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Moralising the Market by Moralising the Firm

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Towards a Firm-Oriented Perspective of Corporate Social Responsibility

ABSTRACT. The lack of consensus in stating what Corporate Social Responsibility (CSR) exactly means has led some people to argue that the concept is too vague to offer guidance, while others suggest forgetting about theorising and instead focusing entirely on the development of practical applications such as codes of conduct, standards and reporting initiatives. This article argues that the discussion on CSR as a whole has reached this impasse because it ignores two major underlying problems. First, the fact that CSR is an ideological notion: the definition and use of 'CSR' depends on the moral and practical views of the people and organisations involved. Secondly, the debate on CSR lacks a thorough discussion about the nature and role of the firm, the main actor when it comes to accepting and implementing CSR. After explaining our standpoint, this article winds up with the implications of this reframing for the CSR debate, for the efforts to define it and for the efforts to apply it.

KEY WORDS: Corporate Social Responsibility, markets, morality, firms, evolutionary economics

Introduction

Based on our analysis of 80 articles from major authors in the field of Corporate Social Responsibility (CSR), we conclude that there is no consensus about the precise meaning of the concept. However, CSR is generally defined as a form of self-regulation by business, based on social or moral responsibilities towards society, an effort that goes beyond the existing government regulations. This makes CSR a difficult idea to analyse and apply because it is a moral concept and, as such, requires a new attitude from business actors; it goes beyond the famous distinction made by Milton Friedman: that the business of business is only to do business, everything else is a role for government and/or other non-business actors. CSR emphasizes that business actors have a duty to reconcile ethics and business, and to do so in an active, even proactive, way. For this reason, the emphasis in this article will be on the question as to whether ethics and business can be reconciled, and whether business, i.e. business firms, on a more-or-less voluntary basis can take up this role. The focus will be on the relationship between the market and morality and the question what a firm actually is. The role of the government is only discussed as an aside.

The goal of CSR – to reconcile ethics and business – is a rather ambitious and somewhat complicated undertaking. Doing business has become gradually an amoral (which is not the same as immoral) activity since Smith (1776) argued in the eighteenth century that every individual, and society as a whole, would benefit if everyone was able to freely pursue his or her own economic interests, with all economic exchanges being controlled only by market mechanisms. Selfishness and competitiveness would fuel the market, whereas unselfishness and restrictions would curtail it. The market, if truly free, organises and corrects itself, realises a fair distribution, generates a steady increase in supply and demand and guarantees a constant improvement in the quality of the products and services. This would benefit society as a whole (Smith, 1759, 1776).

CSR contests this view: not that the market functions more or less as Adam Smith predicted, but the idea that there is no need for ethical principles to correct flaws, or generate a fairer distribution of the benefits.[1] This view, and the additional problem of defining the exact nature and limits of the supposed moral prescripts, has burdened the efforts to define and implement CSR. This is not a new insight but a

problem which has been recognised for decades. Votaw (1972, p. 25), for example, complained in the early 1970s about the concept by stating that CSR means 'something, but not always the same thing to everybody'.

Given the ongoing lack of consensus, some people argue that the concept is simply too vague to offer guidance, whereas others suggest forgetting about theorising and instead focusing entirely on the development of practical applications such as codes of conduct, standards and reporting initiatives. In this article, we take a different standpoint: we argue that the discussion on CSR has reached an impasse because it ignores two major underlying problems. First, the fact that CSR is an ideological notion, and second, the fact that CSR has to be implemented by a specific entity: a firm.

Most scholars involved in the CSR debate, emphasise that the definition and use of CSR depend on the moral and practical views of the people and organisations involved. What is missing is a discursive and, as such, political and ideological interpretation of these perspectives and their consequences for the concept's utility, definition and application. For example, the perspective adopted on the role of the market in a given society has a far-reaching impact on the way CSR is perceived, and dictates what it is and how it can and should be implemented.

What is also missing in the debate on CSR is a thorough discussion on the nature and role of the firm, the main entity when it comes to accepting and implementing CSR. Friedman (1970), for instance, calls the firm the main economic actor, and sees it as an *artificial* person that makes humans responsible for their own actions and *restricts* their opportunities to exploit other people.

We start our argument by discussing the relationship between a market society and morality. We draw on a recent article by Fourcade and Healy (2007) in which they distinguish four distinct ideological perspectives. There are various other typologies that summarise how people have thought about markets but, for the purpose of this article, it is sufficient to take note of the variations in the way people construe markets. How people think about markets, in turn, affects their assumptions about the social responsibilities and obligations of businesses. The way Fourcade and Healy (2007) scrutinise and discuss the relevant literature provides a good point of departure for discussing the theme of CSR and offers the possibility to link these interpretations to the object of this article, namely classifying and interpreting the existing debates on CSR. Following this, we look at the nature and role of the firm, and the consequences this has for market exchange and CSR. In the fourth and final part, we discuss the implications of this reframing for the CSR debate, for the efforts to define it and for the efforts to apply it.

Markets and morality

In a recent article, Fourcade and Healy (2007) discuss the relationship between market society and morality. Following Hirschman (1977), they distinguish three perceptions (the *neo-liberal*, *neo-Marxist* and *embeddedness* views), to which they add a fourth standpoint: the *moral and moralising market*.

Neo-liberal perspective or doux commerce thesis

The first perception is the so-called *neo-liberal* perspective or the *doux commerce* thesis. According to this well-established view, market relations make people more cordial and cooperative and less inclined to fight each other (Fourcade and Healy, 2007, p. 286). The market is seen as a civilising force; markets create public and personal virtue, 'bourgeois virtues' in short, or, as McCloskey (2006) puts it, market exchange generates integrity, honesty, trustworthiness, enterprise, respect, modesty and responsibility (Fourcade and Healy, 2007, p. 287). This view dominated throughout the eighteenth and nineteenth centuries and many economists still cling to it, although the interpretation has become more utilitarian: 'repeated economic interaction makes it rational to develop one's credibility' (Fourcade and Healy, 2007, p. 288).

An aspect of this perspective, which was popularised by Hayek (1960) and Friedman (1962), is the idea that economic freedom is not only an end in itself but also that it leads to political freedom, or as Fourcade and Healy (2007, p. 289) phrase it: 'capitalism makes you free'. Free markets allow needs and desires to be satisfied and therefore make people happy. Real and unhampered economic competition

is the best defence against the state and the concentration of economic power in the hands of a few (Fourcade and Healy, 2007, p. 290). Poor people with access to money can start to become competitive and so become rich. Rich people will only remain rich if they remain competitive. Another adornment, made famous by Schumpeter (1950, 1961), is the idea that markets stimulate creativity, innovation and opportunities. By doing so, the market gradually encompasses and stimulates all kinds of cultural production.

Neo-Marxist view

The second thesis is based on the work of Marx (1872), as developed by Polanyi (1957) and Veblen (1974). In the *neo-Marxist* view, the developed market society (i.e. a capitalist society) undermines its own moral foundations. Marx argued that capitalism would ultimately destroy itself because it distorts social relations and alienates and exploits the workforce in the production process. Capitalism 'commodifies' social relations: the 'good' becomes the relationship instead of the medium through which a relationship can be established (Fourcade and Healy, 2007, p. 292).

Polanyi later elaborated on the commoditisation thesis and emphasised the coercive, dehumanising effect of capitalism: it turns people into things. This is done by combining free market capitalism with a repressive and coercive social policy based on and legitimised by moral arguments (Fourcade and Healy, 2007; Polanyi, 1957). Veblen (1974) reasoned along the same lines, but focused on the role of consumption. He asserted that capitalist consumption is morally corrosive: it degrades individual judgement and conduct by stimulating competition between individuals, and it undermines ethical and aesthetical standards by prioritising the search for money and wealth (Veblen, 1974, p. 291).

More recently, other authors, such as Stigler and Becker (1977), Lane (1991) and Schwartz (2005), have extended this interpretation by adding the idea that markets do not only fulfil the needs and wants of people, they also create them. Others have further broadened the argument by claiming that market exchange can result in the corruption of values, an idea first formulated by Simmel (2004). Some goods (especially moral or civic goods) simply do not fit the market because the market only knows one way to value things: price (Fourcade and Healy, 2007, p. 292).

Embedded perspective

The third thesis, popular among economic sociologists, sees markets as feeble compared to culture and society. As such, markets are only moral provided the 'particular social and cognitive arrangements from which they emerge' support 'and sustain them' (Fourcade and Healy, 2007, p. 286). That is, markets are embedded in, entangled with or otherwise dependent on other parts of society. Fourcade and Healy here refer to a long-standing discussion, essentially started by Polanyi (1957), and taken up by many others, for instance Hirschman (1977), Granovetter (1992), North (1990, 1994), Evans (1979, 1995, 2004), Landes (1998), Olson (2000) and Acemoglu et al. (2000) on the idea of embeddedness. The idea of embeddedness was well summed up by Granovetter (1985, p. 487), who stated that 'actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations'.

In this perspective, the capitalist market economy only flourishes in certain cultural, institutional or political contexts. Markets depend on cultural, institutional or political legacies of the past. Some authors stress the possibility of manipulating and adapting the existing institutional environment, i.e. the rules and laws, while others put more stress on the path dependency created by history (Fourcade and Healy, 2007, p. 297). An 'in-between' group, most notably represented by Evans (2004), bridges this gap by combining paying attention to the local context with efforts to adapt the existing institutions.

Another subcategory, labelled 'the differentiated view' by Fourcade and Healy (2007, p. 298), state 'that the range of possible pathways to growth is in fact quite wide'. According to some of the adherents of this view, different cultures and institutions support different types of capitalism (see also, Mahbubani, 2008). Others play down the link

between cultural and institutional arrangements and economic performance. According to them, there are multiple paths and various sorts of capitalism, and there is no need for them to converge into a single model (Fourcade and Healy, 2007, p. 299).

The moralising market

The authors of this overview themselves (Fourcade and Healy, 2007, p. 286) formulate a fourth view on the basis of Callon (1998a), MacKenzie et al. (2007) and Zelizer (2007) which essentially comes down to the idea that 'markets are intensely moralised and moralising'. Market exchange is saturated with moral meaning, in the name of economics (efficiency or productivity) or social principles (justice, social responsibility). Market activity and moral valuation are highly intertwined[2] (Fourcade and Healy, 2007, p. 300). The study of exchange relationships analyses how moral categories are formed, contested and transformed. Markets are the loci of moral conflicts among social actors committed to different justificatory principles and, as such, the location of political struggles between various interests (Fourcade and Healy, 2007, p. 302). This implies that everyone, including social scientists analysing the market and economists shaping the market and its institutions, is involved in this process, and should be aware of this. In fact, they can be seen as moralising agents.

The role of economists is especially worth scrutiny. They are the ones who design the framework for development, management and organisation or, to use the words of Callon (1998b), they make the *homo economicus* flesh. They disentangle objects and relationships from reality by means of abstract models and techniques, which creates stable categories that legitimise 'statuses which in turn allow strong moral regulations of the actor being categorised – a re-entanglement'. This is true for 'concepts such as transparency, corruption (…), monitoring, (…) ideas about fair prices, fair wages and fair trade' (Fourcade and Healy, 2007, p. 303). 'Markets are actively moralised by the deployment of practical techniques, whether self-consciously (as in the case of social responsibility) or in the name of objectivity (as in the case of efficiency) (…) so that the processes that go on inside them can be regarded as legitimate' (Fourcade and Healy, 2007, p. 304). In economic terms, this could be rephrased as a practice to internalise externalities. This implies that both proponents of the existing economic order (the orthodox discourse) as well as their critics (the heterodox discourse) are involved in a contested debate about legitimacy, itself embedded and constrained by the existing institutions and rules of the game (Fourcade and Healy, 2007, p. 305). This means that the critique itself is also strongly conditioned by the moral and technical discourse of the view it opposes. Nowadays, the dominant discourse is the neo-liberal worldview. Its supporters defend it by emphasising the advantages (economic, political and moral) of the existing model and by playing down all the alternatives. They also put much effort into claiming that defects can be repaired through self-regulation, self-control and self-monitoring. Given the dominance of the neo-liberal worldview, critics are also forced to move in the same direction. Consequently, critics of a market society also emphasise the need for morality and self-discipline.

One can even go one step further and argue that if morality and discipline are brought in as arguments to support a worldview, then that worldview is no longer self-evident (Fourcade and Healy, 2007). Morality is a disciplining force, often used by the rulers in charge as an alternative to coercion. Authors as different as Zhuang You, Machiavelli, Nietzsche, Polanyi, Foucault and Bourdieu have all seen this, and described how it works. Interpreted in such a light, the promotion of morality and self-discipline acquires a slightly uncomfortable undertone.

Corporate Social Responsibility: between markets and morality

Fourcade and Healy (2007) have described and partly analysed four different dominant perspectives on the relationship between markets and society. These perspectives can be defined as discourses in terms of Hajer (1995) and Healy (2005). Hajer (1995, p. 44) defines a discourse 'as a specific ensemble of ideas, concepts, and categorisations that are produced, reproduced and transformed in a particular set of practices and through which meaning is given to social and physical realities'.

Healy (2005) sees a discourse as a relational practice, involving people, ideas, things and their properties, competences and accomplishments. As such, it generates, reproduces and conveys knowledge. The resulting 'complex whole' exhibits power.

If we view the perspectives described by Fourcade and Healy (2007) in this way, we are confronted with four incompatible ways of understanding and framing the relationship between the market and society. This has consequences for any strategy designed to shape or influence that relationship. A strategy that is blind to this predicament is bound to fail, or at least to be absorbed by one of the discourses, and most probably the dominant one. As Ketola (2008, p. 423) phrases it 'Discourse[s] are not neutral but socially constructive. The discourses of ruling groups, such as political and corporate leaders, have the strongest power to mould society to their liking'.

Table I shows the different perspectives on the role of the market and its relation with society, and within this the role of business, i.e. of firms, institutions and government. These variables have been chosen because together they frame the discourse with respect to the need for and possibilities of CSR, and with respect to the rules and the main actors that use and apply them. The perspective adopted on the role of the market has a far-reaching impact on the way that the other dimensions are perceived and defined, and on the way they are interlinked, or should be interlinked, according to the supporters of a particular view, especially the space for manoeuvre open to market partners, especially business firms. The main purpose of this table is to summarise, based on the above-mentioned discourses, why CSR is and will remain a highly contested concept, or to put it differently, why many market players will not be inclined to embrace the notion or put it into practice.

CSR is generally seen as an approach designed to reconcile societal, environmental and economic requirements. Market actors, i.e. firms, should voluntarily integrate moral claims and business practices: they must discipline themselves. Almost all the definitions of CSR, put forward over the years, stress this point. We emphasise this point with a pair of examples, starting in the early 1950s with Bowen (1953, p. 6), who characterised the social responsibilities of business as 'the obligations of businessmen to follow those lines of action which are desirable in terms of the objectives and values of our society' (see also endnote 1). In the 1970s, Davis (1973, p. 313) described the social responsibility of business as 'decisions and actions taken for reasons outside direct economic interests, although they could bring potential advantages in the long term. Social responsibility begins where the law ends'.

The hundreds of concepts and definitions so far proposed disagree on many points, but do agree on some very important issues. CSR is seen as a self-regulatory and voluntary activity of firms or corporations. It continues where the involvement of government ends, and it encompasses more than just economic responsibility: societal and, where relevant, environmental issues should also be addressed, an approach often labelled as Triple-P (People, Planet, Profit). CSR is about chain responsibility: it should attend to the whole production chain, and consider the interests of all the stakeholders[3] involved in that process. This means that CSR should be an integral part of the core business (e.g. Amaeshi and Adi, 2007; Carroll, 1979; Garriga and Melé, 2004; Jones, 1980; Van Marrewijk, 2003; Van Tulder and Van der Zwart 2003).

An initial interpretation of such a CSR approach, in terms of the four discourses of Fourcade and Healy, seems to place it in the fourth discourse. It seems to be an explicit effort to correct flaws in the neo-liberal model, by using the tools and institutions of the model itself. If this is true, then CSR is bound to confront many obstacles and pitfalls, some probably insurmountable, since the dominant neo-liberal model does not acknowledge any need for external moral restrictions on market behaviour.

Friedman (1970) eloquently sums up this 'taboo' in his famous attack on CSR. He called CSR a 'fundamentally subversive doctrine'. In his view, 'there is one and only one social responsibility of business; that is 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'. These remarks illustrate the difficulty in reconciling CSR and the neo-liberal discourse. This becomes even more apparent when we look at the role of the firm, which Friedman (*ibid.*) calls the main economic actor and an artificial person: a person that makes real people responsible

TABLE I

Market discourses and perspectives on socioeconomic reality and CSR

	Four market discourses			
	Neo-liberal	Neo-Marxist	Embedded	Contested morality
Market	Profit maximisation; good allocation and innovation thanks to free competition	Profit maximisation and accumulation; concentration of economic power in the hands of the few	Embedded in society	Moral economy, aiming at profit and social welfare
Firm	Economic actor or economic arena	Economic actor	Economic actor or economic arena, but embedded in broader societal setting	Moral community, resource-based. Capable of learning. People and knowledge-based
Relation between the market and society	Civilising and happiness generating	Dehumanising, corrosive, repressive, commoditisation of men and social relations	Influencing and influenced	Moralising and moralised
Institutions	Rule of law and contracts	Supportive of accumulation by the few, corrosive, dehumanising	Context dependent: favourable or unfavourable for market economy	Moralising and civilising. Institutions are all important
Government	Preserving law and order, guaranteeing competition	Supportive of business and of accumulation, but also repressive	Different types, some favourable to the market economy, some partly favourable, some unfavourable	Facilitator
CSR	No relevance	False concept	Possible, but context dependent. State is more important	Necessary, as part of the core business

for their own actions and restricts their opportunities to exploit other people:

> In an ideal free market resting on private property, no individual can coerce any other, all cooperation is voluntary, all parties to such cooperation benefit or they need not participate. Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but 'business' as a whole cannot be said to have responsibilities, even in this vague sense (…). The great virtue of private competitive enterprise [is that] it forces people to be responsible for their own actions and makes it difficult for them to 'exploit' other people for either selfish or unselfish purposes.

This far-reaching statement also has deep moral and political connotations for CSR. Whatever its ethical merits, it makes it clear that we first have to study the firm, before we are able to understand the possibilities in adapting and implementing CSR.

The firm

There are various views on what a firm is and what it does. What these visions share is seeing a firm as a rationally constructed organisation, designed and administrated to serve specific economic purposes (Koza and Thoenig, 2003). According to classical economic thinking, firms should not even exist: if markets were effective in coordinating all economic exchanges, then exchanges can and should be entirely handled through them. Coase (1937) first identified the inconsistency in this, and tried to resolve it. His explanation was that the cost of handling economic exchanges across markets is sometimes greater than the cost of managing them within the boundaries of an organisation. This insight was later elaborated by others (most notably Williamson, 1975), and became known as 'transaction cost theory'.

According to Williamson, markets, based on competition, price and contracts, hierarchies, authority and control, should be seen as alternative 'forms of governance' for completing transactions. 'Governance' reduces the transaction costs created by the bounded (i.e. limited) rationality and opportunism of economic actors. Economic actors are unable to foresee or exclude all the possible outcomes of an exchange in advance. Moreover, they exchange out of self-interest, and this implies a possibility of cheating, lying and threats. Pure market exchange will only occur when the 'cost' of economic exchange through the market (i.e. the perceived costs created by the uncertainty caused by bounded rationality and by opportunity) is considered to be lower than the exchange costs using a hierarchal form of 'governance'. This is why hierarchical governance does not dominate all forms of economic exchange, as Smith (1776) had indeed already explained. Market exchange is a far less costly way to manage such exchanges. A hierarchy is desirable when the market cannot solve economic exchange problems.

The level of the investments needed to make a transaction successful is also, if not more, important than the uncertainty itself. The greater the investment needed, the larger the risk that opportunism will occur, endangering the transaction process. The likelihood of overcoming (or avoiding) such opportunism increases when hierarchical means are present. Organisations (i.e. hierarchies) will therefore emerge, particularly when there is a danger that the investing party will otherwise not be rewarded in a satisfactory way (Williamson, 1975).

Some authors (notably, Grossman and Hart, 1986; Jensen and Meckling, 1976) argue that this problem can also be resolved through what they call residual contracts.[4] Such supporters of the so-called 'incomplete contract theory' more or less deny the need to resort to solutions based on hierarchy and leadership. Nevertheless, they still recognise that purely market solutions are sometimes inferior to solutions based on some form of control.

An interesting aspect of both lines of reasoning is that they are in line with the neo-classical discourse described earlier. They do not oppose the market mechanism, nor do they question its benefits, or even its advantage over other forms of economic exchange. They limit themselves to noting there are some problems connected to economic exchange relations that cannot be solved by the 'invisible hand of the market': firms exist because the market needs them and therefore creates them in order to function.

This brings us back to the question of what a firm is or, to be more precise, what a firm does. There are at least two possible answers to this question. A first answer, in line with the neo-classical discourse, is

that a firm is a *rational actor* or, in the words of Friedman, an artificial but knowledgeable person. Its goal is to minimise costs and maximise profits while, at the same time and according to rules specified by law, making real people responsible for their own actions and restricting their opportunities to exploit others. A firm can interpret, learn and adapt if the circumstances so require, just as a natural person.

A second, slightly different, answer is that the firm is a *rational organisation*, an arena for strategic behaviour that is aimed at maintaining or reinforcing the performance of the firm (Koza and Thoenig, 2003, p. 1221). The main difference between this view and the previous one is that here the firm is no longer a black box. It is now easier to find out why it acts and determine the factors within the firm that constitute its agency. The firm is driven and managed by incentives, rewards and sanctions, imposed by the management on other 'agents' within the firm. This is not only a succinct answer; it is also one with far-reaching consequences.

A manager can only run a company by delegating authority. The success of a manager is affected by the choices made by those with delegated power, and that success comes at a price (Arrow, 1950, cited in Barney and Hesterly, 1999, p. 118). The interests of the manager and those delegated to (the real agents) will usually differ. The manager is unable to monitor the actions of the agents, or acquire the information available to or possessed by the agents, in a perfect or costless way. There will always be agency costs, i.e. the monitoring expenditures by managers, the bonding expenditures by agents and the manager's residual loss. These costs are more often than not more than one is willing to pay and it is better to accept incomplete monitoring, compliance or information. This can be combined with incentives and sanctions, with compensation for the agents, in the hope that the market environment surrounding the firm and the agents will help in disciplining the behaviour of the agents.

Transactions cost theory, combined with agency theory, is the dominant discourse when it comes to explaining the existence and behaviour of the firm in terms of a neo-classical economy. What is, however, not yet clear is why some firms outperform others. Neo-classical theory predicts that, if there are no artificial limits placed on competition, the performance of all firms in a given sector will converge. This is clearly not the case in the real world. Porter (1980 and Porter and Van der Linde (1995)) addressed this problem by developing a strategic management model intended to enable firms within a certain industry to detect and overcome structural (i.e. environmental) threats to their profits.[5] He developed a detailed typification of the steps needed to overcome these threats for the various types of industry.

The strength of Porter's approach is that it offers tools that all types of firms can use to upgrade their strategic behaviour. The drawback is that it tends to weaken the free market mechanism, which it was supposed to strengthen. Reinforcing a firm's strategic behaviour tends to raise barriers for competitors (Barney and Hesterly, 1999, pp. 124–127). This is at the expense of a fair and balanced allocation of goods and services (the distribution of social welfare): the cornerstones of neo-classical theory.

There is, however, a rival perspective on the firm and its performance, outside the neo-classical discourse, that offers similar analytical power. This perspective puts the focus on the role of the firm as a moral community, rather than stressing the role of agency and profit maximising behaviour (Barney and Hesterly, 1999; Koza and Thoenig, 2003, p. 1221). The basic assumptions of this so-called resource-based view are simple.[6] First, the resources and capabilities of firms, even within the same industry, can vary significantly, and these differences can be stable. The resources and capabilities of a firm can be subdivided into four types: financial resources, physical resources, human resources and organisational resources. Together, these enable a firm to formulate, implement and adapt a strategy (Barney and Hesterly, 1999, p. 127). A firm can only maintain a good performance, i.e. retain a comparative advantage, if, in the longer term, its resources and capabilities remain rare, or difficult to imitate or substitute. The long-term assets of most firms lay in the domain of its capabilities, i.e. the human and organisational resources. What counts is how firms do things and how they organise this. This is often more important than what they produce. The quality of its people and its organisation determines the quality of a firm. This is perhaps why Koza and Thoenig (2003) use the term moral community, and Barney and Hesterly (1999) refer to firm culture and firm history.

The firm and CSR

We have thus seen that there are two distinct views on what a firm is and what it should do in order to uphold or strengthen its comparative market advantage over its competitors. We can see these views as two different discourses because they propose opposing approaches to define the firm and prescribe its interactions with its economic environment. This has huge consequences for CSR: it makes quite a difference what kind of perspective the owners and managers of a firm adopt. Do they think that it is acceptable and even advisable to protect their market share, by creating barriers? Or do they think that the real strength of a firm is in its people, its resources and its organisation, and especially in the competences of the agents within the firm to learn and adapt, and translate this into new products, organisational forms and strategies? The first group of people see the firm as a unit, essentially a hierarchical survival-and-growth machine. Here, CSR is likely to be kept at arm's length or defined and used in an instrumental way. Holders of the second view have more reasons to define and apply CSR in a moral way, depending on the values they ascribe to their various resources, and the emphasis they place on the firm as a moral community, in which the real strength comes from the capabilities and commitments of its workforce and the way these are organised. They will be inclined to create more room for their stakeholders within their application of CSR, precisely because of this moral foundation.

Firm strategy and CSR

There is another aspect that needs to be discussed with respect to the interrelationship between CSR and the firm. CSR is seen as a firm-oriented policy or strategy on the supposition that firms are the main players in the market, and that the market can be influenced by influencing their behaviour: to moralise the firm is to moralise the market. The underlying assumption is that firms can be influenced, and that this will have a major and lasting effect on the market. Firms are seen as stable entities, with an enduring influence: they act in a predictable and rational way, and are forward looking, if only to reduce uncertainty and to guarantee their continuity (Mintzberg, 1983, 1994).

This assumption is, however, open to question: several studies have shown that firms, even very successful ones, are far less stable than are often supposed (Wiggins and Ruefli, 2002, 2005). Thirty years ago, firms such as Pan-Am and Wang Laboratories were seen as the indestructible apexes of modern industry: today, they no longer exist. Only 10 years ago, Enron was the cited example of an excellently managed company. A few years later, it was bankrupt, brought down by corruption and mismanagement. Sometimes, even well-managed firms fail, because of unforeseen changes in the economic environment, such as Fortis and The Lehman Brothers in the recent banking crisis. Firms, even huge multinationals, are not necessarily with us for ever. They only partly shape the market and their economic environment. It seems far more likely that the market determines the fate of firms in ways impossible to predict. This means that the role and impacts of a firm's strategies have to be downplayed considerably. The above firms had strategies, and their agents were very knowledgeable, but they failed regardless. The lesson to be learnt is that a strategy that is explicitly firm-oriented, such as CSR, can easily fail.

There is, however, another lesson in all of this, again convincingly argued in recent publications. Perhaps, we have to admit that our theories for explaining the behaviour of the economy as a whole, and of firms in particular, do not adequately analyse and predict real behaviour. It is likely that the ideas on which entrepreneurs and firms base their strategies and identity have as much to do with efforts to interpret and legitimise developments after they have happened, as they do with pre-planned strategies to frame, control, steer and shape future developments. The first critical perspective, and one based on economic and financial theory, was developed by authors such as Campbell et al. (1997), Kirman (1999), Sornette (2003) and Taleb (2007), and recently well summarised by Nadeau (2008) in an article '*The Economist Has No Clothes*'. Neo-classical economics – 'the theory that serves as the basis for coordinating activities in the global market system' – is seen as a scientific discipline. 'But the now legendary founders – Jevons, Walras, Edgeworth and Pareto – developed their theories (on the market

mechanism, equilibrium, and comparative advantage), by adapting equations from 19th-century physics that at the time [had] already became obsolete'. That is, neo-classical economics could not, and never did, work as it was, and often still is, claimed. The theory is based on unscientific and unrealistic assumptions regarding people, society, the economy and the market.

The implication is that the market economy is not functioning as it is supposed to function, and therefore that firms that base their strategy on these, or similar, economic notions are likely to function improperly. One can even assume that, in reality, most firms do not base their behaviour on neo-classical economic ideas, whatever they claim. This also means that the above-mentioned theories on the firm, such as transaction cost theory and incomplete contract theory, will only offer partial explanations to the real behaviour of firms; even if they are in themselves correct since these theories are corrections or additions to classical economic theory, rather than explicit alternatives.

If this postulated argument is true, or even probable, then the existing ideas about CSR have to be rethought. One should not base an approach on an amalgamation of a social strategy and an economic theory if the latter has been exposed as a sham. Even those who acknowledge that firms are deeply embedded in their social, political, institutional and cultural environment, and/or act as moral communities, while believing that a firm and their managers act in a rational and strategic way, have a problem.

This was made clear by Thrift (2005), drawing on numerous other authors. Firms, or rather their managers and owners, neither act nor think as coherently, rationally and strategically as is generally supposed, precisely because they are embedded in all kinds of relationships, networks and environments, and because developments happen so fast. Their attitudes and certainly their practices can better be described as a form of trial and error. They stumble around, constantly on the look out for new insights and useful ideas and scenarios. They are eclectic in their selections and choices. Managers absorb, mix, amalgamate and pass on all kinds of scientific, pseudo-scientific, cultural and even religious notions and practices, related, or supposedly related, to management issues in order to enhance their capabilities to control their 'environment', the firm and themselves, and 'to plan for the future'. The expression 'learning-by-doing' overstates this process: in practice, these managers often surf from one idea, conviction, consultant or guru to another searching for new insights, clues and examples of 'best practice'.

In this setting, CSR can function as a strong metaphor, but it also runs the danger of being no more than that: a normative but fuzzy concept prone to become just another management fad. The lesson to be learnt is not that comforting, at least from the perspective of CSR. Firms stray and err, and they are far less stable and successful, certainly in the long term, than they are supposed to be. The same is true for the ideas and theories on which their strategies, attitudes and behaviours are based. Firms are important economic agents, but their managers, owners or stakeholders often do not know precisely how and why they function, or where they are heading, and neither do the scholars and consultants who advise them.

One can interpret this as an indication that Schumpeter (1950, 1961) was right when he declared that the market is, and moreover has to be, an arena for creative destruction, and that entrepreneurs are the agents who fulfil this role, over and over again, against persistent tendencies to introduce bureaucratic procedures to enclose and ultimately foreclose this process, of which the organised firm is but one. Believing in Schumpeter means putting less focus on the firm, and more focus on agency and on entrepreneurship. In so doing, we can overcome some of the major bottlenecks created by the above-mentioned theories that put the firm at the centre, but at the cost of introducing perhaps even more tricky problems.

Entrepreneurs have ideas and are willing to take risks. They are innovative and creative. They produce new ideas, products, services and plans to do business. As long as there are enough people who are willing and capable of becoming entrepreneurs, all kinds of supplies and services will be put on the market. In theory, this means that the extent and range of possible supply is unlimited. In the end, however, the success of the supply depends on whether there is a demand for these products, whether consumers want them and are willing to pay the price asked. Demand becomes an issue. What consumers want, and how consistent they are

in their wants, and in the relationship between intention and practice are just some of the questions – and these are notoriously difficult issues to calculate or even analyse.

In the Schumpeterian perspective, this is no problem as long as there are enough entrepreneurs active, or entering the arena: this is what the market is all about. However, for individual entrepreneurs the story is different. Similarly, for a strategy such as CSR – in the Dutch language interestingly called socially responsible entrepreneurship (MVO) – this is also a real problem. It is already difficult to determine whether there is a real and substantial demand for products and services supplied through socially responsible entrepreneurship, and it is impossible to predict whether there will be a future demand. If creative destruction is the essence of the market, there is no room for a long-term strategy to structurally frame supply and demand in that direction.

Evolutionary economics

However, perhaps there is another option, and one that can offer a way out: evolutionary economics, an approach that is in line with the Schumpeterian perspective. This received an increase in attention in 1993 due largely to a book by Hodgson (1993), and it has since been developed in a great number of studies. The main ideas have boldly, but neatly, been summarised by Beinhocker (2006). For the purposes of this article it is not necessary to discuss the approach at length but, as it is currently a significant influence on much of the discussion on CSR, it cannot be ignored.

Evolutionary economics integrates important concepts and ideas from the above-mentioned theories, while at the same time trying to repair some of their main defects. The basic idea is as simple as it is attractive: the market is seen as a specific arena, but one that functions in the same way as the ecosystem in evolutionary theory. In the arena, all kind of agents are active, and all kinds of actions are undertaken and ideas tried out. Success is conditioned by simple rules that trigger and support a recursive process: namely variation, competition, selection and replication. The major new ideas here concern recursivity and replication. All ideas and practices are replicated, but good ones more often than bad ones because they are more successful. They are selected because of their success, because they better fit ecological opportunities and realities; i.e. survival of the fittest. They become even more successful because they have been selected, at least for the time being. This process has no inbuilt teleology or inbuilt equilibrium; it is driven by far-from-equilibrium processes. However, there is a constant drive to reach a certain equilibrium and *telos*, although both vary significantly over time, both in character and content.

The evolutionary economics approach does offer solutions to some of the most problematic aspects outlined above concerning classic economic theory and the possibility of managers planning. The question is whether these answers are also promising for CSR?

Evolutionary economics underlines the role of the firm and its agents, and that of the market. It also states that the market determines what kinds of firms will be successful. As such, it sounds rather familiar. There is, however, a new and interesting addition: not only are products and services assessed and selected by the market mechanism, but also management ideas, strategies, business plans and practices.

The agents in a firm are more than producers and managers; they are also permanently on the look out for new ideas and practices. They pick up all kinds of ideas and practices, scrutinise them, and consider whether they are worth replicating. If they conclude that they are, then they transform them into what Beinhocker (2006, p. 213) calls interactors: symbolic modules or systems that can be used as building blocks for one's own ideas and practices.

This all sounds like an illuminating explanation, a welcome addition to the analysis by Thrift (2005) on the choices made by managers. However, we have to recognise that all these agents are bounded in one way or another, for instance by the constraints of their environment, the quality and amount of information, their training, their discursive preferences, their cultural background and the network they are embedded in.

Evolutionary economics explains the process of selection and variation, but not the concrete outcome or even its direction. It underlines the fact that good replicators will be replicated, but explicitly denies the possibility to predict let alone define what

is meant by good. The theory is expressly non-normative and non-linear, and states that this is also the reality of the (economic) world. Although, it might seem as if we are some way back from where we started at the beginning of this article, the contrary is true. By more or less summarizing the above discussion on the relationship between theory, firm type, discourse, strategy and CSR, Table II shows that CSR has the potential to become an integral part of the core business of most firms and entrepreneurs, regardless all its shortcomings.

With the possible exception of those firms or entrepreneurs who firmly embrace the first perspective (rational profit machine) mentioned in the table, even firms or entrepreneurs that have no inbuilt affinity for the notion, or even an aversion to it, have the possibility to make CSR an integral part of the core business. This means, as long as the condition that CSR is a good replicator, as put forward by evolutionary economics, is met. Or in other words, CSR has to be an idea that simultaneously promotes supply and demand, economic

TABLE II

Relationship between theory, firm-type, discourse, strategy and CSR

Theory/perspective	Discourse	Strategy	CSR
Rational profit machine	Neo-classical. Firm as rational and knowledgeable actor. Market determines failure or success	Free competition within prevailing rules and government laws. Minimise costs. Maximise profits	Not allowed, control on behaviour of corporations is task of the government
Outsmarting the competitors	(Neo)classical. Transaction costs. Incomplete contract theory. Porter's categories	Raising barriers	Possible, but only an instrument. Image, barrier, market niche
Moral community	Resource and capabilities-based	Strengthening own unique resources and capabilities through knowledge, learning and organisation	Market tool or organisational tool. Or possible niche in the market
Fallible firms	The market outsmarts any firm. Nothing lasts forever, even successful firms	Innovation and entrepreneurship	Depends on demand
Fallible economics	Denial of the basic premises of classical economy. Non-predictability	Walking in the dark. Trial and error	Just a moral strategy
Fallible managers	Post-modern. Post-rational. Post-economic	Eclectic trial and error. Mimicry and imitation of others. Openly cultural	If it is a good story, others have success with it; or because it is a management fad
Creative destruction	What comes up must go down. The market outsmarts any firm and changes permanently. Entrepreneurs as prime movers	Entrepreneurship. Innovation. Creativity	Depends on the demand, and creativity of the supply; not permanent
Evolutionary economics	The economy is an evolutionary process. There is no steering hand, nor given direction. The market operates in the dark, but according to process rules. Non-linear and no inbuilt equilibrium or telos. The market is everywhere	Replicate good replicators (practices, business plans, ideas)	Good replicators get replicated. But is CSR a good replicator?

profit and societal requirements, and creativity and innovation.

Conclusion

We have tried to categorise the ongoing discussion on CSR, on the basis of the above-elucidated range of possible perspectives, and in so doing hoped to solve some of the reappearing paradoxes such as: (1) the view that CSR is too new to be generally accepted, as opposed to the opinion that CSR is so old that it should have been integrated by now; (2) the view that CSR actually functions as against the view that CSR is just a buzzword, used to green wash bad practices.

The outcome is at first glance not that comfortable; it remains impossible to identify an approach towards CSR that will suit everybody. There are too many opposing discourses with regard to the concept and its economic and/or social embedding/environment, and even with regard to the main entity that is supposed to use the concept, and integrate it in its operations, namely the firm.

However, if we sustain the idea that firms are embedded in society, or at least that firms and society mutually shape and influence each other – if only because they are run by people who, like the firms themselves, are part of a wider society – a conclusion that can be drawn based on the analysis in this article is that the future outlook becomes more comforting.

It becomes sufficient to state that CSR functions as a kind of moral benchmark, established by society. It is no longer necessary, in fact not even desirable, to define it in a clear and indisputable way that is usable and applicable in all environments and by all actors. It is rather a goal to strive for or, in evolutionary terms, 'an ineluctable attractor'. Doing the right thing, i.e. designing and applying CSR, depends on the specific context, the specific actor and the specific time.

What we need is a better understanding of how a firm operates, in particular by the people who make up the firm. Its managers, owners, employees and stakeholders should understand far better: (1) how and why they function; (2) what kind of discourse they employ and (3) whether that fits the broader political and societal context in which they operate, and the opinions about them and CSR and the circumstances of their external stakeholders. It is this organised intersection of a number of different negotiated asset-creating interactions between various constituents that make up a firm. This implies that the next step in improving our understanding of CSR should be to focus attention on different ideas about the nature and purposes of firms and how, in turn, these ideas affect how people and society conceive of the social responsibilities of businesses.

Notes

[1] We recognise that Smith (1759) can also be credited for paving the way for these ideas. He, for instance, strongly warned against monopolies and greedy businessmen and saw an important role in the function of government as to prevent dishonesty and fraud. He also argued that the market should be truly free, and would probably have reservations about the level of freedom in most contemporary markets. In fact, he goes as far as to state that real freedom generates morality through the inbuilt capacity of human beings to show compassion.

[2] This is the view of Fourcade and Healy. We would argue that it is contradictory to identify 'moral meaning, in the name of economics'.

[3] In most discussions on CSR stakeholders are appointed a major role in the design and implementation of CSR in a firm's activities. However, the definition of stakeholders diverges considerably. We define stakeholders as those people, groups or organisations that are affected by the activities of a firm. Stakeholders can be directly or indirectly involved in the activities of the firm, but this is not necessary.

[4] The core idea is that some exchanges are simply too complex to be arranged in advance through an all-encompassing contract. However, problems can still be resolved by delegating residual rights of control to those who have the most to gain from an exchange, by those who benefit least from specific investments. It is in fact in the latter party's self-interest to do this.

[5] He distinguishes five industry types: (1) emerging industries; (2) fragmented industries; (3) mature industries; (4) declining industries and (5) global industries. Further, he distinguishes five threats: (1) threat of rivalry; (2) threat of new entry; (3) threat of substitutes; (4) threat of suppliers and (5) threat of buyers.

[6] These assumptions contradict the notions underlying neo-classical theory. In that discourse, firms within a certain industry are more or less identical, and possible differences tend to disappear. They also conflict with

the premise that underpins the view of Porter: the idea that differences between firms in the same industry can only be sustained by raising barriers (Barney and Hesterly, 1999, p. 127).

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