Determinants and Impacts of Corporate Social Responsibility: A Market Centric Approach

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Preface

The aim of this thesis is to analyze how and why firms engage in activities that enhance living conditions either by contributing to a better social environment or by contributing to a more sustainable natural environment. This does not imply that firms in general enhance their social and natural environment. We all know that many firms pollute their environment and exploit low wage workers. But firms also enhance their social and natural environment. They may strive to contribute in this way by adapting their business operations, or they may donate resources and direct attention to worthy causes with little or no connection to their business operations. This thesis considers a broad range of possible antecedents and implications of such corporate activities.

The first half of this PhD project was part of a larger project concerning Corporate Social Responsibility (CSR) at the University of Stavanger entitled "The international developments and dissemination and implementation of CSR in the Norwegian clothing sector". This CSR project was financed by the Research Council of Norway, and lasted from June 2007 to December 2008.

I would like to thank my colleagues at the University of Stavanger, scholars I have met at research conferences and anonymous reviewers for comments and critique during the past four years. In particular, I would like to thank my supervisors Oluf Langhelle (University of Stavanger) and Colin Crouch (Warwick Business School). I would also like to thank my colleges and friends; Bjørn-Tore Blindheim (University of Stavanger), Ole Andreas Engen (University of Stavanger), Atle Blomgren (International Research Institute of Stavanger), and Rune Fitjar (International Research Institute of Stavanger). Finally, but not least, I thank Birgit, Arnfinn, and Elise for encouraging me, and Even and Amund for inspiring me, throughout this journey.

Stavanger, 7 December 2010
Thomas Laudal

Summary

Aims

The main research aims of this PhD project is to contribute to a better understanding of three themes related to corporate social responsibility (CSR): First, how should we understand CSR by taking into account the core characteristics of the corporation in the market economy? Many academic contributions take the view that economic profitability is one of the social responsibilities of the firm, but few focus on the implications of the firm's market position for CSR. Second, how may we establish a link between CSR impact and indicators of sustainable development? It is argued that the dominant model in this area, the "triple bottom line model", fails to point out important qualitative differences between economic, social and environmental values. Third, how does the interplay between the firm level and the societal level influence CSR? Academic articles on determinants of CSR tend to focus either on the firm level, or on the societal level. This thesis considers if, and how, CSR related features at the societal level may inform our understanding at the firm level and vice versa. In empirical analysis of CSR we consider possible implications for government policies.

Market centric approach to CSR

This thesis contends that we should use a "market centric approach" to better understand why and how firms seek to improve their social and natural environment. The approach is based on Bowman (1973), Sethi (1979), and Crouch (2006). CSR is here understood as efforts to internalize and institutionalize externalities produced by business transactions, prompted by the corporation's own business strategies or by government policies. "Internalizing" an externality indicates that a business entity bears all, or part, of the costs related to certain negative externalities, or obtains advantages related to certain positive externalities. "Institutionalizing" an externality indicates that the firm's organizational structure and business model is adapted in order to ensure that the externality is internalized over time. CSR performance is seen as a transitional process ending when the externality cost is institutionalized.

This approach ensures that firms' CSR performance is understood in light of their need to perform as well as, or better, than their competitors. It is argued that this perspective not only considers the "realistic" competitive context of the firm, it also recognizes that firms have unique resources, it capitalizes on insights in economics, it addresses the interests of shareholders, and it suggests that indicators of sustainable development should be used when we measure the impact of business on its social and natural environment. When focusing on the impact on the social and natural environment, we may further distinguish between "first order CSR impact" and "second order CSR impact". "First order CSR impact" is associated with impacts on the social and natural environment which is measured quantitatively by estimating the effects of externalities on the social and natural environment. "Second order CSR impact" is associated with the systemic impact on the social and natural environment and measured by identifying how "first order CSR impact" influences indicators of sustainable development. The second order CSR impact may also be said to be the impact of increasing entropy (the production process) on systemic conditions for sustainable development.

CSR and sustainable development

The dominant model of the relationship between CSR and sustainable development is the "triple bottom line", often attributed to Elkington (1997). It is in this thesis argued that the triple bottom line model fails to point out important qualitative differences between economic, social and environmental values. In a narrow sense, economic sustainability is the most fundamental requirement for all firms. There are many profitable corporations which do not fulfil basic requirements for social and environmental sustainability, but there are very few examples of firms succeeding in the social and environmental field while struggling economically. Sustainable development is therefore incorporated in a model of CSR which reflects the primacy of economic factors in corporate accounts, and the primacy of sustainable development when considering the CSR impact.

The CSR potential and the role of government

The "CSR potential" is here defined as the presence of sector-specific features that represents a risk of violating global CSR standards (Article 01). A high

CSR potential indicates that there is a potential for positive influence through CSR-related actions. The features identified in the international clothing business are shown to be consistent with more general features of the global economy (asymmetric relations, the product cycle, and transnationalisation). Thus, the CSR potential of the international clothing business seems not only to be a product of sector-specific properties, but also of more systemic and general features of the global economy. This suggests that the CSR performance of individual companies may enhance their social and environmental impact, but will probably have little effect on the features that determine the CSR potential. To affect these features we rely on other institutions to act – mainly governments and international organisations. Therefore it seems that the CSR potential identifies an area which is out of reach for the CSR performance at the firm level. A high CSR potential may be associated with attributes of the value chain. The part of the value chain where we find that the highest CSR potential seems to vary according to branch of industry (Article 05). Firm characteristics also influence the drivers of CSR.

Findings in Article 01 suggest that governments, before choosing any policy tool, should map their alternatives and possible impacts by determining the CSR potential of the sector(s) in question. Governments also need to adapt their CSR policies to attributes of the value chain since the influence of the value chain on CSR varies according to each branch of industry. Finally governments' CSR policy should differentiate according to firms' size and degree of internationalization, and should aim to design CSR incentives which are aligned to the business interest and the core competencies of firms. In developing countries evidence suggest that national CSR policies should target small and medium sized enterprises, not because of their lack of visibility which may lead to a lack of reputational incentives, as in developed countries, but rather because of their lack of autonomy.

Epistemological position

The main variable in this thesis – the corporation – is clearly a social construct. We consider intentions, acts, and impacts on behalf of a rather loose and diverse union of employees, managers and owners. The corporation may be interpreted as an agent for change, as a symptom of the state of affairs, or as a part of a constraining social structure. A number of properties of this vehicle are only to a limited degree questioned here. For example, we take for granted the popular understanding of the core functions of the corporation, the processes of value aggregation and internal authority in the corporation, and a “market” where companies compete for market shares by maximizing profits. Thus, many key conceptions and attributes of the business culture influence our understanding of the corporation. Applying conceptions which correspond to the terminology of business leaders warrants that the premises, findings, and implications of the study may be part of a realistic design for change.

This research design resembles a modern positivist approach (see Little, 1991 and Crotty, 2003) which may be characterized by three features: a behaviourist perspective, a distinction between descriptive/factual evidence and normative elements, and a belief that knowledge may be established by empirical generalizations.

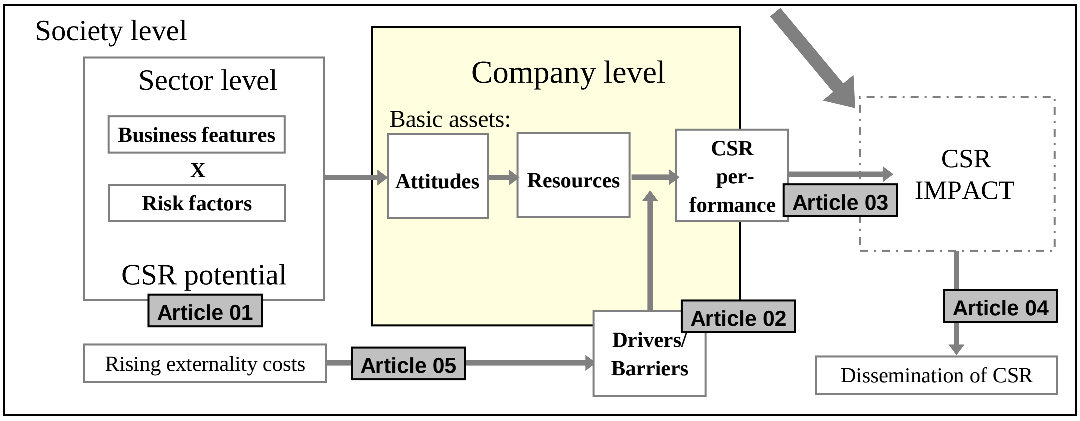
Further research

There are at least three areas where further research would likely complement and modify the contribution of this thesis: First, there are very few comprehensive academic studies which attempt to combine an economic and a multi-disciplinary approach to CSR. Combining these approaches has the potential of enriching the economic literature by including a broader range of premises and contextual evidence. It also has the potential of reducing the vagueness of the multi-disciplinary literature by demanding more stringent designs, falsifiable propositions, and a more explicit definition of variables. Second, according to the market centric approach, CSR is a transitional process during which businesses seek to internalize externalities, prompted by the corporation’s own business strategies or by government policies. Thus, the incentives for CSR are provided by both corporations’ own business strategies and by government policies. But what kind of relation is there between business strategies and government policies? To study this relationship we need longitudinal surveys of how incentives work in different industries over time, and comparative studies of how CSR policies at the government and business level interact in different countries. Third, the market centric approach to CSR has few references to corporate managers’ attitudes. This is because CSR is associated with societal, sector, or firm level effects. It is

obvious that "good deeds" by corporations also depend on the attitudes and the willingness of corporate managers. A favourable attitude towards CSR is a necessary, but not a sufficient condition for CSR performance. On this background research uncovering the relationship between attitudes at the manager level, and strategies and policies at the corporate and government level, using the market centric approach to CSR, would be a valuable contribution.

ARTICLES IN CONTEXT

The articles in this thesis may be associated with different parts of a CSR impact chain, differentiating between "CSR potential", "CSR performance" and "CSR impact". The position of the five articles in this chain is illustrated below.



The CSR impact chain: The CSR potential, the CSR performance, and the CSR impact.

The wide arrow affecting "CSR impact" in Figure 2 illustrates the possible spurious influences of the CSR impact. The possibility of spurious influences is a concern in all the articles in this thesis. The focus of this figure is on the role of firms. This thesis argues that the contributions of governments and civil organisations are vital to ensure a strong CSR impact. But the policy instruments and roles of governments and civil organisations is not a core issue in any of the articles included in this thesis, though the findings in these articles have possible implications for government policies. In **Article 01** a high CSR potential represents a risk for violating international CSR standards. These violations may be due to structural factors at the sector level. A high CSR potential is interpreted as an incentive for CSR performance and the CSR performance causes a CSR impact. Drivers and barriers of CSR are shown to vary according to the size and internationalization of firms in **Article 02**. However, this article does not consider individual firm factors or

sector level features. The article focuses on how drivers and barriers of CSR vary with regard to different stages in the transformation of a small and medium sized enterprise to a multinational enterprise. **Article 03** considers factors that contribute to a strong CSR impact. It is argued, with reference to eight case studies, that the perception of CSR as potentially profitable and utilizing the corporation's core competency is vital. In **Article 04** the dissemination of CSR is analyzed with respect to environment categories (GDP/capita), institutional pressures and incentives for dissemination of CSR. Internal factors of the corporations are not included here because they are judged to be part of the aggregates referred to as "environment category". Finally, the effect of rising externality costs on CSR performance is exemplified in **Article 05**. It is shown that this effect may vary according to the CSR potential of the sector. Many individual drivers of CSR may be understood as a response to rising costs of externalities. It may be efforts to control suppliers, or greater sensitivity to public sentiments.

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Part I

1 Introduction

1.1 What this is all about

It could be said that this PhD thesis concerns politics by and through firms[1]. Governments influence firms' private policies, firms influence governments' public policies, and firms, like governments, influence political issues directly. It may concern the distribution of income, the pollution of the environment, or the working condition of employees. The firm's influence may be due to a business opportunity identified by the firm itself, to incentives in government policies, or to a combination of business opportunities and government incentives. When a firm influences policies it may have a number of roles. It could be seeking new business opportunities, it could be a tactician seeking to improve its framework conditions, it could be only pretending to do good to improve its reputation, or it could be genuinely committed to improve the firm's social and environmental impact. These roles are not mutually exclusive; most large corporations probably juggle all four at once.

The literature on corporate social responsibility (CSR) rarely highlights the link between; business transactions, CSR related actions, and the firm's impact on conditions for sustainable development. In particular, we find few studies on CSR taking into account the competitive pressures which firms have to tackle to stay in business[2]. Few studies also consider the relationship between business transactions and CSR practices at the business level. And the impact of CSR on sustainable development is often not mentioned at all, or it is referred to, but without any reference to how it should be conceptualized or measured. Here, an approach to CSR is suggested which takes into account that businesses – what-ever type of CSR they engage in –

[1] It refer to a "firm", "business" or "company" when there is no need to qualify this unit. A "corporation" normally refers to a larger business unit. "Corporate social responsibility" is regarded as an activity with relevance for companies of all sizes. Firms with less than 250 employees are referred to as "small and medium sized enterprises" (SMEs). Larger firms with activities in at least three countries are referred to as "multinational enterprises".

[2] Porter & Kramer (2006) is one of the few articles on CSR focusing on competitive pressures. But this article does not offer a precise definition of CSR.

must be profitable in the long run, and an approach which takes the view that CSR – what-ever type – should be considered against the impact on sustainable development.

This approach is entitled “the market centric approach to CSR”. It is argued that the market centric approach is well suited to understand how and why firms influence their social and natural environment. The point of departure of this approach is that firms’ effort in this area should be understood in light of their need to perform as well as, or better than, their competitors. The market centric approach sees CSR as efforts to internalize externalities. It is argued that this perspective not only takes into account the “realistic” competitive context of the firm, it also recognizes that firms possess unique resources. In addition it capitalizes on insights in economics and addresses the interests of shareholders. It is further argued that this approach enables us to identify a direct connection between business transactions and CSR, and between CSR and the impact on sustainable development.

1.2 Research aims

CSR is often understood as businesses’ efforts to integrate social and environmental concerns in their operations on a voluntary basis (EU, 2001). A more precise and elaborate understanding of CSR is developed as a part of this PhD. This understanding is named a “market centric approach to CSR”[3].

The articles in this PhD project have a common denominator: an interest in how contextual factors and firm characteristics influence CSR. Among the contextual factors, the thesis considers sector specific features, elements related to the position in the supply chain, and public perceptions of CSR. Among the firm characteristics, the thesis considers firm’s degree of internationalization, its size, knowledge intensity and labour intensity.

The main research aim of this PhD project is to contribute to a better understanding of the following questions:

[3] We will return to this understanding in chapter two.

- *How should we understand CSR by taking into account the core characteristics of the corporation in the market economy?* Many academic contributions take the view that economic profitability is one of the social responsibilities of the firm, but few focus on the implications of the competitive pressures[4] for CSR[5]. Lee (2007) points to a trend in the CSR literature in the 90's of a tighter coupling between CSR and corporate financial performance. This literature shows how CSR may generate corporate profits, but few of these contributions take the view that CSR should be *defined* as efforts that are intended to generate corporate profits *and* a beneficial impact for the social and natural environment. By linking our understanding of CSR to business externalities – and thereby also to business transactions – we analyse CSR as a derivative of competitive business operations.

- *Can we establish a link between CSR impact and indicators of sustainable development?* The dominant model in this area is the "triple bottom line", often attributed to Elkington (1997)[6]. It is argued in this thesis that the triple bottom line model fails to point out important qualitative differences between economic, social and environmental values. In a narrow sense, economic sustainability is the most fundamental requirement for all firms. There are many profitable corporations which do not fulfil basic requirements for social and environmental sustainability, but there are very few examples of firms succeeding in the social and environmental field while struggling economically. Here, sustainable development is therefore incorporated in a model of CSR which reflects the primacy

[4] Here, "competitive pressures" refer to the pressure to perform as well as, or preferably better than, the firm's competitors.
[5] Dahlsrud (2008) seems to contradict this claim when he concludes that the "economic dimension" is frequent in published CSR definitions. However, this economic dimension includes unqualified statements such as "CSR contributes to economic development" and will therefore include a much larger number of contributions than the group focusing on *implications for CSR* of competitive pressures.
[6] An example of a good critique of the triple bottom line, without presenting an alternative, is Norman & McDonald (2004).

of economic factors in corporate accounts, and the primacy of sustainable development when considering the CSR impact.

- *How does the interplay between firm level and societal level influence CSR?* The academic literature on determinants of CSR tends to focus *either* on the firm level, *or* on the societal level[7]. Here, the aim is to consider how CSR related features at the societal level may inform our understanding at the firm level and vice versa. Features at the societal level could be the geographical spread of the supply chain, the labour intensity, the market power of the main corporations, or characteristic features of public regulations. A better understanding of the interplay between elements at the firm level and societal level will contribute to a better understanding of how governments should stimulate CSR, and how companies should find a profitable and effective CSR strategy. Are there valid recommendations? We consider whether our approach leads to recommendations for governments in empirical analysis of CSR.

While this thesis does not provide full answers to the questions above, it none the less provides partial answers with important policy implications.

1.3 Structure of this thesis

In Part I the aim is to present the main arguments and findings in the articles as a part of a coherent whole within a market centric approach and to extend the arguments and develop some new issues and questions related to the arguments and findings in the articles.

In chapter one the overall research aim and main concepts in this thesis are presented.

[7] Examples of important contributions focusing on the firm level; Carroll (1991), Wood (1991), Donaldson & Preston (1995). Examples of important contributions focusing on the societal level: Fox et al. (2002), Doh & Guay (2006), Ruggie (2007). Relatively rare examples of contributions which combine the firm level and the sector level; Crouch (2006), Albareda et al. (2007) and Matten & Moon (2008).

Chapter two presents the theoretical basis of the articles. The market centric approach to CSR is defined in section 2.1 and then discussed in 2.2 and 2.3. Advantages and limitations are presented in 2.4 and 2.5. Here the market centric approach to CSR is addressed in a wider context. It might be said that chapter two substantiates the market centric approach and makes the argument that this approach is better suited to incorporate CSR as an element in private and public efforts to enhance sustainable development, than the triple bottom line approach. In the last part of chapter two the relationship between the market centric approach and institutional theory is discussed.

In chapter three the literature related to the wider role of business in society is presented. This literature is compared to the CSR literature. Then it is considered whether the themes in the literature on the wider role of business in society concern externalities (the main element in the market centric approach). Finally the main research questions in the articles are presented.

The epistemological position of this thesis is presented in chapter four. This chapter includes brief sections on the data sources and on the sampling techniques. The validity of the market centric approach to CSR is discussed in the last section of this chapter.

Analytical approaches and findings of the articles are presented in chapter five. The last section in this chapter (section 4.6) attempts to position each of the five articles along a “CSR impact chain”. Here it is illustrated how all articles in this thesis concern the company’s environment. Some focus most on the society level (Article 01 and 04), while the others focus most on the company level (Article 02, 03, and 05). Some deal mostly with the determinants of CSR (Article 01, 02, and 05), while the others are most concerned with the impact of CSR (Article 03 and 04). In conclusion it is argued that the CSR potential and the externality costs are the most important external determinant of the CSR impact.

Chapter six addresses issues which arise when we contrast or compare findings in two or more articles. The first section considers whether the CSR potential studied in Article 01 may be seen to limit the CSR performance. The next section includes reinterpretations of the drivers and barriers of CSR with reference to Article 02. Here it is discussed whether these drivers and barriers are compatible with the market centric approach, with our conception of coercive isomorphism in Article 04, and with rising externality costs in Article 05. The third section considers the relationship between business opportunities and CSR, referring to Article 03. Chapter six ends with a discussion of CSR and self-interest. It follows from the market centric approach that CSR should be in line with the self interest of the corporation. It is argued that there is no necessary conflict between pursuing the corporation’s self-interest and CSR.

In chapter seven it is discussed whether CSR should be considered a “good” thing. That is; whether we should encourage CSR, and how and when, governments should stimulate CSR. The final section presents issues for further research which could compliment and modify the findings in this thesis.

2 The market centric approach

2.1 Defining the market centric approach

CSR is frequently associated with “efforts to integrate social and environmental concerns in the company’s operations on a voluntary basis” (EU, 2001). But many scholars view “legal compliance” as a fundamental responsibility of companies (e.g. Blowfield & Murray, 2008:25). Thus, it appears that scholars disagree on this point. Should the responsibility of companies only encompass voluntary acts, or should it also encompass legal compliance? The differences in viewpoints may be due to differences in the level of analysis. At the societal level “acting in compliance with the law” is a responsibility for all citizens and institutions covered by the law. But at the firm level it is not obvious that legal compliance demonstrates a genuine *sense of responsibility*, in particular when the legal requirement is specific and when the company could expect legal action if it violates the law. In this case it may be that compliance with the law only demonstrates an interest in avoiding legal sanctions. The view taken in this thesis, therefore, is that responsibility at the firm level should refer to corporate discretion: there has to be an element of choice on the part of the firm to qualify as CSR. For instance, when restaurants and bars prohibit smoking after the statutes requiring them to do so are in effect, they do not per se display responsibility with regard to the plight of smokers. They only display the kind of responsibility which is associated with law-abidingness.

The understanding of CSR as efforts to integrate social and environmental concerns in the company’s operations does not refer to the most basic imperative for any private company in a market economy; to earn a profit by exchanging products/services and to perform as well as, or preferably better than, its competitors. There is little sense for public policies to demand that companies integrate social and environmental concerns in their operations if these demands erode the competitive advantage of the very same companies[8]. By putting the workforce and the competencies it represent, out of business, the task of fulfilling social and environmental objectives would be left to other corporations not yet covered by these public policies.

One way of linking CSR to the profit imperative is to view CSR as efforts by a company to improve its social and natural environment through a business strategy. CSR is here associated with corporations' externality recognition. An 'externality' is a fundamental property of any business transaction. When a business transaction has an impact on a third party that is not directly involved in the transaction, this constitutes an externality. It could be damage to the local environment due to emissions from a chemical factory, or the hardships of families where members of the household are on long term sick leave due to work related back injuries. Thus, the issues which the CSR are to affect are derivatives of business transactions. This approach is based on Bowman (1973), Sethi (1979), and Crouch (2006) and is entitled the "market centric approach to CSR". CSR is here understood as *efforts to internalize and institutionalize externalities produced by business transactions, prompted by the corporation's own business strategies and government policies.*[9]

Government policies intended to stimulate CSR should allow for the exercise of corporate discretion[10]. When corporations *comply* with specific legal requirements they do not display CSR per se, since their actions in this case are motivated by the government's externality recognition – not their own.

When effort to internalize and institutionalize externalities are prompted by the corporations' pursuit of a business opportunity, this reduces the risk of equating CSR with more symbolic actions like the publication of a code of

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[8] Here we disregard the deliberate use of such demands in order to consolidate markets. This practice would fall in the category of "structural policies" because it increases CSR through selection rather than through incentives and soft pressure.

[9] This understanding is illustrated in Figure 1.

[10] This is in line with the views of Mares (2010:284): "The key word in understanding the regulation of CSR is not corporate 'voluntarism' but 'discretion'. There is no mutual exclusivity between hard law and corporate voluntarism once one replaces the black and white notion of voluntarism with the 'layered' idea of discretion."

conduct, triple bottom line reports, or public relations campaigns (Galbreath, 2009).

Internalizing an externality indicates that a business entity bears all, or part, of the costs related to certain negative externalities, or obtains advantages related to certain positive externalities. We may distinguish between two forms of internalization of negative externalities here[11]. Internalization could mean paying a price that *bears the cost* of third parties or of nature. Multinational clothing companies could for example invest in regional logistic centres both to reduce their distribution costs and to increase their share of sea transport and thereby reduce their emissions to air. But internalization could also mean paying a price that only *represents* costs borne by third parties. This is typically done by purchasing carbon credits. Applying the former understanding of internalization causes a full impact, while applying the latter understanding often causes a lesser indirect impact due to the modest investments and relatively weak incentives related to cash credit schemes and similar instruments. The externalities treated in this thesis refer to the former kind of internalization where corporations directly bear the costs of third parties. One example is indicators of "rising externality costs" in the electric appliance sector which directly contributes to the reduction of costs borne by third parties.

"Institutionalizing" an externality indicates that the firm's organizational structure and business model are adapted in order to ensure that the externality is internalized over time[12]. This operational definition of "institutionalization" is distinguished from the wider understanding of institutionalization in institutional theory[13]. When nothing else is stated in this thesis, "institutionalization" should be understood in accordance with the operational definition.

[11] The similar distinction is made in Stern (2006:310-311) related to greenhouse-gas externalities.

[12] The term "over time" is here a strictly relative term. It signifies a period which appears to be long, or indefinite, in a relevant business context. That is, when costs appear to be permanently internalized.

[13] An example of a definition of "institutionalization" in institutional theory: Institutionalization is "the process by which social processes, obligations, or actualities comes to take on a rule like status in social thought and action" (Meyer & Rowan, 1977:341).

Identifying externalities does not necessarily involve normative judgments. However, it does if we identify "negative" and "positive" externalities. "Negative" and "positive" externalities could be operationalized by referring to international CSR standards, for example the SA 8000, the UN Global Compact, or the ISO 26000 standard. Alternatively, we could determine what constitutes "negative" and "positive" externalities with reference to normative theory. It could be by contrasting "moral" management with "amoral" and "immoral" management (Carroll, 1991), by analyzing ethical dilemmas related to "value clusters" (Frederick, 1995), or on the basis of a pragmatic normative theory (Blindheim & Langhelle, 2010).

What governments and corporations in general considers a *serious* externality which ought to be internalized, is not determined by any universal moral standard. According to Sterner (2003:24) the effect of externalities is "intimately tied to the absence of markets, and this absence, in turn, is the result of a certain social and historic condition." But the effects of externalities are not only determined by the extent of markets, they are also determined by political conceptions (which third party effects are considered critical?), the knowledge level (what are the actual third party impacts?), and the technical capacity (which remedies are available?) in our society. Many accounts of the history of environmental policies lend support to this view (e.g. MacNeill et al., 1991, Sterner, 2003, and Mazmanian & Craft eds., 2009). Thus, externalities may be understood as socially constituted.

Summing up; the market centric approach to CSR is associated with *efforts to mitigate negative externalities and to enhance positive externalities in the pursuit of business opportunities*. Examples of CSR are:

- reducing certain kinds of hazardous materials in packaging,
- demanding new work practices to improve safety in the corporation's supply chain,
- reducing the volume of air flights among the management group, or
- establishing a new business based on the value of waste products originating from the corporation's own production process.

If a company fully succeeds in institutionalizing an externality, this is by definition no longer an externality because it then has become part of the company's regular business operations. Thus, this area of activity should no longer be characterized as CSR.

Let us consider two examples: Reducing the use of hazardous materials in packaging may be an example of CSR. However, eliminating all hazardous materials and identifying better performing and equally profitable substitutes in packaging, means there is no longer room for CSR in the packaging process. All externalities are then institutionalized in this area. Similarly, reducing waste by increasing the rate of recycling may be an example of CSR. However, managing a profitable business over time, based on the entire volume of the company's waste, is an example of transforming a CSR related activity to a regular business activity. All externalities are then institutionalized in this area as well.

This illustrates that the market-centric approach views CSR not merely as an activity with a particular purpose, but as a *transitional process* whereby companies internalize and institutionalize externalities, and ending when an externality is institutionalized.

In this thesis the term "market centric approach to CSR" and "CSR" is used more or less synonymously. But when it is distinguished between the two, the market centric approach should be associated with a transitional process which starts when the corporation begins internalizing externality costs in an area, and ends when all the costs in this area are institutionalized[14]. That is; the market centric approach is then associated with a process which transcends the boundaries of CSR.

[14] In practice this transitional process is not completed very often. Companies seldom eradicate their externalities, not even in a limited area. This may contribute to the perception of CSR as a "state of affairs" - an activity with a particular purpose.

2.2 Policy instruments reducing negative externalities

The notion that governments may influence companies in order to make them reduce negative externalities has been discussed since the beginning of the 20th century. In 1920 Arthur Cecil Pigou pointed out that we may reduce unwanted externalities produced by businesses through the use of fiscal instruments. The level of taxes in order to mitigate pollution and other negative externalities should be related to the marginal external cost. Such instruments are now commonly known as Pigouvian taxes. Pigouvian taxes may target different categories of externalities according to Pigou (1920):

- An externality of *imports* may be that domestic manufacturing is threatened. This manufacturing sector can be protected by trade tariffs tailored to the needs of domestic industries[15].
- An externality of *unequal income distribution* is that large portions of the child population misses school and becomes less qualified employees. This may be addressed by public investments in schools and a proportional tax system which favors low income workers.
- Externalities linked to the *production of certain products* may be addressed by introducing a tax on consumables adapted to the requirements of different industries.

Pigou (1920) was not primarily concerned with the plight of the unfortunate in society. He was mostly concerned with securing a strong national economy by using fiscal instruments to influence production and demand. Even though the social conditions were not the prime target of Pigouvian taxes in 1920, these kinds of taxes contributed to the long term objective of securing and increasing state assets, which in turn allowed the state to improve social conditions. In this way Pigouvian taxes are related to the market centric approach to CSR. Both Pigouvian taxes and public policies incentives for CSR are intended to contribute to behavioural change by imposing costs on firms tailored to reduce unwanted externalities. In both cases firms have discretion of how to best adopt their operations to the cost increase.

[15] Such protectionist tariffs will typically contribute to other kinds of externalities, both domestically and in countries exporting to this country.

The policy instruments to reduce unwanted externalities have become considerably more sophisticated the last decades. One example are the instruments often referred to as "new environmental policy instruments" (NEPIs). Jordan et al. (2005) distinguishes between four groups of NEPIs:

- *Market based instruments.* For example eco-taxes, tradable permit systems, subsidies or deposit-refund schemes.
- *Eco-labels.* For example externally verified schemes, self-declaratory schemes, and single-issue schemes.
- *Environmental management systems.* For example the European Union audit system EMAS, the ISO 14001 standard, or the ISO 26000 standard.
- *Voluntary agreements.* For example negotiated agreements between the industry and state authorities, public voluntary schemes, or unilateral commitments.

These instruments all induce change through incentives for action – not by binding requirements. That is; they rely on different kinds of pressures, not on dictates, to enhance the social or natural environment, while at the same time allowing corporations to protect their competitive advantage. Thus, NEPIs demand a certain amount of corporate discretion. In other words, NEPIs rely on elements of CSR to succeed.

According to Stern (2006:310) negative externalities are handled by four basic policy responses. By introducing; taxes, quantity restrictions, property rights, or by establishing new organizations involving all affected parties. Most policies involve elements from two or more of these categories. The development of NEPIs, indicates that corporate self-rule is becoming more important. However, at a certain point corporate self-rule becomes a democratic problem. Held (1995:16) refers to two symmetrical relationships in democracies: in "input" between the citizens and decision-makers, and in "output" between decision-makers and their constituents. Designing policy instruments which allow for increasing corporate self-rule – that is; allowing for a more important role for CSR, may cause these relationships to become asymmetrical. Held (1995:16) argues that the main challenge to these relationships in our democracy is the globalization process. Thus, there may be both a spatial challenge to democratic governance related to the globalization process, and an embedded challenge related to the factors accounting for CSR. This shows that the normative premise in this thesis that CSR has, or may have, a beneficial impact on society must be balanced against the risks of undermining democratic governance.

2.3 CSR and “net externality”

What about “externalizing” externalities, as opposed to “internalizing”? The market centric approach focuses on *internalizing* externalities prompted by government policies, or business strategy. In other words, it focuses on firms choosing to bear the costs of third parties, or of “costs” they initially imposed on nature. However, Joel Bakan claims that

> .. the *corporation’s built-in compulsion to externalize its costs is at the root of many of the world’s social and environmental ills* (Bakan, 2004:61).

By associating CSR with internalizing *negative* or *positive* externalities we generally measure the contributions of business with reference to some normative standard or theory. The focus is on measuring possible benefits for society or nature. But what about adverse contributions? How firms “externalize” costs is not measured here. Neither do we measure the “net externality effect”, that is; the effects of internalizing “minus” the effects of externalizing externalities in each firm. This net contribution might be understood as the institutionalized externalities compared to the total amount of negative externalities they produce. However, the total amount of externalities is not easily calculated or defined.

An alternative is then to *compare* the process of institutionalizing externalities between similar corporations. This is done in articles included in this thesis. Corporations offering similar products, relying on similar technologies and competencies, and competing in similar markets, are assumed to encounter similar pressures to externalize. This is because “externalizing” denotes a residual. In principle, any costs deriving from the activities of a corporation, which it does not pay for, may be interpreted as “externalized costs”. If we compare similar corporations in similar markets we may define the corporations producing the highest, or most serious, externalities as those with the lowest rate of internalization - that is; those who reduce their negative externalities the least. Thus, if we analyze a sample of similar corporations, we do not need to calculate a “net externality effect” to determine differences between their CSR.

Given that CSR is believed to be motivated by government policies or the corporation’s own business strategy, another interpretation of ”net externality” is possible. A net externality may be interpreted as the difference between the costs of institutionalizing certain externalities and the revenue expected from this very effort. Since corporations must stay competitive and therefore normally generate a profit, does this mean that there really are no net costs to be internalized? No; the reason is that the sources of revenue and costs here are very different. The costs that are internalized are the costs of third parties generated by the corporation’s transactions. They do not refer to any investment or purchasing activity, and may therefore be labelled as “theoretical costs”. In contrast, the revenue is very real and derives directly from the corporation’s formal transactions. There may be short term costs involved when a corporation internalizes costs of third parties, but these costs are not in the same category as costs borne by third parties due to externalities. Using the expression “net” presumes that there is a positive or negative *balance* between total costs borne by third parties and the total revenue. However, it is not reasonable to characterize the difference between costs of third parties and revenue derived from transactions as “net costs” because the costs of third parties and the costs related to transactions have different sources. Thus, there are real costs to be internalized, even if the internalization generates a profit.

2.4 Arguments in favour of the market centric approach

We may distinguish between four arguments in support of the market centric approach to CSR: the regulatory argument, the economic compatibility argument, the legal argument, and the ecological argument.

2.4.1 The regulatory argument

If we are to realize a sustainable society by increasing our recycling of resources, increasing the proportion of renewable energy, and by reducing poverty, we rely on corporations in several capacities. We rely on corporations' unique

- cognitive resources which is a product of personal competencies, experiences, creativity and innovation
- technologies and skills, e.g. logistical networks, product development, assembly processes, automation techniques, marketing, and corporate governance.

Thus, when corporations engage in activities directly related to the realization of a sustainable society, they control a wide range of resources. However, the majority of corporations will not be engaged in activities directly related to the realization of a sustainable society. For *these* corporations we rely on regulations and voluntary commitments to ensure a contribution, that is; to ensure a reduction of their negative externalities. Mandatory regulations are not sufficient to accomplish all the political objectives in this area. For example, to minimize CO_2 emissions we rely on corporations to optimize their logistics system based on their individual needs, capacities and competencies. To minimize employees' exposure to hazardous substances we rely on corporations to adapt their production processes and identify new suppliers and sub-suppliers. In general we rely on the willingness and insights of the corporation to fully accomplish many of the government's policy objectives, even when these objectives are addressed in regulations. Thus, to reduce negative externalities, public regulations should include incentives and build on the corporation's own ability to recognize market opportunities. This is how CSR is conceived within a market centric approach.

2.4.2 The economic compatibility argument

The market centric approach sees CSR as a derivative of business transactions. This allows us to analyze the antecedents and dynamics of CSR with reference to action criteria and contextual variables established in economics. An example of the link between economics and the market centric approach to CSR is the relation between transaction cost theory and CSR. When we apply the market centric approach to CSR, the rationale for CSR is closely related to the rationale of the corporation itself: CSR may be explained by advantages related to internalizing externalities, while the formation of corporations is explained by advantages related to internalizing transaction costs (Coase, 1937):

- *The rationale for the corporation.* The costs of organizing certain transactions within the corporation are lower than the costs of carrying out these transactions in the open market.
- *The rationale for CSR.* It is more advantageous for the corporation to carry certain costs related to their social and natural environment than to let these costs be carried by third parties.

We may take this a step further. According to Williamson (1985:295) the transaction cost theory differs from the neoclassical theory by claiming that the internal organisation of the corporation is important for its performance. The corporation is not reduced to a profit maximizing production function. Transaction cost theory also differs from the neoclassical theory by claiming that efforts to economize transaction costs explain differences in the internal organisation of corporations. The neoclassical theory explains differences in the internal organisation of corporations mainly as a product of non-market behaviour and market interventions. In the market centric approach CSR is associated with efforts to internalize unwanted externalities prompted by business opportunities and incentives in public policies. But based on the observations of Williamson (1985), CSR may also be interpreted as efforts prompted by the need to economize transaction costs related to the enhancement of the social and natural environment. This shows again that the rationale for CSR and the corporation itself may be closely related.

By using the market centric approach to CSR we capitalize on the insights of economics. There are further examples of this in the thesis. In Article 02 it is referred to the importance of “cost disease theory” and in Article 05 “attaching values to externalities” is an important theme.

2.4.3 The legal argument

Applying the market centric approach ensures that any investment in CSR fulfils two criteria. It should improve the social or natural environment by internalizing externalities produced by the corporation, and it should be part of the corporation's own business strategy which in some cases are influenced by government incentives. The second criterion not only contributes to a sustainable CSR performance over time, it also ensures that corporate resources are allocated to CSR performance in accordance with the legal standards protecting the interests of the shareowners. The classical objection to CSR, holding that CSR may violate managers' fiduciary duty to protect the interest of the shareholders (Dodd, 1932, Levitt, 1958, Friedman, 1970, Henderson, 2001), is therefore addressed in the market centric approach to CSR.

2.4.4 The ecological argument

By making CSR a derivative of business transactions, we may also make a connection between the definition of CSR and indicators of sustainable development. According to WCED (1987:67) two conditions must be satisfied before international economic exchanges can become beneficial and sustainable:

- business exchanges must be "equitable"
- the "sustainability of ecosystems" must be guaranteed

If these conditions are essential for achieving a beneficial international *economy* they may also be essential for achieving beneficial *corporations*. The normative core of sustainable development may then speak directly to the normative core of CSR[16]:

[16] In a paper authored by Ebner & Baumgartner (2006) it is referred to a similar view where sustainable development is seen as the "ethically justified basis for CSR". However, these authors recommend we use the term "corporate sustainability" and reserve CSR for the social dimension.

> *To fulfil the needs of the present generations without compromising the needs of future generations by emphasizing the poor and the limitations imposed by organizations and technology on the sustainability of our natural environment*[17].

Langhelle (1995:156) points out that for governments to contribute to sustainable development, they not only have to consider externalities in the form of distributive effects related to market-state interactions, but also externalities in the form of impacts on natural and human resources in general, due to market-nature interactions. Thus, not only the market-society relationship, but also the market-nature relationship, should be considered by governments. A similar argument holds for companies. To contribute to sustainable development they not only have to consider their business-to-business interactions or business-society interactions, but also their business-nature interactions. CSR is essentially “externality recognition”, according to Crouch (2006). Thus, we distinguish between the impact businesses have on each other through business transactions, and the impact businesses have on their social and natural environment. When focusing on the impact on the social and natural environment, we may further distinguish between “first order CSR impact” and “second order CSR impact”. This is illustrated in Figure 1:

[17] The first part is a citation from the WCED (1987:43). The “emphasis” is based on an interpretation of the WCED in Lafferty & Langhelle (1999) and Langhelle (1995).

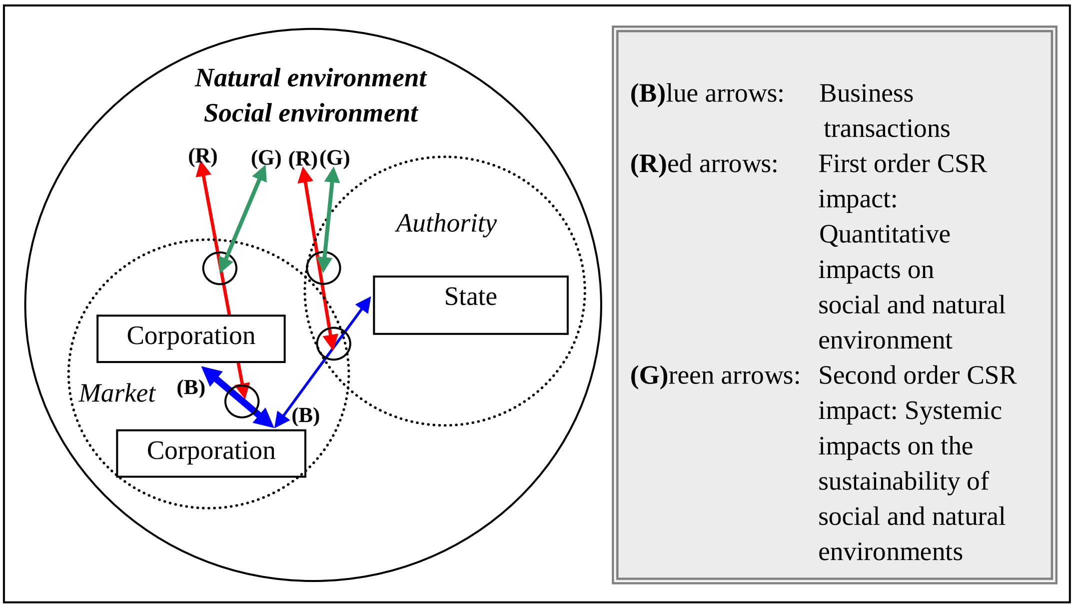

Figure 1: First and second order CSR impact (included in Article 05)

Blue arrows symbolize business transactions – the exchange of goods and services. It is measured by the money value involved in the exchange. Both corporations and governments engage in business transactions. Corporations have superior resources allocated to business transactions compared to governments.

Red arrows symbolize businesses' quantitative impact on the social and natural environment; its first order CSR impact. This is an externality produced by the corporation's business transactions. It may be characterized as a "first order externality", or if the impact is considered positive (as a relative improvement), this may be regarded as "first order CSR impact" derived from the exchange of goods and services (business transactions). It is measured quantitatively by estimating the amount of extracted natural resources and the utilization of human resources (inward red arrows), and by measuring the amounts of by-products affecting both the natural environment and the social environment (outward red arrows).

Green arrows symbolize businesses' systemic impact on social and natural environment; its second order CSR impact. The utilization of human resources and the extraction of natural resources impact the conditions for sustainable development. It may be characterized as a "second order externality" or, if the impact is considered positive (as a relative improvement), as "second order CSR impact". It consists of increasing entropy through businesses' refinement and production (inward green arrows), and their influence on conditions for sustainable development (outward green arrow). This is measured by identifying how "first order CSR impact" influences indicators of sustainable development.

The conception of second order CSR impact – the impact of increasing entropy on systemic conditions for sustainable development – reminds us that natural resources must be part of our conception of an economic value[18] because very few businesses transactions do *not* contribute to increasing entropy[19].

To distinguish between economic, social and environmental values, as if they are, or ought to be, equally important to business is not very fruitful because in the end factors of importance to business must be converted to a monetary value. The concept; "Triple Bottom Line" (Elkington, 1997) is a case in point. Many scholars criticize the lack of a methodology for measuring the social and environmental bottom line (see e.g. Henderson, 2001, Norman & MacDonald, 2004, and Robins, 2006). However, the demand that we should be able to convert all factors of importance to a monetary value, does not imply that monetary values are deemed more important than values such as "biodiversity" or "social integration". It implies merely that monetary values have a unique function in that they are the only assets that may be *easily redeployed* by corporations to generate activity in new areas. A fundamental requirement for corporations, wishing to be sustainable in both the economic and environmental sense, is thus the ability to convert non-monetary values

[18] See Georgescu-Roegen (1971) or Deutscher (2008) for a treatment of the social and economical implications of increasing entropy.
[19] However, there are business transactions which have little effect on entropy. It could be investments in organic cultivation or investments in organic land based fish farming.

into monetary values and vice versa. The three spheres, which often illustrate the triple bottom line, may then be substituted by the concept of first and second order CSR impact based on externalities arising from business transactions.

2.5 Limitations of the market centric approach to CSR

The market centric approach to CSR may seem to have limitations, particularly in two areas: it does not address the role of the individual, and it is not well suited to illuminate political and economical injustice caused, or supported, by corporations. Let us consider these two possible limitations in turn.

It may be objected that the market centric approach to CSR overlooks the influence of altruism and the role of personal motives. The market centric approach recognizes CSR when a *corporation* behaves in a certain manner and fulfills certain normative conditions: the corporation internalize externalities in order to further the aims identified and operationalized in international CSR standards, or in normative models/theories. The rationale for CSR at the company level is to stay competitive – a basic imperative for all companies in a market based economy. But many scholars point out that personal commitment is critical whenever we see a significant change in business practices. One of the first scholars to point this out was J. Maurice Clark (1916). According to him, individual responsibility seems to have given way to collective and social responsibility. However, he claims the scope of personal responsibility is broader than ever before, not narrower. The challenge is to keep the sense of personal obligation alive while the bulk of active work is being delegated to specialists (Clark, 1916). Nga & Shamuganathan (2010) represents a contemporary view on business management which emphasizes the role of the individual. They postulate that personality traits, developed by nurturing, socialization and education, also include values/beliefs which play an important role in entrepreneurial decision-making. There are also contributions using an institutional perspective focusing on the role of management values and beliefs for CSR performance (e.g. Campbel, 2007).

On this background, we may question why the market centric approach focuses on the market rationale and competitive pressures without referring to personal traits or motives. The answer is related to a practical challenge and a practical advantage.

The practical challenge: Given that it is obvious that what we call "corporate actions" are acts of individuals, the question is not whether individuals are important, but whether it is useful to include personal traits and motives in studies which attempt to explain actions of corporations at the aggregate level. It may be studies of CSR trends among global coffee producers, or the changing roles of national governments, NGOs and multinational enterprises in EU member countries during the financial crisis. Studies of this kind concern issues where an explanation referring to individual traits and motives, are hard to obtain. The general challenge is the problem of infinite regression. In any social study of causal relationships one has to limit the number of effects and relations in the research design.

The practical advantage: Given that business economics often uses the company as the main unit of analysis, and have a terminology and a number of findings that are accepted by a large community of scholars, focusing on the company as a unit in CSR studies allows us to take advantages of this terminology and these findings. What practical implications does this focus have on the aggregate level, and the overlooking of individual traits and motives? It does *not* mean that we deny the importance of the CEO for example in the development of a CSR policy. It means that we choose to view individual persons as one of many drivers at the company level. This is further elaborated on in the section concerning arguments in favour of the market centric approach above.

It may also be alleged that the market centric approach to CSR conceals political and economical injustice caused, or supported, by corporations. Is "negative externalities" just a nicer word for "suppression" or "exploitation" caused by large corporations? Does "internalizing" simply imply that corporations end the damage they cause to the social or natural environment? Does the market centric approach represent an attempt to give a value neutral account of these business practices? It may be some truth to this. First, CSR studies in general have a bias towards economic actors. It diverts attention away from those social actors and issues which have little relevance to the firm. It could be groups with no significant purchasing power, or endangered species with no relevant economic value. The focus of a CSR study is typically on how the *firm* can contribute to a better society. Public policy studies focus on governments and public authorities, and civil society studies on NGOs and civil communities. Thus, the prime focus of CSR studies is on market actors which have to be competitive to survive. This means that any environmental, political or social contribution of the firm has to take into account that firms must remain solvent and competitive in the long term. Second, by associating CSR with the corporation's ability to affect its externalities, CSR becomes a derivative of business transactions. This conception of CSR is intended to maximize the corporate benefits of CSR without losing touch of the constraints imposed on firms by public authorities, by a competitive market, or by institutional pressures to conform.

2.6 The market centric approach and institutional isomorphism

"Institutional isomorphism" is one of several branches of institutional theory (Greenwood et al., 2008). DiMaggio & Powell (1983) defines "isomorphism" as a process where organisational characteristics are modified in a direction that enhances their compatibility with environmental characteristics. The environmental characteristics which early contributions to institutional theory highlights, are "rationalized myths" influenced by dense networks, formal collective arrangements, and strong leadership (Meyer & Rowan, 1977). One of the main research questions in this field is why there is such homogeneity of organisational forms and practices. At the aggregate level this becomes a question of why certain organisational forms and practices diffuse.

Article 04 refers to institutional isomorphism in an attempt to categorize "environment categories" among countries with reference to the GDP/capita ratio. The empirical study in this article is based on 70 surveys. These surveys use many different definitions and operationalizations of CSR. Thus, Article 04 is not based on the market centric approach to CSR. But is the market centric approach to CSR compatible with institutional isomorphism?

According to the definition of the market centric approach above, CSR concerns "efforts to internalize and institutionalize externalities". The operational definition of "institutionalizing" is that the firm's organizational structure and business model is adapted in order to ensure that the externality is internalized over time. The requirement, that the CSR should involve a conscious "effort" to internalize and institutionalize externalities at the firm level, indicates that the firm is expected to analyze a causal sequence and future implications of possible events emanating from their business transactions.

Studies of institutional isomorphism (Meyer & Rowan, 1977, DiMaggio & Powel, 1983, and Powell, 1991) are not preoccupied with actors' rational choice. This field of institutional theory focuses on how institutional pressures (defined as "structures, rules and standards") cause organisations to act in a particular way and often emphasizes behavioural constraints and convergence of organisational forms and practices. However, if we for a moment discard the corporation's own (more or less) rational analysis of impacts, would the market centric approach be compatible with the conception of institutional isomorphism? If the market centric approach to CSR was compatible with institutional isomorphism we would expect that externalities could have a significant impact even if they were only "perceived" externalities, and not "real". That is; even if it was not possible to identify a link between the CSR impact and the externalities produced by a particular corporation. Could externalities be understood as norms or conceptions embedded in an organisational field[20]? If the market centric approach, or a similar understanding of corporate impact, was a well established finding in social science, this would be the case because prominent issues in research normally migrate to textbooks and to mass media and become part of our collective consciousness. The question is whether a fictitious externality, or an externality which is at least partly a product of institutional isomorphism (and not directly caused by business transactions), could have an impact. If it is no requirement that an externality is "real", it would question the existence of the

[20] DiMaggio & Powell (1983) defines "organizational fields" as 1) a high level of interactions 2) sharply defined inter-organisational structures, 3) an increase in the information load, and 4) the development of a mutual awareness of a common enterprise.

business transactions that are supposed to produce the externality. However, we could still imagine that institutional isomorphism give rise to behavioural change which in turn would lead to a CSR impact. In a local community, changing attitudes related to car use, cycling, and fitness, combined with visible investments in a green infrastructure could explain a general perception that externalities related to road transport are internalized by the local business. This may translate into an institutional pressure for businesses to internalize externalities related to road transport. We may then claim that a CSR impact is triggered by isomorphism in an organisational field causing certain behaviours with no initial link to "real" externalities.

We conclude that the market centric approach is compatible with institutional isomorphism as we do not emphasize the company's systematic effort to analyze and mitigate "real" externalities, but instead emphasize institutional pressures that lead to awareness and action to reduce *possible* externalities. This seems to suggest that the scope of the market centric approach to CSR should be expanded. According to the market centric approach CSR is "prompted by the corporation's own business strategies or by government incentives"[21]. Following institutional theory, we could ad that CSR performance is probably also prompted by institutional isomorphism. However, this would question the premise of (real) "externalities produced by business transactions". The market centric approach is then no longer founded on a relationship between "business efforts" and "externalities", but on "business efforts" and "*perceived* externalities". Hence, the approach would no longer rely on a relationship between two distinct actors (corporate managers and third parties) since "efforts" and "perceptions" would refer to two attributes of *one* actor (corporate managers). This would complicate the data analysis and it is therefore considered that institutional isomorphism should be included as an external driver of CSR, as exemplified in Article 02 and Article 04, and not as one of the elements that constitute CSR.

It is claimed that the domain of institutional theory is limited to the diffusion and reproduction of successfully institutionalized organisational forms and practices (DiMaggio, 1988:12). If we view CSR as a "institutionalized

[21] See the definition of the market centric approach in section 2.1 above.

organisational form and practice", which many scholars do (e.g. Delmas & Toffel, 2004, Doh & Guy, 2006, Campbell, 2007, Matten & Moon, 2008, Blindheim, 2010), CSR may be associated with practices that are influenced by institutional pressures. In the market centric approach CSR is *not* understood as certain practices, but as a transitional *process* whereby corporations internalize – and eventually institutionalize – externalities. From a theoretical perspective this supports the judgement that institutional isomorphism should be included as an external driver of CSR, and not as a constitutive element, when we apply a market centric approach.

3 CSR and the role of business in society

Many concepts and acronyms are used in the literature to cover issues related to CSR. Some refer to “corporate social performance” (e.g. Wartick & Cochran, 1985 and Wood, 1991), others to “corporate citizenship” (e.g. Waddell, 2000 and Matten & Crane, 2005), or “corporate sustainability” (e.g. UNEP and SustAinability, 2001, and Epstein, 2008). These concepts differ with regard to the role of government institutions, their focus on core competencies of corporations, and their treatment of the natural environment. However, the literature on CSR does not cover all issues related to firms and their social and natural environment. It is not obvious either that the wider role of business in society can be interpreted as issues related to business externalities, in line with the market centric approach to CSR. The relationship between the “CSR literature” and the literature on “the wider role of business in society” is treated in section 3.2 and 3.3.

3.1 Themes related to the wider role of business in society

The dominant themes concerning the role of business in society have changed during the last centuries. Ever since firms became more or less independent economic entities trading goods for money, they have been contested and sought legitimacy from governing authorities and the general public. In the late 18th century and the early 19th century the very legitimacy of the private firm was questioned. Thereafter the divide between managers and owners and other aspects of the professional corporate organization was questioned. When large international corporations became widespread, the balance between corporate and government power became an important issue. Later the impact of business on the ecological system was, and still is, a prominent issue. Finally, the practical challenge of regulating international business is now an important research theme.

In the following these themes are presented roughly in the order of their appearance in the literature.

3.1.1 The legitimacy of the limited liability company

Are large private corporations legitimate?

In the early days of the industrial revolution the fundamental question concerning business ethics was not how companies may conduct themselves in a socially acceptable manner. The mere assembling of employees and owners in companies was questioned: in 1776 Adam Smith was afraid that assemblies of people of the same trade (referred to as “corporations”) would reduce competition and raise prices:

> *But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary. ... The pretence that corporations are necessary for the better government of the trade, is without any foundation* (Smith, 1776/1993:129).

According to Smith, the market based economic system was threatened by the very existence of large units consisting of people of the same trade. In 1848 John Stuart Mill commented that Adam Smith’s warning against “assemblies” was an “overstatement of a true principle” (Mill, 1909:140). In the days of Adam Smith, there were few instances of joint stock companies that had been permanently successful without a monopoly authorized by royal decree. But there had been many in the first half of the 19th century. However, there were many who still questioned the legitimacy of large corporations. In 1869 the American historian Charles Francis Adams Jr. warned against the powers of the growing corporation:

> *It is but a very few years since the existence of a corporation controlling a few million of dollars was regarded a subject of grave apprehension, and now this country already contains single organizations with a power represented by hundreds of millions. .. We know what aristocracy, autocracy, and democracy are; but we have no word to express government by moneyed corporations* (Adams Jr. & Adams, 1869:148).

Since the birth of the limited liability company in the second half of the 19th century, scholars and politicians have debated the limits of corporate power. Recently, it has been claimed that the prohibition against lending at interest rates, which lasted in Western Europe until the second half of the 19th century, represented a barrier to entrance for small companies and newcomers (Koyama, 2010 and Benmelech & Moskowitz, 2010). The abolition of usury laws (laws restricting lending at interest rates) allowed the development of a free credit market and coincided with the spread of the limited liability company which reduced the risk of venture investments. These developments contributed to an increase in the volume of venture capital. We see that both the creation of the limited liability company, and the abolition of the usury laws, were instrumental in the development of the large, and often criticized, corporation in the United States and in Western Europe. Even today, when trade relations and cultural expressions are increasingly globalized, and an advancing global division of work is evident, the legitimacy of large corporations is questioned. One example is the writings of Joel Bakan. He questions the survival of large multinational enterprises based on their lack of empathy:

> *Great empires, the church, the monarchy, the Communist parties of Eastern Europe were all overthrown, diminished, or absorbed into new orders. It is unlikely that the corporation will be the first dominant institution to defy history. ... The best argument against corporate rule is to look at who we really are and to understand how poorly the corporation's tenets reflect us. We are basically organisms of feelings of empathy* (Bakan, 2004:139-140 and 167).

Though few authors are able to offer an alternative to large corporations, many in the western world fear their influence, both directly through their economic clout, and indirectly. Examples of their indirect influence are their tendency to increase the weight of commercial criteria in government policies education, health care, in mass media, and in the artistic fields (see e.g. Ritzer, 1993, Chomsky, 1998, Klein, 2000, Crouch, 2004 and George, 2004).

3.1.2 The divide between professional managers and owners

Is the professional corporate organization legitimate?

Another early research theme concerns the divide between professional managers and owners of corporations (Berle & Means, 1932/1991, Drucker, 1942/2006, Burnham, 1941/1972, Bowen, 1953, Chandler, 1977, and Herman, 1981). According to traditional belief among scholars until the beginning of the 20th century, the individual owner’s desire for personal gain and profits could be relied upon as an effective incentive for the efficient use of industrial property. In 1932 Berle & Means stated that this assumption no longer holds. Those in charge of day-to-day business in large modern companies normally have an insignificant fraction of the company’s stocks and moreover; they are in a position where they may serve their own pockets better by profiting at the expense of the company than by making profits for it. Chandler (1977:484) does not share this view. He states that one of the characteristics of the “managerial revolution” between 1840 and 1920 was that career managers preferred long term policies favouring stability and growth, to those that maximized current profit.

According to Berle & Means (1932) the separation of management and owner responsibilities in large corporations should not lead to the reinforcement of shareholder rights, nor in the creation of managerial rights to qualify these shareholder rights. It should result in a third alternative where both these rights must yield before the larger interests of society. Public regulations should make sure that the interests of owners of passive property must yield to the societal interests in cases where business managers wish to enhance the work environment or the natural environment (Berle & Means, 1932/1991:310-313). According to Edward S. Herman (1981) Berle & Means greatly overstates the loss of shareholders’ power and the separation and discretion of managers. No mention is made of competitive pressures and they disregarded the long-discussed possibility of large bureaucratic organizations in submerging individual values to the demands and interests of the organization. And they do not provide empirical evidence to suggest that non-owning managers would be more accommodating to the public good than owners/entrepreneurs (Herman, 1981:257-260).

James Burnham feared the professionalization of management functions was a symptom of a larger crisis in government and politics. In his book "The Managerial Revolution", published in 1941, he regarded the divide between corporate executives and owners as part of a broader trend towards a totalitarian, or at least technocrat-dominated, "managerial" society (Burnham, 1941/1972:167). Burnham's prediction of a severely reduced sphere of free markets and private ownership was however not fulfilled. But his predictions with regard to supranational regimes and corporate management are still relevant: He stated that modern technology contributed to an increase in the division of labor and in international trade which in turn would lead to the gradual shift of locus of sovereignty from the nation-state to a few super-states (Burnham, 1941/1972:173-175). He argued that professional managers were taking the place of capital owners in businesses, and of both employed and elected officials in governments (Burnham, 1941/1972:139-151). In 1942 Peter F. Drucker conceded that managerial power is illegitimate (Drucker, 1942/2006:75). But he argues that Burnham's thesis; that the rise of managers inevitably leads to the autocratic rule of an educated elite with technical tasks, is wrong. The assumption that managerial rule will lead to the creation of an ideology tailored to create a legitimate society of this sort, is unlikely because legitimate power must be based on existing and accepted basic principles according to Drucker (1942/2006:94-96).

The gradual transition from the owner dominated business enterprise to the manager dominated business corporation called for the clarification of the legal status of the business unit. Lindblom (1977:95) claims the displacement of the family owned company with the modern corporation was never much agitated, and never much resisted, even if it transformed our lives. Galbraith (1967:94) attributes this lack of debate to the corporate liturgy in the United States which strongly emphasizes the power of the Board of Directors and ultimately the power of the shareholders they are assumed to represent.

The development and acceptance of the legal personality of the corporation and limited liability company from the mere pooling of capital by owners with a common purpose, is commonly attributed to the United States Supreme Court case "Santa Clara County v. Southern Pacific Railroad" (1886). In this case it was mentioned that the 14th Amendment of the US constitution, originally introduced to protect freed slaves, applied to all corporations. The development of a legal personality is also attributed to reform initiatives extending the rights of incorporated firms in New Jersey and Delaware in the early 1890s and thereafter replicated nation-wide. By the end of the 19th century US courts had established legal personality of the corporation, separate from flesh-and-blood people, conducting business in its own name, acquiring assets, employing workers, paying taxes and defending its actions in courts (Bakan, 2004:16). US corporations headed this transformation, but not long after they were joined by the more family oriented British firms, the more cartel oriented German firms, and the conglomerate oriented Japanese firms (Micklethwait & Wooldridge, 2003).

The ”managerial era” is now replaced by the “institutional era”, writes Graves & Waddock (1990). They studied the trend towards a more active role of institutional investors and suggest that this have shortened the available timeframe for critical decisions. They argue that institutional capital managers, like fund managers and elected board members acting on behalf of individual investors, often have limited interest in the company’s business area. They focus under short-term options, and often exert pressure on the company.

The general issues related to incentive structures of the corporate executives, and the divide between owners and professional managers in business, is often studied in the context of a “principal-agent model”. There are many business studies on the relationship between the independent management board and the owners. One example is the early CSR study by Howard R. Bowen where he suggests that CSR would be more effective if corporations introduced members to the boards of directors and to the management team whose duty was to represent the public interest (Bowen, 1953:151-155). Others focus more on the incentives of the corporation as such, and not on particular aspects of corporate governance. Crouch (2006) distinguishes between the market model and the organizational model of the company. Companies have choices, not only of which taste niches they want to respond to, according to Crouch, but of the kind of niches they wish to try to create. When they choose to create a taste niche, they act as an organization, and intervene in the immediate signals given by the market and use its organizational intelligence. Corporate executives have a more autonomous role when they try to create taste niches compared to when they respond to market signals, according to Crouch (2006:1542). Pointing out corporate influence outside the domain of market exchanges is not new. According to Galbraith (1967:401):

> *The control by the mature corporation over its prices, its influence on consumer behaviour, the euthanasia of stockholder power, … and the influence of the firm on … government activities … are more or less accepted facts of life.*

Agency theorists arguing we should incorporate the interests of all significant stakeholders in our model, seems to be in line with this thinking. They point out that we should enlarge the standard principal-agent model analyzing the relationship between shareholders and managers and use a "stakeholder agency model". Though the influence of stakeholders varies dramatically they are all drawn into a relationship with the managers in an effort increase the organization's performance (Donaldson & Preston, 1995:78-79). Thus, we see a context with dispersed and institutional ownership of powerful corporations and a multilevel and recursive relationship between the corporation and its stakeholders.

This account of the managerial and institutional era of corporate governance emphasizes institutional mechanisms and normative implications. But the development of the modern corporation is also explained by transaction costs. Ronald Coase (1937) is widely acknowledged as the one who introduced the transaction cost theory. The occurrence of corporations in a market economy is here explained by transaction costs. Businesses have basically two alternatives when they want to get things done. Either they acquire goods or services in the market and thereby utilize the price mechanism, or they may request the same goods or services from employees and thereby utilize already acquired resources. The existence of modern corporations can be explained by the competitive advantages of authorizing resources/personnel already acquired, compared to the advantages of relying on market transactions. Thus, the development of the modern corporation may be ascribed to the increasing division of labour and the globalization of trade, but in economic terms, it is often ascribed to the competitive advantage associated with internalizing transaction costs.

Whatever the rationale for the creation of corporations, the accumulation of capital and other resources in corporations raises questions of how society should limit corporate power to protect the autonomy of state institutions and other institutions which may require special attention.

3.1.3 Corporate power versus government power and democracy

When is corporate power legitimate?

The sheer size of the largest companies is an important theme in many studies of companies' impact on society (Galbraith, 1967, Stephenson, 1973, Lindblom, 1977, Guèhenno, 1993, Micklethwait & Wooldridge, 2003, Crouch, 2004, Reich, 2007). As early as 1930 we find that several companies in the United States could compete with small nation-states in assets and economic influence. More than half of the two hundred largest companies in the US in 1930 had assets of over one hundred million dollars. 15 had assets of more than one billion dollars – equal to the size of the US federal budget at the time[22]. The enormous size of these companies is evident when we consider the average gross assets of US companies at this year: 0.57 million dollars. On this background, Berle & Means stated:

> *Clearly such great organisms are not to be thought of in the same terms as the average company. ... The individual must come in contact with them almost constantly* (Berle & Means, 1932/1991:19).

According to Reich (2007:55) large size can still be useful to a firm, but rarely because of production scale, or because they keep competition at bay so prices may be raised. The main advantage is the increased bargaining leverage over suppliers. Today the world's largest companies are even larger compared to the gross domestic product of countries than in 1930s. If the value added of

[22] The total consumption expenditures and gross investment of the US federal government in 1930 was 1.7 billion dollars. Source: The US Bureau of Economic Analysis. Survey of Current Business, August 1998, page 147.

companies is compared to countries, 29 of the 100 largest economies are corporations. Micklethwait & Wooldridge (2003) claim that big companies in reality have been loosing ground: Their hierarchies have become looser, and their borders more fuzzy. The market share of the top five companies in the US has been in decline. Yet, statistics show that the top 200 companies in the world are growing faster than the overall global economic activity[23]. In addition, intra-firm trade accounts for a growing share of overall world trade – approximately 40 percent in the US case[24].

We may illustrate the size of large global corporations by a comparison with the national economy of Norway, a country with a total population of 4.8 million. Among the 22 largest global clothing retailers 11 have an individual turnover surpassing the sales of the entire clothing retail business in Norway and nearly all of these were represented in Norway[25]. The retail giant Wall-Mart is the largest private employer in the world, with a work force of 2.1 million in 2009. This equals the entire Norwegian work force. A final measure is the annual capital investments of the oil and gas company Shell which equals more than six times the annual investments of the entire land based industry in Norway[26].

With corporations of this size dominating the global economy, many question whether they challenge the powers of national governments and intergovernmental organizations. Do they undermine the democratic process? Are national governments capable of regulating these corporations effectively?

Some scholars point out that large corporations reinforce dysfunctional dynamics in our democratic system. Lindblom (1977) claim large corporations enjoy a "privileged position" because their interests (of growth)

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[23] Between 1983 and 1999 their combined sales grew from the equivalent of 25 percent to 27.5 percent of world GDP (Anderson & Cavanagh 2000).
[24] This figure is mentioned in Ruggie (2004:510) which refers to a working paper by K. A. Clausing.
[25] Sources: Statistics Norway, Company websites (August 2010), and "Forbes 2000".
[26] The total capital investments of Shell was just above 30 billion US dollars in 2009. Source: the company website of Shell in August 2010.

coincide with the economic interests of the society as a hole. In addition large corporations contribute to "circularity" in both the democratic system (the "polyarchy") and in the market system. While citizens and customers are indoctrinated by business they are at the same time collectively responsible for the regulation and economic success of business. We see evidence of circularity in the narrowly constrained political agenda, in the limited number of policy options, and in the corporation's ability to influence their customers' perception of needs[27]. Robert B. Reich comments on this in his book "Supercapitalism":

> *Our voices as citizens – as opposed to our voices as consumers and investors are being drowned out* (Reich (2007:163).

Crouch (2004:19-28) concurs with this view. He claims we have reached a post-democratic phase where most formal components of democratic governance still are in place, but where governments are unable to discern citizens' demands and have responded by employing communication modes which utilize techniques from marketing and show business.

> *One sees that citizens loose virtually all capacity to translate their concerns in to political action. Elections become games around brands, rather than opportunities for citizens to talk back* (Crouch, 2004:103).

Ghuéhenno (1993) points to structural determinants here. 1989 marks the return to a post-nation-state era with no clear territorial demarcation of politics, with no clear hierarchic power or communication structure, where citizens are too numerous to fit the traditional models of democratic governance and too diverse to express collective sovereignty. This transformation of power first occurred in the business world, according to

[27] When referring to "circularity", Lindblom is in line with a long historic tradition in US literature on social implications of business. This is for example an important theme in John K. Galbraith (1967). In 1926, professor of economics at Columbia University John Maurice Clark, states; ".. what comfort is to be derived from the thought that demand is the governor of production, when demand is the plaything of the arts of advertising hypnotism? .. Industrialism has itself ruined the validity of demand as an index of community efficiency." (Clark 1926:41)

Ghuéhenno (1993:13). Matten & Crane (2005) describes how this transformation occurred with regard to corporations and citizens. They argue that corporations do not primarily enact the role of citizens, but *administer* citizenship when government actors fail to be the counterpart of citizenship. But this only happens when corporations deem this as advantageous – there is no political or legal framework that institutionalizes a corporate responsibility for administering citizenship rights.

Does this transformation process mean that corporations not only challenge our current model of democratic governance, but also the sovereignty of nation states? According to Keohane & Nye (1977/2001) the domestic and foreign relationships of modern nation states may be characterized as "complex interdependence". Government institutions and private institutions are connected through multiple channels of influence. The hierarchy of issues within international politics is not as clear as before. The capacity of nation-states is challenged by increasing international interdependence. The most influential corporations affect both domestic and foreign relations by acting as "transmission belts", making government policies more sensible to external pressure (Keohane & Nye, 2001:22).

Some scholars attribute the globalization of business to the dramatic improvement of information processing and communications (see e.g. Ohamae, 1995 and Castells, 1996). Information technology lead to an increasing mobility and flexibility of corporate sourcing and investments which in turn make big corporations less dependent on the goodwill of particular governments. The result is an increasing internationalization of production, finance, and retail, and this challenges the capacity of the nation-state, according to David Held (1995).

We see that influential scholars agree that big corporations challenge our current model of democratic governance and the political capacity of nation states. What about the capacity of the ecological system? Are big corporations a threat to nature as well? This is the issue of the next section.

3.1.4 The corporate impact on the ecological system

Are corporations' interactions with nature sustainable?

The impact of corporations on the natural environment is one of the main topics in the CSR literature (see e.g. Shrivastava, 1995, Elkington, 1997, Epstein, 2008, and Blindheim & Langhelle, 2010). This literature focuses on how this impact is, or should be, brought about, but not so much on what constitutes a serious impact in the natural environment. The emphasis is on corporations and government policies, not on the status of the natural environment. The report from the World Commission on Environment and Development (WCED, 1987) only mentions briefly a role for business[28]. However, it seems that the UN has increasingly emphasized the role of business in this area (Langhelle et al., 2008). But the basis for this role of business was already included in the WCED;

> *economics and ecology must be completely integrated in decision-making and lawmaking processes* (WCED, 1987:37).

Thus, the claim of the Commission is that our decisions should be based on 1) a better understanding the vulnerability of the ecological system, and 2) by better understanding the impact of our business practices and government policies. We need to combine insights from natural science, political science and business studies to be able to devise a strategy for a sustainable business practice. This multidisciplinary focus is at the core of "ecological economics" asserting that the economy is embedded within the ecological system (Constanza, 1989), and "industrial ecology" which aim it to make the industrial system compatible with the ecological system (Erkman, 1997). There have also been a number of international research projects with this ambition. Among the most prominent are; "Limits to Growth" (Meadows et al., 1972), "World Conservation Strategy" (IUCN, 1980), "Our Common Future" (WCED, 1987), "Agenda 21" (UNCED, 1992), "The Natural Step" (Robèrt, 2002), and "The Economics of Climate Change" (Stern, 2006). These projects all conclude that the preservation of the balance of the ecological

[28] One of the few mentionings: "Industries' response to pollution and resource degradation has not been and should be limited to compliance with regulations. It should accept a broad sense of social responsibility" (WCED, 1987:222).

system requires a radical change of business practices. This raises the question of who, or what, could initiate such changes, and whether a lack of a global political infrastructure could undermine such initiatives.

3.1.5 The challenge of regulating large corporations

Are large corporations beyond the reach of government regulations?
Many scholars have pointed out that international political relations have failed to keep pace with the expanding scope and modalities of both large corporations and civil society organizations (see e.g. Kennedy, 1993, Lane & Ersson, 2002, Scherer et al., 2006, and Ruggie, 2004 and 2007). There is a widespread perception that the rules intended to ensure social equality and environmental protection have not kept pace with the global market expansion, according to Ruggie (2004). Politics in the classical sense of Easton (1965) – the authoritative allocation of values in society – now takes place increasingly beyond the confines of the national boundaries. This transformation of international politics is characterized by the blurring of the domestic and international policy spheres. In a similar analysis Kennedy (1993) concludes that there is no lack of solutions to transnational challenges (e.g. the demographical or the environmental challenge), the barrier for action is rather the public's and politician's reluctance to implement changes which cause short-term personal costs to secure long-term general benefits. However, to implement changes in corporate governance and government policies to meet transnational challenges not only demand good leadership, it also requires a design of intra- and inter-organizational relations which contribute to the fulfilment of political objectives through self-organization of significant actors. This general approach is exemplified in theoretical contributions of Hayek (1988) and Krugman (1996). We recognize this approach both in Lane & Ersson (2002) which underline the need for decentralized world governance, and in Ruggie (2007) which argues that we should encourage a horizontal expansion of our relevant international regimes and support hybrid arrangements involving the civil society in order to meet the challenges of globalization.

Here we see a parallel debate on issues of governance and governability at the global level (e.g. Lane & Ersson, 2002 and Ruggie, 2004) and national level (e.g. Crouch, 2004 and Østerud & Selle, 2006), even though there is a huge difference in the capacity of the representative government and of the decision-making mechanisms at the two levels. This suggests that the critical element of governance and governability in relation to business is not only the capacity of the political actors, but also elements of legitimacy, connected to public governance of business, which has a similarly strong effect on national and international political actors.

According to Scherer et al. (2006) corporate acts of self-regulation may solve urgent problems but also provoke new normative questions regarding the democratic legitimacy. Scherer et al. (2006:520) argues, with reference to Jürgen Habermas' "de-centered concept of democratic governance", that the legitimacy of corporate self-regulation depends on "the political embeddedness of CSR related activities. This modified concept of legitimacy is weaker that the traditional concept of legitimacy in the sense that it refers only to soft law and to a less defined community. But it is also broader because it does not limit the understanding of responsibility to the common liability concept looking backward. It is also looking forward by engaging non-governmental actors in solving political challenges.

3.2 The CSR literature

The literature referred to above cover a wider range of topics than the "CSR literature". The CSR literature is surveyed in several articles (see Carroll, 1999, Garriga & Melé, 2004, Kakabadse et al., 2005, Lockett et al., 2006, and Lee, 2007). In contrast to the themes above, the CSR literature does not focus particularly on the governability of large corporations within national and supranational political contexts, or on the gravity of the corporate impact on ecological systems. It focuses rather on how corporations can contribute themselves, or could be persuaded to contribute, to a better society. The objective is to understand corporations' motives and capacities, and their impact on their social and natural environment, and based on these insights, to encourage a more beneficial corporate impact without undermining competitiveness. The CSR literature focuses both on the sector level and on the corporate level. Prominent issues on the sector level are:

- the legitimacy of CSR in a liberal democracy (e.g., Scherer & Palazzo, 2007)
- the influence of market performance and trends on CSR (e.g., Porter & Kramer, 2006)
- the influence of institutional fields and trends on CSR (e.g. , Levy, 2008)
- the utility of CSR (e.g., Besley & Ghatak, 2006)

Prominent issues on the corporate level are:

- the legitimacy of CSR among the corporation's stakeholders (e.g., Mitchell et al., 1997)
- the business case of CSR and possible drivers related to the business case (e.g., Galbreath, 2009)
- sustainable development and life cycle management (e.g., Bansal & Roth, 2000)

This thesis is best categorized as a contribution to the CSR literature. Elements from the sector level are normally introduced as contextual factors. Article 01 refers to features of the global economy arguing that the concept "CSR potential" could be useful in an analysis of CSR at the sector level. Article 04 refers to institutional pressures for CSR and different levels of economic development showing that the degree of autonomy with regard to CSR may be lower in countries with a low GDP/capita ratio. Articles 02, 03, and 05 focus on the corporate level and the market centric approach to CSR. These articles focus on drivers and barriers of CSR, determinants of a strong CSR impact, and the relationship between rising externality costs and CSR.

3.3 Does the wider role of business concern externalities?

To what extent does the market centric approach to CSR address the wider role of business in society? What is the relation between these wider historic issues and the market centric approach to CSR? Do these issues concern business externalities? In this section we consider whether the five issues described in section 3.1 relate to two core elements in the market centric approach to CSR: Do they explicitly or implicitly emphasizes "efforts to reduce negative externalities"? Do they emphasize business incentives and/or government policies?

1) *The legitimacy of the limited liability company* refers to the opposition against a strong commercial institution, independent, or semi-independent, of the sovereign. This opposition was part of a power struggle between state institutions, or institutions controlled by the sovereign, and different kinds of economic institutions. The worries of most contemporary scholars were related to the need for national control and coordination of trade policies, not to the thrust of the corporation itself. It was feared that the growing economic power of corporations would be leveraged into political power, believing that political power was a derivative, or an externality, of the transactions of big business. The question was how governments should deal with this challenge.

2) *The divide between professional managers and owners* concern agency problems related to corporate governance. Large corporations were viewed as both market institutions and social institutions, often with unclear governance mechanisms. The focus is on incentives increasing accountability within the corporation and corporate cohesion, not on externalities produced by the corporation.

3) *Corporate power versus government power and democracy* refers to the challenge powerful corporations represents for a democratic society and for the governing capacity of nation-states. Corporations display "government-like" functions where governments fail to be the counterpart of citizenship, and public governance approaches the jargon and rationale of business. The focus is on business externalities which threaten the quality of democracy and public governance. The remedy is to insist on the primacy of the democratic process and the primacy of the powers of the executive government.

4) *The corporate impact on the ecological system* denotes the environmental impact of business practices. It refers to externalities of business transactions, but also to the direct environmental impacts of growing consumption and supporting services in economies experiencing real

growth. This literature emphasizes the need for radical change of public policies and greater awareness of the fragile status of our ecological system.

5) *The challenge of regulating large corporations* deals with the lack of a political infrastructure capable of regulating global business. Before this is in place, regulation and control of global business relies on ever closer coordination of national policies, and bottom-up strategies related to multi stakeholder initiatives and non-governmental organizations. And even after a stronger global political infrastructure is in place, governments will rely on a certain degree of self-regulation when in business policies. Thus, both business incentives and government policies are vital to accomplish the objectives of companies taking a market centric approach to CSR.

Table 1 summarizes how these issues relate to two elements in the market centric approach to CSR: the emphasis on externalities, and the emphasis on business incentives/government policies.

Issues	**Emphasis on externalities?**	**Emphasis on business incentives/government policies?**
1) The legitimacy of the limited liability company (1750…)	Externalities challenge the power of the sovereign	*Government policies* How to deal with this challenge.
2) The divide between professional managers and owners (1920…)	No	*Business incentives* Encouraging corporate cohesion and accountability
3) Corporate power versus government power and democracy (1960…)	Externalities threaten democracy and public governance	*Government policies* Primacy of the democratic process and of the executive powers of government
4) The corporate impact on the ecological system (1970…)	Externalities threaten the natural environment	*Government policies* Calling for radical change of public policies and greater awareness
5) The challenge of regulating large corporations (1990…)	Externalities threaten democracy and public governance	*Business incentives* and *government policies* must be adapted to meet transnational challenges

Table 1: Issues related to the role of business in society (see 3.1) and two features of the market centric approach; business externalities and business incentives/government policies.

We see that only the fifth issue emphasizes business externalities *and* business incentives/government policies, like the market centric approach to CSR. Table 1 illustrates the difference between these wider issues and the market centric approach to CSR. The market centric approach to CSR focuses on the link (through the production of externalities) between business transactions and socially and environmentally responsible behaviour. In the market centric approach to CSR public policies *and* elements of corporate self-interest/self-regulation are vital to encourage this sort of behaviour. Thus, the issues referred to in section 3.1, focus more on the governability of large corporations within national and supranational political contexts, with the exception of issue "5" (see Table 1) which seems to be based on an understanding of CSR that is compatible with the market centric approach to CSR.

3.4 The main research questions in the articles

The stated aims of this thesis[29] concern the influence of firm characteristics and contextual factors on CSR. One of the most important contexts influencing the firm is its market position. The market centric approach is an attempt to better understand CSR by establishing a direct relationship between the firm's market position (by focusing on its market transactions) and the firm's impact on its social and natural environment (by focusing on externalities produced by the firm). The five main research questions in this thesis is an attempt to better understand how contextual factors influence CSR[30], and in doing so, attempting also to validate the market centric approach[31]. The five research questions in the articles in this thesis are as follows:

[29] The stated aims of this thesis (see section 1.2) is: 1) how CSR may take into account the core characteristics of the corporation in the market, 2) to better understand the link between the CSR impact and indicators of sustainable development, and 3) the interplay between the firm level and the societal level and how governments can use CSR as a policy tool.

[30] The contextual factors considered in this thesis are sector specific features, internationalization, GDP/capita, and externality costs.

[31] The market centric approach is validated in this thesis by considering 1) whether two key features of the market centric approach (a commercial motive and the utilization of core competencies) and 2) whether rising externality costs, contribute to a strong CSR impact.

1. *Are there sector specific features which may determine the risks of violating established norms of CSR? And if so, should we consider these before we enter into an analysis of CSR at the firm level?* (Article 01) Most empirical studies on CSR either analyze CSR at the company level, or consider the relationship between CSR and corporate stakeholders, the government or the natural environment. Features of the global economy, and of the international clothing business that may influence the potential for change through CSR-related actions, are considered.

2. *How do drivers and barriers of CSR vary with regard to the size and the degree of internationalization of firms?* (Article 02) The entities we refer to as "firms" are indeed a heterogeneous group. It is evident that drivers and barriers of CSR must vary between different firm types. However, a large number of influential research articles and books on CSR do not qualify the main entity of their inquiry.

3. *What are the most important corporate assets contributing to a stronger CSR impact?* (Article 03) Many surveys and studies appear to assess the impact of CSR, but are in fact describing CSR performance. According to Blowfield (2007) research on CSR impact focuses on the business case, corporate attitudes, and internal practices. He argues there is less focus on the social and environmental change where its proponents claim it has an impact. Disregarding resources that are proportional to the size of the corporation, like the available investment capital and the range of expertise, there are two main assets available to corporate management when they plan for a CSR impact: their core competencies, and their perceptions and conviction linked to CSR as a business strategy. These are necessary conditions for a successful implementation of CSR (Wall, 2008).

4. *How do we explain the dissemination of CSR among SMEs, and in particular, among SMEs in poor countries?* (Article 04) The global dissemination of CSR among SMEs is evident. Studies show that CSR is no longer a large firm phenomenon or a practice only found in

rich industrialized countries in the west. Studies of drivers of CSR among SMEs focus on the local community and local stakeholders. Thus, when the relationship between SMEs and local stakeholders is weak, we would expect little CSR. In poor countries where large portions of the population struggle to meet basic needs, we would expect that CSR – and in particular voluntary actions with long-term objectives – play a lesser role compared to in rich developed countries.

5. *Does the market centric approach to CSR show how rising externality costs causes corporations to internalize externalities?* (Article 05) There are many studies of the impact of public regulations on CSR, but few of these studies focuses on the internal strategies of the agent – the corporation.

Two of the articles in this thesis (articles 02 and 03) presents the market centric approach to CSR. The third article (Article 05) makes use of this approach in a study of rising externality costs and drivers of CSR. An additional research theme in three of the articles is therefore the advantages and disadvantages of using a market centric approach to CSR.

4 Epistemological position and methodology

4.1 Epistemological position

The most important variable in this CSR study, “the corporation”, is clearly a social construct. At the same time the research *design* resembles a positivist approach. In the following paragraphs we will consider these two claims.

4.1.1 The main social construct

This thesis considers intentions, acts and impacts on behalf of a rather loose and diverse union of employees, managers and owners, most often referred to as “the corporation”[32]. The corporation can bee seen as a vehicle. It may be interpreted as an agent for change, as a symptom of the state of affairs, or as a part of a constraining social structure. A number of properties of this vehicle are only to a limited degree questioned here. For example, we take for granted the popular understanding of:

- the core functions of the corporation which could be characterized as a conversion process connected to formal business transactions,
- the internal processes of value aggregation in the corporation, or
- a market where companies compete for market shares by maximizing profits[33].

[32] Cyert & March (1992:31) speaks of organisations as “coalition of individuals” identified by participants in a region delimited by time and/or functions. This general conception seems to be compatible with the conception of the “corporation” in this thesis.
[33] The concept; “maximizing profits”, is not suited to explain corporate success, according to Drucker (1974). It is simply a complicated way of phrasing the old maxim of “buying cheap and selling dear”. Holding on to this concept risks making profitability appear a myth, according to Drucker. He refers to Galbraith’s book “The New Industrial State” (1967) as a case in point here.

Thus, many key conceptions and attributes of the business culture influence our understanding of the corporation here. This is not considered unavoidable or troublesome. Rather, it has been intended, based on evidence showing that most changes of business practices and business strategies are incremental (Quinn, 1978 and Johnson, 1992). This is true, not only for material changes in the economical or technical domain, but also for changes in the mindsets of corporate managers and owners. Applying conceptions which corresponds to the terminology of business leaders warrants that the premises, findings, and implications of the study may be part of a realistic design for change. This is founded on the premise that researchers should be able to communicate the results of their studies to business leaders and policy-makers. When businesses are constrained by market barriers, regulations, demands for profit, and conventions, this favors incremental change. Thus, the target group is most receptive to proposals for incremental change. Joakim Sandberg point to a dilemma posed by this position in a paragraph concerning a similar subject:

> *There is a potential conflict here between trying to find the truth, or critically assessing the status quo, and designing arguments which are pragmatically successful* (Sandberg, 2008:221).

The response in this thesis is that choosing concepts and perspectives which corresponds to the terminology and outlook of business leaders does not only serve communicative purposes, but also enhances our understanding of businesses since any understanding of a social entity requires that we, as a part of our study, put us in the position of this entity. This is often an explicit motive when choosing methods like action research, unstructured interviews, and focus groups. These methods are not used in this thesis. We seek to grasp the perspective of the business community by asking questions and using concepts which correspond to the conceptions of business leaders, based on the reading of numerous business reports and speaking to a large number of managers[34].

[34] As part of the study of for Article 01 and 03 I met with many representatives of the clothing business and business confederations. In addition, my experience as a consultant in different capacities contributed to this insight.

The use of the social construct "the corporation" is thus justified by pragmatic arguments related to incremental change. This, in turn, suggests that the research design in this thesis is related to a positivist approach because pragmatism and incrementalism together points to an interest in the business utility and the instrumental role research can play in this area.

4.1.2 A modern positivist approach

A modern interpretation of a positivist approach (see Little, 1991, Donaldson, 2003, and Crotty, 2003) may be characterized by three features: a behaviourist perspective, a distinction between descriptive/factual evidence and normative elements, and a belief that knowledge may be established by empirical generalizations.

A behaviourist perspective emphasizes observable behaviour in light of internal and external stimulus and response. This thesis focuses on variables linked to corporate behaviour. Classical methodological behaviourism refrains from using concepts like "consciousness" and "memory" (Watson, 1924 and Halfpenny, 1982). This thesis does not analyze intrinsic corporate factors which may be likened with "corporate consciousness" or "corporate memory" such as the attitudes of corporate managers or the corporate culture. What about the behaviourist' conception of "free will"? According to Skinner (1953) "free will" should be replaced by the notion that "human behaviour is beyond the range of a predictive or controlling science"[35]. In the market centric approach CSR is associated with corporate efforts to reduce their negative externalities. However, this does not require a "free will" in the sense described by Skinner (1953). At the corporate level we may distinguish between "efforts in the realm of corporate discretion", and "free will". Efforts in the realm of corporate discretion may be understood as corporate actions where there are no specific regulatory requirements forcing the corporation to act in a particular way. But the notion of corporate discretion is not defined

[35] This position – and other behaviourist positions – have been heavily criticized by many scholars (e.g. Chomsky 1971). However, the behaviourist-cognitivist debate is beyond the scope of this thesis.

negatively: in the market centric approach to CSR "free will" is substituted by the notion of a certain degree of corporate autonomy[36].

A modern interpretation of positivism is also characterized by the view that distinction between descriptive/factual evidences and normative elements is possible without denying that most research designs and "facts" are both value-laden and theory-laden. This is based on the empirical thesis that corporate managers tend to separate the way they regard matters of business and matters of ethics (Sandberg, 2008). This remains to be verified/falsified by empirical evidence in the articles in this thesis. However, an additional basis for separating descriptive and normative matters is that it makes intuitive sense to distinguish between the fact that something *is* the case, and the suggestion that something *ought* to be the case (Sandberg, 2008). Thus, this distinction is not grounded in the belief that facts and values can or should be entirely separated, but in the belief that *certain* normative premises may be separated from the descriptive elements in the research design. In this thesis the definition of the market centric approach to CSR refers to "positive" and "negative" externalities without specifying possible normative requirements. There is however a normative premise incorporated in the definition of CSR stating that there is a potential for corporations of "doing good"[37]. Here we analyze how this may come about and how impacts vary, but we do not define what "good" is. Thus, we make the separation between normative premises and descriptive elements.

Finally, a modern interpretation of positivism is characterized by a belief that knowledge is established by empirical generalizations. The validation of a general proposition does not rely on verification, but on falsification. The scientific method requires that propositions are falsifiable. Propositions based on empirical observations are deemed to be true as long as they are not refuted using the hypothetico-deductive method. Thus, knowledge can only be

[36] The theme of "corporate autonomy" is further elaborated on in Article 04.

[37] There are other normative premises incorporated in the market centric approach to CSR: for example the presumption that the profit motive and CSR should be aligned, the presumption that CSR should contribute to "sustainable development", and the presumption that recommendations in this area should utilize business terminology and be "realistic".

"provisionally true" (Popper, 1959). Only some articles in this thesis utilize this kind of validation.

Article 01 does not engage in any empirical testing. Based on six sector specific features of the international clothing business, and more general related features of the global economy, it illustrates limitations of CSR by introducing the concept "CSR potential".

In **Article 02** eight drivers and barriers of CSR were identified in the CSR literature. These drivers and barriers were said to be compatible with the findings in the survey of managers in the Norwegian clothing business. "Compatible" may be interpreted as "not found to be in conflict with" the eight drivers and barriers. That is; the correlation coefficient measuring the relations between indexes consisting of items in the questionnaire, designed to approximate CSR performance and the drivers and barriers of the CSR performance, were not in conflict with the predicted relations of the drivers and barriers of CSR in the literature.

In **Article 03** we consider the expectation that the CSR performance have to focus on core competencies and be included as a part of the main business strategy, if it is to cause a strong CSR impact. The falsification test is accomplished by studying how the CSR impact varies with regard to these two characteristics of the CSR performance. The case study of eight multinational clothing corporations did not falsify the expectation of a positive relationship between these two characteristics. To the contrary, the expectation seemed to be supported.

Article 04 reviews 70 empirical surveys concerning the dissemination of CSR, focusing on the relation between the dissemination and different degrees of corporate autonomy. The aggregate results of the surveys support the expectation that a low degree of corporate autonomy (coercive isomorphism) is more common in poor countries than in rich countries. This conclusion is not tested by an empirical survey as part of this study. However, the finding is falsifiable.

Article 05 is a case study which aim is to exemplify how rising externality costs contribute to CSR. It is concluded that the case study, based on the white goods sector and relevant EU regulation, exemplifies, but not verifies, this connection.

Scherer & Palazzo (2007:1100) warns that a "positivist CSR" exposes itself to the danger of fulfilling ideological functions because it does not include ethical justifications – only different levels of morality. In line with the ideological functions, many search for a business case of CSR. Scherer & Palazzo (2007) argue that the economic view of the firm, as put forward by Friedman (1970) and Henderson (2001), rejects an intrinsic reason for CSR. Friedman and Henderson insist on the primacy of profit maximization which means that the monetary value is the prime indicator of business performance[38]. However, as indicated above (paragraph 2.5.4), this does not rule out any elements of CSR because the reason for using monetary values as a prime indicator is that the monetary value is the *only* asset that is easily transferred from one beneficiary or stakeholder to another, and the only asset that is easily adapted to both short-term and long-term objectives by financial instruments. Virtually any kind of CSR objective, seen from the market centric approach may be assigned a monetary value with potential benefits for the employees, the shareholders, the customers, and for the public treasury. The position of Friedman (1970) and Henderson (2001) is that there is one absolute requirement: when firms engage in CSR they must hold on to a long- or short-term profit maximization strategy. How CSR should be adapted to a profit strategy is often presented as a challenge (Friedman, 1970 and Henderson, 2001). But it is widely documented that the challenge often appears in the opposite order; the challenge may be to understand how profits depend on a well devised CSR strategy (Margolis & Walsh, 2003 and Salzmann et al., 2005). Thus, the implication put forward by Scherer & Palazzo (2007) that a positivist conception of CSR leads to an economic view of the firm which in turn rejects the idea of an intrinsic reason for CSR, does not hold. The view that profit maximization should be incorporated as a necessary condition in the CSR definition, does not rule out an intrinsic

[38] The market centric approach to CSR also insists on the primacy of profit maximization, but the main purpose must be to mitigate negative externalities, or to enhance positive externalities, based on norms with no direct connection to the company's profit maximization.

reason for CSR. This may be restated in a more precise wording: CSR does not rule out a prime purpose based on ideals with no connection to profit maximization as long as this purpose is achieved by means which contributes to profit maximization.

4.2 Data sources

The positivist approach in the research design of this thesis is reflected in the

- distinction between data, analysis, and findings in the articles
- assumption that findings in the article may have general application in our society
- recommendations and implications based on the findings in the articles.

The findings in this thesis are based on analysis of a mixture of secondary and primary data:

- Article 01 is based on empirical based theories focusing on the structural features of our political economy.
- Article 02 is based on a literature survey of CSR drivers and barriers, validated by a Norwegian survey.
- Article 03 is based on evidence of CSR performance and CSR impact in reports of eight multinational enterprises.
- Article 04 is based on a qualitative meta-synthesis of business surveys.
- Article 05 is based on evidence in three multinational enterprises experiencing rising externality costs.

Only Article 02 is based on analysis of our own primary data. Drivers and barriers of CSR, identified in a literature study, were validated by a survey among 192 managers in Norwegian clothing companies. The regression coefficients and bivariate effects were weak, but compatible, with the drivers and barriers identified in the literature. The design and research questions in the other articles were either not suitable for an empirical validation due to the nature of the design (Article 01), or not possible to validate by an empirical study due to lack of data, or lack of resources to initiate an international survey of our own (Article 04).

The case studies covered by Article 03 and 05 rely on secondary data. In the preparations for Article 03 all companies included in the case study were contacted. Only three responded to emails, and those who did offered very limited information. In the case study related to Article 05 the primary data was considered not essential because the case companies' role was to exemplify the relationship between rising externality costs and CSR. The measurements of externality costs and the indicators of CSR were part of the research design and the available secondary data was considered sufficient for the purpose of this article.

4.3 Sampling and selection of case companies

As mentioned above, the findings in Article 01, 02, and 04 are based on secondary data – primarily on literature studies. Studies with similar data and designs were identified. Thereafter it was shown that the findings in these studies were compatible, or gravitated towards certain trends. This methodology was not chosen as a second best alternative to a traditional survey design. The aim was to look for similarities among the findings in earlier studies without having to fulfil the demands of a meta-survey where all data sets would have to be combined and recoded. A meta-survey is not only demanding; it is in many cases not an available option due to limited access to primary data. While articles 01, 02 and 04 had this methodological approach in common, their use of secondary data at the same time differed significantly:

- In Article 01 the role of secondary data was to identify archetypal features of the international clothing business based on a review of studies of the international clothing sector.
- In Article 02 the role of secondary data was to identify drivers and barriers of CSR based on a qualified selection of articles. It was decided that the selected studies should fulfil four criteria; they should be published recently, they should refer to empirical data, they should

consider drivers/barriers of CSR, and they should distinguish between large and small companies.

- In Article 04 the role of secondary data was to contribute to the understanding of the dissemination of CSR among small and medium sized enterprises. Among journal articles available on the internet relevant academic studies on the dissemination of CSR was selected.

The case companies covered by Article 03 and 05 were selected on the basis of the stated criteria. In Article 03 the five criteria are similar main product (apparel), geographical spread (global), size (large), public listing (yes), and functional responsibilities (retail centred). In Article 05 there were only two criteria; similar industry (the electric appliance industry) and size (global market leaders).

4.4 The validity of the market centric approach

The external validity of the market centric approach may be determined by considering the correspondence between the main premises of the approach and the factual circumstances in which the approach is supposed to be useful. To consider the external validity we then need to consider the validity of the main premises embedded in the approach in circumstances where the approach is intended to be used.

We may also interpret the market centric approach as a construct and consider its representation validity. That is; how well do the sub-constructs (the premises which the approach is based on) represent the main construct?

Let us first consider the external validity of the market centric approach.

It is stated above that the market centric approach to CSR is intended to be used in circumstances where corporations have discretionary power in a market based economy. The approach is intended to enhance our understanding of the determinants and the impacts of CSR in different market contexts and different business contexts. The market centric approach to CSR is based, in particular, on Bowman (1973), Sethi (1979), and Crouch (2006).

We may identify the following premises related to the market centric approach in their articles.

Premises in Bowman (1973)

- Not all costs and benefits of corporations are reflected on a corporation's books. Unreflected costs and benefits are externalities.
- There are pressures for managers to exercise "self-restraint" in the interests of society due to less than perfect markets and externalities. There are similar pressures for governments to internalize to the business what would otherwise be adverse social externalities.
- *Key premise:* CSR, as an integral element in the corporation's strategy, is seen by enough investors as an important factor in a corporation's success that the relationship between CSR and investor's interest can be (made) positive.

These premises are supported by evidence in five cases from European industries in England, France, Holland, and Belgium.

Premises in Sethi (1979)

- All market actions have some non-market or indirect consequences for the society. These second-order effects are termed externalities and have traditionally been borne by society as a whole. Businesses' response to these non-market forces are commonly termed CSR.
- Businesses depend on society's acceptance of its role and activities if it is to survive. Businesses must therefore constantly strive to narrow the legitimacy gap.
- *Key premise:* There are three stages in the development of CSR: 1) "Social obligation" (proscriptive) characterized by maximum externalization of costs, 2) "Social responsibility" (prescriptive) where firms internalize previously external costs, and 3) "Social responsiveness" (proactive) where firms eliminates side effects of corporate actions.

The properties associated with the three stages where validated in a study of marketing of infant formula foods in developing countries (Sethi, 1979), in a study of patterns of Japanese and American business' response to industrial pollution (Sethi, 1978), and in a study of regulatory agencies in the US (Swanson, 1978).

Premises in Crouch (2006)

- CSR is essentially corporate externality recognition.
- *Key premise:* The resolution to the conflict between CSR and maximization of shareholder value lies in the CSR goal being marketized. To some extent the market itself shapes tastes as our levels of wealth and income, and the products that the market makes accessible to us, will affect what we choose. However, firms can also shape tastes, create tastes and construct markets. These activities create externalities.

There are no attempts to validate these premises in empirical studies, or reference to such attempts in Crouch (2006).

A common premise of all three contributions is to associate CSR with firms' ability and motive to enhance their externalities. Summarized, we identified the following premises related to the market centric approach;

- the relationship between CSR and the investor's interest can be (made) positive (Bowman, 1973),
- the stages in the development of CSR involves increasing internalization of externalities (Sethi, 1979), and
- the marketization of CSR[39] resolves the conflict between CSR and profit maximization (Crouch, 2006).

On the basis of the literature on the relationship between CSR and corporate financial performance[40], it is reasonable to expect that the majority of large

[39] This may be restated as "viewing CSR as a part of their pursuit of business opportunities".

firms in industrial countries are able to select areas of CSR that are likely to strengthen their competitiveness. The literature review in article 02 in this thesis support the claim that a stronger CSR impact requires the firm to internalize more of its externality costs. The case study in articles 03 and 05 exemplifies how large corporations regard CSR as a pursuit of business opportunities. There are a multitude of drivers and most are linked to business interests and rising externality costs. Idealistic or religious motives seem to be of less importance.

This thesis includes two additional premises which are not found in Bowman (1973), Sethi (1979), or Crouch (2006). First, if a firm manages to institutionalize an externality it is claimed that this area no longer constitutes an externality because it has become a part of the company's regular business. Thus, CSR emerges as a transitional process and ends when the externality is institutionalized. Second, it is claimed that the market centric approach provides a plausible link between CSR impact and indicators of sustainable development. The market centric approach should therefore be useful in studies where we measure the impact of CSR on sustainable development. The case study of the three leading companies in the global electric appliance market (article 05), demonstrates that corporations may reduce the potential for CSR by institutionalizing its externalities. The investment of Electrolux in the European Recycling Platform, transformed an area which earlier represented a cost related to externalities, to a new business area.

We conclude that the external validity of the market centric approach was partly established in Bowman (1973) and Sethi (1979). Additional premises were validated in case studies in this thesis, including the premise related to the "marketization of CSR" in Crouch (2006).

What about the representation validity? How well do the premises represent the market centric approach - the main construct here? Above, we refer to five premises linked to this approach:

[40] See e.g. UNEP, 2001 and Blowfield, 2007.

- the relationship between CSR and corporate financial performance can be made positive
- the stages in the development of CSR involves increasing internalization of externalities
- the marketization of CSR resolves the conflict between CSR and profit maximization
- when a company manages to internalize an externality it has become part of the company's regular business and no longer constitutes CSR
- the market centric approach provides a plausible link between CSR impact and indicators of sustainable development

On the face of it, these premises seem to represent most aspects of the definition of the market centric approach above, particularly when we include the "arguments in favour" of the approach[41]. We conclude that the representative validity seems to be satisfied.

The market centric approach needs further validation – in particular with respect to the link between CSR impact and indicators of sustainable development – before the approach may be considered supported by empirical evidence.

[41] The definition of the market centric approach is included in section 2.1 while the arguments in favour of this approach are included in section 2.4.

5 Analytical approach and findings in the articles

This chapter introduces the reader to the five articles in Part II in this thesis. We start by showing how the articles include references to the ethical model and concepts from a variety of social science disciplines. Then we present the analytical approach and findings in the five articles in this thesis. The last paragraph concerns possible relations between the main issues addressed in the articles. These relations are illustrated by positioning each article along the "CSR impact chain" (Figure 2). Finally, on the basis of the combined evidence in the articles, it is suggested that the strongest CSR impact is to be expected when both the CSR potential and the externality costs of corporations are high.

5.1 A multidisciplinary field

The literature on CSR is drawn from many disciplines within the social science field. The articles included in this PhD are no exception.

The five articles in this thesis have no grand theoretical frame of reference. Still, articles 02, 03 and 05 have a common conceptual framework: the reference to the market centric approach to CSR. In addition, it might be said that this PhD thesis is based on a normative premise: all articles deal with factors which are thought to affect the prospects, or potential, of "doing good" by engaging in CSR. An implicit premise is therefore that CSR has, or at least may have, a beneficial impact on society. This impact is made conditional in all of the articles in this thesis: it is stated explicitly in Article 01 and 02, and implied in the other articles, that public policies only should stimulate CSR as long as the corporate practices and aims are compatible with public objectives.

The premise of "a potential for doing good" and the condition related to public policies does not amount to a common theoretical framework. It only shows that CSR is perceived as an activity with a potential positive impact on society and should be limited by the democratic process and by the principle of democratic accountability.

Article 01 and 05 refers to ***normative theory***. Here value judgments are incorporated as important elements of the underlying model[42]. In Article 01 "CSR potential" is defined with reference to the likelihood of violating international standards on CSR. These standards refer to "good" and "bad" corporate behaviour, and are formalized in international agreements by the signatory parties. It is shown that the CSR potential of the clothing business is compatible with ***general features of the global economy***[43]. It is therefore concluded that corporations alone (through CSR) are not capable of mitigating the structural elements that cause the risk of violating international CSR standards. Article 05 shows how rising externality costs contribute to CSR performance which in turn may increase the CSR impact. Within the frame of the market centric approach to CSR, first and second order CSR impact is defined with reference to the first and second order externalities produced by business transactions. "Second order CSR impact" is claimed to be the most significant impact because it has a "systemic impact" on sustainable development while first order CSR impact only has a quantitative impact. Thus, it is judged that the objective of maintaining the consistency and sustainability of the ecological system is more important in the long run than the objective of reducing pollutants.

Article 04 refers to ***new institutional theory*** in an attempt to distinguish between different environments for CSR dissemination: Normative, mimetic, and coercive isomorphism are concepts borrowed from institutional theory. Self government is the fourth environment category and covers cases where the corporate action is based on rational considerations of self-interest.

Articles 02 and 03 focus on the corporate level. Article 02 examines how drivers and barriers of CSR vary with regard to their size and degree of

[42] Naturally, all articles in this thesis include value judgments, but these judgments are most explicit in Article 01 and 05.

[43] This is a theme in Article 01 and refers to three theoretical models; asymmetric relations and unequal distribution ("structural imperialism"), the product cycle model, and transnationalization.

internationalization. Article 03 considers how the impact of CSR varies with regard to traits of the CSR performance. In these articles CSR is conceived as means to achieve corporate objectives, thus, an instrumental design which may incorporate elements of ***rational choice*** or elements of ***institutional isomorphism***. Article 02 explicitly combines drivers of CSR based on rational choice and institutional isomorphism, while Article 03 focuses more on rational choice by considering how corporations can maximize their CSR impact by employing their core competencies and making CSR a part of their profit strategy.

Finally, Article 01 and 04 also makes reference to ***power theory***. Article 01 refers to Galtung's (1971) theory of asymmetric relations and unequal living standards among the worlds' nations. This may be characterized as a theory of systemic power" (Lehman, 1969)[44]. It is not agent-based, but rather defined as a configuration where there is systematic inequality. Article 01 also refers to "the decline in the economic bargaining power of labor" in the presentation of indicators of transnationalization. In Article 04 different environments of CSR dissemination are distinguished by referring to the firm's "degree of autonomy". "Autonomy" is defined by the number of available options and the extent of conflicts of interests. Conflict of interests is a requirement for the execution of power, and could be "observable" or "latent", according to Lukes (1974).

5.2 The CSR potential (Article 01)

Full title: *An Attempt to Determine the CSR Potential of the International Clothing Business*

Article 01 tells us something about the *structural limitations* of CSR and the usefulness of focusing on sector specific features before we analyze CSR at the firm level.

[44] The definition of "systemic power": "the capacity of some unit acting as an agent of the system to overcome the resistance of system members in setting, pursuing and implementing collective goals" (Lehman 1969:455-456).

Based on a number of studies of the international clothing business, six features that indicate a high CSR potential is identified. The "CSR potential" is defined by sector specific features that trigger the risk factors linked to global CSR standards. A high CSR potential indicates that there is a potential for positive influence through CSR-related actions. The features identified in the international clothing business are shown to be consistent with more general features of the global economy, whether we emphasize asymmetric relations, the product cycle model, or transnationalization. Thus, the CSR potential of the international clothing business is not only a product of sector-specific properties, but also of more systemic and general features of the global economy. This suggests that the CSR performance of individual companies may enhance their social and environmental impact, but will probably have little effect on the features that determine the CSR potential. To affect these features we rely on other institutions to act – mainly governments.

It is concluded that this shows that it is useful to identify the CSR potential of a business sector. We get a picture of which part of the international CSR standards companies run the greatest risk of violating, and of which structural issues intergovernmental actions should address to reduce the potential for violating CSR standards.

5.3 Drivers and barriers of CSR (Article 02)

Full title: ***Drivers and Barriers of CSR and the Size and Internationalization of Firms***

Article 02 considers how drivers and barriers of CSR may be influenced by two properties of the firm: its number of employees and its degree of internationalization.

The purpose of this article is to analyze how drivers and barriers of CSR vary with regard to stages in the transformation process from a small- and medium-sized enterprise to a multinational enterprise. This is based on a literature survey covering 47 journal articles. A survey of managers in the Norwegian clothing business is used to validate the findings in the literature survey. Eight main drivers and barriers of CSR are identified in the literature survey and are also supported by a regression analysis based on Norwegian survey data.

By considering these drivers and barriers as special cases of more general social science models, we gain a better understanding of how they are affected by different business contexts and how they vary with regard to stages in the transformation process from small and medium sized enterprises to multinational enterprises. In the first two stages, firms lack the economies of scale and the expertise and external influence to implement CSR. In the third stage the firm is capable of engaging in mutually beneficial partnerships and may use CSR in its interactions with local stakeholders to improve their reputation and framework conditions. In the fourth stage, the international expansion of the firm increases the number of stakeholders and the number of risks. CSR may then be used to mitigate these risks. In the fifth stage, a vast corporate organization no longer permits the top management to control the organization. We see risks related to opportunistic behaviour among its employees. At the sixth stage firms may overcome uncertainties in their environment by imitating the CSR practices of competitors and stakeholders. At the seventh stage, the firm has become well known and is able to influence market conditions. CSR may now be part of both a defensive and offensive strategy. At the last stage, the firm may be able to influence both market conditions and public policies. Engaging in CSR reflects an ambition to advance long-term business interests by improving their framework conditions. This article contributes to a better understanding of how and why drivers and barriers of CSR differ with respect to the size and degree of internationalization of firms.

5.4 Determinants of a strong CSR impact (Article 03)

Full title: *Determinants of a Strong CSR Impact. A Market Centric Approach. Case: Multinational Clothing Corporations*

This article uses a market centric approach to CSR. Based on this approach a distinction between CSR performance and CSR impact, it is assumed that the CSR impact will be stronger when the CSR performance is focused on the corporation’s core competencies, and when CSR performance is perceived to be profitable, and included in their main business strategy by the corporate management team. A case study of eight multinational clothing retail corporations supports these expectations. This not only supports certain expectations with regard to the empirical relationship between competencies, perceptions, and impact, it also supports the use of the market-centric approach to CSR.

If CSR is understood as minimizing negative externalities prompted by corporations' own business strategies or government policies, we would expect a strong CSR impact when the CSR performance is based on core competencies of the business (establishing a direct relation to business transactions) and when CSR is perceived to be profitable (making the link between CSR and the strategic interests of the business).

Though the aim of CSR is often to influence non-economic issues, this study indicates that to maximize the CSR impact over time, the corporations should be motivated by the prospects of a financial return and should utilize their core competencies. This result suggest that the emphasis given to non-economical contextual drivers for CSR among multinational enterprises such as

- "societal legitimacy" (e.g., "stakeholder expectations" in Wood, 1991 or "license to operate" in Wall, 2008) and
- "institutional embeddedness" (e.g., "institutional stakeholder perspective" in Doh and Guay, 2006 or "implicit CSR" in Matten and Moon, 2008)

can be questioned in the analysis aiming to explain CSR at the business level.

5.5 Dissemination of CSR in Poor Countries (Article 04)

Full title: ***Dissemination of CSR among SMEs in Poor Countries. A Qualitative Meta-Synthesis***

In Article 04 it is suggested that CSR dissemination among small and medium sized enterprises may be less connected to local drivers than we are led to believe in the CSR literature. Institutional pressures seem to be frequent, and in poor countries a specific kind of institutional pressure; coercive isomorphism, seems to be much more frequent than in rich countries. This finding is based on a qualitative meta-synthesis of 70 surveys published in academic journals. The importance of institutional pressures points towards a lack of autonomy among small and medium sized enterprises in poor countries and a lack of visibility, or reputational incentives, in rich industrialized countries. Thus, a lack of reputational incentives may be a relevant argument for national incentives for CSR in rich countries while a lack of autonomy calls for national incentives in poor countries.

5.6 Rising externality costs and CSR (Article 05)

Full title: *Rising Externality Costs and Corporate Social Responsibility. Case: EU legislation on Electric and Electronic Equipment*

Article 05 considers how rising externality costs influence CSR performance from a market centric approach. It introduces the concept "second order CSR impact" which is considered to be more important than "first order CSR impact" because it addresses the *systemic* impact of corporations on conditions for sustainable development, compared to only the *quantitative* impact. To reduce the amount of extracted natural resources and the amount of pollution mitigates the harmful effects of modern production and consumption. Reducing the negative systemic impact on sustainable development reduces the *need* for extraction and pollution by increasing the rate of recycling and by protecting the integrity of the ecologic system. A case study is conducted of three multinational enterprises within the electric appliance industry. There is clear evidence that rising externality costs due to EU regulation contributes to CSR performance among these corporations. The strongest CSR impact (second order CSR impact) is related to output externalities in the EEE sector, while the strongest CSR impact in the clothing sector, in an earlier study, was shown to be related to input externalities[45]. This suggests that governments need to adapt their CSR policies not only to general sector specific features, but in addition to the potential for reducing negative externalities in different parts of the value chain in different sectors. The article demonstrates the usefulness of a market centric approach to CSR.

[45] Here the article refers to Article 01 in this thesis.

5.7 The articles in context

The articles in this thesis may be associated with different parts of a CSR impact chain, differentiating between "CSR potential", "CSR performance" and "CSR impact". The position of the five articles in this chain is illustrated in Figure 2:

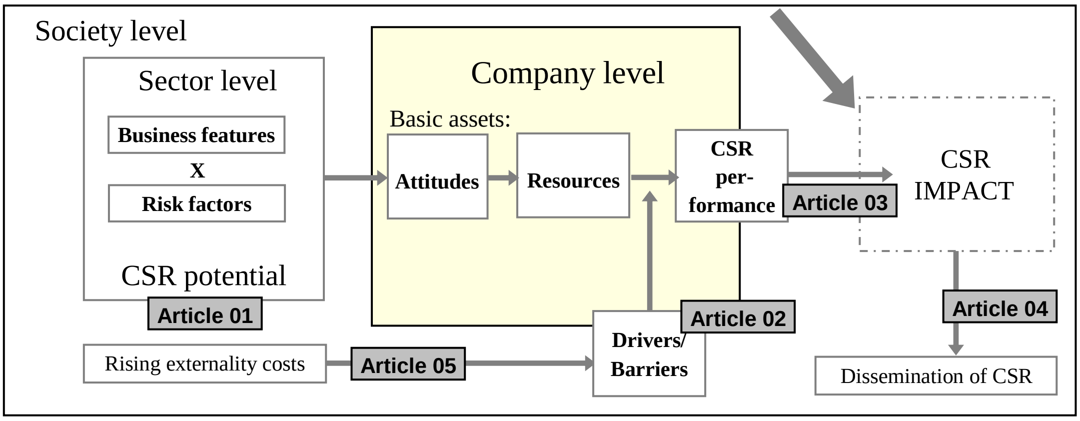

Figure 2: The CSR impact chain: The CSR potential, the CSR performance, and the CSR impact.

The wide arrow affecting "CSR impact" in Figure 2 illustrates the possible spurious influences of the CSR impact. The possibility of spurious influences is a concern in all the articles in this thesis. The focus of this figure is on the role of firms. This thesis argues that the contributions of governments and civil organisations are vital to ensure a strong CSR impact. But the policy instruments and roles of governments and civil organisations is not a core issue in any of the articles included in this thesis, though the findings in these articles have possible implications for government policies. In **Article 01** a high CSR potential represents a risk for violating international CSR standards. These violations may be due to structural factors at the sector level. A high CSR potential is interpreted as an incentive for CSR performance and the CSR performance causes a CSR impact. Drivers and barriers of CSR are shown to

vary according to the size and internationalization of firms in **Article 02**. However, this article does not consider individual firm factors or sector level features. The article focuses on how drivers and barriers of CSR vary with regard to different stages in the transformation of a small and medium sized enterprise to a multinational enterprise. **Article 03** considers factors that contribute to a strong CSR impact. It is argued, with reference to eight case studies, that the perception of CSR as potentially profitable and that the utilization of the corporation's core competency is consequential for the CSR impact. In **Article 04** the dissemination of CSR is analyzed with respect to GDP/capita and environment categories which refer to institutional pressures and self-governance. Individual and internal factors of the corporations are not included here because they are judged to be part of the aggregates referred to as environment categories. Finally, the effect of rising externality costs on CSR performance is exemplified in **Article 05**. It is shown that this effect may vary according to the CSR potential of the sector. Many individual drivers of CSR may be understood as a response to rising costs of externalities. It may be efforts to control suppliers, or greater sensitivity to public sentiments.
When may we expect the strongest incentive for CSR? According to the combined evidence in the articles in this thesis, it is

- when the sector specific CSR potential is high (Article 01)
- when public policies, through incentives, manage to mitigate barriers and boost drivers of CSR (Article 02)
- when individual firms base their CSR on their core competencies and incorporate CSR in their main business strategy (Article 03)
- when public regulation in developed countries address the lack of autonomy among SMEs (Article 04)
- when we see rising externality costs (Article 05)

When environmental policies utilizes incentives, and not command and control regulation, it not only raises the firm's externality costs, it encourages firms to devise a strategy to reduce these costs. The external incentives for CSR studied in this thesis belong to one of two groups:

- "High CSR potential", defined as a high sector specific risk of violating international CSR standards. This may be characterized as an incentive for CSR at the *sector level* prompted by structural factors, and in particular asymmetric trade relationships, features related to the product cycle, or transnationalization.

- "High externality costs". This may be characterized as an incentive for CSR at the *firm level* prompted by the corporation's business strategy or by government policies.

A strong external incentive for CSR can be expected when both the CSR potential and externality costs are high. This is illustrated in Figure 3 below.

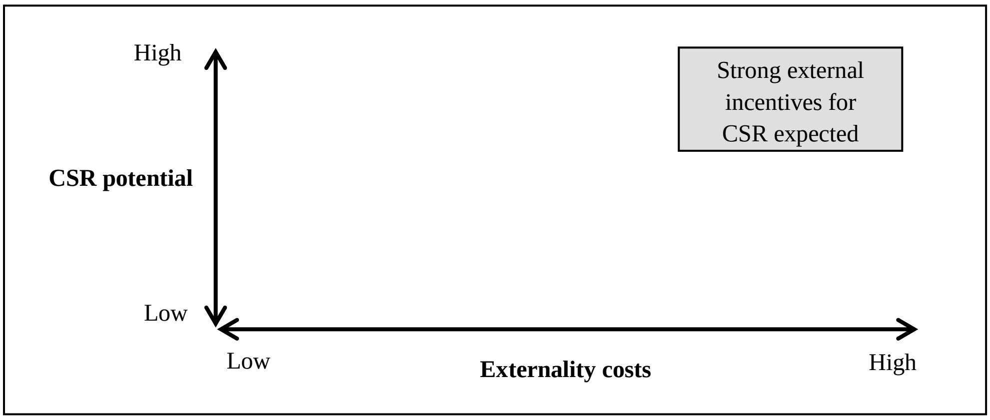

Figure 3: External determinants of a strong CSR incentive

Public policies may influence firm's externality costs and the CSR potential. Firms can also influence its own externality costs, but are unlikely to influence the structural elements that cause a high CSR potential[46]. Thus, the incentives for CSR depend on a *combination* of business actions and public actions, but certain structural barriers (negative incentives) can only be removed by public policies.

[46] This theme is treated more extensive in paragraph 5.2.

6 Discussion of certain issues treated in the articles

6.1 Does the "CSR potential" limit the CSR performance?

In this thesis it is argued that companies engage in CSR to enhance their social and environmental impact, but are not capable of altering the structures that causes the risks of violating international CSR standards[47]. Thus, they are not capable – not even at the sector level – of eliminating the CSR potential. To do this requires intergovernmental agreements, regulations and related executive powers. Therefore it seems that the CSR potential identifies an area which is out of reach for the CSR performance. The CSR performance may be of great importance to individual stakeholders and to the long-term business strategy of the company, but without the interference of national and intergovernmental regulation the factors which lead to violations of international CSR standards will persist. If maximum benefits from CSR are to be realized it requires a *joint effort* by responsible and profit seeking business managers and by reform minded and competent policy makers.

6.2 Reinterpretation of drivers and barriers of CSR

6.2.1 Compatible with the market centric approach to CSR?

How do we interpret the drivers and barriers identified in Article 02 by using the market centric approach? In general, externality recognition is only relevant for drivers. There must be externalities to modify before the market centric approach can become relevant. Barriers represent an impediment. If we focus only on barriers we therefore would lack references to externalities.

[47] This theme is treated more extensively in section 5.2 above.

The links between the five drivers of CSR in Article 02 and externality recognition may be outlined as follows:

- *Sensitive to local stakeholders*: This driver covers local communities' perception of externalities, in addition to the local impact of business transactions.
- *Geographical spread*: This implies that the range of externalities widens and becomes potentially more harmful when firms expand their geographical scope of operations.
- *Following leading companies and trends*: Well known negative externalities create a reaction which has an effect on CSR performance. This could also include prescriptions with no direct link to "real externalities" like business trends originating from well known corporations, or pressures from corporate customers to subscribe to general norms and conventions associated with CSR.
- *Sensitive to public perception*: When negative externalities receive attention among the public, mitigating this externality becomes a reputational factor which in turn constitutes a driver for CSR.
- *Ward off public regulation*: In many cases government policies aim to reduce externalities from businesses. Many corporations may want to choose the means for reducing negative externalities themselves[48]. A number of large corporations have the capacity to influence governments and may therefore attempt to ward off regulations to avoid further restrictions[49]. However, when this is linked to CSR, this may be interpreted as the corporation's effort to control their means and objectives related to CSR.

We see that all drivers identified in Article 02 may be interpreted in line with the market centric approach to CSR because they all can be interpreted as pressures embedded in organisational fields, or as pressures exerted by stakeholders, due to rising externality costs.

[48] The impression from field studies is that in the majority of cases where corporations ward of government regulation, the motive is simply to avoid any operational restrictions. However, in this context we focus on cases where corporations' influence on governments is best interpreted as a driver for CSR.
[49] This may also be interpreted as protection of externality production.

6.2.2 Drivers in different environments referring to corporate autonomy

What kinds of drivers do we see in different environment categories in Article 04? There may be essentially two kinds if we focus on drivers that explain what seems to be a disproportionate rate of coercive isomorphism in poor countries:

- There is a supply chain "push" entitled "geographical spread". This materializes as a concern about differences in social and environmental standards in poor and rich countries.
- There is also a "supply chain demand" entitled "following leading companies". This materializes as a demand from corporate suppliers in rich countries.

The three remaining drivers; "local stakeholders", "sensitive to public perceptions", and "ward off public regulation" does not fall under the environment category "coercive isomorphism".

We conclude that the disproportionate rate of coercive environments in poor countries may be related to the two drivers in Article 02 entitled "geographical spread" and "following leading companies". Alternatively, we may claim that coercive environments are caused by rising externality costs. This is discussed in the next section.

6.2.3 Examples of rising externality costs?

Are the drivers of CSR in Article 02 examples of "rising externality costs" in Article 05[50]? Are rising externality costs more "basic" than the drivers? Rising externality costs, everything else equal, reduces the corporation's net income which in turn inspires corporations to internalize these costs. Thus, it inspires CSR performance. "CSR performance" may be regarded as a mediator

[50] The five drivers in Article 02 (presented in section 5.3 below) are "sensitive to local stakeholders", "geographical spread", "following leading companies and trends", "sensitive to public perception", and, "ward off public regulations". "Rising externality costs" is treated as a driver of CSR dissemination in Article 05.

between "externality costs" and "CSR impact" (see Figure 2), which in turn may reduce externality costs. This exemplifies how CSR may be seen as a *transitional process* ending when the externality cost is institutionalized[51]. It is therefore reasonable to see the drivers of CSR in Article 02 as examples of "rising externality costs" and interpret these costs as more basic – or generic – compared to the drivers of CSR in Article 02.

6.3 Business gains and CSR costs

The relation between business gains and CSR costs is important in this thesis because the market centric approach to CSR assumes that corporations' recognition of this relationship contributes to an effective CSR impact.

Corporations' CSR performance should pursue business opportunities and be a part of the main business strategy to ensure a strong and lasting CSR impact[52]. During the transition process when an externality is institutionalized, corporations have to consider the balance between the costs of institutionalizing externalities and the gains expected from the CSR impact[53]. There is not necessarily a balance between the costs related to the CSR performance (institutionalizing externalities) and the gains derived from the CSR impact. But corporations often expect gains which are unrelated to their CSR impact. Let us consider an example:

A manufacturing facility institutionalizes externalities when it invests in a local community project and reduces its discharge to local drinking water in areas where the facility is a major employer. This kind of action has costs which may be balanced by the revenue derived from the CSR impact. In this example the corporate investment may contribute to the retention of well qualified employees and enhance local recruitment. But the investment may also improve the corporation's national reputation and increase their national sales. When a large proportion of the CSR related business gains are unrelated to the CSR impact (e.g. when corporations increase national sales due to a

[51] See section 2.1 above.

[52] This theme is treated in section 2.1 and 5.4.

[53] This is the second interpretation of "net externality" treated in paragraph 2.3.

local community project), the element of CSR is considered weak because the prime motivator seems to be public relations which is normally a regular business transactions. When a large proportion of the CSR related business gains are directly related to the CSR impact, (e.g. the retention of and recruitment of local employees), the element of CSR is considered strong because the motive seems to be gains related to efforts to reduce negative externalities.

Thus the assumption of the market centric approach to CSR that corporations' recognition of a relationship between business gains and CSR costs contributes to an effective CSR performance, should be specified: an effective CSR performance relies on the recognition of a relationship between *gains related to the corporation's efforts to reduce negative externalities* and CSR costs. In other words, by specifying this requirement for an effective CSR performance, we distinguish between "genuine CSR" and "apparent CSR" on the basis of the source of the CSR related revenue.

6.4 CSR and the self-interest

Corporations can, according to the market centric approach, hold the view that their CSR performance are in their best economic interests. The idea that the social responsibility of business should be related to the self interest of corporations to be effective, is not new. Already in 1927 Wallace B. Donham wrote that there are three groups of managers attempting to correlate their individual economic ambition and their social responsibility:

1) Those harmonizing their economic and social obligations.
2) The group where the right hand practices in accordance with standards of the time, while the left hand turn themselves into philanthropists.
3) The group trying, with far-sighted vision, to work out their own business relationships in ways which contribute to social progress. This is most important group, but fewest in numbers.

He then concludes that

> *we must use the motive of self-interest to its maximum of sound social service.* (Donham (1927:415)

The limits of CSR, according to Peter F. Drucker, are compatible with the understanding of Donham. According to Drucker (1993:351) CSR should not:

- compromise or impair the performance capacity of the firm
- assert illegitimate authority
- obligate business to take action beyond their competence area

The market centric approach to CSR holds that the corporation’s perception of an economic interest and its sense of social and environmental responsibility are *equally important* if one is to achieve a sustainable CSR impact. Drucker (1993:334) points out that it is not easy to find a profitable business opportunity by eliminating a negative impact on third parties:

> *What was an “externality” for which the general public paid becomes business cost. It therefore becomes a competitive disadvantage unless everybody in the industry accepts the same rule.*

Here Drucker fails to mention that a competitive advantage is often achieved precisely when firms invest in areas that are not yet recognized as a commercial opportunity by its competitors. However, when no such opportunity is identified, the only option for strengthening the CSR performance is for governments to intervene by introducing CSR incentives in regulations and/or in taxes.

7 Final remarks

In this section it is considered – in light of this study – whether CSR should be considered “good”. We will also consider whether a positive contribution of CSR depends upon government policies. Finally we consider suggestions for further research.

7.1 Reasons for stimulating CSR

The main arguments in this thesis for stimulating CSR were published in 1973. Keith Davis argues that CSR is necessary because:

1) CSR is in the long runs self interest of the firm. It is a sophisticated conception of the long-run profit maximization.
2) CSR concerns the firm’s public image and the long-term viability of the business community.
3) CSR may be an effective way of amending, or warding off, government regulation.
4) CSR is necessary because it allows firms to mobilize their unique combination of resources and competencies in the service of the society.

(Davis, 1973) [54]

The three first points may be characterized as reasons for stimulating CSR from the *firm’s* perspective. The main reason for stimulating CSR, from the *society’s* perspective, is the unique resources and competences the firm contributes (the fourth point above). But there are two additional reasons for CSR, seen from the society’s perspective. These are beyond the scope of Davis’ article. CSR related activities ease the introduction and implementation of government regulations, and they provide public goods. First, it is documented that CSR may enhance the implementation process of government

[54] These arguments are consolidated and re-ordered compared to the original text.

regulations. CSR related activities often pave the way for mandatory minimum standards as they generate interest among leading firms for a more level playing field (Fox et al. 2002 and Ruggie, 2004). Second, several economists argue that corporations, under certain conditions, have a competitive advantage vis-à-vis government and non-profit organizations when it comes to providing public goods (see Bergstrom et al., 1986, Besley & Ghatak, 2007, and Blomgren forthcoming).

These are reasons for stimulating CSR from the corporation's perspective and the society's perspective, but what about disadvantages? Based on this study, we may characterize the *effects* of CSR like this:

For firms:

- *CSR is good:* If CSR contributes to profits and increased competitiveness by improving reputation, product quality, by developing new niches, and by improving government regulations and policies.
- *CSR is bad*: If CSR is forced upon the firm by government pressures, by stakeholders, or by coercive isomorphism. This would undermine efforts to adapt CSR to the competitive pressures and the unique capacities of the firm and thereby thwart attempts to align the CSR performance with business interests.

For the society:

- *CSR is good:* In the absence of a global polity, we need to engage business in social and environmental issues. A better understanding of how we all may benefit from this may also be a way of mitigating the agency problem.
- *CSR impact is limited:* The CSR performance will not reduce the sector-related potential for violating international CSR standards.
- *CSR is bad:* A strong and visual CSR profile may have very little direct impact on society. The CSR performance may in these cases legitimize, or cover up, the exploitation of natural resources and the abuse of human resources.

For sustainable development:

- It depends on the impact of CSR, and in particular, the impact of "second order CSR impact"[55].

Hence, in addition to macroeconomic policies and mandatory regulation, CSR may be seen as a necessary complement, but not as a sufficient condition, to improve the social and environmental environment.

7.2 How should governments stimulate CSR?

The main empirical contribution of this thesis is to qualify the reasons and effects of CSR listed in the section above. These qualifying issues may be associated with different government policies designed to stimulate CSR. Each of the five articles in this thesis refer to such policies.

It is wise for public authorities to conduct a sector analysis before it decides what kind of CSR measures one should adopt. Governments should address sector specific structural issues that cause the risk of violating international CSR standards (the CSR potential).

The size and degree of internationalization influence the effectiveness of the CSR performance of firms and the CSR policies of governments. It follows that public policies should differentiate between different firm sizes and different degrees of internationalization of firms.

In most cases the CSR impact is strongest when firms incorporate CSR as part of their main business strategy and when they build on their core competencies. Government incentives for CSR at the business level should therefore attempt to link CSR with businesses' strategic interests and core competencies.

In poor countries it seems that the dissemination of CSR is relatively often related to an element of coercion. The most relevant argument for national regulation of CSR among SMEs in poor countries is not their lack of visibility (as in rich industrialized countries), but their lack of autonomy.

[55] Second order CSR impact is defined in paragraph 2.5.4.

It is clear that the externality costs appear at different parts of the value chain in different industries. Thus, government incentives for CSR should address different parts of the value chain in different industries.

This thesis does not aim to give an exhaustive answer to the question of how governments should stimulate CSR. It is not even obvious that governments *should* stimulate CSR in many cases. It may be recommendable to allow profit related motives to play a larger role and reduce regulations in certain areas, or it may be recommendable to ensure that all firms fulfil certain minimum thresholds by issuing mandatory regulations.

7.3 Further research

Like most research projects in the social science field, the “findings” in this thesis are best characterized as propositions or suggestions for further inquiry rather than as accurate answers to specific questions. In the following, three areas are highlighted where further research would likely complement and modify the contribution of this thesis.

7.3.1 The gap between economic and multi-disciplinary literature

Economic studies on CSR usually present a model with a limited number of variables and focus on specific hypotheses/propositions as part of this model. (e.g. Bagnoli & Watts, 2003, Besley & Ghatak, 2007, Calveras et al., 2007, and Blomgren forthcoming). Explicit assumptions are made about the interests and capacities of the populations included in the model. Based on the assumed relationships in the model, calculations are done to determine the properties of the variables and the validity of the model. It is often focused on one or two key variables which is supposed to be maximized or minimized and/or on conditions for equilibrium.

In contrast, the “multi-disciplinary” studies on CSR (see Blomgren forthcoming), which in this thesis is also referred to as simply the “CSR literature”[56], are based on a combination of social science disciplines, including sociology, political science, international law, and marketing theory. The underlying model in this literature is less formalized than in economics in the sense that the variables are not isolated in a model and not assumed to be exhaustive for analytical purposes, and their effects are not always quantifiable or even measurable.

What are the advantages of each of these approaches? The economic literature on CSR refers to models which are more precise compared to the models in the multi-disciplinary literature and therefore, given the assumptions, easier to falsify. This literature refers to established economic concepts like public goods, market equilibrium, and Pareto efficiency. If the findings in this literature are widely accepted, we would expect CSR incentives to be a legitimate part of governments’ economic policies. The multi-disciplinary literature on CSR may be said to be more realistic than the economic literature on CSR because it does not reduce the complexities of corporate behaviour to a simple model. The multi-disciplinary literature refers to surveys and general relationships established in earlier studies which suggest there are certain relationships and trends in the “real world” which may be illustrated in a model. By analyzing the society and the markets in a similar fashion as decision-makers in government and business, it is relatively easy to extend this research into the realm of advice and dialogue.

There are very few comprehensive academic studies which attempt to *combine* the economic and the multi-disciplinary approach. Combining these approaches has the potential of enriching the economic literature by including a broader range of premises and contextual evidence. It also has the potential of reducing the vagueness of the multi-disciplinary literature by demanding a more stringent design, falsifiable propositions, and a more explicit definition of variables.

[56] This literature is described in paragraph 3.2 below.

7.3.2 *Longitudinal and comparative studies of CSR incentives*

The market centric approach to CSR, presented in this thesis, sees CSR as a transitional process during which businesses seek to internalize externalities, prompted by the corporation's own business strategies or by government policies. But what kind of relation is there between business strategies and government policies? Is it possible for governments to design a CSR policy which would make government incentives and business incentives mutually reinforcing?

To study this relationship we need longitudinal surveys of how incentives work in different industries over time, and comparative studies of how CSR policies at the government and business level interact in different countries.

7.3.3 *The mediating role of attitudes*

The market centric approach to CSR has few references to corporate managers' attitudes. This is because CSR is associated with effects on the societal, sector, or firm level. However, attitudes are neither included, nor excluded. It is obvious that "good deeds" by corporations also depend on the attitudes and the willingness of corporate managers and the effect of leadership values and attitudes on CSR is well documented (see e.g. Clark, 1916, Carroll, 1991, Szekely & Knirsch, 2005). Put quite simply; if the management team does not view for example philanthropy as relevant for any parts of their activity, or just don't care about philanthropy, there will probably be no corporate contributions to projects of this nature. A favourable attitude towards CSR is a necessary, but not a sufficient, condition for CSR performance[57].

On this background research uncovering the relationship between attitudes at the manager level, and strategies and policies at the corporate and government

[57] For philanthropy to qualify as CSR within the market centric approach the contribution should be related to the normal business transactions and be motivated by the prospects of gaining a competitive advantage *and* the potential for improving the social and natural environment.

level, would be a valuable contribution. If this research was related to the articles in this thesis, the following questions would be relevant:

- Does the level of CSR potential influence the attitudes towards CSR among corporate managers?
- Are corporate managers' attitudes affected by external drivers of CSR? If yes, how?
- If we compare corporations where the CSR which is focused on the corporation's core competency with corporations where the CSR is not focused on core competency, how do management attitudes differ? Is there any evidence that certain fields of competence correlate with certain attitudes towards CSR?
- Could managers' attitudes towards CSR explain the distribution of different kinds of isomorphism in studies of the dissemination of CSR?
- We find that sector specific features determine which part of the value chain the CSR impact will be strongest. Does the point in the value chain where we find the main CSR impact explain some of the differences in attitudes towards CSR?

Most of the research areas above demand relatively large surveys and a long-term commitment on part of the research institution. It also demands international cooperation in the development of research designs, questionnaires, and interview guides. But if the potential of CSR is to be realized, we need to continue the research in this direction.

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List of Articles

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Thomas Laudal
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Drivers and Barriers of CSR and the Size and Internationalization of Firms
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An Attempt to Determine the CSR Potential of the International Clothing Business [1]

Introduction

Most empirical studies on corporate social responsibility (CSR) either analyze CSR at the company level, or consider the relationship between CSR and corporate stakeholders, the government or the natural environment (Carroll 1999, Waddock 2004, Gariga & Melé 2004, Kakabadse et al 2005, and Lockett et al 2006). In this article I focus on variables at the sector level: I consider features of the global economy and of the international clothing business[2] that may influence the potential for change through CSR-related actions. High 'CSR potential' implies that businesses have a high potential for positive influence through CSR-related actions. This is typically the case when businesses operate in environments where many requirements of international CSR standards are not fulfilled.

The practical question motivating this article is whether we should try to identify sector features that indicate the potential for CSR before we study CSR within a specific company or group of companies. Are there 'hot spots' within a business sector where one would expect a particularly important role for CSR? The underlying assumption is that by studying the CSR potential in a business sector we will be better prepared for CSR studies at the company level, and better assess the risks for corporations that fail to invest in CSR. The issue under scrutiny here is what determines the CSR potential in a sector – not the actual consequences of acting (ir)responsible.

This article focuses on the international clothing business. This business is well suited for a CSR study as it is one of the most global industries in the world, with closely coordinated production and distribution lines spread out in regions with great variations in government regulation, employment and environmental protection, and wage levels. Thus, clothing companies must handle a multitude of legal and moral standards.

I will focus on the CSR potential within clothing retail in the developed countries. In most Western European countries, there is virtually no clothing production left and more than 70 percent of clothing imports to EU member states are from developing countries (World Bank 2007).

The objective of the first part of this article is to define 'CSR' and 'CSR potential,' and then to identify features that may indicate a CSR potential in the international clothing business specifically. My point of departure is international CSR standards. Based on several studies of the international clothing business I find that six features indicate significant CSR potential. In the second part of the article I argue that the features of the international clothing business that contribute to CSR potential also appear to be attributes of the global economy generally. This seems to be true whether we emphasize asymmetric relations and unequal distribution, the product cycle, or transnationalization. The implication is that CSR may enhance businesses' social and environmental impact, but is not capable of altering the structural elements that causes CSR potential in the first place. Finally I briefly discuss how the concept of 'CSR potential' may be applied to describe the division of labour between governments and companies in this area.

Defining CSR

Definitions of CSR refer normally to the company as the main actor, operating within a framework of public regulations and social norms. Kakabadse et al. (2005) analyze the CSR literature since the 1950s, and find that most scholars agree that 'abiding by the law' does not qualify as CSR. However, the voluntary-mandatory distinction is not a simple dichotomy (Jørgensen 2004, Fox et al 2002, and Ruggie 2004). Regulations may encourage companies to act rather than dictate them: Framework regulations and state subsidies can create a situation where the company's fulfillment of a public policy objective becomes a competitive advantage. In addition, voluntary initiatives often, over time, crystallize into mandatory minimum standards. Finally, the 'voluntary' versus 'mandatory' divide promotes a narrow understanding of CSR which makes little sense in developing countries, where tools to encourage compliance with minimum legislation can be a significant part of the CSR agenda.

CSR is linked to actions taken by the company that is interpreted as socially or environmentally responsible. More generally it is linked with the role of business in society. I define CSR in line with this view:[3]

> *Companies engage in CSR when they integrate social and environmental concerns in their business operations and thereby improve human well-being and fulfill or exceed requirements in international CSR standards.*[4]

In this article I define ‘improvements’ as changes that fulfill the combined requirements of two well-established global CSR frameworks; the UN Global Compact and the SA8000. These frameworks have quite different origins and functions—the UN Global Compact is a ‘policy framework’ launched by Secretary General Kofi Annan in 2000 where firms enlist and thereby subscribe to ten CSR-related ‘principles.’ The SA8000 is a comprehensive standard, launched by Social Accountability International (SAI) in the United States in 1997, enabling firms to be assessed and receive the SA8000 certificate by an independent organizations accredited by SAI. The SA8000 standard includes nine CSR-related ‘requirements’.

Defining the CSR Potential

The ‘CSR potential’ is defined by business features that trigger the risk factors linked to global CSR standards presented in the following paragraphs. At the company level ‘CSR performance’ is determined by attitudes and resources which are influenced by internal and external drivers and barriers. Finally the ‘CSR performance’ causes a ‘CSR impact’:

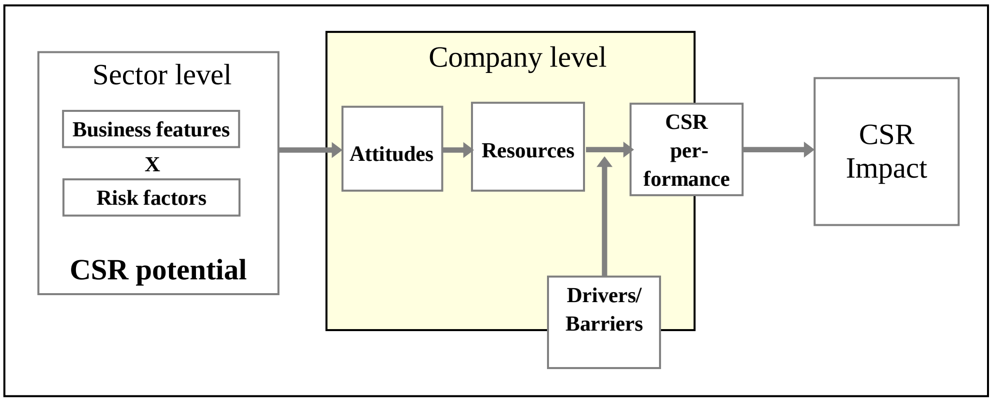

Figure 1: CSR potential, CSR performance, and CSR impact. This article addresses the variables determining the CSR potential at the sector level, not the CSR variables at the company level (the CSR performance, or the potential at the company level), nor the CSR impact.

CSR potential is determined by features at the sector level, indicating a potential for change through the fulfilment of well-established global CSR standards. I refer to the UN Global Compact and the SA8000 in this article,[5] as both frameworks refer to the corporation *and* the corporation's suppliers and subcontractors – that is, both cover the source regions and recipient regions of companies.[6]

One way of expressing the potential for change through a fulfilment of a CSR standard is to reverse the requirements of the standard and elevate them from the company level to the sector level. In this way we obtain a set of risks representing possible characteristics of a business sector or a region. In Table 1 I list the combined requirements of the UN Global Compact and SA8000 and the risk factors (reverse requirements) within each CSR area:

REQUIREMENTS AND RISKS RELATED TO GLOBAL CSR STANDARDS

CSR area	CSR Requirements (company level) **'GC' = Global Compact 'SA' = SA8000**	***Risk factors (sector/society level)*** *Corporations established in a source region / recipient region characterized by:*
Human rights	Businesses should • support and respect the protection of human rights within their sphere of influence (GC), • make sure that they are not complicit in human rights abuses (GC), • not engage in or support the use of corporal punishment, mental or physical coercion, and verbal abuse (SA).	• HUMAN RIGHTS ABUSES
Labour standards	Businesses should • uphold freedom of association and the right to collective bargaining (GC + SA), • uphold the elimination of all forms of forced and compulsory labour (GC + SA), • uphold the abolition of child labour (GC + SA), • eliminate discrimination in recruitment and among workers (GC + SA), • comply with applicable laws and industry standards on working hours (SA), • ensure that wages meet legal or industry minimum standards, and are sufficient to meet basic needs of personnel (SA).	• SUPPRESSION OF INDEPENDENT UNIONS • USE OF COMPULSORY LABOUR • USE OF CHILD LABOUR • DISCRIMINATION AT WORK PLACES • EXCESSIVE WORKING HOURS • WAGE LEVELS BELOW MINIMUM STANDARD
Environmental standards	Businesses should • support a precautionary approach to environmental challenges (GC), • undertake initiatives to promote greater environmental	• DANGEROUS WORK PRACTICES • UNHEALTHY WORK PRACTICES • WORK PRACTICES DAMAGING THE NATURAL ENVIRONMENT

	responsibility (GC), • encourage the development and diffusion of environmentally friendly technologies (GC), • provide a safe and healthy working environment (SA)	
Anti Corruption	Businesses should • work against all forms of corruption, including extortion and bribery (GC).	• CORRUPTION • BRIBES • EXTORTION
Management systems	Businesses should • define and implement a policy for social accountability and labour conditions which include a system for review and control of suppliers and subcontractors (SA).	• MANAGEMENT SYSTEM UNDERMINE THE PRACTICAL FULFILMENT OF THE CSR REQUIREMENTS

Table 1: Requirements and risks related to global CSR standards

These risk factors represent CSR potential as companies in this kind of an environment are faced with a choice: to strive to uphold international standards, or to conform to the business environment. If a company in these circumstances fulfils all the international standards, it will have a positive influence. However, if the company adjusts to the typical behaviour in this kind of an environment, it will have a negative effect. In other words, in this kind of an environment there is a *potential for positive influence through CSR-related actions*. In environments where none of these risk factors are present the potential for positive influence through CSR-related actions is reduced. Thus, the level of CSR potential measures the difficulty that companies face when making social or environmental changes through their policies.

One might ask, why not end the analysis here? In the international clothing business these risk factors are well documented.[7] However, revelations at the company level do not necessarily tell much about the CSR potential of the sector. The potential at the company level may change rapidly depending on decisions related to sourcing strategies or sales strategies. But the potential of the business sector does not change that rapidly. Determining the CSR potential of the entire sector may therefore be wise before we study CSR within a specific company or sample of companies.

However, the risk factors listed in Table 1 are not sufficient to determine the CSR potential of any given sector. They do not relate to features in any particular market or any specific relationship between businesses, stakeholders, or governments. The main function of the risk factors is to specify the direction of change that we seek when studying the CSR potential in a particular business sector. The next step is to consider the CSR potential of the international clothing business.

The CSR Potential of the International Clothing Business

There have been published several characteristics of the international clothing business: it may, for example, be characterized as a 'buyer-driven commodity chain' (Gereffi 1999), or as 'lean manufacturing' (Abernathy 1999/2004). In addition there are a large number of characteristics based on descriptive economic data (e.g. Baden 2002, Gaarder 2004, Nordås 2004, OECD 2004, and ILO 2005). However, no publication has been found which characterizes the international clothing business for the purpose of analyzing CSR. Based on a number of studies of the international clothing business I have identified six features – or common denominators among these studies – that are related to CSR potential by interacting with the risk factors listed in Table 1.

1) Labour-intensive production and traditional technology
2) Large differences in general cost levels between source region and recipient region
3) A buyers' market
4) Short deadline and low predictability in ordering procedures
5) Low transparency
6) Communication barriers

In the following paragraphs I will show how I arrived at these six features and at the same time explain how they tend to increase the potential for CSR in the international clothing business.

Feature 1: Labour-intensive production and traditional technology

Clothing manufacturing relies on sewing techniques that have changed little over the last century (OECD 2004:139, Nordås 2004:6). This prevents the supplier countries from many of the advantages of scale which are available in other parts of the supply chain: *Below*, in textile/fibre production, and *above*, in design, distribution, and marketing. According to Abernathy et al. (1999), the reason why clothing manufacturing has so frequently proven to be an early step in the industrialization process is that 1) it requires few workers with sophisticated skills, 2) capital requirements are small, and 3) it allows a transition from household to workplace production.

When a business sector is labour-intensive, dominated by traditional production technology, and has low capital requirements, there will be few improvements of the work conditions due to investments in new production methods. It also means that the labour force is relatively unskilled and easy to substitute. Low capital requirements allow relatively poor countries to establish production units. The work force is more likely to experience harsh conditions under these circumstances. Therefore a labour-intensive production and traditional technology are characteristics that increase the CSR potential of this business sector.

Feature 2: Large differences in general cost levels between source region and recipient region

Technological progress in telecommunications and transport networks has made it easier for clothing manufacturers to fragment production segments internationally, and to take advantage of lower cost levels in developing countries (OECD 2004:41). Major clothing businesses are increasingly outsourcing their production in order to lower costs (Baden 2002). In 2004 developing countries accounted for three-quarters of world clothing exports (ILO 2005:5). China is the world's dominating exporter of clothes with a global share of more than 37 percent in 2005. The number two exporter, Turkey, had a share of 7.6 percent (World Bank 2007:90). These export shares are recorded before the ending of the Multi-Fiber Arrangement in the textile and clothing sector in the WTO in 2005. The Chinese world share of exports is most probably even higher today. The average hourly labour cost in clothing manufacturing was US$ 8.89 in the United States, while only $0.88

in coastal China, $0.68 in inland China and below $2.00 in Turkey (Abernathy et al 2004:34).

When the general cost levels in the typical source region are very low compared to the typical recipient region, this difference is a core element of the business model of international companies. But when economic levels vary significantly, it is likely that environmental and social standards also vary significantly. Such differences will also increase chances of corruption because is becomes affordable for the purchasing company, and may be an important supplementary income for the seller. Large differences in cost levels therefore represent an increase in the CSR potential of the clothing business.

Feature 3: A buyers' market

The shift from the traditional retailing to the large and lean retail groups enables these groups to exert considerable pressure on suppliers, and to capture a large share of cost savings and economic rents available throughout the supply chain (Abernathy et al 1999:75, Baden 2002:107, OECD 2004:45). The largest international clothing companies have for some time increased their national market shares in Western industrialised countries (Datamonitor 2008, Nordås 2004:3, Baden 2002:6, Gereffi 1999:44) and have such a vast supplier structure that the cost of exchanging a supplier is relatively low.

These clothing companies may choose among many alternative source countries and regions, and many regard the movement towards lower cost regions as vital for maintaining their competitive edge. If the clothing company can relatively easily replace a supplier due to price advantages or shorter lead times, the competitive pressures may lead to overexploitation of resources at the manufacturing site. Thus, chances are that the risk factors in Table 1 are present. A buyer's market therefore represents an increase in the CSR potential.

Feature 4: Short deadline and low predictability in ordering procedures

Retailers in developing countries are moving towards greater product specialization, brand-name products and market segmentation (Baden 2002:6, OECD 2004:45). In the international clothing business we see an increased frequency of orders, less forward buying, and more replenishment, in addition to greater requirements for product variation (Abernathy et al 1999, Baden 2002). Lean retailers in the United States typically replenish their stores on a weekly basis. Due to direct flows of information between retail stores and textile plants, the manufacturer is required to fill orders within a week. Within the replenishable segment, manufacturers may have a stock-keeping unit, but this is not possible for clothes with a higher fashion content (Nordås 2004, Abernathy et al 2004).

The pressure for clothing manufacturers has increased due to an increase in the number of seasons, a demand for shorter lead times, and the need for large advertising campaigns introducing clothing lines before they arrive in the stores (Nordås 2004, Abernathy 2004). There have been an increasing number of orders and the average volume is getting smaller (Gaarder 2004:10). A general trend towards shorter deadlines and lower predictability may thus lead to overexploitation of resources at the manufacturing site and contribute to an increase in CSR potential.

Feature 5: Low transparency

Low transparency in the supply chain reduces the clothing company's ability to assess the risk factors listed in Table 1 (Gaarder 2004). This is a particular challenge for small and medium sized companies in the clothing business, and for companies that rely on wholesalers or agents in sourcing. In addition, very few clothing companies disclose the names of their suppliers, reducing the transparency for third parties and the general public (ILO 2005, ETAG 2003).

Without disclosing the names of the source factories, independent organizations cannot access the production facilities and consider the social and environmental conditions. It is therefore impossible to verify the CSR reports of the clothing companies, and possible breaches of the CSR standards may go unnoticed.

It is reasonable to expect more breaches when names of source factories are held secret, or are unknown to the retailer, compared when retailers and the public have access to this information. I therefore assume that the CSR potential is greater when transparency with regard to the supply chain is low, compared to when it is high.

Feature 6: Communication barriers

Even if there is transparency with regard to the supply chain, and independent organizations have access to the manufacturing site, it is difficult to gather information if one relies on interpreters, or if there is no system of direct communication between the international retailer and workers at the factory site.

As mentioned above, more than 70 percent of the clothes imported to member states of the EU are from developing countries where very few workers speak English (World Bank 2007). Some international clothing companies try to meet this challenge by nurturing a close and long-term relationship with their factories and by engaging in partnerships with local consultants and NGOs. But this effort is limited by the fact that most managers in western clothing retail do not master the local language at the production site. With limited communications and knowledge of the suppliers, the ability to control social and environmental standards at the supplier's premises is reduced. These circumstances contribute to a high CSR potential.

Summing up

The presence of these six features increases the potential for positive influence by companies striving to uphold international CSR standards because they are exposed to many risk factors (Table 1) which they may mitigate by CSR-related actions. However, further empirical evidence is needed to identify the critical features influencing the CSR potential of the clothing business. Particularly, a systematic and comprehensive survey of how the suppliers view this potential is needed, in addition to a broad international sample of clothing companies.[8]

The Global Economy and the CSR Potential of the International Clothing Business

Thus far I have attempted to identify features that influence the CSR potential of the clothing industry. The CSR potential is said to be determined by six features at the sector level. This suggests that individual companies are only able to influence the CSR potential of their industry to a limited extent. This is evident in the case of a single company, but not at the sector level. We may ask if a leading group of companies – exposed to the same political pressures and being equally prone to mimic each other – could alter sector characteristics in such a way that they reduce the CSR potential of the industry. In other words, could widespread CSR action reduce CSR potential? In the case of the international clothing business I argue that this is not likely. The features of the international clothing business that contribute to CSR potential appear to be attributes of more general features of the global economy, whether we emphasize asymmetric relations and unequal distribution, the product cycle, or transnationalization. I will now consider more closely these three views of the global economy and their relationships to the CSR potential of the international clothing business.

Global Economy: Asymmetric relations and unequal distribution

The CSR potential of the international clothing business concerns the relationship between companies in a relatively rich recipient region, and factories in a relatively poor source region. This relationship may be characterized as a part of a web of international asymmetric relations and qualify as 'structural imperialism' in the terminology of Johan Galtung.

In Galtung's much cited article, 'A structural theory of imperialism' (1971), he describes imperialism not as a Marxist-Leninist concept, but as a general dominance relation between 'centre' and 'periphery' nations, and centre and periphery structures within nations. We find 'harmony of interest' when the gap of living standards between the centre and periphery nations is decreasing, and a 'conflict of interests' if the gap of living standards is increasing. If the gap is constant it is referred to as 'disharmony.' Living standards may be measured by using indicators such as income and standard of living (in the usual materialistic sense), but also by notions such as 'quality of life' or 'autonomy' (Galtung 1971:82). Galtung also includes two 'mechanisms' in his model: 'vertical interaction' creates inequalities (more spin-offs for the centre than for the periphery), and 'feudal interaction structures' protect these inequalities by reducing transparency and protecting the competitive advantages of each corporation.

Galtung's terminology may be applied to the international clothing business. More than-two thirds of EU clothing imports originate from low-cost nations (World Bank 2007) and the level of living standards is very high in the EU (the 'centre nations'), compared to the source countries ('periphery nations'). Management and employees in source countries have the characteristics of the 'centre' and 'periphery' in Galtung's model. With virtually no employees involved in production, the consumer of clothes in the EU may fit the role of the 'periphery' in the centre nation. Even if the processing level is low, the value content in the EU is still high due to the control of design, marketing, distribution, and retail. Galtung (1971:83) defines 'imperialism' as a relationship between a centre and a periphery nation fulfilling the following three conditions:

Harmony of interests between the centre of a centre nation and the centre of a periphery nation

Are there decreasing differences in living standards between managers in the centre nation and managers in the periphery nations? Do the top exporters of clothes – China and Turkey – fulfil this condition? China's senior managers are not among the highest paid internationally, but the tremendous increase in general income levels in urban areas show that the senior salaries are growing faster than salaries in the EU and the United States.[9] Senior managers in Turkey receive the highest pay levels worldwide according to the global consulting group Hay Group (2006). The first condition seems to be fulfilled: management pay in China and Turkey are catching up with, or exceeding, management pay in the Unites States and the European Union.

More disharmony of interests within the periphery nation than within the centre nation

Do income differences increase more in source countries than in recipient countries? A report from the Chinese Ministry of Labour and Social Security confirms that the income differences in China are rising.[10] In addition, the Gini index in China and Turkey is increasing.[11] Official statistics show that income differences in China and Turkey are greater than in the United States and significantly greater than those in the EU-15 (OECD 2006). Thus, Galtung's second condition is fulfilled.

Disharmony of interests between periphery of centre nation and periphery of periphery nation

Are there increasing differences in living standards between consumers in the EU and employees at factories in source countries? It seems that this condition is *not* fully satisfied: Despite an increase in income inequalities, the average living standard is increasing in many 'periphery' nations today: according to national authorities in China, both urban and rural households have increased their disposable income significantly the past five years – far more than the average income in the EU and the US[12]. However, if we look at the differences in living standards between the consumers in the Western countries and the changing group of workers producing clothes for these countries in the last 20 years, the difference in living standards have increased significantly. Clothing manufacturing was first outsourced from Western design and retail chains in the 1960s and 1970s and has gradually moved to regions with lower and lower production costs and salaries (Abernathy 1999, OECD 2004). I conclude that the purchasing power of Western consumers is increasing, while the salaries of the (changing) apparel manufacturers are being reduced. Thus, we see that the third demand of Galtung is satisfied as long as we compare western consumers with the changing group of workers producing clothes.

Feudal interaction

In addition to these three conditions, Galtung underlined the existence of a 'feudal interaction' structure between entities in developed and developing countries. The international clothing business is also dominated by large retailer groups in developed countries interacting with relatively weak manufacturers in developing countries. Short deadlines in ordering procedures accompanied by low predictability are a further indication of the dominance of centre nations. This dominance is also expressed by the traditional technology and labour-intensive production in periphery nations which contribute to large differences in value content between the centre and periphery nations. The supply chain is fragmented with companies at the top refusing to disclose – or having no knowledge of – the identity of their suppliers (OECD 2004:17, 28, 41). Low transparency with regard to the supply chain, limited access for inspectors at the factory site, and communication barriers all resemble a feudal interaction structure.

The asymmetric relations of the global economy are reflected by the alleged discrepancies of the GATT trade agreement on the textile and clothing industry and the general trade principles of the GATT and later WTO agreement: The quota system of the Multi fibre agreement (MFA) effective from 1974-1994 restricted international trade in textiles and clothing and violated four principles of multilateral trade, according to Nordås (2004): the most favoured nation principle, the prohibition of quantitative restrictions and of discriminating developing countries, and transparency. The transitory regime, the Agreement on Textiles and Clothing (ATC) effective from 1995-2004, and the present 'normal' system of multilateral trade, still discriminate against developing countries due to the safeguard measures (1995-2004) and the new trade restrictions (2005-) protecting the national interests of developed countries, with no similar options available for developing countries (Delpeuch 2007).

Summing up: this view of the global economy, emphasizing unequal distribution and asymmetric relations, is consistent with the features which contribute to a high CSR potential of the international clothing business:

Global economy, asymmetric relations and unequal distribution		***Features of the international clothing business increasing the CSR potential***
Larger increase in differences in living standards between the (changing) work force of the source country, and consumers in the recipient country	is consistent with	large differences in general cost levels between source region and recipient region (feature 2)
Larger increase in differences in living standards within source countries than within recipient country	is consistent with	a buyers' market (feature 3)
Feudal interaction structure	is consistent with	a buyers' market, low transparency, low predictability, and communication barriers (features 3, 4, 5, 6)

Table 2: The global economy (1) and the CSR potential of the international clothing business.

Global Economy: The product cycle

In 1966 Raymond Vernon published an article where he introduced the product cycle model. This theory does not put as much emphasis on the comparative cost doctrine as most contemporary scholars of international economy in the 1960s. By also focusing on the timing of innovation, the effects of scale economies, the uncertainty in influencing trade patterns, and recognizing that knowledge is not a free good, Vernon managed to show how international investment and trade flows evolved by referring to the product cycle. He distinguished between 'new', 'maturing', and 'standardized' products. In the 1960s the U.S. market was in many respects unique among the market economies of the world. It had more affluent consumers, more advanced technology, and by far the largest number of global firms and brands (Vernon 1979). Since then, many have pointed out how corporations have become less confined by national frameworks. In location of R&D and production, in investments, and in trade flows, national boarders are less important (See e.g. Cantwell 1995 and Grant & Gregory 1997). However, the predictions regarding the trade flows and production of standardized products may still hold. Almor et al (2006) demonstrates this by showing how internationalization may be a mechanism employed to overcome the progressive erosion of proprietary knowledge in the later stages of the product cycle where standardized products dominate.

Staff functions and R&D departments have been transformed by increasing internationalization the past decades, but standardized products do not demand the same level of continuous support from these functions (Cantwell 1995). According to Vernon (1966) investment decisions referring to standardized products are still dominated by comparative cost analysis where low wages are an important criterion. Vernon predicted exports from less-developed countries where products meet the following five set of economic characteristics (Vernon 1966, 203-204):

1. Significant input of low-cost labour
2. Products with a high price elasticity of demand (many substitutes on the market)
3. Products whose production process do not rely heavily upon external economies
4. Products that could be precisely described by standardized specifications
5. High-value items capable of absorbing significant freight costs would be more likely to appear than bulk items low in value by weight.

These characteristics fit nicely with the international clothing industry, according to Vernon (1966). Vernon predicts that the greatest exports of standardized products will come from newly industrialized countries – typically many parts of Europe in 1966, and countries like China, India and Malaysia today. Grant and Gregory (1997) point out that there may be a challenge with regard to changing corporate locations for the most mature products due to tacit knowledge. In the later stages of the product cycle, when there is often a significant portion of tacit knowledge involved, the transfer of product and manufacturing specifications is difficult. However, it is unlikely that this restriction is relevant for the clothing industry. Today major international clothing corporations design new garments with the aid of Computer-Aided-Design (CAD). The system stores design specifications, measurements, costs and detailed construction information in multiple languages (Abernathy et al 1999, 134). Thus, both the products and the communications between customers and suppliers, are standardized and explicit.

Summing up: the product cycle theory predicts decisions on foreign investments in the manufacturing of standardized goods to be based on comparative cost analysis and a growing portion of export from newly industrialized countries. These general features of the global economy are consistent with features that contribute to the high CSR potential of the international clothing business:

Global economy and the product cycle		***Features of the international clothing business increasing the CSR potential***
Investment decisions referring to standardized products are dominated by comparative costs analysis and levels of salary	is consistent with	labour intensive production (feature 1)
A growing portion of standardized product exports come from newly industrialized countries	is consistent with	large differences in general cost levels between source region and recipient region (feature 2)

Table 3: The global economy (2) and the CSR potential of the international clothing business.

Global Economy: Transnationalization

A large volume of literature points out that the globalization process seems to favour certain political and economic structures. Brink Lindsey (2001) defines globalization as three distinct but related developments:

1. Globalization is about increasing integration of markets across political boundaries due to political or technical causes. This is partly due to a second development:
2. Globalization is about falling government-imposed barriers to international flows of goods, services and capital. This is partly due to a third development:
3. Globalization is about the global spread of market-oriented policies in both the domestic and international spheres.

Castells (2000) explains globalization in light of the advances in information and communication technologies which seems to be partly due to the first development listed by Lindsey (2001): the global economy is characterized by a state where its core components have the capacity to work as a unit in real time, or chosen time, on a planetary scale. Hirst and Thompson (1992, 2002) do not believe that we have reached a stage where global economic forces are in the process of replacing national institutions and powers on a grand scale. They present four expected consequences of a globalized economy which they contend are unfulfilled. However, in light of the different opinions regarding the scale of globalization, we may consider whether these consequences can be observed within the international clothing business:

Governing the global economy will represent a fundamental challenge

Global markets would, according to Hirst and Thompson (1992), be difficult to regulate and firms would not expect special treatments as 'national champions' but be expected to seek to share the risks and opportunities through intercorporate investments, partnerships, joint ventures and other arrangements.

This view is supported by the UN special representative on the issue of human rights and transnational corporations: "In principle, public authorities set the rules within which business operates. But at the national level some governments may simply be unable to take effective action, whether or not the will to do so is present. And in the international arena States themselves compete for access to markets and investments, thus collective action problems may restrict or impede their serving as the international community's 'public authority.'" (Ruggie 2007:25)

According to several publications by the OECD and other intergovernmental organisations, the international clothing business, after the phasing out of the MFA agreement, has become one of the most globalized business sectors in the world (see OECD 2004, ILO 2005, and UNCTAD 2005).

Multinational corporations will transform into transnational corporations

According to Hirst & Thompson (1992), manufacturing companies would source, produce and market at the global level. They would no longer have a predominant national location. Today the large clothing retailers' overseas offices go well beyond their original buying functions, and they are actively engaged in product design, fabric selection and procurement, and monitoring contracted sewing as well as other production functions handled by offshore manufacturers (Gereffi & Memedovic 2003, 7). Clothing retailing across the United States and the EU has been marked by substantial concentration in the 1990s (Gereffi & Memedovic 2003, Datamonitor 2008).

The decline in the political influence and economic bargaining power of labour

Hirst and Thompson (1992) forecast a dramatic decline in bargaining power of labour. Clothing manufacturers exporting to developed countries today are situated in countries that lack an independent labour movement (China), or in countries where the influence and status of the labour unions are relatively weak (India, Mexico, Turkey). According to the International Confederation of Free Trade Unions, liberalisation due to the phasing out of the MFA has led to a race to the bottom in terms of labour rights and working conditions. (ICFTU 2005). This impression is supported by Guy Ryder, the General Secretary of the International Trade Union Confederation (ITUC), in an article published by AccountAbility (2007): "Today's model of globalization enables jobs to move from one country to another, but unacceptably, companies shift production and locate supply chains to avoid trade unions and to circumvent workers rights."

The impression that trade union rights within the clothing business is in decline is also supported by independent scholars. According to Yimprasert and Hveem (2005), only five percent of the textile and garment workers worldwide are unionised. They conclude that the only way to improve conditions in a sustainable manner in this sector is to introduce a universal law for all companies, thereby creating a level playing field for all in a very competitive business sector.

Growth in fundamental multi-polarity in the international political system

According to Hirst & Thompson (1992), a consequence of a global economy is that hegemonic nationals' powers no longer will be able to impose their own distinct regulatory objectives. A variety of bodies – from international voluntary agencies to transnational corporations – would gain in relative power at the expense of national governments.

With respect to the part of the political system responsible for regulating large corporations, there is little doubt that the system has a multi-polar structure. This is described by Keohane and Nye (1977) as a state of 'complex interdependence.' In international politics today, and especially within the international regulation of business, there is widespread agreement that nation-states have become more intertwined with international organisations and corporations, and more dependent on each other as international competition intensifies (see Crouch 2004, Rondinelli 2003, Ruggie 2004, Scherer et al 2006). The structure and market approach of the international clothing business is increasingly transnational. Demand is defined by global buyers who are wary of the risks of concentrating their demand in a small number of countries (World Bank 2007). We also see the emergence of transnational apparel producers, according to UNCTAD (2005).

Summing up: The predicted consequences of the global economy put forward by Hirst and Thompson (1992) are consistent with features that contribute to the high CSR potential of the international clothing industry:

Transnationalization		***Features of the international clothing business increasing the CSR potential***
Multinational corporations will transform into truly global transnational corporations	is consistent with	• a buyers' market (feature 3)
The decline in the political influence and economic bargaining power of labour	is consistent with	• large differences in general cost levels between source region and recipient region (feature 2)
Growth in fundamental multi-polarity in the international political system	is consistent with	• low transparency (feature 5)

Table 4: The global economy (3) and the CSR potential of the international clothing business.

Conclusion

The six features of the international clothing business indicate a high CSR potential. These features are consistent with more general features of the global economy, whether one emphasizes asymmetric relations and unequal distribution, the product cycle, or transnationalization. Thus, the CSR potential of the international clothing business seems not only to be a product of sector characteristics, but also of more general features of the global economy. This is summarized in Tables 2, 3, and 4 and illustrated in Figure 2.

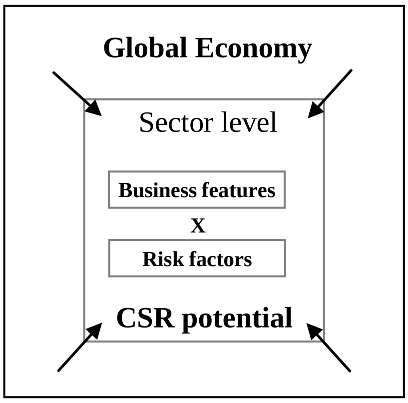

Figure 2: The CSR potential is an integral part of the global economy

The CSR performance of individual clothing companies may enhance their relations with stakeholders and the natural environment, but they seem to have little effect on the features that determine the CSR potential. Put differently, corporate strategies and actions may enhance their social and environmental impact, but they are not capable of altering the structural elements that cause the risks of violating international CSR standards. What does this mean for businesses? Do companies in sectors with a high CSR potential have a greater responsibility for CSR than companies in sectors with a low CSR potential? The answer is “yes” if the company’s aim is to abide by international CSR standards. International clothing companies operating in developing countries normally have a higher CSR potential than clothing companies operating in developed countries because the risk of violating CSR standards are higher in developing countries. To uphold CSR standards, companies in developing countries must demand, and control, the fulfilment of CSR standards with less support from local governments compared to companies operating in developed countries. In developed countries, most of the requirements of international CSR standards are codified in law. However, given that companies are not able to influence the structural causes determining the CSR potential, we must rely on other actors to grapple with the CSR potential itself. Considering the global nature of the international clothing business, it would require an intergovernmental effort to reduce the CSR potential in this sector. This is in line with John Ruggie (2007), who concludes that states should more proactively structure business incentives.[13] According to Ruggie, five “clusters of standards and practices” govern CSR. Only one of these refers to actions initiated by companies themselves. In other words, CSR is seen as part of a wider framework aiming to regulate, influence and encourage international business to respect global environmental standards and human rights. If the objective is to avoid violations of international CSR standards, then one aim of this framework should be to reduce the CSR potential of international business.

This study shows that it is useful to identify the CSR potential of a business sector as part of our preparation for studies at the company level: when we identify the CSR potential of a particular sector we get a picture of which part of the international CSR standards companies run the greatest risk of violating, and of which structural issues intergovernmental actions should address to reduce the potential for violating CSR standards.

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[2] In this article 'clothing business' denotes the design, production, distribution, marketing and sale of garments or apparel, and does not cover the production of fabrics or cloth referred to as the 'textile industry'.

[3] This definition corresponds more or less to the definition in the European Union green paper (2001), but without a reference to 'the interaction with their stakeholders on a voluntary basis'. Se also similar CSR definitions by scholars like Zadek (2001), Rondinelli (2003), Waddock (2004), and Crouch (2006).

[4] Basic determinants of 'human well-being' may be defined in terms of five interrelated elements: security, adequate supply of basic materials, personal freedoms, good social relations, and physical health (WHO 2005:14-15).

[5] For a presentation of these standards, see McIntosh et al (2003) and Ruggie (2004).

[6] This is explicit in SA8000. The Global Compact includes the following general phrase above the specific requirements; 'Companies are asked to embrace, support and enact within their sphere of influence…'. According to UNDP (2005) this phrase indicates that the standard also encompass suppliers and partners.

[7] See websites like www.sweatshopwatch.org. www.cleanclothes.org, www.behindthelabel.org, and www.corpwatch.org.

[8] An example of such a study is Baden (2002). In the European retail market, sourcing patterns are characterised by greater geographical dispersal, smaller and more direct orders, and often longer-term buying relations than in the US.

[9] Source: Hay Group press release 18 July 2006 and 12 March 2007, National Bureau of Statistics of China (CBSC) Communique February 28, 2006, and CBSC Yearbook 2006.

[10] Source: Xinhuanet 21 September 2005.

[11] The Gini index shows the degree of overall income (in)equality. Perfect equality = '0' and perfect inequality (one person receiving all income) = '100'. Sources for the Gini index values in this paragraph: China: Shi & Sato (2006), UNDP (2005) and World Bank (World Development Indicators). Turkey: UNDP Human Development Reports and OECD Factbook 2006.

[12] The National Bureau of Statistics in China reported in February 2006 that rural households increased their disposable income from 2,300 yuan in 2001 to 3,200 yuan in 2005.

[13] Ruggie is the UN Special Representative of the Security General on the issue of Human Rights and Transnational Corporations.

Drivers and Barriers of CSR and the Size and Internationalization of Firms

Abstract

Purpose – *The purpose of this article is to analyze how drivers and barriers of corporate social responsibility (CSR) vary with regard to stages in the transformation process from a small- and medium-sized enterprise (SME) to a multinational enterprise (MNE)002E*

Design/methodology/approach – *The main method used is a literature survey. The survey covers 47 journal articles. A limited survey of managers in the Norwegian clothing business is used to validate the findings in the literature survey.*

Findings – *Eight main drivers and barriers of CSR are identified in the literature survey and are also supported by a regression analysis based on Norwegian survey data. By relating the drivers and barriers to more general social science models, it is shown how they are affected by different business contexts and vary with regard to stages in the transformation process from a SME to a MNE.*

Practical implications – *The article suggests that public policies for CSR should be adapted to four main contexts, referring to stages in the growth and internationalization of the firm, and overcoming barriers and boosting drivers for CSR.*

Original Value – *The article contributes to a better understanding of how and why drivers and barriers of CSR differ with respect to the size and internationalization of firms.*

Key words *Corporate social responsibility, Internationalization, Firm size, Drivers, Barriers*

Paper type *Research paper*

Introduction

The entities we refer to as “firms” are indeed a heterogeneous group. A “firm” may be a local one-man shop or a global network. It may be an industrial manufacturer or a brand retailer. It may be labour-intensive or capital-intensive. It is evident that drivers and barriers of corporate social responsibility (CSR) must vary between different firm types. However, a large number of influential research articles and books on CSR do not qualify the main entity of their inquiry (e.g. Carroll 1979, Wood 1991, Schartz & Gibb 1999, Zadek 2001, McIntosh et al. 2003, Porter & Kramer 2006, and Wall 2008).

It is also evident that the notion of socially responsible corporations has received an increasing amount of attention from the academic community. In Google Scholar (http://scholar.google.com) the number of publications mentioning "corporate social responsibility" was 222 in 1996, 555 in 2000, and 5,140 in 2008. It would be quite surprising if this increase did not reflect an increase in CSR-related activities as well. This raises the question of antecedents – which mechanisms, circumstances, or contexts may this increase be attributed to?

In this article we focus on how drivers and barriers of CSR may vary with respect to firm size and the degree of internationalization. It is reasonable to believe that drivers and barriers of CSR vary with respect to these two dimensions: The size of a firm correlates with the economic impact of the firm's operations, while the degree of internationalization correlates with differences in both labour standards and cost levels within its area of operations. Large differences in this area amounts to a high "CSR potential", according to Laudal (forthcoming).

With only few exceptions, large global companies started as small and local businesses (see e.g. US Small Business Administration 2000 and Acs et al. 1997). Hence, even though the great majority of small and medium-sized enterprises (SMEs) remain small and locally oriented, we may best understand how multinational enterprises (MNEs) engage in CSR by studying how drivers and barriers of CSR vary with regard to stages in the transformation from a SME to a large MNE.

The European Union (2003) defines a "SME" as a firm with more than 250 employees, a turnover less than EUR 50 million and an annual balance sheet of less than EUR 43 mill. According to Curran & Blackburn (2001) "turnover" and "balance sheet" may hide the real size of the firm because one does not distinguish between sales and production, because different accounting practices makes it difficult to compare figures, and because of different rates of inflation. The number of employees is not a perfect measure either. This measure is influenced by the degree of labour intensity. Still, when we take account of the business sector, the number of employees seems to be a satisfactory measure of business size for our purpose. Thus, in the following an "SME" denotes a business with 250 employees or less.

A "MNE" is here understood as a business with operations in at least two countries which should be integrated to a certain degree. This definition is in line with Eells & Walton (1974) and OECD (2000). The degree of internationalization of MNEs is often measured by the amount of foreign assets controlled by the firm (UNCTAD 2009).

This article is structured as follows: We start by defining CSR and discussing the conception of "drivers" and "barriers". Then, in a literature survey of 47 scientific publications between 1994 and 2009, drivers and barriers of CSR is identified. In a limited survey of the Norwegian clothing business we then consider whether these drivers and barriers are validated. The survey section also demonstrates how we may study drivers and barriers at different stages in the transformation process from a SME to a MNE by referring to the two dimensions; "size" and "internationalization". In an effort to better understand how these drivers and barriers vary, we then consider how they relate to more general models in the social science literature. The drivers and barriers may be framed as a special case in more general social science models. Finally, possible implications for public policy are presented, given that the government's objective is to strengthen CSR.

A market-centric approach to CSR

Before entering into an analysis of drivers and barriers, the concept of CSR should be clarified. Many definitions speak of "spheres" or "layers" of responsibility of firms, e.g. "ethical", "legal", and "economic" responsibilities (Carroll 1991, Waddock 2004, Matten & Crane 2005, and Wolff & Barth 2005). However, relatively few definitions focus on the main objective of the firm in a market economy: to earn a surplus by exchanging products and services and to perform as well as, or preferably better than, competitors.

Crouch (2006) analyzes the incentives for responsible behaviour and links his definition of CSR to a fundamental property of the market exchange: the externality recognition of firms, that is, when a firm, as part of a voluntary exchange of products or services, recognizes third parties that have costs imposed involuntarily, or benefits received free, due to the exchange. Earlier contributions have linked CSR to the "response to nonmarket forces" (Sethi 1979), and to the "concern for the impact of all corporate activities on the total welfare of society" (Bowman 1973). But Crouch seems to be the first non-economist[1] who suggests that CSR may be linked to externalities. "Recognizing externalities" should not be confused with recognizing, or contributing to, public goods. Some economists define CSR as "private provision of public goods" (see Bagnoli & Watts 2003 and Besley & Ghatak 2007). However, as pointed out by Keim (1978), CSR in the form of philanthropy may well be a private good. For example, in a poor community only the recipients of scholarships may enjoy the benefits of an expensive education in a foreign country.

Identifying externalities does not necessarily involve normative judgements. However, it does if we identify "negative" and "positive" externalities. The case for CSR arises when firms produce negative externalities.

The central puzzle of CSR is how to reconcile the notion of a profit-maximizing firm, and a firm engaged in activities that will cost it something, but for which it will not – everything else equal – receive payment. The solution, in general terms, lies in the *marketization* of CSR goals, according to Crouch (2006). Desirable CSR outcomes that lack commercial incentives in a narrow business analysis should be embedded in a structure that creates an incentive for action. The structure may be established or promoted by the government, or put in place by the firms themselves. In either case, CSR should create a competitive advantage in the long run. This advantage depends on the company's ability to internalize and institutionalize CSR (Bowman 1973). Firms may:

- *respond* to perceived opportunities and threats in a market by improving CSR-related conditions,
- *adapt* to a regulatory regime where CSR-related goals are marketized by creating a competitive advantage within a relevant market, or

- *influence* trends in a relevant market, or government policies, by improving CSR-related conditions, making CSR goals more legitimate, or by raising expectations of their own CSR performance.

When firms *comply* with specific national or international CSR-related requirements, they do not display CSR *per se*, since their actions in this case are motivated by the *government's* externality recognition – not their own. There has to be an element of choice on the part of the firm to qualify as CSR.

The conception of drivers and barriers of CSR

Variations in CSR may be attributed to factors other than "drivers" and "barriers". "Management attitudes" is an example of a factor which influences CSR without always being defined as a "driver" or "barrier". In fact, CSR, as defined above, *demands* a favourable management attitude. A favourable attitude towards CSR may therefore be regarded as a mediating variable between drivers and barriers of CSR, and CSR performance. To ensure a clear distinction between "drivers and barriers" and "attributes" of CSR, we associate drivers and barriers with factors affecting CSR which are external to corporate decision-makers.

Financial returns, or the cost advantage in the long run (as stated above), are not listed as a driver in this article. This is because the financial return is regarded as a motive behind all CSR related actions.

The market-centric approach may seem narrow when we consider acts of good will that appear to be unrelated to the main business of a corporation. For example, should active participation in NGO-run projects not be counted as CSR? The market-centric approach to CSR does not exclude acts of this kind. However, it leaves open two interpretations: such acts may be interpreted as acts affecting externalities produced by business transactions and thereby qualify as CSR, or they may be interpreted as acts with no connection to externalities in which case they would not qualify as CSR. In the latter case there are two options: either these acts are interpreted as regular business investments where the profit motive is primary, or they are interpreted as acts of individual members of the corporation, but not as acts by the corporation as a whole.

Our understanding of CSR will obviously influence which drivers and barriers we identify in a literature survey. A broader understanding of CSR (e.g. Carroll 1979 or Wood 1991), would include individual commitments among managers as drivers/barriers of CSR.

Drivers and barriers in the CSR literature

The drivers and barriers of CSR in this literature survey are drawn from 47 academic publications. These publications were identified by searches on Google Scholar using the key words "driver", "CSR", "ethics" and "business", and considering the 200 most cited articles published after 2000. In addition, relevant articles from other sources were included in the survey. The selection of articles is based on four criteria: they should be fairly recent, they should refer to empirical data, they should address drivers and barriers of CSR, and they should distinguish between SMEs, and MNEs.

In the literature survey four drivers/barriers are associated with MNEs and four are associated with SMEs. The eight drivers and barriers are presented in the following paragraphs and summarized in Table 1.

1. SME barrier: Cost/benefit ratio (capacity)

MNEs have options that SMEs lack due to sheer size: a cost equal to one percent of the turnover might enable a MNE to recruit specialists responsible for its CSR strategy and to participate in demanding social accounting schemes, while the same percentage in a SME is insufficient for making any lasting kind of impact. Many empirical studies show that MNEs are more active in CSR-related activities than SMEs are, and they underline typical features of SMEs which do not favour CSR: more competitive pressures and lack of financial resources to allow for CSR investments (see Williamson *et al.* 2006, Lepoutre and Heene 2006, Studer *et al.* 2005, Skjaerseth 2004, Jenkins & Hines 2003, Tilley 2000, and Spence 1999). It is evident that many CSR-related activities require capital expenditures which give MNEs an advantage of scale. This is pointed out by McWilliams & Siegel (2001:123):

> *A large diversified firm can spread the costs of CSR provision over many different products and services. For example, the goodwill generated from firm-level CSR-related advertising can be leveraged across a variety of firm's brands.*

Matten *et al.* (2003) emphasize a qualitative element related to firm size and *corporate citizenship*: many SMEs play an active role in their community – with rights and responsibilities to follow that are not very different from those of private citizens. In contrast, MNEs take upon them responsibilities and powers traditionally associated with the state – the traditional *administrator* of citizen rights. MNEs, therefore, do not share a similar status of citizenship as individuals do, according to Matten *et al.* (2003), but instead tend to exploit economies of scale in *all* areas associated with CSR.

There are many elements related to scale that favour CSR-related activities in MNEs. This translates to a barrier for SMEs and is named "cost/benefit ratio".

2. SME barrier: External control (risk)

SMEs may be deterred from engaging, or may be unable to engage, in CSR due to lack of knowledge and monitoring capacity of their market environment. A literature survey by Lepoutre & Heene (2006) concludes that SMEs, to a lesser extent than MNEs, recognize CSR issues. SMEs are generally lacking expertise in this field. However, owner-managers who are able to create "discretionary slack" are more likely to recognize CSR issues, according to Lepoutre & Heene. This corresponds with the finding in CSR literature that sensitivity to local stakeholders is an SME driver for CSR. There are also empirical studies underlining SMEs' lack of expertise. According to a postal survey of 600 SMEs in England, only one quarter of the firms were aware of an important national environmental standard (Hutchinson & Chaston 1994). There are many empirical studies that emphasize the lack of capacity to engage in CSR among SMEs (See Longo et al. 2005, Observatory of European SMEs 2002, Spence 1999, and Hillary 1999).

SMEs are often a part of the same complex supply chain as MNEs within the same industry. For SMEs with a diverse product range – a typical feature for western food and clothing retailers (Abernathy *et al.* 1999) – the challenges of monitoring their supply chains is huge. Cramer (2008) shows that SMEs with a diverse product range usually limit themselves to monitoring products that may lead to risks, or products that are strategically important.

Ensuring compliance with social and environmental requirements at the suppliers' premises will in many cases be futile for SMEs. Without the capacity to collect and review relevant information, SMEs will also lack an important incentive to engaging in many CSR-related activities. Finally, if the lack of capacity is evident, it may even be a pretext for SMEs to do noting in this area. This barrier is named "external control".

3. SME driver: Sensitivity to local stakeholders (reputation)

According to Jenkins (2006), the CSR concept has been developed in and for MNEs. The assumption has been that SMEs are "little big companies" and advances to stimulate CSR can simply be scaled down to fit SMEs. But even though SMEs are unlikely to see CSR in terms of risks to public reputation and brand image, they are often likely to follow sentiments closer to home such as employer motivation and retention, and community involvement. In a survey of 24 "CSR-awarded" SMEs in the UK, Jenkins (2009) finds that CSR was understood simply as supporting the local economy and community by being profitable and successful companies and employing people. Worthington *et al.* (2006) studied a sample of the UK Asian business community in England which is dominated by SMEs. Virtually all firms in their sample regarded "local community involvement" as an important issue, and were engaged in social or environmental activities at the local level. This is in line with findings in a report published by UNIDO (2002). While MNEs are generally regarded as more active in CSR-related activities, SMEs often have strong incentives for CSR at the local community level, for example:

- they are typically family-owned businesses exhibiting a strong philanthropic approach, and
- they have typically more links to the local civil and cultural environment and tend therefore to be more aware of local risks and emerging issues than MNEs.

Amato & Amato (2006) show that SMEs with a close attachment to the community give relatively more to charities than larger firms. A study of CSR among SMEs in Hong Kong (Studer et al.2005) found that SMEs are less exposed to public pressure, but are heavily influenced by their customers' environmental attitudes and demands. UNIDO (2002) found that SMEs are less mobile and may therefore take a more long-term view of investments in a local community. According to Crouch (2006), there are locational sunk costs that restrict the geographical mobility of SMEs and which may force the management to respect local norms of good collective behaviour as they may lose customers if they do not conform. A review article by Kusyk & Lozano (2007) supports this view. They found that "customers" were the most frequently mentioned driver under the heading "external stakeholders" in a questionnaire to SMEs.

In the food and clothing sectors a typical MNE is supplied by hundreds of independent manufacturers and have a similar number of stores / points of sales (see OECD 1999, Abernathy et al. 1999, and OECD 2008). These MNEs are not susceptible to pressures from individual suppliers. Reich (2007) points out that the linkage between MNEs and place has been weakened as a result of an increase in power of the investors and consumers in big businesses.

Empirical studies suggest that SMEs are more susceptible to the influence of local stakeholders than MNEs. This driver is named "sensitive to local stakeholders".

4. SME driver: Geographical spread (risk)

In a study of 50 companies in seven Asian countries, Chapple & Moon (2005) found a relationship between MNEs with international sales and/or foreign ownership and "level of CSR". They offer two possible explanations: when firms cross borders there is a stakeholder multiplier effect that is driving firms to engage in CSR. Another reason could be that firms exposed to international competition will, in most cases, acquire higher CSR standards. Chapple & Moon do not explain this further. However, there are other reasons why exposure to international competition may have a positive relationship to CSR: if a firm is exposed to international competition, it is likely that it is also exposed to different norms and ideas on workplace conditions and environmental protection. The firm must consider these norms and ideas when choosing its strategy; this constitutes the starting point of CSR-related activities. According to UNIDO (2006), firms producing for non-branded or extremely price sensitive consumer segments, with no connections to foreign investors or markets, experience very low pressure for implementing CSR-related activities.

Firms relying on a global network of suppliers are exposed to large differences in cost levels between their source regions and their sales regions, and are therefore inclined to establish multiple CSR standards. This is termed "the pressure of changing societal expectation" in Scherer & Palazzo (2008) and is associated with a growing CSR engagement. When firms have multiple standards in sensitive areas like working conditions and environmental protection, they run the risk of a confrontation with NGOs and public institutions in charge of monitoring business practices. In sum, expanding their geographical area of business to include both high-cost and low-cost regions may accentuate the need for firms to focus on CSR. And as MNEs, by definition, already are exposed to these kinds of international differences, this driver is most relevant for SMEs that are expanding into international markets and is named "geographical spread".

5. MNE barrier: Internal control (risk)

Several studies have shown that the level of CSR in SMEs is very much dependent on the owner or manager of the firm (see Spence 1999, Jenkins & Hines 2003, Murillo &

Lozano 2006, and Jenkins 2009). The majority of these companies are family-run or owner-managed and do not have shareholders or investors to consider. According to Jenkins & Hines (2003), certain types of CSR could be carried out in SMEs more easily as the strong example and guidance of the leadership can readily convey socially responsible principles. SMEs may have an advantage with regard to the execution of their CSR strategy, and at the same time, the risk of being publicly exposed as a ”bad guy” is less, due to a smaller organization and less complex business operations compared to MNEs.

Oppenheim *et al.* (2007) confirm the importance of internal control as a barrier for CSR in MNEs: in a survey of 391 MNEs participating in the UN Global Compact, they found that four out of ten companies selected the option “complexity of implementing strategy across various business functions” when asked what keep them from implementing an integrated and strategic company-wide approach to CSR issues.

Generally speaking, large and complex organizations will have greater difficulties in controlling all aspects of corporate behaviour than smaller organizations. This indicates that having a high *public* CSR profile – and thereby raising expectations of corporate behaviour – represents a liability for large firms. This barrier is named “internal control” and seems to be most relevant for MNEs.

6. MNE driver: Following leading companies (conformity)

Empirical CSR studies from the United Kingdom / Japan (Bansal & Roth 2000), Chile (Colwell & Beckman 2007), and Malaysia (Amran & Siti-Nabiha 2009) refer to the influence of stakeholders and “foreign MNEs” when they explain the dissemination of CSR. When firms’ actions are determined by the sway of business this may be interpreted as “herd behaviour” or “legitimacy-seeking behaviour”, according to Misani (forthcoming). The tendency of firms to follow the practices of leading companies in their field, is often presented in contrast to “strategic” or “competitive” behaviour and it is normally not considered an outcome of completely rational decisions (e.g. Bansal & Roth 2000 and Husted 2003). In empirical studies this driver is associated with larger firms. It is considered a MNE driver and is named “following leading companies”.

7. MNE driver: Sensitive to public perceptions (reputation)

One of the most cited drivers of CSR is corporate reputation, or more specifically, the public perception of the firm or of the firm's products or services. This may include the perception of consumers (Bhattacharya & Sen 2004), of the firm’s employees and potential employees (Branco & Rodrigues 2006 and Brekke & Nyborg 2008), and of investors, creating a market for social responsible investments (Hellsten & Mallin 2006). Reputation can be understood as a fundamental intangible resource (Branco & Rodrigues 2006). Several studies point out that reputation is more important for MNEs than for SMEs (see Graafland & Smid 2004, Maloni & Brown 2006, Jeppesen 2006, and Amato & Amato 2006). Graafland & Smid questions the reputation mechanism with regard to CSR actions among SMEs.

> *Too much faith in the self-enforcing working of the reputation mechanism is unwarranted for (SMEs). Hence, government regulation remains important, especially with respect to the creation of transparency.* (Graafland & Smid 2004:301)

Elliot & Freeman (2000) found that the firms which were most vulnerable to unfavourable publicity were those with high brand recognition, well-known logos and those targeting young consumers. The majority of these firms are MNEs.

SMEs are less vulnerable to NGO protests and have less formal means of public communication (Lynch-Wood & Williamson 2007). Larger firms are, in average, more visible, more likely to have an environmental impact and have more recognizable brands. This means that SMEs less often have customers who are willing to pay more for added "CSR content". This driver is named "sensitive to public perceptions" and seems to be most common among MNEs.

8. MNE driver: To ward off government regulation (autonomy)

A prime interest of firms is to guard against threats to their autonomy. CSR-related activities may be part of such a strategy. MNEs may use codes of conduct and other corporate measures to fend off restrictive government regulations (see Crouch 2006, Florini 2003, Moon *et al.*2005, Rondinelli 2003, Michael 2003, and Barkenmeyer 2009). It is difficult to prove or disprove the importance of this driver as long as it only involves an intention. This is a CSR driver which demands considerable corporate resources. Empirical studies show that many SMEs *favour* external forms of regulations compared to self-regulation, due to lack of competences within the social and environmental field and the perceived advantage of having a "level playing field" (see Williamson et al.2006, Tilley 2000, and Studer et al. 2005). In other words, many SMEs seem to lack resources, competences, and even the rationale, to utilize CSR as an instrument to fend off government regulations. Moon (2004) argues that the government is a major driver for CSR in the United Kingdom. Business in t he United Kingdom has been particularly susceptive to pressure from government, according to Moon. In more specific areas, like responsible purchasing, the US federal government has been found to be more influential than the UK government (Worthington et al. 2008). Still, the literature in general describes businesses' perceptions of government as a threat to autonomy rather than as a source of inspiration. This driver is named "ward off government regulation", and seems to be most relevant for MNEs.

Summing up drivers and barriers of CSR

The literature survey has highlighted five drivers for CSR and three barriers. Table 1 sums up these drivers and barriers and the literature references.

Table I: Drivers and barriers of CSR – in SMEs and MNEs					
	Driver/Barrier	***References***	***SME***	***MNE***	***CSR effect***
1.	Cost/benefit ratio (capacity)	• Graves & Waddock (1994) • Jenkins&Hines (2003) • Lepoutre & Heene (2006) • Matten et al.(2003) • McWilliams & Siegel (2001) • Skjaerseth et al.(2004) • Spence (1999) • Tilley (2000) • Waddock & Graves (1997) • Williamson et al. (2006)	small or negative	positive	SME barrier
2.	External control (risk)	• Cramer (2008) • Hillary (1999) • Hutchinson & Chaston (1994) • Lepoutre & Heene (2006) • Longo et al.(2005) • Observatory of European SMEs (2002) • Spence (1999)	relevant	less relevant	SME barrier
3.	Sensitive to local stakeholders (reputation)	• Crouch (2006) • Jenkins (2009) • Kusyk & Lozano (2007) • Reich (2007) • UNIDO (2002) • Worthington et al. (2006)	sensitive	less sensitive	SME driver
4.	Geographical spread (risk)	• Chapple & Moon (2005) • Scherer & Palazzo (2008) • UNIDO (2006)	relevant risk	relevant risk	SME driver
5.	Internal control (risk)	• Graafland & Smid 2004 • Jenkins&Hines (2003) • Jenkins (2009) • Kusyk & Lozano (2007) • Oppenheim et al. (2007) • Spence (1999)	less relevant	relevant	MNE barrier
6.	Following leading companies (conformity)	• Amran & Siti-Nabiha (2009) • Bansal & Roth (2000) • Colwell & Beckman (2007) • Misani (2007)	less relevant	relevant	MNE driver
7.	Sensitive to public perceptions (reputation)	• Battacharya & Sen (2004) • Branco & Rodrigues (2006) • Brekke & Nyborg (2008) • Elliott & Freeman (2000) • Graafland & Smid (2004) • Hellsten & Mallin (2006) • Jenkins (2006) • Jeppesen (2006) • Lynch-Wood & Williamson (2007) • Maloni & Brown (2006)	less sensitive	sensitive	MNE driver
8.	To ward off government regulation (autonomy)	• Barkemeyer (2009) • Crouch (2006) • Florini (2003) • Howard et al. (2003) • Michael (2003) • Moon et al. (2005) • Ruggie (2004) • Rondinelli (2003) • Studer et al. (2000) • Tilley (2000)	rare motive	possible motive	MNE driver

Table I: Drivers and barriers of CSR – in SMEs and MNEs (47 publications are included in the survey)

The literature survey suggests that the explanatory power of driver/barrier 1-4 is stronger for SMEs than for MNEs and that the explanatory power of driver/barrier 5-8 is stronger for MNEs than for SMEs. These expectations are examined in an analysis of data from a survey of the Norwegian clothing sector in the next section.

Survey of the Norwegian clothing sector

In this section we consider whether the main drivers and barriers identified in the literature survey above is validated by a survey of managers in the Norwegian clothing sector. The survey is limited and will therefore be indicative at best. However, another aim of this section is to demonstrate how we may design a study in order to examine not only how drivers and barriers vary between SMEs and MNEs, but also how they vary between stages in the transformation process from a SME to a MNE. That is, how the drivers and barriers of CSR vary with reference to firm size and internationalization.

Design, data collection, and coding

A web-based survey of approximately 300 managers was conducted among Norwegian clothing businesses.[2] One-hundred eighty-two respondents completed all instruments in the questionnaire. Respondents needed an estimated 20 minutes to complete the questionnaire. It is likely that the managers who completed all instruments had a more positive attitude toward CSR than the average manager in the Norwegian clothing business. It is also likely that the proportion of managers with knowledge of CSR among these respondents was larger compared to the proportion in the entire population of clothing managers. However, these biases do not threaten the reliability of the survey because the aim is to identify differences between two pre-defined subsets of the sample: SMEs and MNEs. It should be satisfactory if the biases above are distributed equally among SMEs and among MNEs. Given our random selection process, and similar modes of contact with MNEs and SMEs, there is no reason to believe that these biases are more pronounced in one of the two subsets.

Five company categories were included in the survey: chain offices (headquarters of retail corporations), agents, wholesalers, producers and stores. Non-autonomous clothing stores controlled by clothing chains (16 stores) were excluded to ensure relatively independent respondents.

SMEs and MNEs are associated with specific advantages in business studies. SMEs may be engines of job creation and innovation, and therefore may show exceptional growth rates in the high-tech field (OECD 2002). MNEs may contribute to growth by internalizing transaction costs (Coase 1937), investing in innovation (Baumol 2002), and in emerging economies (Wolf 2004). Here we focus on how the size and the international scope of a business influence its drivers and barriers of CSR. Since most MNEs began as small companies (see introduction) it would be desirable to operationalize “SME” and “MNE” with a reference to the two dimensions that characterize the distinction between SMEs and MNEs: the number of employees, and the degree of internationalization.

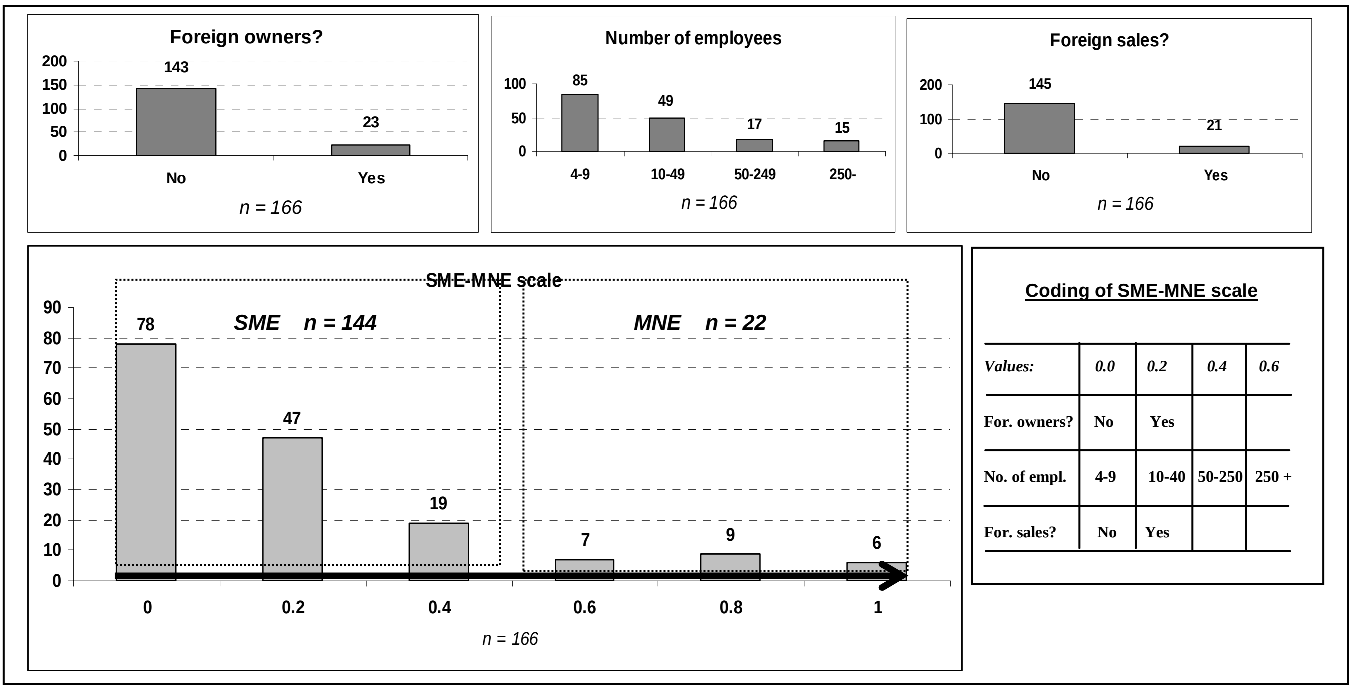
One way of measuring drivers and barriers of CSR among SMEs and MNEs would be to construe them as two boolean variables with reference to size and internationalization. However, this would pose two challenges: first, the two criteria sets could result in two overlapping samples. Second, this solution would not explain variation during the transformation from a SME to a MNE. An alternative is to utilize a technique applied in "fuzzy set analysis" (Ragin 2000). Fuzzy sets extend boolean sets by permitting membership scores in the interval between 0 and 1. The basic idea behind fuzzy sets is to permit the scaling of membership scores and thus allow partial or fuzzy membership (Ragin 2000). We have two "memberships" in this analysis, “SME” and “MNE”. In stead of treating these as two boolean variables, an index variable is introduced with an interval scale[3]. “SME” and “MNE” are end points on a six point scale, determined by three criteria with a maximum score of 1.0:

- *Number of employees:*
  0.2 is added if the number of employees exceeds 9,
  0.4 is added if the number exceeds 49
  0.6 is added if the number exceeds 249.
  These thresholds are low compared to the standard definition of SMEs (see European Union (2003) due to small average firm size in Norway.

- *Sales:* 0.2 is added if the firm has retail sales in foreign countries.

- *Ownership:* 0.2 is added if the firm is owned by a foreign entity.

We label firms with a score of 0.4 or lower “SME”, and firms with a score of 0.6 or higher “MNE”. Figure 1 shows the coding of the SME-MNE scale, and the distribution of respondents on the three variables included in the SME-MNE scale (“foreign ownership”, “number of employees”, and “foreign sales”), and the distribution of respondents on the SME-MNE scale.



Values:	0.0	0.2	0.4	0.6
For. owners?	No	Yes		
No. of empl.	4-9	10-40	50-250	250 +
For. sales?	No	Yes		

Figure 1. Distribution of companies on the SME-MNE scale

“CSR performance” and the eight drivers and barriers were operationalized by using an index based on variables in the survey. The CSR performance index consists of six survey variables, all emphasizing firm practices with the aim to reduce negative externalities (see “market centric approach” above).

Table 2: CSR performance (dependent index variable)	
No.	***Survey variable***
23	Does your company have written guidelines on ethics/social responsibilities?
34 – 1	Has your company signed up to the voluntary program “Inclusive worklife”?*
34 – 4	Does your company inform customers about possible environmental risks?
34 – 7	Has your company implemented measures to reduce the consumption of energy this year?
34 – 10	Has your company supported charities, sport events, or cultural events this year?
38	Your suppliers are informed of the company’s social and environmental requirements in the following areas; the environment, work relations, human rights, and corruption**

Table 2: The dependent index variable; CSR. Each item is answered by” yes” or “no”. Recoding ensured that all items were aligned.
** This is a government-sponsored program between the labour unions and employers in Norway with an aim to keep as many as possible as part of the workforce.*
*** For each area where the responded answered “yes”. 0.25 was added to this variable.*

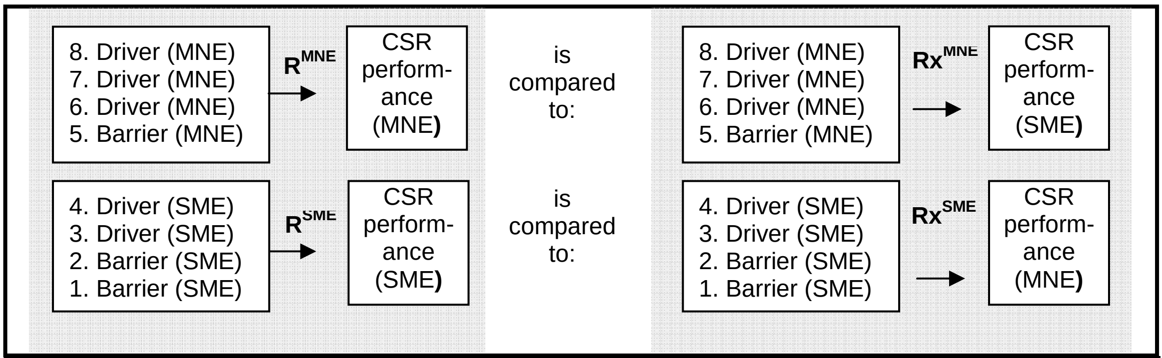
The eight drivers/barriers identified in the literature survey is represented by eight variables of which there were three index variables and five single-item variables. The survey variables are shown in Table 3. The survey items are recoded to ensure that each variable has a value range between “0” and “6”.

Drivers and barriers (independent variables)	
Var. no.	***Survey variable***
1. Capacity: Cost/benefit ratio (additive index variable)	
43 – 1	Factor that may make it difficult to impose demands on suppliers as regards environmental and social conditions. We lack time and/or financial resources
43 – 2	Factor that may make it difficult to impose demands on suppliers as regards environmental and social conditions. We do not have the necessary knowledge of the area
2. Risk: External control is difficult	
43 – 5	Factor that may make it difficult to impose demands on suppliers as regards environmental and social conditions. We are unable to monitor whether these requirements are being met.
3. Reputation: Sensitivity to local stakeholders	
35 - 29	Factor to bear in mind when as a manager you must make decisions and decide on time priorities. Local community
4. Risk: Geographical spread	
15	What proportion of your company's products is supplied from abroad?
5. Risk: Internal control is difficult (additive index variable)	
33-6	Threat to your company's reputation: Business practices in the domestic market
33-7	Threat to your company's reputation: Business practices abroad
6. Conformity: Following leading companies	
36 - 3	Threat to your company's reputation: Leading companies work on social responsibility.
7. Reputation: Sensitive to public perception	
36 – 1	Reason for your company's work with social responsibility: The company's reputation
36 – 9	Reason for your company's work with social responsibility: Demands from customers
36 – 14	Reason for your company's work with social responsibility: Demands from employees
8. Autonomy: To ward of government regulation	
44-5	The extent to which you personally agree or disagree: The private business sector should be regulated and monitored via international agreements so as to protect the needs of the population

Table 3. The independent index variable; Drivers and barriers of CSR.
The dependent variable "CSR performance" and the eight drivers/barriers are re-coded to have an equal interval with a range between 0 and 6.

Are the main drivers and barriers in the literature survey supported?

The multiple regressions (see Figure 2) show that the explanatory power (R square) of R^{SME} is stronger than Rx^{SME}, and R^{MNE} is considerable stronger than Rx^{MNE}. This is in line with the expectations based on the literature survey above. However, the explanatory powers of all coefficients are weak. Only R^{SME} is significant at the 0.005 level. One reason for this is the low number of units. There are few MNEs in the Norwegian clothing business.



Regression	R Square	Std. Error Estimate	F	Sig.
R^{MNE}	0.381	0.81931	2.002	0.154
Rx^{MNE}	0.063	1.34254	1.416	0.236
R^{SME}	0.120*	1.30120	2.863	0.028
Rx^{SME}	0.075	1.00144	0.265	0.895

*Figure 2. Explanatory power of drivers and barriers on CSR performance. Multiple regression *The effect is significant at the 0.05 level. Rx^{MNE} is based on the SME subset, and Rx^{SME} is based on the MNE subset.*

Table 4 shows that the bivariate effects have the sign which is predicted in the literature survey. Table 4 also shows that the effects are stronger for the subsets we would predict on the basis of the literature survey: the upper half of table 4 shows stronger effects than the bottom half with the exception of column "7". However, they are generally weak and only two effects ("3. SME driver" and "4. SME driver") are significant at the 0.05 level.

	1. SME barrier *Capacity* **Cost/ benefit ratio**	**2. SME barrier** *Risk* **External control**	**3. SME driver** *Reputation* **Sensitive to local stake-holders**	**4. SME driver** *Risk* **Geo-graphical spread**	**5. MNE barrier** *Risk* **Internal control**	**6. MNE driver** *Conformity* **Following leading companies**	**7. MNE driver** *Reputation* **Sensitive to public per-ceptions**	**8. MNE driver** *Autonomy* **Ward off govern-ment regulations**
Subsets in line with lit. review:								
Pearson Corr.	- 0.175	- 0.208	0.249 (*)	0.237(*)	- 0.096	0.415	0.031	0.195
Sig. (2 tailed)	0.101	0.050	0.018	0.025	0.697	0.078	0.901	0.437
N	89 (SME subset)	89 (SME subset)	90 (SME subset)	90 (SME subset)	19 (MNE subset)	19 (MNE subset)	19 (MNE subset)	18 (MNE subset)
Inverse subsets:								
Pearson Corr.	- 0.125	- 0.017	- 0.268	0.107	0.097	0.176	0.059	0.161
Sig. (2 tailed)	0.621	0.948	0.267	0.663	0.365	0.097	0.578	0.133
N	18 (MNE subset)	18 (MNE subset)	19 (MNE subset)	19 (MNE subset)	90 (SME subset)	90 (SME subset)	90 (SME subset)	90 (SME subset)

*Table 4. Bivariate effects of drivers and barriers of CSR for the sample (SME and MNE subsets of sample) * Correlation is significant at the 0.05 level (2-tailed)*

Alternative drivers/barriers in the survey

The purpose of the empirical section is to consider whether a survey of the Norweegian clothing sector validates the drivers and barriers identified in the literature survey. However, there are additional drivers and barriers included in the survey. The survey includes variables which are rarely mentioned in academic contributions though they qualify as a driver/barrier of CSR. This includes the following "reasons to work with CSR";

- "applicable legislation and public guidelines" (pearsons = 0.086 / Sig. 2-tailed = 0.372)
- "the work of employer and trade organization on CSR" (pearsons = 0.054 / Sig. 2-tailed = 0.574)
- "demands and pressure from the owners (pearsons = 0.115 / Sig. 2-tailed = 0.233)

As indicated in brackets, these variables do not have a significant effect on the CSR index in this survey.

Summing up the empirical findings

It is shown that the regression coefficients and bivariate effects are compatible with the literature survey above, though they are weak. However, this survey does not provide an adequate validation. Larger surveys in larger markets are necessary to validate the eight drivers/barriers identified in this literature survey. For now, we can only claim that the drivers and barriers highlighted in the CSR literature seem plausible in light of the results of this limited survey. The next question is how they vary with respect to firm size and degree of internationalization. To better understand this we consider how they relate to more general social science models.

Drivers and barriers of CSR and general social science models

The eight drivers and barriers of CSR may be identified as special cases of more general social science models. By considering their relations to a wider frame of business contexts, we may better understand how they vary with regard to stages in the transformation of an enterprise from an SME to an MNE.

1. SME-barrier: Insufficient Cost/Benefit Ratio

Critical mass

One may assume there are economic thresholds which must be passed before investments in CSR can be expected. The thresholds are linked to a certain level of financial freedom. The CSR performance will normally represent a fixed cost, and as fixed costs in general, it demands a "critical mass" with regard to turnover to justify the necessary funding. A "critical mass" denotes the existence of a momentum in a social system such that the momentum becomes self-sustaining and fuels further growth. In this context the critical mass is linked to the required size and geographical spread which allow companies to profit from CSR investments. A critical mass is required in other areas of business management as well; sophisticated asset management is not recommended for SMEs, and direct access to intergovernmental organizations are also out of reach for most SMEs. Bouwen (2002) shows that "large individual firms" have the highest degree of access to the European Commission. For small firms with very little financial freedom, there is little room for CSR.

2. SME-barrier: External Control

Critical mass

Many SMEs are unable to acquire the necessary knowledge to implement an effective CSR policy. They often have insufficient knowledge to exploit advantages, or to mitigate threats, outside of their area of operation. Thus, SMEs are preoccupied with running the day-to-day operation and seem to lack the strategic capability to devise CSR policies of their own. The complex supply chains, and legal, political, and cultural frameworks surrounding these, are difficult to overview for most SMEs. This means that the CSR performance requires a capacity to allocate time an expertise in an area where no immediate returns on investment could be expected. Hence there is a "critical mass" linked to the limited knowledge base of SMEs. CSR performance becomes an inaccessible source of competitive advantage for SMEs due to their lack of knowledge and external influence.

3. SME-driver: Sensitivity to Local Stakeholders

License to Operate

The SME driver "sensitivity to local stakeholders" highlights the concept "license to operate" for firms in a local community. The notion of a license to operate derives from the fact that every firm needs tacit or explicit consent from public authorities, political parties, associations and other stakeholders in order to do business (Porter & Kramer 2006). Many have pointed out that SMEs, in particular, depend on a license to operate in their local community (see WBCSD 2007 and European Union 2007). The roots of this notion may be traced back to the "social contract" and Rousseau (1968). The social contract signifies a silent agreement between a sovereign people and their ruler without relinquishing the absolute sovereignty of the people. Today, both heads of state and business leaders are part of such an agreement. *Central governments* uphold the agreement by accomplishing real social improvements and influencing citizens' perceptions by political marketing. Crouch (2004) refers to political marketing as a symptom of "post-democracy" where the global firm is the "key institution". *Local business leaders* uphold the agreement by improving the real quality/price ratio of their products and by influencing customer's perceptions of their products. In a local context, CSR performance becomes similar to what is referred to as "corporate citizenship" (Moon et al. 2005). Here, the firm's role is not restricted to the role of participant/lobbyist in the political process, but also encompasses the role of a quasi-executive in a public governance context.

4. SME-driver: Geographical Spread
Cost Disease Theory

The “geographical spread” of corporate operations is often linked to a tendency entitled “the race to the bottom” whereby competition between nations and firms searching for low-cost markets lead to the progressive dismantling of regulatory standards (World Bank 2002). A variant of this tendency is when SMEs – or not fully accomplished MNEs – select production regions according to the best ratio of production costs and adequate manufacturing skills. The mechanisms behind the geographical spread within labour-intensive industries may be highlighted by the “cost disease” theory presented by Baumol and Bowen (1965). This refers to the continuous productivity lag of services, and refers to performing arts as a case in point. Normal productivity gains are out of reach here; thus, a rise in unit costs can be seen. In labour-intensive industries in developed countries, productivity gains may be restricted in a similar fashion. However, there are important differences; labour-intensive industries may outsource production and at the same time retain, and even increase, their profit margins and turnover. The steady movement of production capital to lower-cost regions may be understood as the remedy for rising unit costs. The gains realized by global sourcing overshadow the costs of implementing related defensive measures (CSR) to avoid public criticism and fulfil consumer expectations. Evidence from the international clothing industry supports this thesis: the textile industry, which is less labour-intensive than the clothing industry, did not migrate as fast as the clothing industry to developing countries during the decades of Multi-Fibre Agreement (MFA)-related quotas in 1974-1994 (OECD 2004). Global outsourcing becomes a calculated risk which is mitigated by investments in CSR.

5. MNE-barrier: Internal Control
Principal-agent model

Large MNEs face major challenges with regard to “internal control” (MNE barrier). A pledge to be socially and environmental responsible is difficult to follow up on in large MNEs. This challenge may be framed as a principal agent situation within the corporate organisation[4]. Top management commits itself publicly to serving stakeholders and to protecting the environment by signing a code of conduct which relies on the expertise of a large group of agents (employees) to succeed. The self-interest of each agent may be in conflict with the CSR objectives, and the task of the top management is to minimize opportunistic behaviour by implementing an internal incentive structure. The difficulties of putting in place such structures to ensure compliance with CSR standards increase as the number of suppliers and internal departments increase. There are three basic methods for motivating agents to act on behalf of their principals according to Cohelo *et al*. (2003:21):

- to ensure transparency,
- to align interests of middle management with top managers, and
- to have an effective control system in place.

CSR standards cover a diverse set of objectives and actors which have different interpretations of the standard texts. To motivate agents for CSR is therefore particularly difficult and must rely heavily on “transparency” and “aligning of interests” between different management levels. This is critical when the firm is a large MNE. Large MNEs are no longer conglomerates controlled from central headquarters issuing orders to manage the flow of goods through large warehouses (see Reich 2007). The organization model of the current “lean” retail corporation is based on real-time feedback from points of sales. Computer software handles aggregated sales data and manages the rate of replenishments and the introduction of new items (see OECD 1999, Abernathy *et al.* 1999, and OECD 2008). While retail corporations have made huge progress in their handling of economic and logistical data, their handling of social and environmental data are lagging. Many purchasers in the retail business utilize sophisticated ICT-based management systems, but rely on ad-hoc policies to ensure compliance with social and environmental standards.

6. MNE-driver: Following leading companies
Mimetic Isomorphism

The driver “following leading companies” refers to a process whereby firms imitate the CSR practices of competitors, or of influential stakeholders, in order to seek a competitive advantage or to increase their legitimacy. This is a context described by DiMaggio & Powell (1983) under the heading “mimetic isomorphism”. “Isomorphism” refers to a process where organizational characteristics are modified in a direction that enhances their compatibility with environmental characteristics. Institutional isomorphism is studied through the development of “organizational fields”. These are fields where organisations, in the aggregate, constitute a group of key resources, suppliers, customers, consumers, and regulatory agencies contribute to the production of similar products. According to DiMaggio & Powell (1983) mimetic isomorphism is a form of institutional isomorphism which is expected in circumstances where

- technologies are poorly understood
- goals are ambiguous
- the environment create symbolic uncertainties

Under these conditions we expect organisations to model themselves on other organisations. The ambiguities and uncertainties in these circumstances suggest that the dissemination of CSR requires “first movers” in the CSR field.

7. MNE-driver: Sensitive to Public Perception
Shaping Market Conditions

The MNE driver “sensitive to public perception” seems to imply that firms invest in CSR if this may enhance or protect their public image. We expect firms to adapt to findings in consumer intelligence reports and to stories concerning their operations in the media. However, firms not only adapt and respond to public perceptions, but also engage actively and routinely in shaping these perceptions (see e.g. Mills 1956, Galbraith 1967, Lindblom 1977, and Crouch 2004.) Hence, this driver is not to be considered only as a defensive measure motivated by perceived threats and opportunities in the public sphere, but also as an opportunity to positively influence the image of the firm held by the public. Branding is the main manifestation of this in retail businesses: Big consumer brands are used as social role models, but they are also the targets of anti-globalisation activists. Michel Ogrizek (2001) claims that the key social marketing strategy must be to communicate proactively the business activity's raison d'être.

This illustrates that "influencing public perceptions" may be a basic strategy for MNEs to generate positive public support, not only a defensive and reactionary strategy to respond to negative public exposures.

8. MNE-driver: Ward Off Government Regulation

The Logic of Collective Action

The MNE driver "to ward off government regulation" rests on the assumption that firms are willing to carry individual costs in the pursuit of a collective good; less government regulation. It is likely that the individual benefit from the collective good will be less than the individual costs of investing in CSR. This suggests that firms do not invest in CSR merely in their role as market actors, but also as organizations (Crouch 2006). As organizations, firms try to influence, and not only adapt to, market conditions. Firms are seeking to profit from what Mancur Olson (1971) referred to as "inclusive collective goods". These are goods which expand as the group that seeks them expands, in contrast to "exclusive collective goods" where the individual portion of the collective good decreases when the group expands. From a business perspective, the sum of CSR impact may be understood as a substitution of the collective good arising from government actions. In other words, the CSR impact may become an inclusive collective good. In this perspective, how can one explain the actions of MNEs to ward of public regulations? Are there non-collective benefits only available to the MNEs involved? Olson (1971:143) explains the voluntary business associations and lobbying efforts in the 1960s by the relatively small number of large corporations in the United States and a range of available non-collective benefits. Today, the individual global corporation is less dominant, according to Reich (2007). The dominant corporations in the United States no longer have the power to raise prices as they had in the 1960s and 1970s, and there is no longer a place for "corporate statesmen". Could it be that "enhanced public reputation" provides the required non-collective benefit today? When large MNEs influence government policies it may be as a distinguished member of a government committee, or as a keynote speaker and sponsor at major conferences. Aram (1989:275) points out that this may be an example of "selective incentives inducing contributions by group members". Thus, MNEs may be spurred to increase what they see as an inclusive collective good – the autonomy of corporations in general – by the non-collective good "public reputation".

Summing up drivers and barriers, and general social science models

The above shows that the eight drivers and barriers of CSR may be viewed as special cases of a more general phenomenon described in the social science literature. This contextualization gives us a better understanding of the drivers and barriers of CSR and may help us to understand how drivers and barriers vary with regard to stages in the transformation of an enterprise from an SME to an MNE.

Drivers and Barriers of CSR and the Stages in the Transformation Process from a SME to a MNE

The eight drivers and barriers of CSR are not only relevant for the two subsets of the population of firms (SMEs and MNEs), they may also refer to different stages in the transformation process from an SME to an MNE. There is no fixed chronology; the stages may appear in a different order than the one shown in Figure 3. However, analysis of the drivers and barriers suggest that these stages influence the drivers and barriers of CSR.

Barriers "1" and "2". At this stage firms lack the economies of scale and the expertise and influence with which to facilitate CSR. Public regulations may reduce the barriers if they create a level playing field by increasing transparency, especially within the supply chain, and by reducing SMEs' fixed costs related to CSR performance. A firm may be responsible for "good deeds" or for donations to charities, but its limited resources suggest a limited business rationale for these types of actions.

Driver "3". Material and intangible assets of the firm are considered valuable by local stakeholders at this stage. The firm engages in mutually beneficial partnerships. Thus, the firm may influence the decisions of actors in the local community and enhance its local reputation by demonstrating social and environmental responsibility.

Driver "4". The driver of CSR is stronger when firms expand their operations into foreign markets. This expansion increases the number of external stakeholders and the number of risks, and calls for investments in CSR to mitigate these risks.

Barrier "5". Direct control of internal operations is a problem when the numbers of markets, suppliers, partners and employees pass certain levels. Promising much and thereby raising expectations for CSR may in this context represent a risk. However, continuing to invest in CSR performance may still be rational as long as the public expectations are in line with a realistic level of performance.

Driver "6". When the firm reaches a certain size, and certain contextual factors are present, it tends to overcome uncertainties and ambiguities in its surroundings by imitating the practices of its competitors and influential stakeholders.

Driver "7". When the firm, or a brand which the firm controls, has become well-known in major markets, a damaged reputation may have critical consequences. With considerable financial resources and a large staff, the firms may both adapt to, and shape, their market conditions. Investing in CSR may therefore be both a defensive and an offensive strategy at this stage.

Driver "8". The firm may at this stage influence market conditions and certain issues related to public regulations. CSR represents a strategic tool which enables the firm to mitigate market risks, exploit market opportunities, and engage in public policy processes. Thus, in the eyes of the firm, CSR may become a tool for influencing and even substituting public regulations.

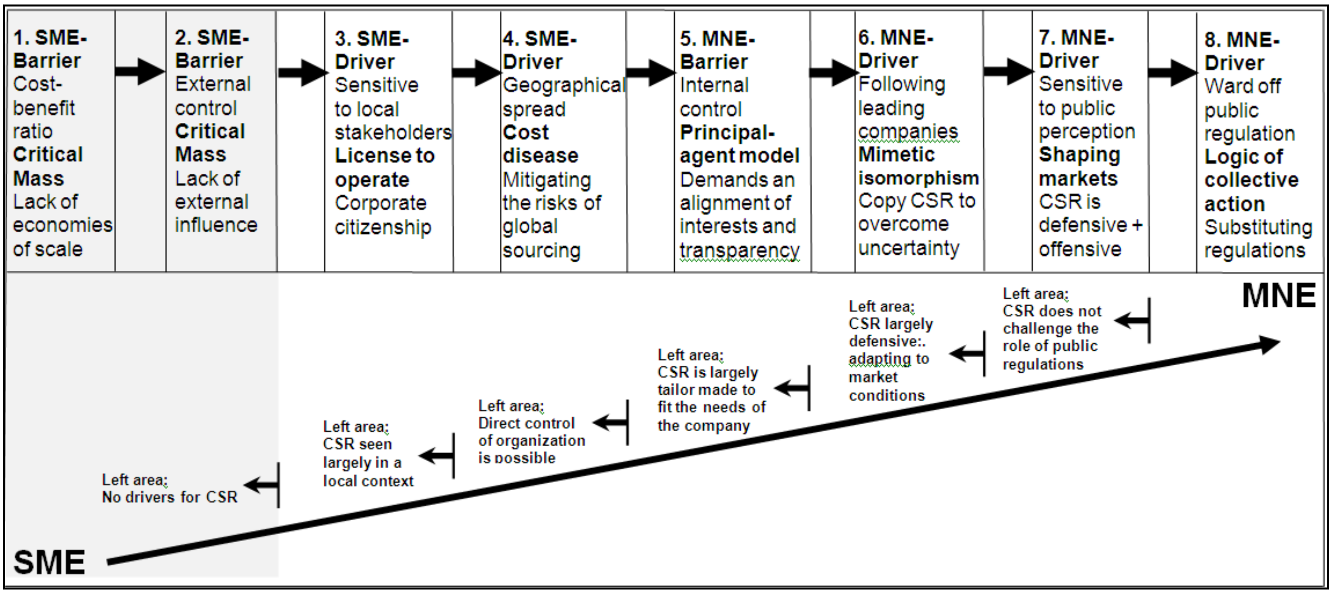


Figure 3: Drivers and barriers of CSR and stages in the transformation process from a SME to a MNE

Possible implications for public policy

Given that the objective of the government is to strengthen CSR, what kind of public policies should the government pursue? This article suggests that policies should be adapted to four main contexts, referring to stages in the transformation process from a SME to a MNE:

1. Ensuring that firms have the capability to perform CSR activities. (*Overcoming barriers 1 and 2.)*

   Governments should see to it that firms have the necessary capability to perform CSR activities. One should reduce the burden of fixed costs related to CSR, and increase transparency with regard to supply chains and the social and environmental impact of their operations in general.

2. Strengthening market incentives for CSR. (*Boosting drivers 3 and 4, and overcoming barrier 5.)*

   Public policies should support mutually beneficial coalitions between firms and public authorities by stimulating public-private partnerships, and by including business representatives in public forums and council meetings. Public authorities could also reward businesses that take action to enhance their social and environmental impact by introducing fiscal stimulus programs and by establishing markets where corporate investments in CSR becomes a competitive advantage.

3. Support “first movers” and distribution of best practices. (*Boosting driver 6.)*

Governments should publicly acknowledge the symbolic value of "first movers" in the CSR field. The government should also support the development and distribution of best practices adapted to different business sizes and different degrees of internationalization.

4. Designing public policies in partnership with business representatives. (*Boosting drivers 7 and 8.)*

   Firms affecting state finances and national markets are not only targets of public policies, they also influence them. They do so directly by participating in deliberative processes together with government representatives, and indirectly by the fact that government representatives consider business interests when they design public policies. Government representatives should recognize this and should therefore collaborate with business representatives of both MNEs and SMEs in order to learn from their experiences.

Conclusion

This article contributes to a better understanding of how and why drivers and barriers of CSR differ with respect to size and internationalization of companies. On the basis of a literature survey, eight drivers/barriers of CSR were identified. These drivers and barriers were shown to be compatible with the results of a limited Norwegian survey. By considering these drivers and barriers as special cases of more general social science models, we gained a better understanding of how they are affected by different business contexts and how they vary with regard to stages in the transformation process from a SME to a MNE. In the first two stages, firms lack the economies of scale and the expertise and external influence to implement CSR. In the third stage the firm is capable of engaging in mutually beneficial partnerships and may use CSR in its interactions with local stakeholders to improve their reputation and framework conditions. In the fourth stage, the international expansion of the firm increases the number of stakeholders and the number of risks. CSR may then be used to mitigate these risks. In the fifth stage, a vast corporate organisation no longer permits the top management to control the organisation. We see risks related to opportunistic behaviour among its employees. At the sixth stage firms may overcome uncertainties in their environment by imitating the CSR practices of competitors and stakeholders. At the seventh stage, the firm has become well known and is able to influence market conditions. CSR may now be part of both a defensive and offensive strategy. At the last stage, the firm may be able to influence both market conditions and public policies. Engaging in CSR reflects an ambition to advance long-term business interests by improving their framework conditions.

The analysis above suggests that different public policies are appropriate at different stages in the transformation process from a SME to a MNE. If the government's objective is to stimulate CSR, public policies should be adapted to four main contexts. Towards SMEs the focus should be to ensure that they have the capability to perform CSR activities. When firms are in a transition phase between an SME and an MNE, the focus should be on strengthening market incentives for CSR and to disseminate best practices. Towards large MNEs, public policies should forge partnerships between governments and business representatives in order to utilize corporate competencies and to protect the long-term interests of both MNEs and SMEs as long as these are compatible with government objectives.

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[1] A number of economists have studied the effects of CSR and links CSR to externalities – e.g. Husted & Salazar (2006) and Besley & Ghatak (2007). These kind of economic articles have in common a structure where a list of propositions is tested by calculating marginal utility based on a set of explicit premises. This setting does not include political, social or cultural variables which do not fit into their axiomatic framework.

[2] The survey is part of a larger project sponsored by the Norwegian Research Council, entitled “International developments, dissemination and implementation of CSR in the Norwegian clothing sector”. It was carried out from May to July, 2007. Three-hundred thirty firms responded to the web-based survey of the Norwegian clothing businesses. However, only 182 respondents completed all instruments in the survey. This response rate is comparable to similar surveys of corporate managements (see e.g. Ghoshal & Notria 1989)

[3] This analysis will not utilize the “fuzzy algebra” put forward by Ragin (2000), as we only need this index as a control variable for other index variables.

[4] See Solomon (2007:17) for a presentation of “agency theory” related to shareholders and managers, and Moe (1984:750) for a general introduction of the principal-agent model.