nordic companies perceive Nordic political-economic institutions as relevant to their CSR strategies, and to analyze under which conditions the companies actively support increased environmental and social regulation. The intended respondents were the Nordic companies with highest performance in CSR.

The main methodological challenges in this part of the project were in selecting the right companies and in formulating relevant, clear and non-biased questions for the questionnaire. Concerning the selection of companies, my aim was to study the Nordic "pioneers in CSR." Since it was not feasible to research the actual practices of all Nordic companies, I needed indicators or proxies for high CSR performance. This issue was resolved in the same way as in the construction of the Index of CSR performance (Article 1), by treating the global CSR initiatives with the most demanding entry-requirements as proxy for "CSR performance." The resulting selection comprises companies qualified for Dow Jones Sustainability Index, FTSE4Good, the list of "Global 100 most sustainable corporations," SustainAbility's top 50 sustainability reports, and CSR reports with a GRI rating of B or higher. In order to increase the number of companies, I also included companies listed on the regional sustainability index of the Nordic Stock Exchanges (OMXSUSTAIN). The selection method suffers from many of the same problems as those in the index construction, and does not necessarily provide a representative picture of the total population of Nordic companies with high CSR performance. In particular, the selection criteria have a bias towards stock-listed companies and companies with an international orientation. However, all initiatives require some form of independent verification of performance, and were thus considered suitable to identify "CSR pioneers".

Second, there are several methodological challenges in constructing questionnaires. Presuming that the respondents have limited time available, the questions needed to be clear, interesting, answerable without requiring any research, and not too time consuming. I therefore sent a pilot test to a sample of companies, NGOs and other researchers within my CSR network. To make the results comparable, I ensured the questionnaire was sent directly to the main CSR manager in the company. The questionnaire mainly uses Likert scales, but a few questions also required written comments from the respondents to gain deeper insights into their perspectives on CSR. These written comments proved a crucial support to the quantitative findings, in particular in analyzing the question of a "Nordic comparative institutional advantage" and their regulatory preferences.

Finally, I distributed the questionnaire on-line, which tend to generate low response rates (Shih & Fan, 2008). In order to convey the importance of the questionnaire, it was embraced by the four main business schools in the Nordic countries. Non-respondents received an e-mail reminder, and those who still not responded were followed up by a personal phone call. This approach resulted in a highly satisfactory response rate of 77.2 percent.

Now that the methodological challenges and limitations have been discussed, it is time to evaluate the thesis's contribution to the research field of comparative CSR.

# 7. Contributions

How does this dissertation contribute to the field of comparative CSR? It is now time to revisit the three research questions I outlined in the introduction (Section 1.1.) to assess how the findings relate to current debates in the CSR literature.

## 7.1. Cross-national variation in CSR – mirror or substitute?

In the first research question I ask, "Do CSR practices vary significantly across countries, and if so, to what extent do political-economic institutions explain this variation?" Articles 1 and 2 indicate a firm "yes" to the first part of this question, but find that political-economic institutions provide only a partial answer to the second part of the question.

Regarding the first part of the question, Article 1 clearly confirms the existence of cross-national differences in CSR practices, as the indices document substantial variation both in CSR practices generally and CSR performance specifically. My main ambition in developing these indices was to provide a valid and reliable quantitative measure of CSR practices and performance across 20 advanced capitalist countries, in a field dominated by qualitative studies, many of which had questionable or undisclosed methodology. Most importantly, the indices provide a basis for the discussion of cross-national variation in CSR practices, which is also attested to by the frequent use of Articles 1 and 2 by other authors in comparative CSR.[4]

The last part of the research question addresses the debate on the explanatory power of political-economic institutions in relation to cross-national variation in CSR practices. This question goes to the core of a vital, current debate in comparative CSR on the "political economy of CSR," as reflected in the special issues of *Socio-Economic Review* and *Business and Society* (forthcoming).[5] The CPE authors in the debates on the political economy of CSR

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[4] Article 2 is the 5th most cited article of the journal in which it was published (*Socio-Economic Review*), and its popularity inspired a special issue on political economy and CSR (personal communication with the editor, Prof. Gregory Jackson).

[5] Both expected in late 2011/early 2012, respectively.

share the underlying theoretical assumption that *the degree of institutional embedding of the economy affects companies' CSR practices and performance*, which is also the premise of my analytical framework (Figure 1, section 4). However, the present debate shows no consensus on whether the *effect* of institutional embedding is positive or negative, nor any agreement on the *mechanisms* that link institutions to CSR performance.

Beginning with the debate on the causal relationship between CSR and the institutional embedding of the economy, the disagreement concerns a "mirror effect" versus a "substitution effect." Matten and Moon (2008) were among the first to theorize systematically on this issue. They argue that CSR is more prevalent in liberal market economies because it functions as a substitute for more institutionalized or regulated forms of corporate responsibility. The authors therefore claim that government, business and civil society actors in liberal market economies will pursue CSR more actively to fill the "institutional void" caused by weak welfare states and weak corporatism. Likewise, Kinderman (2009) suggests that CSR in liberal market economies functions as a material and symbolic substitute for the institutionalized forms of social solidarity secured by representative organizations and public policy in strong welfare states. These authors illustrate their argument by pointing to the strong US tradition for corporate donations and community involvement (Brammer & Pavelin, 2005), as well as the prevalence of CSR reports and CSR communication in US companies (Maignan & Ralston, 2002; Matten & Moon, 2008 ).

Matten and Moon (2008) contrast these "explicit" CSR practices to the European tradition of "implicit" CSR, whereby corporate responsibilities tend to be regulated through state or corporatist systems, leaving less scope and incentive for companies to engage in voluntary initiatives like CSR. Jackson and Apostolakou (2010) reach much the same conclusion in their study of national variation in CSR performance scores in the Dow Jones Sustainability Index (DJSI). They argue their empirical material supports the "substitution argument" because they find that companies from liberal market economies have higher average CSR scores in the different measures that constitute the DJSI. Based on similar empirical material, Moon and Kang reach the same conclusion: that CSR has a complimentary or compensating role in neo-liberal economies. They explain the recent increase in "explicit" CSR practices in coordinated and mixed market economies by citing these economies' transformation towards increasing reliance on market solutions and their embracing of shareholder capitalism (Moon and Kang 2010). In other words, a movement towards a liberal market economy causes the observed increase in "explicit" CSR practices. Thus, according to the "substitution argument," weaker institutions for embedding the economy lead to stronger CSR practices.

There are, however, strong reasons to expect the exact opposite effect: a "mirror effect" whereby strong institutions for social embedding of the economy "force" companies to adhere to higher social and environmental standards, thereby providing companies, governments and civil society actors with a stronger base from which to pursue CSR. As Crouch (2006) claims, CSR is essentially about firms taking responsibility for their negative externalities. Strong institutions for embedding the economy will consequently have a stronger ability to hold companies accountable in this respect. Campbell (2007) provides the most systematic theoretical argument for this "mirror argument," claiming that strong state regulation, collective bargaining, and strong institutionalized norms regarding appropriate corporate behavior will encourage/demand socially responsible behavior in companies, and hence objectively increase the level of social and environmental standards in corporate practices. This argument is also supported by empirical studies. For instance, Birkin et al. (2009) and McCall and Webb (2004) relate the strong Nordic position in CSR to these countries' advanced welfare-state policies. Midttun et al. (2006) also find that performance in CSR – a new way of embedding companies – tends to mirror the old way of embedding companies, namely that countries with high scores on state regulation, corporatism and coordination tend to be over-represented in CSR initiatives.

To conclude, both a positive and a negative causal effect going from institutional embedding to CSR performance can plausibly be argued empirically and theoretically based on current literature. However, both arguments obviously cannot be true at the same time.

In my opinion, the "substitution argument" has its merits, theoretically and empirically, in explaining the *sequencing*, that is, why the practice and discourse of CSR emerged much earlier in the United States and gained speed first in the Anglo-American/liberal market economies. For instance, Kinderman (2009, 2011) points to the much earlier establishment of national CSR organizations in liberal economies than in coordinated market economies. Thus, the substitution argument seems valid for temporal explanations regarding the rise and spread of CSR.

The empirical studies that supports the "substitution argument" based on analysis of *present practices* in CSR, however, contain in my opinion a serious methodological flaw; They do not correct for the *size of the economies* of the different countries included in their studies. For instance, Apostulakou and Jackson (2010) use scores on the Dow Jones Sustainability Index to prove their argument. In essence, they base their argument on the fact that companies from liberal market economies have higher average CSR scores in the DJSI compared to the scores of companies from coordinated market economies. Based on the somewhat higher average scores of companies from liberal market economies, they conclude that these economies' have stronger CSR practices. However, they draw their conclusions based on comparison of the *average* index scores from companies originating in vastly different economies in terms of size. I argue that the *absolute* numbers in the index provides for a much more relevant comparison. The absolute numbers, corrected for the size of the economies, convey a completely different story: For instance, if one compares the absolute number of US companies in the DJSI index to the absolute number of Nordic companies in the DJSI, one finds that 58 US companies and 18 Nordic companies have managed to qualify for the DJSI. Given that the US economy is almost 12 times bigger than the combined Nordic economies, these 18 Nordic companies represent a significant achievement: the US economy would need 216 companies in the DJSI to match the Nordic economies performance in the DJSI. In my opinion, this achievement outwheighs the Nordic companies somewhat lower CSR scores within the index aggregates. Moreover, I argue that this kind of comparison, which incorporates the size of the companies home economies in the analysis, generates more relevant findings compared to analyses of average national CSR scores within DJSI. To conclude, correcting for the size of the economies is essential in such comparisons, and doing so removes the empirical support for the "substitution argument," as demonstrated by Articles 1 and 2.

The analytical framework of the thesis was conceived several years before this debate emerged in international journals. The debate that I sought to address was the discussion of whether political-economic institutions influence CSR practices in any discernible way. My initial ambition was therefore to investigate whether the political-economic background of the firms could explain cross-national variation in CSR performance. To study this, I derived an alternative hypothesis from IPE, which posits that susceptibility to anti-globalisation/activist pressures is the main reason why companies engage in CSR. Aggregated to the national level, it means that cross-national variation in CSR practices is more likely to be caused by variations in the proportion of globally oriented companies in the individual nations. My “null-hypothesis” is therefore not the “substitution hypothesis” but the “globalist hypothesis” – that CSR performance will reflect the aggregate proportion of globally oriented companies in each nation.

My conclusions in Article 2 end up firmly supporting the “mirror argument” – that strong institutional embedding of the economy leads to increased CSR. This argument appears to provide a robust explanation of cross-national variation in CSR performance in the QCA analysis. The mirror argument is further strengthened by the fact that many of the Nordic “pioneers” in CSR point to the importance of political-economic factors for their success in CSR (Article 4). Unfortunately, the substitution argument had not yet surfaced in the literature at the time of writing, and I therefore did not explore this argument directly as an alternative hypothesis in Article 2. In this respect, the high index score of the UK, and relatively high score of Canada, could attest to the validity of the substitution argument, as these are both liberal market economies. However, the rock bottom index scores of the United States – which should be the prime location for a substitution effect – do seem to severely weaken the substitution argument. Moreover, the large variation in CSR *within* the group of liberal market economies further weakes the argument, and I therefore conclude that my findings do not support the substitution argument. Instead, the QCA analysis indicates that the nations’ proportion of globally oriented companies, not the weak embedding of their nations’ economies, is a better overall explanation for the individual scores of the liberal market economies’ in the index of CSR performance: The proportion of globally oriented companies in a country’s economy is a strong predictor for that country’s score on the index, which explains both the high scores of the UK and Canada and the low scores of the United States. This finding indicates that factors related to the dynamics of globalization should not be ignored in comparative analyses of CSR. The explanatory power of the “globalist hypothesis” in the QCA analysis should therefore caution us not to overestimate the role of institutions in explaining CSR: As outlined by IPE, CSR is largely a corporate response to new challenges presented by economic globalization; therefore, global and transnational explanations of CSR practices seem a necessary complement to institutional explanations.

From a methodological viewpoint, the findings indicate causal complexity in the sense that different combinations of the explanatory factors are necessary to fully explain the observed outcomes. Different combinations of causal factors explain different subsets of outcomes, and doing so according to different logics. Quantitative comparative studies can therefore get us only so far, and qualitative case studies are necessary to understand the mechanisms and processes at work behind the aggregate scores. These mechansisms and processes are the focus of the two last research questions.

## 7.2. The political economy of CSR – convergence or divergence?

Assessing the influence of political-economic institutions on CSR requires an understanding of the political-economic model underlying CSR itself. Therefore, in the second research question I asked, "To what extent is CSR predicated on a neo-liberal political-economic model of business-society relations, and which conflicts arise with the introduction of CSR in social-democratic societies?" My findings in Articles 3 and 4 indicate that CSR implies a neo-liberal political economy, which at times is far from compatible with social-democratic traditions.

CSR is spreading rapidly across the globe, not only as a business concept, but also as part of public policy. However, as outlined in Section 2.1, the mainstream CSR literature shows little interest in the political dimensions of CSR, and while IPE authors portray CSR as a highly political project, their analyses tend to focus on international or transnational politics. My aim was therefore to analyze how CSR is adopted, conceptualized and implemented in a national political context, and on this basis also derive some insights regarding the political-economic model implied by CSR. In particular, I wanted to see whether the neo-liberal heritage of CSR causes conflicts when actors in the social-democratic Nordic countries adopt and interpret CSR.

Regarding the first part of the question, I argue that the political economy of CSR is closely affiliated with the neo-liberal model in that CSR promotes business and civil society as the main actors in securing responsible corporate practices. CSR is traditionally industry-driven and delegates key welfare issues to business discretion, relying strongly on voluntary business initiatives and market-related policy instruments. In contrast, social-democratic welfare states are known for strong governmental engagement in social and environmental policy issues, intentionally limiting corporate discretion through public regulation and corporatist agreements. Especially the role assigned to labor unions differs fundamentally between the the social-democratic model and the model implied by CSR. CSR defines labor unions as "stakeholders" on par with NGOs, local communities and other social groups. This stands in stark contrast to the extensive rights and privileges labor unions enjoy within the corporatist system – a system that still has strong public support in social-democratic countries. Consequently, CSR stakeholdership is not related to either numerical democracy, traditional political bargaining or corporatist structures – the pillars of the Nordic political-economic system. Thus, CSR draws the boundaries between state, market, and civil society in a fundamentally different way than does the social-democratic model. Against this background, the political economy implied by CSR appears antithetical to social democratic traditions.

Turning now to the question of the conflicts that might arise when CSR is introduced in social-democratic countries, my findings indicate that CSR causes conflicts over *means* rather than conflict over *goals*. As expected, the Nordic governments enthusiastically embrace the goals of CSR, eagerly promoting and supporting CSR, often using CSR quite speculatively to strengthen pre-existing welfare state policies. However, aligning CSR with social-democratic traditions involves considerable conflict: At the level of *means* CSR differ starkly from the social-democratic tradition, and the majority of the Nordic actors show widespread skepticism towards relying on CSR and towards the effectiveness of voluntary initiatives generally.

My findings regarding these conflicts also provide a new angle for studying more theoretically the influence of political-economic institutions on CSR. The analysis of how CSR is adoptied in the Nordic societies, sheds light on a core point of disagreement between new-institutional theory and CPE: Will CSR cause global convergence in organizational practices because of its legitimizing power and global organizational field, as proposed by new-institutional theory? Or will there be continued cross-national divergence in CSR practices, because CSR infringes on fundamental political-economic institutions, as proposed by CPE?

Contrary to the expectations from CPE theory, the Nordic governments to ignore CSR as a public-policy issue. Nor do the governments only adopt CSR ceremoniously, using "de-coupling" and "double talk" to allow them to continue their internal practices unchanged, as predicted by traditional new-institutional theory. Instead, my findings indicate that the Nordic actors rather creatively solve the inherent conflicts between the neo-liberal CSR tradition and the Nordic, social democratic traditions, in a way that allows for an active adoption of CSR while still accomodating Nordic institutional imperatives: Rather than dismissing CSR, the Nordic governments actively adapt, translate and edit CSR to accommodate their social-democratic welfare-state traditions in a way that reduces or redirects potential conflicts. The

Nordic governments seem to resolve the conflict between CSR and social-democratic traditions through three main accommodating strategies: First, governments *externalize* potential conflicts by confining CSR policies to companies operating in non-domestic and non-Nordic markets. Second, governments c*ompartmentalize* CSR by confining their CSR initiatives to fields less amenable to traditional regulation, mainly competitiveness and innovation policy. Third, governments limit CSR to policies to s*upplement* welfare-state functions, but only in times of obvious welfare-state limitations.[6] Often, this active adaptation of CSR to a social-democratic reality leads to a quite radical change from the initial neo-liberal origins of CSR, to the extent that CSR even acquired a "leftist stamp" in Sweden.

Thus, I find that CSR causes convergence in the sense that Nordic governments, business associations, labor unions and NGOs have all engaged with CSR and all use the language of CSR. However, my findings also confirms continued divergence caused by political-economic institutions; The social-democratic norms of a strong embedding of the economy must be accommodated in the actors' CSR practices, resulting in a specific "Nordic variety of CSR" that is recognized by interviewees across government, labor unions, business associations and NGOs.

This process of convergence-cum-divergence – of local adaptation of a global concept – conforms to the expectations from "Scandinavian institutionalism" outlined in Section 3.4. In this respect, my analysis parallel analyses of other governments' CSR policies. For example, Albareda et al. (2007) found that the Italian public policies for CSR were strongly integrated with regional industrial policies, thereby linking CSR to the long-standing Italian policy tradition of active support for regional industrial districts. Furthermore, the Nordic adaptation of CSR has clear parallels to the Nordic adaptation of another neo-liberal, but much more studied concept, namely New Public Management (NPM). NPM is also documented as being extensively transformed when implemented in Norway and Sweden, because it is alleged to have a "low cultural compatibility" (Christensen & Lægreid, 2001). Consequently, political-economic institutions do influence the perception of CSR in a way that forces the actors to adapt, and at times, even to radically transform the content and meaning of CSR in order to make CSR compatible with their institutional traditions.

[6] These three strategies are further expanded on in Midttun, Gjølberg et al. (forthcoming 2012).

Returning to the debate on CSR as a "mirror" versus a "substitute" for strong welfare states, the widespread adoption of CSR in Nordic public policy clearly supports the mirror argument: The strong Nordic institutions for social embedding seem to provide a solid foundation for public engagement in CSR. This finding contrasts the "substitution argument," which predicts advanced welfare states to have little need for or interest in CSR as a public-policy tool essentially because CSR functions as an alternative to welfare-state regulation. Matten and Moon (2008) and Kinderman (2011) therefore expect to find explicit government engagement in CSR primarily in liberal market economies, while they expect it to remain *implicit* in social-democratic welfare states like the Nordics – embedded in state regulation and corporatist agreements.

The interpretation of my findings in relation to the "substitution" versus the "mirror" argument is, however, somewhat ambiguous. In one sense, my findings counter the substitution argument: The governments' active use of the tripartite system in their CSR initiatives indicates that Nordic CSR practices reinforce existing political-economic traditions, rather than substitute them. Moreover, the actors clearly do *not* see CSR as a legitimate substitute for the welfare state, and interviewees across the Nordic countries stress that CSR is only a "second-best" policy option. Nevertheless, my findings indirectly confirms the validity and relevance of the substitution argument: The actors clearly fear that CSR *will become a substitute* to welfare-state or corporatist methods to regulate corporate responsibilities, and consequently see that CSR can come at the expense of "The Nordic Model." Thus, my findings attest to the existence, or at the very least to the perception, of the zero-sum relationship between CSR and strong institutions for embedding the economy, as implied by the substitution argument.

This CPE discussion of a "substitution effect" of CSR in *national* governance is paralleled in the IPE discussion of the "undermining effect" of CSR in *global* governance. My findings relate directly the IPE claim that CSR runs the risk of undermining mandatory approaches to corporate responsibility, such as state regulation or corporatist agreements. My interviewees' skepticism towards CSR is indeed founded on their fear of a win-lose situation whereby voluntary approaches like CSR undermine mandatory approaches to corporate responsibility. However, my analysis of the regulatory preferences of the Nordic actors reveals a dynamic between CSR and regulation that is more complex than implied by the substitution/undermining argument in CPE/IPE literature. This dynamic is the topic of the last research question.

### 7.3. CSR and regulation – undermining or underpinning?

In the final research question I ask, "How does CSR relate to soft law and hard law, and under which conditions will the actors favor mandatory versus voluntary approaches to corporate responsibility?" The analysis concerning this question produced several findings that fundamentally counter theoretical expectations, indicating a need to revisit existing theories on the relationship between voluntary and mandatory approaches to corporate responsibility.

Whereas the previous two research questions focused on *causes* of CSR, this question gives more insights into the *consequences* of CSR. From a political science perspective, the perhaps most intriguing aspect of CSR is its influence on soft and hard law processes. However, there is no consensus on the relationship between CSR, soft law, and hard law, and there is sparse theorizing on the mechanisms that link voluntary and mandatory approaches in social and environmental governance. My findings document that CSR is far from being an isolated business initiative devoid of political implications – it is fundamentally intertwined with political and regulatory processes. Explaining the actors' regulatory preferences, therefore, requires understanding the political-economic, institutional context of the actors.

The relation between CSR and regulation – or between voluntary and mandatory approaches – has two dimensions: the effect of regulation on CSR, and the effect of CSR on regulation. Beginning with the first, the QCA analysis in Article 2 documents a positive causal relationship between regulation and CSR; companies from countries with strong state and corporatist regulation of business all score highly on the CSR performance index. Thus, strong regulation seems to strengthen corporate CSR practices. The qualitative Nordic case studies in Articles 3 and 4 further strengthen this finding: All actors across the governments, trade unions, NGOs and business clearly believe that strict state regulation and binding corporatist agreements is an important factor in explaing the Nordic success in CSR.

The reverse question – the effect of CSR on regulation – is far more complex. The academic debate is divided between two arguments: One argument holding that CSR has an "undermining effect" on regulations, and one argument holding that CSR has an "underpinning effect" on regulation. The majority of IPE authors seem to favor the first argument. They claim that CSR can undermine or supplant mandatory regulation by overemphasizing the achievements of CSR initiatives and thereby creating an exaggerated belief in voluntary approaches. According to these authors, improvements in corporate practices are historically associated with regulation, tripartite agreements and pressure from civil society. Moreover, they claim that it is precisely these driver that CSR undermines: By engaging NGOs in CSR partnerships, side-stepping labor unions and improving practices sufficiently to stave off severe criticism and ensuing demands for hard law, CSR may undermine key drivers for regulations, intentionally or unintentionally.

The majority of my interviewees seem to share this concern that CSR will undermine legal or corporatist approaches to corporate responsibility. The Nordic governments in particular seem acutely aware of CSR's potential to undermine or at least conflict with Nordic traditions. Article 3 documents how the Nordic governments' enthusiasm for CSR is limited to policy areas that do not lend themselves well to traditional government regulation or corporatist agreements. They clearly state that CSR is a "second best" policy option that should not come at the expense of hard law or corporatist agreements. In parallel to their governments, the Nordic companies seem just as concerned about the "undermining" scenario, and appear even more adamant that CSR is no substitute for regulation; 81 percent do not agree to the statement that "CSR can replace public policy", and 78 percent encourage their governments to work for stricter social and environmental regulation internationally.

However, while the governments clearly recognize and fear the undermining potential of CSR, they also see CSR as a potential stepping stone that can underpin future mandatory regulation if used correctly. This argument of CSR as having an "underpinning" effect on regulation, refers to the concept of a "juridification" of CSR, whereby governments use CSR initiatives as a basis for developing both soft and hard law (Buhman 2010). Furthermore, some authors argue that CSR initiatives spur cognitive, discursive, and normative changes that might qualitatively strengthen national and global governance, reaching far beyond the companies that take part in the initiative (Pattberg, 2006). These studies propose that CSR can be a new source of stricter global governance, whereby CSR paves the way for, or actively reinforces, hard law processes, thereby underpinning rather than undermining hard law (Abbott and Snidal, 2000; Haufler, 2001; Kirton and Trebilock, 2004).

The government actors seem the most optimistic regarding CSR's potential to underpin hard law processes, and some of their enthusiasm towards CSR lies in its potential as a stepping stone towards legal codification. The choice of CSR initiatives in Nordic public policies illustrates this dynamic, because the governments seem particularly eager to support those CSR initiatives that have the highest "juridification" potential, like the Extractive Industries' Transparency Initiative (EITI), the OECD guidelines for multinational enterprises, and the UN Norms on Business and Human Rights. These are all initiatives with strong involvement from multi-lateral institutions, which can serve as a stepping stone towards international regime formation. In parallel, the governments strive to codify CSR in domestic law. For instance, three for the Nordic governments have now made previously voluntary CSR reporting a legal requirement for certain categories of companies, thereby reflecting a rather legalistic approach to corporate responsibilities.

To conclude, my findings lend support both to the argument concerning CSR's potential to *undermine* regulation and to the argument concerning its potential to *underpin* regulation, but not necessarily as expected by theory. My main finding is a strong preference for regulation, paralleled by a surprisingly strong skepticism towards CSR and voluntary approaches to corporate responsibility among both government and business actors. However, the basis for the strong preference differs across the actors, as do the underlying logics of their reasoning. This brings us to the question concerning the conditions under which companies will favor mandatory over voluntary regulation.

Article 4 uncovers a strong pro-regulation position among Nordic businesses. This finding stands in stark contrast to the "undermining argument" of the IPE literature, which claims that business use CSR to pre-empt regulation, as proposed by Utting and Marques (2009), Levy and Kaplan (2008) and Clapp and Utting (2008). This literature predicts corporate resistance to regulations, because regulations are expected to increase the cost of business and to limit corporate freedoms. Pro-regulation attitudes in business are only expected in clean-tech companies or social enterprises with a direct, firm-specific interest in stricter regulations. My findings do not support this expectation of regulatory resistance: Contrary to expectations, the survey of Nordic pioneers in CSR – which is dominated by mainstream, traditional companies – reveals a surprisingly strong preference for hard law and a rather paradoxical skepticism towards CSR. While the survey is not representative of Nordic companies in general, it clearly indicates that these pioneering companies – which have undertaken the highest investment in CSR – have not done so to undermine or pre-empt hard law processes: 78 percent of the companies welcome binding international regulation, and 81 percent disagree that CSR should replace public policy. However, being companies with high CSR performance, this pro-regulation position makes perfect business sense; over 80 percent of the companies maintain that stricter social and environmental regulation would increase their competitiveness. As pioneers in CSR, the logical strategy for these companies is to encourage binding regulation of CSR issues: they most likely already comply with conceivable future regulatory requirements, and regulations would therefore directly strengthens their competitive advantage.

A pro-regulation position among companies is hardly a surprising finding when regulations would level the playing field to the companies' advantage. The interesting findings are, first, that this regulatory support is found among mainstream, dominant companies from traditional industries, and second, that the companies point to domestic, political-economic institutions as the source of their high social and environmental standards. Thus, "comparative institutional advantage" (Hall and Soskice 2001) seems a crucial concept to explain how a strong institutional embedding of the economy can serve as a source for stronger CSR performance, and subsequently condition the actors' regulatory preferences. Moreover, the majority of the survey respondents seem to think this institutional advantage in CSR extends to the their domestic economies in general, claiming that, "the average Nordic company has higher social and environmental standards than companies from other countries." Thus, the Nordic political-economic institutions as a whole seem an important factor to explain the Nordic companies high CSR performance and their strong preference for regulation.

In terms of the underlying mechanisms that link CSR to regulatory preferences, the actors reflect widely diverging logics. Government interviewees often invoke normative justifications for their pro-regulation position, frequently referring to Nordic norms, traditions and values in line with a "logic of appropriateness." Oftentimes, they simply refer to "The Nordic Model,"[7] as if this is stating the obvious with no need for further explanation. In contrast, the companies' preference for hard law seems mainly guided by a "logic of consequences," as discussed above. Nevertheless, the importance of national, structural-regulative institutions seems to be amplified by a perhaps equally important effect of normative-cognitive institutions as emphasized by new-institutionalism: The respondents explicitly point to the importance of Nordic values and traditions in forming their approach to CSR. Correspondingly, comparative studies of Nordic and US business managers indicate

[7] Alternatively the Danish/Finnish/Swedish/Norwegian Model

that, ceteris paribus, the Nordic managers are more positively inclined towards regulation (Lindell & Karagozoglu, 2001). This finding indicates that normative-cognitive effects of the institutional environments also influence regulatory preferences of business actors, and that a “logic of appropriateness” is a central component to understand the corporate positions in the debate over voluntary versus regulatory approaches to corporate responsibility.

To conclude, the question of whether CSR will undermine or underpin hard law is far more complex than portrayed by the dominant theories of corporate political strategies: IPE theories emphasize transnational or global factors, and mainstream business theories focus on firm- or industry-specific factors – both leading to the assumption that dominant companies will resist increased regulation and instead support voluntary approaches like CSR. My findings document the exact opposite. Thus, IPE and business theories seem able to explain neither the strong support for regulation nor the skepticism toward CSR found among Nordic pioneers in CSR. In contrast to these theories' emphasis on globalisation, and firm- or industry-specific characteristics, my material points to the importance the entire national, political-economic institutional environment of the firms in explaining the actors' practices and preferences. Consequently, my findings indicate a need to nuance the dominant theories of corporate political strategy: Regulatory preferences must be analyzed within a framework that takes account of both the structural-regulatory aspects and the normative-cognitive aspects of political-economic institutions.

However, the most troubling conclusion regarding the Nordic companies' strong skepticism towards CSR and voluntary approaches, is that even though these companies are global leaders in terms of advanced CSR practices, a large majority of them believe that CSR is neither effective, or nor sufficient to improve corporate practices. Moreover, the companies' CSR engagement does not seem to be the source of their strong social and environmental performance. In fact, none of the respondents indicate that CSR activities have caused their high social and environmental standards. Instead, they point to regulation, corporatist agreements and strong normative expectations in their home markets as the main cause. Thus, the primary source of the companies' high social and environmental standards is the Nordic structural-regulative and normative-cognitive institutions, not their efforts in CSR initiatives. Why then, do the companies engage in CSR activities, if they do not believe that CSR is effective for improving social and environmental practices? My findings indicate that they instead believe that CSR is effective for improving public relations, as illustrated by the companies' listing "reputation and brand" as their number one motive to engage in CSR, and by the fact the CSR unit is most frequently placed under the companies' PR or Communications departments. Thus, the causal relationship between strong engagement in CSR and high social and environmental standards, seems to be spurious. My findings rather indicate a reverse causality: high social and environmental standards cause the companies to engage in CSR to communicate their social and environmental excellence more effectively to the public.

## 7.4. Conclusion: practical and theoretical relevance of the dissertation

Finding that political-economic institutions significantly influence CSR practices has fundamental implications for our understanding of CSR both as a management tool and as a political phenomenon.

First, from a *business perspective*, this finding has practical implications for the business case of CSR. If political economic institutions in the companies' environment significantly influence their CSR practice and performance, the prospect of a business case for CSR is not uniform: Companies from some nations are more likely to succeed in their CSR efforts, and thus more likely to reap the benefits of CSR – increased profits, employee satisfaction, improved investor relations, etc. Consequently, the claim of a general "business case for CSR" must be moderated, because companies from some political-economic systems have stronger incentives to engage in CSR

Second, from a *public policy perspective*, the finding has implications for the "government case for CSR": If CSR practices are closely linked to fundamental political-economic institutions and processes, it becomes crucial to understand how CSR interfaces with policy traditions. CSR has become a popular concept with governments, and most advanced, industrialized nations now have public policies to promote CSR and uses CSR to enlist the resources of business to achieve social and environmental policy goals. If CSR has strong links to political-economic institutions, the process of introducing CSR in public policy may be more complex and problematic than often assumed. As outlined above, CSR is predicated on a neo-liberal model of state–market–civil society relations, a model that might conflict with alternative models concerning the role of business in society. In this sense, CSR must be understood as an arena for political negotiation and contestation, in which actors engage in the debate over CSR based on vested interests and political ideology, trying to influence the outcome of public policy. If so, CSR is not just a business management tool, but also a political project that requires a deeper understanding of power, ideology and vested interest in national politics.

Third, from a *global governance perspective*, recognizing the political nature of CSR also has implications for our understanding of how CSR interfaces with global governance and with attempts to regulate corporate social and environmental conduct in the global economy. If CSR is intertwined with political-economic institutions and processes, the debate over mandatory versus voluntary approaches to influence business practices needs to be informed by an understanding of the institutional antecedents of CSR. Advocates of CSR present CSR as an instrument to improve social and environmental governance: Voluntary initiatives, self-regulation, private standard setting and civil regulation are often argued to be more feasible and effective in comparison to international regulations and regimes. However, understanding the institutional antecedents and preconditions for corporate support for CSR casts new light on the complexity of regulatory preferences. Thus, understanding how political-economic institutions influence corporate and government perceptions of CSR informs us of the dynamic between CSR, soft law, and hard law, and of the conditions under which firms and governments will favor mandatory over voluntary approaches to corporate responsibility.

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II

III

IV

*Business and Politics*

*Volume* 13, *Issue* 2 2011 *Article* 4

# Explaining Regulatory Preferences: CSR, Soft Law, or Hard Law? Insights from a Survey of Nordic Pioneers in CSR

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**Recommended Citation:**
Gjølberg, Maria (2011) "Explaining Regulatory Preferences: CSR, Soft Law, or Hard Law? Insights from a Survey of Nordic Pioneers in CSR," *Business and Politics*: Vol. 13: Iss. 2, Article 4.
**DOI:** 10.2202/1469-3569.1351
**Available at:** http://www.bepress.com/bap/vol13/iss2/art4

# Explaining Regulatory Preferences: CSR, Soft Law, or Hard Law? Insights from a Survey of Nordic Pioneers in CSR

Maria Gjølberg

**Abstract**

Business is often assumed to resist increased social and environmental regulation, preferring voluntary or soft-law approaches to global governance. This article analyzes the dynamics between CSR, soft law, and hard law by exploring corporate attitudes in the Nordic area towards CSR and regulation—an area reputed to be a forerunner in both CSR and social and environmental regulation. The analysis, based on a survey of the Nordic companies with the strongest CSR performance, reveals skepticism towards relying on CSR and voluntary approaches, combined with a very strong preference for increased international regulation of social and environmental issues. Drawing on insights from recent analyses in the governance literature, the article discusses the conditions under which business favors increased social and environmental regulation, concluding that corporate self-interest and increased international regulation can indeed coincide.

**KEYWORDS:** corporate social responsibility, hard law, soft law, regulatory preferences, business strategy

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## Introduction

The global community faces social and environmental challenges on an unprecedented scale, creating a pressing need for effective global governance. Business is a key actor both in the creation and in the solution of social and environmental problems. On one hand, business is criticized for causing social and environmental damage in a reckless pursuit of profits[1] while obstructing attempts to establish legal frameworks to govern the global economy.[2] On the other hand, the popularity of Corporate Social Responsibility (CSR) demonstrates a shift in norms, one in which business increasingly accepts responsibility for its social and environmental impact, and changes its practices on a voluntary basis.[3] Thus, in the absence of hard laws[4] and legal frameworks to govern the global economy, CSR emerges as an alternative approach to global governance, based on self-regulation and soft law[5] mechanisms.

CSR is contested in both public and academic debate.[6] Critics question the effectiveness of CSR in improving corporate practices; due to CSR's voluntary, market-driven nature, CSR initiatives can induce only incremental changes, as they are inherently limited to situations with a win-win relationship between CSR and corporate profits. Thus, no matter how well intended and executed, CSR initiatives appear inherently unable to address more systemic unsustainabilities in the global economy.[7] Critics therefore claim that binding regulations are needed to improve the social and environmental practices of the majority of companies.

In general, there is limited knowledge of how CSR, soft law, and hard law are linked, and there is no consensus as to whether CSR has a negative, neutral or positive impact on efforts to create hard law. Business and management disciplines tend to focus on the financial and operational aspects of CSR, and devote less attention to its wider governance implications. Social scientists tend to adopt a rather skeptical stance towards CSR, claiming that irrespective of its ability to improve social and environmental practices at the company level, CSR can supplant or undermine efforts to create hard law. By overemphasizing the achievements of CSR and the potential for win-win situations, CSR proponents

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[1] Bakan 2004.
[2] Utting 2000.
[3] Vogel 2009.
[4] Hard law is defined as "a regime relying primarily on the authority and power of the state (…) in the construction, operation, and implementation, including enforcement, of arrangements at the international, national or subnational level" (Kirton and Trebilock 2004, 9).
[5] Soft law is defined as "regimes that rely primarily on the participation and resources of nongovernmental actors in the construction, operation and implementation of a governance arrangement" (Kirton and Trebilock 2004, 9).
[6] See Crane *et al* 2008 for an overview.
[7] Mayer and Gereffi 2010; Utting and Marques 2009; Vogel 2005.

can, according to these skeptics, create an exaggerated belief in voluntary approaches, thereby weakening the legitimacy of demands for regulations put forth by NGOs, labor unions and activists. Some critics even claim that CSR is a deliberate corporate strategy to pre-empt regulation. By sufficiently improving corporate practices to deflect criticism, by diverting public scrutiny, by co-opting NGOs and marginalizing labor unions, CSR and soft law initiatives can actively weaken key drivers for hard law, according to these critics.[8] However, other studies indicate that CSR can be a potential new source of improved global governance, claiming that CSR and soft law initiatives can in some instances pave the way for, and actively reinforce, hard law processes, thereby underpinning rather than undermining hard law.[9]

This article aims to explore the relationship between CSR, soft law, and hard law, and to analyze under which conditions companies actively support increased environmental and social regulation. While the majority of evidence in the current debate centers on companies from the United States or from major EU economies, this article provides a Nordic perspective by exploring the attitudes and perceptions of Nordic leaders in CSR. The Nordic area is reputed to be at the forefront both of CSR and of social and environmental legislation, and might offer a different perspective on the dynamics between CSR and regulation. The empirical analysis, based on a survey of the Nordic companies with the highest scores on CSR performance, reveals a strong preference for hard law, and a rather paradoxical skepticism towards CSR: 78 percent of the companies welcome binding international regulation, 70 percent see voluntary initiatives as insufficient to improve corporate performance, and 81 percent disagree that CSR can replace public policy. This strong preference for regulation counters neo-liberal theory, which predicts resistance to increased regulation and government intervention. Moreover, the companies' explicit skepticism towards voluntary initiatives appears somewhat antithetical to the ethos and rhetoric of CSR, which emphasize voluntarism.

The article proceeds as follows: The next provides a literature review of CSR in the governance debate, and the third section outlines the methodology. The fourth section relates the main findings of the survey regarding Nordic companies' perceptions of the role of governments and their perspectives on voluntary versus mandatory regulation of corporate responsibilities. The fifth section explores two possible explanations for the regulatory preferences uncovered, while section six provides a summary and concluding discussion of the implications of the analysis.

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[8] Levy 1997; Riechter 2002; Utting 2000.
[9] Abbott and Snidal 2000; Haufler 2001; Kirton and Trebilock 2004.


DOI: 10.2202/1469-3569.1351

## CSR in Global Governance

The governance gap and regulatory failure associated with economic globalization are well discussed in the literature.[10] This inability of governments to hold corporations accountable through democratic institutions and processes led to increasing public discontent in the 1990s. As civil society organizations became increasingly frustrated with corporate unaccountability and governmental inaction, they began to bypass the political level by targeting corporations directly. Through "naming and shaming," boycotts, demonstrations and confrontational tactics, NGOs managed to attack corporate brands, legitimacy, and in some instances corporate profits.

CSR emerged as a corporate response to these civil society pressures. While the term "CSR" appeared as early as the 1950s,[11] its present form is closely linked to the anti-globalization movement beginning in the 1990s.[12] CSR is most commonly defined as going "beyond compliance," that is, practices where companies voluntarily improve their social and environmental performance.[13] Furthermore, CSR is understood to be "beyond charity," as it concerns how companies integrate social and environmental concerns into their core business operations.[14]

The debates on CSR and on global governance are becoming increasingly intertwined.[15] In many instances, CSR initiatives simply consist of unilateral or ad hoc projects from single companies, such as developing a code of conduct, a CSR report, or specific projects to improve social and environmental practices in the company without any wider governance implications. However, several CSR initiatives have started out as or developed into soft law institutions with co-regulation through multi-stakeholder participation and monitoring of compliance. These initiatives range from very loose soft law arrangements like the UN Global Compact, with weak compliance mechanisms, to more stringent initiatives, like the OECD Guidelines for Multinational Enterprises. Thus, the boundary between CSR initiatives and soft law is often blurred.[16] Some of the soft law initiatives that originated out of the CSR movement, like the Global Reporting Initiative (GRI) and the Forest Stewardship Council (FSC), have even acquired hard law characteristics. These transitions between CSR, soft law and hard law, indicate that CSR is indeed relevant to the study of global governance and that the

[10] Ruggie 2003; Stiglitz 2003; Stopford and Strange 1991; Story 1999.
[11] Carroll 2008.
[12] Levy and Kaplan 2008.
[13] World Business Council for Susatinable Development (WBCSD) 2002.
[14] European Union 2001; Porter and Kramer 2006.
[15] Levy and Kaplan 2008.
[16] Hirschland 2006; Vogel 2009.

relationship between the three is better described as a continuum rather than as a dichotomy.[17]

### The Role of CSR in the Development of Soft and Hard Law

There is substantial literature, primarily within business studies, documenting how CSR can improve corporate social and environmental practices while also improving corporate profits.[18] Critics, however, claim that CSR, being predicated on a market-driven logic, is inherently limited to these situations with a "business case" for CSR. Such win-win situations seem mainly to arise for companies with high-profile brands, companies operating in high-risk locations or industries, or in consumer-sensitive markets.[19] Furthermore, due to its market-based, voluntary nature, CSR tends to induce only incremental changes that do not address structural unsustainabilies and governance deficits in the global economic system.[20] As a case in point, one of the most studied and successful CSR initiatives, the Forest Stewardship Council (FSC) certification scheme, covers only 1.8 percent of total global forests, the majority being in the northern hemisphere where forest management practices are in relatively less need of improvement.[21]

Thus, the literature indicates that, despite the successes of CSR, mandatory, hard law is necessary to affect the practices of the great majority of companies and to ensure minimum standards. From a sustainability perspective it then becomes crucial to understand the governance implications of CSR, in particular its effect on soft and hard law. Unfortunately, CSR theory within the business and management disciplines rarely discusses the role of corporations as political actors in global governance.[22] From a political science viewpoint, however, CSR cannot be understood in isolation from the wider debate on power and global governance.[23] As Levy and Kaplan[24] argue, the weakness of the business case for CSR suggests that one should not underestimate the political motivations for companies to engage in CSR.

The majority of social scientists writing about CSR tend to be skeptical regarding the impact of CSR on global social and environmental governance. These authors emphasize that improvements in corporate practices historically are

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[17] Kirton and Trebilock 2004.
[18] Bhattacharya, Sen, Korschum 2008; Elkington 1998; Jensen 2001; Kurucz, Colbert and Wheeler 2008; Porter and Kramer 2006.
[19] Margolis and Walsh 2003; Mayer and Gereffi 2010; Vogel 2005.
[20] Doane 2005.
[21] Pattberg 2006.
[22] Marcus, Kurucz and Colbert 2009; Scherer and Palazzo 2008; Vogel 2005.
[23] Blowfield 2005; Fuchs 2007; Moon and Vogel 2008; Newell 2000.
[24] Levy and Kaplan 2008.


DOI: 10.2202/1469-3569.1351

associated with regulation, tripartite agreements, and pressure from civil society, and that precisely these drivers run the risk of being undermined by CSR: By engaging NGOs in dialogue and cooperation, often side-stepping labor unions, and improving practices sufficiently to stave off severe criticism and ensuing demands for hard law, CSR may in effect weaken key drivers for the development of binding regulations.[25] For instance, German companies demand regulatory relief in direct exchange for greater efforts in CSR,[26] illustrating how CSR might undermine hard law.[27] Some critics go further, and claim that CSR is a deliberate corporate strategy to pre-empt and undermine regulation. Approaching CSR from a power perspective, these analyses portray CSR as an attempt to increase the discursive power of business in global governance.[28] Thus, critics subscribe to a zero-sum or even negative-sum model where CSR supplants rather than supplements hard law.

However, while rather silent on the issue of how CSR, soft law and hard law are actually linked, several studies document that there can be a positive-sum relationship between CSR and hard law. Some authors refer to an "emergent juridification" of CSR, whereby governments or intergovernmental organizations use CSR initiatives as a basis for developing both soft and hard law.[29] For instance, the Swedish government requires all state-owned enterprises to report according to the GRI guidelines and the Danish government requires all major companies to report on CSR in their annual reports. Thus, CSR initiatives do in some instances pave the way for soft law, which in turn can develop into hard law. Such transitions from purely self-regulated CSR to soft law are seen as a promising avenue for improved social and environmental governance. In this respect, soft law has comparative advantages when it comes to establishing new governance regimes; it is less demanding, more flexible, and more feasible due to its legitimacy among governments, business, and NGOs. These characteristics make soft law easier to achieve as a first step towards improved governance, leaving it to hard law to create effective monitoring and enforcement over time.[30] Furthermore, CSR and soft law are argued to spur cognitive, discursive and normative changes which might have greater impact on governance than do the specific rules and standards set down by these initiatives.[31] In addition, civil regulations and private social and environmental standards have the advantage, compared to domestic government regulations, of not being defined as a "barrier

[25] Utting 2000.
[26] Kinderman 2008.
[27] Kirton and Trebilock 2004; Schaffer and Pollack 2010.
[28] Fuchs 2007; Levy 1997; Riechter 2002.
[29] Buhman 2010.
[30] Abbott and Snidal 2000 and 2009; Skjærseth, Stokke and Wettestad 2006.
[31] Pattberg 2006.

to trade" by the WTO agreements—a loophole in international trade law which civil regulation manages to exploit.[32] However, the majority of authors see soft law mainly as a stepping-stone towards hard law. As summarized by Kirton and Trebilock: "It [soft law] is primarily valuable as a sometimes indispensable proving ground—a precursor and a useful intermediate step to hard law, or even a stimulus for it."[33]

## Corporate Policy Preferences: CSR, Soft Law or Hard Law?

While it is a commonly held view that business generally opposes regulation and has achieved widespread deregulation, the evidence points to a more complex picture of "regulatory flux" wherein "dramatic regulatory, deregulatory and re-regulatory shifts are occurring simultaneously."[34] Levi-Faur[35] even argues for a "regulatory explosion" in relation to global capitalism. In this respect, it is important to distinguish between regulation *of* business and regulation *for* business.[36] The former refers to regulations that constrain corporate freedoms in the interest of the common good, such as restrictions on emissions or legal minimum standards for working conditions, while the latter refers to regulations that protect or promote business interests, such as property rights, contract laws or subsidies. Thus, business may be strongly in favor of increased regulation, both hard and soft, when it corresponds to corporate self-interest. Indeed, dominant companies or industries often use their political and economic leverage to achieve regulation that protects their competitive position, as illustrated by the classic case of corporate lobbying for the WTO adoption of the Agreement on Intellectual Property Rights, TRIPS.[37] Thus, it is the regulatory content, rather than the form, which determines corporate support or resistance.

However, regulations in *the social and environmental* domain often constitute regulation *of* business, which entails restrictions on corporate freedoms. Thus, the baseline assumption in most neo-liberalist, structuralist, and constructivist approaches is that business in general prefers maximum discretion in social and environmental governance. Minimal regulation is assumed to be the default position,[38] and the literature abounds with examples of corporate resistance to regulation.[39] Corporate lobbying against the UN Code of Conduct for Transnational Corporations and the Kyoto Protocol, as well as the promotion of

[32] Vogel 2009.
[33] Kirton and Trebilock 2004, 27.
[34] Ayres and Braithwaite 1992, 6.
[35] Levi-Faur 2005.
[36] Braithwaite and Drahos 2000.
[37] Sell 2003.
[38] Abbott and Snidal 2009, 75.
[39] See for instance Falkner 2008; Fuchs 2007; Mattli and Woods 2009; Vormedal 2010.


DOI: 10.2202/1469-3569.1351

voluntary approaches by ICC[40] and WBCSD[41] are oft-cited examples of how corporations mobilize against anticipated regulations and use voluntary initiatives to accommodate criticism. "Responsible Care" and the "Code of Pharmaceutical Marketing Practices" are also argued to be examples of voluntary initiatives by global firms to forestall imminent threats of regulation.[42] The result is a "regulatory capture" in which the regulation (or lack thereof) favors the interests of the regulated rather than the public interest and common good.[43]

While the literature does document instances of corporate lobbying *for* increased social or environmental regulations by dominant industries or companies, closer inspection reveals that pro-regulation lobbying is the result of strategic corporate positioning in situations where companies perceive regulation to be highly likely or unavoidable.[44] In these situations, expectations of regulations cause a tipping point at which a critical mass of companies shift their political strategies away from regulatory opposition and towards strategies for influencing regulatory design.[45] One such example is the U.S. Climate Action Partnership (USCAP) where major corporate emitters started to lobby for strong domestic climate regulations in the United States at a time when such regulations were perceived as inevitable. This expectation of impending regulation rendered the previous anti-regulation approach politically untenable, and USCAP therefore lobbied forcefully for a market-based emissions trading scheme to forestall less attractive alternatives such as command and control- or tax-based regulations. Thus, the USCAP case does not reflect a corporate preference for stricter climate regulations per se, but rather a preference for the climate regulation that was considered the most business-friendly option.[46]

In parallel, firms are assumed to favor CSR and weaker forms of soft law, preferably unilateral or industry-based self-regulation, instead of stronger forms of soft law, such as co-regulation or civil regulation in which NGOs, labor unions, and governments participate in regulatory design and implementation.[47] These regulatory preferences are illustrated in the case of the forest industry, where industry associations have created competing, business-friendly certification

[40] International Chamber of Commerce.
[41] World Business Council for Sustainable Development.
[42] Braithwaite and Drahos 2000; Newell 2005; Rowlands 2001.
[43] Mattli and Woods 2009; Posner 1974.
[44] Companies that stand to benefit directly from stricter standards, for instance clean-tech companies, will also have incentives to lobby for stricter regulations, but this class of companies is often not powerful enough to create regulatory momentum.
[45] Vormedal 2010.
[46] Meckling 2008.
[47] Levy and Kaplan 2008; Ruggie 2003; Vogel 2005 and 2009.

schemes in response to the Forest Stewardship Council certification, which has stricter standards enforced through co-regulation.[48]

Thus, the order of business preferences in social and environmental governance is assumed to be no regulation, followed by soft law, with a preference for weaker forms such as unilateral and industry-based self-regulation rather than co-regulation. Finally, hard law is considered the least desired option. NGOs, labor unions and progressive governments, on the other hand, are seen as the driving forces for establishing soft law, and for converting soft law into hard law.[49] However, the findings in the following analysis challenge this picture, as a clear majority of the companies strongly favors increased international social and environmental regulation. This preference for increased regulation has important implications for our understanding of the potential governance effects of CSR and provides a new perspective on the underlying dynamics linking CSR to soft and hard law.

## The Nordic Model of Business-Society Relations

Nordic companies can provide an interesting perspective on the debate concerning CSR and governance, as the Nordic area[50] is reputed to be a leader both in CSR and in social and environmental regulation.[51] Relative to the size of their economies, Nordic companies are overrepresented on key performance-based CSR indicators,[52] and the Nordic governments are known to be advocates of sustainable development, human rights, and environmental protection in both national and international politics.[53] The Nordic inclination for social justice and environmental protection is often explained with reference to the "Nordic Model,"[54] a model that has attracted popular and scholarly interest, first as an alternative political-economic model positioned between liberalism and communism, and later for the model's ability to deliver strong economic results in combination with high social welfare and cohesion.[55] While the Nordic countries are internationally known for strong, social-democratic policies and corporatist

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[48] Abbott and Snidal 2009; Fuchs 2007.
[49] Gunningham and Kagan 2005; Vogel 2009.
[50] The Nordic countries comprise Denmark, Sweden, Finland and Norway, as well as Iceland and the Faroe Islands. "Scandinavia" is often used to denote the same countries, but does strictly refer to the Scandinavian peninsula (Norway, Sweden and parts of Finland) or to denote the countries using Scandinavian languages (Danish, Swedish, Norwegian, Icelandic and Faroese).
[51] Birkin, Polesie and Lewis 2009; McCallin and Webb 2004.
[52] Gjølberg 2009; Midttun, Gautesen and Gjølberg 2006; Nordic Council 2005.
[53] Kuisma 2007; Lafferty and Meadowcroft 2000.
[54] Also known as the Nordic Third Way, or Middle Way.
[55] Andersen et al., 2007; Byrkjeflot, Myklebust *et al*, 2001.


DOI: 10.2202/1469-3569.1351

agreements,[56] Cox argues that the defining feature of the Nordic Model is not its specific policies, but rather the underlying norms, values and ideas of universalism, solidarity, and decommodification.[57] Kuisma[58] argues that these norms are anchored in the Nordic normative legacy, which predates the social-democratic era and extends beyond politics and into all fields of society, including Nordic business culture. During the 1980–1990 period there was a marked interest in the Nordic "value-based" management style, and the management literature concludes that there is a specific Nordic cluster in terms of egalitarian, collectivist, and participatory management values and practices.[59]

Thus, Nordic companies, characterized by a value-based management style and embedded in societies with strong traditions and institutions for social and environmental protection, can provide a fresh perspective concerning social and environmental governance, as the companies' political strategies and perceptions of the role of CSR, soft law and hard law may differ from business approaches elsewhere.

## Methods

The survey was designed to capture practices and perceptions of Nordic "pioneers in CSR" – pioneers in the sense that the companies have been rated and ranked, by an external organization, as having a high performance in CSR related areas. Seven criteria were used for identifying pioneering companies: The Dow Jones Sustainability Index[60] and FTSE4Good,[61] as well as the OMX GES Sustainability Nordic Index;[62] that is, all the Nordic companies with the best sustainability ratings on the international and the Nordic stock exchanges. The selection also includes all Nordic companies in the 2009 ranking of the "100 Most Sustainable Corporations"[63] announced annually at the World Economic Forum in Davos, based on similar screening methodology as the above indices. To broaden the criteria beyond stock-listed companies, the selection includes all Nordic companies reporting a score of B or higher according to the Global Reporting Initiative[64] guidelines, Nordic companies with CSR reports ranked among the Top 50 CSR reports identified by the think tank SustainAbility,[65] and Nordic member

[56] Esping-Andersen 1990.
[57] Cox 2004.
[58] Kuisma 2007.
[59] Grenness 2003.
[60] Available from: <www.sustainability-index.com/>.
[61] Available from: <http://www.ftse.com/Indices/FTSE4Good_Index_Series>.
[62] Available from: <http://www.ges-invest.com>.
[63] Available from: < http://www.global100.org/list.htm>.
[64] Available from: < http://www.globalreporting.org/ReportServices/GRIReportsList>.
[65] Available from: <http://www.sustainability.com/library/tomorrow-s-value>.

companies of the World Business Council for Sustainable Development,[66] a CSR organization that grants membership by invitation only, and requires a substantial dedication from senior management.

These seven initiatives and rankings are imperfect measures of actual CSR performance. They are not based on in-depth analyses of the companies' practices, focus mainly on management processes rather than actual outcomes, and rely to a certain extent on corporate self-reporting.

Nevertheless, qualifying for the selected initiatives does require companies to document best-in-class CSR practices and being approved by an external organization. The seven initiatives are therefore considered appropriate to identify companies with high CSR performance. Still, it is important to keep in mind that in this article, terms such as 'CSR success' and 'CSR pioneers' refer to companies that have excelled in these seven rankings, and do not imply guarantees of a complete representation of the companies' practices.

Because most of these selection criteria apply only to publicly listed companies, there are few private, government, or cooperatively owned companies among the 79 companies that met the selection criteria. Furthermore, the criteria favor large, multinational companies. Consequently, as the survey mainly reflects the practices and perceptions of dominant, well-established, multinational, flagship companies of the Nordic countries. There is also a bias towards Swedish companies: 42 companies were from Sweden, 15 from Finland, 13 from Norway and 9 from Denmark. Finally, the questionnaire was addressed to the manager in charge of CSR and a certain bias towards self-praise and political correctness in some of the answers is expected: CSR managers are conditioned to present their companies in a favorable light and the most common location for CSR management in the surveyed companies is the PR/Communications department. Therefore, to get as truthful and relevant answers as possible, the survey's cover letter emphasized that responses were anonymous, and that the survey asked for the company's position, not the respondents' personal convictions. To reduce politically correct answers, care was taken not to pose charged or leading questions, and a pilot version was tested on a select group of companies and NGOs to find the most appropriate and precise way of formulating questions.

The survey mainly used Likert scales where respondents were asked to indicate their level of agreement or disagreement with statements related to CSR, soft law, and hard law. Most questions applied a five-point scale, with the middle option as a neutral "No opinion" to allow respondents to express indifference, as well as a separate category for "Not applicable" and "Don't know."[67] The respondents were

[66] Available from: <http://www.wbcsd.org/web/about/members.html>.

[67] "Not applicable" and "Don't know" were defined as missing values. "No opinion" answers were included in the calculations but not presented in the charts.


DOI: 10.2202/1469-3569.1351

also asked to expand in writing on selected questions of key importance to understanding their attitudes and approaches to CSR.

The survey was designed as an online survey. Since online surveys generally lead to low response rates,[68] care was taken to obtain the contact information of the specific manager in charge of CSR. Non-respondents were followed up by an e-mail reminder and subsequently a phone call. The average response rate was 77.2 percent, with Norway as the highest responder (92 percent) followed by Denmark (78 percent), Sweden (74 percent) and Finland (73 percent).

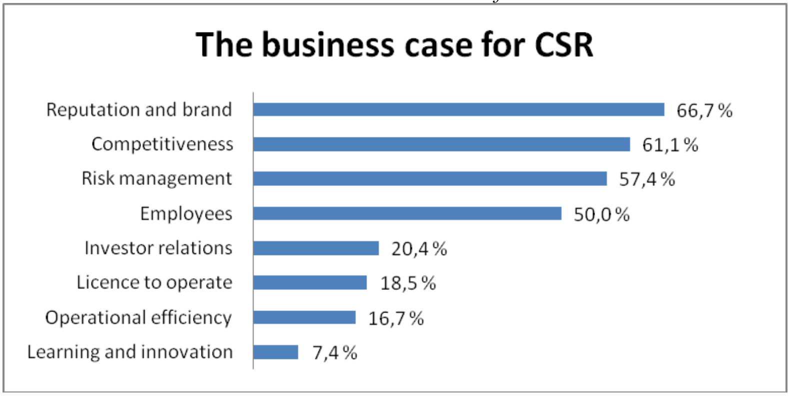
## Findings

### *Management and implementation of CSR in the Nordic Pioneers*

CSR appears closely linked with reputation, risk, and competitiveness in the Nordic pioneers. When asked to rank the three most important factors for the business case for CSR, respondents cited, in descending order, "reputation and brand equity," "competitiveness and market position," and "risk management;" see Table 1. The Nordic findings parallel a similar global study of CEOs,[69] which also had reputation and brand equity as the most frequently cited factor, with employee relations second, and competitiveness and market position and license to operate tied for third. Efficiency gains, learning, and innovation are often cited in the literature as important factors for the business case for CSR, but these factors received the lowest scores in both the global group and the Nordic group. Correspondingly, the most common location of CSR competency is the Communication and PR department (44 percent), while 32 percent have located CSR competency within the department for Environment/ Health and Safety, and 27 percent of the companies have a separate department dedicated to CSR. HR, business strategy or legal departments are less frequent places to locate CSR competency.

[68] Sheehan 2001; Shih and Fan 2008.
[69] World Economic Forum 2003.

*Table 1: The Business Case for CSR*




However, while CSR activities seem to be driven by reputational concerns, the respondents are eager to point out that they were working with these questions before CSR became mainstream. This claim is backed by the fact that almost 50 percent of the companies report to have put CSR on the agenda in the 1990s (38 percent) or earlier (10 percent), indicating that these companies were early movers in CSR. Furthermore, 73 percent of the companies claim the introduction of CSR stems from a long tradition, indicating that their CSR engagement is linked to practices and traditions that predate the modern CSR movement.

In terms of CSR implementation and management, the answers reflect an approach to CSR closely aligned to the EU definition of CSR.[70] The companies emphasize the integration of CSR into core business operations, and reject the philanthropic approach to CSR that is more prevalent in the United States. For instance, CSR is reported to influence the development of new products and services (75.4 percent), to be integrated into core business strategy (72.1 percent) and to influence supply chain management (70.5 percent). In contrast, 60 percent of the respondents disagree that sponsoring and charity are a central part of CSR, whereof half indicate strong disagreement.

To conclude, the Nordic pioneers conform to mainstream contemporary CSR practices: CSR engagement is motivated by risk, reputation and competitiveness, with an emphasis on integrating CSR into core business operations. The relatively early starting point of CSR engagement supports the companies' claims that CSR issues have long traditions. Generally, however, the findings do not depart from what one would expect in any other European company in the forefront of CSR.

[70] European Union 2001.

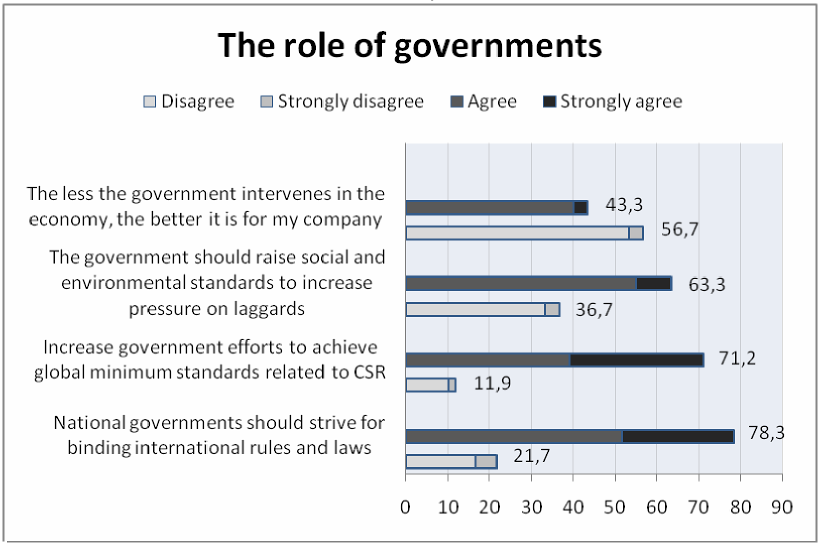

DOI: 10.2202/1469-3569.1351

### *Regulatory Preferences: CSR, Soft Law, and Hard Law*

When asked to respond to statements about the role of governments and about preferences for CSR, soft law and hard law, the Nordic companies reveal very strong and uniform opinions, the number of agreement responses exceeding 80 percent. As outlined in Section 2.2, theory predicts companies to favor CSR and soft law, and to resist increased social and environmental regulation, as regulation is said to impose costs and reduce competitiveness. As discussed in section 2.3, this regulatory resistance was expected to be somewhat modified by the Nordic culture and institutional environment, making the companies more positively inclined towards hard law and government engagement in the economy. Nevertheless, the findings far exceed the expectations, and indicate that the Nordic setting does more than modify regulatory skepticism. Quite the contrary, the Nordic pioneers in CSR express skepticism towards CSR, combined with a clear preference for hard law, and for government-led ratcheting up of international social and environmental standards.

As shown in Table 2, 78.3 percent of the companies think their government should strive for binding rules and laws, and 63.3 percent want their government to raise social and environmental standards to increase pressure on laggards. Contrary to conventional liberal, laissez-faire economic theory, the majority of respondents (56.7 percent) disagree with the statement that “the less the government intervenes the better it is.” These pro-regulation attitudes are mirrored in the respondents’ answers regarding which initiatives they recommend that their government undertake to promote CSR in the national business community. While the respondents recommend mainstream CSR initiatives such as providing forums for dialogue, conducting training, and providing information and tax incentives, they also strongly support regulatory approaches: 71.2 percent recommend that their governments increase efforts to achieve global minimum standards related to CSR, and the majority does not find fewer inspections or less regulation to be important.

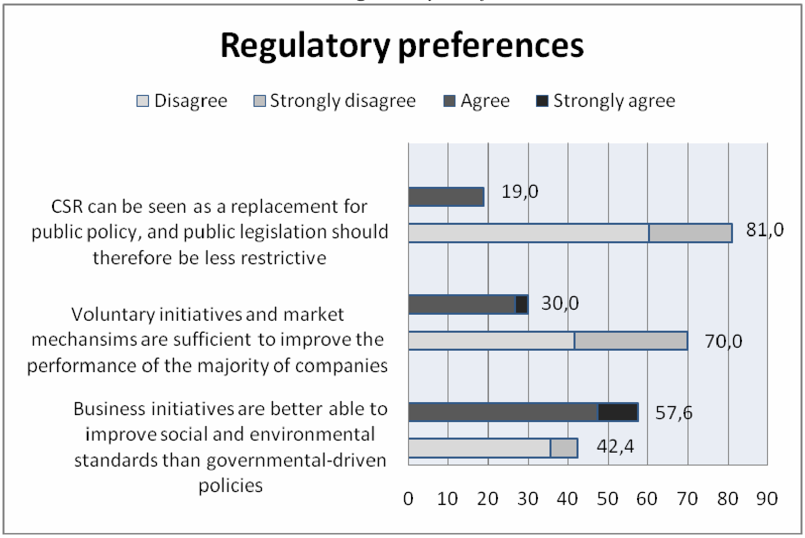
*Table 2: The Role of Governments*




However, the most unexpected finding was respondents' widespread skepticism towards the effectiveness of CSR and voluntary initiatives. Surprisingly, 81 percent of the respondents disagreed with the statement "CSR can be seen as a replacement for public policy, and public legislation should therefore be less restrictive." In fact, the respondents seem to place more trust in government-led processes to ensure social and environmental standards: 70 percent see voluntary initiatives and market mechanisms as insufficient to improve the social and environmental performance of the majority of companies, and 42.4 percent of the companies disagree with the statement "Business initiatives are more able to improve social and environmental standards than government policies are," as shown in Table 3.


DOI: 10.2202/1469-3569.1351

*Table 3: Regulatory Preferences*




Thus, the companies seem to doubt the ability of CSR and voluntary initiatives to achieve significant improvements in social and environmental practices. This skepticism towards CSR is a paradox, since the companies in the survey all have invested resources in developing and documenting their CSR performance. This finding creates a somewhat disturbing picture of the nature of their CSR engagement when considered in light of their answers in the previous section: the most frequent location of CSR competency in the company is in the PR/Communications department, and the companies' prime motivation to engage in CSR is reputation and brand. Thus, the companies seem to participate in CSR initiatives primarily out of PR-related motivations and to have little faith in CSR as an instrument to improve their practices. Their CSR engagement seems to be driven by a logic of symbolic politics. Moreover, the causal order between CSR engagement and social and environmental performance appear somewhat counterintuitive as CSR engagement appears to come post factum: engagement in CSR initiatives does not seem to be the cause of the Nordic pioneers' high social and environmental performance. Instead, already having high social and environmental performance seems to lead to their CSR engagement; to some extent, the companies seem to join CSR initiatives, not to improve their performance, but to improve their *communication* of performance.

## Analysis: Explaining Regulatory Preferences

To understand the companies' skepticism towards CSR and their preference for hard law, one must understand to what they attribute their high performance in CSR. The empirical material points to two separate but interrelated explanations. The companies attribute their high CSR performance to cultural and institutional aspects of the Nordic Model; those aspects provide them with a competitive advantage in social and environmental performance – an advantage which in turn explains the companies' preference for hard law, as will be discussed in the following sections.

## Values and Institutions: The Nordic Factor

In explaining patterns of success in CSR, the literature points to the importance of systemic factors, rather than to company- or industry-specific factors:[71] studies show that Nordic companies in general are overrepresented in key global, performance-based CSR initiatives,[72] and the literature on comparative CSR demonstrates that nationality matters for how companies approach and perform CSR.[73] Thus, deeply embedded cultural values and traditions, as well as key institutions of the Nordic political-economic systems, might provide answers to the companies' high social and environmental performance, which has qualified them for the CSR initiatives and rankings that form the basis of this survey.

The empirical findings in the survey underscore the relevance of systemic factors. Although this survey comprises companies of different sizes, industries and ownership structures, the agreement rates were close to 80 percent in many answers about CSR in a Nordic perspective. Despite the fact that the majority of the companies in the survey are multinational, with significant markets and production in Central/Eastern Europe, Asia, and Latin America, 75.4 percent agree with the statement "the Nordic background of my company affects the way we work with CSR," as shown in Table 4.

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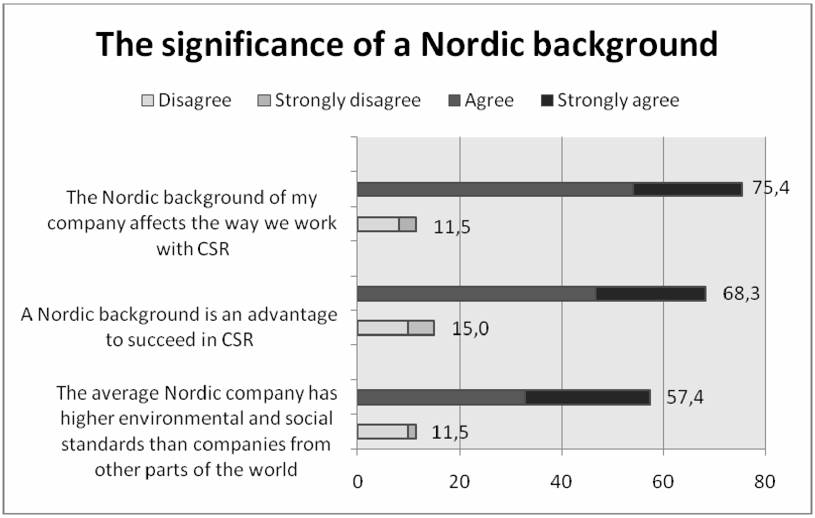
[71] For a review of how firm-specific factors influence regulatory preferences, see Johnstone *et al* 2004.
[72] Midttun *et al* 2006.
[73] Gjølberg 2009; Matten and Moon 2008; Williams and Aguilera 2008.


DOI: 10.2202/1469-3569.1351

*Table 4: The Significance of a Nordic Background*

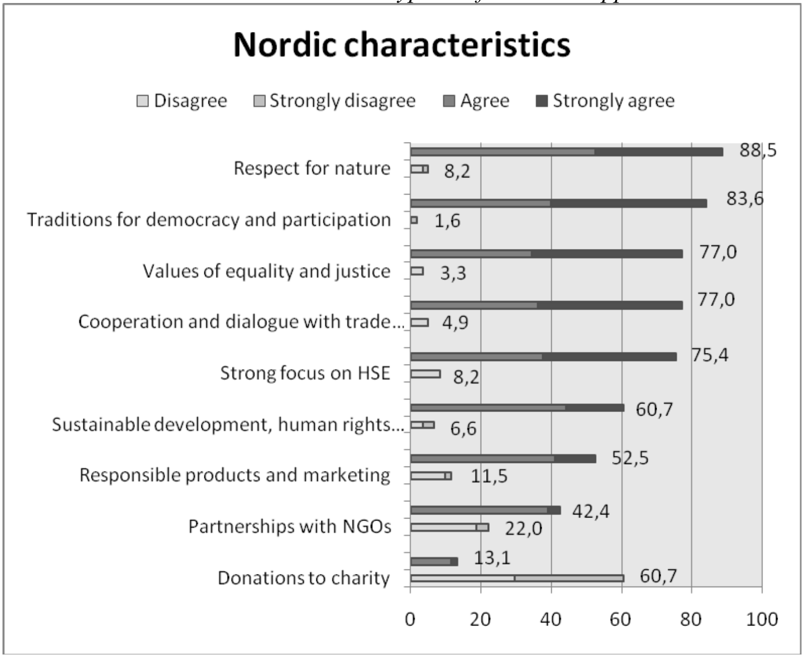



The respondents clearly see their Nordic background as relevant to their high CSR performance: 68.3 percent state that "a Nordic background is an advantage to succeed in CSR," and the majority agree that the average Nordic company has comparatively higher environmental and social standards, as shown in Table 4.

Moreover, the companies themselves point to Nordic cultural and institutional factors when asked to elaborate on why a Nordic background is an advantage to succeed in CSR. The respondents claim that the Nordic culture, traditions, values, and "the Nordic business model" provide them with experience, competence and knowledge in integrating social and environmental concerns into their business operations. Their answers are strikingly uniform when describing Nordic characteristics in relation to CSR, and the answers correspond closely to expectations from literature on the Nordic Model, which predicts high scores on participatory values, respect for nature, and a strong emphasis on equality.[74] As Table 5 shows, respect for nature, traditions for democracy and participation, and values of equality and justice, are identified as the most important characteristics. In their written answers the companies also emphasize that environmental awareness, transparency, equality and a consensus-seeking mindset, facilitate stakeholder dialogue and integration of CSR issues into business operations.

[74] Dahl 1984; Kuisma 2007.

*Table 5: Characteristics Rated as Typical of a Nordic Approach to CSR*




This Nordic background seems not only to affect employees, management and the board, but also to create higher expectations of ethical business practices in their home markets, as respondents claim that "there is a demand in the [Nordic] market that is not present in many other markets." This claim is confirmed by findings in the Eurobarometer of "Attitudes of European Citizens towards the Environment," which reports Nordic scores much higher than the EU average scores. For instance, 99 percent of Nordic respondents answer that the environment is fairly or very important to them, and they show above-average scores on actions undertaken to protect the environment, and on willingness to buy environmentally friendly products.[75]

However, the respondents often mention these *value-based* explanations in tandem with institutions and practices typical of the Nordic *political-economic* systems. As Table 5 shows, cooperation with trade unions, often not considered integral to CSR elsewhere,[76] was identified as characteristic of a Nordic approach

[75] Tunkrova 2008.
[76] Preuss *et al* 2006; Utting 2000.


DOI: 10.2202/1469-3569.1351

to CSR, with 77 percent of respondents answering this question positively. Several respondents explain in their written comments that tripartite negotiations and dialogue with employees—induced by the corporatist system—have fostered skills that are highly relevant to their CSR activities, for instance stakeholder dialogue and integration of social concerns into business operations. Cooperation with NGOs, on the other hand, received a substantially lower score (42.2 percent) and is clearly not seen as typically Nordic, although in practice, cooperation with NGOs is slightly more prevalent than cooperation with labor unions (49.2 percent versus 44.3 percent).

However, strict, longstanding domestic regulation is cited as the main reason why respondents answered that a Nordic background is an advantage to succeed in CSR, as illustrated by these written comments:

> *Nordic countries have long traditions for CSR-related legislation, which has made the companies here work with these issues for decades.*
>
> *As a Nordic company, we also have long traditions in living with environmental and social/labor laws that have become a natural part of our thinking.*
>
> *Social and environmental legislation makes us do most of the basic issues automatically.*

Thus, respondents attributed their success in CSR to the competence, experience and knowledge that result from corporatist dialogue and the high regulatory standards of the Nordic countries, further strengthened by deeply rooted Nordic values, and by the strong expectations of their domestic audience. The companies seem to find that the Nordic cultural, institutional, and regulatory background produces an advantage in CSR. This notion of a specific Nordic advantage in relation to CSR has clear parallels to Hall and Soskice'[77] concept of *comparative institutional advantage.* The authors claim that nationally based social, political and economic institutions can provide a comparative advantage in specific kinds of corporate activities. Whereas Hall and Soskice developed their argument around comparative institutional advantages in innovation, but the survey findings indicate that there might be a comparative institutional advantage for CSR as well, as the Nordic companies find that their Nordic institutional background makes it comparatively easier for them to achieve high CSR performance. It is this competitive position in social and environmental performance which seems to cause their preference for hard law, as opposed to CSR and soft law. This will be discussed in the next section.

[77] Soskice 2001.

**Competitive Advantage: Beneficiaries of a Level Playing Field**

The rationale behind the companies' preference for hard law is quite evident in respondents' answers to questions related to competitiveness. When asked how their companies' competitiveness would be affected by stricter, effective, global social and environmental regulations, 83.1 percent of the companies responded that such regulation would *strengthen* their competitiveness, responding with a 6 or higher on a scale of 10. (See Table 6) Only 5.1 percent responded that stricter regulation would weaken their competitiveness, responding with 5 or lower.

*Table 6: Regulations and their Effects on Competitiveness*


As pioneers in CSR, it is both logical and strategic for these companies to lobby for binding regulation of CSR-related issues: they most likely already comply with conceivable future regulatory requirements, and thus have a competitive advantage. As expressed by one of the respondents:

> *The point is really GLOBAL AND BINDING [regulations] as this would help eco-efficient, socially responsible companies to win. (respondent's capitalization).*

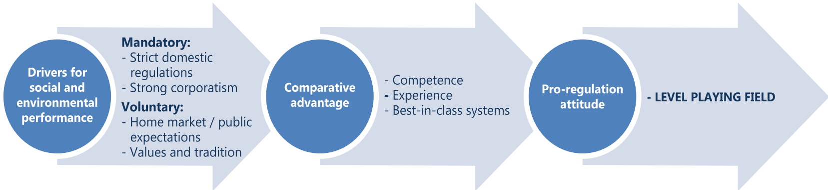

DOI: 10.2202/1469-3569.1351

Simply put, lobbying for stricter global regulations would sharpen their competitive advantage and in a sense constitute a return on social and environmental investments already undertaken. Stricter global regulations would impose on their competitors costs that the Nordic pioneers have already absorbed, but from which their international competitors so far have been exempt. Similar strategies are documented in corporate lobbying for the Montreal Protocol by companies already in compliance with anticipated regulations.[78] Another illustrating example is that of the writing of the ISO 14001 standard: through effective lobbying, European businesses managed to influence the standard so that it resembled the European EMAS scheme, thereby effectively forcing U.S. and Asian competitors to adhere to the same standards that European businesses already had to adhere to under EU regulations.[79] These processes of a "race to the top",[80] where powerful green jurisdictions impose their higher standards on their competitors, illustrate how domestic regulations can serve as a source of strengthened national and international regulations.[81] In the survey, this dynamic seems mainly to apply to international regulations, but respondents also want government to level their national playing fields, as they are positive towards increased regulation that would put pressure on laggards. Presumably, though, respondents would not support, for instance, higher domestic wage regulations, as this would reduce their international competitiveness.

Thus, companies that assume they already comply with future regulation seem to support stricter regulation, as such regulation would strengthen their competitive advantage. Companies *already* subject to stricter, domestic, *mandatory* social and environmental regulations or corporatist agreements will have an incentive to welcome increased global regulation. Correspondingly, companies that *voluntarily*—because of values and tradition, market expectations, operational demands, stakeholder pressure, or competitive strategy—chose to raise their social and environmental standards will have an incentive to support tougher regulations, domestic and global, as tougher regulations would subject competitors to costs that these companies voluntarily accepted.

[78] Vormedal 2008.
[79] Braithwaite Drahos 2000.
[80] Also referred to as the "California effect."
[81] DeSombre 1995 and 2000; Vogel 1995.

*Figure 1: Causes of Regulatory Preference for Hard Law*




The Nordic companies seem to be in a position where mandatory and voluntary drivers mutually reinforce each other and spur companies towards best-in-class CSR performance, as illustrated in Figure 1.

## Nordic Norms Versus Comparative Institutional Advantages

Birkin *et al*[82] conclude in their study that social norms are the decisive factor for Nordic success in CSR—a love for nature, social equality and consensus. The present survey supports this finding; respondents rate the same norms and values as characteristic of Nordic CSR (Table 5), and explain their CSR success with reference to Nordic norms and institutions. From this perspective, the relevance of the survey findings seems limited to the Nordic context.

However, while Nordic norms and institutions seem decisive to the companies' excellence in CSR, there is nothing specifically "Nordic" about the companies' support for stricter social and environmental regulation. In fact, none of the respondents gives norm-based explanations for their regulatory support. Instead, they list market positioning, competitive advantage and a level playing field as their reasons for wanting stricter regulations. Combined with the findings in Tables 4, 5 and 6, there are strong indications that the companies' pro-regulation position is the logical and strategic extension of their perceived competitive advantage in social and environmental performance, an advantage that is not inherently restricted to Nordic companies. The specific Nordic values and political-economic institutions seem to function mainly as intermediate factors, as factors fostering skills that give the companies a competitive advantage in social and environmental issues. This competitive advantage appears to be the key causal factor for regulatory support: The companies consider their performance best-in-class, or at least above anticipated regulatory requirements. Regulations therefore make good business sense, as they will level the playing field to their benefit. To conclude, regulatory support seems to result from a

[82] Birkin *et al* 2009.


DOI: 10.2202/1469-3569.1351

generic, instrumental "logic of consequence" rather than a specifically Nordic "logic of appropriateness," to use March and Olsen's terms.[83]

Nevertheless, Nordic norms and institutions might affect the companies' perception and analysis of regulatory risks and opportunities. A general trust in regulations and skepticism towards voluntary approaches seem to be deeply rooted traditions among Nordic managers. In a 1996 survey[84] of Nordic publicly listed companies, 75 percent of managers did not believe that voluntary, market-based mechanisms were sufficient, and saw legislation as necessary to protect the environment. A comparative study[85] of Nordic and U.S. managers showed Nordic managers were significantly more positive towards the competitive effects of environmental legislation than were their U.S. counterparts, even though managers from both countries considered their companies to be ahead of competitors. Thus, companies react differently to similar regulatory proposals. A competitive advantage seems a necessary, but still not a sufficient condition for regulatory support. Cross-national comparisons are needed to establish the precise causal combinations that lead companies to favor hard law over CSR or soft law.

## Implications and Conclusion

The empirical analysis provides insights into the relationship between CSR, soft law and hard law, and documents that business can support stricter social and environmental regulations under certain conditions. In this respect, it is important to note that the survey includes hardly any niche companies that would benefit directly from stricter, mandatory standards, such as clean-tech companies or social enterprises; companies surveyed were almost exclusively large, dominant, mainstream companies of the Nordic economies.

The findings counter assumptions about corporate resistance to social and environmental regulations, as discussed in section 2.2. Unexpectedly, Nordic CSR pioneers are skeptical towards CSR and voluntary approaches in global governance, and strongly prefer hard law. These findings also challenge critics' claim that CSR is a corporate strategy to pre-empt legislation, as outlined in section 2.1. Furthermore, the empirical material provides an important addition to the literature outlined in section 2.2 explaining why some companies adopt a pro-regulation position in cases involving direct regulatory threat. In contrast, the Nordic position seems motivated by regulatory opportunities—regulatory threat does not seem to be a necessary condition.

Thus, the empirical analysis contributes to the emerging literature showing how globally competing companies have incentives to work towards industry-

[83] March and Olsen 2004.
[84] Ytterhus and Synnestvedt 1996.
[85] Lindell and Karagozoglu 2001.

wide, international regulations if they are subject to stricter domestic regulation, corporatist pressure, or for commercial reasons must self-impose higher standards.[86] Depending on political and regulatory momentum, the playing field's unevenness, and available exit strategies, a "tipping point" in corporate political strategy can occur. At this point, a critical mass of companies shift from resistance to support of international regulation out of self-interest, which is expected to positively affect the negotiations of international social and environmental regimes.[87] In these situations, CSR initiatives may serve as blueprints in developing soft or hard law, as discussed in section 2.1. Such juridification of CSR initiatives demonstrates that CSR can serve as a potential source for soft or hard law, and the Nordic companies' pro-regulation position may indeed indicate a potential source for future juridification of CSR initiatives.

However, can CSR in and of itself contribute to tipping points towards regulatory support? If the Nordic pro-regulation attitude results from a pre-existing competitive advantage in social and envrionmental performance, CSR appears to be superfluous: CSR initiatives merely rubber-stamp actions that mainly result from regulation, institutions and values which all predate or occur independently of any CSR initiative. Thus, CSR does not seem effective in terms of *causing* responsible behavior. Instead, CSR seems to be effective in terms of *communicating* responsible behavior. As discussed in section 4.1, the companies list PR and reputation as the main motivations for their CSR efforts, and they respond with profound skepticism regarding the effectiveness of CSR in actually improving mainstream business practices. This finding parallels findings of other studies showing that companies see CSR as an effective instrument to enhance legitimacy, but not to enhance management of social and environmental practices.[88] Regarding causal order therefore, CSR engagement appears to be the effect, not the cause, of the companies' high standards. In conclusion, CSR appears slightly irrelevant, both in explaining the Nordic pioneers' strong social and environmental performance, as well as in explaining their strong pro-regulation position.

However, CSR initiatives can have an independent effect if they provide institutional platforms where alliances between NGOs, governments, and pro-regulation companies can form. Environmental and social risks, liabilities, and opportunities are becoming increasingly intertwined with economic competitiveness, altering how companies calculate their interests, and making more companies likely to engage in CSR initiatives as a first step towards addressing these new challenges.[89] Therefore, one needs to account for the

[86] Bendell and Kearins 2005; Mattli and Woods 2009.
[87] Vormedal 2010.
[88] Boasson 2009.
[89] Dashwood 2004, Falkner 2008, Hoffman 2000, Kirton and Trebilock 2004, Reinhart 2000.


DOI: 10.2202/1469-3569.1351

importance of ideas when analyzing how CSR can contribute to soft and hard law. Several authors argue that the institutionalized engagement between business and civil society in CSR initiatives may create a dynamic that transcends CSR by inducing normative, cognitive and discursive processes that change perceptions of business's role in society.[90]

Furthermore, CSR initiatives can, in sum, create an uneven playing field by establishing a plethora of overlapping and partially conflicting private regulations and standards. This unintended side effect of CSR can stimulate corporate support for mandatory regulations that would create a more harmonized set of standards for companies. In combination, these regulatory, normative, technological and competitive risks and opportunities can, as illustrated by the Nordic material, shift corporate positions towards support for regulation, as a strategy to secure future competitiveness. Thus, CSR may contribute towards tipping point processes—as a driver for normative, regulatory and technological changes that cause dominant corporations to redefine their interests and change their strategies from resistance to support for soft and hard law processes.

To conclude, the analysis shows that companies' preferences for regulation via CSR, soft law or hard law cannot be taken for granted, but must be understood within a wider context of normative, institutional and regulatory environments, even for companies with strong multinational profiles. Furthermore, the findings document that strong CSR performance is compatible with a regulatory preference for hard law. Nevertheless, CSR appears unlikely in itself to generate tipping points of corporate support for social and environmental regulation. As illustrated by the Nordic material, CSR engagement appears merely to correlate with rather than actually to cause the pro-regulation attitude of Nordic CSR pioneers. However, insofar as CSR initiatives manage to link debates, actors, and processes that contribute towards support for soft and hard law processes, they can overcome some of the inherent limitations that arise from CSR's market-based, voluntary nature.

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[90] Bernstein and Cashore 2007, Pattberg 2006.

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