Visible Hands: Government Policies on Corporate Social Responsibility in Denmark and the UK

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Abstract

Do government policies on CSR in the UK and Denmark reflect distinct domestic political-economic institutional differences as predicted by the Varieties of Capitalism approach, or do they display new forms of governance that primarily address the needs of global businesses? We move beyond the management literature and the literature on public management of particular environmental and sustainability programs to explore a broader government agenda for CSR through a political science lens. We develop a set of expectations that follow from the literature on domestic institutions as well as from the literature that takes into account the role of governments in interaction with transnational actors. We find evidence for a substitution objective in the initial CSR programs of the Danish and British governments (and a mirror objective in Denmark). However, we also find that globalization has motivated governments to use their regulatory authorities pertaining to CSR policies for purposes beyond enhancement of welfare state functions.

Introduction

Corporate Social Responsibility (CSR) is often defined as a voluntary 'beyond compliance' corporate strategy concerning environmental and social issues,[i] yet increasingly, national governments are adopting hard and soft policies to facilitate and encourage CSR. Since CSR policies aim to impact business behaviour, governments in a liberal market economy such as the UK and a coordinated market economy such as Denmark would likely make different policy choices. At the same time the growing influence of multinational corporations challenges the ability of governments to regulate business. This leaves us with a puzzle: do government policies on CSR in the UK and Denmark reflect distinct domestic political-economic institutional differences as predicted by the Varieties of Capitalism approach, or do they display new forms of governance that primarily address the needs of global businesses – needs that may be interpreted through a domestic political policy lens? In order to explore this question we examine the content of government policies on CSR in the UK and Denmark since the early 1990s and thus we also pinpoint how government policy in both the UK and Danish cases has evolved over time.

The very thought of a relationship between CSR, broadly the responsibility of business to society, and government policies would seem counter-intuitive to some. Early definitions of CSR excluded business actions in response to the law or public policies (McWilliams and Siegel, 2001). A key concern was to avoid confusing voluntary behaviour with that which is mandated. However, this position has come increasingly into question both conceptually and empirically (Matten and Moon, 2008; Moon et al, 2010). A strict 'dichotomous' view of public policy and CSR seems impossible given that company policies described as CSR tend to be embedded in the rules and mores of the business systems in which corporations operate (Matten and Moon, 2008). Reflecting this latter view, the European Commission

3

in 2011 changed its CSR definition from voluntary social and environmental initiatives to 'the responsibility of enterprises for their impacts on society'. We focus primarily on the UK and Denmark and explore initiatives that governments label as 'CSR' (Gjølberg, 2009) such as environmental programs, social and employment initiatives and labor and human rights schemes.

Surprisingly in recent years governments have introduced policies, which are directed at encouraging CSR (Bertelsmann Stiftung, 2007; Knopf et al, 2011; Moon et al, 2012; Steurer, 2010). Examples include governmental CSR portfolios and initiatives, subsidies, public procurement, partnerships and non-financial reporting. Furthermore, in the last decade or so, national governments have become involved in new global governance initiatives for CSR, even sometimes contributing to their inception. These initiatives expressly reflect the character of new governance that emphasizes participation, learning and consensus about appropriate standards of business behaviour (Rosenau, 2005).

 CSR has traditionally been the domain of management disciplines focusing on issues such as financial performance (Porter and Kramer, 2002; 2006; 2011), investor relations (Mackey et al, 2007) and brand value and reputation (Berens et al, 2005), while political scientists have been critical of these analyses claiming that they fail to account for the structural causes and political consequences of CSR (Brammer et al, 2012; Gjølberg, 2010; Locke and Romis, 2010; Midttun et al, 2012; Reich, 2007; Vogel, 2005). With the rise of the democratic welfare state, business philanthropic roles largely disappeared (Marshall, 1964). However, the assumption of the centrality of government to govern has been questioned as a result of globalization, deregulation and privatization (Vogel, 2008) as well as rising public expectations (Rose and Peters, 1978). This is reflected in a body of literature on the declining capacity of the welfare state to ensure social welfare (Osborne, 2006; Rhodes, 1996) while others

4

emphasize ideologically and efficiency-driven policies to withdraw the state from some responsibilities (Domberger, 1999; Hodge et al, 2010; OECD, 2005; Parker, 2009; Savas, 2000; Schlar, 2000).

The public management literature on public environmental or sustainability policy programs focuses on the role of public policy processes and political decision making rather than business needs. The journal *Environment and Planning C: Government and Policy* has played a key role in highlighting public policy processes and their implications for public environment /sustainability programs. Scholars writing in this journal explore for example how national environmental strategies are affected by more general patterns of government political institutions and policy goals (Hovik and Reitan, 2004; Steurer and Martinuzzi, 2005; conditions for successful implementation of public policies highlighting in particular the organization of local and national political actors (Lowe and Murdoch, 2003; Russel and Turnpenny, 2009; Nilsson et al, 2009), evaluation of government policies (Cherp et al, 2004), policy learning (Nilsson, 2005 and convergence in EU environmental policy making (Perkins and Neumeyer, 2004). These works typically combine in-depth knowledge of issues such as waste management and EMAS with extensive knowledge and insights into public management processes. However, these works have so far not addressed the broader CSR agenda that in addition to environmental programs also include a range of welfare /social inclusion issues, labor and human rights protection in global supply chains and anti-corruption programs (for an exception see Russel and Turnpenny, 2009).

Recently CSR as a regulatory phenomenon has begun to catch the attention of political scientists seeking to understand the preconditions and implications of corporate social and environmental initiatives. Certainly political science has long acknowledged that capitalism is embedded in moral and

legal rules (Berger, 2000; Polanyi, 1944; Shonfield, 1965; Vogel, 1996) and thus CSR regulation seems well-suited for political science research as CSR can be perceived as a way to 'embed' liberal market forces (Burgoon, 2009; Ruggie, 1982). However, the political science literature is silent when it comes to explaining how domestic institutions constrain the range of available CSR policy choices for governments; furthermore, political science has so far not explored the role of government policies in shaping new transnational governance initiatives in interaction with business and civil society such as the Ethical Trading Initiative, the UN Global Compact, etc. Using a political science lens the purpose of this article is to address these gaps in the literature.

We suggest that in addition to a focus on business needs for CSR as described in the management literature and in addition to a more narrow but deep focus on environmental issues as described in the environmental planning / public management literature, we turn to the political science / comparative political economy literature in order to get a more comprehensive understanding of the content of national government programs on CSR. What is the motivation behind the growth in government policies on CSR and in particular what purpose do such policies serve?

This article is structured in the following way. We first present and discuss the 'state of the art' of the theoretical literature on the relationship between domestic institutions and CSR programs as well as on the role of transnational institutions and actors in shaping CSR. We develop a set of expectations that follow from the literature on domestic institutions as well as from the literature that takes into account the role of governments in interaction with transnational actors. In section II we present our research methodology, and we conduct our case analyses in section III evaluating whether the broad claims or expectations are justified. Section IV contains our discussion and conclusion.

I   Theoretical discussion

The theoretical discussion on the role of government in shaping policies on CSR can broadly be

divided into two categories: One set of explanations explores the link between domestic institutions and

their influence on government CSR initiatives borrowing from comparative political economy

literatures including varieties of capitalism and national business systems. Another set of explanations

starts from the premise that with the rise of the multinational corporation the nation state has become

less relevant – some scholars even view it as irrelevant (Scherer and Palazzo, 2011). Scholars of global

governance describe regulatory activities and regimes on a global level without the supreme authority

of a government (Held and McGrew, 2002; Scholte, 2005) highlighting different constellations of

actors such as non-governmental organizations (NGOs), intergovernmental organizations and

transnational corporations and emphasizing different forms of collaboration and influence across issues

areas

Domestic governance

One set of theories explain the link between CSR and domestic institutions in terms of the presence of

national institutional complementarities (Campbell, 2011) as a key determinant of firms' CSR

initiatives. In short, the literature focuses on explaining the level of CSR in firms, not government

policies on CSR. Two main explanations exist regarding institutional complementarities between CSR

initiatives in firms and domestic institutions. They see CSR as fitting in with domestic institutional

structures and either 'substituting' (Jackson and Apostolakou, 2010; Kinderman, 2009; Matten and

Moon, 2008) or 'mirroring' (Campbell, 2007; Gjølberg, 2009) government policies. This literature

draws largely on the Varieties of Capitalism framework (Deeg and Jackson, 2007; Hall and Soskice,

2001; Kristensen and Morgan, 2012; Martin and Thelen, 2007; Streeck, 1992; Whitley, 1999), seeing distinctions in CSR between companies from different types of institutional structures but leaving actors some choice (Aguilera et al, 2007; Crouch, 2005). The premise is that governments and companies operate in environments, which are in large part structured by rules, organizations, social norms and moralities, and various sub-systems, which could collectively be defined as institutions. Gjølberg (2009) argues that it is not the political-economic institutional context alone that shapes CSR practices but also a country's proportion of globally oriented companies. Gjølberg has identified two separate ways to interpret levels of CSR: 1) coordinated market economies such as Denmark have a high CSR score because CSR strengthens existing domestic welfare policies; 2) liberal market economies such as the UK also obtains a high score reflecting a high outward FDI and a high share of multinational corporations (MNCs). Our main conclusion is that this literature operates at a very broad and aggregate level of analysis and the link between domestic political-economic institutions and CSR is generally assumed rather than demonstrated. Furthermore, the literature does not account for the *content* of government policies on CSR but emphasizes the *level* of CSR in firms.

Scholars have long debated which countries are most socially responsible (Campbell, 2007; Gjølberg, 2009; Jackson and Apostolakou, 2010) and justify conclusions based on rankings in various CSR indices. However, these rankings are often not comparable. For example Gjølberg develops a composite index of a variety of CSR indices. UK firms are overrepresented in indices such as the FTSE4Good and the Dow Jones Sustainability Index where few Danish firms are listed whereas Danish firms are likely to have acquired ISO certification such as ISO 9,001 (a quality management system) and ISO 14,001 (an environmental management system). Many Danish firms also favor membership of the UN Global Compact, which is a CSR initiative that the Danish government recommends for non-

financial reporting (Danish government, 2008). British and Danish firms are likely to have a relatively high CSR score but when we look more closely it appears that British and Danish firms target different indices. It is possible for example that the high representation of Danish firms in the ISO standards also reflects relatively strict government regulation concerning environmental and quality management. Furthermore, the relatively higher representation of UK firms in the FTSE4Good could reflect differences in corporate governance structures with UK companies more likely to be seeking investors whereas a high share of Danish firms are family or foundation owned and depend less on outside investors. To date no investigation has been made regarding whether the divergent substitution / mirroring paths are reflected in similarly divergent government policies for CSR. The substitution/mirror literatures operate at a broad, aggregate level of hypothesis specification. There is therefore a need to develop a more fine-grained analysis of particular mechanisms and processes involved in shaping government CSR policies.

Since the substitution/mirror paths to CSR reflect different domestic political-economic contexts, the content of government CSR policies is expected to vary. The Danish government is likely to adopt CSR programs that support existing welfare state initiatives (Campbell, 2007; Gjølberg, 2009) and the UK government to adopt CSR initiatives that substitute somehow for inadequate welfare state services (Matten and Moon, 2008); Following Gjølberg, we also expect the UK government to focus on policies aimed at supporting the UK's high share of globally oriented firms (Gjølberg, 2009).

Global governance

Society-centered approaches and scholars of globalization highlight the proliferation of regulatory institutions beyond the state (Levi-Faur, 2012) and point to actors such as civil society organizations as

drivers of regulatory change (Abbott and Snidal, 2006; Haufler, 2002), international political

organizations (Frieden et al, 2009; Keohane, 2003) or business (Braithewaite and Drahos 2000; Heritier

and Eckert, 2008; Schmitter and Lehmbruch, 1979). Explanations emphasize how the process of

globalization casts doubt upon the efficiency and legitimacy of the established roles and responsibilities

of the state (Cox, 1987; Kobrin, 2009; Oosterhout, 2010; Stubbs and Underhill, 1999). Political

solutions for societal challenges are therefore no longer limited to the political system but have become

embedded in decentralized processes that include non-state actors such as NGOs and corporations. In

sum, these approaches share an assumption of a domestic governance gap that has to be remedied by

transnational governance (Scherer and Palazzo, 2011; Risse, 2002).

Placing a stronger emphasis on the role of governments in transnational governance interactions Moon

and Knudsen have recently explored how CSR governance can be conceived of as *mutual governance*

involving two elements (Knudsen and Moon, 2012): 1) rather than focus on each actor category

(government, civil society and business) in isolation, this approach highlights the interactions between

them while paying particular attention to governmental actors. For example the Danish government

requires that large firms report on non-financial initiatives and privilege the UN Global Compact as the

preferred mode of reporting; and 2) rather than focus on CSR initiatives as either reflecting home

country government programs and largely ignoring the international dimension or reflecting global

governance that compensates for weak domestic governance, mutual governance highlights how

governments can contribute to shaping CSR governance interactions across borders. This point goes

beyond Matten and Moon's (2008) observation about business responsibilities being implicit in

national business systems as it extends to what Matten and Moon (2008) would describe as explicit

CSR and, moreover, it extends across national business system boundaries. But, contra scholars of

transnational governance (Scherer and Palazzo, 2011), it illustrates that much CSR still reflects patterns of domestic norms and systems, which get internationalised.

Governments can use their power to regulate in novel ways. For example non-financial reporting requirements often do not specify what a report should look like and do not set any penalties for failure to report (McBarnet, 2007). Government, society and corporations can drive CSR regulation by starting a 'regulation chain' involving different constellations of actors including across borders. Our focus is the role of government in shaping regulation.

The business sector in a large economy such as the UK is highly globalized and the UK accounts for a significant share of Fortune 500 companies. In contrast while the 20 largest Danish multinational corporations account for 13-16 percent of Danish GNP, the business sector in Denmark is much less globalized and relies primarily on home and regional markets for trade and FDI (Thompson and Kaspersen, 2012). Despite these differences companies in both countries face increased competitive pressure in a more global market (Thompson and Kaspersen, 2012: Table 1). We expect both the UK and Danish governments to participate in a range of governance initiatives to assist these firms in the global market place.

II   Methodology

Our dependent variable is government CSR regulation in the UK and Denmark. We include in our study the policy programs that governments have labeled as CSR. Our classification draws on Fox et al (2002): governments can *endorse* CSR (e.g. by creating a ministerial portfolio in the area). They can *facilitate* CSR whether by subsidies and tax expenditures (e.g. to companies, business associations) or

by building CSR criteria into public procurement conditions. Governments can *partner* CSR by encouraging and joining business and other actors in CSR partnerships to deliver public goods, to ensure accountability, or to raise business standards. Finally, they can *mandate* CSR (e.g. in the form of non-financial reporting requirements).

We examine the role of domestic political economic systems in the UK and Denmark by investigating government policy documents, speeches, preparatory reports to determine the instrumental motivation for a new government CSR initiative: is it meant to substitute or mirror existing levels of *domestic* welfare services or programs? We also investigate how government engages with transnational organizations and businesses in creating new CSR policy initiatives: do these programs reflect or address specific needs of UK or Danish *global* businesses?

We use qualitative methods to evaluate this data, with the objective of probing the broad statements about cause and effect that we have identified in the literature. First, we start by evaluating government policies on CSR and the extent to which they reflect domestic institutions. Both the UK, a country closer to the liberal market ideal type (Hall and Soskice, 2001) and Denmark, a country closer to the coordinated market economy ideal type (Campbell, 2007) are thought to be leaders in government CSR policy (Knopf et al, 2011) and both have explicit government CSR statements and politics to evaluate.[ii] Moreover, both are members of the EU and are therefore subject to the same umbrella framework of CSR incentives from Brussels. We collect available past and present statements on government policies from these two countries. We conduct case studies (Eisenhardt, 1989; Yin, 1994) where we process-trace (George and Bennett, 2005) public documents and newspaper articles. The purpose is to build and refine hypotheses about the link between domestic institutions, government policies on CSR

and corporate actions rather than engage in hypothesis testing (Yin, 1994) and to explore government choices under institutional constraint (Aguilera and Jackson, 2003) and to clarify complex causalities (Braumöller, 2003).

We also conduct content analyses of leading Danish and British newspapers since 1990 until today. For the UK we examine all newspaper articles published in either the *Financial Times* or the *Guardian*. We have searched for articles that include 1) CSR (or corporate social responsibility) and legislation and all articles that include 2) CSR (or corporate social responsibility) and government policy. In the case of Denmark we have searched *Børsen*, the leading business newspaper. Searches include 1) CSR (or corporate social responsibility) and legislation ('lovgivning') and 2) CSR (or corporate social responsibility) and regulation or government policy ('regulering' or 'regeringspolitik').

Finally, one of us was both an observer as well as an active participant in the shaping of government CSR programs in Denmark as director of a government-sponsored think tank on CSR (The Copenhagen Center for CSR) from 2003-2007. The Center was based in the Ministry of Employment and had a supervisory board consisting of five CEOs from large Danish businesses. Novo Nordisk and Novozymes are among the largest 20 Danish firms measured in terms of share value. Other companies included Post Denmark, HP Denmark and VKR Holding. The Ministry for Employment, the Danish Employers' Association and LO, the Danish Confederation of Trade Unions were also represented on the supervisory board. The Center interacted with key policy makers, businesses and civil society organizations and the director role therefore provides a unique insight into changes in government motivation for CSR policies. The participatory role of author XX was not ex ante defined as that of a researcher and thus is different from that of a researcher engaged in action based research for example.

Yet, similarities exist including the roles of both observer and participant; these roles raise some potential ethical issues since actors involved in the political process have not given their consent to being made the objects of a research program. Our solution is to only report positions or statements by key actors that were voiced in public at the time.

Public CSR policies are very diverse (Albareda et al, 2007; Martinuzzi et al, 2012). Following Gjølberg (2010: 205), we "will not give privilege to any specific definition of CSR, but will instead analyze the meanings governments attach to the term CSR to determine which definitions and interpretations of CSR are reflected by the actors themselves".

III   Case studies – content of government policies in the UK and Denmark

Our purpose in this part of the analysis is to ask whether government CSR policies in the UK and Denmark are directed toward substituting or mirroring domestic social and environmental policies, or if they are geared toward positioning companies to be more globally competitive?

United Kingdom: initial focus on community and employment 1999-2004

The British government was one of the first in the developed world to adopt public policies on corporate social responsibility. In 1999, a Committee of Inquiry appointed by Prime Minister Tony Blair published 'A New Vision for Business,' which set broad goals for a government role in promoting responsible business practices (Forum for the Future, 1999). Private and public sector motivations for these actions were pitched broadly in terms of improving the competitiveness of UK businesses, locally and globally. CEOs from eight large UK companies signed an opening statement

with a clear business case for action: "Companies' reputations and the 'licence to operate' around the world depend on meeting those wider responsibilities while competing effectively." The first of the ten recommendations for government and business also made competitiveness a central objective and highlighted that the government should promote stakeholder business initiatives as a critical element in its overall competitiveness strategy (Forum for the Future, 1999).

By early 2000, the first UK Minister for CSR had been appointed, housed within the Department of Trade and Industry (DTI) to demonstrate the centrality of CSR to economic policy. The broad vision of the government was to promote an interdepartmental approach to corporate social responsibility, and to create a stronger framework for voluntary action by companies of all sizes, both local and global. Between 2000 and 2010, there were seven Ministers of CSR in the UK and the home ministry of the initiative changed three times. As a result, the direction of UK policy in this area has been indecisive. Nonetheless, several initiatives have been launched in support of the broad objectives for government action. In the first few years, the emphasis was mainly on regional development and local employment but later the focus shifted to international competitiveness.

The UK's first CSR Minister Kim Howell emphasized the business case for CSR with a focus on reputation and recruitment. Consumer pressures and issues arising from global supply chains were recognised, but the opportunity for UK businesses was pitched mainly in terms of the ability of companies to find good employees and operate in thriving communities within the UK. Local initiatives and models were often mentioned (Freeman, 2001). In a speech in 2002, the second Minister for CSR, Douglas Alexander emphasized national CSR programs that were linked to goals of eliminating social exclusion and promoting communities. He spoke about the Corporate Challenge

Program, which included a £2 million campaign to foster payroll giving and employee volunteering, aimed at local charities. In the government's 2004 update on CSR, these programs are emphasized under the priority area 'community' in addition to several projects to promote regional and community development being managed by Business in the Community (BITC).

Shifting focus to global competitiveness through CSR

In 2004, CSR Minister Stephen Timms launched a project to define an international strategy for CSR that would bring together and expand existing initiatives throughout government agencies (UK government, 2004). The motivation for the review was to further promote the competitiveness and image of UK businesses operating globally. It is implicit in the report that UK firms are increasingly concerned about global operations, and that significant efforts on global initiatives are underway. As a perceived leader in the area of CSR, the UK wants to position itself to influence and promote discussion in the major global forums where these issues were already progressing, in particular in the UN and the OECD (UK government, 2009). Timms' efforts were institutionalized by the fourth CSR minister, Nigel Griffiths, who oversaw the publication of the International Strategic Framework in 2005.

In the year 2004, the government also introduced regulations within the Companies Act mandating UK companies to publish annual sustainability reports, and expanded responsibilities of company directors who now have a duty of care for society and the environment. Significantly, the new law also calls on companies to report on subsidiary activity and allows UK companies to be held liable for human rights and environmental abuses overseas.

The 2009 update emphasizes the key current drivers of CSR in addition to government policies as the increased interest in Socially Responsible Investing and Globalisation generally (UK government, 2009, p. 11). The main government policies and priorities are described in turn. The first initiative is described in the extensive work within the Department for International Development (DFID) on poverty reduction and the promotion of human rights overseas. This includes DFID's extensive partnership with and financial support for the Ethical Trading Initiative (in place since 1998), a £1.2 million investment to launch the International Fairtrade Labelling Organisation and work with the ILO. The second area mentioned in the report is 'support to business operations in different sectors' to promote business responsibility internationally. The third area in the report is 'promoting CSR on the international stage' through support for the Global Compact, ETI, EITI,ISO 26000 and various activities to foster civil society in the Middle East and elsewhere.

It is only on the fourth point that any domestically focused programs are mentioned under the heading 'tackling disadvantage at home'. The initiatives described here are the business brokerage scheme and local partnerships in community planning and employment, as well as initiatives to promote responsible gambling. It is difficult to measure the amount of government expense and effort going to the various initiatives included under the rubric of CSR. However, the discourse in government policy agendas suggests a continued emphasis on competitiveness as the main objective of CSR and a progressive increase in attention to CSR that is focused on the international sphere.

Press review

A review of the issue of government CSR policy in the press supports the notion that UK policy in this area has had an ongoing and increasing focus on UK business competitiveness at home and abroad.

Our search of the terms 'CSR' and 'legislation' in articles appearing in the *Financial Times* and *The Guardian* between 2001 and 2011 yielded 73 articles directly concerned with UK government policy. Of these, 52 were written between 2001 and 2006 and 21 in the years 2007-2011. Between 2001 and 2003, debates over the role of government in mandating reporting were predominant, with an emphasis on the business case for legislation that could level the playing field and contribute to risk reduction particularly in operations overseas. Only two articles in this period were directly concerned with government CSR initiatives promoting domestic contribution to employment and wage setting. Other articles focused largely on risks in global supply chains faced by UK businesses.

Between 2004 and 2006, a majority of articles analyzed are focused on human rights and environmental responsibilities of companies operating overseas. High profile cases involving oil and mineral extraction companies appear often in these reports. A second theme in the articles from this period is the business case for CSR, and emphasis on government's role in assisting businesses to better understand and articulate the business case. Climate change also takes a predominant place in these discussions. After 2007, articles discussing CSR and legislation become notably more sceptical, with concerns expressed about the negative implications of regulation for SMEs particularly. In 2011, the press reports on negative public opinion on the Prime Minister's 'healthy lifestyle' campaign, which calls on companies to voluntary redress issues related to obesity, excessive alcohol intake and increased incidence of non-communicable diseases related to lifestyle issues. Also notable is the continued emphasis on how the government can support multinationals to address concerns operating in overseas markets. The enhanced UK Bribery Bill, which came into effect in 2011 and directly affects overseas operations of UK firms, is also a key focus of recent reports.

Table 1. Categories of CSR regulation in the UK from 1999 – today

Categories of CSR regulation	1999-2004	2004-present
Endorse	Creation of a CSR Minister BITC and Queen's Awards for Sustainable business Corporate Responsibility Index DFID targeted public information campaigns since 2001 FTSE for Good Index	CSR Academy: promotion of 'business case' and training UK Sustainable Investment Forum: focused on financial sector
Facilitate	DEFRA involved in defining environmental standards Department of Work and Pensions supports Investors in People standard	International Strategic Framework (2005): standardized reporting framework New tax policies to support charitable giving.

| Partner | New Deal for Communities, 1998-2008 supports initiatives to tackle social issues in deprived regions | Ethical Trade Initiative (ETI)

Extractive Industry Transparency Initiative (EITI)

FCO support for Business Leaders Initiative on Human Rights |
| --- | --- | --- |
| Mandate | | UK companies required to publish sustainability reports, including actions of subsidiaries (2004)

Government Sustainable Development Strategy requires all ministries to compile action plan and report on activities (2005) |

Denmark: Initial focus on social and employment issues 1993-2008

The Danish government through its Ministry of Social Affairs in 1993 launched a range of initiatives to encourage companies to employ immigrants, handicapped people and long-term unemployed people.

Basically these initiatives were government-led labor market initiatives subsidized by the state (Bredgaard, 2004 cited in Gjølberg, 2010). These initiatives were referred to in Danish as 'socialt ansvar' (social responsibility) and not the English term 'CSR'. The term 'socialt ansvar' was used to highlight a domestic policy focus. In 1995 Denmark hosted the United Nations Social Summit, and in the wake of the summit then Minister for Social Affairs Karen Jespersen launched a number of public-private partnerships. Jespersen wanted to involve business in developing new solutions to social problems focusing in particular on people outside the labor market 'with other problems than unemployment' such as certain immigrant groups, substance abusers, or people with mental or physical handicaps. Karen Jespersen also launched a National Network of Business Leaders which first advised the Minister for Social Affair and later the Minister for Employment. The first chairman was Nils Due Jensen, CEO of Grundfos, a pump manufacturer. The Network was interested in how to best recruit and train unemployed people with social problems. The Network and the Minister publicly endorsed social inclusion. The Danish government also facilitated such programs by subsidizing new employees for 26 weeks so that they were paid a salary equivalent to social welfare. Furthermore, several companies such as Danish Crown invited a government social worker to have an office in the factory in order to assist new employees; the company also established a special task force which for example went to the homes of new employees to pick them up if they failed to show up for work. The success rate was very high and in 30 out of 31 cases, companies that were given an award for their social responsibility programs continued to employ workers on regular terms after the first 26 weeks (Kirkelund and Kolbech, 2004).

Shifting focus to global competitiveness through CSR

The Ministry for Economics as well as the Ministry for Foreign Affairs grew increasingly interested in the international CSR from around 2003. They argued that the drivers and actors involved in strengthening social inclusion were quite different from those involved in responsible global supply chain management and suggested a shift in the government's CSR focus from a domestic to an international agenda (Morsing et al, 2007). Danish companies also began to focus more on CSR challenges brought about by increased outsourcing (see also Gjølberg, 2010). Several of the supervisory board members at the Copenhagen Center were CEOs of large international firms such as Novo Nordisk and Novozymes (Novo Nordisk earns less that 1% of its total revenue from the Danish market and the figure in Novozymes is comparable). They had long undertaken CSR initiatives with an international focus such as access to health programs in the case of the pharmaceutical industry and they became increasingly interested in focusing on an international CSR agenda. In 2003 Michael Porter also gave a key note presentation in Copenhagen on strategic philanthropy that created a lot of discussion. Some people found the business case argument for CSR to be morally reprehensible but many companies and the government found the claims about strategic CSR persuasive and the claim 'won the battle of ideas'.

On 16 December 2008 the Danish Parliament (Folketing) officially endorsed international CSR and adopted a new Action Plan for Corporate Social Responsibility, which was as a key element of a legislative Act amending the Danish Financial Statements Act. The Act entered into force on 1 January 2009. The key purpose of the Action Plan was to strengthen the international competitiveness of Danish firms (Danish government, 2008: 1). The Action Plan describes how globalization leads to new challenges for companies that cannot be solved by governments alone. The Action Plan includes four focus areas aimed at strengthening the competitiveness of Danish firms through CSR: 1) promote

business-driven social responsibility among both large and small businesses; 2) facilitate business social responsibility through government initiatives including public sector purchasing schemes; 3) highlight Danish firms as front-runners in terms of climate responsibility; and 4) use CSR in order to promote Denmark as a champion of growth.

The Action Plan's statutory requirement is relevant for Denmark's largest 1,100 companies. The government mandates CSR by requiring a large firm to report on the following: 1) its social responsibility policies, including any standards, guidelines or principles for social responsibility the business employs; 2) how the company translates its social responsibility policies into action, including any systems or procedures used; and 3) the company's evaluation of what has been achieved through social responsibility initiatives during the financial year, and any expectations it has regarding future initiatives. If the company has not formulated any social responsibility policies, this must be reported.

Press review

In conducting our newspaper search we looked for articles that contained the words CSR and legislation. We found 22 results (the first article was from 2006) whereas the search that investigated CSR and government policy or regulation gave us five results (the first article was from 2010). If we conduct the search using the Danish term for CSR – social responsibility ('socialt ansvar') we 66 articles and these overwhelmingly focus on social and employment initiatives in Denmark.

The search for CSR/corporate social responsibility overwhelmingly referred to an international CSR agenda. Several articles discussed how Danish and international legislation could promote international competitiveness of firms through the UN Global Compact, the SA 8000 or ISO 26.001. Some articles

23

(written mainly by government representatives and management and a few frontrunner international companies) praise new legislation whereas some companies and liberal market think tank experts (CEPOS) criticize CSR regulation for adding extra administrative costs on companies. The overwhelming emphasis in these articles is on globalization pressures on firms and in particular in challenges in managing global suppliers. A few articles discuss sustainable construction /green buildings under the CSR label but there is no discussion of social inclusion initiatives under the CSR label.

Interestingly the Danish government privileges certain international organizations and their CSR framework. For example the National Action Plan for CSR specifically recommends that companies report following the UN Global Compact Guidelines and institutional investors the UN Principles for Responsible Investment. The Danish government has funded a UN Global Compact business network (through funding from the Danish Foreign Ministry and the Danish Ministry for Economics and Business Affairs). The stated purpose is to prepare Danish firms for growing CSR demands from large international customers. In short, the Danish government explicitly uses CSR policies as a new form of industrial policy bringing on board international organizations and initiatives.

In addition to using CSR as industrial policy, the Danish government also uses CSR to promote new forms of international development programs in collaboration with Danish firms. For example the development branch of the Danish Foreign Ministry (Danida) has supported a wide range of public private partnership projects to try and encourage CSR programs of Danish firms when they operate internationally including 1) setting up schools in Ghana in collaboration with Danish confectionary company Toms and the NGO IBIS; 2) funding an access to water program in collaboration with Danish

pump manufacturer Grundfos; and 3) supporting sustainable growing of vanilla together with Danish enzyme producer Danisco.

Table 2. Categories of CSR regulation in Denmark from 1993 - today

Categories of CSR regulation	1993 – 2008	2008 - today
Endorse	In 1995 Denmark hosted the United Nations Social Summit in Copenhagen. The emphasis was on public private partnerships to assist people with other problems than unemployment. The primary content of new initiatives had *domestic* components: Creation of a National Network of Business Leaders hosted by the Ministry of Social Affairs and later the Ministry for Employment and the creation of the Copenhagen Center for CSR emphasizing social inclusion initiatives	In 2008 the Danish government adopted an 'Action Plan for Corporate Social Responsibility' The main focus was to "underpin the goal of making Denmark and Danish businesses internationally renowned for responsible growth (p. 3)
Facilitate	The Danish government offers companies wage subsidies for a total of 26 weeks to enable	Public procurement has *both a domestic and an international component*:

	companies to hire workers with other problems than unemployment	1) in terms of domestic content public procurement schemes reward social inclusion initiatives including companies that provide vocational training to young people and/or hire people with other problems than unemployment
		2) in terms of international content public procurement requirements reward companies that have adopted programs to manage social and environmental conditions in global supply chains
Partner	The Danish Ministry for Social	With the new government action

	Affairs and later the Danish Ministry for Employment encouraged public private partnerships that focus on *domestic* social inclusion initiatives (creating jobs for disabled people, refugees, job training, etc. These initiatives were developed in the late 1990s and early 2000s	plan for CSR the Danish government encouraged a range of partnerships and multi-stakeholder initiatives such as developing (and hosting meetings for) the ISO 26.001 and business outreach activities for the UN Global Compact
Mandate		The Danish legislation on CSR mandates that large firms report on CSR initiatives in their annual report. The government recommends that large firms follow UN Global Compact Guidelines and institutional investors follow UN Principles for Responsible Investment)

IV   Discussion and conclusion

In this article we have sought to build on the existing literature on CSR government policy in two novel ways. First, evaluating substitution and mirroring mechanisms with regard to CSR government policy is a novum for the literature, which so far has focused on domestic institutional elements such as coordinated bargaining mechanisms and levels of welfare spending and regulation and their subsequent implications for company CSR initiatives. The initial policies in Denmark under the auspices of the Ministry for Social Affairs and later the Ministry of Employment mirror existing welfare services. Social inclusion employment initiatives were made possible by government-sponsored wages to ensure employment of unemployed people (this process was facilitated by the fact that some employers faced a growing demand for labor – see Kirkelund and Kolbech, 2004). Denmark also scores highly in ISO 9001 and ISO 14001 (Gjølberg, 2009) which most likely reflects a relatively strict environmental /work environment legislation (mirroring).

A substitution objective can be seen in UK CSR policy, particularly in the early years. The focus on community development, job creation and encouragement of charitable giving and tax support for social enterprises fits in with this remit. One can also interpret the recent Healthy Lifestyles initiative as an attempt by a conservative government to redress a considerable public health concern (rise of lifestyle-related diseases) by calling on business to 'step in' in favour of regulation. These aspects of government CSR policy fit with the predominant economic policies in modern Britain aimed at reducing state intervention in favour of an increased private sector role.

Second, while the global governance literature starts from a premise of weak or reduced state capacity, our starting point is different: we explore the role of domestic governments in shaping new forms of transnational governance in collaboration with business and civil society. In the second stage of the CSR agenda the shift in policy moves to international competitiveness of firms (and indirectly the home country). The emphasis is on finding solutions to a governance gap for home firms that operate in or source from less developed countries. The objective of CSR now refers to industrial policy and might also touch on government foreign development and security policies as well. In both cases the government takes the lead but engages with a range of other business and civil society actors. The Danish government privileges certain international organizations such as the UN Global Compact while the UK government privileges its own initiatives such as the Ethical Trade Initiative (ETI) and the Extractive Industries Transparency Initiative (EITI).

A key difference between Denmark and the UK reflects their size. The UK is a key *driver* in setting up international CSR initiatives such as the ETI whereas Denmark is a strong *supporter* of global governance initiatives. For example the Danish government collaborates with other governments in order to promote UN Global Compact. The UK globalized business sector is disproportionately well represented in the Dow Jones Sustainability Index and other such indices reflecting a global presence with higher global risks and more resources but we cannot conclude (contra Jackson and Apostolakou, 2010) that the UK's high score here has to do with substitution for inadequate or weak welfare services. The UK's high score is more likely to reflect the globalized nature of British business as highlighted by Thompson and Kaspersen 2002.

The findings in this paper pose a challenge to existing narratives used to explain government initiatives

to foster CSR. Initial CSR programs focused on domestic welfare in both countries with the UK focusing on substituting for low levels of welfare spending and Denmark more likely to build on existing services. In the next "round" of government CSR initiatives, globalization has motivated governments to use their regulatory authority for purposes beyond replication (Matten and Moon, 2008; Jackson and Apostolakou, 2011) or enhancement of welfare state functions (Campbell, 2007; Gjølberg, 2009). The British and Danish approaches to CSR legislation cannot be explained in terms of a zero sum game in which the private sector fills in where the public sector retreats. Nor do we find evidence of the Danish government extending or building on existing welfare services in its regulatory approach to CSR – the new approach instead focuses on non-financial reporting in order to enhance international competitiveness. In short, governments have increasingly used regulation to contribute to new forms of trans-border regulation in order to strengthen national business competitiveness and societal well-being. The approaches that governments take in order to reach these goals, however, are not generic. In both countries studied here, unique national economic, social and foreign policy priorities underpinned specific policies and government actions. The UK government has supported the creation of the Ethical Trading Initiative and public procurement (at least at the municipal levels) increasingly rewards producers that follow these guidelines while the Danish government encourages companies to follow UN Global Compact guidelines when finalizing the annual CSR report.

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[i] In 2011 the EU Commission changed its CSR definition from voluntary social and environmental initiatives to "the responsibility of enterprises for their impacts on society" (European Commission, 2011: 6).

[ii] Some critics have argued that the UK CSR performance is less stellar than commonly assumed (Russel and Turnpenny, 2009). Regulatory impact assessment only implements environment, society and the economy to a limited extent due to closed policy communities and institutional barriers in the form of a technical-rational framing of policy appraisal that does not fit the realities of the policy-making process.