

# The Logic of Collaborative Governance

Corporate Responsibility, Accountability, and the Social Contract



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## **Corporate Social Responsibility Initiative**

The Corporate Social Responsibility Initiative at the Harvard Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors.

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## **For Further Information**

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# Abstract

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Emerging collaborative arrangements between public and private institutions provide the potential for novel ways for enhancing the provision of public goods. This potential is framed by organizations' willingness and ability to participate in such arrangements. Business engagement is a particular challenge given business' distinct societal mandate to create private economic gain. The basis of business accountability establishes the logic of business' terms and interests, and therefore its participation in such collaboration. This basis of accountability is, however, in constant flux. "Corporate responsibility" is proposed here as the ongoing negotiation and realignment of this basis, which in turn is driven by the micro-dynamics of business competition, risk management, and reputation. This dynamic is described in terms of the interaction between micro, business-level learning and macro, societal learning. The potential for "collaborative governance"—the process by which multiple actors, including public and private institutions, come together and evolve, implement, and oversee rules, providing long-term solutions to pervasive challenges—depends on the pace and direction of such learning.

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## Collaborative Discourses

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Everyone wants to collaborate. Even those who do not want to work together want to be seen to be willing, at least in principle if not in practice. Talk of partnerships, alliances, coalitions, and networks fill the media. Wars have become clubbish affairs, whether against terrorism, drugs, or poverty. The language of competition has become intertwined with that of cooperation, as even the most aggressive acquisition strategy is made to appear like courtship and marriage. “Open source,” the ultimate expression of “come as you are and contribute what you can,” symbolizes a political challenge to the old order of control through delineation and ownership, and yet also represents the latest organizational model for business innovation and financial enrichment.

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Collaboration is this era's source of hope. The language of dialogue, participation, and consensus increasingly underpins today's utopian visions of social organization, from South Africa's post-Apartheid Truth and Reconciliation Commission through to engagement with Iran over the development of nuclear capabilities.<sup>1</sup> It is through collaboration, often involving the oddest bedfellows, that we vest this generation's hope for effectively addressing the challenges of poverty, inequality, and environmental insecurity. Partnerships involving public institutions, and private commercial and civil society organizations, underpin a growing number of initiatives addressing issues as diverse as HIV/AIDS, labor standards, obesity, and corruption, and the delivery of public services from education to traffic systems to safe and civilized prisons.

There are literally millions of such partnerships in the world today, of every possible shape and color, many localized and focused on specific issues, and a growing number operating at a national or international level. The potential of such is now well-documented, combining institutional competencies, cultures, and access to resources.<sup>2</sup> Their span is immense, not just in application, but also in who participates, what drives them to engage, and to what effect.<sup>3</sup> This diversity is particularly apparent when it concerns the drivers for business involvement. At one end of the spectrum are those created on the very edge of the market, essentially “philanthropy plus” partnerships, delivering public goods in ways that offer sufficient business as well as social gains to attract sustained corporate involvement. At the other end are the burgeoning numbers of classical public-private partnerships. These embed commercial contracts at the core, providing specific profit-making opportunities in return for well-defined public good outcomes.<sup>4</sup> In between these polarities is an almost infinite range of intermediary variants, blending rationales, competencies, and outcomes.

A growing number of such multi-stakeholder partnerships are, crucially, gaining influence beyond well-defined, localized, and operational benefits.<sup>5</sup> Increasing numbers are establishing and indeed enforcing wide-ranging norms of behavior, often well beyond the activities and impacts of direct participants. These governance roles are sometimes preconceived, as in the case of the Extractive Industry Transparency Initiative, the Forest and Marine Stewardship Councils, the Equator Principles, the International Council on Mining and Metals, the Global Reporting Initiative, and the World Commission on Dams. In such instances, the declared intention of the partnership was to create rules for a well-defined domain of activities intended for application to those involved in such activities, whether private commercial actors or public governmental or intergovernmental bodies. In most cases, however, multi-stakeholder partnerships are not formed with the strategic intent to establish new modes of governance (beyond, that is, some notion of the preferred approach to governing the partnership itself). The UK-based Ethical Trading Initiative (ETI) and the U.S.-based Fair Labor Association (FLA) are both multi-sector partnerships established to encourage code compliance and good practice in how business handles labor standards in global supply chains. The FLA was conceived as a standards initiative, with a code and an agreed mechanism for monitoring compliance. The ETI, on the other hand, was conceived of as a collaborative learning platform, albeit also involving a code similar to that adopted by the FLA. While very different in their conceptions, the FLA focused on rules and compliance and the ETI on learning and development, both have had the effect of establishing *de facto* rules of the game in how a growing number of branded retailers and their suppliers deal with labor standards. Both the ETI and FLA have, with other initiatives, created a new governance environment for labor standards linked to, but operating independently from, existing bodies of agreed international labor standards, or indeed national labor law and the statutory means by which these standards are, or should be, enforced. Both have, in practice, mutated into “governance micro-climates”—organic, evolving subsystems of rules covering such diverse topics as animal rights, human rights, child labor, environmental impacts, and obesity—separate but also inextricably linked to broader, contextual institutional norms and dynamics.

The broader political potential of collaboration has not gone unnoticed. Recent years have witnessed the emergence of a vibrant political discourse rooted in such collaborative governance models.<sup>6</sup> Governments and international agencies have begun to explore the new opportunities for delivering public goods through collaboration. The business community, strengthened by the legitimacy of the rhetoric of “corporate responsibility,” has become more visible in advocating its preferred public policy solutions, and actively engaging in both their development and enactment, particularly where private delivery options exist. Labor and civil society organizations have, rhetorically at least, been more resistant to joining the collaborative party, highlighting both general and specific potential downside implications. Organized labor, for example, has highlighted the dangers of

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corporate responsibility, legitimized by multi-stakeholder partnerships, eroding the place of collective bargaining grounded in trade union organization. Civil society organizations, more generally, continue to be suspicious of the effectiveness of “soft regulation,” arguing that non-statutory rules are not adequately enforced and effectively block more traditional statutory approaches to enforcing social and environmental standards of behavior. In practice, many of these more reluctant partygoers have edged toward greater involvement in aspects of collaborative governance, perhaps afraid to miss the boat, and seeking to set their terms of engagement in the currency of the accountability of these collective endeavors. Despite such misgivings, for example, labor and civil society organizations have continued to support the UN Global Compact and specific initiatives such as the Ethical Trading Initiative and Social Accountability International's SA8000 standard.

The advocacy by governments and international public agencies for a more collaborative approach to governance has emerged as a crucial element of mainstream political discourse in a growing number of countries and regions. The case of Brazil illustrates this emerging discourse. In the run-up to the Brazilian presidential elections of 2002, the candidate Luiz Inácio Lula da Silva, heading the Workers Party, which had been historically confrontational toward the business community, made much in public of wooing the business community as proclaimed partners in development. At its most basic level, this was a sound electioneering tactic, pacifying a nervous domestic business community as well as calming international financial markets, both means to the end of convincing the electorate that economic calamity would not follow Lula's campaigning success. But election tactics were clearly only the first part of this collaborative governance agenda. In the run-up to the elections, Lula's establishment of a high-level Commission involving many key business and civil society leaders to advise him on economic policy signaled, at least ritualistically, his commitment to an approach that drew business, labor, and civil society into the decision-making process of government. A core part of the approach adopted involved the use of a corporate responsibility discourse to evoke a sense of both the need and the legitimacy of the wider engagement of business in the development of Brazilian society. The historic meaning of this was particularly marked in the case of Brazil, where the business community had become, in effect, complicit in supporting the nation's earlier undemocratic experience.

In advancing this collaborative vision, Lula made much of engaging with and through Brazil's business networks, particularly Instituto Ethos, a network with almost 1,000 corporate members, together covering a major part of the Brazilian economy.<sup>7</sup> Ethos has emerged as Brazil's leading progressive business network and an increasingly important player in spearheading Brazil's, and increasingly the international, corporate responsibility movement. Working with and through such networks, both Lula's successful presidential campaign and subsequently his administration has sought to secure political and economic support for his

combining of a conservative macro-economic stabilization program (e.g., vis-à-vis monetary and fiscal policy), an aggressive approach to international political economy (e.g., trade negotiations), and a costly social program (e.g., the *Zero Hunger* program). Each of these programmatic elements had historically not gained broad-based support. The Workers Party's traditional constituencies had supported social programs and rejected conservative economic stabilization programs, while the business community had rejected an aggressive international position on trade, advocated macro-economic stabilization programs, and avoided where possible expensive social programs. Lula's administration saw an opportunity to take Brazil forward into an era of macro-economic stability and market liberalization, and in return business would support social programs, both through non-statutory participation in the resourcing and delivery of these programs, and by their willingness to continue to do business in a country wedded to a program of social development.

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It is too early to judge the success of Lula's eclectic programmatic approach, let alone the place of the underlying collaborative premise in building and sustaining support. Macro-economic stability and market liberalization have proceeded apace, to the delight and profit of much of the business community. Currencies have stabilized, inflation and interest rates have fallen to modest levels, and there is a general sense of business confidence. Early signs of economic growth after a long period of stagnation have become apparent, although it is unclear how much of this can be attributed to domestic policies as opposed to rapidly growing Chinese demand for Brazilian commodities exports. Lula's flagship social program, *Zero Hunger*, has fared less well. Well-resourced, welcomed by all parties, involving the business community at all levels, the program has run into problems, arguably on the back of both design and implementation difficulties.

The *Zero Hunger* program does not, however, offer the real test of collaborative governance. The real test arguably lies in the deeper challenge facing Lula's administration to develop and deliver much-needed public services and infrastructure. On this, the core of Lula's strategy is to promote public-private partnerships, seeking to draw in private resources and expertise, effectively offering private gain in pursuit of public good. Here the nub of the partnership model underpinning Lula's approach comes under most scrutiny and pressure. Is there sufficient understanding, trust, and mutual interest for government and business to combine forces in the delivery of public goods in ways that balance public and private interests? Or will private resources prove not forthcoming, or only available at terms unattractive to a fiscally and democratically responsible administration?

Similarly in South Africa, when it came to power in 1994, the ANC-led government evoked the importance of collaboration as the heart of South Africa's renaissance. The political and economic imperative of collective action provided a powerful image, set in the context of Nelson Mandela's call for a "rainbow nation."

Extraordinary innovations such as the Truth and Reconciliation Commission set the stage for a decade of political and economic experimentation in collaboration as the core of South Africa's development model. The South African government, newly empowered and vested with the international legitimacy of the liberation struggle, visibly embraced the principles of the international market, private ownership of productive capital, and profit-making. In return, business in the newly proclaimed social compact was encouraged to focus on the agenda of black empowerment through more and better jobs in business and through greater black ownership of the country's productive assets.

Much like Brazil, the ANC pursued a traditional, conservative macro-economic and fiscal policy agenda, accelerating the liberalization of the domestic economy, seeking to loosen up the labor markets and stabilizing inflation and interest rates. As in the case of Brazil, the ANC took up the flag of inward investment and export competitiveness as the key platform on which South Africa's economic growth could be based. Unlike Brazil, however, the black empowerment agenda had direct implications for business and economy, and much was done over the first decade to promote transfers of assets to the black business community and promote black management and procurement from black-owned businesses.

Collaboration was in this context largely about the willingness of the ANC to look for "voluntary" progress in the black empowerment agenda, in return for the avoidance of heavy-handed regulation or, in the extreme, direct government intervention in the ownership of productive assets. Progress has been made, certainly. But for many this has been frustratingly slow, with a growing concern that the approach has entrenched the rights and rewards of "white capital" in return for these actors being joined by a small black business community. This frustration has increased pressure on government to consider the more extensive use of regulatory instruments to accelerate the economic empowerment of the black majority. This pressure has in turn led to the emergence of a new generation of collaborative initiatives, particularly a series of industry-level charters—voluntary agreements between largely white-owned business, government, labor, and black empowerment business vehicles—to accelerate the transfer of ownership and control of some assets.

The political discourse of dialogue and collaboration has been a crucial element of South Africa's efforts to build a transition from a politically isolated country practicing apartheid to an emerging economy drawing from and delivering benefits to its citizens in more equitable and productive ways. With an eye on the ongoing disaster of Zimbabwe's crumbling political economy, declining democratic processes, and imploded political consensus, business, government, and labor have worked hard in South Africa to maintain credible progress. These sketches of Brazil and South Africa illustrate the use and potential of multi-stakeholder dialogue and collaboration as a key feature of political and economic discourses, policy development, and practice. These two illustrations are certainly



not adequate in proving any specific thesis, particularly since both concern unusual political and economic conditions that might not translate to other national and regional contexts. It is, nevertheless, worthwhile to explore common elements between the two cases, and so provide a basis for posing questions that can frame both deeper and more extensive analysis.

Collaborative governance rhetorically seems to serve as a means of managing political and economic risks associated with high societal expectations, often combining fears and concerns with diverse and substantial demands. In the situations of Brazil and South Africa, this combined with perceived high risks and opportunities associated with the global economy, including the need for inward investment, export growth, and currency stability. Both cases combine what would historically be seen as conservative macro-economic policies with more radical approaches to international relations and community and firm-level policies and practices. It is crucial, perhaps, to understand the connections and disconnects between rhetoric and practice. The rhetoric is clearly enabling: creating space and opportunity and mitigating risk. The practice too often lags, bogged down in the realities of the very institutional rigidities and political and economic interests that the call for dialogue and collaboration seeks to overcome.

“Corporate responsibility” has undoubtedly played a powerful role in the legitimization and operationalization of collaborative mechanisms for action in the cases of both Brazil and South Africa. At the rhetorical level, it has proved to be in the interests of both business and governments to acknowledge and signal respectively a broader role for business, validated both through recourse to “the business case” and deeper arguments about the role of business in society. Without this rhetoric, the legitimacy of collaborative governance would be in doubt among concerned constituencies of both governments and business. Beyond this, the rhetoric of corporate responsibility unlocks potential for exploring innovative approaches to delivering public goods. As I explore below, the alchemy of collaborative governance plus corporate responsibility can help to overcome the historically confrontational, inflexible, and self-limiting basis on which the social contract between business and society has been defined and outcomes created. This legitimizes the exploration of initially non-statutory approaches to delivering public goods, involving either traditional voluntary modes of engagement, or else the development of non-statutory rules of engagement enforced through collaborative arrangements.

## Collaboration as an Organizing Principle

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*Are formal mechanisms rooted in complex institutional alliances today's prototypes of tomorrow's mainstream approaches to governance, or are such mechanisms transitory stages or symptoms of governance challenges that will eventually be resolved through more traditional statutory means?*

Our Brazilian and South African sketches point us toward the core question explored in this paper. This is, in short, *are formal mechanisms rooted in complex institutional alliances today's prototypes of tomorrow's mainstream approaches to governance*, or are such mechanisms transitory stages or symptoms of governance challenges that will eventually be resolved through more traditional statutory means? To advance on this requires some underlying conceptual questions to be addressed. Some of this concerns the need for some basic definitions that open the way for more robust empirical exploration. It is important to offer up an analysis that can capture the dynamics of collaborative governance, particularly as it relates to the dynamics of markets.

This paper explores this question with a focus on the role of business in these governance micro-climates, although the analysis carries implications for public institutions and civil society organizations, and the final sections extend the country case analysis to related public policy strategies. One reason for this focus is that it is business that most explicitly bases its legitimacy on its ability and right to create private gain, compared to other actors whose legitimacy is rooted in their mandates to create public goods. Because of this, a reasonable *a priori* assumption is that impediments to collective action for the public good are likely to be most pronounced for business. How best to overcome these impediments can thus usefully be explored by examining the basis on which business engagement can be secured. A second reason for focusing on business is in recognition of its historically unprecedented situation and potential, with growing control over resources and their allocation, enormous influence over many aspects of the political process, and extraordinary breadth and depth of competencies. Business, in short, has to be part of any effective solution to today's and tomorrow's major social and environmental challenges.<sup>8</sup> The question is no longer whether, but how and to what effect.

# Redefining Corporate Responsibility

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The changing role of business in society has emerged over the last decade as both a possible catalyst and outcome of changes in our governance arrangements. There is a voluminous and rapidly growing literature on the phenomenon of what has variously come to be known as corporate responsibility, corporate social responsibility, and corporate citizenship.<sup>9</sup> Why this phenomenon has blossomed in recent years can be boiled down to a small number of underlying shifts in the basis of economic value creation.

- The historic *increase in the importance of intangible assets* as a value driver. Some of these assets, most significantly brand and broader reputation, are affected by how business deals with social and environmental impacts. The links between these impacts and value-creating intangible assets are very real, but also quite complex. Significant brand damage through civil campaigning is a far less frequent occurrence than assumed in the media. Similarly, even where such damage does exist, its connection to market valuation (i.e., share prices) is weakened by the short-termism of the investment community, whereas many social and environmental issues impact only on longer-term business performance.<sup>10</sup>
- *Public value as a growing source of economic value*, with a growing proportion being located in businesses' delivery of public goods such as health, education, and policing, often through partnerships with non-commercial organizations. The implications of this are twofold. One is that businesses seeking to enter these sensitive markets have a far greater need to maintain a positive reputation. Second is that many business models in these markets depend on “non-market” engagements to extract commercially valuable knowledge and support, which again requires acceptable reputations.
- The impact of the *growth of the size and reach of individual businesses*. This has the effect of enormously increasing the potential for externalities to strike back, and hurt. For example, the consolidation of the mining industry means that a reputational hit in one small site somewhere on the planet can impact on the entire reputation of the company, and so the profitability of its global operations. Interestingly, this raises the prospect of civil campaigning being most effective in relatively monopolistic markets, exactly where traditional analysis predicts the most likely damage to consumer interests.
- The *changing communications environment*, which further increases the potential for amplifying—both positively and negatively—the performance of one part of a business on the others, whether through corporate communications or civil campaigning. In particular, what has been termed by

John Elkington as the “global fishbowl,” has realigned the basis on which institutions and indeed individuals are brought to account, with “smart mobs” serving simultaneously as collective auditors and judges, while also taking it upon themselves to implement the punishment through brand and other forms of campaigns.<sup>11</sup>

These factors have driven a growing debate and, lagging but also emerging practice, concerning the need for businesses to take greater account of social and environmental and broader economic factors into business strategy, decision-making, and behavior.

The debate on what we will here term “corporate responsibility” (CR) legitimizes an increasing, visible engagement of business in the design, development, and implementation of policies and practices that impact the delivery of public goods. For some, CR represents the early stages of a social revolution in the role of business in society that will transform its purpose and so also the application of both its power and competencies. For others, the legitimization afforded by CR is misplaced, a superficial distraction from the main game of consolidating corporate power for its traditional purpose of growth and profit maximization.<sup>12</sup>

Business impacts on societies have under the contemporary banner of CR chalked up some notable successes, but have also failed to-date in penetrating and impacting many other parts of the business community. On successes, there is little doubt that working conditions in global supply chains of premium brand retail companies have improved as a direct result of civil campaigning and resulting adoption by business of codes and practices that go beyond the law or what parts of the law are in many countries effectively enforced. Similarly, the reduction in the prices of drugs to treat people with HIV/AIDs in poorer countries has happened as a direct consequence of effective campaigning and business innovation beyond statutory requirements.

On the other hand, changes in business practices under the CR rubric have barely touched some sectors, notably the arms industry, have failed to move the United States among others to a more progressive stance in dealing with climate change, and have made little overall impact to the big picture on poverty and inequality. Even gains made in labor standards in sectors under the public spotlight, such as textiles and apparel, seem vulnerable to broader changes over which corporate responsibility seems to hold little sway. The end of the Multi-Fiber Arrangement on 1 January 2005, for example, has already eroded the competitiveness of countries that have embraced more costly labor standards regimes, such as Cambodia and Thailand, to the advantage of those who have not, notably China.<sup>13</sup>

The positive depiction of the effects of CR on businesses’ contribution to addressing social and environmental challenges made by many practitioners sounds convincing. Our overall knowledge base, however, remains anecdotal. In particular,

the literature on scaling up CR from the individual unusual case to the norm is illustrative and evocative, but remains under-theorized and under-researched.<sup>14</sup> Work on “responsible competitiveness,” for example, exploring the links between micro-level CR and the broader dynamics of competitive markets that drive economic growth and distribution, provides useful direction for future work but little by way of robust conclusions.<sup>15</sup> Rigorous theoretical and empirical work has been lacking or is, at best, inconclusive.

One constraint to furthering more systematic understanding of the field is definitional. Most definitions of corporate responsibility refer to business taking social and environmental issues into account, evoking some unclear combination of changed values, purpose, function, and outcomes. Some limit the domain of CR by reference to those aspects that lie beyond the law (i.e., what business has to do anyway to stay on the right side of the law). The European Commission, for example, defines corporate social responsibility as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”<sup>16</sup> Casually, such a definition may well be reasonable, combining a clear non-statutory boundary condition along with a sense of the topic, “social and environmental,” and an equally broad sense of functionality in the use of the phrases “integration...into business operations” and “interaction with their stakeholders.” Closer consideration of such a definition, however, reveals deeply rooted ambiguities. The substantive boundaries set by the use of the term “social and environmental” are in practice ambiguous, excluding nothing and adding little by way of focus. Similarly, the language of “integration” and “interaction” do provide some signals, but lack adequate depth for either close examination or robust conclusions to be reached.

Corporate responsibility in this paper is not so much understood as a set of issues or functions, and as I will argue cuts across traditional differences drawn between voluntary and statutory. Rather, corporate responsibility is understood here as being about the process by which businesses’ roles in societies are renegotiated and realigned. In this sense, it is more usefully seen as an ongoing macro or societal process with micro-level organizational implications, rather than a micro-level experience that requires generalization. It has no set issues, since these will evolve over time, as they do. From this point of view, being responsible is not a fixed point of reference established by how one or more issues are integrated into the business, but rather understood as the quality of the dynamic process by which companies absorb societal expectations and lessons regarding risks and opportunities in the design and practice of business. This way of looking at corporate responsibility is reflected in and consistent with a definition provided by me in earlier work of the “*civil corporation*.”

Judging and ultimately guiding corporate performance requires an examination of whether a business is *doing what it can do* given its range of external options and internal competencies. Internally, this concerns the

formal, explicit policies and processes, organizational cultures and values, and patterns of leadership. Externally, this is a question of the multitude of business drivers, from direct, short-term market pressures through to longer-term strategic challenges and opportunities.

A business' contribution to sustainable development therefore needs to be understood in terms of its viable options and what it makes of them. Internal and external factors together create a spectrum of possibilities at any point in time that define a corporation's practical scope for making decisions between viable choices. Whether and how a corporation acts within its degrees of freedom must be the test of responsibility, and indeed the basis on which management decisions are framed. These are the fundamentals of the *civil corporation*. A corporation that is said to be civil is understood here as one that takes full advantage of opportunities for learning and action in building social and environmental objectives into its core business by effectively developing its internal values and competencies. This formulation provides a sound basis for grounding our expectations of business, and how strategy can be conceived and developed to address the aspirations and challenges underlying sustainable development.<sup>17</sup>

Sir John Browne's Stanford Business School speech on climate change was groundbreaking in setting out his, and so British Petroleum's (BP's), acceptance of the realities of global warming, and an inspired and strategic insight into the future basis on which competitive advantage for BP could be gained. The Danish pharmaceutical company, Novo Nordisk, searching for a business model based on a preventative approach to diabetes, has in part rooted its approach in a realization that the emerging global epidemic cannot be adequately addressed through even the lowest priced insulin. In both cases, an underlying classical business logic remains. British Petroleum and Novo Nordisk may of course have made errors in seeking to adjust their business models to the imperatives of climate change and impoverished diabetics. But there is no doubt that such re-engineering was done with a view to their accountability to shareholders.

Jack Donahue distinguishes "intensive" from "extensive" accountability.<sup>18</sup> From this perspective, public interest organizations, including governments, have "extensive" accountability in having to make decisions and take actions framed by accountability to many stakeholders with often diverse and conflicting interests. On the other hand, businesses, whether privately owned or publicly quoted, have been understood as having a narrower or more "intensive" accountability to their owners whose interests have historically been taken to be predominantly financial. Corporate responsibility as exemplified by the cases of BP and Novo Nordisk, can usefully be understood as a blending rather than a shift from intensive to extensive accountability. Sir John Brown's championing of the climate change agenda, or Novo's attempt to lead in developing a preventative approach for diabetes, in no way signal a rejection or marginalization of shareholder interests. Yet at the same

time, both cases are clearly behaving as if they are embracing a more extensive accountability. Indeed, both companies have argued that they are more accountable to shareholders than their competitors through their better insights into the logic of tomorrow's markets, and their strategies for taking their companies into the future.

“Corporate responsibility” can therefore be understood as no more or less than *the domains within and processes by which business renegotiates and realigns its basis of accountability*. There are three basic pathways along which businesses' accountability boundaries can extend and are already extending.<sup>19</sup>

*“Corporate responsibility” can therefore be understood as no more or less than the domains within and processes by which business renegotiates and realigns its basis of accountability.*

- First is *the creation of new knowledge (or new ways of communicating existing knowledge) that demonstrates the relevance of extended boundaries to the same constituencies to which the organization is accountable, who in turn have unchanged interests*. For example, establishing new corporate accounting and reporting that enables financial analysts and fund managers to factor in previously under-valued non-financial aspects of business performance. This can best be understood as a *tactical* “it’s good for business” argument.
- Second is *the re-alignment of the perspectives of those who hold the organization to account*. Providing new information may not be relevant if the predicted impacts on business performance are over a longer time horizon than the investor is taking into account. Re-educating investors, for example, or more likely shifting the incentives of fund managers to extend their time horizon, changes what information that they will count. This is the *strategic* “it’s good for business” argument.
- Third is *to change the architecture of accountability itself*, thereby acting to mitigate the first-mover disadvantage and the free rider problem. Building on the case of the investors above, this might for example involve a change in the regulatory framework or interpretation of fiduciary responsibility that requires investors to take account of certain social and environmental aspects. This we might think of as the *transformative* “it’s good for business” argument.

These three pathways—the first being a shift in available information, the second concerning a change in the interests of specific actors, and the third involving a change in the rules of the game—are of course a simplification of the complex dynamics that underpin business decisions regarding what non-financial factors they should take into account. But the advantage of this simplification is that it provides an effective means of anchoring any consideration of these dynamics, such as leadership, values, and organizational culture in a theoretical framework that lends itself to empirical analysis. We can directly observe whether Wal-Mart is making business decisions as if they perceive some accountability for labor standards in their global supply. In doing so, we do not have to make assumptions about leadership, values, or a change in purpose. Crucially, we do not have to make essentially arbitrary judgments about whether they are doing it for business reasons or have transcended such basic instincts.

# Corporate Responsibility as Learning

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“Corporate responsibility” is traditionally framed as a well-defined set of activities, often evaluated against a set of normative goals, such as those embedded within the UN Global Compact’s ten principles or the OECD’s Guidelines for Multinationals. Corporate responsibility from this perspective is about, for example, “doing business in ways that respect human rights,” or “selling drugs at affordable prices.” These are certainly laudable and hopefully achievable ambitions. But they drive us toward the error of understanding corporate responsibility as if business was an autonomous agent, individually and collectively, making rational choices within a broader system. This is true of course for particular businesses, but is not the case for business *per se*.

*The alchemy of corporate responsibility lies not in how it describes or informs the actions of individual businesses. To stay at such a micro-level is to accept business as usual, and in effect to view corporate responsibility as defining the exceptional. Far more important is whether corporate responsibility portends, or indeed actively catalyzes, a shift in the underlying social contract that defines the very nature of business.*

The alchemy of corporate responsibility lies not in how it describes or informs the actions of *individual* businesses. To stay at such a micro-level is to accept business as usual, and in effect to view corporate responsibility as defining the exceptional. Far more important is whether corporate responsibility portends, or indeed actively catalyzes, a shift in the underlying social contract that *defines* the very nature of business. Here we are trying to redefine the mundane, rather than illuminate what is inspiring. To better understand this, we have to explore the possible systemic effects (that is, on business as a social phenomenon) of individual companies being driven by the logic of today’s competitive markets to extend their accountability to embrace a growing range of social and environmental impacts. From this perspective, *corporate responsibility has to be understood not as a static, functionally defined phenomenon but as a contingent, negotiated pathway of change in the role of business in society.*

We can examine this pathway by exploring the place of corporate responsibility in the dynamic interplay between organizational and societal learning. The underlying argument is as follows. Organizational learning is driven by contextual imperatives. For business, this means in particular the competitive dynamics of the market, which includes the pressures placed upon business by non-market actors such as governments and civil society organizations. These pressures are in turn driven by changing expectations based on what society thinks is possible and desirable, or what we call here “societal learning.” The responses of individual organizations to changing societal expectations drive their specific successes and failures. But beyond this, these responses can impact how business as a whole functions within the system, which in turn evolves as a result. These dynamic interplays redefine the role of business in society on an ongoing basis.

This argument has been simply modeled to illustrate the underlying point.<sup>20</sup> For a single business, we can conceive of five corporate responsibility organizational



learning stages. Learning often starts with a state of denial by a company as to its accountability (“this is not something we are actually responsible for, even if our actions influence outcomes”) for a specific set of social or environmental outcomes. Following its acquisition of Union Carbide the chemical giant, Dow, made its view clear that it was not responsible for events at Bhopal, and that legally binding settlements effectively closed its book on the topic. Similarly, pharmaceutical companies and drug availability to poor people, food companies and health outcomes associated with overeating, tobacco companies and the right to smoke, and textiles companies and labor standards in global supply chains, are all cases in point where, challenged in public, companies initially retorted, “these may well be real problems, but not ours.”

But companies change their attitudes as they see it in their interest to engage with the issue, or else are driven by over-arching values that are at least not inconsistent with their underlying financial imperatives. Typically, businesses move through a period of compliance, then see the need and gain from integrating issues into core management processes. Over time, they find themselves facing deeper strategic challenges, caricatured by oil companies seeing their future in energy, car companies in mobility, and pharmaceutical companies in delivering health rather than drugs. At the highest stages, particularly the fifth—“civil learning”<sup>21</sup>—companies find themselves actively engaged in lobbying for public policies that are supportive of their increasingly responsible practices.

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#### CORPORATE RESPONSIBILITY & ORGANIZATIONAL LEARNING

STAGE	WHAT ORGANIZATIONS DO:	WHY THEY DO IT:
DEFENSIVE	Deny practices, outcomes, or responsibilities	To defend against attacks to their reputation that in the short term could affect sales, recruitment, productivity, and the brand
COMPLIANCE	Adopt a policy-based compliance approach as a cost of doing business	To mitigate the erosion of economic value in the medium term because of ongoing reputation and litigation risks
MANAGERIAL	Embed the societal issue into their core management processes	To mitigate the erosion of economic value in the medium term and to achieve longer-term gains by integrating responsible business practices into their daily operations
STRATEGIC	Integrate the societal issue into their core business strategies	To enhance economic value in the long term and to gain first-mover advantage by aligning strategy and process innovations to the societal issue
CIVIL	Promote broad industry participation in corporate responsibility	To enhance long-term economic value by overcoming any first-mover disadvantages and to realize gains through collective action

Key to this staged learning is that at no time does the individual business move outside of its own logic and basis of accountability. At each step, the business sees the sense within its logic of (intensive) accountability in extending the boundaries of what it takes into account. But over time, the macro effect is that the business community (say, in a particular market or sector) incorporates norms of behavior that in practice imply a greatly extended (extensive) basis of accountability. As proposed in the previous section, market dynamics are not driving business from intensive toward extensive accountability, but are rather making them equivalent.

Just as businesses learn and change their approach to dealing with issues, so does society as a whole.<sup>22</sup> Global views on corruption, for example, have changed dramatically over the last decade, setting the scene for equally dramatic (if more slowly changing) practices on the ground. Similarly for other issues, ranging from child labor to animal rights. While often localized in their early stages in countries or regions, these shifting societal expectations increasingly extend rapidly to an international level. One simple depiction of this process of societal learning is set out below.

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#### CORPORATE RESPONSIBILITY & SOCIETAL LEARNING

STAGE	CHARACTERISTICS
LATENT	<ul style="list-style-type: none"> <li>• Activist communities and NGOs are aware of the issue.</li> <li>• There is weak scientific or other hard evidence.</li> <li>• The issue is largely ignored or dismissed by the business community.</li> </ul>
EMERGING	<ul style="list-style-type: none"> <li>• There is political and media awareness around the issue.</li> <li>• There is an emerging body of research, but data are still weak.</li> <li>• Leading businesses experiment with approaches to dealing with the issue.</li> </ul>
CONSOLIDATING	<ul style="list-style-type: none"> <li>• There is an emerging body of business practices around the issue.</li> <li>• Sector-wide and issue-based voluntary initiatives are established.</li> <li>• There is litigation and an increasing view of the need for legislation.</li> <li>• Voluntary standards are developed, and collective action occurs.</li> </ul>
INSTITUTIONALIZED	<ul style="list-style-type: none"> <li>• Legislation or business norms are established.</li> <li>• The embedded practices become a normal part of a business excellence model.</li> </ul>

The interaction of these two learning systems gives us some insights into the links between the pathways for agency-based (i.e., what organizations decide to do) corporate responsibility and systemic change in the social contract defining business in society. The visual below suggests this relationship between these two learning systems. In this simple version, businesses will adjust their practices according to the stage of development of societal learning. If a business fails to make the adjustment, it gradually falls into the lower triangular “dark” zone where its fortunes are damaged, for example by consumers, employees, or investors withdrawing their contributions.

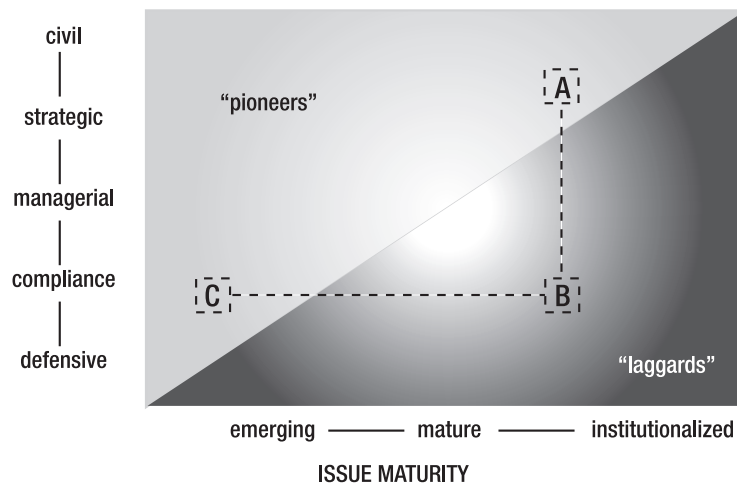
Clearly the two learning systems are in practice far more complex than the visual suggests—intertwined and non-linear. For example, a more complex analysis and model would reveal the interdependency between the two axes. For example, the decision by a group of leading financial institutions to develop and embrace the Equator Principles itself shifts societal expectations toward all companies in that sector (and indeed elsewhere) embracing such principles. That is, leadership in corporate responsibility clearly drives societal expectations, not just the other way around. Similarly, the model gains from an appreciation of market tactics and strategies between competitors. If one or more companies choose to race up the vertical axis, they can increase the risk for their competitors of not following suit, effectively moving the line that separates the upper and lower triangles.

*The dynamic between organizational learning and societal learning and related expectations defines the dynamic pathway taken in how businesses deal with specific aspects of corporate responsibility.*

Crucially, the model does not prove or even suggest a teleology that things must improve. Just because one company takes corporate responsibility to a higher level does not mean that others will necessarily follow suit, or that financial gains will be forthcoming. It is relatively easy to imagine circumstances in which society simply does not increase its expectations of business with regard to a particular issue, or else circumstances where the line dividing dark from light remains low across all stages of societal learning. That is, although the earlier section sets out reasons why corporate responsibility might be particularly relevant in today’s political economy, this clearly does not apply equally to all issues or places or businesses.

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#### CIVIL LEARNING



Despite its simplicity, this formulation hopefully drives home the main point. The dynamic between organizational learning and societal learning and related expectations defines the dynamic pathway taken in how businesses deal with specific aspects of corporate responsibility. Furthermore, the model suggests how we can understand the relationship between an agency perspective on corporate responsibility, what one company does within the logic of its own interests, and the possible systemic effects over time on what the business community does.

## The Logic of Collaborative Governance

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*[Collaborative governance involves] deliberative multi-stakeholder collaboration in establishing rules of behavior governing some or all of those involved in their development and potentially a broader community of actors.*

We are now in a better position to bring together the related but distinct phenomena of collaborative governance and corporate responsibility. We have drawn on the term used by Donahue and others, “collaborative governance.”<sup>23</sup> However, whereas Donahue uses the term quite specifically to refer to governance arrangements that privilege and support the regulatory role of the state, I have used the term more generally to refer to institutional arrangements that involve a *deliberative multi-stakeholder collaboration in establishing rules of behavior governing some or all of those involved in their development and potentially a broader community of actors*. Collaborative governance could cover one or more of the elements of rule-setting—for example, design, development, and implementation, including enforcement. The means of enforcement, importantly, might be non-statutory or statutory, or some combination that changes over time.

Collaborative governance, or more generally action, does not in principle require transformative effects on any one class of partner. Governments can continue to represent the public interest, called to account, hopefully, through democratic processes. Civil society and labor organizations can be party to collaborative governance while maintaining their eclectic perspectives and complex, dynamic, organic, value-based accountability. Business, similarly, can be involved in new governance models while continuing to seek to maximize financial returns to the owners of capital, with management held to account through the rule of law, and the self-interested oversight of the investment community. From this perspective, the “logic of collaborative governance” can be reasonably understood through the eyes of Mancur Olsen’s simple but penetrating “logic of collective action” game-theoretic perspective, rooted in individual strategies by each participant for meeting their own, distinct purpose.<sup>24</sup>

Neat, certainly, but not entirely helpful. Collaborative governance underpinned by prevailing conditions of fragmented institutional interests faces significant constraints. Free rider problems create or reinforce first-mover disadvantages, or more generally reduce the benefits from and increase the risks of participation. Such conditions can and do in practice freeze out much needed actions, and often lie at the heart of the failure to deliver local and, more significantly, global public goods, such as peace, health, and environmental security. Exploration of open-source mechanisms to overcome these constraints are proving interesting, but remain untested beyond very specific circumstances, constituencies, and interests.

Classically, of course, the solution to such constraints has been in the role of government, designed to be the arbiter in balancing private and public gain, and

the historical mechanism through which collective action is designed, resourced, implemented, and enforced. But it is exactly the empirical failure of this solution in a growing number of arenas that has set the stage for experiments in collaborative governance. A collective approach seeks to succeed where others have failed through several means. The primary route does indeed involve mobilizing the traditional, self-interested logic of collective action, and associated synergistic opportunities for overcoming institutional rigidities that locate competencies (including resources) within particular types of organizations. But the “low hanging fruit” that can thereby be picked often, for reasons set out above, prove slimmer than expected. Investor short-termism drives business behavior that belies management’s own knowledge of corporate long-term interests. Governments are driven to “slash and burn” public policies through their need to appease popular sentiments and gain re-election. Witness the recent spate of tax cuts in the U.S., creating a debt-based economic boom that will certainly not be in the longer term interests of American citizens. Civil society organizations’ visions of the future are rarely matched by long-term planning in the face of successful, short-term campaigning and resourcing cycles.

The logic of collaborative governance is historically framed by how actual and potential partners, and those who do not choose to participate, perceive their organizational self-interest, which in turn is determined by the basis on which they are held to account. The classical logic of collective action does explain why some things happen, and indeed why others don’t. But it offers limited insight into how best to unlock the fuller potential of collaborative governance in pursuit of the effective delivery of much-needed public goods. This limitation is all the more apparent in the delivery of public goods where the costs are high and the opportunity to build associated, privatized gains is limited, which as we will see is all the more so where it concerns the global commons.<sup>25</sup>

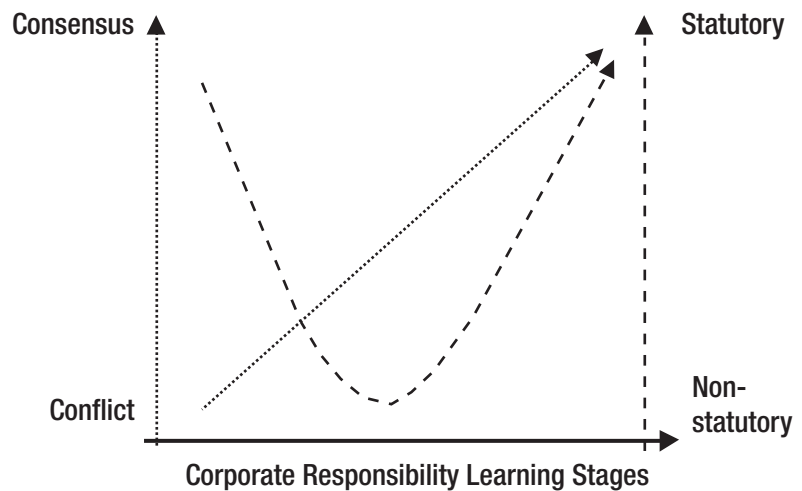
Collaborative governance life cycles have two key elements or phases. First, the *design of public policy* increasingly involves business and civil society inputs, including specialized knowledge and, crucially, lobbying to secure specific outcomes. Second, the *implementation of public policy* often requires the explicit support of non-state actors in terms of resources and implementation pathways. With the growing importance of multiple actors during the implementation phase, their leverage also tends to increase over policy design.

Business engagement in both phases will be driven by its understanding of its self-interest, defined above in terms of “accountability boundaries.” The narrower these boundaries are, the more likely it is that public policies will be limited in their design through business pressure. Similarly, such narrow boundaries are likely to reduce the effectiveness of public policies, and in practice drive business to minimize compliance and avoid more active participation and support in implementation. Conversely, if businesses involved in either phase are further along their corporate responsibility organizational learning curves, they will

interpret their interests more broadly and take more progressive stances in design and implementation.

Ultimately, businesses well along their corporate responsibility organizational learning curves become advocates of regulatory initiatives designed to benefit business approaches that are more effective in factoring in social and environmental costs and benefits. For example, when companies like BP supported the OECD Convention on Foreign Corrupt Practices, it was above all in recognition of the source of their competitive edge lying in their political muscle, cost of capital, and operational efficiency, rather than in making bribes. Similarly, when Nike's CEO and Founder, Phil Knight, came out in support of regulations mandating corporate social audits and reporting, it was in recognition of the business gains to leveling the playing field at a time when the company sensed that their handling of labor standards was best-in-class, but disadvantaging competitively. One way that corporate responsibility therefore impacts public policy is through its effect on how business engages in collaborative governance. Those businesses (for reasons discussed above) that perceive a wide range of social and environmental outcomes to be key performance drivers rather than avoidable negative externalities will tend to support more extensive policy development and implementation, and vice versa. The stage of development of corporate responsibility that businesses have reached will therefore impact on the design process and outcome of policy enforcement mechanisms, as well as the policy's theme and orientation. We can systematize this into three broad stages.

- At the lower stages (e.g., compliance), there is a tendency for greater confrontation between business and the state, and the latter is more inclined to seek statutory enforcement mechanisms. Health and safety, financial auditing and reporting, and competition policy all exemplify situations where social benefits (the first to employees, the second to owners of capital, and the third to consumers) are secured through compliance enforced through the rule of law.
- In the middle stages, there is a higher degree of consensual policy development, and enforcement mechanisms tend to be based on company-level or collective non-statutory enforcement mechanisms, increasingly involving multi-sector alliances established to set and oversee compliance. Initiatives like the Forest Stewardship Council, the Responsible Care initiative, and the UN Global Compact all exemplify this stage.
- At the higher stages, there is again a high degree of consensual policy development, but enforcement mechanisms once again involve statutory elements, only this time advocated by those companies with a broader view of corporate responsibility seeking to secure the compliance of free riders in the business community. Here BP's advocacy of a regulatory approach to disclosure of royalty payments to governments by the extractive industry, and Nike's call for statutory rules governing social auditing and reporting, are cases in point.



These two patterns, the “linear” shift from conflict toward consensus (against the left hand vertical axis), and the “U” shaped trajectory tracking shifts between statutory and non-statutory approaches (against the right hand vertical axis), are represented in simple graphical terms above.

Tensions in collaborative governance are also likely to be greater if there is a disconnect between the stage of learning of the business (in the terms set out above) and that of wider society, referred to above as “societal learning.” Tensions will be higher if the expectations of society, often made most visible through the perspectives of civil society organizations, are for a more extensive involvement of businesses in addressing a particular public goods challenge. The issue of obesity, for example, burst through as a strategic concern after bubbling on the back burner for several years. Investors and many food companies did not, and some continue not, to see this as a major issue for companies like McDonalds and Kraft. Accordingly, calls for regulation have grown, as have moves toward litigation (although so far unsuccessful in both cases)—similarly for the high-profile case of access to HIV/AIDS drugs for developing countries. Pharmaceutical companies badly misjudged how global opinion would judge them as they sought protection from generic imports through the South African courts. The international outcry led the industry to an extraordinary about-face, and a rapid move up their learning curve, as they realized the extent to which their underlying “license to operate” was under threat.

The analysis gets more interesting, and more difficult, when differences between businesses are taken into account. Companies like Nike might well call for a globally applicable, statutory approach to social auditing and disclosure, at least the rhetoric of the fifth developmental stage of corporate responsibility. But in doing so, they come up against Wal-Mart and many other peer companies that are hell

bent on avoiding such an outcome. Similarly, BP and Shell might well support a statutory approach to the disclosure of royalty payments to host governments, but the U.S. Government has supported the position of ExxonMobil among others that the Extractive Industry Transparency Initiative should remain a voluntary affair.



# Tomorrow's Social Contract

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Collaborative governance is a response to a failure of traditional mechanisms for allocating resources and setting and enforcing rules to effectively secure key public goods. Its logic is framed by the institutional interests of those involved, notably government, business, and civil society organizations. Of these participants, business, above all, has legitimized interests in private gain, and so treats public goods instrumentally to that end. Given businesses' economic and associated political power, the potential and practice of collaborative governance, therefore, remains constrained without deeper changes in the logic of their action.

*Business, above all, has legitimized interests in private gain, and so treats public goods instrumentally to that end.*

Corporate responsibility has been defined here as the process by which the boundaries of accountability of the business community are renegotiated and realigned. The dynamic interaction of business strategy and changing societal expectations establish corporate responsibility pathways for the development of both individual businesses and business *per se*. In this way, the basis on which business functions in society is organically redefined, for better or worse, or perhaps some combination. Insofar as this extends businesses' accountability boundaries, its effect appears to be to increase the potential of collaborative governance by broadening the logic of participation for its business participants.

The potential and underlying tensions of collaborative governance and its interaction with that of corporate responsibility can be seen in emerging political discourse. The cases of Brazil and South Africa highlight their important role in legitimizing and so enabling new public policy constellations to emerge. Core to these constellations are institutional innovations in rule-setting and their enforcement, and also in the mobilization of resources and their application in the delivery of public goods. Collaborative governance combined with corporate responsibility thereby move from enabling rhetoric to functional design and practice.

*Other dynamics are at play, some concerning alternative and equally powerful business strategies, and others concerning macro-developments, from the implications of China's emergence to changing demographics and growing gray power.*

Less clear is how far this can take us in overcoming real-life challenges. The experience on the ground to-date suggests limited and mixed results. In the case of South Africa, this approach may well be effective in increasing black ownership of economic assets or the delivery of drugs and treatment for HIV/AIDS. But it is not proved successful to-date in leveraging significant productive investment, or in raising productivity to support international competitiveness. Similarly for Brazil, where the crucial challenges of developing public infrastructure and services has not to-date proved amenable to the enabling pathways of collaborative governance and corporate responsibility.

This paper has explored one side of the collaborative puzzle, focusing on some of the business drivers that define that community's engagement in collaborative

governance. There is much more to explore, even within this one-sided view. It is most unlikely that the learning dynamics of business all pull in the same direction of broadening or more extensive accountability. Competitive dynamics include powerful forces that seek to narrow the basis of corporate accountability, including away from the real owners of finance capital, let alone other stakeholders. The strategies of companies like BP, Nike, or Novo Nordisk certainly seem to swim with the tide as this paper has described it. But other dynamics are at play, some concerning alternative and equally powerful business strategies, and others concerning macro-developments, from the implications of China's emergence to changing demographics and growing gray power.

*Collaborative governance could indeed be the common currency of decision-making in the future.*

This also highlights the need to consider our analysis and underlying conceptual framework from the perspective of the learning dynamics of the other parties, particularly civil society organizations and public bodies. The former are facing their own historic crisis as the basis of their accountability is challenged, and their future governance roles are ripe for change. The latter are, equally, in a dramatic state of flux, as regulatory authority yields to shifting geopolitical boundaries, and conceptions of integrated government unbundle into Anne-Marie Slaughter's "disaggregated" government networks. These historic situations are distinct to these communities of organizations, certainly. But equally, they are dependent on each other and in turn impacted by the dynamics of business learning and strategies.

*Collaborative governance is preferable if it provides a means to overcome existing institutional constraints to effectively addressing social and environmental challenges.*

These different dynamics, and certainly others, have to be added to the mix in achieving a robust understanding of the logic of collaborative governance. What is clear, however, is that this logic is complex and path-dependent and therefore susceptible to influence by major actors and actions. We can neither rely on nor dismiss *a priori* the significance of collaborative governance in our efforts to deliver local and global public goods. We have then one possible way of answering the question we framed at the outset of the paper, namely *whether formal mechanisms rooted in complex institutional alliances are today's prototypes of tomorrow's mainstream approaches to governance*. Collaborative governance could indeed be the common currency of decision-making in the future.

But in reality our opening question turns out to be less interesting than its close cousin, namely *what forms of collaborative governance could be desirable, and how these forms might best be promoted*. Here, there is little choice but to return to the matter of accountability. Collaborative governance is preferable if it provides a means to overcome existing institutional constraints to effectively addressing social and environmental challenges. Whether it delivers this outcome has everything to do with the redefined basis of accountability that underpins such governance arrangements. It is easy to conceive of cases where collaborative governance remains grounded in resistant interests, merely reinforcing old constraints in new forms. On the other hand, this paper tentatively suggests how collaborative governance can reflect deep rooted changes in the basis of accountability, in this

case with reference to the business community. The challenge, then, is to broaden the analysis to other actors and contexts in better understanding how the logic of collaborative governance can not merely exist or be enhanced, but can be underpinned by new forms of accountability that establish a preferred approach in redefining tomorrow's social contract.

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## **CORPORATE SOCIAL RESPONSIBILITY INITIATIVE AT THE JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY**

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