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CSR and changing modes of governance: towards corporate *noblesse oblige*?

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background paper commissioned for the
UNRISD Flagship Report on Poverty

September 2008 ▪ Geneva

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Introduction

The governing ideology of both the global and the majority of national economic policy regimes today is normally described as 'neo-liberal'. By this is meant primarily a reliance on 'the market' as the main mechanism of socio-economic governance, with government intervention being withdrawn to its basic role in a capitalist economy of supporting the market regime itself. Even this minimal generalisation can be challenged as too sweeping. First, several authors have pointed out the considerable diversity of approaches that can be and are called neo-liberal (see, for example, the contrast between Danish and US neo-liberalism described by Campbell and Pedersen 2001). Second, the more extreme libertarian wing of neo-liberal thinkers would argue that the state is not even necessary to the maintenance of the market, as left to themselves free human individuals would construct markets.[2]

In the following I shall not re-enter these existing debates, but rather challenge the argument that the new prevailing regime can be best characterise in terms of 'the market'. It will be argued instead that the role of the individual transnational corporation (TNC) as an actor in socio-economic governance has been neglected, not only in accounts of the present but also of the past. It is essential that analysis of the policy and politics of development take full account of the giant corporation as a form of governance in its own right, and not subsume it within concepts of 'lobbying' states or 'distorting' markets. While such approaches might preserve the state/market dualism that is used by the majority of analyses, they direct our attention away from a fundamental institution. Once large firms are seen in this way, it is possible to investigate how they behave, not just as market actors, but generally within society. This opens the possibility of studying corporate social responsibility (CSR) in relation to theories of governance.

The key institution is what Boyer (2007) has called 'the private hierarchy of organizations and firms'. The distinction relates to that made in the theory of the firm between the firm as a nexus of markets and as an organisation (Coase 1937; Williamson 1975). It can best be illustrated with reference to the labour market. A large firm can acquire labour by making a series of contracts with external suppliers of labour services, or it can hire workers directly as its employees, paying them a regular wage in exchange for them placing themselves under the managerial control of the firm's managerial. While they remain in its employment, the firm does not relate to these workers as an equal partner in a market contract, but becomes an authority over them. In fact, even in its contracts a large transnational enterprise dealing with a large number of small, local contractors – as in a supply chain – acquires something of an authority role. These contracts are asymmetrical, with the large customer firm having many more options than the local suppliers. This enables the firm to impose conditions on the suppliers and therefore to act in a hierarchical relationship to them. This will be especially the case where, as is usually the case with TNCs, competition is imperfect, giving firms enough protection from immediate market pressure to develop strategy and exercise discretion in how they manage their relationships.

Boyer, along with Hollingsworth (Hollingsworth and Boyer 1997; Hollingsworth, Müller and Hollingsworth 2002), has developed a general approach to the analysis of different forms of socio-economic governance which incorporates the corporate hierarchy alongside others. He continues (Boyer 2007):

> If the first mechanism [the market] relies upon interest and horizontal interactions among actors, at the opposite, the second [the state] is built upon obligation and an asymmetric exercise of power. Therefore, if one takes into account both the motive of action (either interest or obligation) and the distribution of power among actors (either symmetric or typically hierarchical) four other coordinating mechanisms emerge: the private hierarchy of organizations and firms, the community, the association, and

[2] The classic source for this account of the market as being somehow 'natural' is Hayek (1973). Among important critiques of the position are North (1990) and Greif (2006).

finally network. Hence societies and economies exhibit a multiplicity of institutional arrangements, more or less imperfect, that have to be compared one with another and not with a mythical pure market economy.

A word is needed on the other forms of governance mentioned[3]. 'Associations' are formally constituted organisations of members sharing certain common interests, which they seek to advance by devoting resources to the association and allowing it to work for them. Major examples in the economy are business associations and trade unions, but they also exist in many other walks of life. 'Networks' are less formal than associations; they are unlikely to have a formal constitution or organisation, and may not even have a name. Their members co-operate on an informal basis, and may derive strength from a capacity to pool strength for certain tasks. Major examples are found in the strong but informal collaborative links often found among firms in the same or related industries within specific geographical areas. 'Communities' are similar to networks in their informality, but whereas it is relatively easy for persons to join or leave a network, communities typically have difficult entry and exit, defined by geographical isolation, ethnic specificity or other tight defining criteria.

These concepts are relevant to virtually all parts of the world, but attention will here be limited to developing countries, and primarily to those discussed in the UNRISD poverty programme. Before starting on the general account of contemporary socio-economic governance in these societies, and then moving on to the specific role of corporations within that, and finally their implications for poverty and other social issues, it is necessary to place current changes in the context of what is often perceived to be the system that preceded the neo-liberal one.

Varieties of the developmental state

Temporarily following the state/market dichotomy that will later be criticised, we can depict the pre-neoliberal regimes that existed in many developing societies as having been various forms of the 'developmental state' (Evans 1995; Weiss and Hobson 1995). The stylised facts that present this model of development usually run as follows: At a certain point (some time from 1950s to 1970s, often after colonial liberation) the state committed itself to advancing economic development. Broadly following Prebischian late developer theory (Love1980), it did this by encouraging domestic industrial production behind a wall of protection. This kept out imports from better developed economies, giving local firms a chance to equip themselves to compete. Export activity was therefore also restricted. In most cases there was a concentration on heavy industry (steel, basic chemicals). There was little attempt to build up mass domestic demand, which was considered too weak to drive growth. Both production and consumption were therefore concentrated among state and corporate actors. There was a distinction within this model between those in which the economy was largely owned by the state (e.g. China, the Soviet Union), and those in which private capital operated (sometimes alongside state industries) (e.g. Brazil, India).

A variant of the developmental state departed from the heavy industry and protectionist implications of the pure model. Here development was concentrated on (or at least included) an important role for light industrial products (such as clothing and electrical appliances – e.g. Malaysia). This approach, like the heavy industry model, also saw little role for domestic mass consumption, but was necessarily more export-oriented than the heavy-industry model. It was found primarily with private ownership only, but there was still a strong role for government in supporting the development projects of firms within a national development programme. Because light industry firms could be – though not necessarily were - owned by small and medium enterprises, this approach accommodated a larger social category than could be fully incorporated within national elites, as in the heavy industry

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[3] Strictly speaking, the state should be separated into 'government' and 'law'; this is done in the graphical representation of the argument below, but it is not discussed in the text as our attention is focussed on the role of firms and their corporate hierarchy.

model. Some countries were hybrids of this and the heavy industry model (e.g. Singapore, South Korea).

A final type of economy cannot really be called 'developmental', as it concerned countries with primarily commodities based economies, while the main thrust of modernisation strategies was to get out of commodity production and into manufacturing of various kinds (e.g. Botswana, South Africa). Also, there had typically long been foreign involvement in the sectors concerned. These have therefore not been examples of autarchic development, even if governments have sometimes been concerned at the level of foreign involvement.

The overall pattern in these different forms of developmental state of the various governance modes listed above can probably be depicted as in Figure 1.

Figure 1: Development models and forms of socio-economic governance, 1960s to 1970s

FIGURE 1 ABOUT HERE

Government was clearly the overwhelming force in the state-owned heavy industry model: rule of law was rarely allowed to impede government action. The market played very little part; associational governance was largely an extension of the state within a framework of authoritarian corporatism. Networks and communities actually functioned strongly as the informal economy on which much day to day economic activity but not the state's modernisation strategy depended. In the privately owned heavy industry model, corporate hierarchy played a clear role, though it was often strongly connected to the state.

Under authoritarian corporatism (Crouch 1993; Schmitter 1974), leaders of interest organisations (primarily those of capital and labour) constitute part of the governing elite and do not offer open challenges to the state. Business associations subordinate their member firms to the state plan, while union leaders ensure that there is no labour discontent. The developmental state was likely to make considerable use of this model, as such a state required a mobilisation of national resources around its economic project; it therefore preferred to work with ostensibly representative interests rather than press on alone, just dealing with individual firms. It was also aiming to mobilise the population around its growth project, and found 'tame' unions helpful for establishing links with the working population. On the other hand, tight political control was exercised over union leaders, as the developmental state did not tolerate open conflict. Labour organisations which would not collaborate with such a system would be confronted and subject to sanctions (e.g. the case of Singapore (Chua 2007)). This was far less the case where there were elements of democracy and civil society. For example, India was not an authoritarian system, and unions were active. However, given the vast labour surpluses of the country they were not powerful, and their incorporation was therefore cheaply acquired during the Nehru developmentalist period (Chibber 2007). Depending on the kind of regime, therefore, organised labour might play some part in governance alongside private employers in a more bargained form of corporatism made possible by the existence of private owners. This would be restricted to the modern, industrialising sector and would usually exclude the mass of the rural population. In the light-industry, export-based model, external market forces acquired a stronger governance position in a model that otherwise resembled the previous one.

Networks and, in traditional economies, actual communities, have been fundamental in sustaining and advancing productive activity in a number of different circumstances. They are particularly important in sustaining the informal and even shadow sectors, within which, in practice, a large majority of the working population in developing societies operates. By definition, the shadow sector was not part of a developmental state's strategy, and in the case of a heavy-industry-based strategy its SME base would place it particularly outside the scope of official policy. However, it would play an important *de facto* role in sustaining a more flexible form of economic activity than the formal economy could embrace. Where strategy was based on light industry an informally supported industry might eventually become an important part of a national economy (as in Taiwan (Chang 2007)). Ethnic minorities (or suppressed majorities) often use their tight community networks to sustain informal economies outside the scope of a central sate system. In addition, the family (as a core community institution) is fundamental in traditional societies in maintaining social welfare among poor people. It has therefore often played a background role in development in 'enabling' government not to focus on welfare.

None of these minor forms of socio-economic governance were however as important to the developmental state itself as the hierarchy of the large corporation – even in the state-owned, Soviet form, there was usually a distinction between political and administrative actions of the state, on the one hand, and managerial actions of the corporation, on the other. Where private interests owned the firms that were of strategic importance to the development plan, they became major extractors of rent, as they were the primary beneficiaries of the protectionist policies and of the steering of resources towards their firms. There was mutual interest-serving between firms and government, as the former needed a continuing supply of privileges from the latter, while government needed the firms to fulfil its plans. Usually the same families were engaged in both spheres. Political power could be used to sustain the firms from which the families draw their wealth; and this wealth in turn sustained the families' political dominance.

The elites of rent-seeking corporations in developmental states were *embedded* elites. The protectionist national strategy as well as their family and social links to the political elites, tied their interests to the nation state and it territory. Among these elites community and network governance came very strongly into play. Especially if there were elements of democracy in the political system (as particularly in the Indian case), they also thereby had ties to the population and some organised popular groups, and needed to respond to some of their needs. This explains the simultaneous association of some developmental states with powerful, wealthy, rent-seeking elites and a certain level of welfare-state development. This combination of an economically active state and basic welfare produces a superficial resemblance between the developmental state and social democracy. However, the presence of very wealthy families owning the corporations through which the state operated, and the persistence of extreme poverty despite the existence of welfare policy, suggests a different political model. This was particularly the case when the state was non-democratic and associated with repression of civil dissent or autonomous trade unions. Social policy more often resembled aristocratic *noblesse oblige* than modern concepts of welfare citizenship.

From the classic to the neo-liberal developmental state

At various moments from the late 1970s onwards the different orthodoxies that had governed economic development in the decades immediately after the Second World War – Keynesianism, the developmental state, the social market, state socialism – came under strong challenge from neo-liberal thinking advocating a stronger role for markets and a reduced role for the state. In the eyes of international agencies like the World Bank and the International Monetary Fund, state-directed economic development was associated with corruption among unhealthily mixed economic and political elites. In eastern and central Europe the command economy was clearly stagnating, and a desire to shift to a different system was among the pressures that produced a collapse of those systems at the end of the 1980s.

But behind these changes in ideology lay important shifts in global economic structure, in particular sectoral shifts and a general commitment to participation in international trade. Partly as a result of changes in technology, it was becoming feasible for major corporations to arrange their sourcing, production, distribution and management systems on a transnational scale in order to maximise economies of different commodity, labour and product markets. To realise the gains of such a scale of organisation, firms required a deregulation of national financial regimes, so that they could move money around the world in line with their production activities. This was forthcoming in a series of changes during the 1980s, which quite quickly produced an almost global financial market. This in turn made possible the rise of a global financial sector.

A further technical development that lay behind the changes was the growth of several high value-added, sometimes manufacturing but mainly services sectors that had before been either restricted to national bases by regulation (such as banking and finance itself) or barely existing (information technology). The desire of corporations in the already rich countries to shift from standard manufacturing into these newly growing fields meant more scope for developmental states to operate internationally in the basic and heavy manufacturing sectors, or low-wage, low-skill light industries where they had been accustomed to operate. However, an increasing number of developmental states also saw opportunities for themselves to develop in the new sectors, which were considerably more profitable than both the heavy and light industry specialisms in which they had earlier been working.

These changes produced major shifts in the behaviour of states and economic elites, with consequences across a broad range of policies, including social policy. The changes are often summarised as being a move towards the market, but examination of the full range of governance modes suggests that individual large corporations play a role not strictly anticipated by this. What differs from the developmental state is the kind of corporation concerned and the roles that they play within the society. Also, the state has not disappeared from prominence in the new model as the simple label of neo-liberalism might suggest. Again, however, it plays a different role.

For those countries that had depended on the import substitution model of development the shift to economic openness produced greater shocks than in those with a light industry export model. For both, the internationalisation of finance and production by transnational corporations opened the possibility of new sources of investment and sales in international markets, in exchange for dropping the protection enjoyed by domestic producers. In several countries economic dynamism is today increasingly powered by up-market services sectors. This has considerable attractions in terms of bringing high value added activities into a poor country. On the other hand, it can lead to increasing gaps between those working in such sectors and the mass of the population still in traditional agriculture or the low-productivity sectors of the informal urban economy. As Boyer (2007) concludes:

> More precisely, the impact of internal and external liberalization has been reassessed. In some cases, the strengthening of *market forces* and price mechanisms has been quite helpful in reducing poverty, if not inequalities: it seems to be the case for China and other Asian countries. In other instances, the *full liberalization* of product, labour and financial markets has been quite detrimental to macroeconomic stability since the bursting out of major financial crises has exacerbated poverty creation in the very same countries that represented themselves as dominated by a large middle class: one recognizes the dramatic transformation of the Argentinean economy.

Social policy in the neo-liberal developmental state

Where social policy in many developmental states had been a residual anti-poverty provision, there has now been a considerable increase in a productivist approach: using social policy to upgrade the quality of the work force in terms of basic health as well as skills and capacities. As in the advanced economies, parts of the working population become seen as a resource worthy of investment. A key example is the move from passive to active labour market policies (ALMP). The former had been concerned mainly with guaranteeing incomes security during times of employment instability; ALMP was concerned to improve the individual workers' chances of gaining better and more highly skilled employment. Similar approaches developed in other fields, including the improvement of social infrastructure in order to improve national or city-level competitiveness (OECD 2006). These kinds of policies implied a state that was actively engaged in promoting national economic strength, not through autarchy and centralised national plans as in the 1960s, but by strengthening the basis on which firms could compete in global markets. This is a distinct agenda from a true neo-liberal one, in which ALMP means the provision of negative and positive incentives to individuals to enter the labour market. The two can however become mixed as a general, combined productivist strategy for labour-market activisation. The governments of countries seeking to enter the dynamic new sectors of the high-tech economy became increasingly interested in aspects of this model.

The competition state, as the new form of active but neo-liberal state is often described, can, and often does, imply bearing down on labour costs, welfare spending and social infrastructure to give free rein to market forces and TNCs to pursue development goals in the context of profit maximisation. In these cases poverty, poor health and low educational levels are not a problem and may even be a condition of the growth model. Even where there is a social partnership approach to the issues, the desperate need to attract investment may lead to neglect of social needs. For example, Kaggwa (chapter 8, volume 2 of this project) describes how the competitiveness challenge created by the re-integration of South Africa into the global economy in 1994 motivated a partnership between government, industry and labour to map out the country's policy for the automotive industry. The policy framework formulated was successful in enabling local industry to participate in the global automotive value chain, but social outcomes were relegated in the process leading to subsequent policy concern among organised labour and government.

There is however also the possibility of a stronger emphasis on social policies. As Boyer (2007) expresses it:

> …..by providing some basic collective goods related to health, education and security, the corresponding [welfare] expenditures should be classified as investment, since they contribute to social capital formation. Its volume and composition are therefore factors of production and contributors to growth….. Within these new analytical frameworks, some *welfare policies* aiming at the development of workers and citizens securities may have favourable productive impact and positively affect the dynamic efficiency of the economic regime.

Farnsworth (2005 and chapter 2, volume 2 of this project) tracks the development of this position in the stance of international organisations. For example, by 2005 the OECD was promoting active social policy that might help change the conditions in which individuals develop, rather than limiting themselves to ameliorating the distress these conditions cause. (OECD 2005) Its 2005 Report promoted employment-centred social policy, and defended the private financing of social policy as a way of helping individuals to 'face the true price of social protection, and thereby reduce the risk of excess provision' (ibid. p43). He shows a similar shift in the position of the World Bank, which in the same year (2005) spoke of the need to create opportunities for people to escape from poverty and improve their living standards.

Experience has been so varied that it is difficult to provide a coherent overall account of the impact on welfare and poverty reduction policies across developing economies, or even