

Corporate Social Responsibility and the Rise of Market Liberalism

Free us so we can do some Corporate Responsibility

The conventional wisdom is that Corporate Social Responsibility is the “re-embedding global liberalism” in response to protests by civil society and new norms of responsible corporate behavior. In this article this view of Corporate Social Responsibility is contested and an alternative, political-economic interpretation is proposed.

By Daniel Kinderman

Corporate Responsibility, understood as businesses’ voluntary engagement for social and environmental ends above legally mandated minimum standards, has risen to prominence, if not pre-eminence in global governance. But why has it done so at different times and in different quantities in different countries?

The Argument in Brief

I argue that Corporate Social Responsibility (CSR) is an integral part of the economic culture of market liberalism. Market liberalism is best known for its political proponents Margaret Thatcher and Ronald Reagan and their agendas of liberalization, privatization, and deregulation. Thus, my claim is that CSR is associated with the very same processes of liberalization which have spread across the world since the 1970s, and which involve “a major recasting of the system of democratic capitalism as we know it. [...] The current transformation of modern capitalism is making it more market-driven and market-accommodating as it releases ever more economic transactions from public control and turns them over to private contracts” (Streeck / Thelen 2005).

While identifying the causal linkages between CSR and market liberalism is tricky, CSR is amorphous and multidimensional. One key part of this linkage is CSR’s emphasis on corporate discretion. Firms should be accountable to a broader network of stakeholders than just owners or shareholders, and should take responsibility for social and environmental outcomes. But they should also be flexible to pursue these ends as they see fit. This contrasts with the binding, non-discretionary nature of the post-war order and of the Social Market Economies of continental and northern Europe.

In its presently dominant incarnations, CSR is structurally biased towards Liberal Market forms of economic organization.

Not only did CSR originate in the United States; CSR’s emphasis on corporate discretion, voluntarism and the individual firm as the primary actor suggests that CSR has a better fit with deregulated market environments than with economies with dense and stringent regulation, extensive welfare-state provision, or corporate governance regulations that institutionalize voice at the expense of owners’ or managers’ discretion.

CSR’s cross-national variation is thus linked to its function of legitimating economic liberalization and market liberalism. Both employers and state officials have an interest in compensating for the hardships of liberalization and the weakening of institutionalized social solidarity. One way in which they seek to legitimate the market vis-à-vis their stakeholders and the electorate, and justify themselves vis-à-vis their own conscience, is through Corporate Responsibility. CSR inoculates firms against burdensome regulation and justifies a light regulatory touch; it facilitates business-friendly institutional reforms; it helps to satisfy employers’ needs and compensate for market failures and deficiencies in public provision.

But CSR cannot be understood in purely rational-instrumental let alone cynical terms. One of its most essential functions is to constitute businesspeople as responsible moral agents. Those in the engine rooms of contemporary capitalism, whether owners, managers, or employees, want to perceive themselves as serving the common good. This is true irrespective of capitalist varieties. In the place of Milton Friedman’s assertion that the business of business is business, employers chant: “Free us up so we can do some Corporate Responsibility!” Just as in Weber’s eyes, the Protestant Ethic provided a foundational impetus to the rise of modern-day capitalism, so Corporate Responsibility can be viewed as the economic ethic of the contemporary era of market liberalism.

Empirics

CSR’s emergence during the past thirty years is connected with the erosion of the post-war social compromise known as the Golden Age and embedded liberalism, and its replacement by market-liberal forms of economic organization. As Social Market Economies liberalize, the demand for CSR increases. As embedded liberalism and the post-war compromise fray and collapse, CSR emerges as filler. I wish to emphasize that filler should not be understood in the literal sense of providing full compensation for the social disruptions caused by liberalization or filling in the cracks left by the lack of a comprehensive welfare state. If CSR fills these gaps, it does so imperfectly. →

I test the above framework using national Corporate Responsibility associations as my proxy for CSR at the country level. Corporate Responsibility associations are non-profit organizations with a voluntary corporate membership, membership dues, and a mandate to advance the cause of Corporate Responsibility both within their country and internationally or globally. CSR associations are intermediaries and brokers between business, civil society, the state and the broader public; they are catalysts, facilitators and motors of responsible business practice.

Different interpretations of CSR

CSR associations are barometers for the state of CSR in the country in which they are located. The existence of such an association, and the fact that firms are willing to join it, is evidence that the idea of CSR has come of age in a given country. Associations provide a platform for the exchange of best practice through peer-pressure, in addition to functioning as think tanks and consultancies for the CSR activities of their members. To varying degrees, they challenge their members to attain ever-higher levels of responsibility, social engagement, and minimization of negative and maximization of positive externalities. Examples of CSR associations include Business in the Community for the UK and Econsense and UPJ for Germany.

The founding dates of CSR associations vary considerably across Europe and the OECD – from the beginning of the 1980s for UK's Business in the Community to 2007 for IMS Luxembourg. In addition to the establishment date, an association's membership levels provide another useful indicator of the state of CSR in a given country at a given time. Membership in CSR associations is far from a guarantee of corporate virtuousness. But generally speaking, CSR will be more advanced in countries with a long-existing association with high membership levels than in countries with recently established associations with few members.

So what do we find? Market-driven economies tend to get CSR earlier, and in significantly greater quantity, than the Social or Coordinated Market economies of continental Europe. Moreover, wage bargaining centralization and dense product market regulation tend to delay the onset of CSR and reduce association membership levels. How do these findings relate to existing literature? Scholars have only recently begun to theorize the relationship between CSR and different Varieties of Capitalism (Apostolakou / Jackson 2010; Gjølborg 2009; Matten / Moon 2008; Kinderman 2008; Midttun et al. 2006). Whereas Midttun et al. and Gjølborg find that CSR is a complement to institutionalized solidarity (Gjølborg 2009; Midttun et al. 2006), my findings suggest that they are substitutes (see also Apostolakou / Jackson 2010; Hi_ 2009; Kinderman 2008).

Summing Up

My findings suggest that CSR functions as a material and symbolic substitute for institutionalized forms of social solidari-

ty. We should not lose sight of capitalism in our study of CSR. And for all of the justified interest in Corporate Responsibility as the left or progressive hand of business, scholars should be more attentive to its broader societal and institutional context, and to the connections between business's left and right hands.

Annotation

Readers seeking a more detailed presentation of this argument and of my empirical findings are referred to the following paper: Kinderman, D.: Why do some Countries get CSR sooner, and in Greater Quantity, than Others? The Political Economy of Corporate Responsibility and the Rise of Market Liberalism across the OECD: 1977-2007. Discussion Paper SP III 2009-301, Wissenschaftszentrum Berlin für Sozialforschung. Download at <http://bibliothek.wzb.eu/pdf/2009/iii09-301.pdf>

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