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WHY WOULD CORPORATIONS BEHAVE IN SOCIALLY RESPONSIBLE WAYS? AN INSTITUTIONAL THEORY OF CORPORATE SOCIAL RESPONSIBILITY

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I offer an institutional theory of corporate social responsibility consisting of a series of propositions specifying the conditions under which corporations are likely to behave in socially responsible ways. I argue that the relationship between basic economic conditions and corporate behavior is mediated by several institutional conditions: public and private regulation, the presence of nongovernmental and other independent organizations that monitor corporate behavior, institutionalized norms regarding appropriate corporate behavior, associative behavior among corporations themselves, and organized dialogues among corporations and their stakeholders.

Concerns about corporate social responsibility have grown significantly during the last two decades. Not only has the issue become commonplace in the business press and among business and political leaders (Buhr & Grafström, 2004) but a body of academic literature has also emerged around it (Margolis & Walsh, 2003; Walsh, Weber, & Margolis, 2003). Nevertheless, little theoretical attention has been paid to understanding why or why not corporations act in socially responsible ways (Rowley & Berman, 2000; Ullman, 1985). Indeed, much of the literature on corporate social responsibility has been more descriptive or normative than positivist in tone (e.g., Harvard Business School Press, 2003).

Most of the theoretically oriented research on this subject has focused on investigating the connection between corporate social responsibility and corporate financial performance (Rowley & Berman, 2000; Walsh et al., 2003). And most often the emphasis there has been on determining the extent to which socially responsible corporate behavior affects financial performance—not the other way around. Margolis and Walsh (2003: 273–278) reviewed this literature from 1972 to 2002 and found that socially responsible corporate behavior was treated as the dependent variable only 15 percent of the time (twenty-two studies). Moreover, they criticized this literature for ignoring factors other than corporate financial performance that might affect corporate social responsibility. As a result, they called for more serious theoretical inquiry into this matter (2003: 274–278). Others concur with this assessment (Maignan & Ralston, 2002: 512) and complain, in particular, that we need to pay much more attention to the *institutional* mechanisms that may influence whether corporations act in socially responsible ways or not (Bühner, Rasheed, Rosenstein, & Yoshikawa, 1998: 148; Doh & Guay, 2006; Orlitzky, Schmidt, & Rynes, 2003; Walsh et al., 2003: 877). This paper helps to fill this theoretical void by exploring a broad set of institutional conditions under which socially responsible corporate behavior is likely to occur.

To some people the idea of corporations acting in socially responsible ways would seem silly. If the raison d'être for corporations is to maximize profit and shareholder value as best they can, then it stands to reason that corporations will do whatever it takes to achieve this goal—perhaps even if that includes acting in socially *irresponsible* ways if they believe that they can get away with it. Indeed, whole fields of economic inquiry, such as the study of economic regulation (e.g., Demsetz, 1968; Stigler, 1968) and transaction cost analysis (e.g., North, 1990; Williamson, 1985), are based on these assumptions. For instance, Williamson's (1985: Chapter 2) classic transaction cost analysis of

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the firm rests on the assumption that individuals, and by extension the firms that they run, will act opportunistically—by which he means in self-interested ways and with guile—whenever possible and, therefore, are not fully trustworthy.

Moreover, an extensive body of literature on comparative political economy argues that under competitive conditions the separation of corporate ownership and control from direct producers, consumers, and others creates all sorts of structural incentives and opportunities for firms to benefit themselves at the expense of others, to free ride on (rather than contribute to) collective or public goods, and in some cases to subvert social welfare, such as by skimping on product quality and safety, engaging in toxic dumping, and so on, all in the pursuit of short-term profits or share prices unless institutions are in place to mitigate such behavior (e.g., Albert, 1993; Crouch & Streeck, 1997; Dore, 2000; Roe, 2003). And while business associations, state regulations, and other forms of economic governance can help solve the problem, they also create opportunities for corporations to pursue new collective forms of opportunistic or predatory behavior, including the capture and subversion of regulatory authorities (e.g., Bernstein, 1955; Perrow, 2002; Schneiberg, 1999; Schneiberg & Bartley, 2001).

There are plenty of examples of firms that, in the pursuit of profit, have exhibited all sorts of socially irresponsible corporate behavior, such as deceiving customers, swindling investors, exploiting and even brutalizing employees, putting consumers at risk, poisoning the environment, cheating the government, and more (Vogel, 1992). However, many corporations do *not* behave in socially irresponsible ways. In fact, some corporations go to great lengths to do just the opposite, by giving to charities, supporting community activities, treating their workers and customers decently, abiding by the law, and generally maintaining standards of honesty and integrity.

All of this raises an interesting question for scholars. Given the incentives for maximizing profit and shareholder value, let alone acting opportunistically, why would a corporation ever act in socially responsible ways, even at the most minimal level? Put in slightly different terms, given the wide range of corporate behaviors—both good and bad—noted above, under what conditions are corporations more likely to act in socially responsible ways than not?

In this paper I seek to answer this question. I do so by drawing on insights from two bodies of literature not generally associated with the academic discussion of corporate social responsibility: the literature on institutional analysis in sociology and the literature on comparative political economy in political science. Generally speaking, what is important about these is that they focus on how institutions constrain and enable behavior.[1]

More specifically, in recent studies scholors have argued that the tendency toward socially responsible corporate behavior varies across countries and that much more research is required to understand why (Maignan & Ralston, 2002). The comparative political economy literature is useful in this regard because it has a long tradition of examining how political and economic institutions vary cross-nationally and affect economic activity. The institutional analysis literature is useful because institutionalists understand that institutions beyond the market are often necessary to ensure that corporations are responsive to the interests of social actors beside themselves, particularly in today's increasingly global economy (Scott, 2003: 346.). In other words, in both bodies of literature, researchers recognize that the way corporations treat their stakeholders depends on the institutions within which they operate (e.g., Fligstein & Freeland, 1995; Hall & Soskice, 2001). By stakeholder I mean individuals or groups with which the corporation interacts who have a stake or a vested interest in it, such as employees, consumers, suppliers, and local communities within which corporations operate (Carroll & Buckholtz, 2000: 21).[2] Thus, insights from both bodies of literature can help move the analysis of corporate social responsibility in a more theoretically oriented direction.

The paper proceeds as follows. First, I briefly review the literature on corporate social responsibility to identify some important clues that will help focus discussion on the institutional conditions under which corporations are more or

[1] For overviews of both bodies of literature, see Campbell (2004: Chapter 1).

[2] Defining who the most important stakeholders are is a complex conceptual issue that has been addressed elsewhere (e.g., Mitchell, Agle, & Wood, 1997).

less likely to act in socially responsible ways. Second, I provide a definition of socially responsible corporate behavior that identifies a behavioral threshold below which corporations no longer behave in socially responsible ways. This is a slightly unconventional definition compared to those typically found in the literature on corporate social responsibility, because it focuses on the minimum behavioral standard below which corporate behavior becomes socially irresponsible. By taking this definition as my starting point, I help to fill an important blind spot in the literature. Third, I explore some of the conditions under which corporations may be more or less likely to engage in socially responsible behavior as defined in this paper. To begin with, I argue that basic economic factors, including the general financial condition of the firm, the health of the economy, and the level of competition corporations face, are all likely to affect the degree to which corporations act in socially responsible ways. However, the relationships between economic conditions and socially responsible corporate behavior are mediated by several institutional factors: public and private regulation, the presence of nongovernmental and other independent organizations that monitor corporate behavior, institutionalized norms regarding appropriate corporate behavior, associative behavior among corporations themselves, and organized dialogues among corporations and their stakeholders.

As a result, this paper makes two important contributions to the literature on corporate social responsibility. On the one hand, it focuses on an important aspect of corporate behavior that has received very little attention in this literature—that is, the threshold between socially responsible and irresponsible behavior. On the other hand, it helps to move this literature in a more theoretically oriented direction by offering an institutional theory of the determinants of socially responsible corporate behavior.

I focus on the institutional determinants of corporate social responsibility because firms are embedded in a broad set of political and economic institutions that affect their behavior (e.g., Campbell, Hollingsworth, & Lindberg, 1991; Fligstein, 1990, 2001b; Roe 1991, 1994). These include forces operating outside the corporation at the macro- and interorganizational or field level within which the corporation maneuvers (DiMaggio & Powell, 1983; Fligstein & Freeland, 1995). I leave it to others to consider the determinants of socially responsible corporate behavior that may be operating inside the corporation, such as the corporation's culture, structure, leadership, and managerial compensation schemes. A systematic treatment of these firm-level factors is beyond the scope of this paper (but see Aguilera & Jackson, 2003, and Mitchell et al., 1997). Hence, I am not making the overly deterministic claim that institutions are solely responsible for corporate social responsibility.

INSTITUTIONS AND THE LITERATURE ON CORPORATE SOCIAL RESPONSIBILITY

The literature on corporate social responsibility is vast and has been reviewed in detail elsewhere (e.g., Margolis & Walsh, 2003; Orlitzky et al., 2003).[3] The discussion that follows is intended simply to indicate where research on this subject provides hints as to how an institutionally focused approach to the subject might be developed. As noted above, most of the literature on corporate social responsibility does not explore whether institutional conditions affect the tendency for firms to behave in socially responsible ways. For example, Waddock and Graves (1997) found through regression analysis that an increase in corporate financial performance was associated positively with an increase in corporate social responsibility. Their analysis is among the best of its kind, particularly insofar as they constructed a sophisticated multidimensional measure of corporate social responsibility. However, the only independent variables included in their analysis, beside measures of corporate financial performance, were firm size, management's risk tolerance, and type of industry. In this regard, their work is typical of much research in this field. Most studies of the determinants of corporate social responsibility have examined the effects of various aspects of corporate financial performance but not much else (e.g., Brown & Perry, 1994; Fry,

[3] Much of it concerns whether corporations *ought* to engage in socially responsible behavior—a subject that is not directly related to this paper (e.g., Friedman, 1970; Jensen, 2002; Levitt, 1958; Porter & Kramer, 2003; Prahalad & Hammond, 2003).

Keim, & Meiners, 1982; McGuire, Sundgren, & Schneeweis, 1988).

However, there are a few exceptions. First, some of the research on corporate philanthropy investigates whether tax law—specifically, the ability to deduct charitable contributions—affects philanthropic giving by firms. Whether it does or not is in dispute (e.g., Clotfelter, 1985; Navarro, 1988). But the important point is that tax law is an important property rights institution that may affect corporate behavior (Campbell, 2004: 131–132). Hence, this stream of research suggests that property rights and, by implication, other forms of state regulation may affect the degree to which corporations behave in socially responsible ways.

Second, Galaskiewicz (1991) showed that corporations tend to act in socially responsible ways if normative or cultural institutions are in place that create the proper set of incentives for such behavior. For instance, when corporations or their managers belonged to business or professional associations dedicated to charitable giving, these corporations were more likely to engage in philanthropy. Why? Because membership in such organizations instilled in members an ethic of enlightened self-interest as they participated in seminars about the virtues and benefits of corporate giving, as they learned of such behavior from their counterparts in other cities, and as they were exposed to peer pressure to behave in these socially responsible ways.

Third, a few researchers have studied corporate social responsibility in a comparative cross-national context that has important institutional implications. A case in point is Maignan and Ralston's (2002) study of firms in France, the Netherlands, the United Kingdom, and the United States. They examined public commitments to socially responsible behavior (posted on corporate web sites) of 100 firms in each country and found that firms reported three motivations for behaving in socially responsible ways: (1) managers valued such behavior in its own right, (2) managers believed that this behavior enhanced the financial performance of their firms, and (3) stakeholders—notably, community groups, customers, and regulators—pressured firms to behave in socially responsible ways. The fact that they found systematic differences in responses across the four countries suggests that nationally specific political, cultural, and other institutions may have been responsible. For example, variation in these institutions may mediate the degree to which stakeholders can influence managers. However, the authors did not explore the institutional implications of their findings. There is a more general body of literature on corporate governance that has done a better job in arguing that legal, financial, property rights, and other institutions vary cross-nationally and, therefore, affect the degree to which stakeholders can influence corporate managers (e.g., Aguilera & Jackson, 2003; Dore, 2000; Roe, 2003). But this literature focuses less on corporate social responsibility per se than on corporate governance broadly construed, including, for example, factors that affect the proclivity of managers to take a short- or long-term view of corporate decision making and investment; to favor upgrading employee skills or not; and to finance operations through bond and equity markets, bank loans, or retained earnings.

Fourth, several scholars have developed what has become known as stakeholder theory, which examines whether and why corporations attend to the interests of stakeholders along with their own immediate corporate interests (e.g., Allen, 1992; Freeman, 1984; Mitchell et al., 1997). Stakeholder theory is closely related to the issue of corporate social responsibility to the extent that stakeholder theorists define appropriate and inappropriate corporate behavior in terms of how corporations act vis-à-vis their stakeholders (Driver & Thompson, 2002: 117). However, most stakeholder theory is not well-suited to our purposes because it neglects the question that motivates this paper: What are the conditions under which corporations are likely to act in socially responsible ways? Instead, most of the stakeholder literature focuses on four other issues (Donaldson & Preston, 1995). It describes what the corporation is and who its stakeholders are. It argues that stakeholders have legitimate interests in corporate activity. It recommends attitudes, structures, and practices that constitute stakeholder management. It identifies the relationship between stakeholder management and the achievement of various corporate performance goals, such as profitability, stability, and growth. As such, scholars have argued that stakeholder theory has failed to attend to the social and economic imperatives that often confront organizations in contradictory ways (Margolis & Walsh, 2003: 280). These are precisely the sorts of imperatives on which I dwell here—imperatives that encourage firms to act in socially responsible ways or not.

In sum, all of this literature points toward, but in most cases does not systematically develop, an institutional analysis of corporate social responsibility. I draw on this work where appropriate, as well as the literature on institutional analysis and comparative political economy, to develop a set of testable propositions about how regulatory, normative, associative, stakeholder, and other institutions affect corporate social responsibility. But first we need to be clear about the meaning of socially responsible corporate behavior.

WHAT IS SOCIALLY RESPONSIBLE CORPORATE BEHAVIOR?

Defining socially responsible corporate behavior is not a straightforward exercise (e.g., Maignan & Ralston, 2002: 498; Roberts, 2003; Rowley & Berman, 2000). This is because several issues are at stake. To begin with, what constitutes socially responsible behavior may vary according to our point of view. On the one hand, we might adopt a more or less objective criteria of acceptable behavior against which firms can be judged as being socially responsible or not. For instance, we might define socially responsible behavior as that which provides the corporation's employees with a decent living wage relative to local costs of living as determined by some independent organization, such as the United Nations. Or we might define socially responsible behavior as that which does not ruin the local environment and jeopardize the community's health as measured against internationally accepted standards of environmental quality or health. On the other hand, we might use more subjective criteria and adopt the perspective of the stakeholders who interact with a corporation. In this case we can argue that corporate behavior is socially responsible as long as it meets these actors' expectations regarding appropriate and acceptable corporate behavior, however they choose to define it.

There are also several dimensions that we might use to identify important aspects of socially responsible corporate behavior (Rowley & Berman, 2000; Waddock & Graves, 1997). These might include, for instance, measures of how the corporation treats its employees with respect to wages, benefits, and levels of workplace safety; how it treats its customers with respect to product quality, truth in advertising, and pricing; how it treats its suppliers with respect to its willingness to uphold contracts and honor more informal commitments; how it treats the government with respect to operating within the law and not trying to subvert it; and how it treats the community with respect to making charitable contributions, ensuring not to foul the environment, and so forth.

Furthermore, what passes as socially responsible corporate behavior shifts historically. During the Industrial Revolution, reducing the standard factory working day from fourteen to ten hours may have been considered socially responsible. But today anything more than eight hours would probably seem unacceptable in advanced capitalist countries, at least unless hefty overtime wages were paid.

Finally, we need to distinguish between the rhetoric of socially responsible corporate behavior and substantive action. That is, corporations may pay lip service in corporate reports, advertising, web sites, and elsewhere to the idea that they act in socially responsible ways. But their rhetoric may diverge from their substantive behavior insofar as they take the issue seriously and dedicate significant resources to it (Roberts, 2003; Weaver, Treviño, & Cochran, 1999). This should not be surprising. After all, organizations often engage in symbolic and rhetorical framing in order to manage their public image (Hirsch, 1986; Meyer & Rowan, 1977). My concern in subsequent sections of this paper is with the substantive rather than the symbolic or rhetorical aspects of corporate social responsibility.

The point is that socially responsible corporate behavior may mean different things in different places to different people and at different times, so we must be careful in how we use the concept and how we define it. And care is required in measuring the degree to which corporations are actually behaving in socially responsible ways or simply making hollow claims to that effect. Finally, caution is warranted because the concept itself is a fairly new one in the world and because its different local meanings, which are only now beginning to diffuse internationally, have not yet congealed in a single commonly accepted definition (Boxenbaum, 2004).[4]

I view corporations as acting in socially responsible ways if they do two things. First, they must not knowingly do anything that could harm their stakeholders—notably, their investors, employees, customers, suppliers, or the local community within which they operate. Second, if corporations do cause harm to their stakeholders, they must then rectify it whenever the harm is discovered and brought to their attention. Rectification could be done voluntarily or in response to some sort of encouragement, such as moral suasion, normative pressure, legal threats, regulatory rulings, court orders, and the like. This is a definition that sets a *minimum behavioral standard* with respect to the corporation's relationship to its stakeholders, below which corporate behavior becomes socially irresponsible. Unless noted otherwise, this is the definition that I will use throughout the rest of this paper.[5]

This definition fits squarely with the insights of comparative political economists, institutionalists, and others noted earlier who have emphasized the problems of opportunism, moral hazard, and the erosion of public or collective goods (e.g., North, 1990; Ostrom, 1990; Streeck, 1997). My definition draws from this literature insofar as it assumes that, in the absence of institutional constraints in the environment that mitigate such behavior, firms will have interests and incentives that may cause them to behave in socially irresponsible ways as I have defined them. In other words, in the absence of these institutions, firms will be more likely to behave irresponsibly than they would if such institutions were present.

By focusing on the threshold between irresponsible and minimally responsible corporate behavior, my definition differs from the conventional definition that other researchers use. Many of them define corporate social responsibility as actions taken by a firm that are intended to further social welfare beyond the direct economic, technical, and legal interests of the firm (e.g., Davis, 1973; McWilliams & Siegel, 2001). I do not deny that this conventional definition is useful in that it draws our attention to important issues that are worth studying (e.g., Harvard Business School Press, 2003), but my concern in this paper is only with the conditions under which corporations meet the minimum level of socially responsible behavior as I have defined it. Why?

The issue of doing harm (intentionally or not) largely has been ignored in the literature on corporate social responsibility (but see Bartley, 2003; Grant, 1997; Grant & Downey, 1996). In fact, no mention is made of the issue in three recent comprehensive reviews of the literature (Margolis & Walsh, 2003; Orlitzky et al., 2003; Walsh et al., 2003). To put this in slightly different terms, we can array examples of socially responsible corporate behavior along a continuum ranging from minimally responsible behavior, as I have defined it, to increasingly more responsible behaviors, as others have defined them. Granted, it might be difficult for everyone to agree on which specific instances of corporate social responsibility fit where along this continuum. But the point is that virtually all of the literature on corporate social responsibility has neglected the minimum end of the continuum, focusing instead on behaviors located toward the other end. This is both surprising and important, given the fact that some firms may score quite high on corporate social responsibility by conventional definitions but very low by my definition. For instance, a firm may do lots of public service work and contribute heavily to charities but systematically foul the environment, steal

[4] Differences in definitions are not just a matter of academic concern. The clash over different local definitions of corporate social responsibility can have serious practical consequences in the real world. As is well known, the Nike Corporation was embroiled in a major scandal by paying workers in its Southeast Asian athletic footwear plants wages that were quite low but still in accordance with the local customs there. Elsewhere, Nike paid substantially higher wages—but again, wages that were in accordance with local customs in these other places. The scandal erupted amidst charges that Nike was operating according to a double standard (Martin, 2003: 96).

[5] Some people might argue that, for some corporations, the very nature of the business they are in may be deemed socially irresponsible. That is, some people might distinguish between firms whose business may be inherently irresponsible—perhaps weapons manufacturing—and firms whose business may be responsible but whose practices may not. An extreme example of the latter would be the German firm I.G. Farben, whose basic business, chemical manufacturing, was all right but whose particular business practices at one time were not—that is, the deliberate manufacturing and sale during the Second World War of Zyclon B, a poison gas, to the Nazis for purposes of genocide. This paper is not concerned with whether the basic nature of a business itself is socially responsible.

from its employees' pension fund, or discriminate against women in the workplace. As a result, there is a blind spot in this literature that requires attention, which this paper helps to fill.

UNDER WHAT CONDITIONS DO FIRMS ACT IN SOCIALLY RESPONSIBLY WAYS?

Now let us get to the heart of the matter. Why do some corporations act in socially responsible ways while others do not? Is socially responsible corporate behavior purely voluntary and dependent on having honorable people in charge, or is there something more to it? Put in slightly different terms, under what conditions are firms more likely to act in socially responsible ways? This is a question that pushes us quickly into the fields of institutional analysis and comparative political economy, because one way to answer the question is to compare variation in corporate behavior across different institutional environments and countries.

To facilitate such a research agenda, I offer several propositions about the factors that may affect the degree to which corporations act in socially responsible ways. I begin with a brief discussion of some basic economic conditions that may affect corporate behavior. I do so because it is important to recognize that institutions, the focus of this paper, are not the only factors that may affect corporate behavior. Economics certainly matter too. However, my overriding argument is that variation in socially responsible corporate behavior is probably associated with variation in institutions and the sticks and carrots they provide to constrain and enable behavior. In a nutshell, my argument is that economic conditions affect the degree to which corporations act in socially responsible ways but that this relationship is mediated by a variety of institutional factors.

Economic Conditions

To review briefly, I assume that the imperative of maximizing profit and shareholder value is the root cause that may prevent corporations from acting in socially responsible ways. This assumption is widely held. Proponents of the so-called contractarian view of the firm argue that interests in maximizing profit and value lie at the heart of the modern corporation and that these interests ought to take precedence over interests in corporate social responsibility as it is conventionally defined (Friedman, 1970; Jensen, 2002; Levitt, 1958). Many students of economic regulation, transaction cost analysis, and comparative political economy also accept this behavioral assumption but take an even stronger position regarding its implications. They maintain that the imperative of profit and shareholder value maximization may cause corporations to act in ways that do not even meet the minimum threshold of socially responsible behavior as I have defined it.

Two arguments flow from this. First, much of the extant literature on corporate social responsibility suggests that firms whose financial performance is weak are less likely to engage in socially responsible corporate behavior, conventionally defined, than firms whose financial performance is strong (e.g., Margolis & Walsh 2001; Orlitzky et al., 2003). Why? Because firms that are less profitable have fewer resources to spare for socially responsible activities than firms that are more profitable—an argument that is often referred to as slack resource theory (Waddock & Graves 1997). It follows, then, that firms whose financial performance is so weak that they risk suffering serious losses and jeopardizing shareholder value may be less inclined to meet even the minimum threshold of socially responsible behavior as I define it than firms whose financial situation is stronger. This assumes, of course, that managers think that acting in socially irresponsible ways will improve their firm's financial situation and that they can get away with it. That is, managers act opportunistically (i.e., with self-interest and guile). Similarly, if firms are operating in an economic climate where, for instance, inflation is high, productivity growth is low, consumer confidence is weak, and, in short, it appears that it will be relatively difficult for firms to turn a healthy profit in the near term, they will be less likely to behave in socially responsible ways than would otherwise be the case.

> *Proposition 1: Corporations will be less likely to act in socially responsible ways when they are experiencing relatively weak financial performance and when they are operating in a relatively unhealthy economic environment where the possibility for near-term profitability is limited.*

Second, if this proposition is true, then it follows that the odds that firms will act in socially responsible ways will also be associated with the level of competition they face. To begin with, in situations where competition is so extremely intense that profit margins are narrow enough to put shareholder value and firm survival at risk, the incentive to cut corners and save money wherever possible will cause corporations to act in socially irresponsible ways insofar as they believe that this will help them turn a profit and survive. Indeed, business history is brimming with examples of how periods of very intense competition caused firms to do all sorts of socially irresponsible things in order to survive, including compromising product safety and quality, sweating labor, and cheating customers (Kolko, 1963; McCraw, 1984; Schneiberg, 1999; Weinstein, 1968).

However, under normal competitive conditions, where at least a modest profit is assured and firm survival per se is not at stake, firms are less likely to engage in socially irresponsible practices. Why? The imperative to behave irresponsibly has lessened, and, as a result, managers become more concerned with preserving the reputation of their firms for the sake of continued business success. After all, if the reputation of a firm is compromised, it often becomes more difficult for the firm to continue doing business with its customers and suppliers. When customers and suppliers no longer trust a firm, they take their business elsewhere, and the firm's profitability may be compromised (MacCaulay, 1963).

Finally, at the other extreme, in situations where competition is virtually nil (e.g., monopoly or monopsony), firms may have little interest in acting in socially responsible ways because things like corporate reputation or customer loyalty will not likely affect sales, profitability, or survival very much. This is because, under such conditions, customers and suppliers have few if any alternatives. For instance, monopoly conditions can lead to severe price gouging—a socially irresponsible corporate behavior in terms of its effects on customers. This is one reason many economists have argued that, barring outright government ownership, the state should regulate corporations under monopoly conditions in order to mitigate some of the market failures and negative externalities that concern students of corporate social responsibility (e.g., Friedman, 1962: 128). Although not all economists agree that state regulation is the best way to handle the problems associated with monopoly conditions, virtually all agree that monopoly, if left unchecked, will likely result in irresponsible corporate behavior because of the fact that firms will operate opportunistically if they believe they can get away with it (e.g., Williamson, 1985: Chapter 13).

> *Proposition 2: Corporations will be less likely to act in socially responsible ways if there is either too much or too little competition. That is, the relationship between competition and socially responsible corporate behavior will be curvilinear.*

One caveat is in order. Competition is a complex phenomenon. Corporations can deal with it in a variety of ways in order to obtain competitive advantage over their rivals. One way is to act in socially irresponsible ways, as I have just indicated. But firms can also seek to deprive their rivals of competitive advantage in other ways. For instance, in the area of international trade, corporations that face competition from lower-cost imports may try to have regulatory and other institutional obstacles created that improve their competitive position relative to foreign producers, such as tariffs, import surcharges, and product safety or environmental requirements. Of course, low-cost foreign producers often resist. Indeed, international trade disputes and the political struggles that surround the creation of transnational market zones, such as NAFTA, the European Union, and Mercosur, have often involved disputes of this kind (Duina, 2006). The point is that corporations do not necessarily have to resort to socially irresponsible behavior in order to cope with competitive pressures, at least where international commerce is concerned.

However, conflicts of this sort may still be related to issues of corporate social responsibility. Struggles for international competitive advantage, which by most accounts have increased as economic activity became more globalized during the late twentieth century, have led corporations and others to press national governments to adopt a range of neoliberal policies: reductions in taxes, welfare expenditures, and business regulations (e.g., Campbell & Pedersen, 2001). Many people have complained that these policies have contributed to increased economic inequality, environmental degradation, and other socioeconomic ills (e.g., Gilpin, 2000; Wade & Veneroso, 1998a,b). These are the sorts of problems that people often attribute to the irresponsible behavior of corporations and that cause people to beseech corporations to act in more socially responsible ways.

Institutional Conditions

Remember that researchers have called for greater attention to the factors that moderate the relationship between economic conditions, such as corporate financial performance, and socially responsible corporate behavior. Toward that end, let us now turn to a discussion of institutional factors.

To begin with, consider the most obvious institutional explanation of socially responsible corporate behavior—one that focuses on the state's regulatory sanctions. The importance of regulations is clear if we take an historical view. Meat packers in the United States, for instance, operated during the early twentieth century with much less concern for food safety and quality than they did after the Department of Agriculture moved to regulate the industry. Indeed, their earlier behavior was so irresponsible that it provided a notorious source of inspiration for muckraking journalists of the day. And workplace safety in the packing plants has improved considerably since the Occupational Safety and Health Administration began supervising shop floor practices (Portz, 1991). Similarly, it has been widely reported that government deregulation during the 1980s and 1990s created an environment where U.S. corporations began to take more liberties and act in more socially irresponsible ways than they would have otherwise. For example, observers have argued that the savings and loan crisis, the Enron debacle, the U.S. accounting frauds, and other corporate scandals of the 1990s can all be attributed in large part to financial deregulation (Stiglitz, 2003). And Italy's feeble stock market regulation has been blamed in part for the Parmalat scandal (*Economist,* 2004).

Whether the scandals of the 1990s are indicative of a more systemic turn away from corporate social responsibility is a matter of considerable speculation. Particularly in an era of increased globalization, the capacity for firms to move investments and production from one regulatory regime to another has increased. Many people believe that because national governments do not want to lose local investment, production, jobs, and tax revenues, they are forced to ease business regulations (e.g., McKenzie & Lee, 1991; Ohmae, 1990, 1995)—regulations that help militate against socially irresponsible corporate behavior.[6] Indeed, the threat of capital disinvestment has long been an important concern for regulators at subnational levels of government, at least in the United States, that has mitigated the imposition and enforcement of more stringent corporate regulations (e.g., Crenson, 1971).

Of course, it is not just the presence of regulations per se that matters but also the capacity of the state to monitor corporate behavior and enforce these regulations when necessary. We should not assume that states will always do this effectively. Many researchers have argued that corporations may not only resist the imposition of regulations in the first place but may also seek to control or otherwise capture regulators in ways that bend them toward the will of the corporations they are supposed to oversee (Bernstein, 1955; Kolko, 1963; Vogel, 1989; Weinstein, 1968). As such, much hinges on the institutional design and configuration of regulation and the balance of political forces surrounding it.

Institutionalists and comparative political economists have long recognized this (e.g., Campbell, 1988: Chapters 5 & 8; Kelman, 1981; Vogel, 1986). For example, air pollution regulations were devised and deployed in Sweden and the United States during the late 1960s and early 1970s, but in very different ways and with very different outcomes. In Sweden the process involved extensive and inclusive consultation and negotiation with business, environmentalists, scientists, government agencies, and political parties. The result was a set of practical regulations that did not exceed the available technologies and that took seriously economic as well as environmental consequences. Business and the other parties to negotiation were satisfied,

[6] The general argument about the drive toward deregulation, lost tax revenue, and the like that is alleged to stem from increased globalization is hotly debated. For dissenting views, see, for example, Hirst and Thompson (1996), Gilpin (2000), and Campbell (2003, 2004: Chapter 5).

and implementation turned out to be quite effective. In the United States, however, the process was much less inclusive with respect to business, more contentious, and the regulations that were passed were rather impractical because they set standards that were nearly impossible to achieve given the available technologies. Hence, corporations fought implementation at every turn, in part because they did not feel they had been given an adequate voice in the process. In the end, regulation was much less effective than it was in Sweden (Lundqvist, 1980).

The fact that the creation and enforcement of effective state regulations turn in part on the capacity of external actors, such as environmentalists, unions, consumers, and other stakeholders, to participate in and monitor these regulatory processes is something that has received some attention from institutionalists in organization studies (e.g., Troast, Hoffman, Riley, & Bazerman, 2002). For instance, research suggests that government statutes are most effective in facilitating socially responsible corporate environmental behavior if they afford citizens access to information about toxic emissions, legal standing in court to sue suspected polluters, and sufficient resources to support both of these activities (Grant, 1997; Grant & Downey, 1996). I will return to the issue of monitoring by stakeholders later. But keeping all of this in mind, another proposition follows.

Proposition 3: Corporations will be more likely to act in socially responsible ways if there are strong and well-enforced state regulations in place to ensure such behavior, particularly if the process by which these regulations and enforcement capacities were developed was based on negotiation and consensus building among corporations, government, and the other relevant stakeholders.

It is important to understand that regulation is not always the responsibility of the state. Often, industries establish their own regulatory mechanisms to ensure fair practices, product quality, workplace safety, and the like by setting standards to which their members are expected to adhere. In fact, sometimes the most effective means of facilitating increased corporate social responsibility is through corporate peer pressure (Martin, 2003: 98). This is often undertaken by industrial associations whose job, in part, is to ensure that their members act in socially responsible ways. For instance, the dairy industry in many European countries adopted this sort of self-regulation approach, based largely on networks of dairy cooperatives, to maintain certain levels of quality in milk, butter, cheese, and other products (O'Rourke, 2006; Streeck & Schmitter, 1985b). Recently, this sort of activity has taken on a global dimension. New organizations, such as Transparency International, which is supported by sixty-four corporations from the United States and other countries, have been created to help reduce corrupt business practices around the world (Porter & Kramer, 2003: 40).

Comparative political economists and institutionalists have shown that self-regulation by industry association is often linked to the state. Sometimes this sort of activity is encouraged and authorized by the state so that the state can displace on to these private associations what would otherwise be its own regulatory responsibilities (Streeck & Schmitter, 1985a). This political move has become more prevalent insofar as states respond to globalization pressures by pursuing neoliberal reforms and passing welfare and regulatory functions on to the private sector (Bartley, 2003: 434; Maignan & Ralston 2002: 510). Sometimes industry moves toward self-regulation out of a concern that to do otherwise would eventually result in state regulatory intervention. That is, astute members of industry realize that it is better to control the regulatory process themselves than to be forced by the state to succumb to a process and a set of standards over which they would have little control (Kolko, 1963; Schneiberg, 1999; Streeck & Schmitter 1985a; Weinstein, 1968). Finally, sometimes self-regulation emerges because corporations fear that state regulation is insufficient to protect the industry from itself. This happened after the accident at the Three Mile Island nuclear reactor in 1979. Electric utility companies that owned and operated nuclear facilities throughout the United States recognized that the accident might have been prevented had the federal government taken a tougher regulatory position in the first place. Fearing that another accident might ruin the commercial nuclear power industry forever, they took matters into their own hands and organized a system of self-regulation designed to set standards, monitor performance, and punish utilities whose behavior failed to meet the new industry standards (Campbell, 1989).

As is true for state regulation, effective industrial self-regulation can also be undermined by the very corporations it is designed to oversee. For instance, there are plenty of examples of corporations violating cartel agreements (Chandler, 1977: Chapter 10) or refusing to abide by industrial benchmarks and standards for quality or performance that have been set by industrial associations (Schneiberg, 1999). Recent scandals in the U.S. accounting industry—an industry that has long set its own standards of acceptable business practice—is another example of industrial self-regulation gone awry. Moreover, some instances of industrial self-regulation have been devised not only to evade state regulation and other forms of external control but also to facilitate predatory and opportunistic rather than socially responsible corporate behavior. Price-fixing cartels are a case in point.

This is another reason, according to political economists, the relationship between industrial self-regulation and the state is important. Without enough support from the state, self-regulation often fails (Karkkainen, Fung, & Sabel, 2000: 697). Notably, in the United States the self-regulatory association agreements into which firms have entered have not always been upheld by the courts when associations sued members who had violated the terms of these agreements (Chandler, 1977; Lindberg & Campbell, 1991). In countries that are more amenable to associative governance and that have property rights in place that are more supportive of collective business activity, such as the United Kingdom and Germany (Djelic, 1998; Dobbin, 1994), I suspect that the courts are more likely to back up industrial self-regulation. And to the extent that self-regulation in the nuclear power industry improved plant operation and safety, it was due in part to the fact that the utility association interfaced with the federal government's Nuclear Regulatory Commission (NRC). The NRC now often adopts as law the industry's beefed-up standards of conduct, or at least officially acknowledges industrial best practices as the association defines them (Karkkainen et al., 2000).

As is true with respect to state regulation, the capacity of various stakeholders to monitor industrial self-regulation also helps determine politically how effective self-regulation is in ensuring that corporations behave in socially responsible ways. For example, Schneiberg and Bartley (2001) studied the fire insurance industry in early twentieth century America from an institutionalist perspective. During this period, the industry was regulated by industrial associations. Insurers pooled data on losses, coordinated rates, and set industry standards. However, in addition to problems of internal enforcement and defection from their collective agreements, these associations also faced mounting political opposition from consumers over rate discrimination, price fixing, and incompetent or unfair claims adjustments. Sometimes this helped improve industry self-regulation. But, in the long run, it led to the development of various kinds of state intervention and, ultimately, insurance regulation by state governments.

I will return to monitoring shortly. For now, the important lesson, which parallels the discussion about state regulation, is that much depends on how self-regulation is organized, the balance of political forces involved, and how self-regulation intersects with the state and its legal institutions.

Proposition 4: Corporations will be more likely to act in socially responsible ways if there is a system of well-organized and effective industrial self-regulation in place to ensure such behavior, particularly if it is based on the perceived threat of state intervention or broader industrial crisis and if the state provides support for this form of industrial governance.

I have mentioned that the effectiveness of state regulation and industrial self-regulation may be affected by stakeholder monitoring. Indeed, scholars of stakeholder theory, corporate governance, and corporate social responsibility have intimated that the monitoring of corporate performance by stakeholders is an important factor that increases the likelihood corporations will behave in socially responsible ways (Aguilera & Jackson, 2003; Allen, 1992; Driver & Thompson, 2002; Mitchell et al., 1997).

For example, institutionalists have shown that as economic activity has become increasingly global, and especially as corporations engage in truly multinational operations, a variety of nongovernmental organizations (NGOs) have emerged in an effort to establish codes of conduct and monitor the behavior of corporations. When necessary, NGOs pressure corporations to behave in more socially responsible ways. Some international NGOs have been around for a long time, such as the International Labor Organization, the World Wildlife Federation, and the World Health Organization, but their numbers are growing (Boli & Thomas, 1999). For instance, the International Corporate Governance Network was formed by major institutional investors, including TIAA–CREF and the California Public Employees Retirement System, to promote improved standards of corporate governance and disclosure, especially in developing countries (Porter & Kramer, 2003: 41).

NGO tactics vary, from appealing directly to the corporations themselves, organizing demonstrations against them, pressuring local governments to force corporations to improve their behavior, and mobilizing media campaigns to bring public attention to certain alarming corporate practices (Keck & Sikkink, 1998). Whether or not they are successful in these efforts depends in part on the political institutions through which they operate—institutions that vary considerably across countries. In the United States NGOs confront a federalist political structure, weak political parties, and a separation of powers among the three branches of government, so the opportunities for influencing public policy are quite diffuse. In Europe, both at the national and European Union level, NGOs face more centralized political structures that often grant formal standing to interest groups, so NGOs more often enjoy direct access to the policy-making process.[7] But regardless of the institutional setting, the success of NGOs also hinges on whether they are captured by certain constituents at the expense of others. In any case, NGOs have developed an increasing presence in the institutional field within which corporations operate and have worked for socially responsible corporate behavior (Doh & Guay, 2006; Teegen, Doh, & Vachani, 2004).

Similarly, social movement organizations have emerged around issues of corporate social responsibility and have used tactics resembling those of NGOs (Smith, 2005). For instance, Scandinavian consumer groups long pressed for more environmentally friendly paper products like disposable diapers and toilet tissue. This pressure helped spur local producers to improve their practices, such as by using unbleached rather than bleached pulp in these products (Martin, 2003). Social movement campaigns have also targeted specific companies in order to pressure them to act in more socially responsible ways, as was the case, for example, when activists mobilized against key members of both the apparel industry for unfair labor practices and the timber industry for deforestation (Bartley, 2003). Of course, corporate shareholders have recently mobilized to press corporate boards to act in more socially responsible ways. Institutional investors and financial intermediaries, like pension funds and mutual funds, have become important economic actors controlling billions of dollars in investments. They have also come to play an increasingly important role in monitoring corporate behavior and, in some cases, pressing corporations to act in environmentally and socially responsible ways (Armour, Deakin, & Konzelmann, 2003). Such shareholder activism has been described as a new kind of social movement that may affect the degree to which corporations act in socially responsible ways (Davis & McAdam, 2000; Davis & Thompson, 1994; Maignan & Ralston, 2002: 498). Particularly as economic activity becomes more globalized and, thus, more difficult for national governments to regulate, the capacity of social movements, activists, institutional investors, and others to monitor and challenge corporate behavior becomes more important in ensuring that corporations act in socially responsible ways (e.g., Fung, O'Rourke, & Sabel, 2001).

Finally, the press also plays an important role in that it monitors and reports on corporate behavior in ways that discipline corporations by subjecting them to the constant threat of public exposure. Indeed, the press has long been a watchdog of sorts, keeping both the public and government officials informed about corporate activity. But in some countries this role has increased in recent years, to the point where cor-

[7] Insofar as this sort of NGO activity is similar to that of conventional social movements, research on the determinants of corporate social responsibility would benefit from incorporating insights from the social movements literature, as well as comparative political economy, regarding how political opportunity structures affect the degree to which movement organizations are able to achieve their goals (e.g., Kitschelt, 1986; McAdam, McCarthy, & Zald, 1996).

porations have dedicated more resources to managing media relations and monitoring the media to appraise the performance of their own subsidiaries. As such, the media has increasingly played an important role in corporate governance (Kjær & Langer, 2004).

All of this is consistent with research that shows that ensuring responsible corporate behavior requires that outsiders—not just state agencies—are sufficiently strong and well-organized to provide a counterbalance to corporate power (Schneiberg & Bartley, 2001: 133–141; see also Schneiberg, 1999, and Schneiberg & Soule, 2005).

> *Proposition 5: Corporations will be more likely to act in socially responsible ways if there are private, independent organizations, including NGOs, social movement organizations, institutional investors, and the press, in their environment who monitor their behavior and, when necessary, mobilize to change it.*

So far, my argument has been that institutions and organizations influence corporations by constraining their behavior—that is, by discouraging them through rules and negative sanctions or punishments from acting in socially irresponsible ways. We know, however, that institutions can *enable* as well as *constrain* action (Campbell, 2004: Chapter 3). Institutions can entice actors to behave in certain ways through the use of more positive incentives, rewards, and other mechanisms.

The literature on institutional analysis, comparative political economy, and corporate governance has stressed that the cognitive frames, mindsets, conceptions of control, or world views of corporate managers are important determinants of how managers run their firms (e.g., Aguilera & Jackson, 2003; Dore, 1983; Hall & Soskice, 2001; Whitley, 2004). Scholars emphasize that managers often learn these mental constructs by absorbing the messages that are transmitted to them at business schools and through the professional publications they pay close attention to (e.g., the business press, trade journals). Fligstein (1990), for example, found that corporate executives' approaches to managing their firms depended in part on the sorts of training they received in business schools. And Guillén (1994) showed that managerial views on which business models were acceptable or not was related in part to the models that received the most attention in the academic and business press.

The underlying idea is that managers seek to act in ways that are deemed appropriate by other managers and significant actors in their environment. Institutionalists like these are keen on the importance of normative institutions (see also Scott, 2001: Chapter 3). It follows that these sorts of institutionalized norms may affect the degree to which firms operate in socially responsible ways. Indeed, recognizing this is probably one reason why publications like the *Harvard Business Review* have recently run articles advocating socially responsible corporate behavior (Harvard Business School Press, 2003) and why business schools in Europe and the United States have incorporated courses on business ethics into their curriculum (Vogel, 1992).

At least one study of corporate social responsibility has made precisely this point. As noted earlier, Galaskiewicz's (1991) research on corporate philanthropy in Minneapolis-St. Paul showed that business leaders developed and institutionalized norms that encouraged charitable giving. The impetus came initially from a conference of local business leaders in 1976, where a professor from the Harvard Business School lectured on communitarian ideology and warned that the business community needed to come to grips with it. This led to additional conferences and seminars and, eventually, to the creation of the Minnesota Project on Corporate Responsibility (MPCR), whose goal was largely educational. MPCR offered a core curriculum for executives that focused on the fundamentals of corporate responsibility, public-private partnerships, international business responsibilities, and the like. Galaskiewicz found that managers from local firms that had participated in MPCR tended to embrace an ethic of enlightened self-interest and social responsibility. Although he focused on a form of corporate social responsibility that fits the conventional definition better than it does mine, his basic argument that normative institutions matter holds, regardless of how we define socially responsible corporate behavior.[8]

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[8] Of course, once key firms begin to behave in socially responsible ways, others may follow suit, not so much be-

Institutionalists and some comparative political economists have long recognized that normative institutions vary significantly across countries in ways that affect corporate behavior (e.g., Dobbin, 1994; Dore, 1983). Indeed, the relationship between normative institutions and corporate social responsibility is perhaps most noticeable in comparative studies. Japan, for example, long has been known for the fact that its corporations typically hire employees for life and, if economic circumstances dictate, will shed labor by reassigning employees to jobs in other closely held firms (Dore, 1983, 2000; Westney, 2001). The implicit commitment to employee security has been under strain recently owing to the Japanese recession, but many firms are still reluctant to engage in mass layoffs for fear of public criticism. In other words, the normative status of employees as stakeholders in Japanese society is well-recognized and deeply embedded in business culture. This is not the case in other countries with different normative standards, such as the United States, where mass layoffs are not uncommon (Bühner et al., 1998).

> *Proposition 6: Corporations will be more likely to act in socially responsible ways if they operate in an environment where normative calls for such behavior are institutionalized in, for example, important business publications, business school curricula, and other educational venues in which corporate managers participate.*

Researchers have argued that when firms belong to trade or employer associations and interact on a more systematic and frequent basis with their peers, they are more likely to develop a relatively long-term view of their interests that may supercede their short-term views. In the United States, for instance, firms that belonged to trade associations and relatively dense intercorporate networks that facilitated communication among firms were more likely to support proposals for federal interventions like job training and health care reform during the 1990s than firms that were more isolated. This was because firms that were more connected developed a more sophisticated understanding of how government intervention for these sorts of policies could improve the overall well-being of their workers, their workers' human capital, and, thus, corporate performance in the long run. In particular, business associations played an important role in educating their members on these issues (Martin, 2000). Similarly, Danish business associations played a key role during the 1990s in educating their members about the importance of working with labor unions and state officials to fashion labor market and social policies that helped retrain workers, improve their skills, support workers during periods of unemployment, and help them find new jobs (Martin, 2005, 2006). Business associations like the Chamber of Commerce, as well as local associations, have been influential in encouraging social responsibility in business of various sorts (Galaskiewicz, 1991: 305). In all of these cases, business associations were responsible for institutionalizing a normative climate that facilitated socially responsible corporate behavior among their members.

Of course, nationally organized business associations also played an important role during the early twentieth century in helping to educate their members about the long-term benefits of better industrial relations systems, better worker compensation programs, fairer trade practices, and the like. This was not entirely altruistic insofar as some of this was designed to dampen public concerns about business conduct, which farsighted business leaders feared might create political problems later. But regardless of their motives, this sort of activity did cultivate a certain normative environment that was conducive to corporate social responsibility. It is important to note, however, that this was not uniformly true for all such organizations (Schneiberg, 1999). While some of them, such as the National Civic Federation, were very much at the forefront in proposing relatively progressive ideas among their members as well as in the halls of Congress, others—notably, the National Association of Manufacturers—were more reluctant and in some cases vehemently opposed the efforts of their more progressive counterparts (Kolko, 1963; Weinstein, 1968).

cause they necessarily subscribe to the normative principles that condone such behavior but because firms often mimic what other firms in their environments do in order to curry legitimacy from them (DiMaggio & Powell, 1983). There are at least a few hints of this sort of mimetic behavior with regard to corporate social responsibility (e.g., Margolis & Walsh, 2003: 286; Orlitzky et al., 2003: 426).

Proposition 7: Corporations will be more likely to act in socially responsible ways if they belong to trade or employer associations, but only if these associations are organized in ways that promote socially responsible behavior.

Communication and education also affect corporate behavior in other ways. Comparative political economists have written a lot about the economic benefits associated with interfirm collaboration and cooperation (Best, 1990; Piore & Sabel, 1984). But when communication extends beyond corporations themselves to encompass workers, local community leaders, government, and others, it appears that corporations begin to better appreciate the concerns of these other actors and, in turn, take their concerns into account when it comes to making corporate policy. Corporations act in more socially responsible ways as a result. This is because patterns of interaction affect how actors perceive and define their situations (e.g., Fligstein, 2001a; Ostrom, 1990: Chapter 5; Piore, 1995).

For instance, in the United States the state of Pennsylvania suffered a severe economic decline during the 1970s and early 1980s as its steel manufacturers experienced significant financial losses because of an increase in foreign competition. Initially, manufacturers and unions locked horns in what each side perceived to be a zero-sum game involving issues like wages, benefits, and especially factory closings. As long as this confrontational mentality persisted, things continued to stagnate. But then state officials encouraged the steel corporations, unions, and representatives from the local communities to brainstorm collectively for solutions to the problem of local industrial decline. This effort eventually resulted in more inclusive interactions, greater appreciation for the concerns of each other, less hostility, the formation of a new collective identity, and a variety of innovative programs for resurrecting the local economy. Part of this caused the steel producers to act in more socially responsible ways toward their workers and toward the communities within which they operated (Sabel, 1993).

Legal institutions are particularly important in facilitating this sort of dialogue between corporations and stakeholders. The literature on stakeholders and the literature on corporate governance are particularly helpful in this regard because they have paid much attention to these institutions and how they vary cross-nationally (e.g., Aguilera & Jackson, 2003; Roe, 2003).

Consider first institutions that provide *employees* with a voice in corporate decision making. In some countries workers are guaranteed by law a voice in corporate decision making. For instance, in Germany federal statutes guarantee unions seats on corporate boards of directors and rights to participate in a wide range of corporate decision-making activities (Streeck, 1997). Legislatively mandated works councils are another example that many Western European countries have adopted by law. Works councils are representative bodies elected by employees (regardless of union membership) in a workplace that enjoy institutionalized rights of access to important corporate information, as well as rights of codetermination. Codetermination is shared decision making about matters unrelated to wages and benefits, such as the organization of production on the shop floor, the development of job classifications, the introduction of new technologies, hiring and firing, plant closings, and more (Rogers & Streeck, 1994). Similarly, in Japan labor law reinforces the notion of the firm as a consensual community where employees' interests must be well-represented, such as in decisions to employ workers on short-term contracts rather than the typical life-time employment basis that has governed many Japanese firms for decades (Dore, 2000: 102–104).

Of course, representation rights can also be established through legally binding collective bargaining agreements between unions and corporations. Needless to say, much of this depends on the organizational strength of unions, which also varies widely across countries and depends on the legal and regulatory supports that the state provides for unions, the degree to which collective bargaining is centralized nationally, and other features of national labor law (Western, 1997). However, the European Union has passed directives that oblige employers in all member countries—regardless of the strength of unions—to enter into processes of information and consultation with employee representatives at critical moments, such as when firms become insolvent or managers try to sell the firm to another corporation (Armour et al., 2003).

The German case is worth closer scrutiny because it reveals an interesting dynamic whereby legal institutions helped transform corporate managers' perceptions of their interests in ways that benefited employees and others. The West German state passed codetermination legislation shortly after the Second World War. This meant that workers were systematically involved in corporate decision making. Initially, managers were concerned that this would jeopardize short-term profitability, as well as their managerial prerogatives. However, they came to realize that these new forms of institutionalized dialogue with workers provided benefits that enhanced the long-term competitiveness of their firms. Among other things, this dialogue facilitated collaborative problem solving and flexible labor-management relations on the shop floor, which helped firms effectively adjust to shifting market demands and new production technologies. In some cases this enabled firms to reorient production through flexible specialization in ways that avoided firing workers or closing plants. Thus, as a result of a change in their institutionalized interactions with labor, the mindset of managers shifted, and workers and local communities as well as firms benefited (Streeck, 1997). In other words, firms were more inclined to act in socially responsible ways. Managers still defend this institutionalized dialogue, even under the increased pressures of global competition (Thelen, 2000).

Legal institutions have also facilitated deliberation, discourse, and dialogue between corporations and *community* stakeholders in ways that improve corporate social responsibility. This is particularly evident in the area of industrial regulation. For example, in the area of environmental regulation, Sabel and his colleagues (Dorf & Sabel, 1998; Karkkainen et al., 2000; Sabel, Fung, & Karkkainen, 2000) have examined cases in the United States where firms, local governments, local representatives of federal agencies, community members, and others have been granted legal authority by central government statutes to establish local environmental performance targets. These local actors enjoy political autonomy to collectively establish, monitor, and assess initial performance standards and to adjust practice when necessary in their communities. Later, a central government agency collects information on all of this from each locality; disseminates it across localities; and, in consultation with local actors, uses these data to reformulate and refine performance standards, desirable targets, and the preferred means of achieving them. In turn, the communities work with the new standards, report back to central government for further revision, and so on in an iterative process. So, through an ongoing dialogue between corporations and stakeholders at the community level, and between the communities and central authorities, standards, targets, and measures become benchmarks against which the local firms can then evaluate and regulate their own performance in cooperation with other actors.

Through this sort of institutionalized practical deliberation, the interests of ordinarily antagonistic parties (i.e., corporations and stakeholders) are often redefined, much as occurred in the Pennsylvania and German cases noted earlier, and actors—including corporate managers—begin to expand what they believe to be feasible environmentally responsible practices. Research shows that under these new performance-based, discursive, rolling-rule regimes, firms are more likely to behave in socially responsible ways (Karkkainen et al., 2000: 691–692). This sort of legally sanctioned, dialogue-based regulation is often viewed as a way to overcome the inadequacies of conventional industrial regulation, particularly as globalization undermines the traditional means that governments have to regulate how corporations treat the environment and their workers (Fagotto & Fung, 2003; Fung, 2003).

Of course, legal institutions also determine the degree to which corporate managers engage in dialogue with *investors*. In Germany and Japan, for example, corporate managers share authority with large financial intermediaries, particularly banks, which hold concentrated blocks of stock, thereby making managers highly accountable to shareholders. Much dialogue and interaction with representatives of these intermediaries result. Notably, in Japan managers often meet monthly with intermediary representatives. But in the United States stock ownership is much more diffuse, it is unusual for shareholders to own large concentrated blocks of stock, and financial intermediaries do not consult regularly with corporate managers. As a result, U.S. managers typically have much more decision-making autonomy and much less accountability to investors.

Why do these countries differ like this? For much of the twentieth century, legislation in the United States kept banks relatively small by banning them from operating nationally, entering commerce, affiliating with investment banks or equity mutual funds, and coordinating stockholdings with other intermediaries. The law was much different in Germany and Japan. As a result of these legal differences, managers are much less obliged to engage in dialogue with their investors in the United States than in these other countries (Bühner et al., 1998; Roe 1991, 1993, 2003). This does not mean that investors or other stakeholders are completely powerless in the United States. Given the United States' common law tradition, U.S. stockholders enjoy much stronger voting rights than they do in many European countries with civil law traditions. And creditors in the United States also enjoy greater legal protections against managers than in many European countries (LaPorta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). But voting rights and legal protections do not necessarily provide for the sort of dialogue and communication that tends to facilitate the consensus-based corporate decision making that occurs in other countries.

Proposition 8: Corporations will be more likely to act in socially responsible ways if they are engaged in institutionalized dialogue with unions, employees, community groups, investors, and other stakeholders.

CONCLUSION

To summarize briefly, I have argued that economic conditions—specifically, the relative health of corporations and the economy and the level of competition to which corporations are exposed—affect the probability that corporations will act in socially responsible ways. Weak corporate financial performance and an unhealthy economy reduce this probability, while the level of competition has a more complex, curvilinear effect, where moderate levels of competition tend to elicit more socially responsible behavior but either high or low levels of competition tend to elicit less socially responsible behavior. However, a variety of institutional conditions mediate these basic economic relationships. Corporations are more likely to act in socially responsible ways the more they encounter strong state regulation, collective industrial self-regulation, NGOs and other independent organizations that monitor them, and a normative institutional environment that encourages socially responsible behavior. Moreover, socially responsible corporate behavior is more likely to occur to the extent that firms belong to industrial or employee associations and engage in institutionalized dialogue with stakeholders.

Several issues remain. First, it is important to recognize that the institutional terrain within which corporations operate is not static. Instead, there are dynamic pressures that ebb and flow, causing this terrain to shift over time. This is certainly true, for example, with respect to institutions that facilitate the sort of dialogue that may result in more socially responsible corporate behavior. Bartley (2003) showed that, in response to increased globalization and a desire to move toward neoliberalism, some governments off-loaded some of their regulatory responsibilities to the private sector. Concerned about the implications of such a move, social movements, unions, NGOs, and other stakeholders countered by pressing corporations to act in more responsible ways when it came to caring for the environment and treating their workers decently. According to Bartley, the result was the emergence of institutionalized dialogues among state actors, corporations, activists, NGOs, unions, institutional investors, and other stakeholders over how best to ensure against socially irresponsible corporate behavior. In several important cases this discourse resulted in standards of corporate conduct, certification procedures, monitoring mechanisms, and informal public shaming techniques to ensure that corporations behaved responsibly. Often this activity was supported with resources from states and NGOs.

This dialogue was truly transnational and emergent. However, institutions promoting such dialogue over corporate social responsibility are also in flux at the subnational level, such as in the United States, where, during the late 1980s, several state governments adopted legislation authorizing boards of directors to consider the interests of all corporate stakeholders—not just shareholders (Allen, 1992: 276–277). The point is that the pressures of globalization, stakeholder activism, political decision making, and other forces discussed in this paper will continue to conspire in ways that may change institutions and, therefore, the tendency for corporations to act in socially responsible ways or not.

Second, how does my argument about the necessity for institutions square with the realities that corporations face in an age of increasing economic globalization? Put in slightly different terms, in order to cope with the pressures of globalization, we hear frequently that governments must adopt neoliberal policies, notably deregulation, which are premised on the belief that institutional constraints on corporations tend to undermine competition, market efficiency, and, ultimately, economic performance. Is my argument about the need for institutions to facilitate socially responsible corporate behavior incompatible with the rise of a more globally oriented economic environment and more intense international competition? No. In fact, contrary to the neoliberal argument, these sorts of institutions may actually *enhance* economic performance. For example, evidence in the economics literature suggests that when corporations treat their workers fairly, such as by providing them with a decent living wage, and engage in other forms of social justice, national economic growth and development improve (Kapstein, 1999: 10; see also Putnam & Goss, 2002: 5–7, and Zak & Knack, 2001). Indeed, the World Economic Forum (2003) recently ranked three Scandinavian countries—Finland, Sweden, and Denmark—among the four most competitive economies in the world. It also ranked them very high in terms of the strong ethical behavior of their national corporations. All three are very open economies and, therefore, highly susceptible to the economic pressures of globalization, and all three have the sorts of institutions that I have argued will facilitate socially responsible corporate behavior.[9]

[9] These Scandinavian countries have much state regulation, self-regulation, corporatist bargaining—including well-organized business associations—and other mechanisms for institutionalized dialogue among firms and their stakeholders (e.g., Campbell & Hall, 2006; Hall & Soskice, 2001; Katzenstein, 1985; Lazonick & O'Sullivan, 1996). So far, these institutions have persisted despite increased globalization (Armour et al., 2003; Fligstein, 2001b: Chapter 9; Fligstein & Freeland, 1995; Guillén, 2000; O'Sullivan, 2003; Swank, 2002).

Finally, some suggest that the best way to get firms to behave in socially responsible ways is to convince their managers that it is either the right thing to do ethically or is in their self-interest (Handy, 2003; Kaku, 2003; Prahalad & Hammond, 2003). Appeals such a these may help, but institutions are critical, especially if we are concerned with ensuring that corporations actually behave in socially responsible ways, rather than just pay rhetorical lip service to the issue. Indeed, if substantively responsible corporate behavior improves corporate and, in turn, national economic performance and competitiveness, as seems to have occurred in Scandinavia, then policy makers and others—including firms themselves—would be wise to facilitate the creation and continued nurturing of the sorts of institutions discussed here.

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