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CORPORATE SOCIAL RESPONSIBILITY

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CHAPTER 13

CORPORATE SOCIAL RESPONSIBILITY, GOVERNMENT, AND CIVIL SOCIETY

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INTRODUCTION

THE last decade has witnessed new roles and relationships between governments and corporations. The UK government has created a ministerial portfolio of Corporate Social Responsibility (CSR); corporations have created forms of self-reporting (e.g. the Global Reporting Initiative), as well as self-regulation (company-specific supply chain assurance systems); non-governmental organizations (NGOs) such as the World Wildlife Fund and Amnesty International have entered partnerships with corporations in order to help them improve various social and environmental practices. There has also been substantial growth in the number of ethical or social mutual funds as well as in the market share of various ethical or social brands (Vogel, 2005).

The purpose of this chapter is to contextualize, illustrate, explain, and evaluate these developments. It begins by exploring the relationship between CSR and particular patterns of business–government–civil society relations. It then examines the patterns of business–government relations (BGR) that are associated with CSR. We explore two basic models. One is the dichotomous view that posits that CSR and government are, by definition, mutually exclusive; accordingly, the scope of CSR is defined by the absence of regulation and public policy. The second posits that CSR is the relationship between market actors and governments.

This essay also investigates changes in business–government–civil society relations which explain the recent growth and development of CSR. Business social responsibilities have ebbed and flowed in certain societies as governmental powers have waxed and waned. In addition, perceived and actual governance deficits at both the national and international levels have played a critical role in the growth of CSR. Finally, we examine the ways in which governments have promoted CSR and the relationship between responsible public and private policies.

CSR, Government, and Civil Society

Howard Bowen, often regarded as the father of CSR, defined the social responsibilities of 'businessmen' as their obligations to 'pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society' (1953: 6). Allied concepts such as corporate social responsiveness (Sethi, 1979) and corporate social performance (Wartick and Cochran, 1985) also link the responsiveness and performance of firms to society in general. Stakeholder models of strategic management typically include 'government' and 'society' as among those constituencies to whom firms should be accountable. (Freeman, 1984). Such definitions beg the question of the relationship between these business responsibilities and those of government either to represent or to meet the interests and values of society.

The Dichotomous View of Business and Government Responsibilities

In his oft-quoted essay, 'The Social Responsibility of Business is to Increase its Profits', Friedman distinguishes the responsibilities of business managers from those of government (1970). This perspective is shared by many skeptics of CSR who are concerned that acceptance of its legitimacy by firms may compromise effective functioning of markets (e.g. Crook, 2005). Friedman's distinction was premised on utilitarian and accountability grounds. His utilitarian case is that political representatives and public officials are trained for and experienced with addressing public policy issues whereas business managers are trained for and experienced in managing business organizations. The accountability case is both that business managers' prime responsibility should be to company shareholders who, he presumes, generally expect profits, while in democratic systems the accountability of government officials to the electorates is secured through elected political representatives. However, arguments which imply autonomous and dichotomous roles to business and government on the basis of democratic accountability are not the sole preserve of the libertarian right. For example, critics on the left have criticized the 'silent take-over' of government by corporations and excessive dependency of governments upon big business (Hertz, 2002; Monbiot, 2001).

This dichotomy has not, however, been reflective of public policy nor of business practice. Governments structure the behavior of private actors to serve public ends through both regulations and incentives. Moreover, public policy is influenced by the articulation and aggregation of business (and other societal) interests and their respective lobbying activities (Finer, 1958; Lowi, 1964). Governments typically partner with business (and other organized interests) to formulate and implement public policy. This occurs not only in 'neo-corporatist' systems in which bargaining among sectional interests and with government is institutionalized (Schmitter and Lehmbruch, 1979) but also in systems such as the USA and the UK where government officials informally engage business and other interests in defining policy objectives and in assisting in their implementation (Heclo, 1979; Richardson and Jordan, 1979). In Britain, Ayres and Braithewaite distinguish among command regulation with non-discretionary punishment; command regulation with discretionary punishment; enforced self-regulation; and self-regulation. They conclude that much UK regulation consists of complementary rather than dichotomous frameworks (1992).

The Embedded View of Business and Government Responsibilities

Although all markets necessarily consist of individuals and companies, they pursue their economic interests in the context of specific social and political environments. As Polanyi (2001) notes, markets are embedded in human societies and are created and maintained by specific state actions, specifically through the design of legal frameworks that protect property rights and assure the integrity of market transactions. According to Granovetter (1985), economic action is embedded in the structures of social relations as well as in hierarchies that shape market incentive structures and economic choices.

By definition, CSR presumes an autonomous corporation, free to exercise discretion in how it deploys its resources. Yet the concept also entails conformance with laws which are primarily national in character, scope, and application, as well as with 'customary ethics' (Carroll, 1991), which again may reflect different ethical systems rooted in distinct patterns of business–government–society (BSG) relations. The significance of this point is underscored by the fact that one of the primary reasons why companies engage in CSR is in order to be trusted by society. The importance of trust is reflected in such terms as 'the social licence to trade', 'legitimacy', and 'corporate citizenship'. Thus, CSR often involves the development of 'network relations' among corporations, as both private and government actors invest in and draw upon social capital (Habisch and Moon, 2006).

There is considerable variety in the structure and regulation of markets; in the accountability of governments and the operation of the justice system; and in the freedom and flourishing of civil society. This is particularly the case with respect to differences among advanced capitalist democracies, stable, authoritarian developed societies, and failed states. In the latter two cases, governments, either by oppressive practices that restrict the functioning of civil society, and/or widespread corruption and incompetence, may make it extremely difficult for corporations to act responsibly.

Even relatively similar systems with strong commitment to liberal democracy and welfare capitalism, such as the USA and Western Europe, can produce important differences in BSG relationships which can in turn produce rather different forms and kinds of CSR. Thus, the relatively more explicit emphasis on CSR found in the USA throughout the twentieth century compared to that in Western Europe can be understood in terms of differences in the role of and social attitudes toward government (this section draws upon Matten and Moon, 2008).

Although the USA has strong local governments that provide primary and secondary public education, tertiary or higher education is in significant measure private, dependent for much of its financing on student tuition and contributions. Not surprisingly, support for higher education has been a long-standing and more important feature of individual and business philanthropy in the USA than in Western Europe, where it is more likely to be publicly financed. Similarly, Western European governments have historically played a central role in labor market regulation, often due to trade union pressure. Their influence is reflected in neo-corporatist relations between organized labour and capital (Schmitter and Lehmbruch, 1979). Accordingly, there was comparatively less scope for companies in Europe to make pensions, wages, and health insurance a component of their corporate responsibilities, as these were either supplied by government or determined through negotiations with unions. By contrast, the American government has played a less important role in supplying welfare benefits to employees and has rarely been involved in wage negotiations. Accordingly, labor relations in the USA have been more closely associated with CSR. For example, at the beginning of the twentieth century, the President of Studebaker Motor Company stated:

> The first duty of an employer is to labor...It is the duty of capital and management to compensate liberally, paying at least the current wage and probably a little more, and to give workers decent and healthful surroundings and treat them with utmost consideration. If management cannot do this, then it is incompetent. (Quoted in Heald, 1970: 36)

Thus, the USA and Western Europe have been characterized by different patterns of business, society, and government relations. These differences include: the relative capacity of Americans for participation (De Tocqueville, 1835/1956), their relative capacity for philanthropy (Bremner, 1988), and, in particular, the relative capacity of business people for philanthropy (Dowie, 2001); their relative skepticism about big government (King, 1973); and their relative confidence in the moral worth of capitalism (Vogel, 1992). Pasquero (2004) has argued that American CSR is embedded in American institutions and culture, particularly in the traditions of individualism, democratic pluralism, moralism, and utilitarianism.

The American government has often not used its regulatory and fiscal capacities as extensively as their Westen European counterparts in such areas as employment law, the provision of social services, and the establishment and financing of cultural institutions. Hence, these represent important dimensions of CSR in America. By contrast, the more collectivist cultural and political traditions of Western Europe explain why many dimensions of CSR that have been historically important in the USA were slower to emerge in Europe (Maignon and Ralston, 2002).

In the light of the embedded view of CSR in business–government–society relations, the question then arises as to why and how CSR norms and practices have changed? This question is especially pertinent as CSR has clearly evolved in important ways in the last decade or so. In the next section, we consider how broad changes in public governance have contributed to the development of CSR.

CSR and Governance

Governance systems have witnessed important changes in the last few decades and these have in turn expanded the scope and importance of CSR.

CSR and Domestic Governance Deficits

In the late 1970s and early 1980s a variety of theoretical perspectives, including neo-liberalism (e.g. Brittan, 1975), and neo-Marxism (e.g. Habermas, 1975), identified a governance crisis in democratic capitalism. Terms like 'ungovernability', the 'legitimation crisis', 'government overload', 'governing under pressure', and 'fiscal bankruptcy' appeared in numerous political analyses.

Concern with the impacts of racial discrimination and disadvantage in the USA prompted corporations in the 1960s and early 1970s to develop CSR policies, particularly in the areas of inner-city development and education. The United Kingdom, a country which had been regarded as comparatively consensual, not only saw a very sharp rise in unemployment in the late 1970s and early 1980s but also urban riots and other manifestations of urban alienation. These had a marked impact on business and the role and importance of CSR. Most obviously, it created general anxiety about the social license to trade which was captured in *The Economist* magazine's description of Marks and Spencer's expenditure on community work and charity as 'making a sensible investment in its market place. If urban disorders become a regular fact of life, many of its 260 stores would not survive.' It added the maxim that 'wealthy high streets require healthy back streets' (20 Feb. 1982).

Another motivation for CSR in this context was to offset the threat of regulation:

> ... companies fear that if they make no attempt to find solutions to community problems, the government may increasingly take on the responsibility itself. This might prove costly to employers both in terms of new obligations and greater intervention in the labour market. Many companies prefer to be one step ahead of government legislation or intervention, to anticipate social pressures themselves and hence be able to develop their own policies in response to them. (CBI, 1981, quoted in Moon and Richardson, 1985: 137)

These developments led to many new manifestations of CSR. Among the most significant and enduring was the creation of the leading British business association for CSR, Business in the Community, which now has over 700 corporate members and a regional support structure.

In other democratic capitalist countries, challenges to postwar systems of governance were less dramatic but nonetheless important. Many governments have followed the UK in privatizing former publicly owned industries, thereby making corporations more autonomous, and in reforming the welfare state, which has often resulted in reductions in state provision. Changes in the responsibilities of corporations in Europe have also been influenced by changes in the state-sponsored systems of political representation, mediation, and exchange among organized interests, particularly of industrial labor and capital, often referred to as corporatism or neo-corporatism. Whereas for the first thirty or forty years of the postwar period these relationships were often relatively hierarchical, broad in scope, and consensual, they have subsequently changed. These changes are related to the emergence of new 'post-industrial'/'post-Fordist' issues (e.g. education, health care, the environment), the proliferation of actors and networks, decentralization of decision-making, and the increase in business self-regulation (Molina and Rhodes, 2002). All these developments have contributed to the recent growth of CSR in Europe.

As a result, the growth of CSR must be understood in relation to the changes in public sector governance that have occurred during the last two decades. The nature and timing of these changes have varied among national systems. They have been particularly marked in Australia, New Zealand, and the UK, most notably though privatization and reforms of the welfare state. Moreover these governments have increasingly turned to governance arrangements that do not involve the deployment of organizational and fiscal resources underpinned by the authority of government. These changes are reflected in titles such as 'Governing without Government' (Rhodes, 1996), 'What's a Government to Do?' (Peters, 1996), and 'The Enabling State' (Deakin and Walsh, 1996).

Initially, much of the business participation in new forms of governance represented an extension of a relatively long-standing tradition of corporate social involvement in the community through philanthropy, with a particular focus on education, training, and local economic development (Moon, 2004*a*; Moon and Sochacki, 1996, 1998). These efforts were often institutionalized both within corporations and in public organizations. More recently, governments have encouraged network and partnership approaches to governance, and drawn in community organizations, NGOs, as well as corporations.

Thus, corporations have assumed a greater role in societal governance not only through markets, but also via networks—many of which also involve the non-profit sector. This in turn has created a policy space for CSR. Beck (1997) argues that corporations have increasingly stepped into a 'subpolitical' role, particularly in ecological issues as governments have blatantly failed to avert or handle the undesired side-effects of an energy-intensive form of production and consumption (e.g. global warming, nuclear power), new technologies (e.g. GM food), or scandals (e.g. mad cow disease), etc.

CSR, Globalization, and Governance Deficits

The growth of CSR also has an important global dimension, again reflecting perceived governance shortcomings. A central theme of much scholarship on the growth of private, market-based, non-state regulation that has emerged to govern a number of sectors, most notably forestry, energy, minerals and mining, and textiles, is that global CSR standards represent a response to the failures of national and international business regulation. According to this analysis, economic globalization, as measured by the growth of international trade and the expansion of international investment, has created a 'governance deficit' (Newell, 2002: 908). Much of the growth of global civil regulation is rooted in the perception that economic globalization has created a structural imbalance between the size and power of global firms and markets, and the capacity, willingness, and ability of governments to regulate them. 'Transnational corporations appear to wield power without responsibility. They are often as powerful as states and yet unaccountable' (Newell, 2000: 121).

NGOs have sought to step into the regulatory vacuum created by the inadequacies of both national governments and international institutions to regulate MNCs by 'forging alliances with consumers, institutional investors and companies themselves' (Newell, 2000: 117–18). While they cannot replace the role of the state, these social movements have created new mechanisms of global business regulation. Moreover, 'targeting companies directly offers the prospect of higher "returns" given that the investment decisions of major TNCs now dwarf those of many states' (Newell, 2000: 120).

Other scholars echo Newell's analysis. According to Knill and Lehmkuhl, global corporate responsibility is intended to 'compensate for the decreasing capacities of national governments for providing public goods [as] . . . internationalization yields an increasing gap between territorially bound regulatory competences at the national level and emerging problems of global scope' (2002: 42–4). Lipschutz (2005) argues that CSR represents an effort to counter or challenge the increasing reluctance or unwillingness of national governments to impose regulations on global firms due to their fear that such regulations will discourage domestic investment and make their economies less competitive.

Accounts of the origins of various mechanisms of global private governance often specifically situate them in the context of the shortcomings of international business regulation. For example, in the late 1980s, the British chapter of the environmental NGO, Friends of the Earth, proposed the creation of an international forest certification regime under the auspices of the International Tropical Timber Organization (ITTO). When the British government made such a suggestion at a meeting of the ITTO in 1989, it was bitterly attacked by timber-exporting countries. They argued that since such similar certification mechanisms did not exist for non-tropical forests, such a certification scheme represented both a non-tariff barrier to trade and an assault on their sovereignty. Accordingly, the British proposal was effectively taken off the agenda. As one NGO activist put it, 'the Forest Certification Council [a private forest certification scheme] was a response to the failure of international organizations that ought to have had the remit to enforce, to implement and develop good forestry standards—ITTO in particular . . . ' (Bartley, 2003: 452).

Subsequently, at the 1992 Rio 'Earth Summit', many environmental NGOs actively lobbied for a binding international agreement on forestry management. However, no such agreement was reached, largely due to the opposition of developing countries. Environmental groups regarded the Rio Summit as close to a complete failure on forestry issues and accordingly concluded that 'private rather than intergovernmental initiatives were the place to focus their energies' (Bartley, 2003: 453).

According to Newell (2002), the growth of interest in the private regulation of global firms is a direct outgrowth of the lack of effective regulation of global firms at the international level. Thus, the regulation of transnational firms was dropped from the agenda of the UN Commission on Environment and Development, while another UN-related initiative—Agenda 21—refused to recommend the creation of global codes of conduct for multinational corporation (MNCs). Likewise, the Commission on International Investment and Transnational Corporations was unable to agree on a code of conduct for global firms due to conflicts between developed and developing nations. While the organization for Economic Co-operation and Developments (OECD) has issued guidelines for MNCs, they are entirely voluntary. 'It is against this background of weak instruments and failed initiatives at the international level that NGOs have begun to target TNCs with increasing frequency and vigor in recent years' (Newell, 2002: 910).

Private labor standards have emerged from a similar dynamic. While the International Labor Organization (ILO) has established minimum standards for working conditions—and these have been agreed to by numerous governments—they are entirely voluntary; the ILO has no enforcement capacity. During the mid-1990s, in response to growing public concern about the treatment of workers by firms in developing countries making products for western companies, American Secretary of Labor Robert Reich asked the ILO to develop a 'global social label' that would certify to consumers that products carrying it were made in compliance with ILO labor standards. His proposal was strongly denounced by representatives from developing countries as a form of protectionism and it was abandoned. This setback in turn encouraged the formation of private labor certification standards that now represent a critical dimension of contemporary global corporate responsibility (Vogel, 2005: chapter 4).

The growth of global CSR can also be viewed in the context of developments in international trade law. The World Trade Organization (WTO) has restricted the ability of governments—even if they were willing to do so—from restricting imports on the basis of the environmental or labor standards prevailing in the exporting country. More specifically, WTO rules generally prohibit a country from requiring product labelling that describes how a product was produced outside of its borders. Many NGOs have actively campaigned for the inclusion of labor, human rights and environmental standards in trade agreements. But while a number of bilateral and regional trade agreements entered into by both the USA and the European Union (EU) do contain such provisions, they tend to be vague and are rarely enforced. Accordingly, private product labelling and certification represents a way to provide consumers and firms with such information without running afoul of WTO rules on non-tariff trade barriers, since the WTO only governs—and restricts—the decisions of governments. Indeed, such measures are entirely consistent with both the spirit and letter of WTO rules, which emphasize the use of market mechanisms.

Government as a Driver for CSR

While CSR is generally viewed as an alternative to government regulation, this does not mean that it is has evolved separately from public policy. In fact, many governments have played an active role in encouraging corporations to voluntarily assume greater responsibility for the social and environmental impacts of their business policies. These initiatives can be distinguished from command and control regulations in that they do not involve legally binding or enforceable substantive standards for corporate behavior. Rather they seek to harness various market mechanisms to promote CSR. They have been promoted by national governments, the European Union and various inter-governmental organizations, most notably the United Nations and OECD. We turn first to examine policies introduced by national governments.

Government Policies for CSR

Governments have often encouraged CSR in order to manage an array of governance issues. Again, there is variety here, reflecting both the ways in which CSR had previously been embedded in business–government–society relations, as well as the ways in which more recent changes in systems of governance have shaped opportunities and imperatives for new forms of business responsibility. Many governments, such as those of Australia and Denmark in the 1990s, shared the UK 1980s government concern with the effects of the unemployment crisis. More recently the UK has been more concerned with the governance of sustainability and new competitiveness strategies. In the case of South Africa, concern has focused on the governance implications of the shift from apartheid to democracy.

Many governments have chosen to draw business further into governance issues without actually mandating behavior and specifying penalties for non-compliance, the more traditional command regulatory model. Thus the UK government's Society and Business website states that:

> The Government can also provide a policy and institutional framework that stimulates companies to raise their performance beyond minimum legal standards. Our approach is to encourage and incentivise the adoption of CSR, through best practice guidance, and, where appropriate, intelligent (i.e. soft) regulation and fiscal incentives.

We can distinguish three main means by which governments can promote or encourage CSR: endorsement and exhortation; facilitation, and partnering (Fox *et al.*, 2002).

First, governments can use their imprimatur to exhort and encourage business responsibility. In the 1980s the UK Secretary of State for the Environment even went so far as to articulate governmental incapacity and dependency:

> ...we (government) do not have the money. We do not have the expertise. We need the private sector again to play a role which, in Britain, it played more conspicuously a century ago than it does now. (Michael Heseltine, quoted in Moon, 2004*a*: 55)

Similarly, in the context of high levels of unemployment and social exclusion in Denmark, the Minister of Social Affairs, Karen Jesperson (2003) initiated the 'It Concerns Us All' campaign to draw attention to the ways in which CSR could assist in addressing public policy problems and formed the National Network of Company Leaders to provide advice to the government with respect to groups at risk of social exclusion due to long-term unemployment, lack of training, mental illness, and alcoholism (Rosdahl, 2001). In Australia, Prime Minister John Howard formed the Business Leaders' Roundtable as a means of encouraging business leaders to think about how they could assist in solving social problems. The Swedish government's CSR initiative invites companies to sign up to a commitment to uphold relevant international standards.

More recently in the UK, the Blair Labour government has given considerable encouragement to CSR. In his first address to the Labour Party as its leader, the Prime Minister announced his support for expanding public–private partnerships in schools. According to the former Minister of Education, David Miliband:

> ... we cannot do this on our own. Education is a joint enterprise—between teachers and students but also between schools and the wider community. Business can sponsor Specialist schools and Academies. Business can contribute to curriculum enhancement. Business can offer work placements and work experience. Business can offer mentoring and governor support. (quoted in Moon 2004*a*: 15)

The creation of the position of Minister for CSR within the UK Department of Trade and Industry perhaps represents one of the strongest endorsements of CSR by a government.

Second, governments can facilitate CSR by setting clear frameworks to guide business behavior, establishing non-binding codes and systems, and providing information about CSR to firms and industries. Those governments which encouraged CSR as a response to mass unemployment (e.g. the UK, Australia) created public policies which encouraged companies to participate by providing work experience and training opportunities through trainee subsidies, and support for the processing of trainees and design and support for qualification systems which companies could use in their own employment decisions (Moon and Richardson, 1985; Moon and Sochacki, 1996).

Governments can also facilitate CSR by providing guidance on best practice. This occurred in Japan where close relationships between government ministries and corporations have developed, reminiscent of the historic roles of the Japanese government in working with major corporations on various dimensions of industrial policy. Thus, the CSR reporting practices of the Japanese closely follow the suggested framework of the Ministry of Environment (Fukukawa and Moon, 2004).

Third, governments can bring their organizational, fiscal, and authoritative resources to form partnerships for CSR. The precise roles can vary but include government acting as a catalyst, convenor, or equal participant. In the UK, the government operates numerous partnerships with business organizations to encourage CSR. For example, it partners Business in the Community through (BITC) sponsorship of the BITC Awards, the Impact on Society Report, and the BITC Corporate Responsibility Index, and through website links. It also partners a network to provide a CSR competency framework, known as CSR Academy. This partnership also includes the business college, Ashridge and the Corporate Responsibility Group (CSR professionals) at the design stage, and the Chartered Institute of Personnel Development, British Chambers of Commerce, the Association of Business Schools, supported by BITC and Accountability, at the implementation stage.

In sum, there has been a broadening of the scope of policies for CSR. Originally mainly oriented at community involvement, they now address a much wider range of public problems. This has been accompanied by a shift in motivation from concern with governance shortcomings to a concern with government enhancement and responsiveness to society and business itself. In addition, there has been an expansion in the means deployed to encourage CSR from endorsing and facilitating to include partnering and mandating through soft regulation.

Government Policies for Global CSR

With respect to government policies for global CSR, we can distinguish those which consist of the development of codes for international business, particularly in foreign direct investment and international supply chains; those which seek to encourage socially responsible international investment; those which require reporting or labelling of social, environmental, and ethical impacts of global business; and those which seek to encourage overall increases in responsibility standards. We illustrate these developments with reference to national government policies designed to shape the international behavior of 'home-based' multinational companies and to policies introduced by inter-governmental organizations such as the OECD, the UN, and the EU.

An early example of international codes of conduct was inspired by the US government. The Clinton Administration encouraged representatives of the apparel industry, labor unions, and NGOs to join the Apparel Industry Partnership in order to improve overseas working conditions. This organization subsequently developed into the Fair Labor Association, which is one of the most important industry labor codes. The British government played a critical role in developing another voluntary code, the Extractive Industries Transparency Initiative (EITE). Its purpose is to increase the transparency of payments made by corporations to governments in the extractive industry sector with the goal of reducing corruption and promoting public sector fiscal responsibility. The government not only participates in the EITE multi-stakeholder conferences but also facilitated it through a £1 million subsidy of the first phase of the EITI's implementation.

It also was instrumental in establishing the Ethical Trading Initiative—an alliance of retail companies, non-government organizations, and trade unions to improve conditions in member company supply chains, with special reference to ensuring that they maintain the international employment standards enshrined in the International Labor Organisation conventions. Similarly, the UK government is a partner in the Fair Trade system designed to help producers raise their incomes though better management and skills and better-managed retail supply chains. It has endorsed the Fair Trade system through supporting media campaigns and facilitated it through assistance in technical aspects creating systems across a range of product types and in representing the scheme at the inter-governmental level.

Both the American and British governments together established the Voluntary Principles on Security and Human Rights. It establishes standards to govern the conduct of security forces responsible for protecting investments by natural resource firms in developing countries. For its part, the German government has established a 'Round Table on Corporate Codes of Conduct' in order to improve labor and social standards in developing countries through codes of conduct. The German government specifically helped organize a code of conduct for global coffee production. The government of Italy has developed a voluntary CSR standard.

At the inter-governmental level, the OECD has issued a set of guidelines to govern the social and environmental conduct of multinational firms. Following a speech in 1999 by UN Secretary General Kofi Annan, the United Nations worked with the International Labor Organization, NGOs, and leading MNCs to form the UN Global Compact. This agreement defined initially nine and later ten standards for responsible global corporate conduct which signatory firms are expected to meet. These standards address human rights, labor standards, the environment, and corruption. These principles were drawn up by companies, NGOs, labor organizations, and UN agencies. The UN assists firms in operationalizing their commitments through Policy Dialogues, Learning, Country/Regional Networks, and Projects (McIntosh *et al.*, 2004). More than 3,000 firms have endorsed the UN Global Compact. Finally, the private investment arm of the World Bank has promoted the adoption of the Equator Principles by global banks. Signatory banks have agreed to develop procedures to assess and monitor the social and environmental impact of project development financing in developing countries. To date, they have been endorsed by forty-one global banks.

Another way in which governments have sought to promote CSR is by encouraging investment funds to consider various social or ethical criteria in allocating the capital under their control. The governments of Belgium, Germany, Sweden, and the United Kingdom require administrators of pension funds to report whether they use social, ethical, or environmental criteria in making their investment decisions, while the French government requires that administrators of pension funds define the criteria they are employing in their stock selection and specifically requires public pension funds to take account of social, environmental, and ethical criteria (Aaronson and Reeves, 2002; Perrini *et al.*, 2006)

Several governments have sought to promote global CSR by requiring firms to report on their social and environmental policies and practices. Various kinds of corporate disclosure requirements have been adopted by Denmark, Germany, Finland, France, and Sweden, while the British have issued voluntary guidelines on corporate social reporting. Other mechanisms that various governments have adopted include giving permission for companies to use social labels if their global production meets various social criteria, providing preferential procurement policies for socially responsible firms and linking trade policies to environmental, human rights, and labor standards (Buckland *et al.*, 2006).

In addition, several regional and bilateral trade agreements include labor provisions whose purpose is to encourage developing country governments to enforce either their own labor standards or those of international organizations such as the International Labor Organization. One of the most important, and successful, of such initiatives involves an agreement between the USA and the government of Cambodia. In exchange for working with foreign investors and local firms to bring Cambodian labor standards in line with those of the ILO, Cambodia textile exports to the USA have received preferential treatment (Polaski, 2004).

These government policies, however, represent only one dimension of the efforts of various governments to promote CSR. Of at least equal importance have been a wide range of informal efforts to encourage firms to engage with stakeholders, learn best practices, and more generally, to persuade firms of the business benefits of acting more responsibly. While many of these efforts have taken place at the national level within Europe, a particularly critical educational role has been played by the EU. On numerous occasions since the late 1990s, the EU has issued statements and reports that emphasize the importance of CSR. For the EU, CSR represents an integral part of its multifaceted efforts to promote European competitiveness: it represents both a strategy for companies to improve their long-term financial viability—and a way for Europe to become more innovative, dynamic, and competitive. To encourage firms to improve their CSR practices and recognize its business benefits, the EU has organized a series of conferences and workshops that bring together employees, trade unions, NGOs, and academics.

In its influential Green Paper of 2001, the European Commission provided a comprehensive inventory of the various ways in which governments could promote CSR as well as an overview of the various dimensions of best CSR practices (Commission of the European Communities, 2001).

The Commission of the EU has issued various reports on the subject of CSR, one of the most important of which is 'Implementing the Partnership for Growth and Jobs'. In this report, the Commission identifies its roles in awareness raising and best-practice exchange, support of stakeholder initiatives, cooperation with member states, consumer information and transparency, research, education, SMEs and the international dimension. (<http://euv-lex.europa.eu/LexUriServ/site/en/com/2006/can 2006_0136en01.pdf>). In 2006, the European Commission (EC), along with several business leaders established the European Alliance for Corporate Responsibility. 'Its ambition is to make Europe a pole of excellence on corporate social responsibility', by promoting cultural change within business (Spidla, 2006: 14). However, the formation of the Alliance disappointed European NGOs, who had hoped that the European Multi-stakeholder Forum on CSR, which had ended in 2004, would result in a policy document that reaffirmed the EC's commitment to involve non-business constituencies in shaping the EC's CSR policies, and would develop a European CSR framework based on internationally agreed standards, such as those of the OECD and the ILO, along with credible provisions for monitoring and verification (Oldenziel, 2000). Nonetheless, the EU, along with the British government, has played a critical role in promoting awareness of CSR among European-based firms.

Redressing the Government–CSR Balance

We have suggested that while CSR is primarily associated with corporate social and environmental initiatives that are voluntary in the literal sense, they are not legally required, in fact, CSR cannot be viewed in isolation from government. This is true in a number of respects. First, the specific national content of CSR reflects the role of the state: areas in which the state has assumed a central role are less likely to be the focus of voluntary corporate initiatives. This in part explains why historically CSR emerged first in the USA, the capitalist polity in which the state has played a much smaller social role than in other capitalist democracies.

Second, CSR has emerged at both the national and international levels as a response to the perceived failures, shortcomings, or limitations of government regulation: its emergence in large measure reflects a perceived government deficit. This in part explains why CSR has recently become much more salient in Europe, where on some dimensions the role of government has diminished and the importance of business and markets has increased. Governance failures also help us understand the increasing importance of global CSR: corporate codes governing global firms and global markets in large measure reflect the perceived shortcomings of existing national and international laws to govern the recent expansion of global business.

Third, somewhat paradoxically, many national governments, along with international governmental organizations such as the UN, World Bank, and OECD, have themselves played an important role in promoting CSR. Such initiatives can be usefully seen as a form of soft or market-based regulation: they typically do not mandate specific kinds of corporate conduct or behavior, but rather seek to encourage firms to act more responsibly, through measures such as reporting requirements for firms and financial institutions, reports on business practices, support for research and working with firms and industries to establish voluntary codes, etc. Their motives vary. In the case of international organizations, CSR initiatives represent an effort to enlist the support of the private sector to further their broad policy goals. For its part, the EU regards CSR largely as a way to enhance the global competitiveness of European firms, while many national governments are responding to public pressures to reconcile economic globalization with various social and environmental objectives.

In the final analysis, corporate and governmental responsibility are invariably related. This in turn raises two additional, critical issues. The first has to do with the role of business in affecting public policy; the second has to do with linkages between corporate voluntary initiatives and public policy. The first primarily involves business–government relations in developed countries; the second addresses business–government relations in developing ones.

The boundaries between business and government do not take place in a vacuum; they are strongly influenced by corporate political preferences and their lobbying activities. For all the increasing importance of CSR, public policy remains the most important vehicle by which private business purposes and broader social objectives can be reconciled. Accordingly, one of the critical dimensions of CSR involves not what firms do voluntarily, but the role they play in affecting government regulation of business. While CSR is often viewed as an alternative to regulation, in many areas, corporations cannot afford to engage in more responsible behavior unless public policy requires that all firms act in a similar manner. This suggests that the definition of CSR should be expanded to encompass how, to what extent, and for what purposes corporations participate in the policy process. In other words, corporate lobbying also needs to be responsible. (For an extended discussion of this dimension of CSR see 'Towards Responsible Lobbying: Leadership and Public Policy', 2005.)

One important example that illustrates the interdependency of CSR and public policy involves global climate change. On one hand, according to one study, 74 companies from 28 industries have adopted policies to reduce their greenhouse gas emissions, and these policies have produced cost savings of more than $11 billion (*The Economist*, 10 June 2006: 59–60) Yet on the other hand, many capital-intensive firms are reluctant to make long-term investment decisions until they know the future scope and extent of government regulation of carbon. Consequently, several business leaders in the UK, organized into an association called Corporate Leaders on Climate Change, have indicated their interest in working with the British government to support sound, long-term responsible public policies that will enable them to address the business challenges of global climate change without incurring a competitive disadvantage. In early 2007, a similar pro-regulation business coalition with respect to climate change also emerged in the USA.

The limitations of CSR—and the need for it to be complemented by responsible public policies—emerges even more starkly in the case of developing countries. In the case of labor standards, western firms lack the capacity to adequately inspect all their suppliers; host country government regulation also needs to be strengthened if labor practices are to be improved. 'Although codes of conduct are a force for positive change ... current approaches are far likelier to bring sustainable improvements when implemented within comprehensive, public sector-governed frameworks. Governments have good reasons to invest in developing such frameworks ... that contribute positively to national competitiveness' (Cramer and Pruzan-Jergensen, 2006: 76).

In the case of failed states plagued by violence, civil war, and ethnic strife, corporate community building programs are likely to be ineffective. Perhaps most importantly, private sector efforts to reduce corruption are likely to fail unless developing country governments improve their own governance. In short, as a World Bank study concludes, for CSR in developing countries to be effective in improving social, labor, and environmental practices, the public sector has a critical role to play. Strengthening local governmental capacity represents an essential condition for improving the impact of CSR. To accomplish this requires the coordinated efforts of firms, developed country governments, and international institutions (Ward, 2004).

Conclusions

We have seen a range of ways in which CSR is located in business–government–society relations. CSR is thus highly contextual, depending particularly on the country and the general state of governance at any one time. The nature of CSR is therefore unlikely to be stable as respective actor responsibilities undergo continuing reappraisal and redefinition.

Looking to the future it is worth noting that there is some evidence of a shift in the motivations of governments for encouraging CSR. Twenty or thirty years ago, this tended to be associated with addressing various governance deficits. More recently there has been greater attention to the more positive impact of improving policies with respect to issues such as social cohesion, national competitiveness, and social and environmental sustainability. This is complemented by the interest of government not simply in encouraging CSR but also in developing CSR capacity, suggesting that governments see CSR as a long-term feature of societal governance and business regulation.

Second, there is evidence of a shift from simply endorsing and facilitating CSR to include partnering and even mandating CSR through soft legislation. Again, this speaks of a greater desire to institutionalize CSR in the government's own work and its relations with business. Partnerships tend to entail ongoing relationships and commitments and soft legislation gives rise to searches for benchmarking and best practice.

Governments have not used CSR as a vehicle for simple privatization, in the sense of a wholesale shift of responsibility from the public to the private sectors, but rather to complement government policies. This development reflects new forms of governance in which governments employ a much richer and subtler array of mechanisms to affect business behavior, rather than simply employing rule making and enforcement. Rather than imposing legal compliance, the use of policies that endorse, facilitate, and partner with firms is further characteristic of the new governance paradigm which emphasizes norms, networks, incentives, and voluntarism. Thus, CSR constitutes part of a change in the mix of governance roles and in the balance of government's own tools and resources with those of other actors; in effect, creating a shift towards 'the enabling state' (Deakin and Walsh, 1996: 33–48). Moreover, government involvement in CSR can assist business in addressing some collective action problems by, for example, initiating and providing resources and legitimacy for new CSR initiatives.

The new roles of business in these new forms of governance pose a number of challenges for managers. First, managers will need to be attentive to the responsibilities that participation in government CSR policies will entail. In the new forms of governance, which have fewer rules and clear boundaries, some managers are expressing concern that expectations are being made of business which are outside of their proper sphere of responsibility. Relatedly, the network and partnership aspects of new governance do risk a certain clouding of accountability that managers would do well to clarify. The conjunction of CSR as a mechanism for corporate social investment and societal governance blurs two different types of accountability system—the corporate and the governmental as adumbrated by Friedman. One does not need to agree with the dichotomizers of business and government activities to share an interest in the question of where accountability lies if CSR is inspired or legitimated by government.

In conclusion, not only is CSR an idea that has blossomed but so too has government's interest in encouraging it. What once would have seemed paradoxical or even a contradiction in terms can be understand in the context of the emergence of new forms of governance at both the national and international levels.

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