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## CHANGES CAUSED BY CSR-PPP ON PARTICIPATING COMPANIES

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### ABSTRACT

CSR-PPPs are a new and especially relevant phenomenon in today's world politics. Little is known, however, about the effects of this "New Mode of (Global) Governance". The paper addresses this deficit and presents a theoretical model from which hypotheses about the effects of CSR-PPPs can be deduced. It furthermore illustrates the applicability of the model by generating hypotheses about the effectiveness of CSR initiatives in the large retailer industry sector.

### Keywords

corporate social responsibility, public private partnerships, new modes of governance, global governance

### INTRODUCTION: CSR-PPP - WHAT IS IT (AND WHAT'S THE PROBLEM)?

A few introductory comments first. The article investigates Public Private Partnerships that promote Corporate Social Responsibility (CSR-PPPs) and the effects these CSR-PPPs have on participating companies from an International Relations perspective. CSR-PPPs are defined here (similar to Linder & Rosenau, 2000; Börzel & Risse, 2005; Risse & Beisheim, 2006) as shared and stable expectations about the cooperation between public and private actors beyond the state for

- a.) the making of (CSR-)norms and standards that are considered binding by their members – CSR being defined in accordance with the European Commission Communication as "a concept whereby companies integrate social and environmental concerns in their business operations and their interactions with stakeholders on a voluntary basis" (as cited in Börzel & Héritier, 2006);
- b.) the purpose of implementation of CSR-norms and -standards.

Economists (the main audience of the IABS 2007 conference and these conference proceedings, as I suppose) may ask why the study of International Relations, a sub-discipline of the political sciences, would at all be interested in these issues?

An answer is that CSR-PPPs challenge predominant understandings of world order: Previously, international institutions were negotiated by the very states that were also the addressees of these institutions (see Hasenclever, Mayer, & Rittberger, 1997; Risse et al., 2006). Now CSR-PPPs set out norms on a global level that address private actors such as



companies directly. Thereby, they change the notion of territoriality underlying world order as it has been understood so far. Even in the more recent past, the recognition of, and compliance with an institution was defined by state borders. Now, within the context of CSR-PPPs, the territory of companies that might transcend borders and be spread over continents marks the validity of global institutions, too. Within the context of this development, companies become genuine political actors and objects of inquiry for International Relations research, and CSR-PPPs become important as “New Modes of Global Governance” that contrast with “old” state centred approaches in international politics (see Héritier, 2002).

In the political science literature, but also among quite some policy makers, the main concern with respect to CSR-PPPs as New Modes of Governance seems to be whether they are a “good” thing or not (see overview in Campe, Schäferhoff, & Kaan, 2006). The general notion thereby is that they are, indeed, more effective and legitimate modes of global governance than the “old” state centred ones (see Reinicke & Deng, 2000; Wolf, 2000; Sethi, 2003; Schwab & Gartzke, 2004; Risse et al., 2006). This claim, however, is not entirely unproblematic. Because to generally attribute legitimacy, effectiveness and efficiency to CSR-PPPs is rather a normative idea than a methodologically sound and theoretically grounded empirical inference. There is still very little known about them and their effects (see Vaillantcourt Rosenau, 2000; Campe et al., 2006; Risse et al., 2006). Theoretical approaches are lacking; the research that has been conducted mostly applies an inductive approach and focuses on single case studies. Inherent in the literature is furthermore a reporting bias in favour of success stories that supports the notion of legitimate and effective governance by PPPs. Hence, the literature suffers from a “selection bias on the dependent variable” (King, Keohane, & Verba, 1994). But then, the political claim deriving from this literature – to dedicate more resources to CSR-PPPs – seems risky. One should at least know the cases in which CSR-PPPs proved unsuccessful, too, to arrive at more reasonable propositions. In this sense, before we should start to “advise practitioners” – the theme of the IABS2007 conference – we should acquire more knowledge, that is, knowledge about the conditions under which what kind of CSR-PPPs are or are not successful.

The approach taken here is thus part of recent attempts to bridge the gap between what is attributed to CSR-PPPs and what is really known about them (see Campe et al., 2006; Risse et al., 2006). It summarizes a chapter of my PhD project that investigates *which institutional design of CSR-PPPs in countries with weak regulatory capacity causes what behavioral changes on participating companies?* In the thesis, I intend to give an answer by developing a theoretical model from which hypotheses about the effects of different institutional designs of CSR-PPPs are derived and by testing the hypotheses systematically – thereby also including negative cases (that is, cases in which CSR-PPPs have no apparent effect) in the case selection. In this contribution to the IABS2007 conference proceedings, however, the scope of the argument put forward is much more limited and only aims at an illustration of the theoretical model developed within the mentioned PhD thesis, and at showing that from this model testable (hypotheses that can easily be falsified) propositions can be deduced. To this end, a “hard case” for compliance is assumed, that is, a case in which the expectation is that compliance is unlikely and empirically rare due to an assumed preference structure of companies that does not favor socially responsible behavior – as it may be the case in the large retailer industry sector. The article begins with a definition and description of the main elements of the theoretical model. It then sets out to show how these elements translate into



explanations and concrete hypotheses, assuming the “hard case” of the large retailer industry sector in terms of preference structures.

## ASSUMPTIONS, BASIC ELEMENTS AND IDEA OF THE MODEL

This section defines assumptions, basic elements and the main idea of the model that explains changes caused by CSR-PPPs on participating companies. The main idea that drives the model is that CSR-PPPs, by gaining a new member, enter the strategic environment of companies (grasped within figure 1. by the notion of “bargaining situations”); then, the question to be answered is: What are the necessary conditions for CSR-PPPs in terms of institutional design to alter the overall incentive structure in a way that compliance with the standards promoted by the CSR-PPP on the side of participating companies occurs?

As any theoretical argument, this one is based on some assumptions, too. One is a rationalist meta-theory; more precisely, the development of the model draws on the branch of approaches that consider actors to be boundedly rational. Given the limitations of this article, I will not elaborate in any detail on what bounded rationality means here. It should suffice at this point to mention the various approaches on which the argument that constitutes the model is based upon, such as the strategic choice approach (Lake & Powell, 1999), the situation structure approach (Zürn, 1992), and the literature on institutionalism and governance (Ostrom, 1990; Scharpf, 1997; Goldstein, Kahler, Keohane, & Slaughter, 2000; Héritier, 2002). The second assumption concerns case selection. In this respect, only those companies are considered that

- a. are a member of one or more CSR-PPP (otherwise, it would not make much sense to ask in how far companies comply with standards set out by CSR-PPPs)
- b. are global brand names (hence the companies eligible for case selection can be expected to have a certain interest in implementing CSR policies to avoid harmful scandalizations by NGOs, the media, trade unions or politicians)
- c. operate on oligopolistically structured markets (that is, they operate on highly competitive markets on which companies pursue rather competitor- than consumer-driven strategies and rather seek for relative than absolute gains).

The basic elements (and main independent variables) that constitute the model are institutional design of CSR-PPPs and bargaining situations. Institutional design is conceptualized as having a regulative and a procedural dimension. The regulative dimension sets out norms and standards that define CSR. In this dimension, we will find environmental or social standards, anti-corruption norms and human rights or health goals to which the private partners within a CSR-PPP subscribe by their membership. The procedural dimension potentially sets out norms of interaction between the private partners, between the public and the private partners and between them and third party actors like NGOs or business associations. These interactions may include compliance mechanisms.

Disaggregated like this, institutional design can vary in the regulative dimension in terms of degree of precision and strictness/obligation with which the CSR-standards are formulated (Crawford & Ostrom, 1995; Goldstein et al., 2000; Risse et al., 2006). Variance in this respect can be measured by applying the institutional *ADIC*-syntax developed by Crawford and Ostrom consisting of *Attributes* (defining to whom a statement applies), *Deontic* (defining whether the statement is obligatory or permissive as indicated by the modal verbs must,



must not, may), *Aim* (defining the state of the world envisioned in the institutional prescription), and *Conditions* (defining How, Where, When and to What extent action has to be taken for the achievement of the *Aim*). Hence, an institutional statement set out in the regulatory dimension is formulated with high (low) degrees of precision if the addressee (A) as well as the How, Where, When and to What extent of actions (C) aiming at a specified result (I) are (loosely) clearly defined. Accordingly, it is formulated with high (low) degrees of obligation if its *Deontic* resembles the modal verb Must (May). The procedural dimension of institutional design can vary in terms of compliance mechanisms. Drawing on the compliance (Chayes & Chayes, 1993; Börzel & Risse, 2002; Raustiala & Slaughter, 2002) and public policy literature (Windhoff-Héritier, 1980; Sabatier, 1999), this dimension can imply the employment of enforcement and sanctioning mechanisms, monitoring, positive incentives, learning, managerial support and delegation to associations or industry clusters or to private-private partnerships between companies and NGOs as potential compliance mechanisms.

Bargaining situations are situations of interdependent decision making within which companies make their choices over CSR-strategies. They are composed of the preference structure of involved actors and their set of action alternatives. Note that in many empirical cases, actors may not feel that their decision to implement CSR policies (or not) is actually interdependent with the decision-making of other actors. Then, the variable "bargaining situation" is absent. It simply consists of the preference structure of companies towards the CSR-policy of interest. Automotive companies in South Africa, for example, seem to have a strong enough self-interest in the implementation of demanding HIV/ AIDS programs for infected employees and their families to opt for the development and implementation of such programs without taking into account the strategies of competitors (own research, as summarized in Thauer, forthcoming). There are several reasons for this. One is that the automotive industry heavily depends on skilled labour. However, skilled labour is a scarce resource in South Africa. Additionally, there is a strict anti-discrimination legislation in the country that forbids companies to dismiss employees infected with HIV. The consequence is that companies have to deal with the various problems that AIDS at the workplace cause, among them lower productivity and quality standards within individual firms due to a bad physical and mental condition of infected workers. In this situation, the most effective and efficient solution to affected companies is to develop programs that alleviate the problems caused by HIV/ AIDS at the workplace and thereby make the proliferation rate within the companies a manageable factor. In other words: In this case, the benefits of a demanding HIV program exceed its costs and a more demanding program may in addition to that even result in a competitive advantage vis a vis other car manufacturers. Hence, there is a "business case" (Porter & Kramer, 2006) for CSR in this very industry sector and issue area in South Africa.

Often, however, the situation is not as favorable with respect to the development of specific CSR policies in companies. Then, other actors and their action alternatives need to be taken into account for the decision-making of companies, too. A case in point is the large retailer industry sector and attempts to implement core labour and social standards (as, e.g., set out by the International Labour Organization and promoted by various CSR initiatives such as the Global Compact, the Ethical Trade Initiative, the Business Social Compliance Initiative and others) in the companies' textile and clothing supply chains (see Fransen, 2006 and own research). Here, one cannot expect a "business case" for CSR, that is, a competitive advantage for companies that run demanding CSR policies vis a vis competitors. Rather, the



situation of large retailers with respect to the implementation of core labour standards seems to involve quite some immediate costs, and in addition to that the possibility that participating competitors may publicly declare that they make attempts to comply with the standards set out by the respective CSR-PPP without actually doing so. Hence, large retailers are confronted with the free rider problem concerning the implementation of core labour standards and thus face a situation of interdependent decision making - represented by the prisoner's dilemma in figure 1. under "Preferences of Retailers concerning Labour Standards".

### Basic Elements and Idea of the Model

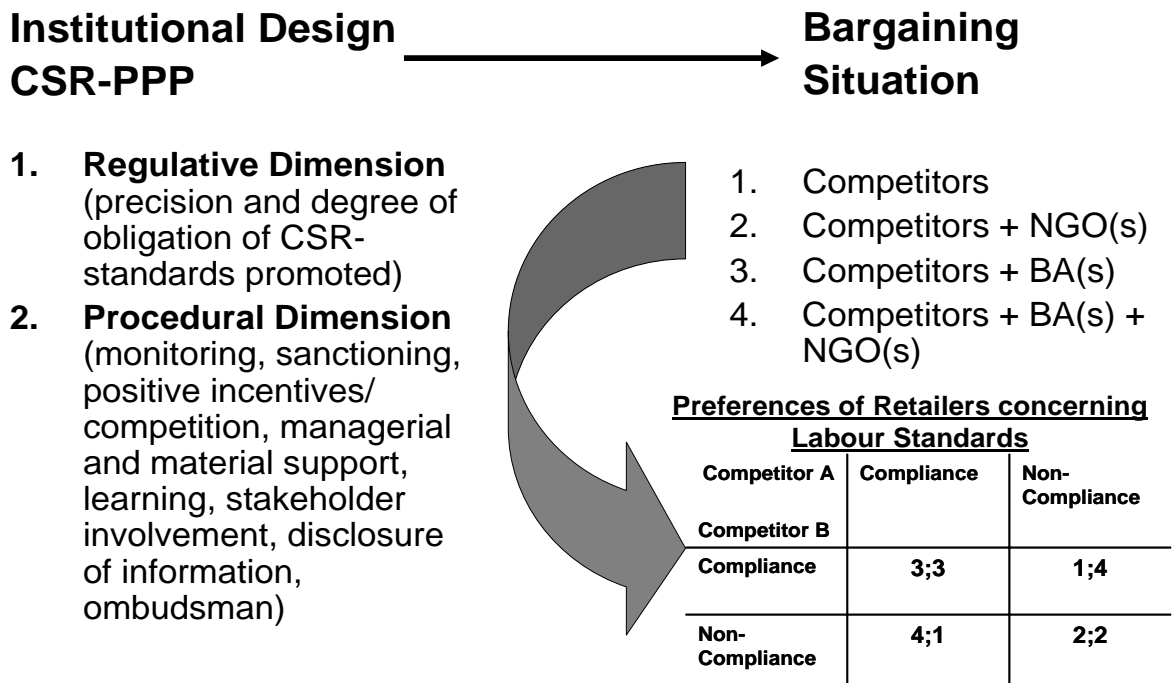


Figure 1: Basic Elements and Idea of the Model

But then, as indicated in figure 1. under "Bargaining Situation", there is the possibility that the decision-making of companies is not only interdependent with competitors, but with other actors as well: As the literature on private authority in International Relations (Cutler, Haufler, & Porter, 1999; Kirton & Trebilcock, 2004), transnationalism (Risse, Ropp, & Sikkink, 1999) and private self-regulation (Schmitter & Streeck, 1981; Ronit & Schneider, 2000) suggests, NGOs and Business Associations (BAs) should also be considered as potentially playing a role for the decision making of companies with respect to CSR-policies. If a company or industry sector, e.g., faces peer pressure from one of the large transnational NGOs that consider campaigning as part of their strategy, it may take into account the likeliness of being attacked by a "shaming campaign" and the damage this would do to the brand in their interdependent decision-making, too. Of course, not any grass roots NGO in the environment of a company will be taken into account in the calculation of companies.



Only those NGOs that are capable and willing to campaign against a company qualify for being taken into account as part of the bargaining situation companies are in. (Given the limitations of this article, I will not elaborate on the criteria that allow for a differentiation in this respect in detail here; however, there is a whole strand of literature on NGOs and transnationalism that allows for such a differentiation according to quite strict criteria (see for example Klein, Walk, & Brunnengräber, 2005)).

Alternatively or additionally, the presence of a strong business association can render collective action problems and thereby alter the overall incentive structure for companies, if the business association is willing and able to make the goals set out by a CSR-PPP part of its own organizational agenda. As data collectors and service providers they may be able to effectively monitor companies. And empirical research on real-world free rider problems has shown that effective monitoring can drastically reduce the risk perception of actors that are confronted with it (see Ostrom, 1990; Ronit et al., 2000). Moreover, as some business associations have access to political macro-variables via their participation in negotiations rounds with government agencies, they can also threaten individual companies in case of non-compliance to disregard their interests in the future (see Schmitter et al., 1981; Ronit et al., 2000). Again, not all business associations in the environment of a company qualify for being considered in this respect. Only the strong ones that managed to build up substantial organizational capabilities and developed at least partly their own organizational logic are eligible cases (see Schmitter et al., 1981).

## **THE MODEL AT WORK: MINIMUM REQUIREMENTS FOR CSR-PPPs IN THE LARGE RETAILER INDUSTRY SECTOR**

Having defined the basic elements of the model, the task is now to show how it can be utilized for the drafting of predictive explanations. As an illustrating example, I choose the large retailers already discussed in the section before. It is an especially interesting case due to the substantial collective action problems that the companies seem to face among themselves in the attempt to implement core labour and social standards in their textile and clothing supply chains by participating in CSR-initiatives. The question thus is: What are minimum requirements in institutional design for CSR-PPPs that enter Bargaining Situations 1-4 to alter the incentive structure for companies in a way that compliance will be the outcome? Answers will be given in form of hypotheses in greater detail below; the overall result, however, is summarized in figure 2:



## Minimum Requirements for Compliance of Retailers with Labour Standards

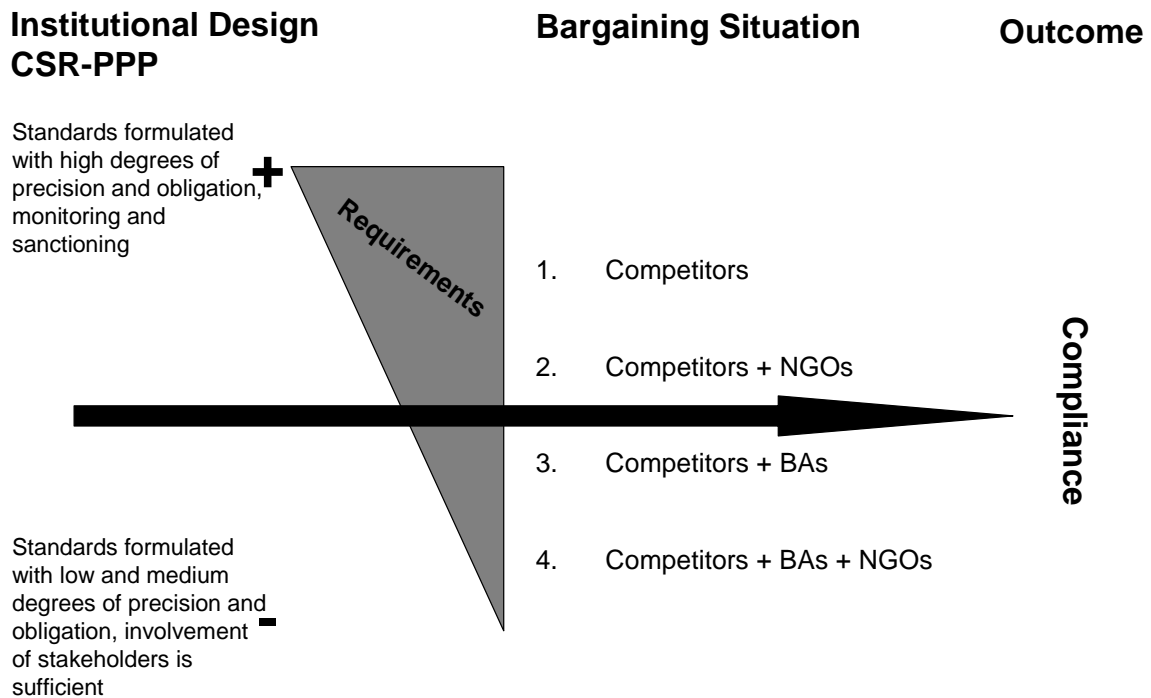


Figure 2: Propositions for CSR-PPPs addressing labour rights in the retailer industry sector

**Hypothesis 1:** *In Bargaining Situation 1, necessary conditions in the institutional design of CSR-PPPs for compliance of participating retailers are that*

- *the standards set out in the regulative dimension are formulated with utmost precision and obligation and*
- *that the procedural dimension entails the employment of strong monitoring mechanisms (that is, unexpected auditing and in addition to that, an independent ombudsman to whom employees can send their complaints anonymously and who reports non-compliance to the steering body of the CSR-PPP) and at least some credible threat for sanctions in case of non-compliance (such as withdrawal of membership or the publication of the reports of the monitors and ombudsman).*

**Hypothesis 2:** *In Bargaining Situation 2, the necessary condition is that the standards set out in the regulative dimension are formulated with utmost precision and obligation, and that, in addition to that, the procedural dimension at least enforces the sharing and disclosure of the most relevant information concerning the compliance measures taken by companies with the NGO community and stakeholders effectively.*

**Hypothesis 3:** *In Bargaining Situation 3, the sufficient conditions are that*

- *the standards set out in the regulative dimension define targets well (the Aim and the Attributes, but not necessarily Conditions) and with high degrees of obligation and*



- *the procedural dimension assigns substantial governance capacities (that is, actively negotiates with the business association and company representatives over the formulation and way of implementation of the sector-wide code of conduct drafted by the association to ensure compliance with the CSR-PPP; to this end, the governing body needs expertise and vetoing power) to the public partner or the steering committee of the CSR-PPP has.*

**Hypothesis 4:** *In Bargaining Situation 4, the sufficient conditions are that*

- *the regulative dimension sets out standards that define targets (that is, the Aim and the Attributes, but not necessarily Conditions) well and with at least medium degree of bindingness and that*
- *the procedural dimension enforces the sharing and disclosure of the most relevant information concerning the compliance measures taken by companies with the steering body of the PPP, the NGO community (including stakeholders), and competitors.*



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