



MPIfG Discussion Paper 18/2

**Explaining the Growth of CSR within OECD Countries**  
The Role of Institutional Legitimacy in Resolving the  
Institutional Mirror vs. Substitute Debate

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Max-Planck-Institut für Gesellschaftsforschung, Köln

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## Abstract

Two strands of literature have emerged to explain the rise of a new form of private governance, Corporate Social Responsibility (CSR). One camp argues that CSR expansion is likely during periods of economic liberalization because CSR tends to substitute for growing institutional voids and a lack of social regulation. The other camp argues that CSR is likely to diffuse within coordinated economies because it mirrors these institutional settings. While both camps find empirical support for their arguments, no one has yet managed to combine both perspectives. In our study, we develop three hypotheses based on two (rationalist and constructivist/sociological) strands of institutional theory. Based on a new dataset comprising the corporate membership in business-led CSR organizations in over thirty countries from 1981 to 2008, we show that economic liberalization has a strong effect on CSR expansion when the legitimacy of CSR is low. However, when the practice has achieved substantial cultural acceptance, economic liberalization no longer drives CSR expansion. In this setting, CSR expansion is most likely to occur within socially regulated economic contexts.

**Keywords:** Corporate social responsibility, diffusion, institutions, legitimacy, liberalization, membership, privatization, neo-institutionalism

## Zusammenfassung

Es haben sich zwei Forschungsansätze etabliert, die das Aufkommen neuer Formen privater Steuerung, der Corporate Social Responsibility (CSR), erklären wollen. Der erste Ansatz argumentiert, dass die Ausbreitung von CSR mit ökonomischer Liberalisierung einhergeht, weil CSR als ein willkommener Ersatz für soziale Deregulierung fungiert. Der zweite Ansatz argumentiert, dass sich CSR eher in koordinierten Marktökonomien ausbreitet, weil es die dortigen institutionellen Settings spiegelt. Obwohl beide Richtungen empirische Evidenz für ihre Argumentation liefern, hat niemand bislang beide Sichtweisen zu integrieren versucht. In diesem Beitrag entwickeln wir drei Hypothesen, die auf zwei Ansätzen der Institutionentheorie beruhen (rationale vs. konstruktivistische bzw. soziologische Ansätze). Auf Grundlage eines Datensatzes, der die Mitgliedschaften von Unternehmen in CSR-Organisationen in mehr als dreißig Ländern zwischen 1980 und 2008 erfasst, zeigen wir, dass ökonomische Liberalisierung einen besonders starken Effekt auf die Ausbreitung von CSR hat, wenn die Legitimität des CSR gering ist. Hat die Praxis des CSR jedoch eine größere kulturelle Akzeptanz erlangt, geht die weitere Ausbreitung der Praxis nicht länger mit ökonomischer Liberalisierung einher. Nur in dieser Situation ist die Ausbreitung von CSR als Spiegelung des institutionellen Settings koordinierter Marktökonomien zu betrachten.

**Schlagwörter:** Corporate Social Responsibility, Diffusion, Institutionen, Legitimität, Liberalisierung, Privatisierung, Neo-Institutionalismus

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# Explaining the Growth of CSR within OECD Countries: The Role of Institutional Legitimacy in Resolving the Institutional Mirror vs. Substitute Debate

## 1 Introduction

Though the social responsibilities of business have been a source of popular interest and political contention since the beginnings of commerce, the growth in interest in Corporate Social Responsibility (CSR) during recent decades has been spectacular. CSR is a new form of private governance that can be defined as business's voluntary engagement in the pursuit of social or environmental ends, or simply as "private business self-regulation" (Sheehy 2015, 635). Tens of thousands of companies – including many of the world's largest multinational firms – now claim allegiance to the norms of CSR, and global CSR frameworks and initiatives have proliferated. While the meaning of CSR remains contested and ambiguous, there is considerable agreement regarding the underlying forces behind its rise. "The failure of public governance institutions to keep pace with economic globalization," write Gereffi and Mayer, "has led to a governance deficit of considerable magnitude and demand for greater governance" (2006, 58). In response to "negative externalities" such as human rights violations in global supply chains and in areas of limited statehood, social movements and civil society activists pressure companies (Soule 2009), and companies respond by adopting CSR practices.

The basic premise of this paper is that this conventional wisdom is not so much false as incomplete: social movements and transnational economic integration are not the sole drivers of CSR. The political-economic institutions of advanced capitalist states are another important driver of CSR and private regulation. More than four decades after Milton Friedman's trenchant critique (Friedman 1970), CSR's rapid rise has led to a growing body of research that has yielded important insights into the role that political-economic institutions play in this process (Brammer, Jackson, and Matten 2012; Burgoon and Fransen 2017a; Burgoon and Fransen 2017b; Halkos and Skouloudis 2016; Höllerer 2013; Jackson and Apostolakou 2010; Jackson and Rathert 2017; Lim and Tsutsui 2012; Matten and Moon 2008; Rathert 2016).

Yet scholars remain puzzled by antithetical findings and the coexistence of two seemingly contradictory interpretations of CSR (Burgoon and Fransen 2017a; Burgoon and Fransen 2017b; Brown and Knudsen 2013; Jackson and Rathert 2017; Koos 2012;

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Rathert 2016). On the one hand, scholars argue in favor of the “institutional void” or “substitution” thesis, which argues that CSR expansion is most likely to occur in less regulated institutional environments and during processes of economic liberalization. CSR practices pre-empt state regulation, hollow out and substitute for institutions of social embedding, and act as a strategic tool for companies to defend their power and fill gaps in legitimacy and social control (Jackson and Apostolakou 2010; Jones 2015; Kaplan 2015; Kinderman 2012; LeBaron and Rühmkorf 2017; Marens 2012). In this view, the rise of private authority has taken place at the expense of public authority.

On the other hand, scholars argue that CSR practices work well within egalitarian capitalist countries with strong trade unions and generous welfare structures. The comparatively egalitarian and socially embedded Scandinavian countries, for example, “lead the world in strong CSR and sustainability performances” (Strand, Freeman, and Hockerts 2015, 4). In this perspective, CSR is a legitimate practice that mirrors the institutional setting of an “embedded” economy (Campbell 2007; Favotto, Kollman, and Bernhagen 2016; Gjølborg 2009; Gjølborg 2010; Midttun, Gautesen, and Gjølborg 2006; Midttun 2015; Strand and Freeman 2015). According to this approach, the stronger social regulation of the economy in these countries facilitates stronger and more extensive private regulation.

One is puzzled by the fact that both approaches find empirical support for their arguments. As one scholar claims, “the existing literature offers ambiguous empirical findings related to the substitute–complement hypothesis in the home-country context” (Rathert 2016, 4). Hence, the debate remains shrouded in “ambiguity” (Schneider 2014), and at this point it remains unclear what factors actually explain CSR expansion. Is CSR an institutional mirror and therefore prone to spread within more highly regulated and socially embedded economies? Or is CSR a substitute for institutionalized social solidarity and thus more likely to diffuse in lightly regulated economies and during processes of economic liberalization? At stake in this debate is nothing less than the “important question” of whether and under what conditions “private regulation comes at the expense of public authority” (Büthe 2010, 19). While we have learned a great deal from this growing body of literature, the “controversy has taken place on very modest empirical foundations” (Burgoon and Fransen 2017a, 42). By answering the research question “What explains the rapid but differential growth of CSR across advanced industrial countries during recent decades?” we aim to make a contribution that will be important to CSR and management scholars, political scientists, and sociologists.

To move the debate forward, this article builds on a unique new dataset. It helps to explain why both the substitution argument, inspired by rational choice institutionalism, and the mirror argument, inspired by sociological neo-institutionalism, are essentially true – but only under certain conditions. We introduce a novel sociological, neo-institutional perspective to this discussion and propose an argument of conditional diffusion. In particular, we argue that the spread of a practice such as CSR is conditioned by the specific context that either enables or prevents its diffusion. In contexts where the

practice satisfies a functional need – such as in times of economic liberalization, when CSR functions as a substitute for growing institutional voids – the practice spreads of its own accord, without external legitimation through prior adoptions. However, in contexts where the practice does not satisfy a functional need – for example, in environments with high levels of institutionalized social solidarity – it will spread only if it has achieved a certain level of cultural acceptance.

Although there is a longstanding preoccupation with legitimacy in the literature on private authority (Hall and Biersteker 2002), we venture beyond this literature by drawing on and developing ideas from the new institutionalism in sociology. According to sociological neo-institutional theory (DiMaggio and Powell 1983; Dobbin, Kim, and Kalev 2011; Dobbin, Simmons, and Garrett 2007; Lee and Strang 2006; Meyer and Rowan 1977; Strang and Soule 1998; Strang and Macy 2001; Tolbert and Zucker 1983), a practice gains cultural acceptance through increases in the number of prior adoptions elsewhere. Later adopters learn from the positive outcomes of that practice experienced by prior adopters, triggering its legitimacy and spurring further adoptions, even in contexts where the logic of institutional necessity for that practice does not apply. As we will assert below, the diffusion effect of a legitimized practice is strongest if the practice complements the existing legitimate institutional environment.

A large and growing body of existing literature takes a rather benign view of private governance as a means of extending governance into areas of limited statehood. We do not deny that global value chains and outsourcing have been important drivers of private governance and CSR, or that firms can fill some governance gaps in these countries. However, we argue that by focusing on this international story, observers have neglected the way in which private governance in general, and CSR policies in particular, have been directed toward national stakeholders as a substitute for formal state policies. Both governments and the private sector have used CSR as a tit-for-tat strategy: more CSR in return for less regulation. Domestic economic liberalization across the OECD has resulted in a considerable governance deficit (and, at the time of writing, widespread populist revolts against establishment politics), and that development has gone hand in hand with the rise of private governance in the form of CSR. Initially, even if the relationship between public authority/regulation and CSR is not necessarily zero sum, it is characterized by clear trade-offs. But once CSR has attained widespread cultural legitimacy, the relationship between private governance and public authority/regulation becomes positive sum (Green 2014).

In order to make this argument, we draw on a new dataset comprising corporate membership in business-led CSR organizations in over 30 countries from 1981 to 2008. This dataset provides an important and rare insight into the long-running development of CSR. Indeed, we are not aware of any prior studies that cover so many countries over so many years. Building on fixed-effects regressions, this dataset allows us to assess the within-country relationship between CSR expansion, diffusion, and institutional variables in a large number of countries over time. Our results are threefold. First, we find

clear support for the substitution thesis. On a number of time-varying measures of liberalization, market-constraining regulation, and institutionalized social solidarity, we find that prior increases in liberalization within a country significantly increase the number of CSR memberships within that country. Second, the results support the neo-institutional legitimacy approach. Findings show that further adoptions are fueled by prior adoptions elsewhere: that is, the total number of prior adoptions in any country/year positively affects the number of further adoptions in that country. Third, by testing interaction effects between the total number of prior adoptions and measures of coordination and liberalization, we show that the legitimacy effect (the effect of prior adoptions) is particularly strong in countries with high levels of regulation and low degrees of liberalization. However, in countries in which institutionalized social solidarity decreases, the effect of legitimation is absent. This finding points to the conditional diffusion argument that we theorize. According to this argument, while a practice is most likely to diffuse in contexts in which it fills a functional need, as soon as it gains cultural acceptance it will spill over into those contexts in which the practice complements existing legitimate institutional settings.

We believe that our approach allows us to overcome a key weakness of existing contributions to the debate on private governance/CSR and institutional theory. Up to this point, studies have either been based on cross-sectional, observational data (Burgoon and Fransen 2017a; Burgoon and Fransen 2017b; Gjølborg 2009; Halkos and Skouloudis 2016; Jackson and Apostolakou 2010; Rathert 2016), historical case studies (Kaplan 2015; Kaplan and Kinderman 2017; Kinderman 2012), or experiments based on large-N surveys (Malhotra, Monin, and Tomz 2015). Most quantitative empirical studies cover at best a very limited time span of five to ten years (Jackson and Bartosch 2016). This means that these studies do not adequately account for developments over time. To cite one recent example: though state-of-the-art in many respects, Rathert's study is cross-sectional and therefore unable to examine temporal variation as it relates to institutional change (Rathert 2016, 18). On the other hand, qualitative studies that do take into account changes over time (Kaplan 2015; Kaplan and Kinderman 2017; Kinderman 2012) are limited to a small number of countries or companies, and experiments face challenges regarding their external validity. As one scholar recently pointed out: "Empirical information needs to be gathered that establishes as precisely as possible the interactions between variables, ideally across time and space" (Fransen 2013, 220). We accept this challenge and, in the process of addressing it, provide a solution to a number of empirical puzzles in the existing literature.

To this day, many scholars are bewildered about why non-liberal capitalist countries have only "recently adopted a more explicit commitment to CSR resembling that of their U.S. counterparts" (Matten and Moon 2008, 405). Why did CSR "start out as a neo-liberal concept that helped to downscale government regulations" and "mature into a more progressive approach of societal co-regulation in recent years" (Steurer 2010, 49)?



Why was the reception of CSR in Austria initially characterized by “considerable hesitation” but followed by “widespread diffusion” (Höllner 2013, 597)? Proponents of the institutional mirror thesis are eager to celebrate the CSR achievements and performance of Nordic and other European countries (Midttun 2015; Strand and Freeman 2015), but they have not been able to provide a satisfactory explanation for why CSR arrived there later than in less-regulated (predominantly Anglophone) countries with lower levels of institutionalized social solidarity.

Proponents of the institutional substitution thesis (Jackson and Apostolakou 2010; Kaplan 2015; Kinderman 2012; Marens 2012) generally follow Matten and Moon’s argument that CSR’s rise in European and other non-liberal countries “is related to the wider national (and supranational) European institutional reordering” and “is a response to changes in the historically grown institutional frameworks of European NBSs [National Business Systems]” (Matten and Moon 2008, 417, 415). The problem with these arguments is that even though non-liberal countries have undergone varying degrees of liberalization and institutional change in recent decades, few, if any, have undergone a process of full institutional convergence with the predominantly Anglophone liberal market economies. In light of “Varieties of Liberalization” (Thelen, 2014) and persistent institutional diversity, the correlation between CSR’s rise and institutional change seems imperfect, and substitution arguments cannot be deemed to be fully convincing.

This study enables us to make substantial progress toward resolving the debate between the institutional substitution and the institutional complementarity hypothesis. Basically, we find that both camps are correct, but each misses an important aspect: either the longitudinal dimension over time or the breadth dimension across space. Building on a full longitudinal perspective and a large cross-country dataset, our results reveal that CSR expansion is an institutional substitute at first, but an institutional mirror later on. This article therefore contributes to the field of institutional explanations of CSR practices. Further, it offers a general diffusion argument that is relevant to diffusion research per se. We believe that future studies can use our conditional diffusion perspective to advance their understanding of the interrelatedness between institutional necessity and cultural diffusion in other empirical domains.

## 2 Theory and hypotheses

The diffusion of innovations such as new organizational forms, policies, norms, and practices has been an increasingly important topic in sociology, political science, business, and organizational theory (Dobbin, Kim, and Kalev 2011; Dobbin, Simmons, and Garrett 2007; Kennedy and Fiss 2009; Kostova, Roth, and Dacin 2008; Lieberman and Asaba 2006; Rogers 2003; Strang and Meyer 1993; Strang and Soule 1998; Tolbert and Zucker 1983). In order to explain the spread of innovations, two influential approaches

have been developed and discussed in the literature (Baccini and Koenig-Archibugi 2014, 452; Strang and Macy 2001, 152). First, rational choice institutionalism argues that an innovation spreads because it fills a functional need or institutional necessity. Within this approach, adopting the innovation is a rational, optimal response to a given institutional environment. Since the innovation satisfies a functional need, the decision to adopt that innovation increases the efficiency of the adopter.

Second, and by contrast, sociological neo-institutionalism argues that an innovation spreads because it has gained legitimacy and achieved a taken-for-granted status (Dobbin, Kim, and Kalev 2011; Henisz and Delios 2001; Kennedy and Fiss 2009; Zuckerman 1999). Hence, it is considered a culturally accepted, useful innovation that has already proven its legitimacy through many adoptions elsewhere. From this perspective, the diffusion of an innovation is a direct cause of the prior diffusion of that innovation. As an innovation sees more and more adoptions, it gains in popularity and legitimacy, a circumstance that triggers even more adoptions. At that point, the decision to adopt is more an act of social conformity than an act of efficiency. By adopting the legitimate practice, the adopter strives to conform to expected societal norms, whereas in the first approach, the adopter strives to increase efficiency by satisfying functional needs (Kennedy and Fiss 2009).

With regard to CSR expansion, there is widespread agreement that CSR is, increasingly, a global construct that reflects a cultural world order rather than domestic national orders (Lim and Tsutsui 2012; Meyer, Pope, and Isaacson 2015). This is especially true of global CSR frameworks such as the United Nations Global Compact, the Global Reporting Initiative, and ISO 26000. The Global Compact asks its 8,000 member companies from over 130 countries to respect ten universal principles. The International Organization for Standardization's ISO 26000 framework provides a voluntary responsibility standard for all organizations, including corporations. Thousands of companies from more than 60 countries use the Global Reporting Initiative's reporting guidelines. While it is far from clear that CSR is now integrated into corporate culture and strategy, sometimes referred to as "corporate DNA" (Lindgreen and Swaen 2010), the rhetoric of CSR has become mainstream for large companies. All of this suggests that diffusion processes fueled by global mimicry have played an important role in the spread of CSR across the globe in recent decades (Dobbin, Simmons, and Garrett 2007; Simmons, Dobbin, and Garrett 2008). However, there is no lack of evidence that CSR remains rooted in particular national traditions, institutions, and cultures. When CSR took root in the United States in the early to mid-twentieth century, global CSR models were nonexistent. In many countries, the institutionalization of CSR preceded the existence of global CSR scripts and models (Kinderman 2015).

The more controversial debate at issue in this paper centers on the relationship between CSR and the institutions of advanced capitalism. The question here is whether domestic institutions have a systematic impact on firms' CSR engagement or their CSR performance. While some scholars have argued that corporatism and expansive welfare

states lead to high levels of CSR engagement and performance – mostly because CSR is a legitimate practice underlining existing institutions of an “embedded” economy (Campbell 2007; Gjølborg 2009; 2010; Midttun, Gautesen, and Gjølborg 2006) – others have argued that CSR is an exact substitute for these institutions (Jackson and Apostolakou 2010). Although case studies of individual countries show that the rise of CSR is associated with the defeat of labor (Marens 2012) and a surge in neo-liberal economic policies (Kinderman 2012), it is unclear to what extent these findings are generalizable. Matten and Moon’s influential (2008) argument about “implicit” and “explicit” CSR suggests that as institutional environments become more liberal, “explicit” CSR increases. But does it? So far, we have lacked longitudinal empirical evidence that could help us clarify this debate.

To develop our argument of conditional diffusion, we first theorize the two main drivers for diffusion: diffusion through rational adoption, as in the rational choice institutionalist perspective; and diffusion through increased legitimacy, as in the sociological neo-institutional perspective. We then bring these two perspectives together and argue that CSR spreads initially as an institutional substitute, but later as a legitimate institutional mirror.<sup>1</sup>

Within the perspective of rational choice institutionalism, we argue that CSR functions as a substitute for the gaps in legitimacy and social cohesion that result from liberalization (Jackson and Apostolakou 2010).<sup>2</sup> CSR acts as a quid pro quo for less public regulation. Employers have a vested interest in compensating for the hardships of liberalization and the weakening of institutionalized social solidarity. CSR is one way in which corporate officials seek to legitimate themselves vis-à-vis their “stakeholders” and to justify themselves vis-à-vis their consciences and moral sensibilities. Prior research has also shown that in liberal market economies there is greater pressure for ceremonial commitment to CSR practices (Lim and Tsutsui 2012). Kinderman (2012) provides some examples of how these processes played out in the UK in the 1980s. During that decade, many leading advocates of responsible business lobbied for economic liberalization. Business in the Community (BITC), a British CSR organization, was founded in 1981, and many of its leading figures lobbied for liberalization. While British businesses became members of BITC for many different reasons, one rationale for joining was to pool resources to lobby for institutional change. In this context, one might expect problems with free riding: if companies are rational, would one not expect them to shirk the costs of membership in CSR organizations? Our response here is that these

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1 By “institutional mirror,” we do not mean that CSR is a static reflector of institutions; rather, CSR is highly dynamic. Although this metaphor has its limitations, it points to two diametrically opposed interpretations of CSR: it is either a substitute, inversely related to institutionalized social solidarity, or it is a mirror that is positively associated with institutionalized social solidarity.

2 Following Maurer (2017), we are skeptical that effective self-regulation is actually possible under market conditions. CSR is an imperfect substitute for the legal and social regulation of private business.

organizations provide selective benefits to their members, and that membership in such organizations – and perhaps CSR more generally – is not very costly and at least partly symbolic (Kaplan 2015).

As Margaret Thatcher crushed trade unions, she removed one of the major barriers to privatization, labor market flexibilization, and layoffs. As government-owned firms were privatized, workers lost their jobs. In the context of rising unemployment, newly privatized firms joined business-led CSR organizations in order to better manage the resulting fallout and create new jobs in depressed areas. Policies of liberalization and deregulation, promoted by Thatcher and other neoliberals, aimed to extend and deepen the reach of markets. Growing competitive pressures may provide an additional impetus for firms to engage in CSR – that is, as a way of differentiating themselves from their competitors. We are not suggesting that all countries have followed the trajectory of the UK: the precise modalities will vary across time and space. Our suggestion is rather that, as economies are “freed” from market-constraining institutions and regulations, more and more businesses will tend to engage in CSR. Hence, we propose hypothesis H1:

*H1: Rational choice institutionalism/substitution thesis: Within-country decreases in economic regulation lead to within-country increases in CSR membership.*

Within the perspective of sociological neo-institutionalism, the diffusion of CSR practices can be understood as a result of increases in the legitimacy of that practice. This strand of research typically takes the number of prior adoptions of a new practice as a measure of its legitimacy (Deephouse and Suchman 2008, 55), making the argument that each prior adoption slightly increases its socio-cultural acceptance. In other words, as the process of diffusion moves on, the new practice becomes increasingly taken for granted, triggering further diffusion of that practice (Deephouse 1996; DiMaggio and Powell 1983; Johnson, Dowd, and Ridgeway 2006; Meyer and Rowan 1977; Strang and Meyer 1993). As DiMaggio and Powell (1983, 152) put it, “organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful.” Increased legitimacy of an innovation can eventually create a hype, or a fashion, leading to full adoption by all or almost all actors, a process that has been described in the economics literature as herding behavior or information cascades (Banerjee 1992; Bikhchandani, Hirshleifer, and Welch 1992). Over time, the practice tends to spread, less because it satisfies functional needs than because everyone else has been adopting it. From this perspective, the practice of CSR within a country may be triggered by the extent of prior CSR activities within and outside that country. Hence, we propose hypothesis H2:

*H2: Neo-institutionalism thesis: The overall number of prior CSR memberships (within and between countries) leads to within-country increases in CSR membership.*

While both rational choice institutionalism and sociological neo-institutionalism have been proven to be highly productive research programs in different empirical areas

(e.g., Zhang and Yang 2008), Tolbert and Zucker (1983) suggest thinking of the two approaches as a two-stage process. They examine civil service reforms and argue that initial diffusion processes are likely to be triggered by the institutional necessity of a new model, while the later diffusion process is driven by increases in legitimacy. Building on this work, we suggest that the legitimacy vs. rationality explanation is not solely a function of the time duration of the diffusion process, but more precisely a function of the specific enabling or preventing context in which the adoption takes place. If the context enables adoption by creating or imposing a rational demand for a new, specific practice, then the practice will spread even without extra increases in cultural legitimacy. However, in situations where there is no straightforward reason for a new practice to emerge, the practice can only spread when it is fueled by increases in legitimacy.

Regarding CSR diffusion, this means that in times of liberalization, CSR practices spread because they serve employer interests and societal demands that arise in that context – as is proposed by the substitution thesis. In this case, the practice will not require an increase in legitimacy in order to spread. In more socially regulated contexts, however, CSR is not needed per se, because a dense institutional infrastructure substitutes for CSR practices (Matten and Moon 2008). In this environment, CSR will only spread if it becomes a fashion – that is, if it has gained substantial legitimacy through prior adoptions elsewhere. Thus, in liberal contexts, CSR fills an institutional void. But because it has become a fashionable, legitimized practice, it spills over into contexts with high levels of social regulation and institutionalized social solidarity. In these circumstances, CSR mirrors and complements existing institutions. We therefore propose hypothesis H3:

*H3: Contextual conditional diffusion thesis: Economic regulation positively moderates the effect of prior CSR activity on further CSR expansion. The effect of prior CSR activity will be low in the context of economic liberalization, and it will be high in the context of economic coordination.*

### 3 Data and methods

We use a macro-comparative time-series cross-sectional (panel) dataset consisting of 32 OECD countries for the years 1981–2008.<sup>3</sup> We begin with the year 1981 because the first CSR association in the OECD was established in the early 1980s. To avoid overcomplicating the analysis, our survey ends in 2008, at the onset of the Great Recession.<sup>4</sup> We

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3 Our sample therefore consists of all but two OECD member countries, Chile and Estonia, for which we were unable to obtain data on our dependent variables, as well as on some key independent variables.

4 We do not expect that economic downturns (including serious ones like the Great Recession) will necessarily have a damaging effect on CSR. However, we expect that the bankruptcies and the loss of confidence in business that took place in the Great Recession will have slowed or

Table 1 Descriptive statistics

Variable		Mean	Std. Dev.	Min.	Max.	Observations
CSR expansion (dependent variable)	overall	44.89	112.51	0.00	859.00	N = 842
	between		90.28	0.00	483.79	n = 32
	within		65.92	-408.90	420.10	T-bar = 26.3125
Prior CSR activity <sub>t-1</sub>	overall	1337.91	963.31	30.00	3332.00	N = 810
	between		211.23	1266.89	1799.56	n = 32
	within		946.12	101.02	3403.02	T-bar = 25.3125
Domestic companies <sub>t-1</sub>	overall	726.90	1363.12	9.00	8851.00	N = 600
	between		1282.66	41.64	6749.15	n = 32
	within		416.84	-892.25	2864.65	T-bar = 18.75
GDP growth <sub>t-1</sub>	overall	2.91	2.54	-11.61	11.50	N = 785
	between		0.94	1.76	5.45	n = 32
	within		2.37	-11.03	9.04	T-bar = 24.5313
Population size <sub>t-1</sub>	overall	35700000.00	53100000.00	190653.00	301000000.00	N = 810
	between		52600000.00	266177.90	264000000.00	n = 32
	within		4891262.00	3858449.00	72900000.00	T-bar = 25.3125
Left government <sub>t-1</sub>	overall	35.36	36.98	0.00	100.00	N = 723
	between		18.95	0.00	78.59	n = 32
	within		31.44	-43.23	100.98	T-bar = 22.5938
EU membership <sub>t-1</sub>	overall	0.48	0.50	0.00	1.00	N = 831
	between		0.45	0.00	1.00	n = 32
	within		0.21	0.01	1.42	T-bar = 25.9688
Employment protection regulation <sub>t-1</sub>	overall	2.14	1.05	0.21	4.19	N = 555
	between		0.99	0.21	3.80	n = 28
	within		0.30	1.04	2.91	T-bar = 19.8214
Regulation of services of general interest <sub>t-1</sub>	overall	3.68	1.35	0.94	6.00	N = 603
	between		0.68	2.28	5.13	n = 29
	within		1.14	1.03	6.69	T-bar = 20.7931
Wage bargaining centralization <sub>t-1</sub>	overall	0.39	0.19	0.08	0.98	N = 569
	between		0.17	0.10	0.95	n = 29
	within		0.04	0.12	0.61	T-bar = 19.6207
Union density <sub>t-1</sub>	overall	38.65	21.21	5.80	96.36	N = 740
	between		20.12	10.30	87.08	n = 32
	within		7.66	4.17	92.64	T-bar = 23.125
Revenue public enterprises <sub>t-1</sub>	overall	3.91	2.73	0.35	12.31	N = 446
	between		2.35	1.42	10.28	n = 20
	within		1.38	-1.10	8.84	T-bar = 22.3
Employment public enterprises <sub>t-1</sub>	overall	1.76	1.22	0.19	4.52	N = 446
	between		1.02	0.27	3.47	n = 20
	within		0.71	-0.59	4.32	T-bar = 22.3
Subsidization <sub>t-1</sub>	overall	1.93	1.13	0.13	5.15	N = 446
	between		1.01	0.33	4.18	n = 20
	within		0.61	0.20	4.03	T-bar = 22.3

Notes: N = number of country-years; n = number of countries; T-bar = average number of years of observation.

rely on fixed-effects regression models because we are interested in the within-country effects of our main explanatory variables. In order to avoid simultaneity bias, we lag all independent variables by one year. Fixed-effects models allow for better causal interpretations because, in controlling for unit-specific unobserved heterogeneity, they estimate the within-country effect of the independent variable's earlier (time-wise) changes on subsequent changes in the dependent variable. Since our dependent variable is count data (the yearly number of member companies in CSR associations; see below), we estimate count regression models, in particular fixed-effects Poisson regression models. We use the set of variables shown in Table 1.

stopped the membership growth of CSR business organizations. Our analysis is already complex enough, so we leave this point for a future publication or for other scholars to investigate.

## Dependent variable: CSR expansion

Our dependent variable measures the number of member companies in national-level (and not global or sector-based)<sup>5</sup> responsible business organizations. Examples include Business for Social Responsibility in the United States and Business in the Community in the UK. (See Table A1 in the Appendix for a full list of the organizations in our dataset.) These are business-led NGOs that address social and environmental issues along with their member companies. Membership in these organizations is voluntary. As a rule, companies pay an annual membership fee and are expected to actively advance the responsible business agenda. Not all of these organizations carry the moniker of Corporate Social Responsibility, but they all have “the explicit and, in most cases, dedicated goal of mobilising business resources to directly tackle one or more environmental, social or governance challenges” (Grayson and Nelson 2013, 3). In their authoritative study, Grayson and Nelson call these organizations “business-led corporate responsibility coalitions” and claim that they have been an important factor in the spread of CSR: “Coalitions have conceived, created and continued to drive collaborative business action: initially mobilising business action in the community; then around responsible business practices; and now collaborative action which meets broader business and societal needs” (Grayson and Nelson 2013, xix). These organizations, which admittedly engage with transnational issues, also have a domestic focus. This is true even of the hard cases in our dataset.<sup>6</sup> Thus, it is important to stress that our dependent variable captures a particular slice of CSR.

The membership of these organizations ranges from a few dozen companies in fledgling organizations to close to 1,000 in the most well-established ones. The member companies tend to be large, publicly listed companies.<sup>7</sup> Further, we discern no particular sectoral bias in the membership of these organizations: member companies come from all sectors.

Our data were compiled as follows. We began with the Corporate Responsibility coalitions identified by Grayson and Nelson (2013) and Kinderman (2015). Next, we determined the number of member companies in these organizations by contacting them di-

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5 The most well-known global CSR organization is the UN Global Compact, with approximately 8,000 member companies from more than 130 countries worldwide. Sectoral organizations include the chemical industry’s Responsible Care initiative, which operates in over 50 countries.

6 Nippon Keidanren’s Council for Better Corporate Citizenship, for example, which was founded in 1989 in part to help legitimate Japanese business and facilitate market access in foreign countries. But even in this case, “the CBCC [is] focused on both member companies’ CSR inside and outside of Japan,” Mayuko Tanaka, who was in charge of CBCC in Keidanren, told us (personal communication, December 1, 2011).

7 Many national CSR organizations are composed almost exclusively of large, publicly listed companies. However, SMEs are not altogether absent in our dataset: the larger the CSR organization, the more SMEs it will tend to have in its membership. But in virtually all cases, large, publicly listed companies comprise a majority of members, while SMEs and unlisted companies comprise a minority.

rectly, consulting their annual reports, and visiting archives. We did this for 32 countries going back to the early 1980s – a laborious and time-consuming task necessitating hundreds of emails, countless telephone calls, and in-person visits to organizational offices in several countries. Yet we feel that this effort has been worthwhile, since membership levels<sup>8</sup> provide an imperfect but useful measure of the social salience of the responsible business agenda over time. The higher the count, the higher the salience of CSR. We are not aware of any other indicators that perform this function.

That said, some qualifications are in order. Since our dependent variable is unidimensional, it is less nuanced than some other measures (discussed below) employed in the current research arena. Our dependent variable does measure the extent to which companies “talk the talk,” or make a surface commitment to responsible business (by joining an organization dedicated to advancing this cause), but it does not measure the quality of those firms’ CSR engagement. It does not tell us to what extent firms “walk the walk,” nor does it allow us to differentiate between various sub-dimensions of CSR (Jackson and Bartosch 2016), such as standards-based and rights-based CSR (Rathert 2016), nor provide us with information on firms’ engagement in different sectors, as is customary in current cross-sectional studies (Jackson and Apostolakou 2010). Our variable also does not allow us to examine the influence of CEOs’ political ideologies (Chin, Hambrick, and Treviño 2013). CSR organizations contain both high- and low-performing firms, leaders as well as laggards.

CSR organizations do not, as a rule, expel irresponsible members. For this reason, members are not immune to greenwashing (Roulet and Touboul 2015) or corporate irresponsibility,<sup>9</sup> and membership levels should not be interpreted as a proxy for corporate social performance. But this does not pose a problem for us, as our argument is simply that membership indicates some level of commitment by the firm to the responsible business agenda, or a certain degree of diffusion of what Matten and Moon (2008) call “explicit CSR” in the firm’s organization and strategy. *Ceteris paribus*, the more firms that join these organizations, the greater the societal salience of CSR. This variable allows us to parse out the relationship between CSR’s growth and changes in the institutional environment. In fact, we believe that our dependent variable has distinct advantages over nuanced and multidimensional measures, including datasets such as Thomson Reuters’s ASSET4. Membership in a CSR organization represents a voluntary decision by firms to join. By contrast, many other measures of CSR, including Thomson Reuters’s ASSET4, conflate firms’ impact and their social and environmental

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8 Some countries in our sample are home to one large, dominant, national-level, membership-based CSR organization (BITC in the UK would be one example). Other countries have two smaller competing national-level, membership-based CSR organizations (for example, IMS-Entreprendre pour la Cité and ORSE in France, or Econsense and UPJ in Germany). In these cases, our dataset contains the total number of member companies in both leading CSR organizations in a given year.

9 See the contributions in the Discussion Forum of *Socio-Economic Review* 12 (1) from 2014 (pages 153–218).



performance with their voluntary engagement. For all their nuance, they do not really measure CSR at all. Burgoon and Fransen's recent contributions (2017a, 2017b) draw on individual-level Eurobarometer survey data, which is a notable and important innovation. However, their studies are cross-sectional and do not account for change over time. Moreover, they focus on citizens' attitudes, while the central actors in CSR are not citizens, but rather the firms/businesses that our dependent variable measures.

One objection to our approach that may be voiced is that CSR is dynamic and constantly evolving in theory and in practice, and that the very quality and substance of the CSR concept has changed over the years. How, then, can a single quantitative variable explain highly complex developments such as the spread of CSR? Our response is twofold: first, we do not deny that CSR is dynamic and changes over time, but we maintain that there is continuity as well as change. Denying this premise would make a longitudinal or historical analysis of CSR impossible. One example of CSR's continuity is the widespread support, if not consensus, in the business community of the notion that CSR is voluntary. Although the practices of CSR have changed in many ways, this basic understanding remained constant from the early 1980s until the late 2000s across the OECD. Second, we accept that the underlying causes of CSR's rise are complex: drivers of CSR include social movements/civil society organizations, public authorities such as the European Union, consumers, and many others. If anything, the fact that these all matter to some degree makes our task of showing the effects of liberalization more difficult.

A different approach would be to standardize this measure, say, at levels of GDP or per capita. However, standardizing entails problems of multidimensionality. For instance, if the number of CSR memberships does not change much over time, but the level of GDP does, the regression models then estimate changes in GDP rather than CSR expansion. Because we are interested in the country-specific absolute expansion of CSR practices, we prefer using an unstandardized measure as the dependent variable. In the regression models, however, we do control for the extent of economic growth and population size, as well as the number of firms per country (see below).

### Independent variables

In order to test H1, we use a total of seven country-specific indicators, measured yearly and at other time intervals, each of which measures different aspects of economic liberalization and social regulation. The first two measures capture the extent to which markets and labor markets are regulated or deregulated:

- *Employment protection regulation*. This is a composite OECD indicator that captures the procedures and costs involved in firing workers and the procedures involved in hiring workers on temporary contracts.<sup>10</sup>
- *Regulation of services of general interest*. This composite OECD measure is an indicator of regulation in network sectors (energy, transport, and communications). It includes regulatory provisions in seven sectors: telecoms, electricity, gas, post, rail, air passenger transport, and roads.<sup>11</sup>

According to H1, we expect both measures to be negatively associated with CSR expansion.

The next two variables capture different aspects of wage coordination.

- *Wage bargaining centralization*. This is a summary measure, based on Iversen (1999), that captures the extent to which countries have centralized wage bargaining regimes (higher values indicate more centralization; taken from Visser 2013).<sup>12</sup>
- *Union density*. This measure captures the percentage of union membership among all wage and salary earners in employment (again from Visser 2013).<sup>13</sup>

The next three variables capture different aspects of privatization. They are based on three indices developed by Schuster, Schmidt, and Traub (2013) to capture different dimensions of the state retreating from entrepreneurial activities. For all three variables, lower values indicate less government activity or influence.

- The *Revenue public enterprises* index (REVI) gives “the percentage of the weighted sum of the annual revenues of all public enterprises in total GDP for a given country and year” (Schuster, Schmidt, and Traub 2013, 98).
- The *Employment public enterprises* index (EMPI) is “the weighted sum of employees in all public enterprises over total national employment as a percentage” (Schuster, Schmidt, and Traub 2013, 98).
- The *Subsidization* index (SUBI) refers to direct payments received by industry. It is defined as “the sum of subsidies over GDP in percent” (Schuster, Schmidt, and Traub 2013, 98).<sup>14</sup>

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10 Source: <http://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm> (last accessed November 19, 2017). The indicator has 31 percent missing data (time series for four countries are missing completely, plus missing data on a few single country-years).

11 Source: <http://www.oecd.org/eco/reform/Sector-regulation-indicators.xlsx> (last accessed November 19, 2017). The indicator has 25 percent missing data (time series for three countries are missing completely, plus missing data on a few single country-years).

12 The indicator has 30 percent missing data (time series for three countries are missing completely, plus missing data on a few single country-years).

13 The indicator has 9 percent missing data (missing data on a few single country-years).

14 These three indicators have missing data on the time series for 12 countries.

We posit that firms join CSR organizations in response to decreases in each of these variables – that is, to compensate for the resulting social dislocations and gaps in social legitimacy – as well as in response to the growing competitive pressures in liberalized markets.

### Prior CSR activity

In order to test H2, we calculate the sum of the overall number of CSR memberships at each time point, lagged by one year. This measure captures the degree to which CSR has become a legitimate corporate activity within all countries in the dataset. We expect an increase in the number of CSR memberships per country with prior increases in OECD-wide, overall memberships.

In order to test H3 – our main argument and theoretical contribution – we calculate interaction effects between the overall sum of prior CSR memberships and the seven variables measuring economic liberalization.

### Controls

We use a range of socio-economic variables to control for country characteristics and other influences that might impact the diffusion and expansion of CSR.

- *Domestic companies.* This control variable is the yearly number of domestic companies listed on the country's stock exchange. The data source is the World Bank.<sup>15</sup> We use this control because the number of CSR memberships in a country depends on that country's overall number of companies. We feel that this control variable is appropriate given that most member companies in CSR organizations are large, publicly listed companies.
- *GDP growth* (percentage change in GDP from prior year). We use this measure to control for economic productivity. The data source is the OECD (2012).
- *Population size.* Since CSR expansion might also be driven by the sheer size of a country, we include the size of the total population (measured yearly in thousands). The data source is the OECD (2010).
- *Left government.* In order to control for a country's political landscape, we include the yearly percentage of cabinet seats held by social democratic and other left parties. The data source is Armingeon et al. (2013).
- *EU membership.* Since the European Commission was a driving force in promoting CSR expansion among European countries, we use this institutional measure to control for supranational pressures from the EU.

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15 <http://data.worldbank.org/indicator/CM.MKT.LDOM.NO>. Accessed November 1, 2017.

- *Time dummies.* We also control for an overall time trend that is not covered by the controls and might possibly affect the variables in the model. We use time dummies from 1982 to 2008 to best capture possible time trend effects.

Some diffusion studies weigh the number of prior adopters according to a spatial distance measure. We see no theoretical justification for using this control in our paper, since information has passed through global information channels that have been, to a large extent, independent of geographical proximity during recent decades.

## 4 Results

Figure 1 provides a first descriptive overview. It graphs the diffusion process for selected countries: Germany and Sweden as classic “corporatist” examples, and the UK and USA/Canada as paradigmatic market liberal economies. The black curve represents the number of CSR memberships within that particular country, and the gray curve is the degree of employment protection regulation (first column from left), regulation of services of general interest (second column), REVI (third column), and SUBI (fourth column). For REVI and SUBI, there are no data available for the USA. Therefore, we use Canada instead of the USA for these two measures. As can be seen, CSR expansion takes off during the early 1980s in the UK, in the late 1980s in Sweden, in the early 1990s in the USA, and after 2000 in Germany. In Canada, CSR becomes popular in the mid-1990s, and then again in the mid-2000s. Where CSR increases, CSR expansion is related to increased market liberalization in all countries, with a few exceptions for the UK and USA for the indicator “employment protection regulation.”

In order to test H1 and H2, Table 2 presents the results of the main fixed-effects Poisson regression models. The first model includes only the main predictor for H2 (the sum of prior CSR memberships overall) and the time dummies. The second model adds all remaining control variables. Models 3–9 each add one of the seven indicators measuring economic liberalization (and testing H1). Although each of the seven measures captures slightly different aspects of economic liberalization, they are naturally related to one other. For this reason, we include each measure separately in one model, because including all measures together would conflate the impact of the individual measures (for a similar approach, see Höpner and Lutter 2018). Fixed-effects regressions can only estimate time-varying variables. Since two countries have zero outcomes on the number of CSR memberships by the year 2008 (Turkey and Slovenia), the models drop these cases. Since both our controls and predictors have missing data on several country-years (as indicated above), Models 2–9 can only be estimated on a sub-sample, yielding reduced sample sizes that move from 27 countries (Model 2) to 19 countries (Models 7–9; see Table 2).

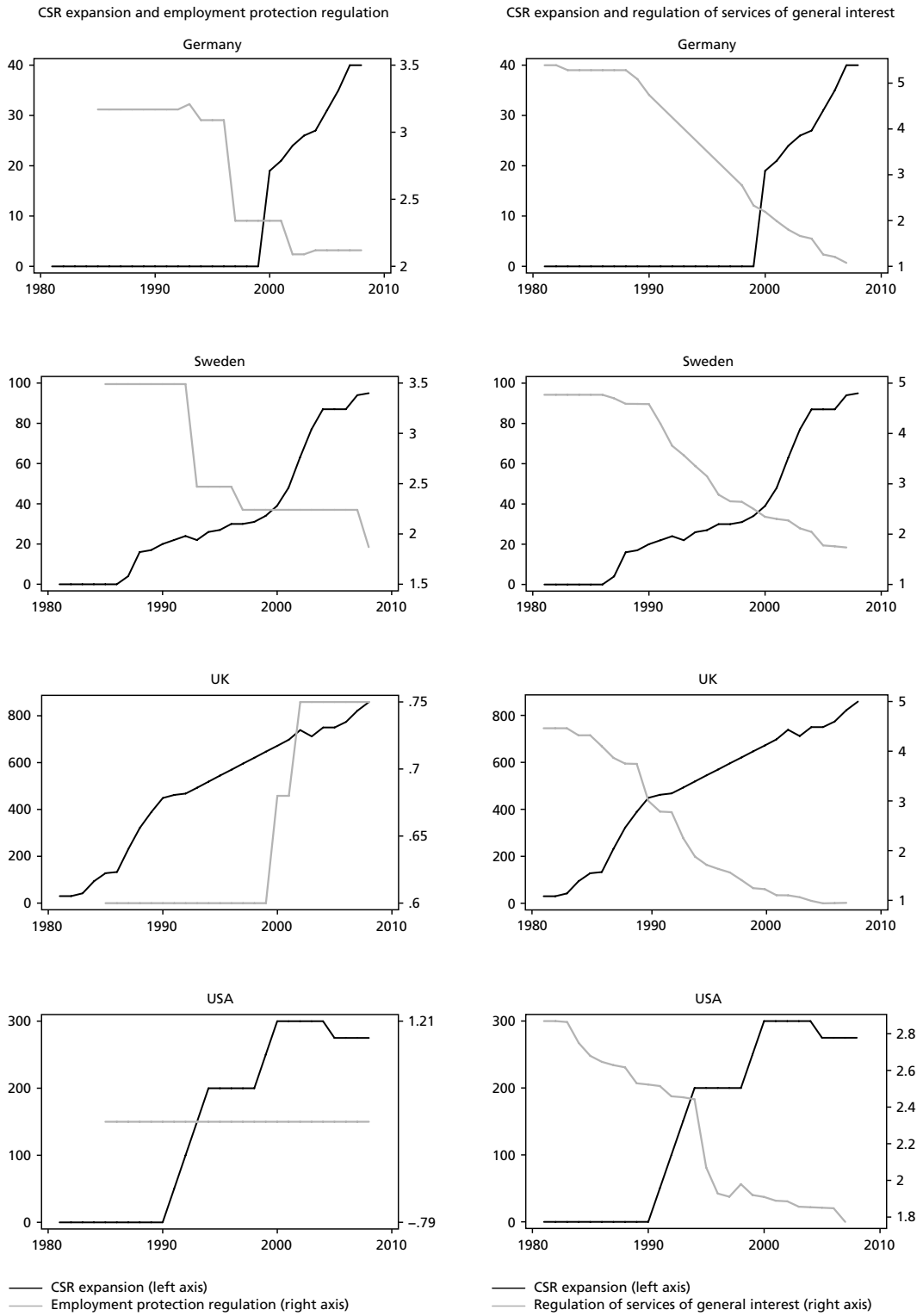
We begin with the controls, which reveal the following significant results. CSR expansion is more likely with smaller populations, with decreases in the number of listed companies, and with increases in GDP growth (although the coefficient is negative in Model 8). While other scholars have found that left-wing governments are associated with more CSR (Liston-Heyes and Ceton 2007) and better CSR ratings (Rubin 2008), we find that increases in left-wing governments are associated with decreased membership levels in CSR business organizations. Further, our argument suggests a simple explanation for this result: left-wing governments are less inclined to pursue aggressive liberalization policies than right-wing governments. EU membership shows a positively significant coefficient in five out of nine models. This most likely suggests that the EU drives CSR expansion at the supranational level. Indeed, as other research has shown, since the beginning of the 1990s the European Commission has done much to promote CSR across the EU (Kinderman 2013).

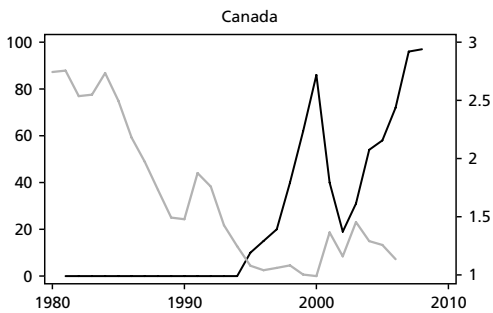
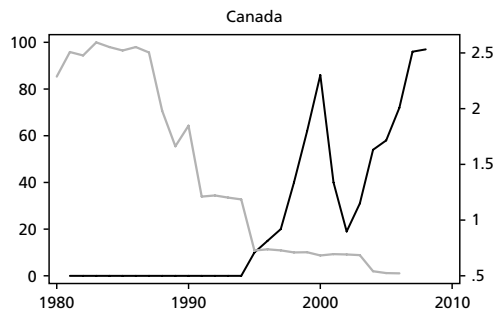
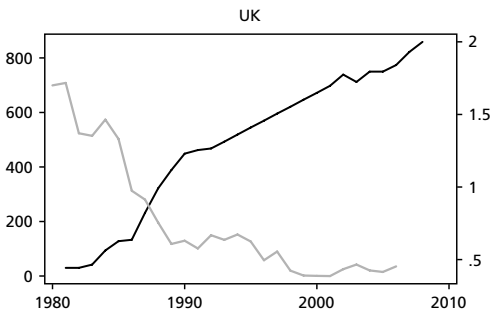
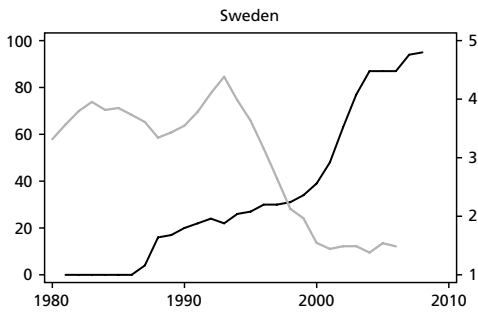
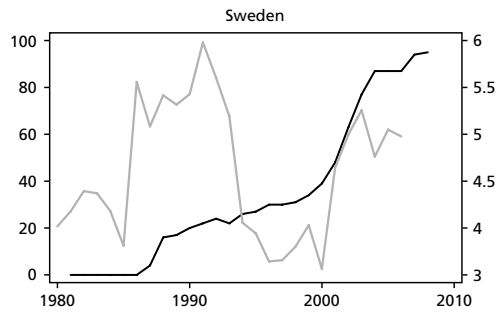
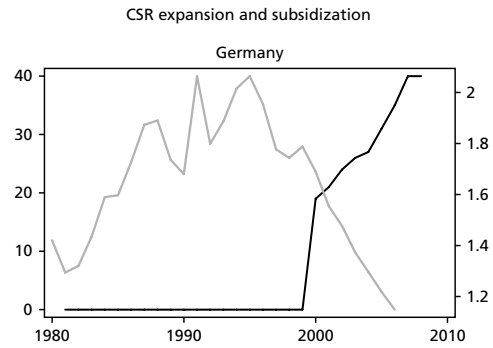
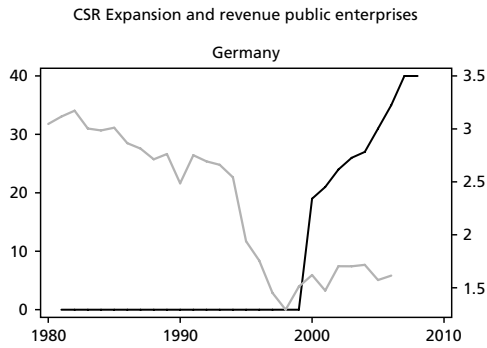
Moving to the study's main predictors, all but one of the seven liberalization indicators show results in the expected direction. With increases in economic liberalization and privatization, as shown by these measures, the expected number of CSR memberships will be significantly larger. In contrast, increases in economic regulation and wage bargaining centralization reduce a country's CSR activity. The only exception is the union density measure. This variable shows a significant positive result, suggesting that increases in union density positively affect CSR activity. The reason could be that some trade unions and works councils welcome CSR. Overall, despite this small ambiguity, the results lend support for H1, suggesting that CSR expansion is first and foremost not an institutional mirror, but a substitute for market-constraining social regulation. (Lest the reader misunderstand: we are not arguing that economic liberalization and the weakening of institutionalized social solidarity are the only causes of the growth of CSR in the countries in our study. Despite the existence of numerous other influences, the drivers we identify are highly significant.)

Regarding H2, the legitimacy thesis, the coefficient of prior CSR activity carries a significant positive effect across all models, with the exception of Model 4. In Model 4, the coefficient is positive, but not significant. This result suggests that the CSR movement, in addition to being an institutional substitute, is a direct function of its previous activity in the OECD world. This lends support for H2 and the assumption that the expansion of a practice depends on its prior level of activity – and, possibly, on its achieved cultural legitimacy, which is measured here by the practice's prior overall density (Table 3).

Finally, in order to test hypothesis H3, we estimate interaction effects between the legitimacy measure, prior CSR activity, and each of the seven liberalization measures. The results of these interactions are displayed in Table 3. This table replicates the main models of Table 2 and adds the respective interaction effect to each model. As is evident from the results, all interaction effects carry significant positive effects. This suggests that the legitimacy effect depends on the level of economic liberalization and social regulation in the expected way. To facilitate the interpretation of the interaction effects, Figure 2

Figure 1 CSR expansion and liberalization over time, selected countries





— CSR expansion (left axis)  
 — Revenue public enterprises (right axis)

— CSR expansion (left axis)  
 — Subsidization (right axis)

Table 2 Determinants of CSR expansion

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Prior CSR activity $t_{-1}$	0.001** (25.394)	0.001** (35.595)	0.001** (33.289)	0.000 (0.495)	0.001** (31.926)	0.001** (32.224)	0.001** (34.032)	0.000** (4.501)	0.001** (34.327)
Domestic companies $t_{-1}$		-0.000** (-5.641)	0.000** (13.797)	-0.000** (-4.294)	-0.000** (-4.244)	-0.000** (-6.077)	0.000** (3.338)	0.000** (3.927)	0.000** (6.030)
GDP growth $t_{-1}$		0.092** (19.703)	0.006 (1.042)	0.070** (14.525)	0.092** (18.421)	0.094** (19.325)	-0.004 (-0.608)	-0.022** (-3.541)	0.017** (2.860)
Population size $t_{-1}$		-0.000** (-3.918)	-0.000 (-0.475)	0.000** (9.579)	0.000** (2.668)	-0.000** (-5.056)	-0.000** (-25.223)	-0.000** (-12.646)	-0.000** (-26.428)
Left government $t_{-1}$		-0.004** (-19.786)	-0.006** (-25.258)	-0.002** (-10.040)	-0.003** (-15.192)	-0.003** (-18.865)	-0.003** (-13.477)	-0.002** (-8.355)	-0.003** (-12.292)
EU membership $t_{-1}$		0.201** (5.506)	0.302** (7.661)	-0.089* (-2.278)	0.247** (5.674)	0.241** (6.304)	0.204* (2.256)	-0.138 (-1.507)	-0.356** (-3.483)
Employment protection regulation $t_{-1}$			-1.001** (-19.847)						
Regulation of services of general interest $t_{-1}$				-0.506** (-24.827)					
Wage bargaining centralization $t_{-1}$					-1.540** (-5.671)				
Union density $t_{-1}$						0.015** (6.182)			
Revenue public enterprises $t_{-1}$							-0.107** (-11.345)		
Employment public enterprises $t_{-1}$								-1.416** (-29.690)	
Subsidization $t_{-1}$									-0.407** (-10.181)
Time dummies	yes	yes	yes	yes	yes	yes	yes	yes	yes
AIC	18145.718	12276.571	6904.239	10419.655	10921.775	12142.439	7336.881	6526.104	7359.418
BIC	18266.355	12378.150	7007.137	10521.365	11022.482	12247.248	7428.276	6617.500	7450.813
Log-likelihood	-9046.859	-6114.286	-3427.120	-5184.827	-5435.888	-6046.219	-3644.440	-3239.052	-3655.709
N (countries)	30	27	25	26	26	26	19	19	19
N (country-years)	765	509	453	432	415	489	333	333	333

Notes: Fixed-effects Poisson regression on CSR expansion;  $t$  statistics in parentheses; \*  $p < 0.05$ , \*\*  $p < 0.01$  (two-tailed tests).

plots the interactions graphically, using marginal effects plots.<sup>16</sup> The figure shows the changing effect size of the legitimacy effect (prior CSR activity) on CSR expansion, conditional on the economic liberalization variables.<sup>17</sup> The figure also shows the lower and upper bounds of the legitimacy effect's 95% confidence interval. The effects are significant at 95% when the interval does not cover the  $y$ -zero line. As can be seen, the legitimacy effect increases in size and becomes positively significant in deliberalized country-years. That means that prior CSR activity has an especially strong effect if the country's context consists of organized and market-constraining economic institutions.<sup>18</sup>

16 The graphs are plotted using the STATA command *margins, dydx(prior CSR activity) at("one of the eight liberalization indicators"=(min(.)max)) atmeans noatlegend and marginsplot, recast(line) recastci(rline) ci1opts(lp(dash)) yline(0)*.

17 We show the six predictors from Table 2 that are significant in the expected direction.

18 Since we do control for time, this effect is not simply the result of the timing of the process. In other words, late adopters are more likely to be coordinated countries, and therefore the legitimacy effect can only be strong in these contexts. In fact, coordinated countries might well experience comparatively high levels of liberalization. The within effect of the fixed-effects approach accounts for this.



Table 3 Determinants of CSR expansion, including interaction effects

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Prior CSR activity $t_{-1}$	0.000** (10.071)	-0.000 (-1.886)	-0.000 (-0.144)	0.000** (7.761)	0.001** (23.148)	-0.000 (-0.409)	-0.000 (-1.487)
Domestic companies $t_{-1}$	0.000** (13.141)	-0.000** (-3.780)	-0.000* (-2.088)	-0.000** (-2.873)	0.000** (4.793)	0.000** (5.312)	0.000** (12.431)
GDP growth $t_{-1}$	0.007 (1.097)	0.071** (14.627)	0.097** (18.790)	0.082** (16.857)	-0.010 (-1.620)	-0.022** (-3.475)	0.001 (0.099)
Population size $t_{-1}$	0.000** (8.959)	0.000** (9.902)	0.000** (9.761)	0.000** (4.764)	-0.000** (-23.882)	-0.000** (-10.586)	-0.000** (-21.703)
Left government $t_{-1}$	-0.003** (-11.748)	-0.002** (-6.923)	0.000* (2.086)	-0.003** (-18.922)	-0.002** (-8.821)	-0.002** (-6.064)	0.003** (11.204)
EU membership $t_{-1}$	0.142** (3.540)	-0.098* (-2.512)	-0.055 (-1.148)	0.300** (7.246)	0.072 (0.778)	-0.340** (-3.575)	-1.706** (-13.843)
Employment protection regulation $t_{-1}$	-1.127** (-22.246)						
Interaction with Prior CSR activity	0.000** (21.320)						
Regulation of services of general interest $t_{-1}$		-0.551** (-21.462)					
Interaction with Prior CSR activity		0.000** (2.899)					
Wage bargaining centralization $t_{-1}$			-4.490** (-15.174)				
Interaction with Prior CSR activity			0.002** (33.762)				
Union density $t_{-1}$				-0.001 (-0.390)			
Interaction with Prior CSR activity				0.000** (25.137)			
Revenue public enterprises $t_{-1}$					-0.200** (-13.069)		
Interaction with Prior CSR activity					0.000** (7.804)		
Employment public enterprises $t_{-1}$						-1.573** (-30.492)	
Interaction with Prior CSR activity						0.000** (8.450)	
Subsidization $t_{-1}$							-1.544** (-27.536)
Interaction with Prior CSR activity							0.001** (37.293)
Time dummies	yes	yes	yes	yes	yes	yes	yes
AIC	6441.367	10413.230	9706.597	11479.461	7278.417	6455.097	5688.374
BIC	6548.380	10519.009	9811.332	11588.463	7373.620	6550.301	5783.578
Log-likelihood	-3194.683	-5180.615	-4827.298	-5713.731	-3614.208	-3202.548	-2819.187
N (countries)	25	26	26	26	19	19	19
N (country-years)	453	432	415	489	333	333	333

Notes: Fixed-effects Poisson regression on CSR expansion;  $t$  statistics in parentheses; \*  $p < 0.05$ , \*\*  $p < 0.01$  (two-tailed tests).

Hence, supporting H3, this suggests that in contexts of institutionalized social solidarity, CSR expansion is only likely if there has been prior CSR activity that increases the legitimacy of CSR. In other words, the institutional mirror thesis is relevant only after the new practice has gained “safety in numbers,” that is, substantial cultural acceptance. Figure 3 shows how much prior CSR activity is needed. It graphs the same interaction effects as in Table 3, but this time in reverse order, i.e., the changing effects of liberalization/social regulation variables on CSR expansion, conditional on prior CSR activity. As can be seen, the effects are negatively significant when prior CSR activity is low. For instance, the effect of wage bargaining centralization is negatively significant when prior CSR activity

Figure 2 Visualization of the interaction effects: Conditional marginal effects of prior CSR activity on CSR expansion, conditional on liberalization variables (with 95 percent confidence intervals; based on Table 3; all covariates fixed at their means)

Marginal effects of prior CSR activity on CSR expansion (each left axis)

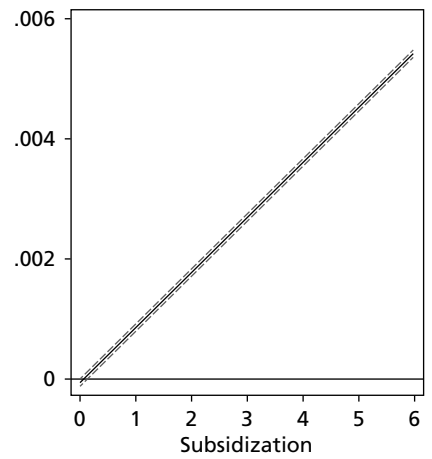
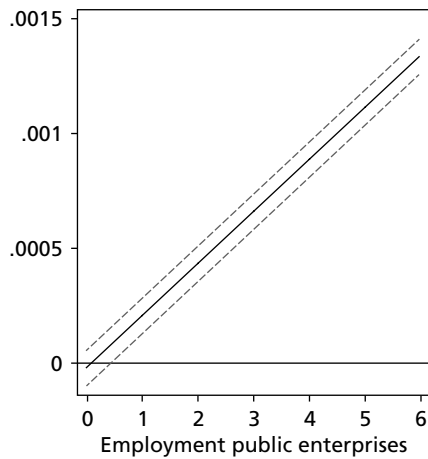
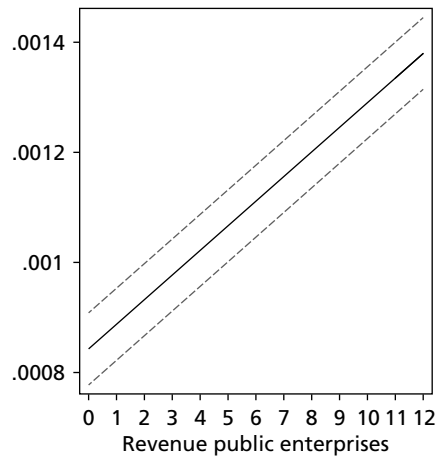
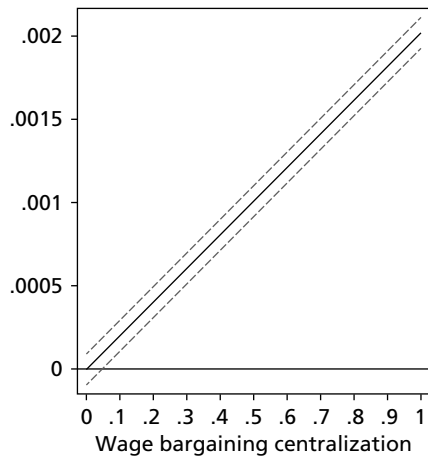
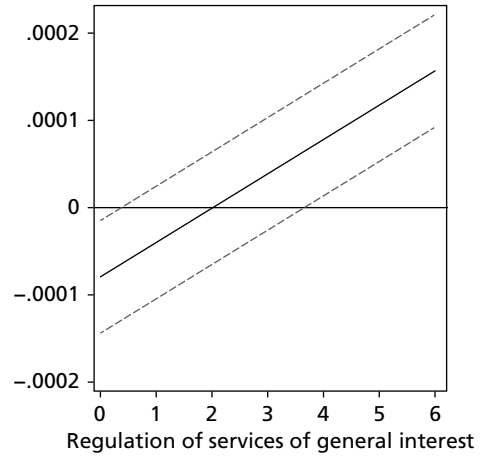
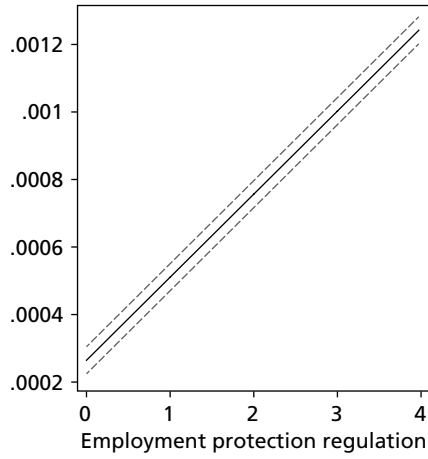
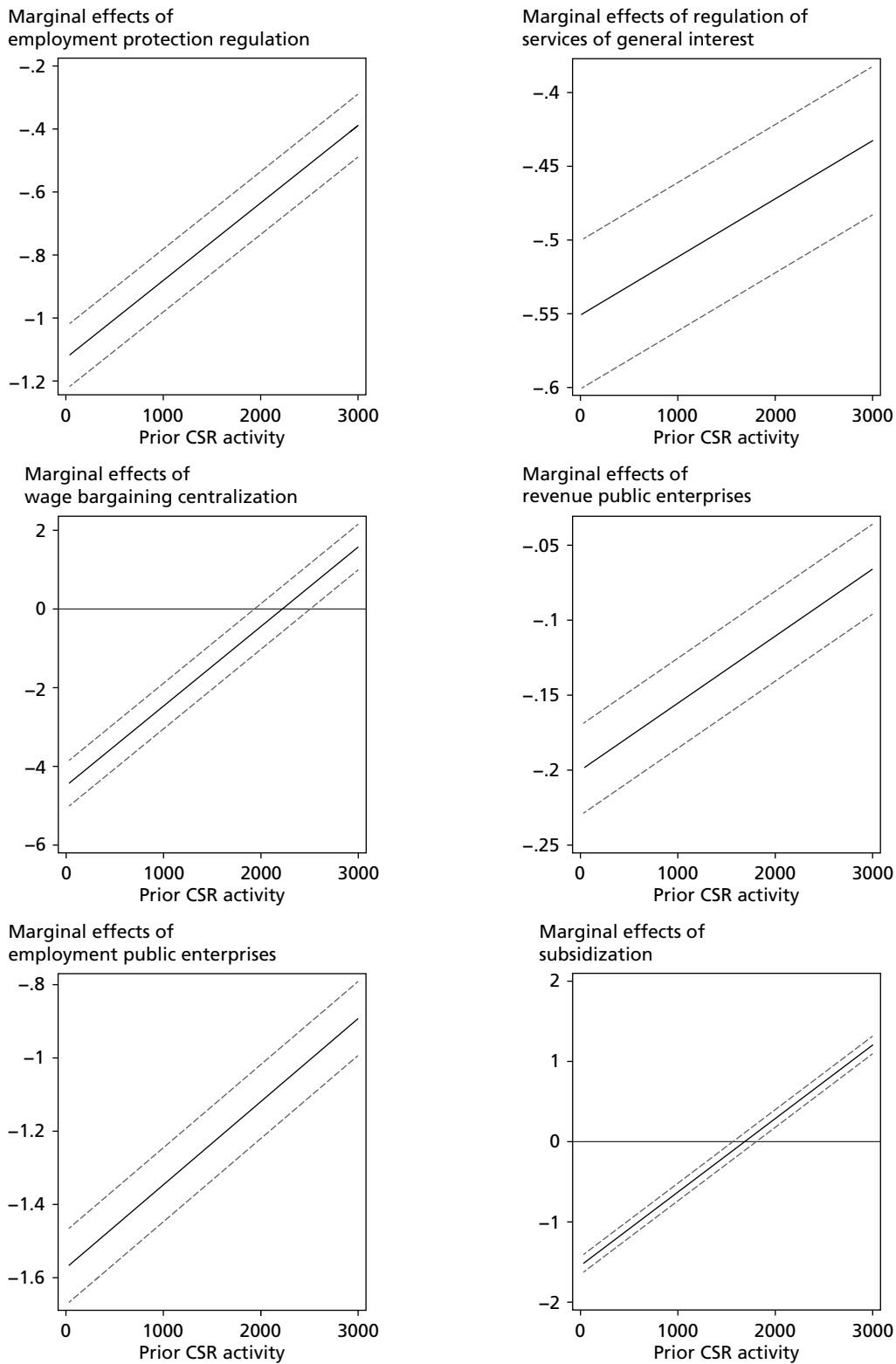


Figure 3 Visualization of the interaction effects: Conditional marginal effects of liberalization variables on CSR expansion, conditional on prior CSR activity (with 95 percent confidence intervals; based on Table 3; all covariates fixed at their means)



ranges from zero to about 1,800 prior CSR memberships overall. In this case, CSR expansion is a negative function of wage bargaining centralization – in other words, of economic liberalization – as was shown in Table 2. If prior CSR activity increases, however, then the effect of economic liberalization either becomes zero and turns insignificant, or even becomes positive. It is only with the variables of wage bargaining centralization and subsidization that high levels of institutionalized regulation of the economy lead to increases in the numbers of subsequent CSR memberships. For all other variables, the effect never becomes positive – that is, economic liberalization is always a driver of CSR, but its effect is substantially reduced when prior CSR activity is high.

Both figures lend support for hypothesis H3, suggesting that CSR expansion is an institutional substitute at first (at low levels of prior CSR activity) but later becomes an institutional mirror (at high levels of prior CSR). This means that the level of cultural acceptance or legitimacy of that practice is a crucial determinant in establishing when the two basic explanations are true. At first, CSR is an institutional substitute and spreads within liberalized economies. If it gains enough cultural acceptance, however, it spills over into more socially embedded economies. But this is not an automatic process. As we show here, it depends on the level of prior CSR activity. These findings may help to explain why CSR arrived comparatively late to most Northern European countries and why actors there, such as unions, were initially skeptical but have become more supportive of CSR over time.

## 5 Conclusions

This paper sheds light on a scholarly debate whose aim is to explain the rise of CSR, with one camp arguing that CSR expansion is likely during periods of economic liberalization – because CSR tends to substitute for growing institutional voids and a lack of social regulation – and the other side arguing that CSR is likely to diffuse within more socially regulated, solidaristic economies because it mirrors these institutional settings. While both camps find empirical support for their arguments, no one has yet managed to combine both perspectives. In this study, we argue that economic liberalization has a strong effect on CSR expansion when the legitimacy of CSR practices is still low. However, when the practice has achieved substantial cultural acceptance, the effect of economic liberalization driving CSR expansion is substantially reduced. In this setting, CSR expansion is most likely within socially regulated economic contexts. This means that institutionalists arguing for the “institutional mirror” thesis are correct insofar as the expansion of CSR into more socially regulated economies depends on the level of prior CSR activity. Hence, the practice will only spread in these contexts when this level is sufficiently high. Therefore, CSR’s expansion into coordinated contexts depends on its level of legitimacy: it is not an institutional mirror per se, but becomes a mirror once CSR has gained sufficient legitimacy.

By taking a longitudinal, time-dynamic perspective, we add to this debate that the expansion of CSR is first an institutional substitute – it diffuses in times of liberalization without the need for prior legitimation – and then turns into an institutional mirror once it has attained a sufficient level of legitimation. We believe that this argument significantly enriches the debate as it expands our knowledge of what factors drive CSR expansion. We show that both existing explanations are essentially correct, but under certain conditions. As we argue, CSR diffusion depends on the level of prior CSR activity and its achieved level of legitimacy. If prior activity and perceived legitimacy are low, the practice spreads in those contexts where there is a political opportunity for its adoption. In other words, CSR spreads because it substitutes for the weakening of regulatory institutions. It will only spread outward to socially embedded economies when the practice becomes legitimized. Therefore, it will be an institutional mirror if it has gained enough legitimacy through its prior activity.<sup>19</sup>

A possible limitation of this study is that we are drawing our conclusions based on macro-level data. Therefore, we cannot be certain of the precise causal mechanisms at the micro-level. Of course, this is a shortcoming of all studies that build on macro-comparative datasets. We can only speculate on what possible mechanisms drive the adoption of CSR practices at the motivational level of the adopters and decision makers. While in the theory section of the paper we pointed to a few qualitative studies that discuss micro-mechanisms that may be prevalent in the adoption of CSR practices (e.g., Kaplan and Kinderman 2017; Kinderman 2012), more research is needed to expose the causal mechanisms relating to the conditional diffusion argument. To realize this, however, one would need interview data from different time points during the diffusion process. Furthermore, data from several countries would be needed to capture the possible contextual effects. All of this research would have to be conducted with different expert groups in order to analyze the motives of key decision makers. An alternative might be an experimental research design. An experiment could test differences in CSR adoption preferences under experimental variation of the regulatory social context and/or the prior level of adoption of that practice (Malhotra, Monin, and Tomz 2015). Such a design could provide a further validation of the mechanisms suggested here.

While we believe that this article makes a significant contribution to the debate on CSR diffusion, we anticipate that our conditional diffusion argument will also make a valuable contribution to the diffusion literature more generally. We heed the call to study the conditional nature of diffusion processes more vigorously (Graham, Shipan, and Volden 2013) by looking at the specific interaction effects between two opposing explanatory approaches. We believe that combining both perspectives can enrich other

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19 The longitudinal empirical findings presented in this paper could also mean that CSR initially develops in liberalized countries to soften public discontent about the painful social outcomes of liberalization, and in a later phase, CSR develops in CMEs not as a “mirror” but as a means of creating favorable conditions for deregulation and liberalization. We would like to thank Damien Krichewsky for this insight. Time will tell how accurate this account will be.

research on diffusion as well. It would be interesting to see whether similar results can be obtained in other empirical settings. Areas such as the diffusion of policies, concepts, or management practices could potentially benefit from the conditional perspective developed here.

## Appendix

Table A1 List of CSR organizations

Year founded	Country	Name of national CSR organization
1981	UK	Business in the Community
1986	France	IMS – Entreprendre pour la Cité (also: ORSE since 2000)
1987	Sweden	Swedish Jobs and Society
1989	Japan	Council for Better Corporate Citizenship Nippon Keidanren
1991	USA	Business for Social Responsibility
1992	Czech Republic	Czech Business Leaders Forum
1992	Hungary	Hungarian Business Leaders Forum
1995	Canada	Canadian Business for Social Responsibility
1995	Italy	Sodalitas
1996	Norway	Green Business Network Norway / CSR Norway
1998	Belgium	Belgian Business and Society
1998	Bulgaria	Bulgarian Business Leaders Forum
1999	New Zealand	New Zealand Business for Social Responsibility
2000	Spain	Forética
2000	Finland	Finnish Business & Society
2000	Germany	Econsense (also: UPJ-Unternehmensnetzwerk since 2003)
2000	Ireland	Business in the Community Ireland
2000	Netherlands	Samenleving & Bedrijf
2000	Portugal	Grace Portugal
2000	Switzerland	Philiat Foundation
2001	Greece	Hellenic Network for Corporate Social Responsibility
2001	Poland	Responsible Business Forum, Poland
2001	Mexico	CEMEFI
2002	Israel	Maala
2003	Denmark	VirksomhedsNetværket
2004	Slovakia	Slovak Business Leaders Forum
2005	Austria	RespACT
2006	Australia	Australian Business in the Community Network
2007	Luxembourg	CSR Luxembourg
2008	Iceland	Ethikos

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