Corporate Social Responsibility as a Market Governance Mechanism: Any implications for Corporate Governance in Emerging Economies?

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Abstract

Markets sometimes fail and require public policy interventions to prevent failure and/ or to recuperate. These interventions might include Corporate Social Responsibility (CSR) in the form of self-regulation. However, the understanding of CSR as a public policy instrument is very tenuous in management scholarship. Based on the perspective that firms are market agents, and markets are essential features of the capitalist political economy, this paper espouses the primary role of CSR as a market governance mechanism, and articulates the potential of this view for shaping corporate governance discourse and practice in emerging economies.

Key words: *Corporate Social Responsibility; Public Policy Instruments; Capitalist Political Economies; Governance of Externalities*

"For all the increasing importance of CSR, public policy remains the most important vehicle by which private business purposes and broader social objectives can be reconciled" (Moon and Vogel, 2009:318).

INTRODUCTION

Firms and markets often fail for several reasons, especially when they are unable to meet the public interest test or when they give rise to negative impacts borne by third parties. The scale of the 2010 BP oil spillage disaster in the Gulf of Mexico, coming on the heels of the near collapse of the global financial system in 2007/8, highlight the profound and far reaching impacts of corporate activities on society. In both cases, there were negative spill-over effects mainly borne by people who did not cause the problems in the first instance.

Traditionally, markets have been governed through such fiscal mechanisms as taxation, subsidies, quotas, and incentives as well as by hard law – e.g. outright ban of a market practice in order to avoid third party costs. More recently, self-regulation – of which corporate social responsibility (CSR) is one variant – is gradually being recognised as an effective and complementary mechanism to govern the market through non-prescriptive regulation (Vogel, 2008). However, the choice and mix among different market governance mechanisms has always been a challenge for policy makers. For instance, the case examples cited above raise concerns about market failure, because of the third party costs they generate, and their public policy implications. In particular, they draw attention to the contemporary complexities of market governance compounded by globalisation and the heightened interest in CSR as a form of corporate regulation and an alternative to hard regulation. In addition, they raise further questions on how far hard regulation should go without stifling the market for innovation, and challenge the role of CSR, increasingly positioned in mainstream management literature as a profit-promotion mechanism, in governing economic actors who are mainly driven by the pursuit of private interests.

Despite the proliferation of CSR in both research and practice, it has remained a fuzzy concept (Devinney, 2009; van Marrewijk, 2003; Gobbels, 2002; Henderson, 2001) and open to conflicting definitions, interpretations and practices (Windsor, 2006; Okoye, 2009). One perspective has focused on the core ethical and societal motivation for CSR, but always within the context of the profitability and sustainability of the business firm. For example, the EU definition of CSR as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' (EU,[2]) and Carroll's (1991:42) view that "…the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen" are widespread. McWilliams and Siegel's (2001:117) summarize these perspectives by describing CSR as "… actions that appear to further some social good, beyond the interests of the firm and that which is required by law".

More recently, however, CSR literature has begun to emphasize the "strategic" aspects of CSR in the pursuit of enlightened self-interests, focusing increasingly on the ability of CSR to support and advance firm profitability via reputation enhancement or operational improvement or both. An aspect of this research stream has sought to establish a link between CSR, and corporate financial performance, with somewhat mixed success (e.g. Baron, 2009; Hull and

[2] http://europa.eu.int/comm/employment_social/soc-dial/csr/csr2002_col_en.pdf p.4 visited on April 8, 2003.

Rothenberg, 2008; Mackey, Mackey and Barney, 2007; Margolis and Walsh, 2003; Orlitzky, Schmidt, and Rynes, 2003).

Given a traditional view of CSR as emanating from firm or individual ethics or values, and the more recent tendency to see CSR as a means to promote firm financial performance, management scholarship appears to inadvertently marginalise and occlude the view of CSR as primarily a market governance mechanism. Rather than viewing CSR as a core ethical obligation or a means to "do well by doing good," a public policy and market governance view of CSR would conceptualise it as a form of corporate self regulation (Graham and Woods, 2006; Woods and Brown, 2007; Vogel, 2008; Midttun, 2008; Mattli and Woods, 2009), especially with regards to the private governance of corporate externalities (Vogel, 2005; Crouch, 2006; Utting and Marques, 2009), which are often necessitated by market failures within capitalist political economies.

A market governance perspective of CSR would first seek to understand private firms and their actions in the broader context of society and the pursuit of public interests (Moon and Vogel, 2009). From this perspective, this view articulates the role of firms and their self-regulation not only as private political actors (Scherer and Palazzo, 2009, 2010) or corporate citizens (Crane, Matten and Moon, 2009), but as a complementary and relevant market governance mechanism, especially where conventional market governance mechanisms (e.g. taxation, quotas, incentives, sanctions and or outright bans) are not entirely sufficient. Windsor (2006) describes this as the 'expansive public policy' role of CSR, which is important in shaping CSR discourses and practices, but often marginalised in management literature.

In this paper, we advance this latter view via a discursive process (Phillips et al., 2004) in order to draw attention to and re-emphasise the public policy role of CSR as a market governance mechanism, (Vogel, 2005; Crouch, 2006; Utting and Marques, 2009). In line with Crouch (2006:1534), we begin with the view that CSR is a "…behaviour by firms that voluntarily takes account of the externalities produced by their market behaviour…". We then summarize the two principal streams of CSR literature that have focused on (1) its role as an extension of individual and organizational values, and (2) the role of CSR as a contributor to firm financial performance, pointing out the shortcomings of these two perspectives and the relevance of a third perspective which considers CSR as a market governance mechanism. We subsequently present an overview of the concepts of public governance and regulation in order to provide a background for market governance and the role of CSR, as self-regulation, in capitalist political economies. We finally explore the implications of this view for the emergent literature on comparative CSR, especially with regards to CSR discourse and practice in weak and emergent capitalist political economies.

ETHICAL AND STRATEGIC CSR: A REVIEW AND RECONSIDERATION

While the literature on CSR is extensive, it is also unsettled. Beginning as a normative commentary on the broader role of business in society, the CSR literature has evolved in a number of distinct but complementary directions.

CSR as Ethical Decision-Making

In his review of the history of CSR literature, Carroll (1991) cites Bowen's (1953:xi) work as the progenitor of modern definitions of CSR, asking "What responsibilities to society may businessmen reasonably be expected to assume?". Bowen (1953) proposed an initial definition, which was founded in assumptions of the moral and ethical obligations of individuals. According to Bowen, CSR "... refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6). Here Bowen referred to *Fortune* magazine's survey (1946, as cited in Bowen, 1953:44), wherein the magazine's editors thought that CSR, or the "social consciousness," of managers meant that businessmen were responsible for the consequences of their actions in a sphere somewhat wider than that covered by their profit-and-loss statements (cited in Bowen, 1953:44). It is significant to note that 93.5% of the businessmen responding agreed with the statement.

Carroll (1991) further cites other scholars whose work reflected Bowen's conceptualization: including Selekman's (1959) *Moral Philosophy for Management*; Heald's (1957) *Management's Responsibility to Society: The Growth of an Idea*; and Eells' (1956) *Corporate Giving in a Free Society*. These early perspectives on CSR were firmly lodged in broader philosophical and ethical ideas about individual responsibility and obligation, and defined much of the early research and writing on CSR.

Carroll (1991) also notes another trend in the 1960s and 1970s in which definitions and research focused on manager's obligations "beyond" what would otherwise be expected. For example, he cites Davis's (1960:70) contention that CSR refers to "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" with Frederick (1960) arguing that social responsibilities required businessmen to oversee the operation of an economic system that fulfills the expectations of the public. And this means in turn that the economy's means of production should be employed in such a way that production and distribution should enhance total socio-economic welfare.

As CSR definitions moved from the individual to the organizational, definitions broadened. McGuire (1963:144) argued that "The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations". Davis (1967:46) also suggested that "The substance of social responsibility arises from concern for the ethical consequences of one's acts as they might affect the interests of others".

Finally, Carroll (1983:604) offered perhaps the most comprehensive and holistic definition of CSR when he suggested that:

> In my view, CSR involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible . . . then means that profitability and obedience to the law are foremost conditions to discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent. Thus, CSR is composed of four parts: economic, legal, ethical and voluntary or philanthropic.

CSR as Stakeholder Management

While the concept of CSR continued to evolve through the 1970s and 1980s, a critical development occurred when the concept of stakeholder management appeared in the 1960s and 1970s. According to Schwarts and Carroll (2008:160), Jones and Wicks (1999:207) describe several key elements of stakeholder theory as follows:

1. the corporation has relationships with many constituent groups ("stakeholders") that affect and are affected by its decisions (Freeman, 1984);
2. the theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders;
3. the interests of all (legitimate) stakeholders have intrinsic value, and no set of interests is assumed to dominate the others (Clarkson, 1995; Donaldson and Preston, 1995); and
4. the theory focuses on managerial decision making (Donaldson and Preston, 1995)

Stakeholder theory thus focused on an even broader and more holistic view of CSR and the obligations of corporations to society, with a number of variants emerging that attempted to isolate "normative" and "instrumental" underpinnings of the stakeholder approach; and "convergent" perspective, which attempted to show how the two could be integrated (Jones and Wicks, 1999). Further, scholars attempted to develop highly actionable frameworks of stakeholder theory that would allow managers to classify, stratify stakeholders according to their relative "salience" (Mitchell, Agle, and Wood, 1997).

Throughout this period, conceptualization of CSR as stakeholder theory reaffirmed the instrumental view of stakeholder management and fully included shareholders as key stakeholder, going so far as to identify them as one of the most critical "primary" stakeholders of the firm.

CSR as Firm Strategy

Most recently, CSR has evolved even further to be viewed as a strategic or instrumental tool of the firm. This view has come to increasingly dominate the CSR literature, with important implications for collective understanding about the role of business in society.

Strategic theories of CSR (McWilliams, Siegel, and Wright, 2006) assert that a company's social practices are integrated into its business and corporate-level strategies. Baron (2001) coined the term "strategic CSR" and argued that companies compete for socially responsible customers by explicitly linking their social contribution to product sales.

The strategic or instrumental view of CSR has generated a series of studies (well over 100) that have sought to link various aspects of the social performance of firms to their financial performance. Waddock and Graves (1997) find that corporate social performance (CSP) and financial performance (CFP) are positively related, reasoning that good performance in the social arena is indicative of good management practice which, in turn, yields better financial performance. Orlitzky, Schmidt, and Rynes (2003) conducted a comprehensive meta-analysis of the relationship of CSR and financial performance. They concluded that CSR generates positive financial returns, although alternate operationalizations of CSP and CFP moderate the positive association. Specifically, CSR appears to be more highly correlated with accounting-based measures of CFP than with market-based indicators. This meta study finds that the path through which CSR leads to CFP is via reputation effects rather than other operational influences.

A recent meta analysis found that the overall effect of CSP on CFP was positive but small. Further, the study found and as much evidence for reverse causality (e.g. CFP leading to CSP) as the opposite (Margolis, Elfenbein and Walsh, 2010). These authors concluded that the exhaustive and never-ending efforts to establish a CSP-CFP link would be better directed at understanding why companies pursue CSP, the mechanisms connecting prior CFP to subsequent CSP, and how companies manage the process of pursuing both CSP and CFP simultaneously. Margolis, Elfenbein and Walsh (2009:33) conclude that:

> The contribution any corporate practice makes to economic welfare cannot alone justify that practice. Principles of justice indicate that advancing economic welfare cannot justify the suspension or violation of other rights and duties (Rawls, 1974), which have as strong a moral claim upon corporate conduct as does the pursuit of its financial objectives.

We believe that the endless search for a CSP-CFP linkage obscures the potentially broader and more important role of CSR as a market governance mechanism, which is not necessarily a profit-promoting mechanism, as often presented by the “strategic” view of CSR. Based on the perspective that firms are market agents, and markets are essential features of the capitalist political economy, we review in the next section some contextual features of contemporary capitalist systems and integrate the previous discussion of the limitations of the "strategic" view of CSR in order to develop our perspective on CSR as a market governance mechanism.

CAPITALIST POLITICAL ECONOMIES AND GOVERNANCE

Contextual Features and Characteristics

Contemporary capitalism, as an economic thought, could be traced to the works of classical economists such as Adam Smith, David Ricardo and John Stuart Mill. It is a culture of economic coordination that places significant emphasis on individual freedom and the free pursuit of self interests for profit accumulation (Swedberg, 2003). Although all economies involve production, distribution, and consumption, Swedberg (2003:58) argues that: "What distinguishes capitalism from other economic systems is primarily the way in which distribution is organized: as exchange in the market and not as reciprocity or redistribution … (and)…the continuous reinvestment of profit into production". Thus, the neoclassical version of capitalism takes the centrality of markets seriously and places significant emphasis on the virtue of markets as free and perfect social exchange spaces and institutions.

Despite the emphasis on markets, the capitalist system is also made up of a range of other institutions, which include: "…the firms as institutions of production, and the state as the creator and regulator of the institutions governing their relationships (while itself being a political institution), as well as other informal institutions such as social convention" (Chang, 2003:8). The primary purpose of these institutions is to coordinate and allocate resources in a way that ensures societal stability, progress and development; and thus, could be narrowed down to what Streeck and Schmitter (1985) described as the three ideal-typical principles of coordination and allocation: “dispersed competition” (Market), “hierarchical control” (the State, as well as the firm), and “spontaneous solidarity” (Community).

However, there could be debates and tensions as to how these institutions should be configured and operate in any society – i.e. debates over how free the market should be without the interventions of the state and community; and to what extent the market should internalise its externalities on both the state and the community (Chang, 2003). In some cases, the primacy of markets over the other institutions is advocated for, and in some instances others argue for the supremacy of the state over the other institutions as the main source of governance in the form of law and order necessary for the functioning of both markets and communities (Streeck and Schmitter, 1985). The possibility of combining and recombining these institutions with different degrees of calibrations has given rise to different capitalist political economies. The practice of capitalism in different societies and economies, therefore, becomes a function of national history, culture, philosophy and ideological tastes (Redding, 2008; Witt and Redding, 2009).

There is an already established literature on comparative capitalism that explores the institutional configurations of different varieties of capitalism and national business systems (for example see: Whitley, 1999; Hall and Soskice, 2001; Dore, 2000; Amable, 2003; Hall and Soskice, 2001; Fiss and Zajac, 2004; Crouch, 2005; Hancke et al., 2007). The central theme of the varieties of capitalism model, for instance, is the macro-economic dichotomization of institutional contexts in which firms operate, based on such indices as legal and governance systems, sources of finance and skills, and other socio-legal indices like degree of labour unionisation and incursions of regulatory authorities. It is not uncommon in comparative capitalism literature to stylise coordinated market economies (CME) as stakeholder oriented and liberal market economies (LME) as shareholder oriented (Dore, 2000). The CME is society oriented and firms within it focus on meeting a broad range of stakeholders' needs (e.g. employees, suppliers, shareholders, etc), whereas the LME is market oriented and focuses more on meeting shareholders needs than those of any other stakeholder groups (Dore, 2000; Amable, 2003; Hall and Soskice, 2001; Fiss and Zajac, 2004; Jackson, 2005; Hancke et al., 2007). Japan and Germany are thought to be prime examples of CME whereas UK and the USA are prime examples of LME. In this regard, proponents of the varieties of capitalism theoretical view argue that different national and institutional contexts provide some sort of comparative advantages to firms within them. This theoretical framework has been applied to the study of capitalist political economies outside the Anglo-Saxon world – for example, Latin America (Schneider, 2008), Africa (Woods and Frynas, 2007) – and the role of business in the society (Matten and Moon, 2007).

Notwithstanding these subtle differences, most advanced capitalist economies are characterised by: (a) strong rule of law; (b) a functioning state; (c) strong market institutions; and (d) freedom of speech and association (see table 1 below).

--------------Table 1 Here -----------------

These basic elements of the capitalist political economy could be described as a collective apparatus of institutional accountability. They work in tandem and re-enforce one another. The markets provide or deny finance to the state and the state in turn regulates the markets. Essential societal services that could not be provided through the market, due to market failure, are complemented by the state and or the civil society. And the civil society in turn is free to hold the state and the market to account whenever necessary. All these interactions among and between the different elements are founded on and bounded by the rule of law embodied in free and fair legal institutions. The combinatory strength of each of these elements constitutes the distinguishing hallmark of the advanced capitalist economies. Weak capitalist political economies usually arise where one or more of collective apparatus of institutional accountability does not exist or is undermined (Wood and Frynas, 2006).

In sum, therefore, the stability, transformation and/or sustenance of particular configurations and characteristics of different capitalist political economies will to a large extent depend on the mix and complementarity of public governance and regulatory mechanisms within these economies (Crouch et al., 2005). And we simultaneously argue that CSR, as a self-regulatory mechanism, is part and parcel of these public governance mechanisms, which we now turn our attention to.

Public Governance, Regulatory Mechanisms and CSR

Peters (1997:51-52), articulates public governance as "…a more general term for providing direction to the society". It is a generic form of control or coordination, which goes beyond those provided by the government , as "…the conventional institutions and processes of the public sector" (Peters, 1997:51), to include both formal and informal control or coordination from other sources, actors and institutions in the society – e.g. markets, business networks, communities, families, civil society, et cetera. This approach to public governance is not equivalent to governance by public authorities but refers to the governance of the public space involving an 'interdependence between organizations', and broader than government and includes non-state actors (Rhodes, 2007). In other words, public governance is a spatial concept that accepts the existence of "multiple authorities that are not necessarily public" (Mőrth, 2006:123); and while government is exclusively state and a function of public institutions of the state, public governance encompasses governmental institutions and non-governmental mechanisms, persons, and organizations (Rosenau, 1992:4-5). This understanding of public governance underpins the new governance movement (Moon, 2002), which recognises the existence and role of private authorities in formulating, influencing, shaping and driving public policy. It also brings to the fore the subtle distinction between public and private spaces of governance.

The public space of governance, in the main, refers to issues, decisions and actions relating to, concerning or affecting the whole of the people or area of a state or a nation or a section of either as a political entity. Public space occupiers include government agencies and elected and appointed officials exercising political authority as well as other persons and bodies that perform functions and services of a governmental character. Private space of governance, in contrast, refers to issues, decisions and actions confined exclusively to particular persons, groups or area lacking the constitutive element of the state, nation or a section of either political entity. Private governance is an arena occupied by nongovernmental social and economic actors and groups. These actors share a common identity of "non state actors" (Lipschutz and Fogel, 2002: 116-117), but vary in scope, influence, effect and functional responsibility.

The emphasis on functional responsibility demonstrates that, governance, rather than government, suggests an affinity with regulation. A broad definition of regulation indicates "principles or rules which aim to govern the behaviour of entities or individuals that are subject to them" (Ferran, 2001:384), while a narrow approach argues that regulation is concerned with "valued activities" (Ogus, 1994:1). Both the broad and narrow views of regulation implicitly recognise a regulating role for private actors and groups; and whichever approach is taken, private regulation implies a functional role usually but not necessarily exclusively occupied by state actors or public institutions as there are spaces for private actors and groups. Although regulation is obviously understood in the public institutional context of legislative mandate, administrative agency and judicial interpretation of rules, diverse private forms of regulatory authority exist and are still emerging (Lipschutz and Fogel, 2002:125; Cutler et al, 1999). As a result, one can define regulation as a deliberate and defined control of valued activity by a public agency or a private body.

When apparently private social or economic actors move from passive participation in public affairs to active involvement in public policy, a functional role in governance and regulation exists as either or both part of the process and consequences. This functional responsibility is not restricted to its source. Targets of private regulatory authorities can extend from private actors to public institutions in the bid to promote desired local and international rules and ensure compliance with them (Lipschutz and Fogel, 2002:116-117). This is, at the least, a tacit acknowledgment that regulation is not an exclusive public institution role while private regulatory authorities can and do exist. Regulation certainly includes public laws enforced by a state or government agency; but it may also include private arrangements, and even social norms, principles and customs (Lipschutz and Fogel, 2002:118). The critical factor is not the nature of the actor but the fact that the process and result of such private arrangements, norms, principles and customs are directed at and attract public policy implications. A definition of regulation "in the context of a public agency" (McGee, 1999: 145) as "sustained and focused control exercised by a public agency over activities that are valued by a community" (Selznick, 1985:363) is, therefore, too narrow and cannot convey an appropriate scope of the concept of regulation.

Whether public or private, regulation within the governance structure is essentially purposive and targeted at implementing collective goals. Nevertheless, governance has a dual component structure and requires both regulation and enforcement to complete the picture. While regulation sets standards and rules of conduct, the enforcement regime translates those rules and standards into social reality (Yeung, 2004:3). The implication is that the effectiveness of a governance structure is measured by reference to the regulation and enforcement components. Effective enforcement is, therefore, critical to the success of regulatory regimes.

'Rules' establishment is the first stage in regulation. Public economic governance relies on rules established and enforceable by state and governmental authorities. A state actor or public institution can make use of legally binding and soft rules. Soft rules occupy a middle position between "general policy statements and legislation" within regulation (Mőrth , 2006:120). Although lacking legal force, such rules have “practical effects” (Synder, 1993, 198; Mőrth, 2006:120). Nevertheless, rules, whether or not legally enforceable, ordinarily relate to the three key elements of regulation which are “standard-setting, behaviour modification and information gathering” (Lodge, 2004: 127). Authority for regulation in the sense of these three elements is not necessarily associated with state actors or government institutions (Friedman, 1990:64). The implication is that the state can no longer be assumed as the sole source of regulation; in some cases, it may be clear that the state may not even be the principal regulator (Hall and Biersteker, 2002:5; Ogus, 1994:1-3).

Private actors and groups can also set standards, establish rules, and gather information to ensure understanding and adherence. Just like state actors and public institutions, they can establish and enforce legally binding rules primarily using private contracts. For example, clauses relating to CSP and social matters such as relationship with employees and host communities are increasingly included in supply chain contracts, and parties are now more inclined to enforce such clauses (McBarnet and Kurkchiyan, 2007:77-83). Contractual undertakings can be enforced by recourse to litigation and alternative dispute resolution mechanisms where there is appropriate agreement by the parties. Non-state regulatory actors can also make use of soft rules in a manner similar but not identical to public instruments. Within private regulation, soft rules are simply “non-hierarchical rules that are not legally binding” (Djelic and Sahlin-Andersson, 2006:248). They may be largely but not necessarily or exclusively dependent on reciprocity. As a reciprocal arrangement, however, soft rules usually constitute elements of self-regulation and co-regulation, and may include voluntary and lack sanctions-lacking standards, codes of conduct, recommendations and guidelines

(Djelic and Sahlin-Andersson, 2006:247). Tacit norms, conventions and cultural beliefs are other examples of private regulation in economic governance (McNichol, 2006:351).

Notwithstanding that the obvious understanding of regulation seems to, naturally, point to some form of governmental intervention at the least, evidence of "authoritative decision making" by private actors and groups is increasing (Cutler et al, 1999:16) in diverse areas. Economic governance is one of such areas. Within the sphere of economic governance, regulatory activity may be interpreted in three ways. First, in a narrow sense, regulation may be regarded as "the promulgation of an authoritative set of rules, accompanied by some mechanism typically a public agency, for monitoring and promoting compliance with these rules" (Jordana and Levi-Faur, 2004:3-4). Secondly, regulation may refer to "all the efforts of state agencies to steer the economy" (Jordana and Levi-Faur, 2004:4). In this broader middle ground approach, regulation includes both rule making and measures such as taxes, subsidies, public ownership and redistribution of property. In the third and broadest sense, regulation covers "all mechanisms of social control, including unintentional and non-state processes" (Jordana and Levi-Faur, 2004:4). This broad approach extends the scope of regulation to "anything producing effects on behaviour [even] without mechanisms for monitoring and enforcement" (Baldwin et al, 1998:4). In contrast to the first and second approaches, this model of regulation implicitly recognises spaces for private actors and groups in economic governance.

This model has been corroborated by evidence and practice which demonstrate that regulation is not the exclusive preserve of state actors and public institutions. Evident in several areas is the "fluidization of regulatory space"

(Lipschutz and Fogel, 2002:122). Historical accounts demonstrate varying degrees of private public policy involvement in economic governance (Braithwaite and Drahos, 2000; Murphy, 1994). Public and private regulators have existed in different areas of economic activity although the regulatory agendas may be diverse and dynamic. Several historical examples abound of activities “governed by customs, laws, and contracts among and between individuals and groups, often but not always with the approval or support of the state” (Lipschutz and Fogel, 2002:121).

Whether in setting agendas, rules and monitoring mechanisms, private economic governance roles are apparently increasing. Modern economic governance proves, as a fact, that “regulatory arenas go beyond governments” (Radaelli and Francesco, 2007, 16). Reasons for the emergence and expanding role of private regulation include deregulation, privatisation, and delegation of regulatory power to private organisations, business associations or agencies (Cutler, 2002). As Morss (1991:55) has rightly observed, “[t]he era in which nations rule the world is over…[since] three groups have joined nations as important global players: transnational corporations, international organisations, and special interest groups.” Civil society and interest groups at local, national and international levels are increasingly influential actors in economic governance (Engwall, 2006:165). In addition to regulation from state and public institutions, the freedom of modern firms is also limited by threats of civil litigation and pressures from the media, public opinion and other external stakeholders (Smith and Walter 2006:48).

However, the public regulation of firms often comes with implementation costs borne by firms and enforcement costs borne by regulators, both of which contribute to an increase in the overall social costs. It is acknowledged that the state does not enjoy a 'monopoly of wisdom', and may sometimes get things wrong or be hijacked by some elite groups, as it is evident in some developing democracies. This has led to the call for 'smarter regulation' (Baldwin, 2005). Here, CSR positions itself as a smarter and voluntary complementary (and in some extreme cases as an alternative) public governance instrument to the hitherto existing governance mechanisms of corporate externalities. It does this by positioning as a self-regulatory or private governance mechanism, which has been extensively discussed so far. The possible implications of this articulation of CSR as a market governance mechanism for the re-theorisation and practice of CSR are discussed below.

CSR AS A MARKET GOVERNANCE MECHANISM: IMPLICATIONS FOR THEORY AND PRACTICE

Articulating CSR as a market governance mechanism will have implications for both theory building and practice. Firstly, it is no gainsaying that the capitalist political economy model has leveraged globalisation to become the dominant, as well as the idealised, global mode of economic coordination, especially with the decline of the competing socialist political economy model since the late 1980s, as a viable alternative (Kang, 2006). As such, the capitalist political economy has, to a large extent, become the global yardstick for assessing responsible and irresponsible business behaviours in the management literature, despite the differences in national socio-economic cultures and institutions. We shall explore what this could mean for understanding CSR in different institutional contexts.

CSR, Market Governance, and Economic Systems

We have argued in this paper that the economic governance institutions will in most cases be configured to the tastes and preferences of a particular society. Based on this line of thinking, economic systems could be classified as either weak or strong (Aguilera and Jackson, 2003), a success or failure (Wood and Frynas, 2006), depending on how much they reflect the essential characteristics of the advanced capitalist political economies – i.e. functioning, independent and free markets, governments, civil societies and legislative institutions. It is therefore surprising that most major CSR theoretical frameworks and discourses in the management scholarship often assume strong institutional contexts in their accounts.

Aguilera and Jackson (2003:247), for instance, developed "... a theoretical model to identify and explain the diversity of corporate governance across advanced capitalist economies", while Matten and Moon (2008:406) in their theorisation of the explicit and implicit model of CSR assumed "…some basic institutional prerequisites for CSR" founded on the essential characteristics of the advanced capitalist economies:

> *First, we assume a functioning market in which corporations have discretion over their responses to market, social, or political drivers. Second, we assume functioning governmental and legal institutions that guarantee, define, and administer the market and act on behalf of society to address instances of market failure. Third, we assume*

> *that these institutions neither capture nor are captured by market actors. And fourth, we assume a civil society that institutionalizes and articulates social values and preferences, to which government and market actors respond (Matten and Moon, 2008:406)*

Even if one accepts the view that "…CSR is located in wider responsibility systems in which business, governmental, legal, and social actors operate according to some measure of mutual responsiveness, interdependency, choice, and capacity" (Matten and Moon, 2008:407), it invariably leads to some uneasiness with regards to the role of the so-called CSR practices in institutional contexts marred by inefficient markets, poor governance and weak civil societies. Even if one, also, accepts the point that CSR can be enacted where there are no "…markets and business autonomy, as demonstrated by myriad cases of individual, family, tribal, religious, charitable, and feudal responsibility…" (Matten and Moon, 2008:407) it raises further questions with respect to the usefulness and relevance of CSR practices in different institutional contexts with different histories, cultures and ideological tastes, in the face of the growing tendency to globalise CSR practices articulated within advanced capitalist economies, as the panacea for most global challenges – including poverty, inequality, human rights abuses, climate change, *et cetera* – especially in developing economies.

In other words, the assumption of strong institutions in the theorisation of CSR in management literature is problematic *per se* given that these theoretical models are not easily applicable to understanding CSR in weak and fragile institutional contexts where governments are weak, markets inefficient, civil society almost non existent, and firms prone to generating negative externalities and free-riding. For example, a good number of multinational enterprises (MNEs) in developing economies are often looked upon by their host countries with great suspicion. They are perceived as economic raiders, who are mainly interested in repatriating wealth to their home countries, while doing very little to empower the citizens of their host countries (Meyer, 2004; Oetzel and Doh, 2009). In addition, MNEs are frequently accused of exerting negative influences on local politics (Rodriguez et al., 2006; Frynas et al., 2006), and stifling competition (De Backer, and Sleuwagen, 2003). Some of these negative perceptions, which are, unfortunately, supported by research evidence, tend to overshadow the fact that MNEs are equally great sources of economic opportunities: they create jobs (Ramamurti, 2004), transfer technologies (Teece, 1997; Gunther, 2002) and create wealth (Prahalad and Hammond, 2002). The negative views associated with MNEs, especially in developing economies, generate tensions between them and their host countries, and thus challenge their quest for legitimacy.

The Global Application of CSR as Market Governance

Where attempts are made to articulate CSR as a market governance and public policy mechanism in the management literature, they have often assumed a global playing ground in the form of global public policy networks (e.g. Detomasi, 2006). This view appears to place significant emphasis on globalisation and its consequent global governance void (Scherer and Palazzo, 2010) to the detriment of national governance spaces and political economies. Despite the intellectual attractiveness of this perspective, available evidence tends to suggest that CSR practices can only "…work, for *some* people, in *some* places, on *some* issues, *some* of the time." (Newell, 2005:556); and the effectiveness of current practices of corporate self regulation in transnational social spaces (Morgan, 2006) with little or no equivalent transnational governance mechanisms (Djelic and Quack, 2008) is questionable (Graham and Woods, 2006:868). Moreover, acknowledging the homogenising effects of globalisation does not necessarily spell the end of nation states and the peculiarities of their economic governance institutional configurations. National business systems do not disappear, but rather find new and innovative ways of internalising the influences of globalisation while retaining their distinctiveness (Whitley, 1999, 1998). National business systems, therefore, offer a very fertile ground to articulate CSR as a public policy instrument from within the tenets of advanced capitalism in different nation states, which could then be extended to the global arena.

Moreover, the global issues and pressures associated with globalisation, coupled with the growing concerns of poverty, corruption, inequalities and sustainable development in most developing economies, challenge the role and purpose of MNEs in the global world order. They tend to unsettle most familiar socio-economic institutional arrangements, which implies that the neat divide between the responsibilities of firms, markets and nation-states in both politics and economics has been blurred by the globalisation process and its consequent discontents (Stiglitz, 2002). As a result, global firms appear to be directly or indirectly compelled, by some external actors (e.g. NGOs, international organizations, and pressure groups), to fill in the transnational governance gap for nation-states, especially in developing economies with weak and fragile institutions that are incapable of governing the activities of MNEs. The MNEs are, therefore, encouraged to be more socially responsible and transparent in their practices. This subtle compulsion often reveals itself in the growing trend of CSR as self-regulation (Graham and Woods, 2006; Woods and Brown, 2007; Vogel, 2008; Mattli and Woods, 2009) and the private governance of corporate externalities (Crouch, 2006), which needs to be further integrated into mainstream management scholarship.

CSR across Institutional Contexts

Articulating CSR as a complementary governance mechanism suggests that it both shapes and is shaped by the other governance mechanisms within an institutional context. Although comparative CSR literature has in the main focused on how CSR practices are enabled and constrained by their institutional contexts (Matten and Moon, 2008; Campbell, 2007; Aguilera et al., 2007), it also sometimes tends to position firms and their CSR practices as passive recipients and responses, respectively, to the demands of their institutional contexts. Whilst this might be true of CSR practices in most advanced capitalist economies with strong governance of corporate externalities institutions[3], from which most of the CSR analytical frameworks have been framed, it is also recognised that firms are not just passive recipients of institutional norms and practices (DiMaggio and Powell, 1983) – they are also institutional actors (Giddens, 1984; Borsch, 2004) and entrepreneurs (Lawrence and Suddaby, 2007; Dahan et al., 2006; Crouch, 2005) capable of setting 'hegemonic and pragmatic agenda' (Gray, 2002).

[3] For instance, the governance of corporate negative externalities such as child labour, environmental pollution, employee welfare, consumer protection, and labour conditions, are already hardwired in the institutional governance of most advanced capitalist economies, while these are still issues in most developing (or weak) capitalist economies. However, this allows firms in advanced capitalist economies to look for innovative and creative ways of coping with the tensed interactions amongst the different institutional governance mechanisms.

A good example of this scenario would be the entrepreneurial influences of most MNCs on some organisational fields, especially in developing economies. The oil and gas sector in Nigeria, for instance, is heavily driven more by global rather than local practices (Ite, 2004, 2005; Frynas et al., 2006; Frynas, 1999), since the major actors in the sector are MNEs who tend to retain their home country influences, albeit with slight modifications (Whitley, 1999). In this regard, multinational actors could be conceived as institutional entrepreneurs "…who skilfully use institutional logics to create or change institutions, in order to realize an interest that they value highly" (Leca and Naccache, 2006:634). And in such instances, "…companies turn away from the national context and develop their own local governance structure. If the national institutional structure is seen as non-adequate or 'non-fitting' to deal with sectorally specific terms of competition, then the internal and external coordination of companies – in reaction to challenges posed by the market – is likely to deviate from the national structure" (Crouch et al., 2009).

Whilst this is possible, it raises moral questions as to whether firms strategically exploit lapses within their institutional contexts for their advantage, or contribute to building and enhancing governance institutions for a more progressive society. Given this concern, we recognise the complementarity function of CSR in capitalist economies and articulate complementary CSR as any corporate practice that supports the institutional pillars of the capitalist political economy to create a 'just and fair' society (Fligstein, 1996), while a non-complementary CSR is any corporate practice that undermines or crowds out the positive effects of any of these institutional pillars of the capitalist political economy (see Wiig and Kolstad, 2010's account of CSR in Angola for example).

Notwithstanding, these changes are more likely to be sticky rather than rapid or step changes given that large scale and far-reaching changes would require "…considerable institutional restructuring and realignment of major societal interests…[which] are unlikely to develop simply as a consequence of internationalization, or to occur within one or two decades" (Whitley, 1999a:134). In relation to institutional changes relating to corporate governance structures, for instance, Vitols (2001:339) argues that "…these developments can be clearly characterized as incremental – rather than fundamental – changes in existing ownership, employee representation, and top management institutions".

Limitations and further thoughts

Borrowing from Winston Churchill's famous phrase: "Democracy is the worst form of government except for all those others that have been tried", we acknowledge and assume that capitalism might be the worst form of economic coordination except for all those others that have been tried. On the practice level, therefore, the articulation of CSR as a market governance and public policy mechanism offers a complementary lens to the ethical (normative) and strategic (instrumental) positioning of CSR in the mainstream management literature. It both challenges and encourages firms and managers to appreciate their engagements in CSR as a participation in public governance for a progressive society. In other words, one of the advantages of framing CSR as a market governance mechanism of the capitalist political economy is that, it extends the language project of CSR as a neutral management practice (Amaeshi and Adi, 2007). It also saves it from the debates in the literature on normative and instrumental CSR practices, which appear to stand in the way of advancing scholarship in this field, and is likely to generate new meanings and foster new ways of engaging with the practice other than for profit motives only.

However, a possible explanation for the marginalisation of the public policy role of CSR in management literature could, arguably, be as a result of the narrow focus of business schools on micro organizational efficiency and performance, which currently inform management scholarship (Stern and Barley, 1996). In addition, most of the macro conversations on the political role of CSR currently take place in such disciplines as law (e.g. Rogowski and Wilthagen, 1994; Hess, 1999; Branson, 2001), political science (e.g. Lowi, 1964; Vogel, 2008), public administration (e.g. Moon, 1998) and international relations and development (e.g. Knil and Lehmkuhl, 2002; Newell, 2002, 2005; Blowfield and Frynas, 2005; Graham and Woods, 2006). The few attempts to migrate this thinking to management literature (e.g. Crane et al., 2009; Scherer and Palazzo, 2009, 2010; Moon and Vogel, 2009; Moon, Kang and Gond, 2010) have to a large extent mirrored the basic social sciences disciplines (especially those of political science and international relations) that have informed them. Fewer attempts (e.g. Crouch, 2006; Campbell, 2007; Midtunn, 2008) have been made to articulate the public policy role of CSR from such disciplines as economic sociology and or institutional political economy, which are gaining significant traction in other areas of management scholarship. Moreover, these latter disciplinary perspectives hold significant potentials to enhancing our understanding of the global contemporary CSR movement, especially since CSR loses its essence outside the frameworks of the capitalist political economy.

Nonetheless, it is appreciated that one of the reasons often advanced by CSR critics is that managers are inept with regards to public policy decisions and issues. Whilst recognising the merit of this criticism, it does imply the need to change management education in such a way that it enhances the public policy competences of managers. The new generation of managers will need public policy skills – especially partnering skills – to navigate the complex interpenetration of public and private interests in the globalised contemporary world of business. This will place significant emphasis on business schools in shaping managerial practices and diffusing fads and fashions (Patriotta and Starkey, 2008; Starkey and Tempest, 2005; Ghoshal, 2005). And herein lie new challenges for business schools and management educators, as well as management consultants and other producers of management education, as we gradually drift into another turn in the evolution of capitalism.

CONCLUSION

The goal of positioning CSR as the private governance of corporate externalities is not to undermine the role of the government or other governance arrangements in regulating corporate externalities. Rather, it affirms the co-existence of a plurality of governance modes, where CSR complements existing public and informal governance configurations, and thus creates a better chance that both the public and private governance modes will compensate for each other's weaknesses in the governance of corporate externalities. In other words, CSR becomes a private initiative or voluntary effort by firms to fill some governance voids or to complement existing governance modes within specific institutional configurations (Kang and Moon, 2009; Richardson, 2009), especially in most developing economies with weak capitalist institutions.

Graham and Woods (2006:868) have argued that to make such voluntary governance mechanism more effective, "...government action – in the North and South – remains vital to effective regulation, by setting social goals and upholding the freedom of civil society actors to organize and mobilize. International organizations and legal instruments may be able to assist developing country governments in fulfilling these roles." Their suggestion fits in perfectly into what Midttun (2008) aptly describes as partnered governance. According to Midttun most current global issues (e.g. climate change, human rights and corruption) are no longer able to be governed by a single governance institution (e.g. markets, firms and the state), especially as global economic entities continue to transverse territories with weak and fragile governance institutions. He, therefore, suggests a constructive, but complementary, mixture of public, market, voluntary and civil regulatory mechanisms.

In that regard, CSR as a private governance of corporate externalities, therefore, serves as a complementary governance mechanism for the governance of global 'wicked problems' (Churchman, 1967) that neither markets, the civil society, nor the state, through hard regulation, could deal with in isolation. It is from this perspective that CSR needs to be appreciated as a practice with a distinct governance mechanism, which is not necessarily a profit maximisation mechanism, contrary to mainstream management thinking and expectations. In other words, despite the promises of CSR, it will be dangerous to rely on it, in isolation of other complementary institutional configurations, to drive institutional change and enable a progressive society in different institutional contexts.

Finally, we have not engaged with either the effectiveness or efficiency of CSR as a market governance mechanism in different institutional contexts. We anticipate that these would be context dependent and encourage future research to throw some light on these pertinent questions.

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TABLES

Table 1: Key Characteristics of Advanced Capitalist Economies

Elements	Descriptions
Rule of Law/ Property Rights	The rule of law, delineation of rights and the right to own properties are central to the functioning of capitalism as an economic mode of coordination. The rule of law and the consequent rights enable entrepreneurs to invest in and exchange goods and services through contracts.
A functioning State	It is the role of the State to protect lives and properties upon which the rule of law and property rights is founded. According to Swedberg (2003:158), "…the very existence of modern economic actors and economic institutions presuppose, among other things, that the issue of violence has been solved and removed from the arena of the economy; that when conflicts emerge in the economy, solutions can be reached and enforced; and that decisions can be taken about the role of economic and non-economic activities in society as a whole. All of these factors point to the crucial existence of separate political authorities, and to politics, as a way to influence these authorities". The World Bank Anti-Corruption and Governance Index is based on 6 broad measures of good governance: (1) Voice and Accountability, (2) Political Stability, (3) Government Effectiveness, (4) Regulatory Quality, (5) Rule of Law, and (6) Control of Corruption (Kaufmann, Kraay and Mastruzzi, 2008).
Strong market institutions	The construction of markets as exchange mechanisms is fundamentally predicated on the neo-liberal conception of democratic politics and its antecedent institutional arrangements, wherein agents are free and have

Elements	Descriptions
	the rights to exercise and exert their property rights within legitimate institutional boundaries.
Freedom of speech and association	The right to freedom of speech and association contributes to strong capitalist political economies. This is particularly necessary for the emergence of strong media, business networks, organised labour unions, NGOs and other civil society networks.