

# THE CONVERGENCE OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES

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## ABSTRACT

**Purpose** – This paper tries to explain why many socially-responsible firms appear to converge on a standard set of corporate social responsibility (CSR) practices instead of striving to differentiate themselves from rivals and achieve competitive advantage.

**Design/methodology/approach** – Three explanations of this convergence are presented: herd behaviour, institutional isomorphism, and strategic cooperation. The different empirical predictions of these theories are laid down. The resulting framework is used to analyse a recent self-regulatory scheme launched by the steel industry, in which knowledge-sharing was used to stimulate poor performers to curb carbon dioxide emissions.

**Findings** – Social practices of firms are very often driven by pressures to conform, instead of pressures to perform. Even firms that want to be innovative may be forced by stakeholder requests to adopt passive and imitative behaviour.

**Practical implications** – The paper suggests that there are two types of CSR – convergent and divergent – and that firms need to establish which type of CSR best fits their needs before they address the issues raised by stakeholders.

**Originality/value** – The literature on CSR focuses on the relationship between stakeholders and single firms. The paper tries to add to this literature by analysing the relationship between stakeholders and industries. The paper also contributes to the debate on the financial benefits of CSR by arguing that in industries where the convergent type of CSR is dominant researchers should not expect above-average returns for socially-responsible firms.

**Keywords** – Corporate social responsibility, strategy, institutional isomorphism, herd behaviour, cooperative behaviour, private regulation.

**Paper type** – Conceptual.

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## 1. Introduction

The rise to prominence of corporate social responsibility (CSR) in the modern economy and in the management literature has been one of the most notable global trends over the last twenty years. Because of increasing public concerns for the natural environment, for the respect of human rights, for the ethical aspects of business and for other social issues, firms have multiplied their efforts to deal with their responsibilities to society. According to KPMG (2008), 80% of the Global Fortune 250 firms now release corporate responsibility information (up from 50 percent in 2005), and 75% have a formal corporate responsibility strategy in place. Correspondingly, scholars have developed a vast range of theories and concepts about how a firm should address the social issues involved in business operations (Melé, 2008). Different schools of thought have proposed different and competing constructs, which cover a similar territory as CSR, like “corporate citizenship”, “sustainable business”, “corporate social performance”, and others (Crane *et al.*, 2008).

In all these ramifications, one of the central tenets of the literature has been that a business case exists for embracing socially responsible behaviour. Instrumental stakeholder theory (Donaldson and Preston, 1995) suggests that CSR can add to the bottom line of a firm, thanks to the beneficial influence that CSR can exert on the relationships with stakeholders. The general idea is that when stakeholders observe a firm’s responsible behaviour, they will consider that firm a preferred party to have transactions with (Barnett, 2007). Stakeholder goodwill will allow the firm to get easier access to strategic resources, to reduce operating and transaction costs, and to boost its reputation in the market-place.

This idea implies that socially-responsible firms should compete for stakeholder goodwill and try to differentiate themselves from competitors, as is usually the case when firms want to achieve a competitive advantage. Even when a firm invests in CSR because of

ethical considerations, and not with an immediate profit objective, the firm should rationally try to do so in ways that combine business opportunities and social welfare. According to Porter and Kramer (2006: 88), there is no reason why CSR should follow different rules from other strategic endeavours:

“For any company, strategy must go beyond best practices. It is about choosing a unique position – doing things differently from competitors in a way that lowers costs or better serves a particular set of consumer needs. These principles apply to a company’s relationship to society as readily as to its relationship to its customers and rivals”.

A CSR-based strategy can lead to above-average returns only when rivals can’t imitate it (Reinhardt, 1998). However, many socially responsible firms do not actively differentiate their social behaviours from the ones adopted by rivals. Instead, these firms converge to a well-defined set of practices. The evidence can be found in the wide adoption of industry codes of conduct, certified management standards or principles written by various international organisms (Waddock, 2008). While firms that adopt these practices may demonstrate their dedication to social welfare, it is hardly a means for them of surpassing rivals.

Why do many firms that invest in CSR make no claim to being unique? A possible answer is that the CSR concept is relatively new and firms may have not fully grasped its strategic potential yet. This answer conflicts with the fact that some industries have been under pressure from stakeholders for decades and still do not show signs of competition in CSR practices. Examples are the chemical industry and the steel industry, which we will discuss in a later section. These are industries where the social issues are deeply ingrained in the value chain, where chances for differentiation clearly exist but firms prefer to converge on

industry schemes or certification standards. Therefore, the reasons for the convergence must be deeper.

In this paper I suggest that the social activities of firms are very often driven by pressures to conform, instead of pressures to perform (Barreto and Baden-Fuller, 2006). There are at least three theories about the kinds of pressure that push firms to converge.

(1) Herd behaviour: convergence is stimulated by the uncertainties and ambiguities that surround social issues and the correct way for a firm to respond to them. Information externalities are the main driver of the diffusion of practices.

(2) Institutional isomorphism: convergence is seen as the result of legitimacy-seeking efforts by firms, which try to conform to what regulators, non-governmental organisations (NGOs) and other stakeholders define as appropriate behaviour.

(3) Strategic cooperation: when the stakeholders are unable to observe the actual social or environmental performance of the firms, single offenders in an industry can damage the reputation of their peers; to avoid indiscriminate penalties from stakeholders, industry members will try to build informal private regulatory schemes and will share knowledge and best practices with sub-performers in order to facilitate convergence.

I compare the three theories and analyse their different empirical predictions. I also present the case of an industry – steel-making – where the players have always tried to coordinate their efforts in response to environmental risks and to deal with stakeholder pressures as a group. Differences of environmental performances among the various steel-makers clearly exist but, as we will see, best performers seem more inclined to help sub-performing rivals to reduce emissions than to protect their advantage from imitation.

The main implication of the paper is that there are two types of CSR, convergent and divergent, and that scholars need to draw a neat line between them if they want to avoid some of the typical shortcomings of CSR research, especially when the question of the “business

case” is involved (Margolis and Walsh, 2003). I also try to show that, while the CSR literature usually focuses on the relationship between a single firm and its stakeholders, interactions among competing firms are relevant to CSR, because stakeholders often put pressure on whole industries, and not on single firms.

## **2. Herd behaviour: is CSR a fad?**

CSR has gradually evolved from a vague awareness of the participation of firms in a network of social relations to a more precise set of issues and solutions (Smith, 2003). Several contrasting approaches to the study of the social responsibility of firms have emerged over the years (Carroll, 2008). In all of them, however, the concept that social responsibility has to do with stakeholders (Freeman, 1984) has always been at the forefront. Another idea almost universally accepted is that social responsibility involves a response to needs defined outside (but not necessarily without the contribution of) business. In this paper I do not delve into definition problems but stay with the simple definition of the European Commission (Commission of the European Communities, 2001), which describes CSR as “a concept whereby companies integrate social and environmental concerns in their business operations on a voluntary basis”.

The growth of interest in CSR has been accompanied by a tumultuous development of management tools. Today, firms that want to become more socially responsible can adhere to a range of programmes sponsored by states, NGOs or industrial associations. When we speak of convergence of firms’ social behaviours, we refer to the decision of many firms to adopt one or more of these programmes, instead of going it alone and devising their own way to deal with stakeholder expectations. These programmes include, for example:

- (a) codes of conduct (such as US Apparel Industry Code of Conduct);
- (b) certified management standards (such EMAS or ISO 14001 series);

(c) partnerships with governmental organisations (e.g. UN Global Compact), NGOs (e.g. Marine Stewardship Council), or peers (e.g. Global Business Coalition for HIV/Aids);

(d) market solutions to achieve social or environmental performance (such as buying credits to obtain carbon-neutrality).

All these programmes allow firms to address serious issues and to improve their performance in the field of environmental protection, human rights and the like. They also contribute to firm reputation. But they do not allow a firm to be unique or to appropriate exclusive resources and protect them (Barney, 1991). The best that firms can expect from these programmes is to align themselves with the best practices of their industry.

Zucker (1987: 26) observed: “Few innovations are widely adopted, by organizations or elsewhere, with most looking more like the sociological characterization of ‘fads’ than social change”. So, can the convergence of social behaviours of firms be the result of imitation? Or, in other words, is CSR a fad? Convergence of practices via imitation can be produced by information externalities: the convergence happens when rivals are uncertain about which practices are most appropriate and focal firms are credited with superior information about the best way to address a given issue. The resulting imitative process can be described as “herd behaviour”. Theories of herd behaviour have been proposed to explain a variety of phenomena, such as anomalies in stock prices, waves in takeovers, or fashions in the consumer market (Bikhchandani *et al.*, 1992).

The representative application of herd behaviour theories to management studies is the diffusion of innovations. “Bandwagons” in particular have been considered an important mechanism (Abrahamson and Rosenkopf, 1993). Bandwagons are diffusion processes where organisations adopt an innovation not because it is efficient but because they feel the pressure of the sheer number of organisations that have already adopted it.

Abrahamson and Rosenkopf (1993) distinguish two kinds of pressure. The first is institutional pressure: it happens when non-adopters fear to appear different from the majority of their peers. This kind of pressure is actually a case of institutional isomorphism, which is discussed in the next section. The second kind is competitive pressure, which occurs when non-adopters fear the risk of below-average performance if the adopters profit from the innovation. In this case, non-adopters finally adopt the innovation because they do not want to discover that the innovation is efficient only after adopters have obtained first-mover advantages. Abrahamson and Rosenkopf (1993) suggest that innovations are more likely to induce bandwagons when the returns from the innovation are ambiguous. Three types of ambiguity are important:

- (1) ambiguity of goals: the goals pursued by the innovating organisations are relatively unclear;
- (2) ambiguity of means-ends relations: the possible outcomes of the innovation are doubtful;
- (3) ambiguity of environments: the probabilities of the relevant environmental states are uncertain.

Ambiguity of all three types moderate the impact of the number of adopters on the intensity of the bandwagon pressures. When there is ambiguity, managers cannot confidently foresee the outcomes of their actions and are more sensitive to the risks of deviating from the consensus. Therefore, the greater the ambiguity, the greater the pressure coming from a given number of adopters.

CSR practices seem good candidates for bandwagons, since they are often characterised by high ambiguity. How social issues must be addressed by firms and what penalties the stakeholders will impose on whoever fails to address those issues properly is typically uncertain. What is ethical or not in business is subject to the vagaries of media



scrutiny and political interpretations; whether or not stakeholders will be satisfied by a certain practice may be unknown; accidents can change the public perceptions of a firm in unexpected ways. It is therefore easy to imagine that firms that have to deal with a given social issue will take the safest route and align their behaviours to the practices already adopted by rivals who have had to address the same issue in the past.

Bandwagon models, however, generate predictions that do not seem to fit well with the CSR practices of the real world.

(1) The bandwagon process is supposed to involve industry members (innovators and imitators); there is no place for external actors that exert pressure on firms to accelerate the adoption. On the contrary, in the case of CSR it is clear that stakeholders exert pressure and are able to sanction firms that do not adhere to the best practices.

(2) In bandwagon models the innovation is supposed to come from firms. In the case of CSR, however, stakeholders are often very active in writing standards and recommending practices; as a matter of fact, some of the most frequently-adopted standards, e.g. SA8000 or the Global Reporting Initiative (GRI), have been developed by independent organisations.

(3) Adopters have no incentive to facilitate the diffusion of the innovation. On the contrary, in the CSR realm leading firms and industrial associations frequently try deliberately to promote innovation among non-adopters.

While, then, a “CSR fad” may explain some of the existing practices, bandwagons are not a satisfactory explanation for the convergence of firm social behaviours. The kind of processes that bandwagons activate depend exclusively on firms competing against each other; in contrast, industry codes of conducts, certified management standards and other best practices in the CSR areas often involve deliberate cooperation among firms in the same industry, or between firms in the industry and stakeholders. A firm that does not adopt a recommended practice risks stakeholders sanctions, and not simply to lag behind competitors.

Therefore, stakeholder interventions and cooperation among peers should be taken into consideration to explain why firms are reluctant to go their own way in dealing with social issues.

### **3. Convergence as the result of institutional isomorphism**

Institutional theory (DiMaggio and Powell, 1983; Meyer and Rowan, 1977) focuses on the pressures and the constraints of the institutional environment that limit organizational choices. Institutions include governments, courts, professions, interest groups, public opinion and other subjects interested in the behaviour of organizations. According to institutional theory, organizations can survive and attain their ends only if their actions are legitimate. Legitimacy is the generalised perception that the actions of an organisation are appropriate, given some socially-construed system of norms and values (Suchman, 1995). Legitimacy is provided by the institutional environment in which an organisation is embedded. The institutional environment expresses assumptions, beliefs and expectations; organisations try to obtain stability and legitimacy by satisfying the requirements imposed on them. Legitimacy leads to isomorphism between requirements and the organisation. In turn, isomorphism leads to homogeneity among organisations.

DiMaggio and Powell portray three mechanisms that force organisations to adapt to their institutional environment.

(a) Coercive isomorphism: pressures exerted by members of the institutional environment, accompanied by direct prescriptions (in the form of rules, norms or laws) and sanctions.

(b) Mimetic isomorphism: attempts of organisations to infer legitimating practices from the behaviour of their peers.

(c) Normative isomorphism: patterns of thought, norms and models of organising spread by educational and professional institutions.

It is important to underscore that mimetic isomorphism, as defined by institutional theory, does not coincide with herd behaviour. Mimeticism provides legitimacy (Deephouse, 1996); it is not driven by a search for efficient practices. Mimeticism is effective because observers in the institutional environment take what is done by the majority of organisations as a standard of behaviour and evaluate the other organisations as deviant when they do not conform to it. It is not always easy to tell herd behaviour from mimeticism in practice, however, because mimeticism is expected to happen in the same situations where herd behaviour is also probable, that is, when managers face ambiguous situations, since in these situations legitimacy can be crucial for organisational survival.

Many scholars have recently proposed institutional-theoretical explanations of why firms adopt CSR (Campbell, 2007; Marquis *et al.* 2007; Teerlak, 2007). The mechanism they consider dominant is coercive isomorphism. For example, Teerlak (2007) sees certified management standards (CMS) as an explicit effort by institutions to shape firm behaviours. However, mimetic and normative isomorphism in the areas of CSR are also documented (Matten and Moon, 2008). Reporting standards, such as GRI, that detail the parameters on which the organizational social performance must be evaluated (Waddock, 2008) can be a further driver of convergence. GRI seems to fall in the normative isomorphism category, because it specifies a way of thinking about the responsibilities of firms that comes to be essentially taken for granted in the relevant institutions.

In general, institutional theory sees CSR as the consequence of a political process whereby NGOs, states and other stakeholders put pressure on firms to adopt given social practices and apply legal, social and economic penalties to non-adopters. Convergence of

firms is explained as homogeneity owing to their being embedded in the same institutional environment.

There are many cases where firm social practices have actually been deliberately shaped by powerful stakeholders. Bartley (2007) provides a very careful analysis of two programmes: the Forest Stewardship Council (FSC), which was the first system for certifying forests as environmentally well-managed, and the Apparel Industry Partnership/Fair Labor Association (AIP/FLA), which was created to monitor and certify that firms complied with a set of labour standards. Both cases show clearly that institutions are able to shape the behaviour of firms.

For example, FSC was fuelled by public concerns about tropical deforestation in the late 1980s. These concerns led to timber boycotts, which activated a complex political process. NGOs like Friends of the Earth asked governments to propose a system for certifying sustainable forest timber. At the same time, hundreds of European municipalities and some European countries passed restrictions on the import of timber. Austria was a protagonist in this process: in 1992 the Austrian Parliament imposed a ban against all tropical timber that was not sustainably produced. Subsequently, Austria endorsed certification systems and financed FSC together with Switzerland and the Netherlands. The Ford Foundation, the Pew Charitable Trust and other foundations also intervened to finance the initiative.

FSC was therefore mainly created by stakeholders. Industrial associations eventually adopted the scheme, but only after it had already gained legitimacy and financial support. As Bartley observes, this case demonstrates that stakeholders often act as institutional entrepreneurs and directly create forms of private regulation that constrain firm behaviour.

There are clues, however, that, like herd behaviour, institutional isomorphism is not the whole story. Institutional theory often depicts organisations like passive pawns that adapt to institutional pressures without reactions (Tempel and Walgenbach, 2007). It is true that

scholars have tried to extend the theory to accommodate agency and firm efforts to change or influence the institutional environment (Oliver, 1991). Teerlak (2007) explains how firms can strategically react to private regulations that impose social practices. But, if firms are able to fight against institutional pressures, they should also be able to initiate self-regulation programmes when they find them efficient (e.g. preferable to public regulations in the shape of command and control).

#### **4. Convergence as the result of strategic cooperation**

Reputation is strategically important when observers are not equally informed about a firm's "type". In Game Theory, a player's type is the set of privately-known information about that firm (Weigelt and Camerer, 1988). Each player knows its own type, but it is uncertain about the types of the other players. All players will try to judge the type of rivals on the basis of past observations and other signals.

Literature on reputation usually assumes that all the signals of player-type come from the player herself or from monitors that reveal information about her. For example, Fombrun and Shanley (1990) say that reputation is built from information about a firm's activities originating from the firm itself, from the media and other sources. But it is common for observers to try to judge firm-type on the basis of information about other firms that they think are in the same class as the one in which they are interested.

Reputation externalities arise when observers use actions by player A to infer the type of player B, on the assumption that A and B are members of the same reference group. Industry is the first kind of reference group that comes to mind, even though observers may often infer similarities in other classes of firms, e.g. multinational enterprises or firms from the same countries.

Reputation externalities are relevant to CSR because the stakeholders of a firm need to determine its “social responsibility type”. Owing to information asymmetries, stakeholders will often be unable to observe the actual social performance of the firm. Stakeholders therefore need to extract information from a variety of sources. Many historical cases suggest that the stakeholder can interpret the information involuntarily revealed by an offending firm as a signal about the other firms in the industry. For example, the Union Carbide accident damaged the reputation of the entire chemical industry; the Three Mile Island accident spreaded suspicion about all nuclear energy plants; the Exxon Valdez oil spill put in bad light all the major oil companies.

King *et al.* (2002) discuss reputation externalities in the context of industries that find themselves “tarred with the same brush”. The authors present reputation as a common resource shared by all the members of an industry. As is the case with other kinds of shared resources, industry reputation may be overexploited by members and suffer from the “tragedy of the commons” (Hardin, 1968). When information about the social impact of each firm is costly to acquire, stakeholders identify a whole group of firms as culprits.

One of the ways to solve the reputation commons is to privatise reputation (King *et al.*, 2002). The socially-responsible firms that do not want to be tarred with the same brush as their inferior rivals may try to develop unique reputations and distance themselves from the rest of the pack. For example, these firms may ally with reputed stakeholders or form elite clubs with other above-average performers.

An alternative solution is to pressure other firms in the industry to improve their performance. Benchmarking networks and other forms of knowledge- and information-sharing can be used to help laggards to adopt the best social practices. Since these solutions raise problems of collective action (Olson, 1965), however, they need to be assisted by coercion or other institutional devices. Private regulation, in the form of certification schemes,

codes of conduct and the like, can be one of these institutional devices. Private regulation allows firms to divide the industry reputation between “good” and “bad apples”, so that free riders are excluded from the benefits of the improved reputation created by the regulatory scheme. Private regulation is also a means to provide credible information about the actual social performance of firms, because the scheme is typically managed and monitored by external parties. Finally, private regulation avoids socially-responsible firms finding themselves at a market disadvantage, because the scheme forces all the firms to adopt the same practices and sustain the costs that may be connected with improved social performance (Bartley, 2007).

The result of private regulation is that firms converge on reputable social practices imposed or adopted by industry charters or other self-regulatory bodies. This kind of convergence is strategically motivated and therefore has at least a couple of traits that are not expected under institutional isomorphism theories.

(1) Although in institutional isomorphism the convergence is stimulated by stakeholders, in strategic cooperation based on reputation externalities it is stimulated by firms in the industry or in the reference group. In particular, the process will be started by firms that have the most to lose from the tarnishing of the industry’s reputation. These firms may have made large specific investments in the industry or may fear stakeholder attacks because of their notoriety (Knight, 2007). They are not necessarily the firms culturally most attentive to social issues.

(2) When strategic cooperation is the main motivation of convergence, the firms will have the incentive to reduce the costs of imitation for their sub-performing peers. This behaviour has no direct explanation in institutional theory, where single firms lack any interest in solving their rivals’ legitimacy problems.

There are industries where the convergence of firms on management standards or codes of conduct shows these traits. An example is the Responsible Care programme of the chemical industry, which was initiated by industry members and includes explicit efforts to align the performance of all firms with minimal standards (King and Lenox, 2000). Another example is the Kimberley Process Certification Scheme (KPCS), a programme of the diamond industry to ensure the legitimate sourcing of diamonds. The programme aims to solve the issue of the “blood diamonds”, which are illegally extracted by African paramilitary groups to finance revolts against legitimate governments. De Beers, the most visible player in the industry, was the major sponsor of the programme. De Beers directly financed the creation of the World Diamond Council, the industry organism that developed the programme in conjunction with African governments and NGOs (Kantz, 2007). In the next section I will describe some recent developments in the steel industry that are also suggestive of a strategic cooperative effort to avoid reputation externalities.

## **5. Strategic cooperation in the steel industry**

The steel industry has a vast impact on the natural environment because of the various physical and chemical processes involved in the production of steel. This impact has been dramatically reduced in the last twenty years through technological innovation and efficiency improvements. Such progress affected all the stages of steel-making, from the reduction of air emissions to the treatment and recycling of the large amounts of water needed to obtain steel. There are, however, clear differences in environmental performances among the various steel-makers. China, for example, which accounts for more than one third of the global steel production, has many “dirty” and inefficient mills (Park, 2008).

Nevertheless, steel-makers have always tried to coordinate their efforts in dealing with pressures from environmentalists and governments. This collaborative approach has recently



found new expression in the response of the steel industry to the climate change issue (Marsh, 2007). Steel-making, which generates an estimated 4-5 per cent of global carbon dioxide (CO<sub>2</sub>), is one of the major causes of global warming. The amount of emissions is bound to rise with the increase in the volume of production in the next decades. Global demand for steel is expected to double by 2050, while prevention of climate change will require steel makers to cut greenhouse gas emissions by at least 50% by the same date. Steel-makers recognize the need to cut emissions, even though they have constantly opposed regional cap and trade policies such as those used in the EU and would prefer a focus on improving emissions per unit of production worldwide.

As part of the industry efforts to curb emissions, in October 2007 the International Iron and Steel Institute (IISI) announced a plan to gather emission data for steel plants industry. IISI, that has subsequently changed its name to World Steel Association, is an industry organism representing 18 of the world's 20 largest steel-makers. The plan is aimed at gathering data from a large number of participating members and is subject to two limitations: (1) the data will be shared among members without identification of individual plants or producers; (2) the data will not be published or otherwise made known to external observers. The logic behind these constraints is to avoid discouraging potential participants, and especially the sub-performing ones, from joining the plan.

The World Steel Association hopes to arrive at a comprehensive view of which plants around the globe are good at limiting CO<sub>2</sub> emissions and which are not. The immediate benefit to each participant is to find out whether their emissions are below the industry average, taking account of factors such as plant size, technologies adopted, and so on.

It is difficult to explain this data collection plan by herd behaviour or institutional isomorphism; of course there are strong public pressures on firms to reduce CO<sub>2</sub> emissions but the particular plan adopted by the World Steel Association is a voluntary collective effort

and was not requested by external institutions. Indeed, the attitude of NGOs to the plan has mainly been critical. For example, Sustainability (a UK-based environmental group) lamented the fact that the scheme will not make the data publicly available. Given these hostile reactions from NGOs, the plan does not seem to be a means of legitimisation.

On the contrary, this plan can be easily explained as the result of strategic cooperation among firms that want to defend industry profitability. One important fact in support of this interpretation is that the plan is being led by the best performing firms in the industry. The major steel producers were on board from the beginning and tried to involve their rivals. The China Iron and Steel Association (CISA) officially endorsed the scheme, and its chairman, who is also president of Anshan (a big Chinese steel-maker), said he would persuade other Chinese producers to join the scheme. Industry leaders explicitly motivated the decision to keep data private with the need to obtain the maximum involvement. The chief executive of US Steel, the US's largest steel company, said that he feared that many steel-makers would not take part in the scheme if they knew they had to publish their data and expose themselves to criticism.

The data collection plan is not the first example of collaboration in the steel industry to improve the collective environmental performance. A "State-of-the-art Clean Technologies Handbook", containing a detailed list of sustainability practices for steel plants, has been developed by the industry and made publicly available to all members (APP, 2008). The World Steel Association declared that new technical benchmarks will be identified through the emission data collection plan and subsequently shared among participants. The association also announced a R&D plan with the aim to discover breakthrough technologies in steel production and to revamp and improve the energy efficiency of outdated steel plants (WSA, 2008a). A general cooperative climate in the steel industry facilitated all these initiatives. Increased steel use in China and other emerging economies has led to a renaissance in

industry profitability over the last years; the reduction of excess capacity has eased the pressure on prices; recent mergers and acquisitions (e.g. the merger of Mittal Steel and Arcelor) increased industry concentration and smoothed the path to collaboration among firms (Marsh, 2008).

In October 2008 the World Steel Association reported on the ongoing completion of phase 1 of data collection (with 56% of the participants, representing 178 sites, having provided the data). On this occasion Ian Christmas, the Director General of the World Steel Association Director General, declared:

“[W]e will be establishing a very powerful and detailed database to help our members know where they are in relation to the averages either in their region or the world. Every steel company and steel-producing country is at a different starting point. Our vision is that over time there will be a convergence towards best practice and this will have a material impact on our global emissions... [T]here should be a set of parallel agreements between steel companies, national steel associations and their respective national or regional governments which set out commitments on improvements on steel intensity for the future” (WSA, 2008b).

These statements made explicit the objective of the World Steel Association to make the participants converge on a set of best practices and to back the industry’s lobbying efforts to avoid costly state interventions. These objectives are further evidence of the nature the plan, which can be analysed as a stimulus to poor performers to curb their emissions and protect the profitability of the industry as a whole.

## **6. Discussion and conclusions**

In this paper I have addressed the problem of why many socially-responsible firms converge on some limited set of social practices instead of developing their own solutions to the social

issues with which they have to deal. It is hard to reconcile this convergence with the idea, common in the CSR literature, that CSR practices allow companies to achieve above-average returns, since extra-performance requires some sort of differentiation of the firm from its competitors. I suggest that at least three theories can explain convergence of CSR practices.

(1) Herd behaviour: focal firms initiate innovative social practices and then are imitated by their rivals. The imitation process starts because rivals are uncertain about which practices are most appropriate or because the focal firms are credited with superior information about the best way to address a given social issue.

(2) Institutional isomorphism: regulators, NGOs and other stakeholders define what constitutes appropriate behaviour and exert pressures on firms to conform. The pressures consist of the social and economic sanctions that the stakeholders can apply to offenders.

(3) Strategic cooperation: when the stakeholders are unable to observe the actual social performance of firms, single offenders can damage the reputation of their reference group. To avoid generalised penalties, industry participants will try to create informal regulatory mechanisms, pressure their peers to conform, and share information with them in order to facilitate imitation. Management standards or other acknowledged social practices will be useful reference points.

These theories are based on different constructs and lead to different empirical predictions. Table 1 summarises the main predictions considered.

**Table 1 about here**

All three theories are useful to understand why firms converge in their social practices. One theory or another may be better in explaining different practices. It is also possible that all the factors underlying the three theories sometimes concur to shape the behaviour of firms. For example, a private self-regulation scheme may be initiated by industry players (strategic cooperation) and then, because of problems of collective action, the players may decide to

involve external stakeholders in the scheme or, alternatively, to adhere to schemes already proposed by the stakeholders (institutional isomorphism); finally, the scheme may undergo a typical two-stage process, where a first group of leading firms adheres to it from the beginning and latecomers get on board because they feel the pressure of competitive mimetism (herd behaviour). Such two-stage processes have been documented across a variety of contexts, from the adoption of multidivisional organizational structures (M-forms) to the diffusion of total quality management (TQM) among firms (Abrahamson and Rosenkopf, 1993). Further research is needed on the situational factors that can produce one or another type of convergence, such as the particular social issue to be addressed, the strength of the focal industry association, the traits of the institutional environment, and so on.

It is also important to remember that not all firms converge. There are some well-known firms that have been building their unique ways to serve stakeholder needs for years and have strenuously protected their innovations from imitation. Ben & Jerry's, Body Shop and other successful firms are convincing cases. It is therefore tempting to see the firms that limit themselves to adopt standard social practices as instances of the attitude that Porter and Kramer (2006) dubbed "responsive". According to these authors, there are two kinds of CSR.

(a) *Strategic CSR*: firms that adopt this approach want to go beyond best practices and do things differently from competitors.

(b) *Responsive CSR*: firms that adopt this approach want only to create goodwill and improve relationships with stakeholders; their typical attitudes include acting as a good corporate citizen and trying to mitigate the adverse effects on society of their business activities.

The distinction between strategic and responsive CSR is relevant to the questions addressed in this paper but assimilates strategic behaviour with the quest for uniqueness. On the other hand, we have seen that socially-responsible firms may be strategically motivated to

avoid uniqueness in order to allow imitation by sub-performing peers. A firm can even strategically decide to avoid adopting an efficient practice because the practice would be beyond the reach of their peers and would risk disbanding a self-regulatory scheme. As far as CSR is concerned, strategy does not necessarily mean trying to outperform competitors. We suggest that CSR can be more simply divided into two categories.

(a) *Divergent CSR*: firms try to obtain competitive advantage through superior social performance or differentiation in satisfying stakeholder requests; the firms work to preserve their uniqueness and to build barriers to imitation.

(b) *Convergent CSR*: firms do not use social performance or stakeholder satisfaction as a means to achieve competitive advantage; they focus on social practices that are both efficient and legitimate, and are open to collaboration with rivals in order to avert shared risks or to defend the reputation of their industry or their reference group.

This distinction casts some light on the difficult problem of measuring the financial returns from CSR. A rich literature tried to ascertain a link between the social performance of firms and their financial performance. The outcomes of this literature are usually deemed inconclusive: the link seems inexistent or weak at best (Margolis and Walsh, 2003; Orlitzky *et al.*, 2003). Now, this is exactly what one should expect when convergence of firms on non-differentiating social practices is the norm. Socially-responsible firms with a convergent CSR attitude can create social value and may be able to get a share of it, but in general their rivals will be able to do the same. No effect on stock performance or profit differentials should therefore be observable. Research on the social-financial performance link could produce more interesting results if the studies were focused on identifiable segments of firms that adopt divergent CSR practices. Research should also analyse in what cases divergent CSR is more probable to be profitable, taking into consideration factors at both the firm level (such as

resources and competencies) and the industry level (such as industry structure or state of rivalry).

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**TABLE 1: Comparison of theories**

	<b>HERD BEHAVIOUR</b>	<b>INSTITUTIONAL ISOMORPHISM</b>	<b>STRATEGIC COOPERATION</b>
<b>Leading players</b>	Innovative firms	Stakeholders	Firms exposed to public crises and stakeholder backlash
<b>Driving force of diffusion</b>	Information externalities	Legitimacy-seeking	Reputation externalities
<b>Standard chosen because it is...</b>	Best practice	Legitimate practice	A reference point attainable by all peers
<b>Knowledge</b>	Private, obtained through observation of outputs	Created and spread by institutional actors	Shared among peers
<b>Firm relations</b>	Competitive	Competitive	Collaborative