

CENTRAL EUROPEAN UNIVERSITY

**COMPARING NATIONAL FRAMEWORKS  
FOR CORPORATE SOCIAL RESPONSIBILITY:  
THE GERMAN DEFINITION**

BY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF  
THE DEGREE OF MASTER OF ARTS  
IN  
INTERNATIONAL RELATIONS AND EUROPEAN STUDIES

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BUDAPEST, HUNGARY  
5 JUNE 2008

16,966 WORDS



*To J.T. and G.K.*  
*for giving me a reason to understand Graham Allison's model of Organisational Behavior;*

**&**

*To M.M.*  
*for taking the trouble to turn the light on.*

## Abstract

Europe has become the most vocal and active region in the world in corporate social responsibility (CSR), since it was placed on the agenda at the Lisbon Summit in 2000 to fill the gap between economic competitiveness and raising social and economic standards. As a founding member, Germany is also commonly viewed as having high ethics, concern for the environment and is a leader in philanthropy and social issues. However, there is a view amongst European neighbors, who do not see Germany as prevalent in corporate social responsibility, instead a quasi “blank spot” in the European CSR landscape.”<sup>1</sup> With a strong welfare state and traditional organizations clinging to historical roles, Germany too is confronted with a need to find new solutions to new social challenges, due to German reunification, the economic recession in the 1990s and the impact of globalization.

My thesis investigates the puzzle as to, why is Germany resisting and therefore lagging behind other European countries in adapting and becoming a recognized model of explicit CSR? While debates, discussions and literature cover individual components of the puzzle, this paper aims to explain the “big picture”: where I measure Germany against Britain in the context of the European Union, using the United Kingdom as a benchmark, since it is frequently seen as the “role model” for CSR practices within the European Union. Furthermore, I establish the emergence and evolution of corporate social responsibility, the differentiation of “implicit and explicit” CSR while utilizing concrete explanatory factors, as well as the context of the European Union and the British comparison to solve the German conundrum.

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<sup>1</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 111.

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## Introduction

**"If the leaders of business continue to conceive of social responsibility as a mere euphemism for charity, a surrogate for the corporate image, a concern only for the public relations department, or simply a passing fad, they will fail to meet what may be one of mankind's greatest challenges."**

*-Don Votaw on Corporate Social Responsibility, 1973*

Neither the need for social responsibility of business nor the idea of holding corporate players accountable for their actions is a novel concept. Rules for commerce with intentions to facilitate trade but also to ensure wider society's interests can be traced as far back in history to the Egyptians and Ancient Chinese. Today, the landscape has changed remarkably: virtually almost all advanced nations have adopted liberal democratic political institutions, many have moved towards market-oriented economies and the integration of global capitalist models of the division of labor. Globalization has brought about many benefits. Yet, the institutional convergence has not created an end to society's challenges.<sup>2</sup> Instead, traditional duties of government, business and society are blurring while environmental and social crises multiply. Decreasing financial resources push states to redefine their public role and search for remedies, triggering changes in the institutional structure to create a shift from a care-giving to a self-care society.<sup>3</sup>

Initially a concept derived from the United States, today, Europe has become the most vocal and active region in corporate social responsibility. In the European Union, corporate social responsibility (CSR) is a development that has advanced rapidly in the past decade, particularly since the Lisbon Summit in 2000. CSR has been placed on the European Agenda to fill the gap between economic competitiveness and raising social and economic standards.<sup>4</sup> Seemingly, the

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<sup>2</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (London: Penguin Books, 1995), 3-4.

<sup>3</sup> Jan Jonker and Angela Marberg, "Corporate Social Responsibility Quo Vadis? A Critical Inquiry into a Discursive Struggle." *Journal of Corporate Citizenship*, no. 27, Autumn (2007): 112.

<sup>4</sup> Alasdair Murray, "Corporate social responsibility in the EU" (London: Centre for European Reform, 2003) 5.

European Union (EU) is also seeking to assert itself as “CSR Europe” and has demonstrated aspirations of creating an EU-wide collective approach. However, each EU country has a different perception and understanding of the meaning of CSR, reflecting different ethical and cultural traditions. Germany, as one of the founders of the European Union, is commonly viewed as having a high standard of ethics, concern for the environment and is a leader in philanthropy. Corporate social responsibility appears to be an important topic for the German government: several ministries have a wide range of activities, some including funding for stakeholders in the field, others support initiatives at the international level, two examples being the OECD Guidelines and the UN Global Compact. Many German companies implement CSR initiatives and a few such as BASF, Henkel, Volkswagen, Bayer or Otto are indeed very active in the field. Yet, there is a view amongst European neighbors, who perceive “Germany as a ‘white spot’ in the European CSR landscape.”<sup>5</sup> Certainly, labor unions, corporations and organizations have been clinging to traditional roles until quite recently. However, German reunification, the economic recession in the 1990s and the impact of globalization have initiated a change in the role and the capabilities of the government; causing an inevitable shift in responsibility to the private sector while increasing pressure and demands for socially responsible business practices. While strong social awareness is prevalent, it has only been in the past few years that most companies truly have begun to consider explicit CSR practices. Trade unions have not yet realized the full extent of the concept, while no non-governmental organization (NGO) has dedicated itself to the cause. Indeed, the unique model that Germany has initiated for CSR is one that is intertwined with the national social and economic framework with endeavors to regulate and institutionalize CSR into the industrial relations system.<sup>6</sup>

In order to solve this puzzle, my thesis will investigate the question: why is Germany resisting and therefore lagging behind other European countries in adapting and becoming a recognized

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<sup>5</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 111.



model of explicit CSR? While debates, discussions and literature cover individual components of the puzzle, this paper aims to explain the “big picture”; where I measure Germany against Britain in the context of the European Union and its’ agenda on CSR, utilizing a CSR model differentiation for a comparative analysis. I make the comparison between Germany and the United Kingdom (UK), for the reason that the UK is frequently seen as the “role model” for CSR practices and a “benchmark” among the countries within the European Union.

I will first analyze the emergence and evolution of corporate social responsibility (chapter one) with a short overview of the extensive literature, as well as establishing the differentiation of “implicit and explicit” CSR as a model conceptualized by Dirk Matten and Jeremy Moon and the explanatory factors I base my comparisons on. My explanatory factors are the structure and organisation of the market system, where I utilize the main idea behind the *Varieties of Capitalism* approach, publicized by Peter Hall and David Soskice to compare the differences in markets; and cultural aspects, where I draw on the concept of ‘Trust’, presented by Francis Fukuyama as an influential factor in the organization of modern societies and the art of association. Next, in chapter two I proceed to explain the EU context, before framing the British model. In the UK, CSR has been in practice much longer and therefore, information readily available. This was not the case with Germany, thus interviews were conducted on four levels: the national government, labor unions, universities and think tanks and consultancies. As there is a wide variance as to the responsibility for and understanding of CSR in Germany, I found it particularly important to examine all levels with the intention to gain the different perspectives and dimensions of the German CSR agenda (chapter three). Finally, the two models will be put into the context of the European Union and the German conundrum resolved.

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<sup>6</sup> Ibid.

# Chapter I: The Nature of Corporate Social Responsibility

**“The term [corporate social responsibility] is a brilliant one; it means something, but not always the same thing, to everybody.”**

*-Don Votaw on Corporate Social Responsibility, 1973*

In the following chapter, I will first introduce the reasons for our changing society and our subsequently changing expectations, particularly for the role for business. As I will demonstrate, as the idea of corporate social responsibility has risen and the relevance increased, several key thinkers have created different approaches to the concept and how firms should approach it. At the same time, the definition is still vague and in need of an officially accepted definition all parties can agree to. Furthermore, a theoretical framework has been created in order to distinguish and differentiate variations due to national contexts. This understanding is necessary, before we move on to look at the agenda of the EU.

## **1.1 Reasons for Emergence**

In the past few decades, dynamics of globalization and quantum leaps in communication and technology have changed traditional roles of business, society and government: today, there are over 60,000 active multinational corporations and close to half of the world’s largest economies are corporations. However, the early post-Cold War euphoria of capitalism in the global economic system has come under great pressure. Major trends of the past decades indicate shrinking governments with a diminishing amount of direct influence and a decline in its traditional role as the main deliverer of social and economic provision due to the strain in capacity and competency. Governments are required to act in an ever faster changing world with increasingly complex and diverse challenges, but with decreasing resources at its disposal caused by the “race to the bottom” in tax evasion, possible in the global context due to technological progress.<sup>7</sup> The privatization of state monopolies, trade liberalization, the astonishing development in technology and communication, as well as the frantic pace and

intensity of business mergers in scores of industries lead to an increasing globalization of corporations and their business practices.<sup>8</sup> Free to a large extent from public regulation, yet in terms of scope, number and size, their influence has increased exponentially: 90% of these corporations are located in Europe, North America or Japan, consuming massive quantities of resources and leaving immense ecological footprints, disrupting cultural and social patterns, institutionalizing unsustainable transport linkages and influencing international politics.<sup>9</sup>

This immense power of economic interests, yet the relative political and economic fragility of many countries and the growing tension between moral values and commercial goals have sparked a debate on ethics; where society has begun to question the costs and excesses of “big business”, particularly since the corporate governance crises have begun to multiply. In addition, the downsides and the extent of the impact of socio-economic, environmental, educational and health consequences are becoming apparent.<sup>10</sup> Media revelations of business misconduct and the new phenomenal speed in communications have changed global public awareness:

“If left to its own the capitalist system is efficient but ruthless. It creates enormous wealth but can leave poverty and inequality in its wake. It increases productivity but discards employees. Capitalism powers the stock market but closes factories and abandons whole communities. It reduces consumer prices but lowers the wage of workers. It balances budgets but deprives governments of resources needed for investment. It offers access to the wonders of the World Wide Web but leaves millions behind in a new digital divide. It generates marvelous inventions but leaves environmental pollution in its wake. It democratizes information but marginalizes people. It speeds up the flow of goods, services and money but creates increased volatility, vulnerability, and insecurity. Globalization creates unprecedented riches but widens the gap between those who have and get ahead and those who don’t and are left farther and farther behind.”<sup>11</sup>

Capitalism has been undermined by hype, complacency, greed, arrogance and lack of oversight.<sup>12</sup> From the International Labor Organization to the former chief economist of the

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<sup>7</sup> Klaus Körner, “Policy making and the role of government Changing governance patterns and CSR.” *Corporate Governance* 5, no. 3 (2005): 154.

<sup>8</sup> *Ibid.*, 151.

<sup>9</sup> Jody Jensen, “Governing Global Markets In A New Age Of Globalization,” *Economy & Society*, Forthcoming (2008): 7.

<sup>10</sup> *Ibid.*, 2.

<sup>11</sup> Ira A. Jackson, and Jane Nelson, *Profit With Principles: Seven Strategies for Delivering Value With Values* (New York: Currency Doubleday, 2004), 17.

<sup>12</sup> *Ibid.*, 16.

World Bank, Joseph Stiglitz, criticism is being voiced regarding the trends of economic globalization, lack of transparency, accountability and governing structures, hence the perceived necessity for an ethical framework to regulate global markets and processes.<sup>13</sup>

## **1.2 The Different Takes on Corporate Social Responsibility**

The debate on corporate social responsibility (CSR) began in the early 1970's, sparked by the economist Milton Friedman, who argued that "there is one and only one social responsibility of business- to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."<sup>14</sup> The only legitimate purpose is thus the creation of shareholder value, social challenges are considered to be negligible to the concerns of corporate management, since management "is the agent of the individuals who own the corporation or establish the eleemosynary institution and his primary responsibility is to them." To use Friedman's words, "the business of business is business", management's sole responsibility is to the stockholders. The contrasting position to this "Shareholder Theory" came from R. Edward Freeman, countering with the "Stakeholder Theory". He emphasized the necessity, that in addition to the fiduciary duty vis-à-vis its stockholders, management also has an obligation towards *all* of its stakeholders, defined today as shareholders, financiers, employees, customers, suppliers, regulators, communities, i.e. those with a stake in or claim on the company; and corporations should be managed in their interests.<sup>15</sup> Management is an agent for all these groups, thus they have a voice and right to participation in determining corporate policy. In addition, he argues "stakeholders may bring an action against the directors for failure to perform the required duty of care."<sup>16</sup> This duty of care equates to today's understanding of CSR.

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<sup>13</sup> Jody Jensen, "Governing Global Markets In A New Age Of Globalization," *Economy & Society*, Forthcoming (2008): 2.

<sup>14</sup> Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *New York Times*, September 13, 1970.

<sup>15</sup> R.E. Freeman, "A Stakeholder Theory of the Modern Corporation," in *Perspectives in Business Ethics*, ed. L.P. Hartman, (New York: McGraw-Hill 3, 2005), 112-113.

<sup>16</sup> *Ibid.*, 121.

Particularly in the past few years, as pressure and the scrutiny “big business” receives has increased, the “rules of the game” have fundamentally changed and the debate evolved; an evolution which also changes the meaning of the “social responsibility of business”. Societal expectations, combined with the forces of economic globalization, political transformation and technological innovation, have altered the context business operates in, indefinitely.<sup>17</sup> The result of the media, activists and the government in holding companies accountable for their impact has been proclaimed as the “triple bottom line”, the idea that business must meet social and environmental goals, not only financial ones. The challenge of CSR is to create a moral relationship between management and stakeholders at the same time as protecting the principal-agent relationship which exists between management and the stockholders.<sup>18</sup>

The general assumption is that society and companies have opposing interests. Yet, there is a growing recognition that, “companies and societies are not in different camps; they are in the same boat. Companies cannot thrive in corrupt, enervated, impoverished societies; and the train of social progress will move much faster with locomotives at its head. [Assuming] that business and society are interdependent, CSR becomes an opportunity, not a duty.”<sup>19</sup> Thus, due to the importance and interlinkage of social issues with business success, Ian Davis, worldwide managing director of the consultancy firm McKinsey & Company, has recast the long-running debate and presents “the relationship between big business and society as an implicit social contract – Rousseau adapted to the corporate world [where] this contract has obligations, opportunities, and advantages for both sides.”<sup>20</sup> A healthy business requires a healthy society and vice versa.<sup>21</sup> The need to link corporate social responsibility to the business’ competitive advantage has also been expounded upon by Michael Porter and Mark Kramer, who advocate intersecting and integrating CSR approaches into core business, in order to achieve social and

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<sup>17</sup> Ira A. Jackson, and Jane Nelson, *Profit With Principles: Seven Strategies for Delivering Value With Values* (New York: Currency Doubleday, 2004), 39.

<sup>18</sup> Andrew Stark, “What’s the Matter with Business Ethics?” *Harvard Business Review* 71, no. 3 (1993): 46.

<sup>19</sup> Thomas A. Stewart, “Corporate Social Responsibility: Getting the Logic Right,” *Harvard Business Review* 84, no. 12 (2006): 14.

economic benefits which simultaneously create a benefit for greater society and the firm, moving from “mitigating harm to finding ways to reinforce corporate strategy by advancing social conditions.”<sup>22</sup>

Ideally, CSR will consist of three layers: 1) corporate philanthropy; 2) risk management, where companies respond to environmental, social and governance issues posing risks to the business;<sup>23</sup> and 3) strategically embedding CSR into the core business to create value and become a part of the firm’s competitive advantage.<sup>24</sup> Therefore, the “triple bottom line” was created to define profitability in social and environmental terms as well as in economic terms.<sup>25</sup>

### **1.3 Meaning and Relevance of Corporate Social Responsibility**

Key events such as the proposed sinking of Shell’s Brent Spar oil rig in the North Sea in 1996 and the disclosure of Nike’s use of “sweatshop labor” triggered first significant company responses to protests against the corporate world from business.<sup>26</sup> Today, “corporate social responsibility has emerged as an inescapable priority for business leaders in every country.”<sup>27</sup> However, while the idea of CSR is widely recognised, there exists no consensus on an exact definition. Thus, “the acronym is being thrown around but nobody really knows what it stands for.”<sup>28</sup> Debated by the different arenas of academia, business and government, each side is developing definitions and establishing their version of CSR, revealing that more than conflicting opinions or motives, “the lens through which these actors view the world and the philosophy that shapes their judgements, beliefs and actions are fundamentally different,

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<sup>20</sup> Ian Davis, “What is the business of business?” *The McKinsey Quarterly* no.3 (2005): 106.

<sup>21</sup> *Ibid.*, 106-113.

<sup>22</sup> Michael E. Porter and Mark R. Kramer, “Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility,” *Harvard Business Review* 84, no. 12 (2006): 85.

<sup>23</sup> Daniel Franklin, “Just Good Business: A Special Report on Corporate Social Responsibility,” *The Economist* (January 19, 2008): 4.

<sup>24</sup> *Ibid.*

<sup>25</sup> Jody Jensen, “Governing Global Markets In A New Age Of Globalization,” *Economy & Society*, Forthcoming (2008): 10.

<sup>26</sup> Deborah Doane, “The Myth of CSR: The problem with assuming that companies can do well while also doing good is that markets don’t really work that way,” *Stanford Social Innovation Review*, Fall (2005): 23.

<sup>27</sup> Michael E. Porter and Mark R. Kramer, “Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility,” *Harvard Business Review* 84, no. 12 (2006): 78.

making the discourses difficult to reconcile.”<sup>29</sup> One of the most widely used definitions of corporate social responsibility, is that of the European Commission, who defined it in 2001 “as a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis.”<sup>30</sup>

Ranking and rating initiatives are now driving companies to report non-financial performance as well as financial results. The realization that CSR can increase the corporate competitive advantage explains why the financial industry has become a major driver for CSR practices. Interest in socially responsible investment was behind the 1999 creation of the Dow Jones Sustainability Index and the subsequent FTSE4Good, on the premise that business can simultaneously ‘do well’ and ‘do good’ – saving the world while making a decent profit.<sup>31</sup> Moreover, financial analysts believe the quality of a company’s CSR initiatives is a good indicator for general management practices.<sup>32</sup> Codes of conduct have multiplied as another result of this pressure, which businesses apply voluntarily, such as the OECD Guidelines for Multinational Enterprises<sup>33</sup> or the International Labor Organisations’s (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.<sup>34</sup> The Global Reporting Initiative (GRI) was created as a response to human rights and environment abuse and is supported world-wide by major corporations, creating reporting requirements and standards beyond specific industrial or geographic areas. In 2000, the United Nations launched

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<sup>28</sup> Jan Jonker and Angela Marberg, “Corporate Social Responsibility Quo Vadis? A Critical Inquiry into a Discursive Struggle.” *Journal of Corporate Citizenship*, no. 27, Autumn (2007): 110-111.

<sup>29</sup> Jan Jonker and Angela Marberg, “Corporate Social Responsibility Quo Vadis? A Critical Inquiry into a Discursive Struggle.” *Journal of Corporate Citizenship*, no. 27, Autumn (2007): 110-111.

<sup>30</sup> European Commission, “*Promoting a European Framework for Corporate Social Responsibility*,” Brussels: Commission of the European Communities, 2001, 6.

<sup>31</sup> Deborah Doane, “The Myth of CSR: The problem with assuming that companies can do well while also doing good is that markets don’t really work that way,” *Stanford Social Innovation Review*, Fall (2005): 24.

<sup>32</sup> Interviewee B.

<sup>33</sup> For more information, see [www.oecd.org](http://www.oecd.org).

<sup>34</sup> For more information, see [www.ilo.org](http://www.ilo.org).

the Global Compact, stating ten principles relating to human rights and the environment that companies apply.<sup>35</sup>

#### **1.4. The Theoretical Framework: ‘Implicit’ and ‘Explicit’ CSR**

However, the solutions to create one “healthy society” are not necessarily the correct solutions to another. Dirk Matten and Jeremy Moon created a framework for understanding national contexts and variations in CSR, where they compared the European and American models.<sup>36</sup> They found, that CSR had not been a point of discussion in Europe because society and economies tended to address CSR issues differently due to the institutional environment of business, which they termed implicit CSR. The recent rise in explicit CSR derives from changes in the business market and simultaneously increases pressure on business in Europe to consider explicit CSR policies and practices.<sup>37</sup> The definitions of implicit and explicit CSR are as follows:

***Implicit CSR:** Refers to “the entirety of a country’s formal and informal institutions assigning corporations an agreed share of responsibility for society’s interests and concerns. Implicit CSR normally consists of values, norms and rules which result in (mostly mandatory but also customary) requirements for corporations to address issues stakeholders consider a proper obligation upon corporate actors. Representative business associations or individual corporations would often be directly involved in the definition and legitimisation of these social responsibility requirements and if not they would consider the outcomes as a legitimate trade-off for their own legitimacy.”<sup>38</sup>*

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<sup>35</sup> Deborah Doane, “The Myth of CSR: The problem with assuming that companies can do well while also doing good is that markets don’t really work that way,” *Stanford Social Innovation Review*, Fall (2005): 24.

<sup>36</sup> Dirk Matten and Jeremy Moon, “ ‘Implicit’ and ‘Explicit’ CSR: A conceptual framework for understanding CSR in Europe,” (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004), 1.

<sup>37</sup> *Ibid.*, 8.

<sup>38</sup> *Ibid.*, 9.



Each country has a historically grown, specific institutional framework shaping the ‘national business system’. This system includes factors such as the nature of the firm, organization of market processes and authoritative coordination and control systems: political, cultural, educational and financial institutions influencing business; and explains variances in national context, despite effects of globalization.<sup>39</sup>

***Explicit CSR:*** Refers to “corporate policies to assume responsibility for the interests of the society. Explicit CSR would normally consist of voluntary, self-interest driven policies, programmes and strategies by corporations addressing issues perceived as being part of their social responsibility by the company and/or its stakeholders.”<sup>40</sup>

Government initiatives or the mentioned codes of conduct and rating indexes are external drivers for many multinational corporations. In addition, competition through best practices and normative pressures explain the increasing momentum CSR is gaining in Europe.<sup>41</sup> While one model does not necessarily exclude the other, it establishes a general tendency for one model to be more prevalent than the other, leading to greater explanatory power in conceptualizing the national context for analyzing CSR. In addition, “the higher the institutional intensity the higher also the extent of implicit CSR [and] indicates that on balance, countries with a more longstanding and dense institutional heritage are more likely to address CSR issues in the form of implicit CSR.”<sup>42</sup> The shift from an implicit to an explicit model is a result of a shift in institutional frameworks, the creation of new markets and social demands leading organizational changes and changing management practices. Explicit CSR is partially due to

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<sup>39</sup> Dirk Matten and Jeremy Moon, “ ‘Implicit’ and ‘Explicit’ CSR: A conceptual framework for understanding CSR in Europe,” (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004), 13-15.

<sup>40</sup> Ibid., 9.

<sup>41</sup> Ibid., 17-18.

<sup>42</sup> Ibid., 10.

the global expansion of the ‘Americanisation’ of management practices, while implicit CSR remains integrated in the varying institutional frameworks of regions and countries.<sup>43</sup>

Within Europe, there have been different evolutions, needs and practices for CSR. The differentiation between these two models enables a better understanding of what CSR consists of and to expose the variation in the national context. For these reasons, I will use the differentiation in models and two important explanatory factors relevant to the national context and the evolution of CSR thus far: structure and organisation of the market system and the cultural system, for my comparison of Germany and the UK.<sup>44</sup>

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<sup>43</sup> Dirk Matten and Jeremy Moon, “ ‘Implicit’ and ‘Explicit’ CSR: A conceptual framework for understanding CSR in Europe,” (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004), 12-13.

<sup>44</sup> Note, that I am drawing on the model, yet simplifying and consolidating explanatory factors and the framework used due to the limited scope of this paper.

## Chapter 2: In the Context of the EU: Setting the Benchmark with “Role Model” UK

I have established the origins for corporate social responsibility, the depth and width the topic entails. It is important to understand the significance of CSR for the EU. Particularly, why the EU pledged itself one hundred percent at the 2001 Lisbon Summit, before we turn to analyze the UK.

### **2.1 Clarifying the Context of the European Union**

Corporate social responsibility has recently experienced unprecedented interest among all actors in Europe: politics, academia and the corporate world; as the concerns and expectations for social responsibility of business have also been evolving in the European Union. In the past few decades, many EU countries have experienced extensive challenges to the system of the welfare state. Some were political, like the liberal deregulation and privatization of public infrastructure in the UK in the 1980s. Others were commercial and budgetary, an amalgamation of an aging population, growing demands for traditional services (such as mandatory insurance systems for pensions and health care), while globalization created the consequence of insufficient financing from taxation, thereby putting a strain on public resources and prompting the quest for different solutions. In the EU’s efforts to level the economic playing field, deregulation policies have become a recurring feature, extending commercial freedom and an increasingly reduced role for the state.<sup>45</sup>

Commercial freedom was such that the year 2000 saw more corporate mergers, acquisitions and widespread business restructuring in Europe than any other year previously, raising EU concerns of potential serious economic and social crises in communities. The European Union realized the necessity to put business social responsibility on the political agenda,<sup>46</sup> as well as

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<sup>45</sup> Atle Midtun, “Policy making and the role of the government: Realignment business, government and civil society,” *Corporate Governance*, 5, no. 5 (2005): 159-60.

<sup>46</sup> European Commission, “Promoting a European Framework for Corporate Social Responsibility,” (Brussels: Commission of the European Communities, July 18, 2001), 9.

the need to increase solidarity and defend common values in the face of globalization.<sup>47</sup> CSR was also seen as an opportunity to address the dual challenges of sustainable growth and more (and better) jobs in the face of global competition and an ageing population.<sup>48</sup> Subsequently, there have been important milestones at the EU level in creating awareness for corporate social responsibility and putting pressure on individual member countries. The Commission is aiming to generate greater political visibility for CSR, to acknowledge those European businesses already active and to encourage others to follow suit: calling for a public climate where firms are appreciated not just for making a good profit, but also for making a contribution in tackling societal challenges.<sup>49</sup>

The foundation had already been laid in 1996 with the formation of the organization ‘CSR Europe’ to promote CSR and coordinate implementation in European companies; and in 1998 when “The Gyllenhammar Group” issued a report recommending firms with over one thousand employees to issue an annual report documenting social impact.<sup>50</sup> EU intentions became official at the Lisbon Summit in March 2000, when the EU put CSR on top of the political agenda and posited the strategy “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion” and the European Council appealed directly to business’ sense for social responsibility regarding education, equal opportunities, social inclusion and sustainable

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<sup>47</sup> European Commission, “Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility,” (Brussels: Commission of the European Communities, March 22, 2006), 2.

<sup>48</sup> Ibid., 3.

<sup>49</sup> Ibid., 2.

<sup>50</sup> European Commission’s Directorate-General for Enterprise and Industry. *Corporate Social Responsibility*. European Commission. [http://ec.europa.eu/enterprise/csr/index\\_en.htm](http://ec.europa.eu/enterprise/csr/index_en.htm).

development.<sup>51</sup> CSR practices may not be a panacea for societal issues,<sup>52</sup> but it is expected to be a great contributor in achieving these strategic goals.<sup>53</sup>

The 2001 “Green Paper” promoted the creation of a European framework for CSR and the intention to promote discourse at both the European and the international level; in particular on how to benefit from existing experiences, encourage innovation in best practice, create greater transparency and maximize reliability of evaluation and validation: intensifying partnerships, where all actors have a role to play.<sup>54</sup> The following year brought the European Multi-Stakeholder Forum, assembling companies, business networks, NGOs and trade unions to endorse transparency, innovation and convergence in established practices, initiating a process for dialogue, encouraging a corporate sense for CSR and an exchange in information, experience and expertise, while simultaneously attempting to standardize initiatives to develop a common EU approach and set of guiding principles.<sup>55</sup> In the academic arena, a multi-stakeholder forum for mainstreaming CSR into research and business education was established in 2002, under the title of the ‘European Academy of Business in Society’.

In 2006, the European Commission issued a communication entitled “Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility” in order to extend the reach of CSR to the external dimension, due to the impact of globalized supply chains and international investment. The EU encourages business environmental performance through initiatives such as EMAS, the Eco-management and Audit

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<sup>51</sup> European Commission, “Promoting a European Framework for Corporate Social Responsibility,” (Brussels: Commission of the European Communities, July 18, 2001), 3.

<sup>52</sup> European Commission, “Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility,” (Brussels: Commission of the European Communities, March 22, 2006), 4.

<sup>53</sup> European Commission, “Corporate Social Responsibility: A business contribution to Sustainable Development,” (Brussels: Commission of the European Communities, July 2, 2002), 3.

<sup>54</sup> European Commission, “Promoting a European Framework for Corporate Social Responsibility,” (Brussels: Commission of the European Communities, July 18, 2001), 3.

<sup>55</sup> European Commission, “Corporate Social Responsibility: A business contribution to Sustainable Development,” (Brussels: Commission of the European Communities, July 2, 2002), 17.

Scheme, or EEEI, the European Eco-Efficiency Initiative, in order to integrate efficiency measures into business and EU economic and industrial policies.

“In Europe, almost no one argues that the continent’s major concerns today, such as a continuing rate of high unemployment or immigration, can be fixed through an expansion of the welfare state. If anything, the reform agenda consists of cutting back the welfare state to make European industry more competitive on a global basis.”<sup>56</sup> Enter CSR. However, because it is originally an American concept, CSR often clashes in implementation with the different approaches and roles business has in European society, due to varying factors such as culture or organized labor. Just trying to reach consensus on one definition has been challenging, although understandable since a direct translation into other European languages not always conveys the same meaning.<sup>57</sup> CSR in Europe is now a mixture of explicit and implicit elements.<sup>58</sup> The aforementioned “milestones” can be seen as shaping ‘explicit’ CSR into the European context. For example, the original voluntary understanding of CSR makes it incompatible with the notion of governmental regulation. However, in Europe explicit CSR has been debated as an issue requiring regulation. Philanthropic practices tend to be much lower, due to higher taxation levels and expectations of adequate state services. This is also applicable to employee’s rights, welfare and social security, issues ingrained in the implicit framework of most EU countries.<sup>59</sup> Moreover, government retains a significant role due to involvement in economic activities of business and employment related aspects, which are institutionalized into the legal framework.<sup>60</sup> The EU acknowledges that CSR is practiced differently in different countries because of cultural specific practices, variance is due to the nature of social dialogue, political

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<sup>56</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*. (London: Penguin Books, 1995), 4.

<sup>57</sup> Alasdair Murray, “Corporate social responsibility in the EU” (London: Centre for European Reform, 2003), 7.

<sup>58</sup> *Ibid.*, 23.

<sup>59</sup> *Ibid.*, 10.

<sup>60</sup> *Ibid.*, 23-25.

and legal framework,<sup>61</sup> and emphasizes that Member States *should* develop different CSR policies according to their diverging traditions, cultures and social challenges,<sup>62</sup> since if “CSR initiatives are to be legitimate, their content and implementation should be adapted to the particular country or region in which they are taking place.”<sup>63</sup>

## **2.2 The UK: The “Role Model” of the European Union**

While the EU acknowledges that differing CSR strategies should be promoted, the United Kingdom is often seen as a “role model” for CSR practices in the European Union, a case of superb innovation, a view also prevalent in Germany.<sup>64</sup> To understand the status quo of CSR in Britain, one needs to understand the reasons why the UK needed CSR so early, in comparison with other EU countries. The following takes a look at the major factors which can lend explanatory power to the national context. First, taking a brief synopsis of the most important historical developments and decisions in CSR to the current agenda status, before moving on to analyze the structure and organisation of the British market system; finally analyzing key developments and issues of the cultural system which played an influential role in shaping CSR in the UK.

In modern times, for “all their well-established governance systems, even the west European countries can face governance deficits. Perhaps the most dramatic has been the case of mass unemployment, urban unrest and fiscal stress experienced in the UK in the late 1970s and early 1980s.”<sup>65</sup> The government was perceived by the public as incapable of resolving the number and scope of economic and societal issues and demands on the government. This caused a loss

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<sup>61</sup> European Commission’s Directorate-General for Enterprise and Industry, *Opportunity and Responsibility: How to help more small businesses to integrate social and environmental issues into what they do*, European Commission, [http://ec.europa.eu/enterprise/csr/index\\_en.htm](http://ec.europa.eu/enterprise/csr/index_en.htm).

<sup>62</sup> European Commission, “Corporate Social Responsibility: A business contribution to Sustainable Development,” (Brussels: Commission of the European Communities, July 2, 2002), 10.

<sup>63</sup> Marina Prieto-Carrón, Peter Lund-Thomson, Anita Chan, et.al “Critical perspectives on CSR and development: what we know, what we don’t know, and what we need to know,” *International Affairs* (2006): 977.

<sup>64</sup> All interviewees stated they were aware of this impression.

of trust and an ensuing loss of legitimacy in the government to deal with matters on economic growth, inflation, productivity, unemployment, investment and public debt, industrial relations, prices and income policies, etc.<sup>66</sup> Subsequently, the government narrowed their responsibilities, when Margaret Thatcher launched a liberal deregulation and massive privatization of the public infrastructure in the 1980s, thus increasing the role of business. These provided the same services, but, for profit<sup>67</sup> and Britain became the first country to privatise so significantly. State-owned enterprises like British Airways, British Gas, British Telecom, the railways, electricity, public transport and many others came under private control.<sup>68</sup> In addition, the government encouraged individual and family social responsibility, demonstrated by the introduction of fees for higher education, incentives for private savings, an increasing utilization of NGOs to deliver public services and private financing for public projects. “These trends have been described as the ‘hollowing out’ of government.” One government strategy was the promotion of CSR, encouraging business to help solve community problems.<sup>69</sup> One example of this is the initiative “Health Through Warmth”, established as a joint cooperation to assist people in fragile health to heat their homes, either by paying the energy bill or providing heating measures.<sup>70</sup> As business has assumed a larger role in society over the past decades and responsibilities evolved, business had to adopt a more explicit CSR in order to ensure their ‘social license’ to operate.<sup>71</sup>

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<sup>65</sup> Dirk Matten and Jeremy Moon, “ ‘Implicit’ and ‘Explicit’ CSR: A conceptual framework for understanding CSR in Europe,” (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004), 20.

<sup>66</sup> Jeremy Moon, “United Kingdom – An Explicit Model of Business-Society Relations,” in *Corporate social responsibility across Europe*, ed. André Habisch, Jan Jonker, René Schmidpeter, Martina Wegner (Berlin: Springer Verlag, 2005), 54.

<sup>67</sup> Ibid.

<sup>68</sup> David Grayson, Business-led Corporate Responsibility coalitions: learning from the example of Business in the Community in the UK – An Insider’s Perspective,” (Harvard: Business in the Community, Doughty Centre for Corporate Responsibility and the Kennedy School of Government, 2007) 7.

<sup>69</sup> Jeremy Moon, “United Kingdom – An Explicit Model of Business-Society Relations,” in *Corporate social responsibility across Europe*, ed. André Habisch, Jan Jonker, René Schmidpeter, Martina Wegner (Berlin: Springer Verlag, 2005), 54-55.

<sup>70</sup> Interviewee D; for more information see [www.npower.com/health\\_through\\_warmth](http://www.npower.com/health_through_warmth).



The concept of corporate social responsibility gained ground in 1982, when the business network ‘Business in the Community’ (BITC) was established. Initially, advocating business support to regenerate local communities in recession due to corporate closures; it expanded to promote corporate community involvement in the 1990s; and then furthered the agenda to include CSR, using arguments of business competitive advantage and demands for sustainability as business challenges and encouraging collective action.<sup>72</sup> Today, it is a business-led charity headed by the Prince of Wales, to support business in improving social responsibility, emphasizing cross-sectoral partnerships,<sup>73</sup> working with the government and influential in shaping large-scale programmes.<sup>74</sup>

In the 1990s, CSR expanded from community involvement to include products and processes, a consequence of new governmental regulation, stakeholder engagement and increased demands for social reporting and attention to CSR. It became part of a wider re-orientation of governance roles. Business increased its market due to privatization and outsourcing, as well as voluntarily networking with the state and NGOs. Furthermore, the UK CSR model is gaining an international reputation, as the global trend in downsizing government becomes more prevalent and the role of global corporations in CSR increase.<sup>75</sup> Logically, one motivation of business is to avoid unwelcome regulation. Companies believe if they don’t voluntarily show initiative for CSR, the government may impose legislation, possibly proving costly in terms of obligations and intervention in the labor market. Therefore, business prefers to be a step ahead of possible government intervention and legislation and develop their own policy preferences,

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<sup>71</sup> Dirk Matten and Jeremy Moon, “ ‘Implicit’ and ‘Explicit’ CSR: A conceptual framework for understanding CSR in Europe,” (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004), 20.

<sup>72</sup> David Grayson, Business-led Corporate Responsibility coalitions: learning from the example of Business in the Community in the UK – An Insider’s Perspective,” (Harvard: Business in the Community, Doughty Centre for Corporate Responsibility and the Kennedy School of Government, 2007) 7.

<sup>73</sup> Ibid., 17.

<sup>74</sup> Ibid., 48.

<sup>75</sup> Jeremy Moon, “United Kingdom – An Explicit Model of Business-Society Relations,” in *Corporate social responsibility across Europe*, ed. André Habisch, Jan Jonker, René Schmidpeter, Martina Wegner (Berlin: Springer Verlag, 2005), 55.

in accordance with pressures in their environment.<sup>76</sup> One example of business taking the initiative is the bank HSBC, which provided in their online sustainability report for 2007 a list of commitments for the year, whether they had achieved them and details on progress.<sup>77</sup>

The government was the driver in pushing the CSR agenda; in 2000 it appointed a Minister for Corporate Social Responsibility within the Department for Trade and Industry. The intentions of the position were to create a governmental role to improve co-ordination and promotion of CSR government-wide;<sup>78</sup> a supportive environment to adopt CSR practices in all operation locations; and endorsing adherence to standards and codes of conduct. The strategy includes promoting activities with a triple bottom line, partnerships and creating dialogue with all actors: the private sector, NGOs, trade unions, local communities, consumers and other stakeholders; and encouraging business incentives and best practices. Additionally, this coincides with the strategy for sustainable development.<sup>79</sup> In December 2000, in co-operation with the US, the government, major firms in the gas, oil and mining industries and human rights NGOs convened a working group to produce the ‘Voluntary Principles on Security and Human Rights for companies in the Extractive and Energy Sectors.’<sup>80</sup> Since 2001, three reports on CSR outlining the approach of governmental policy have been published and a website launched. In 2004, the government initiated the CSR Academy to help endorse skills and competencies for responsible business practice as well as passing legislation for mandatory CSR reports from

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<sup>76</sup> Dirk Matten and Jeremy Moon, “ ‘Implicit’ and ‘Explicit’ CSR: A conceptual framework for understanding CSR in Europe,” (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004), 20-21.

<sup>77</sup> For more information, see [www.hsbc.com](http://www.hsbc.com).

<sup>78</sup> European Commission, “Promoting a European Framework for Corporate Social Responsibility,” (Brussels: Commission of the European Communities, July 18, 2001), 5.

<sup>79</sup> European Commission Directorate-General for Employment and Social Affairs, *Compendium on national public policies on CSR in the European Union (2007)*. European Commission, [http://ec.europa.eu/employment\\_social/emplweb/csr-matrix/csr\\_matrix/csr\\_countryfiche\\_en.cfm?id=32\\_en.cfm](http://ec.europa.eu/employment_social/emplweb/csr-matrix/csr_matrix/csr_countryfiche_en.cfm?id=32_en.cfm).

<sup>80</sup> European Commission, “Promoting a European Framework for Corporate Social Responsibility,” (Brussels: Commission of the European Communities, July 18, 2001), 14.

corporations. Further, pension funds are required to include the triple bottom line in their investment strategies, using the index FTSE4Good.<sup>81</sup>

Particularly in the past decade, Britain has become a source of innovation due to a network of corporate leadership, think-tanks, consultancies and NGOs.<sup>82</sup> Corporate social responsibility has moved into an increasingly mainstream position in Britain, debates and partnerships among and between actors is considerably 'normal'. Today the British government views and implements CSR as a solution to resolving social concerns while promoting sustainable development and increasing the competitiveness of business.<sup>83</sup> Investors track socially responsible companies on the FTSE4good index. Initiatives and organizations abound, to name just a few aside from BITC; 'Corporate Responsibility Coalition' (CORE), a network of 130 NGOs; 'The Ethical Trading Initiative', a UK code developed in cooperation between the government, retail and consumer goods companies, trade unions and NGOs which improve working conditions in international supply chains;<sup>84</sup> or AccountAbility 1000: a standard for measuring socially responsible achievements with criteria issued by the Institute of Social and Ethical. HRH The Prince of Wales founded 'The International Business Leaders Forum' for business, government and civil society to cooperate and improve corporate contribution towards sustainable development. Thus, a web of organizations, initiatives and actors dedicated to CSR is in place.

### 2.2.1 Structure and Organisation of the Market System

Since the end of the Cold War, political and economic systems have been converging. Yet, institutional variations still prevail and influence national differences. Therefore, I will utilize

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<sup>81</sup> Birgit Riess and Carolin Wenzel, *Partner Staat? CSR Politik in Europa* (Guetersloh: Bertelsmann Stiftung, 2006) 7.

<sup>82</sup> Daniel Franklin, "Just Good Business: A Special Report on Corporate Social Responsibility," *The Economist* (January 19, 2008): 18.

<sup>83</sup> Alasdair Murray, "Corporate social responsibility in the EU," (London: Centre for European Reform, 2003), 3.

<sup>84</sup> Daniel Franklin, "Just Good Business: A Special Report on Corporate Social Responsibility," *The Economist* (January 19, 2008): 13.

the main idea behind the *Varieties of Capitalism* approach, publicized by Peter Hall and David Soskice to compare market differences: a concept that variations in “system coordination” initiate institutional advantages.<sup>85</sup> Institutions, organizations, and cultural aspects shape the relationships firms create and resolve coordination problems in the market. Institutions are defined as the rules and guidelines actors follow; organizations the entities, such as legal or regulatory systems, business associations and trade unions, whose rules support the institutions of the political economy.<sup>86</sup>

To summarize briefly, national political economies can be classified as two divergent types, where “firms will gravitate toward the mode of coordination for which there is institutional support.”<sup>87</sup> The components of the system mutually reinforce each other if they are in tune with each other. These components, which include the financial system, labor market and inter-firm relations, will maximize performance to create a “comparative institutional advantage”. Thus, the two different types create varying capacities for innovation, due to the different distribution in employment and income.<sup>88</sup> Furthermore, taking the economic aspect of comparative advantages in trade into consideration, the particular institutional structure creates competitive advantages in specific businesses and activities. However, the very structure and these advantages also create varying dependency paths when confronted with external pressures for change.<sup>89</sup>

The UK, a ‘stock market’ capitalism system, is classified as a liberal market economy (LME), coordinating activities according to hierarchies and competitive market arrangements, relying on market mechanisms for coordination and equilibrium in supply and demand conditions:

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<sup>85</sup> Note, that I am drawing on their model, yet simplifying and consolidating explanatory factors the framework uses to the key concept of coordination, due to the limitation of scope for this paper.

<sup>86</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: University of Oxford Press, 2001), 9-10.

<sup>87</sup> *Ibid.*, 9.

<sup>88</sup> *Ibid.*, 21.

<sup>89</sup> Nahee Kang, “A Critique of the “Varieties of Capitalism” Approach,” ed. Jean-Pascal Gond, (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004) 9.

“Market relationships are characterized by the arm’s-length exchange of goods or services in a context of competition and formal contracting. In response to the price signals generated by such markets, the actors adjust their willingness to supply and demand goods or services, often on the basis of the marginal calculations stressed by neoclassical economics. In many respects, market institutions provide a highly effective means for coordinating the endeavors of economic actors.”<sup>90</sup>

In LMEs, companies compete in dynamic markets, where change is rapid.<sup>91</sup> Under the idea that “strategy follows structure”<sup>92</sup> institutional complementarities create certain patterns in corporate behaviour and investment, so that in the UK, fluid labor markets coincide with straightforward access to stock market capital and firms are profit-driven, making these companies dynamic innovators, as they have shown themselves to be in the UK in all sectors in recent years. In the LME, dynamics result from independent and “switchable assets”, meaning that firms can use assets for multiple purposes, as appropriate. This creates a comparative advantage of innovation due to flexible employment strategies and bonds regarding capital provision between companies and banks. Moreover, they are not restrained by heavy regulation<sup>93</sup> and rely on market relations to resolve coordination problems.<sup>94</sup> Companies generate financial capital based upon the evaluation in equity markets, relying on public information.<sup>95</sup> Inter-company relations are based on formal contracts and standard market relationships, where reputation building becomes crucial to the competitive advantage. Information transfers happen through employee exchanges, research consortia and inter-firm collaboration. Standards are often created through market races, where winning companies profit from licensing their innovation.<sup>96</sup>

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<sup>90</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: University of Oxford Press, 2001), 8.

<sup>91</sup> *Ibid.*, 32.

<sup>92</sup> *Ibid.*, 15.

<sup>93</sup> Nahee Kang, “A Critique of the “Varieties of Capitalism” Approach,” ed. Jean-Pascal Gond, (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004) 9-10.

<sup>94</sup> *Ibid.*, 27.

<sup>95</sup> *Ibid.*, 29.

<sup>96</sup> *Ibid.*, 33.

In the industrial relations arena, companies rely on the market to organize internal (employer-employee) and external (firm-labor union) relationships. Management has substantial freedom regarding internal relationships and no obligation to establish representative work councils.<sup>97</sup> Trade unions demonstrate significant strength only in certain sectors. In general, union-employer associations are less cohesive and depend on market competition and macroeconomic policy to regulate inflation and wages. Companies can take advantage of new market opportunities due to the flexibility management has with employees. Moreover, because of short term strategies, workers face limited tenures, with company and market flexibility dictating “easy come, easy go”, creating education to focus on general skills and companies are reluctant to do extensive in-house training which would generate industry or company specific skills.<sup>98</sup>

### 2.2.2 Cultural Aspects: Considering the trade-offs of Innovation and Implementation

In addition to market organization, history, traditions and norms create informal and formal rules specific to the national context and influence managerial decisions, since “[m]any actors learn to follow a set of informal rules by virtue of experience with a familiar set of actors and the shared understandings that accumulate from this experience constitute something like a common culture.”<sup>99</sup> The importance an individual places on work or prioritizes between work and leisure, attitudes towards education and family, as well as the degree of trust they demonstrate for their fellow citizens; these values impact economic life. Yet they cannot be quantified or measured in terms of economic models. As Francis Fukuyama has written, “[j]ust as liberal democracy works best as a political system when its individualism is moderated by

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<sup>97</sup> Nahee Kang, “A Critique of the “Varieties of Capitalism” Approach,” ed. Jean-Pascal Gond, (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004), 29.

<sup>98</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: University of Oxford Press, 2001), 29-30.

<sup>99</sup> *Ibid.*, 13.

public spirit, so too is capitalism facilitated when its individualism is balanced by a readiness to associate.”<sup>100</sup>

Modern UK is a mix of cultural traditions and liberal institutions. One product is their historical rather laissez-faire attitude towards education, a result of liberal ideology and the influential aristocratic class of early nineteenth century, who held ideas of moneymaking, commerce and technology in contempt, explaining the inherent public distrust for profitable corporations. English society managed to keep a few local political authority and traditional communal institutions alive from feudal times, such as the guilds and churches, by the mid-twentieth century, they had not been modernized and Britain was slow in creating replacements. Moreover, no intermediate organizations remained responsible for education and training. Post World War I England was without a comprehensive institutional vocational training system. Therefore, the elimination of the guild privileges and to a certain extent the laissez-faire attitude towards education contributed not only to the late establishment of a modern educational system, but also explains today’s focus on general skills. Furthermore, early universities focused on classical humanities instead of science and technology, since engineering was seen as unfit for the elite.<sup>101</sup> Therefore, the focus of education in the corporate world is primarily on the acquisition of general all-around skills, resulting in “a labor force well equipped with general skills, especially suited to job growth in the service sector where such skills assume importance, but one that leaves some firms short of employees with highly specialized or company specific skills.”<sup>102</sup>

Furthermore, England maintained strong class divisions and status barriers for a long time, hindering economic cooperation and development and undermining the sense of community. For example, the social cleavages between the financiers, located in London, and the

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<sup>100</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: University of Oxford Press, 2001), 351.

<sup>101</sup> *Ibid.*, 247-250.

<sup>102</sup> *Ibid.*, 30.

manufacturers in the northern cities were partly the reason why British banks failed to finance the less refined industrialists; thereby failing to make British car manufacturers and the electrical industry competitive globally. While other countries, as we will see with Germany, also had a class society, the groups were not as isolated from each other as was the case in the UK.<sup>103</sup> In addition, this traditional class consciousness raised barriers between managers and workers on different levels, making it more difficult for all parties to gain the sense that they were on “the same team”.<sup>104</sup> Furthermore, the British working class demonstrates strong solidarity with trade unions through consistent high levels of membership. However, class solidarity extends divisions between management and labor in Britain, impeding communitarian innovations in employer-employee relations<sup>105</sup> and communitarian visions. Both parties may accept the presence of the other, yet the acceptance of legitimacy is limited.<sup>106</sup> Once the power and status of the aristocracy had diminished, the divide between industry, technology and men of affairs and the aristocracy continued, due to prevalent anti-capitalist attitudes among the Marxist intellectual class. Partially due to this class consciousness, a substantial number of large firms remained in family hands and the corporate form of business didn’t emerge in Britain until WWII<sup>107</sup>, where as I mentioned previously, the role given corporations was to create profit and the government the role of care-taker.

The “self-regulation” of the marketplace can be derived back to the successful rebellions against the English monarchy in the sixteenth and seventeenth century, which created a culture of self-organization and the independence from a central authority to mediate differences.<sup>108</sup> This explains the spillover to the preference of institutional coordination to take place through the market. Furthermore, during the 1960s and 1970s there existed great pressure to modernize and subsequently, since the early 1980s, the UK has had a relatively dynamic business sector.

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<sup>103</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (London: Penguin Books, 1995), 214.

<sup>104</sup> *Ibid.*, 158-59.

<sup>105</sup> *Ibid.*, 190.

<sup>106</sup> *Ibid.*, 217.

<sup>107</sup> *Ibid.*, 250-51.



These market dynamics create new demands, which then demand responses and these; these are subjected to public scrutiny. Markets for corporate governance encourage companies to focus on the dimensions that are publicly accessible and affect the share price.<sup>109</sup> These demands and public scrutiny force businesses to consistently communicate and market activities: not doing so can have immediate repercussions on the corporate image, reputation and ultimately: the share price. Therefore, in its promotion of CSR, the governmental role may be conspicuous, but the “wider and more explicit CSR agenda reflects business reviews of its individual and collective long-term legitimacy, pressure from various non-governmental organizations, and changing demands of employees, suppliers, customers and consumers.”<sup>110</sup> Moreover, in the past few decades where business received a larger role in British society, the business culture benefited not only from a blend in influences from the mainland European social model and American free-market voluntarism, but also from simple geography: corporate UK remains concentrated in London. Close proximity creates greater dialogue and networking opportunities, giving the UK an advantage over countries where corporate headquarters are evenly distributed across the country.<sup>111</sup>

Today, Britain is seen as a source of innovation, due to corporate leadership, consultancies and think-tanks and NGOs.<sup>112</sup> As Michael Porter and Mark Kramer said, “[i]nnovation drives productivity []. The greatest advances come not from incremental improvements in efficiency but from new and better approaches. The most powerful way to create social value, therefore, is by developing new means to address social problems and putting them into widespread

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<sup>108</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (London: Penguin Books, 1995), 39.

<sup>109</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: University of Oxford Press, 2001), 29.

<sup>110</sup> Jeremy Moon, “United Kingdom – An Explicit Model of Business-Society Relations,” in *Corporate social responsibility across Europe*, ed. André Habisch, Jan Jonker, René Schmidpeter, Martina Wegner (Berlin: Springer Verlag, 2005), 57.

<sup>111</sup> David Grayson, Business-led Corporate Responsibility coalitions: learning from the example of Business in the Community in the UK – An Insider’s Perspective,” (Harvard: Business in the Community, Doughty Centre for Corporate Responsibility and the Kennedy School of Government, 2007) 16.

<sup>112</sup> Daniel Franklin, “Just Good Business: A Special Report on Corporate Social Responsibility,” *The Economist* (January 19, 2008): 18.

practice.”<sup>113</sup> This Anglo-Saxon approach, combined with independence and individualism, the emphasis on a generalized education, close geographic proximity, and above all: the role and pressure of public scrutiny and the market as a driver are key explanations why British businesses have become so adept at creating innovative solutions to issues, particularly in CSR.

In summary, I have explained the shift from an implicit to an explicit model of CSR in Britain: triggered by the crises in the mid-1980s, establishing the need for responsible business practices; the evolution was dynamically driven by supporting factors found in the culture and organization of the market place. This will serve as a comparison, as we turn to Germany.

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<sup>113</sup> Michael E. Porter and Mark R. Kramer, “The Competitive Advantage of Corporate Philanthropy,” *Harvard Business Review* 80, no. 12 (2002): 66.

## Chapter 3: Principles of German CSR: A Case Study

Among the backdrop of German reunification, globalization, an aging population and other social challenges, Germany is facing a major need for change. Necessary structural changes impact social security, labor regulation and education, to name just a few; and have been the preoccupation of the government in the past ten years. As we have seen in the previous chapter, CSR has been accepted as a solution on the EU level and in England to tackle similar social challenges: with success. The German government claims to take corporate social responsibility seriously and on the webpage of the European Commission, a lengthy list of activities can be found.<sup>114</sup> In the following chapter, I will outline the development of CSR thus far and using the corresponding explanatory variables of the organization of the market and cultural aspects, I will analyze the German market, to reveal the national context and to clarify why Germany is resisting and therefore lagging behind the UK, in adapting and becoming a recognized model of explicit CSR.

To understand the German market and society, one must understand that the national context is framed by a strong, interventionist German state. Societal expectations revolve around the principles of the *Soziale Marktwirtschaft*; the social market economy where corporate structures and civic organizations exert influence through the concept of co-determination. Not only is it consensus-bound, but *consensus-driven*, a

“system under which labor representatives [sit] on boards of the companies they worked for, with access to corporate information and a real, if limited, participation in governance; a network of workers councils for managing problems and conflicts on an enterprise level; the system of collective bargaining between the industry associations and the labor unions, by which wages, hours, benefits, working conditions, hours, job security, and the like. This entire system is mediated and administered by a series of intermediate organizations, primarily the nationally organized unions and the trade associations, in such a way as to exclude independent employers or union locals.”<sup>115</sup>

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<sup>114</sup> See the webpage of the European Commission Directorate-General for Employment and Social Affairs, [http://ec.europa.eu/employment\\_social/emplweb/csr-matrix/csr\\_countryfiche\\_en.cfm?id=23](http://ec.europa.eu/employment_social/emplweb/csr-matrix/csr_countryfiche_en.cfm?id=23).

<sup>115</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (London: Penguin Books, 1995), 217.

Today, trade unions, chambers and associations: whether commerce, professional or religious based, cling to their carved-out roles, joining forces with a welfare state system presumed to solve all national problems.<sup>116</sup> By the early 1990s, this welfare state had become enormous, consuming half of the gross domestic product. Due to heavy regulation, business was saddled with carrying mandatory health care, unemployment and vocational training costs, but hindered in being able to lay off unneeded workers and downsize or restructure companies.<sup>117</sup> Moreover, the German reunification in 1990 created a huge financial drain, the ensuing world-wide recession and rise of globalization initiated pressure for adjustment on government, companies and the communitarian economic institutions. It is admirable for business to attempt to retain workers during recessions rather than laying them off and unlike other European countries, Germany has been in the fortunate position to do so. However, linking skilled labor with value-added market niches isn't always feasible and globalization has created a marketplace where it is possible to find highly-skilled workers at lower wages. German communal economic institutions have a commendable track record of linking economics with social welfare, but are legally bound and regulated by the government: increasing transaction costs, rigidity of the system<sup>118</sup> and creating time-consuming transition periods; detrimental in this age. Economic globalization, particularly the dynamic growth in communications, has promoted an exchange of ideas, pushing German businesses to question their culturally distinctive and very paternalistic labor policies and creating support for a more liberal approach.<sup>119</sup>

Modern Germany has its roots in the industrialisation process of the late 19<sup>th</sup> century,<sup>120</sup> remaining agricultural until the founding of the German Reich. Nonetheless, the outbreak of World War I saw Germany positioned as the second strongest industrial nation in the world, with only England surpassing it. This rapid development is attributable to the remarkable

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<sup>116</sup> Andrè Habisch and Martina Wegner, "Overcoming the Heritage of Corporatism," in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 111.

<sup>117</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (London: Penguin Books, 1995), 242.

<sup>118</sup> *Ibid.*, 253.

<sup>119</sup> *Ibid.*, 353.

efficiency and militaristic penchant for order of the Prussian state. The Prussian bureaucracy also created what became the backbone of German development: introducing superior systems in education, pensions and social security, as well as building a national infrastructure for roads, railways, housing, etc. When Bismarck introduced the nation-wide pension system, it was also the establishment of expectations; where “the German population became used to relying on the state as a perfectly functioning agency for the provision of public goods” while business took the national infrastructure provided by the government for granted.<sup>121</sup>

The dynamic liberalization and privatization of public services in England in the 1980s took another fifteen years to happen in Germany. This process not only took longer to happen, but the process itself has been comparatively gradual and with the absence of the social unrest which occurred in the UK. Certain sectors such as telecommunications and energy were liberalized at the end of the 1990s; others are still in the process of being privatized, namely the railroads; even others, such as roads, remain visions of the future. The fiscal strength plays a role here: the German state is comparatively still much better off than the UK government was in the 1980s, thus the drive to downsize the public sector and push for responsibility of business has taken place on a smaller scale.

The beginnings of CSR in Germany go back about a century, where businesses began to provide their employees with free housing, hospitals and healthcare or ‘humane’ working hours. Names which include Werner von Siemens, who initiated health insurance for his workers and built the *Siemensstadt* in Berlin: modern housing intended to free his workers from undignified living conditions, which were also the intentions behind *Margarethenhöhe* in Essen, the housing complex built between 1909 and 1938 by the Krupp company and remains even today in the hands of the Krupp Foundation; or Robert Bosch who introduced the eight hour work day in 1906. By increasing their standard of life, they argued that they were also increasing morale

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<sup>120</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 121.

and decreasing employee turnover.<sup>122</sup> Furthermore, since the 1970s and 1980s, Germany has been very active in environmental protection due to crises in forestation and air and water pollution. Today, these crises have been successfully remedied; simultaneously concern for the environment has been ingrained into the culture; and due to this early awareness, Germany is a leader in environmental concerns with high levels of standards and regulation in place.

However, despite these traditions of civic engagement and environmental concern, CSR really became an issue for debate as a result of globalization and the subsequent increasing pressure German corporations received in the international arena,<sup>123</sup> as well as the discussions on the EU level.<sup>124</sup> The introduction of the Anglo-Saxon terminology “corporate social responsibility” has sparked intensive discussion concerning the terminology, translation and causing confusion with terms of corporate citizenship, business ethics and sustainability: subsequently, they have often been thrown together.<sup>125</sup> Discussions also involve wide conceptual interpretations, which cover the entire spectrum: acceptance of the EU definition published in the 2001 “Green Paper”,<sup>126</sup> Freeman’s “Stakeholder Theory”,<sup>127</sup> “everything exceeding legal requirements,”<sup>128</sup> the business case (with different strategic approaches in relation to create the triple bottom line),<sup>129</sup> corporate accountability<sup>130</sup> and approaches where society and politics define the rules of corporate social responsibility through the parliament, or simply philanthropy under another name.<sup>131</sup>

Furthermore, the traditional role separations between state and business have shaped public expectations for social responsibility to lie with the state, for business to assume these activities

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<sup>121</sup> Ibid., 111-112.

<sup>122</sup> Interviewee DMO.

<sup>123</sup> Anna Peters, et al., *The CSR Navigator: Public Policies in Africa, the Americas, Asia and Europe* (Guetersloh/Eschborn: Bertelsmann Stiftung and GTZ, 2007) 20.

<sup>124</sup> Although controversial, many interviewees agreed that the EU has played a role.

<sup>125</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 113.

<sup>126</sup> Interviewee EGM.

<sup>127</sup> Interviewee N.

<sup>128</sup> Interviewee DB.

<sup>129</sup> Interviewee ACHOJLM.

<sup>130</sup> Interviewee I.

<sup>131</sup> Interviewee F.

voluntarily is met with wide-spread scepticism.<sup>132</sup> This is due to the “social” in CSR being interpreted as the equivalent with the German translation of *sozial*, referring to regulated social obligations. This definition limits the width that the English definition carries, thus the range of applicable activities. For these reasons, corporations are increasingly referring to the concept as corporate responsibility. In addition, classical CSR stipulates voluntary actions, thus not pertinent to the numerous legally defined obligations and activities and not included when reporting CSR endeavors.<sup>133</sup>

Misinterpretations and the legal framework have also created barriers to CSR. Critics believe it to be a PR tool or the newest management scheme for consultants to create profit, indicating the lack of comprehension for the extent of the concept: only the minority have registered that CSR is a business case, not the perceived responsibilities belonging to the state. This pertains also to top management of large corporations and to a substantial number of small and middle-sized enterprises (SMEs) which make up the bulk of the German industry.

After years of intense debate, corporate social responsibility has finally been given a more mainstream position in discussions and awareness for the need to adopt CSR practices, yet also created different positions for the actors involved. The government is seen as lagging behind: it was slow in placing CSR on the political agenda, outcomes of discussions between the national government and the EU have failed to trickle down to the regional and local levels and has neglected to take the driver’s seat in steering the discussion.<sup>134</sup> A substantial amount of the debate revolves around the perceived need to regulate CSR, where according to a recent study on corporate citizenship (relevant due to the overlapping of terms in Germany), 81% of German businesses are opposed to regulatory interference and only 3% saw it as positive

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<sup>132</sup> Birgit Riess and Carolin Wenzel, *Partner Staat? CSR Politik in Europa* (Guetersloh: Bertelsmann Stiftung, 2006) 32.

<sup>133</sup> Interviewee KC.

<sup>134</sup> Interviewee D.

reinforcement.<sup>135</sup> However, NGOs and trade unions are calling for guidelines to measure responsibility.<sup>136</sup>

The social dimension remains a key focus, where cross-sectoral alliances and initiatives the government has promoted beyond labor related issues are still limited, remaining “primarily an expression of the social market economy.”<sup>137</sup> Subsequently, the Federal Ministry of Labour and Social Affairs (BMAS) was recently given the responsibility for CSR, although other ministries have assumed a stronger role in different activities.<sup>138</sup> This lies in direct contrast to England, where CSR was delegated to the Department for Trade and Industry.

Incentives for governmental CSR activities are usually triggered by international or European policies, such as the EU’s Green paper or the Global Compact, sometimes activated through EU funded projects and often based on networks.<sup>139</sup> Governmental CSR activities concentrate on alliances and partnerships with business, promoting codes of conduct, particularly in relation to demographic change and unemployment:<sup>140</sup> measures tend to focus on activities to integrate people into the work process and initiatives for training, which are partially funded by the European Social Fund. Through the Federal Initiative, Partners of Youth (UPJ) the German government supports small and middle-sized enterprises (SMEs) on CSR practices, which include mediation between NGOs and firms and a networking platform. In general, while CSR is not deterred through the current legal framework, neither do expected tax or financial incentives or governmental promotion blatantly exist.<sup>141</sup>

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<sup>135</sup> Dr. Frank W. Heuberger, *Corporate Citizenship in Germany and a Transatlantic Comparison with the USA*, (Berlin: CCCD – Centrum für Corporate Citizenship Deutschland e.V., 2007) 28-29.

<sup>136</sup> Interviewee K.

<sup>137</sup> Anna Peters, et al., *The CSR Navigator: Public Policies in Africa, the Americas, Asia and Europe* (Guetersloh/Eschborn: Bertelsmann Stiftung and GTZ, 2007) 20.

<sup>138</sup> Ibid.

<sup>139</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 118-119.

<sup>140</sup> Anna Peters, et al., *The CSR Navigator: Public Policies in Africa, the Americas, Asia and Europe* (Guetersloh/Eschborn: Bertelsmann Stiftung and GTZ, 2007) 21.



Different regional initiatives are present, such as in North-Rhine Westphalia or in Schleswig-Holstein which takes CSR into consideration in cabinet decisions<sup>142</sup> or in Baden Württemberg, which has also adopted a CSR strategy under the motto, that local businesses and stakeholders are very active in CSR, but fail to communicate their activities: “Alles nachhaltig, aber nicht “schwätzen” (CSR is everywhere, but not communicated).<sup>143</sup> The government participates in the ISO 26000 project, which is to establish an international standard on CSR, supports EMAS and has included relevant activities in consumer protection plans.

The private sector, particularly multinationals, are increasingly under pressure due to globalization and have subsequently been the main drivers for CSR in Germany.<sup>144</sup> Their representative associations, the Federation of German Industry (BDI), the Federation of German Employers (BDA) and Econsense, an association of the German industry dedicated to sustainable development, stress the voluntary nature of CSR and the importance of limiting regulations for business.<sup>145</sup> They claim increased regulation would cause a counterproductive effect to increasing voluntary action and regulations for companies operating in emerging markets; developing countries should be handled on the international level.<sup>146</sup> Meanwhile, SMEs have only been involved in the CSR discussion to a limited extent due to the confusion of terms, wide array of codes of conduct and the limited scale of operating environment. Moreover, while in the UK companies may have classified their relationships with local communities to be a dimension of their social responsibility, in Germany, it is handled through networks, such as local Chambers of Industry and Commerce, instead of voluntary business initiatives.<sup>147</sup> Only

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<sup>141</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 118-121.

<sup>142</sup> Birgit Riess and Carolin Wenzel, *Partner Staat? CSR Politik in Europa* (Guetersloh: Bertelsmann Stiftung, 2006) 34.

<sup>143</sup> “Baden-Württemberg: Alles nachhaltig, aber nicht “schwätzen”,” in the issue of *Glocalist*, no. 23 (2007/2008): 16-20 (German).

<sup>144</sup> Interviewee D.

<sup>145</sup> Interviewee ACEGHJKLMNO.

<sup>146</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 115.

<sup>147</sup> Dirk Matten and Jeremy Moon, “ ‘Implicit’ and ‘Explicit’ CSR: A conceptual framework for understanding CSR in Europe,” (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004), 21.

recently has awareness increased, due to the pressure the large corporations are putting on the firms connected with their supply chains.<sup>148</sup>

Most businesses are unconvinced that corporate citizenship practices will create a measureable contribution economic success: only 40% actually expect the commitment to generate positive economic results with less than those actively searching for areas to become involved. While perhaps more self-critical in the quality of measures adopted, 66% state that in principle, corporate citizenship is viewed as important, however, not implemented consistently. “More than three businesses out of four consider corporate citizenship part of the image they have of themselves, and part of their corporate culture. Still, the majority of German businesses have not chosen to be corporate citizens on their own initiative.<sup>149</sup> Partnerships with NGOs remain uncommon.<sup>150</sup>

Trade unions remain a passive player in the CSR arena, partially due to the established legal framework, but also owing to limited vision and cross-organizational cooperation. Thus, their support of issues is limited to traditional interests, which include raising social standards, the right to form unions and collective bargaining.<sup>151</sup> It has been said, that trade unions are “suffering from tunnel vision,”<sup>152</sup> since Worker Councils remain involved only in the workplace dimension (education, employee benefits and rights) and to a certain extent in the community (activities involving charity and children).<sup>153</sup> Furthermore, no NGO is explicitly associated with CSR, instead, the numerous organizations remain dedicated to their specific issues, such as poverty and hunger.<sup>154</sup> Approximately forty of these have cooperated to create the “Corporate Accountability” network. While they have not found consensus on a definition

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<sup>148</sup> Interviewee D.

<sup>149</sup> Dr. Frank W. Heuberger, *Corporate Citizenship in Germany and a Transatlantic Comparison with the USA*, (Berlin: CCCD – Centrum für Corporate Citizenship Deutschland e.V., 2007) 7.

<sup>150</sup> Majority of interviewees agreed with this.

<sup>151</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 115.

<sup>152</sup> Interviewee CK.

<sup>153</sup> Interviewee CK.

<sup>154</sup> Interviewee IK.

of CSR, they jointly promote sensitivity for social and environmental issues and the creation of regulation and standards for business.<sup>155</sup> Moreover, the debate is accompanied by a weak consumer response and a “climate of non-appreciation,” which has slowed the development of CSR practices<sup>156</sup> and is a critical missing driver for CSR in Germany, possibly also why many CSR activities fail: the consumer doesn’t reward the efforts of socially responsible businesses. For example, Volkswagen introduced an “environmentally friendly” car onto the market a few years ago, however had to discontinue the model after demand had not reached half of forecasted sales.<sup>157</sup>

In 2001, the federal government founded the German Council for Sustainable Development (RNE), to act as an advisor for the national government and promote awareness for CSR in the general public. In 2002, the federal government disclosed a CSR strategy and in August 2005 issued the *Wegweiser Nachhaltigkeit 2005*, containing guidelines for CSR and confirming and continuing the previous strategy. In 2006 the RNE initiated a dialogue which consisted of an online survey and a multi-stakeholder forum. As a result, RNE issued three recommendations to the national government and three recommendations for business.<sup>158</sup> In April 2008, the BMAS finally responded by holding a multi-stakeholder workshop to initiate a national strategy for CSR. Today, there still remains no explicit role of the government, such as the creation of a CSR minister. The wealth of activities in the private sector belie the need: network creations from the Bertelsmann Foundation and Fuchs-Gamboeck CSR in Munich are trying to establish best practice and information sharing for SMEs.<sup>159</sup>

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<sup>155</sup> Interviewee I.

<sup>156</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 120-121.

<sup>157</sup> Interviewee D.

<sup>158</sup> German Council for Sustainable Development, *Corporate Responsibility in a Globalised World – A German Profile of Corporate Social Responsibility* (Berlin: Rat für Nachhaltige Entwicklung, 2006) 41.

<sup>159</sup> Interviewee GKM.

### 3.1 Structure and Organisation of the Market System

Germany's market was originally conceived as a "third way between purely-market-oriented capitalism and socialism."<sup>160</sup> As mentioned, it is classified as a social market economy, a 'social welfare state' or in the *Varieties of Capitalism* model, it is classified as a coordinated market economy (CME), where:

"firms depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies. These non-market modes of coordination generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm."

In the German economic model, there is an implicit understanding and tradition, business is expected to assume responsibilities that are in the interests of greater society.<sup>161</sup> This is demonstrated by "the equilibria on which firms coordinate [] are more often the result of strategic interaction among firms and other actors."<sup>162</sup> Therefore, in direct contrast to LMEs, this model relies heavily on non-market relations: collaboration or regulated cooperation with trustworthy commitments, possible due to industry-wide institutions which have been put into place to assume a regulatory role, thus allowing companies to resolve issues through strategic interaction<sup>163</sup> as a form of coordination. This coordination usually offers higher returns to all parties, reduces uncertainty on actions of others, therefore enabling credible commitments. In addition, the institutions have the added benefits of being able to exchange information and monitor behavior, capable of sanctions if necessary. In CMEs, these institutions are influential business or employer associations, powerful trade unions, extensive networks of cross-shareholding, and legal or regulatory systems intended to facilitate information sharing and cooperation,<sup>164</sup> specifically in regards to vocational training, research and development for an

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<sup>160</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (London: Penguin Books, 1995), 218.

<sup>161</sup> Interviewee ADGJK.

<sup>162</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford: University of Oxford Press, 2001), 8.

<sup>163</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford: University of Oxford Press, 2001), 22.

<sup>164</sup> *Ibid.*, 9-10.

industry.<sup>165</sup> Taking into consideration that 80% of all jobs in Germany are traditionally with SMEs, this approach has offered huge advantages for smaller firms to gain fair and equal access to the market.<sup>166</sup>

Unlike their British counterparts, German managers must seek approval from major stakeholders on decisions: decision-making tends to be consensus driven. CME managers focus on profitability and firm reputation, since reputation increases project acquisition, thus ensuring work for long-term and highly skilled employees.<sup>167</sup>

Business associations are important. First, CMEs have employees with a high level of industry or firm-specific skills, while managers depend on vocational training to provide those skills.<sup>168</sup> Secondly, long-term contracts bind employees to firms, so that firms cannot rely on them for competitive knowledge and information sharing. Instead, they encourage relations, creating a diffusion of technology across the entire economy, using associations and networks. These collanorate with public officials to promote new technology and business concepts, pinpointing competencies, made possible through company reputation and institutional insider information.<sup>169</sup> Thirdly, CME firms utilizing production strategies are dependent on highly-skilled workers, which are entrusted with substantial autonomy and information sharing is encouraged to generate continuous improvements in production lines. Therefore, wage bargaining takes place between trade unions and employer associations to create industry-standardized wages, making it difficult for firms to steal workers, while workers receive maximum wages. Additionally, workers councils have a considerable say in issues concerning

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<sup>165</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford: University of Oxford Press, 2001), 17.

<sup>166</sup> Interviewee H.

<sup>167</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford: University of Oxford Press, 2001), 24.

<sup>168</sup> *Ibid.*, 25-26.

<sup>169</sup> *Ibid.*, 26.

working conditions and layoffs: increasing trust and encouragement of increasing skills and increasing their value to the company.<sup>170</sup>

In the financial arena, companies can acquire other sources of finance, not necessarily dependent on public information or earnings per share, enabling “patient capital”. This allows companies to keep labor in situations such as recessions, to inject capital into long-term projects which become financially viable only long-term and ride waves of possible recession.<sup>171</sup> For example, industrial growth in Germany was financed by banks instead of equity offerings, which, as soon as legally established supplied capital as private limited-liability banking institutions, developed into tremendous size and in intimate association with one singular industry. Therefore the ‘railway bank’ became the *Diskontogesellschaft* and the ‘electrical equipment industry bank’ was the Berliner *Handelsgesellschaft*. Bank investments were neither intended to be short term nor at arms-length, such as prevalent in LMEs, instead bank representatives dedicated themselves to the business of their clients. It became established practice for bank representatives to be members of the higher (of two levels) board of directors which oversaw corporate activities and banks specialized staff in specific industries, which were then responsible for all banking relations. Therefore, not only were relations intimate and long term, they provided stability which gave German companies the possibility to assume long-term management practices and develop specialized production processes. The substantial equity positions banks created enabled business to block hostile takeovers, such as in the case with Daimler-Benz in the 1970s, where it was due to efforts of Deutsche Bank which prevented an international takeover. In comparison to the UK, German bankers and industrialists did not have the status distinction and the cultural and physical separation which prevented cooperation.<sup>172</sup>

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<sup>170</sup>Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford: University of Oxford Press, 2001), 24-25.

<sup>171</sup> *Ibid.*, 16.

In addition, the government remains embedded in economic activities, such as directly intervening with measures like subsidies and credits, if there is the liability of mass lay-offs at important businesses. Moreover, the state remains a substantial shareholder in large German companies, such as Volkswagen,<sup>173</sup> where the state is a shareholder of approximately 25% of all shares, which belong to the state of Lower Saxony. They receive a prominent voice in corporate decisions, which is in the state's interests to ensure jobs and an aggravation to major shareholder Porsche.

Since the economic model demonstrates the types of coordination capacities condition corporate actions and corporate governance systems, consequently, the internal company framework and the external institutional environment complement each other. Companies in coordinated market economies, for example, pursue production strategies which will depend on employees that have niche skills high levels of commitment to the company. Commitment is ensured through protective works councils, industry-standardized wages and long-term employment contracts. However, this is only possible, since financial capital is independent of short-term and fluctuations in profitability. Institutions ensure education in quality and quantity through industry-based vocational training, inter-firm cooperation and technology transfers.<sup>174</sup> Thus, “long-term employment strategies, rule-bound behaviour and durable ties between firms and banks underpinning patient capital provision predispose firms to be “incremental innovators” in capital goods industries, machine tools and equipment of all kinds. In contrast to the LME, the logic of the CME revolves around “specific or co-specific assets”, i.e., assets

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<sup>172</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*. (London: Penguin Books, 1995), 213-214.

<sup>173</sup> Dirk Matten and Jeremy Moon, “ ‘Implicit’ and ‘Explicit’ CSR: A conceptual framework for understanding CSR in Europe,” (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004), 24-25.

<sup>174</sup> Peter A. Hall and David Soskice, introduction to *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford: University of Oxford Press, 2001), 33-35.

whose value depends on the active co-operation of others.”<sup>175</sup> Thus, explaining the presence of consensus-seeking decision making and dependency on institutions.

It is particularly since the rise of globalization, that the institutionalized rigidities of “stakeholder capitalism” are undermining the German economic model and creating demands for a more stock market, profitability-driven system. As a consequence, mergers and acquisitions are taking place,, German capital is being invested abroad and supply chain operations are located in “lower cost” markets, due to the expensive labor, high transaction costs and rigidity imposed by the German economic system and corporate organizational model.<sup>176</sup> Today, with the lack of the traditional oversight and coordination of corporate activities because they take place outside the domestic playing field, there is a growing public awareness for the need of transparency in management decisions.<sup>177</sup>

### **3.2 Cultural Aspects: Considering the trade-offs of Innovation and Implementation**

Civil society is understood as the “complex welter of intermediate institutions, including businesses, voluntary associations, educational institutions, clubs, unions, media, charities and churches”.<sup>178</sup> No where is this description more fitting than in the context of Germany, due to the high proliferation and interdependency of institutions, as we have already seen with the market organization. The American intellectual Francis Fukuyama classified Germany as a high trust and group-oriented society.<sup>179</sup> Historically, German culture has a strong sense of communal solidarity, with a reputation for their work ethic and self-discipline; renowned for orderliness, efficiency and tradition for perfectionism; supposedly a society “whose members

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<sup>175</sup> Nahee Kang, “A Critique of the “Varieties of Capitalism” Approach,” ed. Jean-Pascal Gond, (Research Paper Series, International Centre for Corporate Social Responsibility, Nottingham University Business School, Nottingham University, 2004) 10.

<sup>176</sup> Norman Barry, *Business Ethics* (London: MacMillan Press Ltd., 1998), 84.

<sup>177</sup> Interviewee DF.

<sup>178</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*. (London: Penguin Books, 1995), 4-6.

<sup>179</sup> *Ibid.*, 10.



enjoy playing by the rule” and “a reputation for going about their work with great intensity and seriousness.” Since the industrialization, this has also translated into the great gift of precision manufacturing,<sup>180</sup> making them well-known world wide for their products.

The gift of precision manufacturing and the aforementioned characteristics have been factors contributing to the limitation of two key drivers for CSR-related risk management in the private sector: the amount of extractive industries in Germany and the need of brand protection for high reputational companies. Germany is a strong industrial nation and currently the world’s largest exporter,<sup>181</sup> but the number of extractive industries are limited to a few, such as chemicals. These were already confronted with crises in the 1980s and have now had a head start in establishing CSR practices, with companies such as BASF known for benchmark practices. German reputational companies have been buffered against criticism and image loss through the label “Made in Germany”, which has a global standing for high quality and serves companies well, particularly automobile manufacturers such as Volkswagen, Daimler and BMW.<sup>182</sup>

It is no coincidence that Germany became one of the first countries to develop the modern corporation: the high degree of trust between unrelated individuals, allowed professional organizations to quickly progress from family operations to corporate organizations not bound by kinship.<sup>183</sup> The corporate development happened within a few decades, based on systematically organized administrative hierarchies and professional management, and important traits such as entrepreneurial quality and superior organizational skills:<sup>184</sup> remain today as a historical legacy from the Prussians.<sup>185</sup>

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<sup>180</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*. (London: Penguin Books, 1995), 210-211.

<sup>181</sup> Interviewee D.

<sup>182</sup> Interviewee J.

<sup>183</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*. (London: Penguin Books, 1995), 57.

<sup>184</sup> *Ibid.*, 212-213.

<sup>185</sup> Interviewee D.

Unlike the British, Germans don't historically distrust corporate size, since German industries have always been export oriented. Thus; corporate size gained the perspective of the international dimension, giving companies a strong sense of national identity in the face of international competition while minimizing potential inefficiencies due to domestic monopolies. Interestingly, firms were kept "honest" by this international competition rather, than by each other.<sup>186</sup> In sum, the German public traditionally had no reason to distrust business, instead seeing businesses as trustful employers offering secure jobs, which in turn provided a steady source of income for families: another explanation for the weak consumer response for CSR.

In Germany, societal governance was not a gradual process. The current form was largely influenced by the post World War II settlement; dominant features include proportional representation and federal and local state involvement with business to maintain the social market, such as the mentioned example of VW, still relevant today. The political character, as well as institutionalizing labor participation and interests in corporate governance, has initiated a very different framework: the balance of interests in a more plural form of social and corporate governance, "a system where the right to speak and the responsibility to listen are valued equally".<sup>187</sup> This is the reason why the model of consensual decision-making has been so successful. Moreover, German democracy was for a long time a more corporatist and less individualistic version than in other countries, including the UK, due to the official role of organizations, such as trade unions.<sup>188</sup> This is exemplified with the powerful and well-organized labor movement<sup>189</sup> in Germany, but where relations have been so consensual, the quantity of days per year lost due to strikes rank among the lowest world-wide.<sup>190</sup>

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<sup>186</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*. (London: Penguin Books, 1995), 213.

<sup>187</sup> Roome, Nigel. "Some Implications of National Agendas," in *Corporate social responsibility across Europe*, ed. André Habisch, Berlin: Springer Verlag, 2005), 327.

<sup>188</sup> Norman Barry, *Business Ethics* (London: MacMillan Press Ltd., 1998), 80.

<sup>189</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*. (London: Penguin Books, 1995), 216.

<sup>190</sup> Interviewee D, F.

All these aspects, whether the historical high degree of trust in the communal society, the institutional framework and strong welfare state, the focus “on playing by the rules”, the steadiness and reliability of skill specialization and regulatory networks: helped shape a mindset, of reliance on the state, expectations of social welfare benefits, the non-questioning of company fulfilment of social duties and obligations, these were to be expected. Thus, they were neither surprising nor communicated: they were taken for granted. Hence, globalization has come as a shock to Germany, particularly for the middle-aged to older generation, as benefits decrease in an unreliably changing world. Society has already changed: become less communal and more individualistic, education is being standardized, but generalized, and there is a decrease in trust. The lack of trust in corporations today explains the loud outcry for legal regulation of CSR: an emphasis on voluntary is not a guarantee that the company will do as it pledges. However, it is also an inherited response from the previous generation, following the structural roles re-creates the feeling of security: a state creating rules and business fulfilling obligations.

### **3.3 The Current Status Quo**

In the words of the German Council for Sustainable Development, “[s]o far, the German discussion has been plodding.”<sup>191</sup> As we have seen in the previous sections, the reasons why this is the case are emerging. Trying to involve and coordinate so many actors to let loose of traditional roles, expand or change the scope of responsibilities, in a highly regulated system which had worked so well for so long: the pressure for many to jump “aboard” has not yet reached the necessary threshold. In order to gain an understanding of the overall picture, I conducted fifteen interviews on different levels: the national government, labor unions, universities and think tanks and consultancies.<sup>192</sup> The questions can be found in Annex I; a list of the interviewees in Annex II.

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<sup>191</sup> German Council for Sustainable Development, “Corporate Responsibility in a Globalised World – A German Profile of Corporate Social Responsibility” (Berlin: Rat für Nachhaltige Entwicklung, 2006), 38.

<sup>192</sup> It should be noted, that the limitations of interviews is due to the restricted time and scope available. It was wished to conduct even further interviews; however, the findings are deemed representative.

CSR remains misunderstood, due to the national context. The challenges for many lie in fitting an Anglo-Saxon concept into the different framework. CSR critics remain suspicious about the added-value of CSR in promoting social and environmental standards and assume it will undercut the existing model which is based on law, since CSR emphasizes corporate *voluntary* action.<sup>193</sup> For many, the perception is, that CSR is an “add-on instrument” to resolve societal issues, not comprehending that CSR entails a strategic management tool to create a “win-win” solution for business and society.<sup>194</sup> Meanwhile, enthusiasts emphasize efficient processes of private business, enabling quicker implementation of initiatives than time consuming regulation.<sup>195</sup>

Due to increasing challenges of globalization and to remain competitive, it is inevitable that an institutional shift will be created, Germany *will* move from a care-giving to a self-care society, only the extent is uncertain. However, it is currently unimaginable, that a more radical privatization or liberalization practice as in the UK, could take place: “einen Ausverkauf des Staates wird es nicht geben!” (The government is not for sale.)<sup>196</sup> Germany’s dense regulatory system allows little room to maneuver because many activities that are necessary in other countries are included in the legal framework. For example, Britain’s program “Health Through Warmth” becomes unnecessary in Germany, where energy subsidies are covered in social welfare benefits.<sup>197</sup> By adhering to the legal framework, governmental regulation and societal expectations, German companies are fulfilling obligations that are often classified as voluntary CSR practices in other countries. However, in the past two years there has been a leap in the number of companies establishing CSR practices, number of reports issued, and increasing adherence to codes of conduct. Berlin was the first *city* to register with the UN Global Compact.

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<sup>193</sup> Alasdair Murray, “Corporate social responsibility in the EU” (London: Centre for European Reform, 2003), 4.

<sup>194</sup> Interviewee K.

<sup>195</sup> Interviewee DCO.

<sup>196</sup> Interviewee K.

<sup>197</sup> Interviewee D.

One important component of this leap is the increasing understanding of the CSR business case.<sup>198</sup>

The role of the government remains passive. In general, it is agreed that Germany is behind other EU countries by a few years in promoting issues; whether incorporating CSR into public procurement, promoting codes of conduct and ethical investment or introducing legislation for mandatory CSR reporting.<sup>199</sup> The government needs to follow the RNE recommendations created in collaboration with multiple stakeholders, show initiative and promote dialogue and networking to increase cross-sectoral partnerships, enhance standards and set a good example. It is reasonable to believe, if the German government integrates CSR into public procurement, many companies and organizations would soon follow suit.<sup>200</sup> Furthermore, better coordination, communication, a strategic approach as well as creating awareness for CSR can be achieved through the designation of a CSR minister and further capacity utilization of the RNE. This is important, in order to haul all actors “aboard”, particularly those with large potential to create added-value, such as the trade unions and NGOs. The workshop BMAS held in April was a start, but only that.<sup>201</sup>

Explicitly, Germany needs to promote two key drivers for the private sector: awareness for the strategic business case and cross-sectoral partnerships. According to a study by the consulting company Roland Berger, current corporate responsibility management in Germany has little to no connection with the operative business of German companies.<sup>202</sup> This is reflected in the mentioned study on corporate citizenship, which list only 30% of all companies indicating corporate citizenship is an element of their business strategy.<sup>203</sup> Most companies “are far

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<sup>198</sup> Interviewee H.

<sup>199</sup> Interviewee I.

<sup>200</sup> Interviewee J.

<sup>201</sup> Interviewee AEFHIJM.

<sup>202</sup> Prof. Dr. Björn Bloching, “Corporate Responsibility: Wie Verantwortung den Unternehmenserfolg steigert,” Keynote speech presented at the annual Globales Wirtschafts- und Ethikforum, Berlin, Germany, March 11, 2008.

<sup>203</sup> Dr. Frank W. Heuberger, *Corporate Citizenship in Germany and a Transatlantic Comparison with the USA*, (Berlin: CCCD – Centrum für Corporate Citizenship Deutschland e.V., 2007) 31.

removed from an inclusive concept which would make corporate citizenship an integral part of the corporate strategy, integrated into the companies' core business and competencies. This is particularly true for small and medium-sized enterprises."<sup>204</sup> The current motto prevalent in Germany is "do good and talk about it,"<sup>205</sup> demonstrating that many have finally realized they *should* publicize the activities they have been doing all along. In the end, however, successful corporate responsibility practices should be integrated into business so well, that it becomes part of the "business as usual" approach.<sup>206</sup>

Finally, cross-sectoral initiatives, partnerships and alliances need to be promoted. Over 41% of companies have not established such partnerships, meaning they lose the opportunity to learn from experiences gained in other societal sectors.<sup>207</sup> Furthermore, most actors have not grasped the need for cooperation, the German government and business only to a limited extent thus far: this does not mean between the private sector and the government, but to create initiatives across all sectors and involving all stakeholder and societal groups. Cross-sector cooperation is the true blank spot of CSR in Germany.

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<sup>204</sup> Dr. Frank W. Heuberger, *Corporate Citizenship in Germany and a Transatlantic Comparison with the USA*, (Berlin: CCCD – Centrum für Corporate Citizenship Deutschland e.V., 2007), 7.

<sup>205</sup> *Ibid.*, 26-27.

<sup>206</sup> Prof. Dr. Björn Bloching, "Corporate Responsibility: Wie Verantwortung den Unternehmenserfolg steigert," Keynote speech presented at the annual Globales Wirtschafts- und Ethikforum, Berlin, Germany, March 11, 2008.

<sup>207</sup> Dr. Frank W. Heuberger, *Corporate Citizenship in Germany and a Transatlantic Comparison with the USA*, (Berlin: CCCD – Centrum für Corporate Citizenship Deutschland e.V., 2007) 8.

## Conclusion

This paper sought to answer the question: why is Germany resisting and therefore lagging behind other European countries in adapting and becoming a recognized model of explicit CSR? As we have seen through the various facets, Germany has not become an explicit CSR model yet, since it has not reached the prerequisite threshold which would drive such a dramatic change. CSR is prevalent in Germany, but embedded as a “implicit CSR” model in the social welfare state, in the institutional framework and in the culture.

The European Union has realized the extent of the social challenges brought on by globalization, challenges every country meets differently. As stated, CSR is a strategic management tool for business to fill “the gap” in social provision that is being created by increasing globalization and the decreasing role of government. Yet, the rate at which the gap appears and develops, as well as the structural guidelines in place that allow for flexibility and adjustment to change, affect the possibilities actors have to respond. In the case of the UK, in the span of just a few years, the gap was huge. The government was overburdened by quantity and scope of economic and societal issues, the simultaneous social unrest and fiscal stress resulted in massive deregulation and privatization of the public infrastructure. The framework collapsed and business was forced to step in and assume social responsibilities in order to sustain business, under the credo: “a healthy business needs a healthy society.” In Germany the “gap” took longer to appear, and is growing slower. Strong regulation and guidelines restrict flexibility for adjustment and limit the activities business can assume under CSR, many are still provided for by the welfare state. Explicit CSR has not risen, since the national framework is still standing. Perhaps with a few cracks, but it has not crumbled as in the UK.

Furthermore, the structure and organization of the market plays a strong role. In contrast to the UK where business enjoys wide freedom in independent decision-making, no restrictions in allocating assets, or labor, driven by the mechanisms of a dynamic market, serving as a catalyst

for innovation; German businesses have been spun into a web of actors, all endowed with rights of co-determination and equally pulling the strings in consensus-driven decision-making, whether regarding labor, production, assets, or corporate strategy. Germany has been presented as the role model of a “Stakeholder Society”, creating a “safety net” against external pressures, but is no catalyst for swift change. Moreover, while British companies are pursuing voluntary programs and publicizing them as fulfilling social responsibility, they are supported by voluntary networks and a limited legal framework. Partially driving their innovative ideas and practices is the strategic managerial business sense. Regulations can prove costlier than supporting environment and community initiatives, particularly, if they in return support your business. Meanwhile, German business is accomplishing a plethora of social and legal obligations imposed by state regulation and corporatist model expectations, where carrying out social policies “goes without saying”, taken for granted both by business and society, because it is embedded into the framework. The model even outlines the role of business in providing public goods.<sup>208</sup> Thus, there is no need for public relations, if business is doing what business has always done. However, this lack of communication and imposed expectations and obligations (therefore not applicable as CSR) are further factors why Germany is has not been recognized as a CSR model.

The traditional corporatist model limits innovative projects and different forms of cooperation between business and civil society, rarely contributes to cross-sectoral cooperative relations combining complementary competencies and various resources. It excels in specialization and fosters interaction *within* not across hierarchical organizations.<sup>209</sup> This complements a culture of high trust and communal solidarity, where efficiency, a strong work ethic and self-discipline have created superior organizational skills. This is in direct contrast with the British model, where general education and uncertain tenures based on the whims of a dynamic market have

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<sup>208</sup> André Habisch and Martina Wegner, “Overcoming the Heritage of Corporatism,” in *Corporate social responsibility across Europe*, (Berlin: Springer Verlag, 2005), 112.

<sup>209</sup> *Ibid.*, 113.



trained laborers “for almost anything”, creating a drive for flexibility and innovation, as well as the need for communication to position themselves. No reliance versus total reliance.

This reflects the “just do it” British attitude towards trying out ideas out to see what happens. The German tendency is to “get everyone on board”, and establish a working group to find a solution satisfactory to all parties. However, it is not just “done” but implemented with that famous “German engineering” to achieve perfectionism. That takes time and sometimes creates a trade-off between innovation and implementation.<sup>210</sup>

The British CSR model may be seen as a European benchmark, but, “according to Simon Zadek of AccountAbility, [] this is also a repeat of the familiar British business story: superb innovation, poor implementation.”<sup>211</sup> Twisting his words, the reverse can be said of the implicit model of German CSR. This is exemplified by the long and detailed path to implementation that the German government is leading, while the public waits to see whether corporate social responsibility is to be taken seriously, before they take the time, money and resources to dedicate perfectionism.

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<sup>210</sup> See Annex III for national activities.

<sup>211</sup> Daniel Franklin, “Just Good Business: A Special Report on Corporate Social Responsibility,” *The Economist* (January 19, 2008): 18.

## Annex I

### Interview Questions

1. How would you define Corporate Social Responsibility?
2. How do you perceive the current CSR agenda in Germany?  
(Rank CSR as an issue of concern, 10 = extremely important, 1= not at all important)  
Why?
3. Why do you think CSR has (not) become an issue in Germany?
  - Why and to what extent do you practice CSR? What advantages does it bring to your company
  - Do you see particular factors involved that have promoted/slowed/hindered CSR in Germany?
4. Who do you think are the main actors in setting the company's CSR agenda in Germany?
5. How do you perceive the role of the state in defining the importance of CSR for business?
  - Should it play a role? Or, should it be a decision left up to business?
  - How do you perceive the German state in promoting/hindering CSR?
6. Do you see a role of the unions in defining CSR in Germany?
  - Should it play a role? Or, should it be a decision left up to business?
  - How do you perceive the traditional strong role of German unions in promoting/hindering CSR?
7. How would you define a business having a CSR agenda?
  - According to the Aspen Institute, 3 levels of criteria for CSR have been articulated. The first level is meeting laws and regulation, the second involves concrete projects and the third and final level is a long term strategy, where CSR becomes embedded in the business strategy. At which level do you see most German companies performing at? Why?
  - How do you perceive businesses integrating CSR into their corporate strategy?
8. In which direction do you see the trend for CSR developing in Germany?
  - Becoming more important and will become embedded in practice for "serious" business in the long term? Or is it for most companies more of a PR scheme?
9. Do you see CSR changing business-society relations in Germany? How important do you think it is?
10. How do you see CSR in Germany in comparison to other European countries?  
(Importance, role of business in society, of value to society, etc.)

Annex II<sup>212</sup>

List of Interviewees

NAME	POSITION	ORGANIZATION
Helmut Blenk	Corporate Responsibility Management	E.ON Energie AG
Moritz Blanke	Project Manager	Unternehmen: Partner der Jugend e.V.
Sabine Braun	Founder and Managing Director	Akzente Kommunikation und Beratung GmbH <i>(Sabine Braun/akzente is a stakeholder in the Global Reporting Initiative, member of Transparency International (German chapter), future e.V., and Germanwatch e.V.)</i>
Karin Fuchs-Gamböck	Founder	FuchsGamböck-CSR GmbH
Peter Franz	Head of Division “Environment and Economy, Innovation and Employment, EMAS”	Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU)
Ellen Frings	Head of Corporate Responsibility	IFOK GmbH
Antje Gerstein	Deputy Director Department European and International Affairs	BDA Bundesvereinigung der Deutschen Arbeitgeberverbände
Rolf D. Häbler	Director Business Development	Oekom Research AG
Cornelia Heydenreich	Senior Advisor Corporate Accountability	Germanwatch e.V.
Constanze Helmchen	Corporate Social Responsibility Program	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
Arved Lüth	Founder and Managing Director	good : response GmbH
Prof. Dr. Joachim Schwalbach	Professor of International Management	Humboldt-University Berlin
Joachim Schlange	Founder and Managing Director	Schlange & Co. GmbH Consultants for Corporate Responsibility
Uwe Wötzel	Head of Division Politics and Planning	Vereinte Dienstleistungsgewerkschaft (Ver.di)
Yvonne Zwick	Senior Policy Advisor	German Council for Sustainable Development

<sup>212</sup> Note that the interviewees have been listed here in alphabetical order. However, when referencing to the information I received in my interviews, I have associated each with a random letter from A to O in order to protect their identity.

### Annex III

#### Current status and comparison of national public policies on CSR (2007)<sup>213</sup>

	Germany	United Kingdom
<b>Promoting CSR</b>		
<a href="#">Awareness raising</a>	✓	✓
<a href="#">Research</a>	✓	
<a href="#">Public-private partnerships</a>	✓	
<a href="#">Business incentives</a>	✓	✓
<a href="#">Management tools</a>		✓
<b>Ensuring transparency</b>		
<a href="#">Codes</a>	✓	✓
<a href="#">Reporting</a>		✓
<a href="#">Labels</a>	✓	✓
<a href="#">Socially responsible investment (SRI)</a>		✓
<a href="#">Advertising</a>		
<a href="#">Other</a>		
<b>Developing CSR-supportive policies</b>		
<a href="#">Sustainable development</a>	✓	
<a href="#">Social policies</a>	✓	
<a href="#">Environmental policies</a>	✓	✓
<a href="#">Public procurement</a>		✓
<a href="#">Trade and export policies</a>	✓	
<a href="#">Other</a>	✓	✓

<sup>213</sup> European Commission Directorate-General for Employment and Social Affairs, *Compendium on national public policies on CSR in the European Union (2007)*. European Commission, [http://ec.europa.eu/employment\\_social/emplweb/csr-matrix/csr\\_matrix\\_en.cfm](http://ec.europa.eu/employment_social/emplweb/csr-matrix/csr_matrix_en.cfm).

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