

# CSR into (new) perspective

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## Abstract

**Purpose** – *This paper aims to provide a theoretical approach of Corporate Social Responsibility (CSR) in order to assess whether CSR will develop as a concept pushing efficiently for more de facto social responsibility or will become a pure marketing artefact. The trade-off between the development of CSR behaviour and lobbying over regulations is a key element that will influence the evolution of CSR. The result is that if the world consolidates or if it tends towards multilateralism to a large extent, then CSR is less likely to have an efficient impact.*

**Design/methodology/approach** – *Theoretical approach based on three fields: credence goods, greenwashing and political economy.*

**Findings** – *The coordination is harder for lobbies in the more multilateral scenario. The more politically powerful group would lose its influence on the decision body in the multipolar scenario. If lobbies keep influencing their state governments, the efficiency would also be reduced in the regionalization or multipolar scenarios. The easiness of the greenwashing strategy is also crucial in order to determine the possible evolution of the CSR as a real commitment that benefits environment and society.*

**Research limitations/implications** – *Countries may take advantage of CSR by offering an advantage to firms willing to develop CSR thanks to public regulations if greenwashing is easy and if the evolution of the world that prevails is similar to the tripolar or regionalization scenarios. This may also occur under the multipolar scenario but it would necessitate an effective international coordination.*

**Originality/value** – *This is the first work that brings together the strategic behaviour of firms with respect to Corporate Social Responsibility and political economy determinants. The predicted evolutions of these two features according to the degree of multilateralism as well as how they are intertwined are also novelties of this paper.*

**Keywords** *Corporate social responsibility, Forecasting, International economics, International politics*

**Paper type** *Research paper*

## Introduction

If the rising interest for sustainable development within societies may explain an emerging interest for Corporate Social Responsibility (CSR) within firms, this concept is rather vague and the motivations of firms are often unclear. Many economists are even sceptical about this concept. If we refer to Milton Friedman's famous sentence (1962), "the only social responsibility of firms is to make profit", the development of social or environmental policies may be seen as the managers wanting to capture a share of the shareholders' rent. From a completely different perspective, many NGOs are very sceptical about the real commitments of firms and criticise the will to weaken or neglect hard laws to the benefit of soft laws and self-regulation.

The concept of CSR is far from new. It is much older than that of sustainable development. Bowen (1953) was the first one to define the concept in the US. CSR was motivated by ethical and moral considerations. The goal was to correct the "excesses of capitalism" by fighting immorality within business without using public regulation. The original idea of CSR

was thought to be compatible with profit maximisation, and philanthropy would be conditional to this first aim. In Europe, the concept was largely unknown before the beginning of the nineties even if the institutionalisation of social protection and labor rights for workers after the Second World War is often considered as a kind of *implicit CSR*. *Explicit CSR* emerged due to the worsening image of multinational firms and the persistence of an economic crisis in the nineties. Still today, the motivations for CSR in Europe and in the US often differ.

There is however a willingness to create a more homogenized vision of CSR at the international level. The development of international initiatives such as the OECD principles, or the UN Global Compact in the Global Reporting Initiative, illustrates this. More recently, the International Organisation for Standardisation (ISO) adopted the ISO 26000 guidelines on corporate social responsibility, proposing an international definition of CSR based on various visions (the Anglo-Saxon and the continental European ones mainly). It is worth noticing that the US representative at the ISO voted against the adoption of this standard. Interestingly, ISO 26000 is a set of guidelines and not a certifiable standard. This will not help overcome doubts about how real the commitments of firms are. Today, the European Union tries to earn recognition as the leader in the development of CSR (see the 2006 and 2011 communications by the European Commission). This position has been challenged however by critics in the civil society who state that the EU Commission was too focused on firms only, excluding other shareholders such as workers, trade unions or NGOs. Moreover, the EU Commission only considers CSR as a voluntary commitment for firms, explicitly excluding any kind of public regulation. Hence, a rather common definition of the concept of CSR is that a firm is socially responsible if it outperforms environmental and social law.

The main message of this paper is that CSR in itself may have to be redefined. We argue in particular that the interaction between greenwashing practices and political economy introduces trade-offs for firms in their strategic choices with respect to CSR. As a consequence, CSR as it is defined today may contradict some aims that are socially responsible. We underline the importance of NGOs and social enterprises that may bring a two-tiered solution. First, as active actors, they may help detect greenwashing practices. Second, the model on which they are based introduces a new way of conceiving CSR since well-being, inside and outside the firm, is their first aim, before profit maximisation. This aspect makes redefining the concept of CSR possible. We also argue that one should treat the question of CSR at the national level and at the international level differently, as the assessment of socially responsible behaviours does not require the same criteria. When firms have many locations where they can invest through foreign direct investments (FDI), choosing a country with high social and/or environmental standards should be rewarded, which is not the case under the current definition of CSR.

Finally, we show that depending on the evolution of the economic and geopolitical organisation of the world in the coming decades, whether the world remains atomic or tends to more multilateralism, the evolution of the current concept of CSR may differ. A more atomic world may favour the development of hard law and then may bring CSR to an end. On the contrary, a multilateral world may favour soft law and thus reinforce the concept as it is. Lastly, the two approaches of CSR exposed above, international and national, may converge in the case of multilateralism.

In order to further analyse the perspective for CSR, we start by underlining the major stakes as well as the dynamic elements concerning CSR in the next section. Then we move on to the explanation of the main concepts whose dynamics will determine the evolution of CSR. In the third section, we present three key notions: credence goods, greenwashing and the debate between hard law and soft law and its links to political economy. The fourth section highlights the influence of these notions on the concept of CSR. In the fifth section, we expose the four scenarios on the future of CSR and regulation and the dynamics that each one involves. Finally, the last section concludes.

## The stakes and dynamic elements about CSR

Three main questions emerge when analyzing possible prospects for CSR.

### *Verifiability, soft and hard information*

The first one concerns the verifiability of the real commitments of firms. Civil society is often very sceptical about CSR policies. How can the efforts made by firms with respect to CSR be qualified and quantified? In order to analyse the communication strategies of firms related to their CSR commitments, we use the distinction between soft and hard information proposed for instance by Dewatripont and Tirole (2005). Hard information is by definition the only information that conveys the truth about a claim, but is very expensive to send. One can understand it as the proof that a given effort has been made. For instance, how to guarantee that no children are working for a company? A simple picture or a visit of one plant is not enough. What about the other plants? What about what happens in this plant when no camera is there? Most firms use sustainable development reporting to assess their commitments, but the variability and the sufficiency of such reports are often discussed. Even in the case where an external audit is carried out, all the activities of a firm cannot be controlled. Hence, many firms use soft communication, arguing that the effort has been made without proving it because it is much less expensive. Thus, an element that will prove to be critical is the evolution of how easy sending hard information is compared to sending soft information. A stronger public scrutiny, especially led by NGOs, will increase the mistrust towards soft communication, a type of communication that mostly occurs in advertising and through the publication of non-verifiable reports on sustainable development. The development of faster telecommunication possibilities may help to send hard information. Another means to increase the communication of hard information may also be some active policies at the state or regional level.

### *Hard law vs soft law*

The second question raised about the future perspective of CSR development is the relative position of soft law and hard law. It is worth noticing for example that unions have been very reluctant to engage in CSR within firms because they were wary of promoting self-regulation instead of public regulation. Unions have often claimed that CSR was an attempt to decrease their bargaining power through the will of firms to set social or environmental commitments unilaterally in the name of ethical considerations, without any negotiations with union representatives. Now, they are adopting a much more nuanced point-of-view, considering that the development of CSR as soft laws may be in some cases complementary to hard laws and public regulations. We find here an interesting debate on the possible substitutability or complementarity of CSR to hard laws. The outcome of the debate will largely depend on the evolution of the institutional context. Two elements in particular are central. First, hard law is not necessarily opposed to CSR as it can be influenced through lobbying activities. As a consequence, how easy it is to influence regulations will have an important implication on the relative strength of hard laws versus soft laws. The answer actually differs depending on the prospective scenario chosen. Additionally, hard law and soft law may be complementary for governments, as soft law may serve as a first move made by some firms in a sector towards a more stringent regulation whereas hard law, without being more stringent, may consolidate the behaviour of firms by forcing other firms to comply and ensuring that no firm will reconsider this good practice in the face of financial difficulties.

### *The cost of CSR*

The third question is related to the costs of engaging in CSR. If CSR does indeed represent a real commitment (and not only communication), it is costly in most cases. However, these costs may be compensated by increased consumer demand. There is a growing literature on the willingness to pay for social or environmental attributes which confirms this possible demand (see for instance Dickson, 2001). Firms may have to invest in order to integrate

these attributes and thus keep their position in some markets. However, it is consumers who pay the price.

A consequence of the higher cost facing an uncertainly higher demand (and hence a higher price) is a first mover disadvantage that can prevent a good evolution of CSR as a social benefit. If a firm is the first to invest in CSR, it will turn out to be less competitive. As often, it is the large number of firms that will help reduce the cost and increase the demand for products with higher standards. Thus, although all firms consider that it may be profitable to invest in CSR, they will not engage in it unless other firms do it. This is a typical problem of Nash under-optimal equilibrium due to the lack of co-operation between firms. It is worth noticing in this specific case that firms may not be reluctant to face tightened regulations set by the decision maker if they consider that these regulations can effectively ensure a cooperative behaviour between all firms. This depends on the rule of law and law enforceability in the country.

### *Taking advantage of anticipated regulations*

We make the case here that the first mover disadvantage may become a first mover advantage. If firms anticipate future public regulations correctly, the first one to invest in CSR will have a comparative advantage once the regulation is enforced. As a quite old strand of the literature in industrial organisation puts it (see Bartel and Thomas, 1985), a complementary aspect is that a firm which has adopted a CSR behaviour can lobby the government in order to apply a “raise your rival’s cost” strategy. It consists in influencing the government to set a higher standard which is more costly, the aim being to obtain the exit of the least productive firms in the sector and therefore to take their market shares.

This argumentation may also be true at the state level. Many governments fear that they will suffer from a comparative disadvantage if they set tighter social or environmental regulations, which may explain a race to the bottom on these issues. However, the stronger this phenomenon of social or environmental dumping is, the more corporate social responsibility is needed, in order to satisfy the consumers’ social or environmental demands.

To sum up, distinct dynamics may emerge, both at the firm level and the government level. The dynamics of regulations may also interact with the dynamics of CSR, as a substitute or complement, depending both on the institutional context and the consumers’ demand. Whether demand for CSR (understood here as an effective progress) becomes higher or not will lead firms and states to act in favour of CSR. A key element with respect to this is to know whether the efforts of the firms have to precede a strong demand for CSR products or if demand will increase on its own driving more and more firms to consider CSR as a strategic aspect, possibly not honestly. The short-term evolution seems to suggest that firms are considering CSR, but not too much. They recognise that small claims about CSR may help sell a product at a higher price, but they do not want to have to invest heavily in CSR. There are two reasons for this. First, large investments are costly and uncertain. Second, a growing popularity of CSR will probably be accompanied by international rules that will force multinational firms to face their responsibilities all around the world. The development of such international rules, which depends on the capacity of countries to agree on such an international system, is one of the major stakes that would help CSR be beneficial for society. As a consequence, firms are reluctant to popularize CSR practices more than necessary.

### **Three key notions**

In this section, we present three elements that interact with those described above and hence will influence their dynamics.

#### *Credence good*

The original typology was first introduced by Nelson (1970). It involves three different kinds of goods: ordinary goods, experience goods and search goods. Darby and Karni (1973) have added a fourth category, credence goods. Ordinary goods are goods whose

characteristics are well known and that are precisely located, a usual example is oil. Search goods need to be inspected before being bought in order to observe their characteristics, e.g. clothes. Experience goods have unknown characteristics before buying them and their characteristics are revealed after buying or consuming them, e.g. wine. Finally, the characteristics of credence goods are unknown even after having consumed them, but the utility one derives from them is known; for instance a taxi ride in an unknown city.

CSR is very hard to quantify. Consider a consumer that has a choice between two goods. They both yield the same utility and one of them bears some CSR claims for a higher price. As a consequence, the "quality" of the product, here the real CSR efforts of the firm selling the product, is unknown and therefore the analysis of CSR today considers goods bearing CSR claims as credence goods.

As soon as the CSR content of a good is hard to determine, firms may be tempted to lie about the CSR content of the product sold to generate a higher profit, since the CSR content of the good is supposed to explain a higher price. The practice is called greenwashing.

### *Greenwashing*

In a recent paper, Bazillier and Vauday (2009) explicitly showed that one of the major concerns about greenwashing is the ability to convey hard information (i.e. verifiable information). Indeed, a lack of hard information may help some firms to greenwash. Each consumer (or type of consumer to make things easier) has a theoretical quantity of soft information such that, once consumers have received this level of soft information, they are convinced that the firm is indeed engaged in developing CSR. Sending hard information is very costly, but it is the only way to create a real distinction with greenwashers. So greenwashing could really impede the development of CSR as this practice may lead people to mistrust any firm which argues that it is practicing CSR. As it cannot send enough hard information to cover its CSR claims entirely, it also has to send soft information. If the latter is not credible at all, then the level of CSR effort which the consumer will infer will solely correspond to what the hard information suggests, i.e. a lower level than the real level. Hence, why would a firm invest at such a high level?

It depends on the ability to send hard information and its cost. Either one supposes that for each claim it is impossible to send hard information that proves this claim completely. Or one supposes that sending hard information concerning a small number of claims is feasible. In the first case, by iteration, the firm will end up not practicing CSR at all. In the second case, the firm will end up at a sub-optimal level of CSR effort because of greenwashing. Hence, reducing the cost of sending hard information is crucial and one way of doing it is by mutualizing costs.

We believe that states could be those that provide a part of this hard information by setting constraining regulations. By offering firms the possibility to invest in a territory where it is compulsory to make investments in this or that dimension of CSR, states would provide a very powerful signal. Governments would not lose out by setting these regulations first because they would attract socially or environmentally responsible investments.

Is there a real demand for this or could it be that firms prefer to internalize it? It is probably too costly to internalize the communication of hard information. A state, through its administration, has much more power to do this. As a consequence, the participation of states could provide useful help for firms which try to differentiate themselves from greenwashers. This strategy led by states would then depend on what they believe to be the potential interest in CSR in the future.

Contrary to what has been argued on the carbon tax, being the first is not necessarily a problem. The underlying idea is very simple: since the environmentally friendly regulation is compulsory, every firm that locates in the country where the regulation has been set sends *de facto* credible (or hard) information on the fact that it respects the commitment corresponding to the regulation. Of course, one of the major issues related to this is the government's ability to credibly commit itself to enforcing the regulation. If the government

cannot be credible, this would be another way to practice greenwashing, using the non-enforced regulation to falsely prove that a firm respects its corresponding commitment.

Another possibility could come from NGOs which could gather consumers who want to have information about CSR, provide information after claims have been verified and then communicate this information to a broad audience. Hence, firms could interact with such intermediaries instead of trying to convey hard information to each consumer themselves.

### *Political economy*

“Soft laws” and “hard laws” can be seen as strategic complements if regulation is used to attract socially responsible investments. However, this possible evolution is based on very specific governance assumptions. Depending on these assumptions, CSR and regulation can also be substitutes.

More specifically, CSR and regulation may be substitutes for firms. They may have the choice to invest in order to develop their own CSR commitments. They may however suffer from the practice of greenwashing, at least *ex ante*.

It is hard for firms to convincingly distinguish themselves from greenwashers because of how difficult it is to send hard information (either hard to find or expensive to send). Thus, the efficiency of a dollar spent by a firm is exposed to a risk. On the side of “hard law”, an increasing real CSR content made compulsory by a new regulation may imply the exit of the least productive firms in a sector, since those firms will not be able to bear the additional cost induced by the CSR regulation. As a consequence, firms may prefer to influence the government so that it sets more stringent regulation on a given dimension of CSR. Assuming that the rule of law and law enforcement are both good, this will lead to the exit of the least productive firms which are unable to comply with the new regulation because of the additional cost, as argued in Rebeyrol and Vauday (2010).

Ultimately, the question is to know which group is politically more efficient. On the one hand, one can suppose that firms which do not invest in CSR have some money that is possibly available to organize a lobbying activity. On the other hand, one may consider that firms which invest in CSR are more productive and thus richer, which would make them potentially more powerful as lobbyists. If a lobbying activity is made easy by a government or a political system, this could represent an opportunity. However, as showed in Rebeyrol and Vauday (2010), the fact that a lobby is more powerful financially than its competing counterpart is not enough to ensure that it will be more efficient.

An efficient lobbying activity may work better than the establishment of a “soft law”. The efficiency of the lobbying activity depends on several factors. It depends in particular on the size of the sector and on the number of organised lobbies in the economy. It also depends on the government’s preference for social welfare (see Grossman and Helpman, 1994) and on the existence of counter power such as consumer groups or unions. It also depends on consumer preferences which will drive the government’s preferences. Having a converging interest with the government is obviously a strong advantage in a lobbying competition.

The evolutions of these determinants as well as the evolutions of the determinants that may facilitate the greenwashing strategy and those allowing an aggressive strategy on the part of the government through public regulation depend on the scenario chosen.

### **The influence of these notions on the concept of CSR**

Before turning to the possible scenarios chosen, another aspect is worth discussing. As we have just showed, CSR may follow different paths. Broadly speaking, it can be mainly based on “soft law”, or mainly developed through the implementation of hard law, or a mix of these two approaches. In the first option, firms are the driving force by engaging in the development of internal standards and through their harmonisation on a sector-level basis. The government’s function is only to support this activity, mainly by providing ways to convey hard information more easily, in order to circumvent greenwashing strategies that may

impede the development of CSR practices. Civil society, especially through NGOs, should also be able to help firms bring some hard information.

In the second option, firms lobby for the implementation of more stringent regulations. This implementation should be feasible, as we may assume that real CSR-oriented regulations improve social welfare. As a consequence, the interests of lobbying firms and those of the government should be partly aligned. This should make the lobbying activity more efficient. As for governments, they would implement, under the lobbies' pressure or not, some more stringent regulations. As argued in a previous section, they could even do so in order to allow firms to easily send hard information. Civil society may also lobby for more stringent regulations.

Finally, in the case of a mixed development of CSR, firms prefer "soft law" to "hard law", while governments still produce more stringent regulations.

The paradox is that a possible development of good CSR practices is at odds with the basic principle of CSR. Indeed, as mentioned before, a good performance in CSR amounts to outperforming what is compulsory by law. In order for firms to have more credibility with regard to the hard information which they send implies raising the level of regulations. Yet, it then becomes marginally harder to outperform the regulation because it is more stringent than before. Firms may choose to send hard information either because it kills some competitors, or because the government's proactive policies aim at offering localisation choices which, when chosen by firms, send a strong signal on the CSR commitment of these firms, i.e. send hard information. The cost of improving CSR may be considered to marginally increase in the level of CSR.

To put it differently, a definition of CSR stating that being socially responsible means respecting standards that are above those required by the law may imply CSR will disappear when the cost of doing CSR increases. However, can we argue that respecting more stringent regulations on purpose does not amount to being socially responsible? Obviously, we cannot. Hence, the concept of CSR must be reconsidered. As mentioned before, social enterprises may bring solutions to this seemingly dead-end. Indeed, for social enterprises what is important is not related to outperforming the law, but to reversing priorities. By first trying to "maximize" social well-being or at least guaranteeing high social standards are respected, inside and outside the firm, before, conditionally to this first aim, maximizing profit, a firm is socially responsible. The way the firm reaches this first aim does not matter. It could be through soft or hard law. Reversing priorities signals a socially responsible behaviour, not the outperformance of the law.

If CSR remains defined as outperforming the law, then a development at least mixed of "soft law" should be preferred. However, as we have argued, greenwashing may represent a real obstacle to the credibility of the concept. A good way to circumvent this issue is to facilitate the communication of hard information on the CSR commitment of firms. In this case, governments themselves should provide means to do so, and they should also promote the development of NGOs or social enterprises that are crucial in that respect.

An interesting conclusion that emerges from this discussion is that CSR should be separated into two distinct concepts, even if this separation is quite hard to achieve. First, firms that want to increase their profit by selling CSR products do not have an interest in hard law which implies that all competitors must comply with more stringent regulations. However, firms aiming at capturing the market shares of less productive competitors should prefer hard law to soft law. Hence, the fact that the first aim of a firm is to maximize profit is not sufficient to discriminate between both concepts. Second, a firm that has reversed the order of its well-being and profit maximisation priorities should not have a preference between a new CSR concept that integrates the fact that firms have chosen to locate in countries with more stringent regulations as being socially responsible and the current one that is based on outperforming the law. Third, if the real objective behind the concept of CSR is that practices become better for social well-being, taken as a whole, then hard law should be more efficient than soft law. This is conditional on the fact that the political process that leads to the

implementation of the law does not end up with a lax law and that the law enforcement is good. All in all, the current concept of CSR is too restrictive since it does not value some socially responsible behaviours. However, turning to another concept that would include these behaviours may impede the willingness of some actors, mainly firms, to invest in CSR. As a consequence, we need to distinguish between CSR at home that should remain based on a mix of soft and hard law and international CSR that should integrate both outperforming the local law and choosing a location with relatively high social standards and good law enforcement. This last condition of good law enforcement makes the commitment of the firm to being socially responsible credible. The international dimension of CSR should be treated differently than its national dimension and this question needs to be addressed quite rapidly as CSR represents a growing concern in bilateral regional agreements on foreign investment.

As the last issue of the World Investment Report (CNUCED, 2012) underlines, a growing number of new investment treaties include some aspects of CSR. Moreover, new policies designed by governments to attract foreign investments also include some elements of CSR. The major part of these CSR initiatives is related to soft law as the affirmed objective consists, according to the WIR 2012, in encouraging a CSR behaviour by firms and increasing the co-operation between national authorities and firms on CSR. Hence, from now on, governments seem to be focusing on developing co-operation on good practices rather than on the implementation of hard law in order to help firms send a signal. If this trend is confirmed in the coming years, then the essential goals will be dealing with the issue of greenwashing by facilitating the communication of hard information and fostering the development of social enterprises that may help fulfill this aim and contribute through their practices to the development of a new paradigm of CSR.

However, the governments' willingness to increase soft law and the co-operation with firms around the question of CSR may be impeded by the evolution of the global economy and its structure over the next decades. The next section deals with three alternative scenarios on the evolution of the structure of the world economy and the implications each one may have on the concept of CSR in the future.

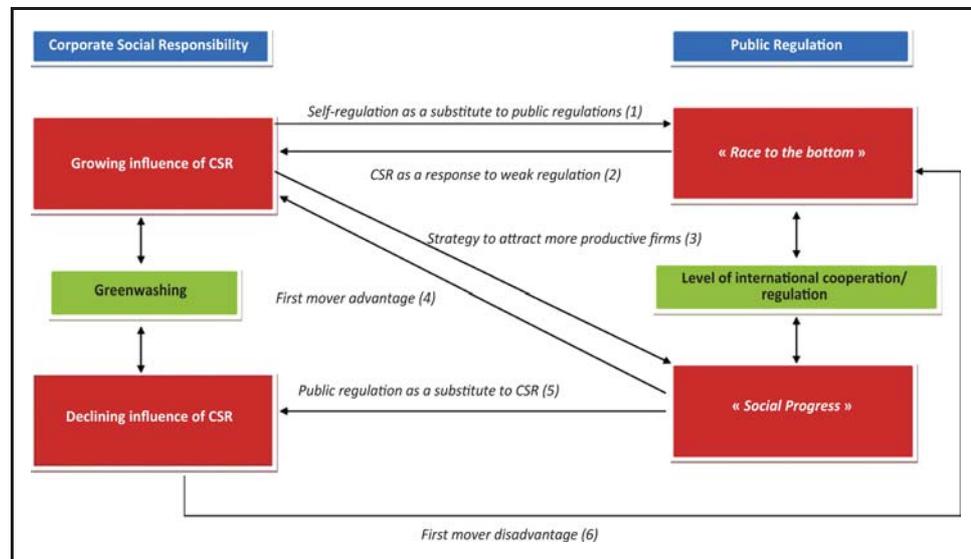
### **Global assumptions and the future of CSR**

Our starting point is the four global assumptions developed in the article by Petit and al. (see this volume): consolidation, tripolar, regionalisation and multipolar. We want to study the interactions with the dynamics of CSR development. First, it is important to notice that the relation between CSR and these assumptions may be double. The dynamics of CSR development may influence the probability to tend towards one of these macro-economic scenarios or another. However, the role and nature of CSR will also largely differ depending on the scenario. We will study both relations.

We consider that the first scenario involves the smallest degree of multilateralism, as we remain at the state level. The second and third scenarios that we discuss simultaneously involve a higher degree of multilateral decisions as they rely on regional decisions. The fourth scenario implies multilateral decisions for a number of fields. Hence, in the first scenario, decisions are mostly taken by one country, in the second and third, decisions are taken by about ten countries and in the fourth, several dozens of countries take most of the decisions.

Before reviewing in detail each of the scenarios, we briefly define possible channels between corporate social responsibility and public regulation (see Figure 1). As argued, the dynamics of each may be substitutes or complements depending on some assumptions. For instance, a growing influence of CSR may go along with a declining influence of public regulation if firms use self-regulation in order to avoid tighter public regulation (1). On the contrary, if the demand for social or environmental attributes is high enough and if public regulation is weakening, it may also explain a higher interest from the firms in CSR (2). In both cases, public regulation and CSR will then be substitutes. However, a very different story is

**Figure 1** CSR and public regulation



possible. In the context of a growing influence of CSR, states may be tempted to tighten their social or environmental standards in order to attract more responsible firms. If we assume a positive correlation between CSR and productivity, it may be a successful strategy to attract productive firms (3). Firms may also react to a tightening of these standards. If firms anticipate future public regulation, they may gain a competitive advantage and thus use CSR as a first mover advantage (4). In these cases, CSR and public regulation will be complements. A last scenario in which CSR and public regulation are substitutes is a combination of a declining influence of CSR and a reinforcement of public regulations. If labor and environmental standards are high enough, it may become difficult for firms to go beyond such requirements. In this case, the sole responsibility of firms would be to enforce laws, giving less space to CSR (5). However, a declining influence of CSR may go along with a race to the bottom (see Copeland and Taylor, 2004, or Cole *et al.*, 2006, on pollution havens) and a weakening of public regulation if the first mover disadvantage predominates. In this case, a race to the bottom would be observed both at the firm and the government level in the lack of international coordination (6). The international framework of regulation plays a significant role. It can be influenced by the development of CSR, but it will also determine the outcome of a game between states on the determination of the labor and the environmental standard level. If the “first mover disadvantage” is predominant, states will tend to compete over labor and environmental standards and a race to the bottom may be observed. On the contrary, if states manage to coordinate, we may tend towards the opposite outcome. Finally, as stated above, the verifiability of the commitments of firms is a key aspect in the development of CSR. If greenwashing strategies predominate, the value of individual efforts may decrease and thus impede the development of CSR.

### Consolidation

There is a double relation with CSR. First, if firms use CSR as a way of avoiding public regulation (1), the development of CSR may be one of the determinants explaining a trend towards this scenario. The recent introduction of the ISO 26000 guidelines may be a signal that the world tends towards a no (or weak) public regulation state. It may also be the case if firms are unable to coordinate and refuse to endorse a possible first mover disadvantage. In other words, if CSR and public regulation are substitutes, the development of CSR may go together with a scenario of consolidation.

If they are complements, this scenario may bring about a weak development of CSR (6). To discriminate between these two options, the possibility for firms to greenwash is very

important. If greenwashing is a dominant strategy, then the last option (weak CSR and public regulation) is the most probable. If there is strong public scrutiny on the real commitments of firms, then the substitution option is more likely to occur. However, as the consolidation scenario is based on a reduced interventionist role of the states, we consider it less realistic. At the

EU level, if the trend is not changed, case (6) is the most realistic in our view. The 2006 EU commission communication clearly focuses on the voluntary feature of CSR and explicitly excludes public regulation regarding CSR. In 2011, the European Commission published a strategic document for the 2011-2014 period. Even if they still focus on the “self and co-regulation processes”, they also want to improve the disclosure of social and environmental information by companies, through a new legislative proposal on this issue. The scope and ambition of such a proposal will be an important element to explain the further dynamics of CSR in Europe.

Intensive “green communication” may alter the credibility of the commitments of firms. Consumers may become more and more sceptical towards social and environmental responsibilities. This may reduce the incentives for firms to strengthen their commitments on this matter. Firms may reinforce their level of CSR in order to avoid more stringent public regulation. However, the strength of these commitments may be too weak to convince consumers. We will see if the proposed legislation will impede such evolutions.

If the world remains mostly at the state level, as argued by Abélès (2008), the situation will be particularly good for lobbying activity. Indeed, Abélès argues that despite the development of international organisations, states remain the relevant level of study. The nation-state should however be abandoned since the notion of territory is not a key aspect. States are able to influence many decisions and not only on their territories. In fact, states keep on ruling within international organisations; the effective transfer of sovereignty is quite weak. However, only a few states can enjoy extra-territory power, as theorized by Antras *et al.* (2011).

In parallel, as illustrated by Bourdon (2010), another aspect due to the large number of independent countries is that multinationals take advantage of the nonexistence of international laws, especially with respect to Foreign Direct Investments (FDI). It will be hard to file a lawsuit against a firm from a developed country, or it will be done only on a restricted responsibility basis (i.e. the value added in the country where the prejudice is observed) if it is convicted for a prejudice with respect to a CSR dimension (such as polluting a river).

As a consequence, lobbying states is a good strategy for firms which can go in two directions. It can either lead to less stringent regulations after lobbying has taken place or the opposite. A multilateral initiative regarding FDI may either help reach the positive issue or the negative one, depending on the content of such an initiative. If it offers an effective way to force firms to face their responsibilities and organize a worldwide coordination allowing for tighter regulations, CSR occurs through lobbying for more stringent regulations rather than through soft law. However, if this international framework limits the capacity for states to regulate in order to guarantee free competition, it has the opposite effect, reinforcing the capacity of firms to lobby for less stringent regulations.

### *Tripolar or regionalization*

In the situation of regionalism, one may observe a trend of specialisation either in some dimensions of CSR (e.g. environmental in Europe, social in the US) or a specialisation No-CSR/CSR. Each regulation framework may differ. The “Anglo-Saxon view” of CSR based on voluntary agreements without state regulation may become dominant in some regions. The continental European view of CSR based on a mix of regulation and voluntary actions may develop in other regions. Due to the divergence of social models, international coordination could become much more difficult. Investing in one specific country may be seen as a signal for consumers, depending on the overall regulation in this specific country.

The case of Europe in these scenarios depends on whether there is a consensus or not on CSR or a part of it. In other words, is there goodwill to regulate? The last communication on CSR by the European Commission was based on the idea that CSR is a substitute to regulation. The only shareholders considered in this matter were firms themselves and their top managers. However, if this “new Europe” is based on new ideas regarding regulation and social dialogue, the European Commission’s view on CSR may change. If CSR is seen as a way of reinforcing the competitive advantage of socially responsible firms, the need to coordinate the promotion of CSR with public regulation and a control over the commitments of firms should be taken into consideration.

Another aspect that may suggest more or less public regulation relies on the argument put forth by Ornelas (2005). The idea is that with larger blocks composed of several countries, lobbying becomes harder because it requires coordinating more firms and it is likely to face an increased free-riding problem. Thus, whether firms would like more or less stringent regulations, the fact that it is harder to lobby implies a trend towards a situation which is not desired by firms. Ultimately, this depends on greenwashing. If it is too easy to greenwash, some firms will want more stringent regulations in order to practice CSR because they need to differentiate themselves from no-CSR firms, as explained in section 2. Other firms will want less stringent regulations in order to continue to practice greenwashing. Hence, the issue depends on the relative power of each group. In this situation, less lobbying will disadvantage the more powerful group. It could be the group of greenwashers and no-CSR firms since, by definition, they save a lot of money because they do not invest in CSR. Alternately, it could be CSR firms as they may be more productive.

In a tripolar or regionalisation scenario, if greenwashing is easy (i.e. sending soft information is not expensive, contrary to sending hard information, and/or consumers are gullible) and if the greenwashers are the powerful group, then there should be a trend towards more public regulations, as reduced lobbying efficiency is detrimental to the more powerful group, i.e. the greenwashers. This would allow the government to set the policy it wishes to without being influenced by lobbies.

If greenwashing is hard, then we expect the opposite to occur. More soft law should be observed as developing soft laws is easier than lobbying a supranational entity. In this situation, developing the lobbying activity is useless because CSR firms can differentiate themselves from other firms. If greenwashers try to lobby, it will have no effect, as CSR firms are above any regulations that could be set. As for CSR firms, they may be tempted to lobby if they are the more powerful group politically in order to lead the decision makers to increase standards and thus force no-CSR firms to exit the market or comply with more stringent regulations. However, the most important feature in these scenarios is that lobbying is made less easy, so the key aspect is to know whether greenwashers are strong politically or not. If they are not strong, CSR could be achieved through soft law, which would reinforce the EU’s current position. If they are strong, then regionalisation will decrease their power and therefore leave room for more stringent regulation. In this case, CSR will be weakened by not regulating.

### *Multipolar*

In a multipolar world, CSR may be relevant if for instance global citizens who value both their interests as producers and as consumers introduce a real concern for social and environmental issues in the policy led by the producing entity. Under this assumption, CSR can be used to strengthen labor and environmental standards in developing countries if the state in these countries has failed to increase these standards effectively. International regulation and international institutions may be used to control the commitments of multinational firms effectively. This would therefore offer a solution to the problem raised by Bourdon (2010) on the difficulty to file a lawsuit against a multinational firm that has committed a prejudice in a country where law enforcement is weak. International framework agreements may become a tool of social dialogue at the international level. Countries may

develop strategies to attract the most responsible firms (3) and these firms may benefit from a first mover advantage (4) if they anticipate public regulation correctly.

Moreover, international coordination could provide a useful forum to prevent races to the bottom. This could provide a good environment to allow states to offer firms stringent regulations to help them send hard information and thus overcome the greenwashing problem.

Again, an international coordination of FDI (including all countries) could lead countries to play cooperatively and therefore may prevent a race to the bottom, if it is not a way to limit the states' ability to regulate. The risk stemming from a real transfer of sovereignty to an international FDI organisation is that countries may lose their right to set more stringent regulations, which amounts to an internationally organised race to the bottom.

## Conclusion

As we have seen, depending on the scenario considered, it is more or less easy to influence the decision body. Coordination is harder for lobbies in the most multilateralized scenario. The more politically powerful group loses its influence on the decision body in the multipolar scenario. If lobbies keep influencing their state's government, efficiency is also reduced in the regionalisation or multipolar scenarios, as the regional or multilateral decision process dilutes each state's power. Hence, politically, it is very important to identify which group is more powerful. In parallel, how easy it is to implement a greenwashing strategy also proves crucial in determining the possible evolution of CSR as a real commitment that benefits the environment and society.

Is it possible for countries to take advantage of CSR by offering an advantage to firms which are willing to develop CSR thanks to public regulations? This win-win situation is clearly more likely to occur under easy greenwashing and tripolar or regionalisation. It has a chance of occurring under the multipolar scenario, but it would require effective international coordination. So far, states have not really been able to manage multilateral negotiations and thus chances are that the win-win scenario will not occur since the multipolar case is unlikely to become a reality in twenty years.

Finally, we propose to reconsider the concept of CSR in order to integrate the fact that being socially responsible at home or abroad through FDI does not necessarily imply the same good practices. An important aspect that remains to be clarified is the benchmark to choose. Should the location choice of a firm be evaluated compared to the performance of its country of origin or should it be evaluated compared to other possible international locations? We leave this question for future research.

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