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WORKING PAPER

Dealing With Uncertainties When Governing CSR Policies

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Abstract

It is by now widely accepted that the concept of Corporate Social Responsibility (CSR) requires a business engagement that goes beyond its mere economic and legal obligations. Rather, it is associated with the adage that businesses take the broader social and environmental effects of their actions into account on a voluntary basis. From a government's perspective, however, relying on business's voluntary initiative for dealing with society's environmental and social objectives imposes a considerable challenge. Indeed, policymakers cannot rely on unilateral command-and-controlling policies as far as the voluntary dimensions of CSR are concerned, which leaves them with three types of uncertainty. First, the many meanings and interpretations on the content of CSR result in substantive uncertainty. Second, governments face strategic uncertainty about whether companies will voluntarily take up their responsibilities and how far. Third, the various institutional backgrounds that businesses and governments have result in institutional uncertainty on how the interaction and change processes between them will evolve. Borrowing from the New Governance public policy paradigm, we discuss these uncertainties and propose strategies for their management. This paper demonstrates that there are meaningful, and even necessary courses of governmental action to further the voluntary dimensions of CSR.

Keywords: Corporate Social Responsibility, Uncertainty, New Governance, Public Policy, Policy Instruments

Abbreviations: CSR – Corporate Social Responsibility; EMSF – European Multistakeholder Forum on CSR; EU – European Union; GMO – Genetically Modified Organisms; VA – Voluntary Agreement; US – United States

1. Introduction

A number of distinguished scholars have repeatedly stressed that corporate social responsibility (CSR) does not just involve obeying legal and economic obligations, but also implies a proactive and voluntary course of business activities concerned with social and environmental problems (Davis, 1973; Carroll, 1979; Wartick and Cochran, 1985; Wood, 1991). Keith Davis could not have been clearer about this issue, when he stated that “social responsibilities begin where the law ends” (1973, p. 313). A role for governments, characterized by the power to coerce, seems quite limited then in this context, an interpretation that is advocated especially by business executives both in Europe and the US (Aaronson and Reeves, 2002). However, the many CSR related initiatives that are taken by both national governments and the EU (European Commission, 2004) seem to contradict this assumption. These initiatives suggest a governmental suspicion that CSR can also incur problems, apparently inviting an intervention of their part. The question remains, however, whether these problems can justify a governmental intervention and why.

Perhaps as a result of this seemingly paradoxical situation between governmental intervention and voluntary CSR, a role for the government has been only scarcely investigated and needs further research (Moon, 2004). Of the few contributions that exist on the role of the government in the CSR debate, most of them focused on the policy instruments that national or supranational governments can use in the context of corporate accountability for social issues, but neglected or even rejected the voluntary dimension of CSR (Fox et al., 2002; McIntosh et al., 2003; de la Cuesta González and Valor Martinez, 2004). An investigation in the public policy needs that specifically address the voluntary dimensions of CSR, however, has received little attention thus far.

We aim to contribute to the CSR literature by suggesting the New Governance theory from the Public Policy literature as a method to develop and assess a possible role of the government in the CSR domain. It is our goal to build on the still emerging literature on CSR and public policy by going beyond the myth that CSR is all roses to policy makers. Policies relying on business’ voluntary efforts for solving complex social problems yield a problematic situation, since the efficiency, effectiveness and fairness of the outcomes of such policies is uncertain (Paton, 2000). We use a framework proposed by Koppenjan and Klijn

(2004) to investigate the different aspects of uncertainty that are associated with CSR policies and apply it to the CSR context. Furthermore, we extend their framework by theoretically identifying the policy instruments that are coherent with the voluntary nature of CSR and which solve the recognized uncertainties. Finally, we spot some examples in the EU where these theoretical suggestions have been initiated or where there is still a lack of evidence.

This paper is structured as follows. The first section frames CSR in a wider policy context, introducing the applicability of the New Governance paradigm. Using New Governance as a framework, the problems that are associated with CSR from the perspective of the government will subsequently be investigated. In a third section we will apply a number of policy instruments to these problems and evaluate them on their relevance to the CSR context. We then discuss the current status of some examples that were found in EU policies and conclude the paper some suggestions for policy makers and future research.

2. CSR and the New Governance paradigm

The flourishing of the corporate social responsibility debate in the last few decades must be seen in a wider shift in relations between governments, business and society (Moon, 2002). During the 1980s, governments were increasingly reproached for not meeting the demands of an ever more complex and fast changing age. The traditional, hierarchical model of government incurred a number of government failures (Weimer and Vining, 2004) that made governments inefficient, expensive and often inappropriate when dealing with problems that cross organizational boundaries and defy simplistic one-size-fits-all solutions (Stone, 1975; Schultze, 1977; Eggers and Goldsmith, 2004). As a result, several governments in both the EU and the US started looking for new ways of ‘governing’, emphasizing less government and more collaboration with all actors in society (Rhodes, 1996; Wallis and Dollery, 1999; European Commission, 2001). During the last few decades, two new Public Policy paradigms have emerged as a result: (1) New Public Management and (2) New Governance. The focus of the first is on a new distribution of responsibilities with regard to policy making and implementation, inspired by the use of managerial mechanisms and especially privatization (Wallis and Dollery, 1999).

Principal to the New Governance paradigm is that it requires a shift in public administration focus from hierarchic public agencies using coercive command-and-control programs to inter-organizational networks where policy makers use negotiation and persuasion to direct society to the desired state (Rhodes, 1996; Salamon, 2002). Although the use of direct policy instruments such as regulatory laws, permits, taxes and levies is acknowledged to this purpose, it sees the rapid expansion of more indirect tools which rely on an interdependent relation between public agencies and a host of third party actors as key to policy success. Although criticized by some (Marinetto, 2003), a number of policy initiatives show that New Governance is gaining currency among policy makers.

Since governments cannot *force* businesses to take up their *voluntary* social responsibilities, and therefore requires a more collaborative relationship between government and business for achieving society's goals, they naturally enter New Governance territory. As both New Governance and Corporate Social Responsibility assume less direct governmental intervention and a business sector proactively contributing to social and environmental problem-solving, the two concepts can consequently be considered as two sides of the same coin. We will therefore use the insights and principles of the New Governance paradigm as a starting point for an analysis of the policy issues related to CSR.

3. The uncertainties of network-based policies

Although policies relying on third parties may seem easy and welcoming to governments, they also realize that the outcomes of such policies is uncertain (Salamon, 2002). As governments still bear the ultimate responsibility for society's welfare and are also evaluated on these terms (Kettl, 2002), governing delegated responsibilities involves a considerable challenge (Posner, 2002). According to Salamon (2002), this is the critical paradox of 'New Governance': "*policymakers seem to be under increasing political pressures to select those tools of public action that are the most difficult to manage and the hardest to keep focused on their public objectives*" (p.37).

Koppenjan and Klijn (2004) suggest that the issues that arise for governments interacting with third parties in their dealings with complex social problems[1] can be brought back to three types of uncertainty: (1) substantive, (2) strategic, and (3) institutional uncertainty.

Substantive uncertainty relates to the information and knowledge on the nature of the social problem and how it can be solved. It is the uncertainty about the *content* of the problem. *Strategic uncertainty* focuses on the strategic behavior of the actors involved. This behavior depends on their unique perceptions and objectives, but also on their response and anticipation on each other's strategic moves. Finally, *institutional uncertainty* originates in the interaction between the institutional backgrounds of the parties involved. As institutions develop and change only gradually and are hard to influence directly, it is difficult to predict the evolution of the processes of institutional design. As we shall see later in this paper, reducing these three types of uncertainty justifies the role that governments seek in the CSR debate.

3.1. Substantive uncertainty

Looking at corporate social responsibility from the perspective of the government raises two questions: (1) does everybody understand the same things when considering CSR, and (2) does everybody agree on the issues it covers? The diversity in answers that is found in literature and in society can essentially be brought back to differences in knowledge, but also to ethical and socio-cultural choice.

CSR seems to have as many definitions as there are scholars and practitioners of it (Carroll, 1999; Windsor, 2001; Henderson, 2001; Garriga and Melé, 2004). Whether it is between academic scholars, NGOs, business representatives or governments, the concept of CSR is still under much debate. The many discussions that were held on the nature of CSR in the European Multistakeholder Forum on CSR were evidence of the ongoing uncertainty that exists on the meaning of CSR (EMSF, 2004). Besides the uncertainty about the content of CSR, business and society also debate on the social and environmental issues it is concerned with. The uncertainty lies particularly in the acceptance that there is an issue (e.g. is the world heating up or not?) and whose responsibility it is (combustion exhausts? long term climate cycles?). Different interpretations may also exist on the appropriate course of action related to an issue. A notorious example is the issue of genetically modified organisms (GMO's). Scientists are uncertain about the effects of their introduction and whether this yields irreversible costs (e.g. loss of biodiversity) or irreversible benefits (e.g. increased farmer's health and biodiversity) (Demont et al., 2004). The different stances that are taken by the EU (against) and the US (in favor) about GMO's indicate that what is considered responsible behavior depends on the socio-cultural reference frame that is used to evaluate GMO's.

These examples show that voluntary action in the context of CSR is not always clear to either business or government and that scientific research is not always the way to find a solution. Henderson (2001) summarized this as follows "*All the same, there are both uncertainties and substantial differences of opinion as to its [CSR's] meaning, interpretation and usefulness as a guide to the conduct and policies of businesses – as also of governments*" (p. 30)

3.2. Strategic uncertainty

In the context of CSR, governments are faced with two types of strategic uncertainty: (1) will businesses voluntarily engage in CSR practices, and (2) will their actions result in solving social and environmental problems? We discuss these uncertainties in the following subsections.

3.2.1. Strategic uncertainty on CSR action

This first type of strategic uncertainty essential deals with the question: "will businesses engage in CSR, yes or no?" A number of researchers have described situations where the voluntary overcompliance in CSR practices is in the best interest of businesses (Davis, 1973; Hart, 1995; Jones, 1995; Reinhardt, 1999; Dentchev, 2004). Dentchev (2004), however, also reports that CSR may have negative effects on businesses, as it may (1) divert the managerial attention away from the core business to CSR, and (2) harm corporate reputations when stakeholders perceive the CSR initiatives as window-dressing or when expectations are too high. Moreover, the negotiation and bargaining with stakeholders on social problems may need the disclosure of confidential information that might be used by competitors or regulators against them (Delmas and Terlaak, 2001). If the cost-benefit analysis of these considerations turns out to be negative, a company's willingness to engage in CSR practices may consequently be rather low (McWilliams and Siegel, 2001; Castka et al., 2004). Indeed, CSR is then a typical "public good" (Keim, 1978), where it is in the best interest of a company to free-ride other company's efforts to improve the world (Hardin, 1968).

Businesses and their managers each have their own objectives and strategies which lead them to voluntarily engage in socially responsible actions. Moreover, they anticipate and respond to the decisions and behavior of other actors in business and society, including the government. Hence, voluntary action makes it hard for governments to predict to what extent businesses will take on their responsibilities and cooperate with government to further the public good. Governmental reliance on business also makes them dependent on their action, which will be a problem when businesses go bankrupt or lack the money or means to continue their CSR activities (Moon, 2002). Predictability and reliability are thus important concerns in the context of strategic uncertainty.

3.2.2. Strategic uncertainty on the outcomes of CSR

The second type of strategic uncertainty deals with the question: if businesses show the intention to engage in CSR practices, then how do they do it? Indeed, when there are information asymmetries between governments and business on the actual implementation of CSR practices, the concept of CSR might also induce actions that do not promote social welfare. Information asymmetries create incentives for moral hazard (Arrow, 1971) and adverse selection (Akerlof, 1970), which can result in (1) incomplete CSR, or (2) "hollow CSR". First, incomplete CSR originates where well-intended CSR engagement is not well communicated and agreed with its stakeholders. A firm's efforts in CSR intended action can then result in outcomes that are not in accordance with society's wishes or that they are not provided to society in an equal way (Moon, 2002), resulting in a dissatisfactory situation.

Second, businesses may also use CSR for malevolent purposes, resulting in "hollow" CSR. Companies indicating that they want to engage in CSR activities frequently adopt a 'code of conduct'. However, these codes are not always checked on their relevance, what is done with them and how much of it is accomplished. The voluntary aspect may thus induce companies to make promises they do not intend to keep. Businesses may promise that they will voluntarily engage in CSR, but keep postponing its actual implementation only to slow down and delay the possibility of binding regulation or because they merely use it as a PR strategy (Christian Aid, 2004). Moreover, if companies indicate that they voluntarily engage in activities that are linked with CSR, this does not guarantee that their business is socially responsible in total. Companies may voluntarily engage in and report CSR activities, with a "good" reputation as a result, only because this reduces the risk of getting a "bad" reputation when they get caught in their illegal acts (Williams and Barret, 2000). Also, as Kirchhoff (2000) indicates, the voluntary aspect of CSR may induce positive externalities for non CSR-companies and provide incentives for free-riding behavior. As a consequence, firms may lie about their CSR activities ("Greenwash") and receive the extra benefits due to the CSR attributes it is free-riding. The fraudulent firm may reduce the credibility of the firms which are in fact providing products with CSR attributes, resulting in a situation of adverse selection.

Summarizing, the voluntary adoption of CSR practices may cover up for less benign reasons, which is not in the interest of policy makers, nor in the interest of those companies that do engage in CSR activities. The strategic uncertainty of CSR is therefore as much a problem for governments as it is for businesses that want to engage in CSR activities, inviting a role for governments.

3.3. Institutional uncertainty

The above analysis has shown that the new type of relationship which is required between governments and business in the context of CSR is complex, welcoming governmental guidance. This complexity is further increased when one considers the changes that are needed in both governmental and business culture. As business and government both have their own institutional[2] background in terms of "*tasks, opinions, rules and language of their own organization, their own administrative level and their own network*" (Koppenjan and Klijn, 2004, p. 7), there is a high degree of uncertainty about the development of the changed business-government interaction process and how the institutional frameworks will be redesigned to tackle these types of uncertainty. What arrangements will be both relevant and timely? How will the network relation itself evolve?

In the context of CSR, the institutional uncertainty originates in (1) political-ideological issues, (2) the existing institutional framework for government and public administration and (3) the risk associated with the certain destruction of existing institutions and the uncertain viability of the new. First, opinions still vary on the legitimacy of New Governance and CSR. Citizens might argue that they do not pay taxes to the government who then let other parties in society solve social problems for free (Salamon, 2002). Others may argue that public authorities just pick up New Governance and CSR to avoid controversial or costly policy problems (O'Toole and Meier, 2004). Furthermore, as both CSR and New Governance are institutional novelties they will always be criticized by more conservative authorities. Strategies on the institutional design for CSR therefore also run into normative and political-ideological issues that can hamper the process of coming to a joint solution for the problems indicated.

Second, CSR involves a shift from a hierarchical, command-and-control to a third-party reliant government and public administration. This shift also requires new institutions and approaches within government and the public administration, with new objectives, new rules and maybe even a new type of people (Kettl, 2002; Eggers and Goldsmith, 2004). These adaptations might conflict with the existing institutional frameworks (traditions, codes of conduct, etc.) and may therefore be slow or even hinder the desired institutional change. This possibility was posited loud and clear in the words of Koppenjan and Klijn:

> *“In applying institutional design, one must be aware of interfering with an existing field of forces, and that the flip side of the creation of new institutions is the destruction of the old. Opposite the uncertainty about the viability of the new institutions is the destruction of the old” (p.214)*

Governments and business are consequently uncertain as to what will happen if the shift from command-and-control policies to a collaborative relationship with business does not succeed. Managing these institutional changes consequently invites governmental initiative.

4. Applying New Governance government tools to the reality of CSR

The previous section demonstrated that the CSR-governmental intervention paradox can be resolved when the different uncertainties that exist in the CSR context are taken into account. Our analysis showed that a possible intervention must be directed at reducing substantive, strategic and institutional uncertainty. The second question this paper intends to answer then is the question how governments can take up this task in a legitimate way, where legitimate means (1) acknowledging the voluntary nature of CSR, and (2) reducing uncertainty.

Table 1 summarizes the possible intervention mechanisms which are proposed in this paper and which will be analyzed in the following subsections.

Insert Table 1 about here

4.1. Managing substantive uncertainty

As was mentioned above, substantive uncertainties can be attributed to the fragmented knowledge and the variety of socio-cultural and ethical differences that exist between the various network partners. A logical solution to resolve substantive uncertainty would then be to have researchers investigate the problem, collect the appropriate information and then distribute it in the network. Useful tools include a variety of communication media, using exemplary cases and good practices, conferences, etc. (for an extended analysis of information as a policy tool, see Vedung and van der Doelen, 1998; Weiss, 2002).

Attempts to reduce uncertainty about a certain issue by supplying information are, however, not always successful. Information campaigns can even be counter-productive by adding more complexity to the debate. Different parties are involved and they may use different and sometimes diverging streams of independent and objective research to win their case. In that case, supplementing more information can result in ‘report rains’ and ‘dialogues of the deaf’. Supplying information is thus not always effective in resolving substantive uncertainty. Koppenjan and Klijn therefore suggest that governments (1) create an enabling environment for *joint image building* and *cross-frame learning*, but also (2) to organize substantive selection of *substantive solutions*.

4.1.1. Joint image building and cross-frame learning

Stakeholders first of all need an environment that furthers the awareness of the plurality of perceptions and preferences that exist. A variety in standpoints on problems and solutions results in an environment that induces both cognitive reflection on the positions that parties take and on the options that exist for creating a solution that is an improvement to all parties involved. Governments can play a facilitating role in this perspective, by (1) bringing parties together in forums and create an enabling environment for joint image building, (2) organizing the input of experts, research and science in such a way that the learning process between stakeholders is supported rather than complicated and (3), when necessary, preventing cognitive fixations and dialogue stagnations by making proposals themselves.

4.1.2. Organizing the selection of substantive solutions

In order to prevent parties from becoming too relaxed, or the debate to become flawed, the building of a joint image on social and environmental problems and the nature of CSR needs a *substantive selection* at some point, a common ground to be defined. The process of this substantive selection is very peculiar in nature. On the one hand, sufficient time is needed for the involved parties to learn and the variety of problem definitions and solutions to be explored. On the other hand, infinite debates might lead the participating parties to loose their interest and commitment. As long as the participating parties are learning, and constructive ideas are proposed between parties that have not reached a joint image as yet, the selection should be postponed (for a comprehensive guide in tackling substantive uncertainty, see de Bruijn et al., 2002).

4.2. Managing strategic uncertainty

In short, we can say that the problems that induce strategic uncertainty come down to a lack of knowledge and information asymmetry. Governmental initiatives that want to tackle these problems should therefore be directed at (1) offering and clarifying opportunities to business to engage in CSR practices, and (2) reducing the incentives that exist for abusing CSR by ensuring correct information flows between business and its stakeholders. Koppenjan and Klijn suggest that efforts to reduce strategic uncertainty must therefore involve openness, transparency and accountability and that interactions between business and stakeholders be carefully managed.

4.2.1. Offering and clarifying opportunities

The information about the strategic opportunities for businesses in CSR is often disseminated through public information campaigns. Since their goal is to increase knowledge and to *educate*, public information campaigns are of value in two ways. First, by informing about best practices and giving case examples demonstrating the business case for CSR and providing advice on its implementation, businesses become acquainted with the possible strategic benefits of CSR and learn how it is best implemented in their environment. Second, governments can also include normative elements in their messages and direct these to both businesses and their stakeholders, thereby hoping to change the normative-cultural environment in which businesses operate (Vedung and van der Doelen, 1998; Weiss, 2002). Public information campaigns are aimed at stimulating the adoption of CSR by businesses and can therefore contribute in decreasing both substantive and strategic uncertainty. Unfortunately, the effects of information campaigns are not always measurable or measured, making it hard to predict its effectiveness (Vedung and van der Doelen, 1998).

Learning can also be induced by bringing company executives together and having them exchange experiences in a network framework (Borgatti and Foster, 2003; Van Wijk et al., 2003). This approach may be particularly relevant to small firms, who have little time and resources to find and interpret information, and want to learn by experience or example (Nooteboom, 1994; EMSF, 2004). Facilitating networks by providing space and communication tools can therefore help to identify opportunities and to increase collaboration in CSR issues.

When convincing by persuasion is insufficient in creating opportunities to business, governments can also rely on market-based incentives (including subsidies, tax benefits, loan guarantees, governmental insurance, taxes, levies; see Leeuw, 1998 and various chapters in Salamon, 2002 for an elaborate discussion on market-based instruments). Incentives make "*public use of private interest*" (Schultze, 1977) by changing the reward rules for the strategic action of the actors involved. Because this behavior can be considered to go "beyond the law", one could argue it to be in line with the voluntary condition of CSR action. However, the question is then if giving incentives will lead to sustained CSR. On the one hand, incentives will help to overcome potential obstacles for companies that want to engage in CSR activities but see financial difficulties in doing so because of high costs. On the other hand, the chance is then that companies that are not interested in taking the effects of their actions into account, but rather engage in CSR activities because it would result in higher profitability, “shirk” their responsibilities and just collect the incentive, or that they drop out as soon as the profit benefit is taken away.

Related to market-based instruments, but less ‘distorting’ are public procurement policies. As governments are large consumers, they can create a CSR product market by linking criteria to their purchases, thereby stimulating companies to adopt CSR practices and giving a good example at the same time (Plas and Erdmenger, 2000).

4.2.2. Reducing the incentives for abusing CSR

Reducing incentives for abusing CSR implies eliminating the information asymmetries between governments, business and society. According to Koppenjan and Klijn, ensuring openness, transparency and accountability is essential to this purpose. The implications of this suggestion, however, quickly lead to a range of policy instruments that involve some sort of coercion and therefore seem inappropriate to the context of CSR. Nevertheless, ensuring transparency and accountability by mandatory reporting and voluntary agreements are two examples that show that coercive governmental intervention is not always incompatible with CSR. Although mandatory reporting and voluntary agreements require compliance, they still rely on voluntary CSR *action*.

4.2.2.1. **Mandatory reporting and labels**

CSR reporting decreases information asymmetries between government, society and business, and therefore also the strategic uncertainty between them. The resulting reports lay bare what a company does to solve social and environmental issues and how it contributes to sustainability. Stakeholders accordingly gain insight in the workings of the firm, which can be used as a basis to grant or refuse it its legitimacy. As a consequence, a company may acquire a good reputation and the economic benefits that are potentially associated with that (Fombrun and Shanley, 1990). Likewise, labeling informs consumers on the products they buy and allow therefore reputation effects and product differentiation to be used for receiving premium prices (Zadek, 1998; Kirchhoff, 2000). Labeling therefore gives a considerable incentive to firms to engage in activities that give them this label. At the same time, organizational reporting and labels also decrease the opportunities for free-riding and moral hazard. The threat of being caught lying on its actions with a possible negative reputation as a result greatly reduces a company's opportunities for moral hazard (Kirchhoff, 2000).

In order for this information to be valuable, however, information needs to be credible and therefore preferably gathered or controlled by an independent third party (Dando and Swift, 2003). Moreover, it is necessary that the information is collected and presented in a way that allows comparison with the performance of other companies (Zadek, 1998; Burritt, 2002; Sinclair and Walton, 2003). A number of initiatives have been taken to this purpose (Global Reporting Initiative, AccountAbility 1000S, SA 8000, EMAS). Governments can thus play a role in ensuring the validity of the content and structure of this reporting as well.

4.2.2.2. **Voluntary agreements**

Voluntary agreements (VA) are defined as "*agreements between government and industry to facilitate voluntary action with a desirable outcome, which is encouraged by the government, to be undertaken by the participant based on the participant's self interest*" (Storey et al., 1997, p.3). They are the result of a company's (or a group of companies') voluntary initiative to make their intentions on how they want to tackle a certain issue clear to the government. As the agreement is often registered in a contract, the government can enforce its compliance afterwards. This protects both the government and business from taking initiatives that are contrary to the objectives as stated in the contract. Agreements between government and business have been widely investigated, especially environmental agreements (Arora and Cason, 1995; Segerson and Miceli, 1998; Delmas and Terlaak, 2001; Delmas and Terlaak, 2002).

Voluntary agreements reduce the strategic uncertainty between governments and business, but also between businesses and their stakeholders, provided that they are supplemented with information disclosure and/or a threat of regulation. Indeed, research has indicated that for VA's to be effective, businesses must be sure of the agreement's stability (Delmas and Terlaak, 2002), which depends on two aspects. First, credible regulatory commitment: firms will only participate in VA's if governments can assure that the rules will not change once the agreements are implemented (Delmas and Terlaak, 2001). Credible cooperation needs credible communication between firms and government (Potoski and Prakash, 2004). Second, governments should also include monitoring and sanctioning procedures in the agreements, by e.g. threatening with regulation if businesses fail to comply with the agreement (Segerson, 1999). This way, incentives for free-riding and not complying with voluntary agreements are reduced.

4.3. Managing institutional uncertainty

Institutional uncertainty arises from the invariable inertness that an existing institutional reality imposes on institutional changes. A new policy paradigm invokes a new vocabulary, calls for new skills and new relations with new people. A first important element for these developments to take place and all the actors to evolve in a direction where more and more businesses take up their social responsibilities is a sound strategy. As the collaborative network between government and business greatly depends on mutual trust, the government's goals need to be clear and communicated to the various network partners. If a government changes policy goals and priorities all too often, or if previous commitments are broken, then it is likely that the success of the network relationship will be rather low because of a lack of trust.

Second, in order for the changing relationships and responsibilities between government and business to become accepted, it is required that all actors in society recognize new rules that structure economic and social life. Institutional design will then be a very importance, but also a very difficult for policy makers. Institutional design involves changing the relation and opinion patterns that structure the strategic behavior within a network. Influencing interdependencies and interactions between various actors in society by organizing meetings, seminars or stakeholderfora, mediating in conflicts and enhancing trust are some of the more important issues that will contribute in this process.

As was indicated before, relying on the voluntary initiative of CSR implies third-party governance, which may require different organizational skills and institutions. Changing these skills and institutions involves a slow process, which first and foremost applies to the people involved. The complexity of network relationships needs people with bridge-building, boundary-spanning, negotiation and communicative skills. Restructuring the government's personnel and their training might thus be imperative (Kettl, 2002).

Salamon (2002) suggests three skills that government's employees should possess in the context of a network-enabling government. (1) At the start of the interaction process, they see governments as initiators of interaction processes, or supporters of the initiative of others. Governments are "activators" and should facilitate in defining the rules and details in the negotiation process. They need "*activation skills*". (2) Once the networks for joint-image building and cross-frame learning are established, governments must be able to sustain them. The management of the institutional arrangements such as voluntary agreements and public information campaigns require different skills than designing laws and command-and-control regulation. Salamon calls this "*orchestration skills*". (3) Finally, governments need "*modulation skills*": the skills to adapt to the ongoing changes and needs of the complex network. New institutions imply the destruction of the old, and it is often not possible to return to the old if the new institutions should fail. Shifting from a hierarchical to a horizontal relationship with society should therefore be assessed on how much authority or subsidy is "enough" and how much is too much, given the negotiations that are going on in the network.

5. Where Do We Stand: Some evidence in the EU

As both New Governance and CSR are both rather new concepts which are only beginning to be taken up, policy makers around the globe have challenging times ahead if they want to use these concepts to fulfill the wishes of society. Focusing on the European Union, however, reveals that a number of initiatives have already been taken which are in line with our analysis. The following subsections are dedicated to finding indications of the current status in the EU, and are summarized in Table 2.

5.1.1. Initiatives to reduce substantive uncertainty

The organization of joint image building has been done in two ways. First, by inviting all stakeholders to comment on the Green Paper on CSR, the European Commission provoked the attention to the issue, stimulating them to think and formulate an opinion about it. In a subsequent phase, the Commission summarized (substantive selection) these opinions and published a White Paper signaling the steps and strategic objectives it wanted to take to further the understanding and dissemination of CSR. Second, the European Multistakeholder Forum (EMSF) literally brought the different parties together around the table to find a common ground for CSR development. Each discussion round also followed with an expert summary, facilitating and framing the process development. The stakeholders' evaluations on the EMSF indicate that this process has indeed contributed to reducing the substantive uncertainty in CSR (Parent, 2004; de Buck, 2004).

5.1.2. Initiatives to reduce strategic uncertainty

Policy efforts for reducing strategic uncertainty vary considerably over the EU countries. Awareness raising and education efforts, as well as market-based incentives can be found everywhere, ranging from labels, certification grants, codes of conduct, standards for guidance and information centers (Tencati et al., 2004 for comprehensive reviews; see de la Cuesta González and Valor Martinez, 2004; European Commission, 2004).

Public procurement policies are only slowly taken up (Warner and Ryall, 2001), but recent initiatives demonstrate the efforts that several government executives undertake to remove the legal obstacles. The European Parliament, for example, issued a directive stating that public authorities may apply environmental and social criteria when awarding contracts, instead of the usual most economically advantageous tender (European Commission, 2002a).

The same diversity in approaches can be noted with respect to reporting. Mandatory environmental reporting can only be found in Denmark, France, the Netherlands and Sweden and is required for pension funds in Belgium, Germany and the UK. Most countries, however, only encourage voluntary reporting or provide reporting standards, possibly due to the European Parliament's preference for the voluntary approach (Joseph, 2002). As a result, the reporting initiatives differ widely on content and structure, probably contributing to more uncertainty than it reduces.

Finally, voluntary agreements are somewhat discarded in CSR policy reviews, although they were formally recognized as an appropriate instrument for solving environmental problems by the European Commission (European Commission, 2002b). The implementation of voluntary agreements, however, is still criticized by NGO's and the European Parliament. The skepticism is very similar to the issues that are raised in the context of CSR, indicating especially the lack of trust that these organizations have in business. Tackling institutional uncertainty may therefore be the most critical element to manage.

5.1.3. Initiatives to reduce institutional uncertainty

Most governments in the EU have incorporated sustainable development or CSR strategies in their policies. The most explicit evidence is the appointment of a CSR minister in the UK, which is considered by some to be the most advanced country in a CSR perspective (Aaronson and Reeves, 2002). No evidence was found on governmental attempts to redefine the human resource base of their public administration and public agencies, indicating either that this shift has not been proposed yet, or that it is not explicitly stated in any formal documents. However, evidence for initiatives to reduce institutional uncertainty may be hard to find in general, as it involves a slow process with many informal and fragmented attempts and may be only assessed through attitude surveys or stakeholderfora participation data.

6. Concluding remarks

In their analysis of public sector roles in strengthening CSR, Fox et al. advocate that *"assessing the role of the public sector by considering only those initiatives that provide incentives for business to go "beyond compliance" would fail to take account of the dynamic linkages between voluntary approaches and regulation and the potential for voluntary initiatives of various kinds to crystallize, over time, into mandatory minimum standards."* (2002, p. 1). Despite the many useful insights that Fox and his colleagues offer, we believe that they ignore the ongoing evolution in public administration strategy to abandon traditional command-and-control policies. In this paper, we therefore opted to explore the many effects that take place when governments accept a reciprocal, collaborative position with businesses whose actions are based on free choice.

In their pursuit for a leaner, more efficient and networked government, CSR seems to be a heaven's gift to policy makers. The promising corporate endeavor to contribute to societal prosperity on a voluntary basis sounds as the corporate answer to government's quest for partners in achieving their policies. Our analysis has showed, however, that there are limits and flaws to CSR when it is put to practice. The manifold business initiatives that are undertaken to integrate social and environmental considerations in their operations reveal the substantive, strategic and institutional uncertainties that arise for the government-business-society network partners. Skepticism on governmental intervention is therefore not entirely justified, as it could tackle issues that are a problem to both business and government.

Governments looking for an “enabling” role to play, germane to the CSR context, should consequently direct their efforts at reducing the described uncertainties, yet leaving as much initiative to corporate free choice as possible. Maximum effect requires governments to consider the following issues:

- Clear strategy formulation: governments need to be open and transparent about the directions in which they want to guide society and the means they want to use to this purpose.
- Complement traditional information campaigns to promote and raise the awareness of CSR with rather innovative policy tools such as stakeholderfora and public consultation campaigns. The latter instruments support the active creation of negotiated knowledge and deepen the visions that parties have in relation to the issues that are involved.
- Ensuring openness, transparency and accountability among business and society by endorsing controlled and uniform information flows between business and its stakeholders.
- Stimulating corporate initiative and protecting it from free-riding by closing voluntary agreements and audit their compliance.
- Managing a governance network is a “people problem” (Kettl, 2002). The success of the former processes therefore greatly depends on a good institutional design and human resources policies.

We believe that, by taking the described uncertainties and methods to address them into account, governments can play a role that promotes CSR and takes its voluntary nature into account at the same time. It also provides insights for business and civil society organizations to achieve a cooperative relationship with governments, rather than retaining the uncertainty with a possible hierarchic command-and-control governmental position as a result.

As a concluding remark, we acknowledge that CSR is no panacea that resolves all social and environmental problems. When uncertain or unpredictable behavior is intolerable, legal enforcement is imperative. As was noted in the introduction, obeying the law is also a part of corporate social responsibility. However, policy makers should not see CSR as a placebo either and realize that it is an extended hand from the business community to cooperate in a combined endeavor towards social prosperity. Governments have a legitimate role in the CSR debate, though considerable attention needs to be given to the policy instruments they use on its behalf and on the limitations that government failure imposes on effective intervention.

Future studies may investigate the effectiveness of different policy instruments in stimulating the voluntary adoption of CSR among businesses focusing on both small and large enterprises. Furthermore, an assessment of the evolution of institutional uncertainty and the convergence or divergence of institutional backgrounds on CSR and New Governance may provide interesting baseline information to tackle the most critical issues in this challenging policy adventure.

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8. Notes

[1] Koppenjan and Klijn speak of ‘wicked problems’ as defined by Rittel and Webber (1973). Wicked problems are essentially problems that cannot be resolved by traditional analysis, because different stakeholders differ on the exact content of the problem and how to solve it. Corporate Social Responsibility can be considered such a problem, for (1) not everyone agrees on its content, (2) CSR posits a unique problem for each individual firm, (3) CSR is related to complex social and environmental problems and issues that are wicked problems themselves, and (4) therefore, no generic solution exists for CSR.

[2] Institutions are defined here as “the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights).” (North, 1991, p. 97)

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Table 1 - Dealing with uncertainties when governing CSR policies

Uncertainties associated with voluntary CSR	**The role of the government in reducing CSR uncertainties**
Substantive uncertainty - Uncertainty about the content of CSR - Uncertainty about the issues CSR covers	Substantive learning - Joint-image building and cross-frame learning - Organizing substantive selection
Strategic uncertainty - Strategic uncertainty on CSR action - Strategic uncertainty on CSR outcomes	Strategic learning - Offering and clarifying opportunities - Reducing the incentives for abusing CSR o Mandatory reporting and labels o Voluntary agreements
Institutional uncertainty - Uncertainty about institutional differences - Uncertainty about the development of institutional changes	Institutional learning - Institutional design and strategy formulation - Competence management

Table 2 - EU initiatives to reduce CSR policy uncertainties

The role of the government in reducing CSR uncertainties	**EU Initiatives**
Substantive learning - Joint-image building and cross-frame learning - Organizing substantive selection	- Publishing Green Paper and subsequent stakeholder consultation process - European Multistakeholder Forum on CSR
Strategic learning - Offering and clarifying opportunities - Reducing the incentives for abusing CSR o Mandatory reporting and labels o Voluntary agreements	- Awareness raising campaigns, labels, codes of conduct, standards, best practice dissemination, etc. - Public procurement policies - Mandatory or voluntary reporting - Voluntary agreements
Institutional learning - Institutional design and strategy formulation - Competence management	- Written sustainable development strategies in policy documents