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# The Political Economy of Corporate Responsibility in Germany, 1995-2008

Part Five of the Germany in Global  
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Daniel Kinderman  
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**The Political Economy of Corporate Responsibility in Germany, 1995-2008**  
**Part Five of the Germany in Global Economic Governance Series**

By

**Daniel Kinderman<sup>1</sup>**

**Abstract**

During the past decade, Corporate Responsibility – the voluntary engagement of business for social and environmental ends above legally mandated minimum standards – has risen to prominence, if not pre-eminence in global economic governance. However, Corporate Responsibility is not uniformly distributed: the timing, extent and quality of CR varies significantly across countries. Germany is said to be a ‘laggard’ in Corporate Responsibility. This paper both describes and tries to explain this state of affairs, by focusing on business-led Corporate Responsibility associations, coalitions and intermediaries. Examining these, I find that German firms’ stance towards CR has been characterized by ambivalence. For example, German firms joined the EBNSC (since 2000: CSR Europe) in large numbers in the mid-1990s, only to cancel their memberships a few years later. I argue that this ambivalence can be explained with reference to Germany’s institutional framework, corporate governance and regulatory standards, which until recently left less ‘space’ for German companies to engage in CR initiatives compared with their counterparts in the U.K. and U.S.A. The increasing liberalization of the German economy during the past fifteen years has been accompanied by a growing dynamism of CR in Germany, and I present causal mechanisms which link CR and liberalization. The German case suggests that Corporate Responsibility may be emerging as a substitute, rather than a complement, to institutionalized forms of solidarity.

**About the Author**

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## Preface

This paper was presented during a conference on 'Germany in Global Economic Governance', which took place at Cornell University on Feb. 22/23, 2008. It was organized by Stefan Schirm (Ruhr University of Bochum) and Hubert Zimmermann (Cornell). We would like to thank our sponsors, the DAAD (German Academic Exchange Service), the Department of Government, the University of Bochum, the Mario Einaudi Center for International Studies, the Institute for European Studies as well as Peter Katzenstein (Cornell), who served as commentator.

Germany, still the third or fourth largest global economy, has been particularly active in proposing a tighter regulation of international financial markets. We use Germany as an exemplary case of how medium-sized countries can shape global governance and how the political economy of countries with coordinated market economies conditions their global governance strategies as compared to so-called liberal market economies, such as the United States and the United Kingdom. With this focus, the project permits and initiates an overdue dialogue between the literatures on varieties of capitalism and on global governance, using global governance as the dependent variable. Another objective of the workshop was to address the dearth of country-specific case studies in research on global governance which often treats all states as essentially similar in their reaction to economic globalization.

Contributors were asked to look at various areas of global governance (such as hedge fund regulation, IMF reform, Basel II, pharmaceutical regulation, corporate governance, transgovernmental standard-setting, etc). All papers identified several levels shaping the German position: the subnational, the European and the global level. The German government, with varying success, engaged in strategic forum-shopping among these levels. A further characteristic was close cooperation between state and non-state actors. Overall, the extent of Germany's capacity to shape global governance is surprisingly large.

# The Political Economy of Corporate Responsibility in Germany, 1995-2008

## Introduction

During the past decade, Corporate Responsibility has risen to prominence, if not pre-eminence in global economic governance. National and international actors alike have championed Corporate Responsibility – the voluntary engagement of business for social and environmental ends above legally mandated minimum standards.<sup>2</sup> In what has become an almost universal script, CR entails voluntary, positive-sum, ‘win-win’ partnerships and cooperation between businesses and ‘stakeholders’ as well as the optimization of core business activities so as to minimize negative and maximize positive externalities. The cost of CR initiatives is typically modest. Indeed, if CR advocates are to be believed, CR will benefit a business’s bottom line. Since, as John W. Meyer, Gili S. Drori, and Hokyu Hwang have noted, “universalistic claims are particularly amenable to global diffusion” (2006: 260), we should expect Corporate Responsibility to spread rapidly and with ease across the world, at least among large multinationals and across non-authoritarian states.

But despite the transnational if not global discourse on CR and associated pressures towards the homogenisation of practice, the reception, meaning and extent of CR’s adoption has varied in different countries, even among affluent liberal democracies. This paper examines one case with an extreme value on the dependent variable, Germany. Germany has acquired something of a reputation as a ‘laggard’ in Corporate Responsibility. The following statement by Andre Habisch and Martina Wegner exemplifies this view:

For international firms with their headquarters in Germany we have a curious phenomenon: In the business ethics discussion of the 1990s, it was criticized that the standards in a company’s home jurisdiction were higher than in the foreign branches. In a reversal of this line of argument one can see today that many German firms are more responsible abroad (especially in the Anglo-Saxon areas) than in their original national social environment (2004: 9-10)

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<sup>2</sup> I am using ‘Corporate Responsibility’ or CR as an umbrella term to refer to the discourse and practice of Corporate Social Responsibility and Corporate Citizenship. While I do not deny that these concepts have different emphases, they nonetheless have in common an emphasis on voluntary engagement above and beyond legally mandated minimum standards – whether within the firm’s core processes (CSR), or in the relations of the firm with its societal environment (Corporate Citizenship).

Elsewhere, Habisch and Wegner remark that “[m]any European neighbours perceive Germany as a ‘white spot’ in the European CSR landscape,” and add: “reforms for [CSR] legislation were more profound in other countries ... Germany lags behind in this respect” (2005: 111; 121). Why Germany should be a laggard in CR matters<sup>3</sup> is puzzling at first sight, since the German economy was long thought to combine competitiveness with relatively high levels of social cohesion. In this paper, I try to resolve this puzzle.

This paper looks at the domestic politics of CR within Germany, as well as at the stance of German business in the European and international arenas. The empirical states of affairs to be explained are threefold: firstly, Germany’s status as a CR ‘laggard’; secondly, the rapid rise of CR discourse and practice in Germany during recent years; and thirdly, the ambivalent stance of German business representatives with regard to CR in the European and international arenas. The latter is especially puzzling: after joining the European Business Network for Social Cohesion in large numbers in the mid-1990s, virtually all German companies left it again just a few years later. This paper argues that the key to understanding these phenomena is to be found in the changing institutional structure of the post-war (West-) German economy. These institutions and the associated cultural understandings account for Germany’s status of CR ‘laggard’ not only domestically, but also at the EU and international levels during the past fifteen years. Conversely, the liberalization of the German economy during the past decade and the growing need of business to legitimate itself in this changed context accounts, at least in part, for the growing dynamism of CR in Germany.

German businesses hold ‘opposing affective orientations’ towards Corporate Responsibility. These orientations are based on the perceived opportunities and risks of CR in the eyes of German businesses. CR can enhance the reputation of individual firms and the legitimacy of business as a whole in the eyes of the public. On the other hand, CR can be wielded by those pursuing an anti-business agenda. In any case, CR as voluntary action presupposes the ability of the businesses in question to go above and beyond the existing regulatory standards. The

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<sup>3</sup> And whether this is in fact the case: this formulation disappeared from the author’s subsequent versions of the paper. While specific aspects of contemporary Corporate Responsibility, such as Corporate Volunteering, are many times more vibrant in London than in Frankfurt, Munich or Berlin, it is unclear to what extent this applies across the board.

difficulty of doing so in Germany is one reason for German businesses' ambivalent stance over CR. In terms of social outcomes, Germany's high regulatory density, works councils and co-determination are functionally equivalent if not superior to the voluntary arrangements in Liberal Market Economies such as the United States or the United Kingdom – but these institutions tend to 'crowd out' voluntary business engagement. Differences in levels of regulatory density and in the size of the welfare state are the most often cited and popular explanations for German's status as CSR laggard. Another factor, I want to suggest, relates to the organization of the business community itself. The high levels of encompassment of Germany's corporatist institutions have traditionally led German business to internalise externalities to a greater extent than their counterparts in Liberal Market Economies. Conversely, the erosion of these institutions in Germany during recent years and the recent shift from a "corporatist" to a "transparency" model of corporate governance (Gourevitch and Shinn, 2005) has redoubled pressures to increase CR.

What role does Corporate Responsibility play in the ongoing transformations of Social Market Economies<sup>4</sup> such as Germany? This is a tricky juncture for German business: on one side, the institutions of the 'German model' have contributed to social stability and economic performance over many decades. At the same time, these institutions are perceived as constraining; CR, with its appeal to business self-regulation, appeals to these sentiments. As I will show below, German companies' ambivalence towards CR is attributable in part to their dilemma at this juncture. What can business do with CR in such an environment? One option would be to re-define CR to encompass not only voluntary engagement but also businesses' tolerance, if not active support of, the existing legal and regulatory framework. After all, these institutions, though constraining in certain respects, have arguably also helped German employers through their "beneficial constraints" (Streeck 1997). Another option is to strive to transform these institutions and regulatory standards so as to expand businesses' room of manoeuvre, as well as the space for voluntary engagement.

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<sup>4</sup> Jonas Pontusson distinguishes between „Liberal Market Economies“ such as the United Kingdom and the United States and „Social Market Economies“ such as Germany and Sweden. As articulated by Pontusson, SMEs „are distinguished by densely organized business communities ... strong unions and highly institutionalized collective bargaining systems .... [and] extensive public provision of social welfare and employment protection (2005: 17).

It appears that this dilemma is not intractable. As I will show, German firms and CR organizations fill the wine of CR into libertarian flasks. Responsibility? Yes, but in exchange for (greater) freedom! The rise of CR in Germany has taken place along with the liberalization of the German economy. More generally, one could posit that there are elective affinities between Corporate Responsibility, liberalization, and market liberalism. In other words, the argument supports what Alte Midttun, Kristian Gaudesen and Maria Gjolberg (2006) have called the „business-driven detachment hypothesis”: „stronger social embedding of the economy ... results in a reduced need and role for business-driven CSR.... CSR and more traditional socio-political initiatives to embed the economy socially are completely decoupled or even inversely related” (2006: 370). The causal mechanisms linking liberalization and market liberalism are as follows.

*The Linkage of Liberalization and Corporate Responsibility: Causal Mechanisms*

<i>Offensive:</i> Businesspeople perceive CR as a <i>quid pro quo</i> for business friendly reforms such as liberalization, privatisation, and deregulation.
<i>Defensive:</i> Businesspeople perceive CR as enhancing and/or defending the reputation of individual businesses and the legitimacy of the market as a whole, diminishing the probability of unfavourable public sentiments or legislative initiatives towards business
<i>Functional:</i> Businesspeople perceive CR as satisfying business needs and compensating for market malfunctions
<i>Normative:</i> Businesspeople perceive Corporate Responsibility as being normatively desirable or appropriate, in accordance with their self-understanding in a liberal market model

This paper presents suggestive empirical support for each of these mechanisms. Due to constraints of space, empirical illustrations are selective. The organisation of this paper is as follows. Section II below defines Corporate Responsibility as it is relevant to this paper, and discusses some relevant literature. Section III provides some historical context, while the fourth section provides an overview of a number of recent German CR-activities at the association and firm level. The fifth section focuses on German businesses’ en masse departure from the European Business Network for Social Cohesion as well as on their difficulties with ISO 26 000. Before proceeding, a note of caution: CR has many different faces. This paper elucidates some hitherto neglected aspects of the political economy of Corporate Responsibility; readers seeking

an exhaustive account of Corporate Responsibility practice in Germany are advised to look elsewhere.<sup>5</sup>

## **II: Theoretical Considerations; Corporate Responsibility as an Anglophone Liberal-Market Construct**

Before proceeding, it is important to define what I mean by ‘Corporate Responsibility.’ For my purposes, *CR is firms’ voluntary engagement for social and/or environmental ends above legally mandated minimum standards.*<sup>6</sup> This understanding is of Anglo-American provenance, as Archie Carroll’s review of the evolution of the term makes clear. Carroll cites Professor Wallich, who defined as “a condition in which the corporation is at least in some measure a free agent. To the extent that any of the forgoing social objectives are imposed on the corporation by law, the corporation exercises no responsibility when it implements them” (Carroll, 1999: 276). And Thomas M. Jones, for whom CR

is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and voluntary contract. Two facets of the definition are critical. First, the obligation must be voluntarily adopted; behaviour influenced by coercive laws or union contract is not voluntary. Second, the obligation is a broad one, extending beyond the traditional duty to shareholders to other societal groups such as customers, employees, suppliers, and neighbouring communities (Carroll, 1999: 284)

The fact that SMEs tend to be more socially regulated than LMEs is relevant to the study of CR, since as I noted above, CR is almost without exception an ideology of voluntarism. In other words, corporations should be accountable to a broader network of stakeholders than just owners/shareholders, and they should take responsibility for social and environmental outcomes – *but they should be flexible to pursue these ends as they see fit; they should not be compelled to do these things by the state, labour unions, or civil society actors.* The fact that CR is understood in this way implies that CR will almost by definition be more prevalent in liberal, free market economies than in the Social Market Economies of continental and northern Europe. Neil J. Mitchell remarked twenty years ago that “Corporate social responsibility ... is underdeveloped in most European corporations, because in Europe the state is traditionally viewed as the source of

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<sup>5</sup> Readers who are interested in such an account are advised to consult Holger Backhaus-Maul, Christiane Biedermann, Stefan Nährlich and Judith Polterauer (eds.) Corporate Citizenship in Deutschland: Bilanz und Perspektiven (Wiesbaden: VS Verlag für Sozialwissenschaften, 2008).

<sup>6</sup> The varying propensity of different businesses to report and communicate their activities is a complicating factor. Strictly speaking, whether or not something qualifies as CR doesn’t depend on whether it is communicated. But scholars have obvious difficulty accounting for such activities.

social policy (Mitchell, 1989: 145). The institutionalized forms of social regulation in SMEs may be functionally equivalent to the CR practices which typify LMEs – in fact, they are often superior in terms of social outcomes (Goodin, Headey, Muffels and Dirven 1999; Pontusson 2005) – but the fact that they are not voluntary and that the state and organized labour are integral, rather than peripheral to them makes the label ,CR’ inapplicable. In the words of Dirk Matten and Jeremy Moon, firms in CMEs „are left with a far lower degree of discretion in issues of societal risk allocation“ (2004: 6).

Needless to say, contextualized comparisons of empirical phenomena (Locke and Thelen 1995) demand that we distinguish between the signifier or label of Corporate Responsibility, on one hand, and its actual substance on the other. Though the two are often conflated in the literature and discussion of CR (CSR and Corporate Citizenship), they are in fact theoretically and empirically distinct. The currently fashionable mainstream incarnations of CR are neither the only plausible definition of Corporate Responsibility, nor are they necessarily coterminous with responsible business behaviour. Instead of being voluntary and left to the discretion of companies, standards can be enforced by hard law. People can act out of a sense of duty, rather than because the action will benefit them. In addition, forms of collaborative governance may provide firms with less leeway for voluntary engagement while dispersing power more equally among stakeholders, for example empowering trades unions or works councils, thus reducing the ability of the owner(s) or of management to take credit for the activities in question. Obviously, the generally higher levels of CSR and Corporate Citizenship in the United Kingdom and the United States do not translate into superior aggregate social outcomes in comparison with continental European social models such as Germany.

Work on Corporate Responsibility should be very clear about whether it refers to Corporate Responsibility as businesses’ voluntary engagement for social and environmental ends above and beyond legally defined minimum standards, or encompasses businesses’ involuntary engagement in social institutions for collective benefit. There is much literature that fails to adequately acknowledge this distinction. Dirk Matten and Jeremy Moon (2008), for example, construct their argument on the foundation of national business systems, arguing “that differences in CSR among different countries are due to a variety of long-standing, historically entrenched

institutions” (2008: 406). While “explicit CSR relies on corporate discretion, rather than reflecting either governmental authority or broader formal or informal institutions,” for the authors, “the distinctive elements of the European CSR are embedded in the European NBSs [National Business Systems], such as industrial relations, labour law, and corporate governance” (2008: 409). While I applaud the weight attributed by Matten and Moon to differences in national institutional framework(s), and while my paper underlines their argument that the rise of explicit CSR in Europe relates to a “dynamic institutional context,” I am puzzled by their use of the terms “CSR” and particularly “implicit CSR.” Symptomatic of their very broad and encompassing use of the term CSR is their statement that “[o]ur NBS approach reveals alternative institutional frameworks to regulate the social consequences of business and to enable corporations to share in coordinated social responsibility” (2008: 420).

The problem with Matten and Moon’s encompassing use of the term is that it includes *involuntary* business involvement in institutions which contribute toward the provision of social or collective goods under the label of CSR: institutions which were imposed on a recalcitrant business community for instance. Applying a label of CR to these institutions creates the impression that business consented to or supported the creation of these institutions. By contrast, this paper provides evidence that for many German business representatives, CR is associated with a market-liberal agenda in which these “institutional frameworks” are not a central element. This finding is supported by Ulrich Hoppe (2006) and by Androniki Apostolakou and Gregory Jackson (2008). Hoppe finds that “German companies do not see adhering to the stricter regulatory environment as a larger element of their social responsibility than their counterparts in the UK. In other words they do not regard implicit CSR as CSR” (2006: 144).<sup>7</sup> Androniki Apostolakou and Gregory Jackson argue “that CSR practices may be emerging as a substitute for formal institutions rather than as a mirror of strong stakeholder involvement” (2008: 2). Stefanie Hiß (2009, forthcoming; 2006) applies sociological neoinstitutionalist theory to explain the spread of CR. For Hiß, changes in political-economic institutions alone are insufficient to account for the dynamism of CR in Germany or more generally – the contestation,

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<sup>7</sup> Or as Walter Korpi has argued, “employer-centered research has not yet presented empirical evidence indicating that employers have been protagonists with first-order preferences for major reforms extending social citizenship rights” (2006: 202).

institutionalisation, and self-perpetuating spiral of legitimating “myths” is the mechanism through which CR takes hold and spreads.

The following section discusses the historical context of CR in Germany, including the role played by CR in the recent phase of economic liberalization.

### **III: The Historical Context of Corporate Responsibility in Germany**

There are at least two reasons why Germany has been considered a ‘laggard’ in CR matters: a comparatively long period of strong macroeconomic performance and an associated low incidence of social problems; and a crowding out of voluntary engagement through the collaborative institutions of Rhinish capitalism. Social tensions and urban decay were serious problems in the U.S. and the U.K. during the 1970s and 1980s; these influences were a significant impetus for Corporate Responsibility there. The deindustrialization and social and racial unrest which culminated in riots in Britain at the beginning of the 1980s contrasted with conditions in Germany, as Neal R. Peirce and Jerry Hagstrom wrote in the conclusion to the tri-nation study *Advanced Industrialization and the Inner Cities*: „West Germany’s inner-city problems are substantially less severe than those in Britain or the United States. Indeed, the overall health of West German cities stands in dazzling contrast to the American and British conditions” (1981: 142). There was less need for CR in Germany than in the U.K. or U.S.

The comparatively recent flourish of discourse on Corporate Responsibility (CSR and Corporate Citizenship) in Germany should not lead us to believe that responsible business practice is a novel development between the Rhine and Oder: „the idea that business bears social responsibilities is a long-standing feature of German culture” (Antal, Oppen and Sobczak, 2007: 11). The Fuggers, Krupps and Thyssens are only some well-known examples.<sup>8</sup> During the post-war period in the Federal Republic, the welfare state expanded rapidly, depressing the perception – and reality – of acute social need which had previously led businesspeople, as well as citizens, to take voluntary action. The *Notgemeinschaft Lennep* or emergency initiative Lennep was

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<sup>8</sup> According to Julia Streets and Thomas Weihe (2006), CR was promoted with special vigour under National Socialism.

founded in the fall of 1947 near the city of Wuppertal in the west of Germany. In response to the question “What is the *Notgemeinschaft* for?” its initiator and director, Mr Hardt said:

Departing from the hardships of the German people and the impending dangers for life and health in the coming winter, there is a need for a comprehensive relief program. In this capacity, the call for help goes out to large factories and companies, which thankfully initiated this endeavour in the first place (Hardt, 1947)

The speaker appealed to the humanistic and Christian motives of his audience in his appeal to provide food, clothing, heating materials, and places to live to needy persons. In addition to donating and distributing large quantities of goods during the following years and decades, the *Notgemeinschaft* provided payments to individuals on the basis of their social need, in effect fulfilling the role of a social safety net. This activity did not continue indefinitely. Twenty years later, protagonists noted that “with the improving economic conditions, the utilization of the *Notgemeinschaft* has declined more and more.” Not only rising levels of affluence, an expanding welfare state meant that the social needs which had been addressed by initiatives such as the *Notgemeinschaft Lennep* were now satisfied by other means.

At the same time, the burdening of firms by taxation, social insurance contributions and other levies reduced their ability or willingness to contribute voluntarily. In the automobile manufacturing town of Wolfsburg, the Volkswagen Corporation had contributed towards the costs of building and maintaining a theatre which was completed in the early 1970s. Not only out of altruism but to promote good relations to its employees and the local populace: “the objective was also to make the city [an] attractive [place to live] for the workers it needed.” In 1975, faced with difficult economic conditions, the local city authorities had decided to increase the rate of corporate taxation. VW subsequently reduced their subsidy for the theatre’s operations with reference to those same tax increases, though it did not eliminate its support altogether. As one board member put it, “I am of the view that even in the current situation, we should not extricate ourselves from all of our obligations towards the city and its infrastructure. In that case, we would one day have to restore this loss of face with great effort (Volkswagen Archive, file 373/181/2, Board Meeting 24.06.1975)

The following two statements provide some idea of the public opinion climate of the 1960s and 1970s, and of businesses' need to legitimate themselves in that hostile environment and vis-à-vis domestic critical voices and the threat posed by the Eastern Bloc. In a formulation remarkably close to today's CR discourse, Alwyn Münchmeyer wrote that "The entrepreneur differs from the profiteer in that he puts on hold his by all means legitimate profit seeking when macroeconomic and socio-political damage is created" (1964: 78). A decade later, Kurt H. Biedenkopf implored businesses to take an enlightened view of their interests:

The best possible way to come to terms with the demands of the business world requires that businesspeople revisit their existing conception of business and ask themselves which attacks against their activity may be partially justified. One of the tasks which businesspeople will have to solve in this context is taking greater account of the *social costs*, which, when ignored in economic processes have been a wellspring of critique of entrepreneurs' activities (1973: 156)

Businesses accommodated these demands for legitimacy through social and environmental reporting, and by acknowledging the new societal demands. An advertisement by the chemicals manufacturer Henkel in 1974 reads: "Companies that only think about gains [profits] will have a lot to lose." Meanwhile, German trade unions went from strength to strength. A publication by the German employers' federation titled *Auf dem Weg in den Gewerkschaftsstaat?* (*On the Way to the Trade-Union State?*) remarks: "no question: unions and employers federations are important elements of social organization and power distribution. But there is also no question that this system threatens to collapse when one side becomes overwhelmingly powerful" (1974: 11). The subsequent co-determination laws of 1976 politicised the Boards of large German corporations, symbolically if not actually expropriating capital. Management of large companies now became not less responsible, but less 'corporate,' and the ability of owners and management to take unilateral credit for their activities was compromised. These arrangements may provide competitive advantages compared with more classic liberal forms of economic organization, but they clearly leave less space for the managers or owners of firms to promote their reputations through CR.

Compared to the UK, where CR gained dynamism during the industrial restructuring of the 1980s, CR may also have been late to arrive in Germany because of the economy's competitiveness and the legitimacy and comparatively high rates of social cohesion that were

provided by the country's institutions.<sup>9</sup> The very strength of these legally and collectively binding institutions proved to be a disadvantage once CR came to be expected of firms everywhere, irrespective of their institutional environment. Ariene Antal, Maria Oppen and Andre Sobczak correctly emphasize the functional equivalency of the German institutions to the voluntary CR arrangements which evolved in other countries:

The social responsibilities of business was not subject to explicit discussion for many years because the relations between business and its employees and business and society were covered by legal requirements, societal norms, and tripartite conflict procedures.... for a long time there was little need nor space for other forms of social regulation ... such as the ones based on voluntary commitments by owners or on stakeholder pressure that characterize the CSR concept in Anglo-Saxon cultures. Numerous aspects of the CSR discourse that are considered discretionary in the United States or the UK are mandated by law in Germany, and many fall under the auspices of co-determination (2007: 6, 12)

Antal, Oppen and Sobczak correctly point out that where Germany did not have Corporate Responsibility, it had laws or other institutions functionally equivalent to CR. This message is echoed by a sizable literature. For example, in their contribution to the 2003 study "Corporate Responsibility and Working Conditions," Wieland, Büchner, Eberbach and Winckler write that "at first sight, there does not appear to be any important CSR practice that was not already enabled by the German model of co-determination" (2003: 44).

Scholars who argue for path-dependency, such as Frank Heuberger, Maria Oppen and Sabine Reimer (2004) argue that many German firms are looking for their own route for social engagement, one that takes account of the path-dependent nature of the German welfare state as well as the corporatist nature of the social sector. Dieter Schöffmann, a pioneer who introduced Corporate Volunteering to Germany, wrote in 2001: „it is rightly pointed out that the American economic culture differs from ours and that taking over the former is not always desirable.

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<sup>9</sup> Some evidence suggests that during the 1970s, entrepreneurs and businessmen in Germany had a substantially better reputation in Germany than their counterparts in the U.K. The topic of the legitimacy of the entrepreneur was discussed at a conference of the Mont-Pelerin Society in Munich in 1970. Referring to the results of a representative survey of the West German population, Gustav Schmölders stated that "only four percent of the respondents gave negative or explicitly anti-entrepreneurial comments with hearken back to the old class-conflict terminology like 'capitalist' or 'exploiter' (lets others work for him etc.... in general the following can be said: the picture that the West German population makes of the entrepreneur is highly differentiated and – insofar as we have time-series data – has improved markedly over the past years (1970: 2; 13-14). The paper the "Image of Entrepreneur in Great Britain" by Ralph Horowitz has a very different tone. Horowitz sees the Britain of his time as "engaged in a Social Welfare Crusade," and as having "a Christian Socialist morality of the wickedness of profits and the sanctity of fair shares ... with Labour in control as a permanent power-centre in Parliament or in Transport House" (1970: 3). Admittedly, it is unclear to what extent Schmölders and Horowitz's papers are based on comparable questionnaires.

Experience so far shows however that not the context and circumstances, but certainly the instruments of firm-level engagement can be taken over” (Schöffmann, 2001b: 18). Use the instruments of CR without taking over the system of Liberal Market capitalism where it evolved and from which it derives. There are undoubtedly firms which seek to do this. But it does not tell the whole story. It cannot account for the large number of actors who propagate CR while demanding economic liberalization in return, not does it address the temporal coincidence of the rise of CR and the decline of Rhinish capitalism.

In the 1990s, the German political economy was destabilized by several exogenous ‘shocks’: reunification, the severe post-reunification recession, and harsh competitive winds from the East. As a result, even if the many of the institutions of Rhinish capitalism continue to exist formally, they have been subject to pressures of erosion and conversion. Whether these changes amount to hybridisation or convergence, the moves towards the Liberal Market Model since the 1990s have increased both the opportunities and the inclinations of actors to embrace CR. Nonetheless, given their continued overlap and functional equivalence in a number of areas, the balance between the old institutions and CR is oftentimes unresolved. It would be a distortion to claim that there has been no support among the business community for the institutional and regulatory status quo. Viewed somewhat differently, a number of German business representatives can’t understand the fuss about Anglo-American companies’ voluntary activities in areas which for them have long been areas of common business practice. Jochen Rudolph at the specialist chemicals manufacturer Evonik Degussa remarked:

The American manages without problems to put the topic of workplace safety under ‘social responsibility.’ We would never come up with the idea of using the term ‘social responsibility’.... It cannot be that only voluntary engagement counts, because then the same outcome is evaluated differently depending on whether I am in the USA or in Germany. Then all of the countries that have a high level of regulation are at a disadvantage because I can’t add much ,on top’ (Rudolph, interview 2007).

Despite the existence of statist and regulatory patriotism within the business community as well as within the population as a whole,<sup>10</sup> I argue that Corporate Responsibility in Germany has

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<sup>10</sup> Renate Koehler of the Allensbacher Institut für Demoskopie, a large public opinion research institute, summarizes the German public’s preference for an expansive welfare state as expressed in her institutes surveys: „for the majority, a state that intervenes massively in the economy and at the same time insures citizens against risks is preferable to the liberal state which intervenes as little as possible – in terms of humaneness, justice and surprisingly also in terms of the expected level of affluence“ (2002: 78).

assumed a libertarian meaning during the past decade. One could say that an elective affinity if not a complementary relationship has evolved between CR and the agenda of economic liberalization in Germany. CR and national-level institutional frameworks are complementary in the following sense of the term: „components of a whole mutually compensate for each other’s deficiencies in constituting the whole“ (Crouch, 2005: 359). This process of co-evolution (Boyer 2005)<sup>11</sup> is described below.

During the severe post-reunification economic crisis of the mid-1990s, Rupert Graf Strachwitz made the linkage between corporate community involvement and a reduction in corporate taxation:

In many cases such an analysis is deemed unnecessary on the grounds that the firm is paying taxes, and not too little, and beyond that also gives charitable donations and therefore more than fulfils its obligation. But this overlooks that the paying of taxes has no future-oriented component and because of the anonymization inherent in the system can hardly or not at all contribute towards positioning a firm in its societal context. In addition, no firm should miss the opportunity to try to radically reverse the long-term trend of increasing taxes. Because after all taxes reduce profits (Rupert Graf Strachwitz, 1995: 10-11).

This does not imply that social actors in Germany, including business, recognized the potential of CR to facilitate social reforms and modernization. The 1997 report of the *Kommission fuer Zukunftsfragen* of Bavaria and Saxonia prescribed far-reaching economic reforms including, but not limited to, the deregulation of labour markets, the retrenchment of the state and increased civic engagement. But the report contains no references to Corporate Responsibility. Meinhard Miegel, who headed this commission, looks back and reflects:

The topic of Corporate Responsibility came up again and again in the work of the Commission, but for whatever reason, the commission did not focus on it. So it ended up on the periphery of the inquiry. In retrospect I wish that this topic had received greater treatment. But this did not happen. I suspect that the topic had not yet matured in the heads of the commission members (Miegel, personal communication, 2008)

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<sup>11</sup> As Robert Boyer remarks, “all institutional forms result from social compromises ..... At the level of the economy, there is no automatic mechanism that would ensure their compatibility. Instead, institutional forms continuously adjust and thus co-evolve. Co-evolution is the process of trial and error through which a series of institutional forms that are initially disconnected and formally independent (since they result from institutionalized compromises among diverse agents in different fields) adjust to one another until a viable institutional configuration emerges” (2005: 367).

Gerhard Schröder's Agenda 2010 made no explicit references to Corporate Responsibility – though this would have made a great deal of sense, according to CR management consultant Arved Lüth (personal communication, July 8, 2008). Following SPD politician Franz Müntefering's description of private equity firms as 'locusts,' the *Initiative Neue Soziale Marktwirtschaft* or New Social Market Initiative commissioned a survey on firms' voluntary social engagement to counter the negative public opinion swell against business. The New Social Market Initiative was founded in 2000 by Gesamtmetall, the German metalworking employers' federation, to engender public support for economic liberalization and deregulation (see Kinderman, 2005).

More recently, making the link between CR and economic reforms has become commonplace. Andre Habisch and Martina Wegner's (2005) contribution on Corporate Responsibility in Germany is titled „Overcoming the Heritage of Corporatism,” thus implying that the heritage of corporatism has been an obstacle to the rise of CR. For Max Zeidler, the state must be rolled back if CR is to become dynamic in Germany: “due to high tax rates and an excessive state apparatus, the potential of innovative CR is limited, because there little space remains to engage oneself” (2003: 142). In his comparison of the state of corporate citizenship in the United States and Germany, Bernd Maier stressed the burdens faced by German firms through mandatory social security contributions, compared with their American counterparts, and the obstacle which this constituted for example in the area of corporate volunteering:

the American volunteering-initiatives of firms are not directly applicable to German circumstances. Due to the current institutional arrangements in the social safety-net and its extent in Germany, firms are already seriously burdened: 1998 the employers' proportion of social security contributions was 7,3% of GDP in Germany, compared with 3,5% in the US, not even half of the contributions of German firms. This leaves US companies with much more freedom for voluntary activities.... The aspirations of the German economy for more voluntary engagement thus face financial limitations.... the culture of social security in Europe and in Germany is very statist, so that citizens and firms are practically forced / compelled to contribute to the common good – there can be no talk of a depoliticization (2003: 227-229).

Gunnar Still, who is in charge of CR at Thyssen Krupp, a manufacturer of premium steel, articulates the following case for deregulation:

As a company we must have room to manoeuvre, that is a very important point for us. Our orientation is always to have as few laws as possible because they constrain the

freedom action of the firm more and more. .... I am of the opinion, one should make as few laws as possible because the more one passes the worse it is .... I think that the move from state-determined parameters to voluntary regulation is very important. It is fundamental (interview, 2007)

An excess of government regulation may constrain businesses' and entrepreneurs' flexibility and freedom of action as well as imposing costs on them. In addition, it may stifle innovation, prevent the externalisation of costs onto others, or make it difficult to reap the reputational gains they could derive if CR was voluntary or ,on top' of less stringent minimum standards. Markets and regulation are not antithetical to one another; on the contrary, markets depend on regulation (Vogel, 1996). But an excess of regulation perceived as onerous or burdensome by employers might tie down resources which could otherwise flow into other activities, including voluntary engagement. This case that German employers perceived the extant level of regulation as burdensome is supported by a 2006 index of the German employers research institute which places Germany in the seventh-to-last place among twenty-two OECD countries ranked according to the density of regulation (Dominik H. Enste / Stefan Hardege, 2006).

That the liberationist or libertarian interpretation of CR is alive and well in German business can be seen in the volume *Corporate Citizenship in Deutschland*, edited by Holger Backhaus-Maul, Christianne Biedermann, Stefan Naehrlich and Judith Polterauer (Wiesbaden: VS Verlag: 2008), which is the most comprehensive volume on corporate citizenship in Germany published to date. It provides an overview of state of Corporate Citizenship in Germany from a wide variety of perspectives. One of the most interesting themes running through the volume concerns the relationship between Corporate Citizenship and the transformations of German capitalism. In their introduction, the editors observe that social partnership and some of the egalitarian and redistributive functions of the German social market economy model are eroding, and that the state is offloading social responsibilities onto society.

This, they point out, is the context in which CR has risen to prominence in Germany. What role does CR fulfil in this context? The answers to this question vary. Many contributors see CR as a positive-sum cooperative enterprise between business and civil society that addresses social needs while benefiting the business in question without affecting the balance between business, the state, and civil society. By contrast, other contributors – mainly business representatives –

endorse CR while stressing that businesses should be unburdened from institutionalized social responsibilities such as taxation and social insurance contributions as a quid-pro-quo for their increased engagement. Responsibility? Yes, but in exchange for greater freedom. Stefan Nährlich, for example, writes: “the citizen’s society [*Bürgergesellschaft*] is a conceptual alternative to the regulating and intervening welfare state .... Lowering the financial burdens for citizens and companies will increase the number of those who want to engage themselves ... This requires a concentration of state activities on the essentials” (2005). Reinhard Mohn’s book *The social responsibility of the Entrepreneur* is almost a classical liberal treatise, as it prescribes “as little state as possible – but more civil society engagement” (2003: 9). Paul Nolte claims that Germany must overcome its scepticism towards markets and commodification, while making up a deficit in Corporate Responsibility (2006: 253). The recent book *The Future of Civil Society* (Dettling 2008), which prescribes CR, also has a libertarian, anti-statist tone.

A growing number of scholars point out that a notable transformation of the German capitalism has taken place during the past decade (Höpner, 2003; Höpner, 2007; Jürgens, Krzywdzinski and Teipen 2006; Kinderman, 2005; Streeck and Thelen, 2005). This transformation has entailed an increasing shareholder-value orientation by publicly listed firms; the spread of OT-membership (a form of membership not bound to the collectively agreed wage bargains with unions) among employers’ associations; and generally the erosion of the traditional institutions of the German model or their ‘conversion’ for uses not originally intended. As seen in relation to CR, this is a self-reinforcing process: the less and less the traditional institutions of the German model can ‘deliver the goods,’ the more space is opened up for CR to take up this functional and ‘legitimation deficit.’ At the same time, as long as these institutions persist, CR takes on a libertarian meaning: from the point of view of business representatives and organizations, CR in Germany fulfils not only ‘defensive’ roles, serving to pre-empt new, burdensome legislation, but ‘offensive’ ones as well, serving to facilitate reforms which promote a more business-friendly environment.

Indicators show that levels of product market, administrative and economic regulation in Germany have fallen substantially during recent years (Conway, Janod and Nicoletti, 2005). Martin Höpner distinguishes organization from coordination from and suggests that while

German firms may remain co-ordinated, their organization, a “function [which] transcends maximization strategies and adjusts them to collective interests beyond maximization” has been seriously compromised (2007: 3). Georg Menz makes the point that

While the institutions of economic governance in Germany continue to diverge from the liberal Anglo-Saxon model, the policy output produced by these institutions varies dramatically from earlier decades. While traditional Rhineland institutions may survive, they serve fundamentally new goals. While no neoliberal ‘revolution’ has occurred as in Britain and New Zealand, actual policy output has assumed a distinctly neo-liberal direction (2007: 17).

Similarly, Anke Hassel stresses: “what seems to become increasingly clear is that the link between distributive outcomes and coordinating institutions is not a direct one. In other words, while coordinating institutions help the German manufacturing sector to remain competitive, they do little to preserve the previously egalitarian nature of the German model” (2007). The same processes of liberalisation which are hollowing out the traditional institutions of the German model are re-enforcing the adoption of CR, because CR legitimates business and provides a source of meaning for employees in these unsettling times. At the same time, the growing internationalisation of the German economy has brought more and more management from other countries into Germany. Simon, Kucher & Partners (press release, 31 July 2007) report that the proportion of foreign executives has nearly doubled from 13,3% in 2000 to 24,7% 2007.

Thomas Baumeister is Director of Corporate Volunteering at Deutsche Bank in Germany. Baumeister describes that the question of Corporate Volunteering posed itself in Germany following Deutsche Bank’s take-overs during the 1990s of Banker’s Trust in the US and Morgan Grenfell in the UK. He stresses that the struggle for acceptance is waged on two levels: the blue frequency and the red frequency. As a global investment bank, Deutsche scores highly on the blue frequency of professionalism but at the same time, seems deficient on the red frequency of authenticity, for both societal observers and employees. Baumeister describes how Corporate Volunteering can help to address this need for meaning, which has grown in the economic environment of the past decade:

There I don’t talk about numbers, data or facts but about stories, pictures, experiences, emotions. The dimension of meaning can be addressed most effectively with Corporate Volunteering. There is a great need in this area. Because the world of work doesn’t offer

this emotional home any more. The Deutsche Bank was an emotional haven [*emotionaler Hafen*]... You came to the Deutsche Bank and you stayed there your whole life. This changed in 1997, when we reorganized for the first time and took out an entire level of management (interview, 2006)

Hans Daniel of the Association of Chemical Industries VCI similarly notes that the sense of meaning and identity generated through such activities can have a high utility for employees in the workplace, particularly during times of restructuring (interview, 2006). The following section surveys German Corporate Responsibility associations and a few initiatives at the firm-level, and links these with employers' perception of their interests in the context of Germany's institutional framework.

#### ***IV: German CR at the Network, Association and Firm-Level***

This section provides a gloss of German CR platforms, networks, and associations – *Econsense*, the *Initiative Freiheit und Verantwortung* (or 'Initiative for Freedom and Responsibility'), and *CSR Germany* (an internet platform) as well as *Unternehmen: Partner der Jugend*. In general, CR associations can be seen as catalysts, facilitators or motors of responsible business practice. CR associations typically provide a platform for the exchange of 'best practice' among their corporate membership as 'think tanks' for the CSR and community involvement of their members. In this sense, they may be seen as 'regulating the self-regulation' of their members (Gupta and Lad, 1983: 416). To varying degrees, they challenge their members to attain ever-higher levels of 'responsibility' and social engagement, and to minimize negative and maximize positive externalities.

The *Initiative Freiheit und Verantwortung*, or Freedom and Responsibility, was founded in 2000 by the economic newsweekly *Wirtschaftswoche* together with major German business associations. It aims to persuade businesses to take on responsibility and engage themselves for collective benefit, and organizes an annual competition for the most engaged/responsible enterprise in three categories. What is distinctive about the *Initiative Freiheit und Verantwortung* is its emphasis on freedom. As the founder of the organization, Christian Ramthun, explained to me in an interview: "one has to be able to voluntarily choose to accept responsibility. In Germany there is too much compulsion ..... We want no legal regulation (of

responsibility), no compulsion” (interview, March 13, 2006). Freer markets, Ramthun seems to imply, will lead business to take on more responsibilities.<sup>12</sup> The initiative freedom and responsibility serves to accompany this paradigm change. For “he who (with good reasons) wants to push back the welfare state,” so *Wirtschaftswoche*-Chief-Editor Baron, “must also be willing to fill the (morally intolerable) gaps which arise as a consequence.” Citizens that get more freedom must also take over more responsibilities. The same is true of companies. For them, BDI-President Rogowski provides the motto: “We want more freedom. We are willing to assume more responsibility” (Ramthun, 2003: 95).

CSR Germany is an internet platform financed and established jointly by the Federation of German Employers’ Associations (BDA) and the Federation of German Industry (BDI) in 2004. Günther Shall, an official at the of the Federation of German industry (BDI), explains: “The core idea is to pose the question ‘what does responsibility mean?’ In requesting responsibility from firms, we are also demanding freedom for them. ‘Responsibility’ [in Germany] is usually brought into connection with compulsion rather than with freedom.” CSR Germany aims to change this, he remarks (interview, 2005).

Econsense, an acronym which stands for ‘economic and ecological in consensus’ is the leading large-firm-driven CR initiative in Germany. It is unusual for national-level firm-driven CR associations to have an explicitly environmental focus; in fact, Econsense is only one of a small handful of such organizations across Europe. The environmental/ecological orientation of this association is a reflection of the prominence which ecological issues have gained in Germany during recent decades. This network or think-tank for sustainable development was founded by nineteen of the largest Germany-based companies on July 19<sup>th</sup>, 2000. Until 2008, membership in Econsense was reserved for nominally German firms and associations. This is unusual if not singular in the European context: all other national CR associations have a high proportion of Anglo-American firms in their membership. Econsense’s stance against these Anglo-American firms underlines the peculiarities of CR in Germany Though their staff is housed in the same building as the BDI or Confederation of German Industry, Econsense understands itself as a

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<sup>12</sup> By contrast, the mission of the UK’s leading organization for CR, Business in the Community, was simply “to create a public benefit by inspiring companies to improve the positive impact of business in society” in 2006.

network or think-tank which enjoys financial and operational autonomy from the day-to-day lobbying activities of the BDI, allowing it to concentrate on longer-term objectives.

At the time of writing, Econsense had twenty-five members which comprise the heavyweights in the DAX-30 or index of the thirty largest publicly traded German companies. These comprise the vast majority of companies which constituted the now defunct ‘Deutschland AG,’ the dense network of banks and companies bound together through cross-shareholding and overlapping supervisory boards. As Joachim Ganse, who spearheaded the creation of the organization, remarks, the intention was to build up a think tank to advise policymaker with the considerable expertise which the private sector, and perhaps to create a business counter-weight to the Council for Sustainable Development (*Rat für Nachhaltige Entwicklung*) which the Federal government had created. Because of its autonomy from the BDI, Econsense could develop and cultivate more progressive and long-term views within business. This path was not an easy one. “At the beginning,” Ganse remarks, “everyone wanted to leave [Econsense],”<sup>13</sup> and the organization faced opposition from BDI members. Ganse stresses the challenge of getting large companies to change their course, describing them as “tankers” rather than “speedboats” (interview, 2007). To the extent that Econsense can disseminate best practices among its members and get the full support of its members’ chief executives and managerial boards for enlightened business practices, the impact could be substantial.

Among Econsense’s numerous activities is a Laboratory of Demographic Change. This initiative, part of the European Alliance for CSR, is being conducted in cooperation with the Max-Planck-Institute for Demography in Rostock. Econsense has been touring across Europe to provide information about Europeans’ mounting demographic challenges, as well as to discuss possible solutions with businesses, policymakers and other stakeholders. With regard to political objectives, Econsense’s mandate is to facilitate as much as possible the development and exchange of ‘best practice’ solutions among its members and other stakeholders, while at the same time fending off attempts to introduce burdensome legislation. At the 5<sup>th</sup> anniversary

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<sup>13</sup> Some firms did leave. Two of the founding companies, Henkel and Munich Re, left the association at the end of 2003. Apparently these firms, who were at the time widely considered ‘leaders’ in various aspects of CR, felt that the association was moving too slowly and that they could use these resources elsewhere.

ceremony of Econsense in Berlin on October 18<sup>th</sup>, 2005, the president of the BDI Jürgen Thumann, who is also President of Econsense, repeatedly emphasized the theme of voluntariness and self-regulation: ‘we want to be responsible, but in order for this to be possible, the conditions have to be right.’ In other words, German firms have to be at least partially freed from their institutionalized responsibilities (social partnership, taxation, works councils, welfare state) in order to engage voluntarily in corporate responsibility like their colleagues and competitors in Britain and the United States. The same theme was pressed by then-president of the BDI, Michael Rogowski, in 2004: “for more responsibility there has to be the freedom and the financial room to manoeuvre. To wage freedom, to break through constraints is the challenge .... If one is tied down like Gulliver, one can’t spit in one’s hands and get to work” (Rogowski, 2004: 10-11). Similarly Klaus Mittelbach, the then-managing director of Econsense: “Free competition on corporate responsibility is an important guarantor of sustainable development; it deserves to be supported in every way possible: through deregulation and flexibilization, wherever this is possible” (Mittelbach, 2004: 31).

Stakeholder dialogues, which bring together business representatives, politicians, and civil society to discuss specific topics, are one way in which Econsense promotes CR. Political lobbying, though not one of Econsense’s central activities, is another. In a letter dated 3 November, 2004, addressed to the then-Minister for the Economy and Work, Wolfgang Clement, the Director of the Executive Board of Econsense Reinhold Kopp wrote:

We observe at Econsense – Forum Sustainable Development of the German Economy, that in Germany the Ministry for the Environment has appropriated the topic of Corporate Social Responsibility ... At the same time we have the impression that the ministry for Commerce and Work is too restrained and passive in this area, leaving it too be defined by others. With this letter I would like to sensibelize you for this topic .... As businesses we are concerned that in the medium- to long-run, at the EU-level as well as in some member states, [CSR] regulations will be initiated that are not in our interests (Kopp, 2004).

A letter on BDA and BDI letterhead dated 23 January 2007 and addressed to Michael Hofmann of the Ministry for Economic Cooperation and Development [*Wirtschaftliche Zusammenarbeit und Entwicklung*] reads as follows:

Dear Dr. Hofmann,

At its annual conference, the Council for Sustainable Development presented the paper ‘Corporate Responsibility in a globalized world – a German Profile for Corporate Social Responsibility.’ We have attached the position of the BDA and BDI to the recommendations of the council.

BDA and BDI welcome the attention given by the Council for Sustainable Development to this important topic. Businesses’ responsibility (*unternehmerische Eigenverantwortung*) is an important building block for sustainable development. The good examples of German businesses are obvious and are explicitly acknowledged by the council.

In the view of BDA and BDI, responsibility and freedom are inseparable. A strengthening of corporate self-responsibility presupposes commensurate corporate liberties. Some of the Council’s recommendations are not conducive to the voluntary engagement of companies

The dominant view in the literature is that business-led CR initiatives seek to pre-empt new regulations through self-regulation and legitimate business in the public eye. Thus, business-led CR initiatives add an additional level to the anti-regulatory arsenal of business and employers’ associations which – as one of its representatives has said – are “instinctively – one could say genetically – against everything that looks like regulation“ (Ottenheinrich Freiherr von Weitershausen, BDA, interview, 2008). However, this presupposes a stable or constant baseline standard over time. While businesses fear ever more stringent and constraining standards, employees fear the downward mobility of regulatory standards.

Christoph Ehlscheid of the metalworkers union *IG Metall* remarks that Corporate Responsibility “is not charity or hand-outs, but an obligation. More and more firms want to abscond from these obligations” (personal communication, June 3, 2005). Tomas Nieber of the union IGBCE: “For us as German unions this [Corporate Responsibility] has a certain ambivalence ... in Germany many aspects of CSR were and are covered by the traditional industrial relations between employers and unions.” Management, he reflects, has changed, both in terms of the people and their self-understanding: “there are more and more managers who lack an understanding for the social market economy with all of its institutions – or who want to want to cancel or exit from those arrangements” (interview, July 3, 2007). German unions had feared that German employers might use CR as a tool to criticize co-determination and recommend that it be replaced with more flexible arrangements. Apparently, ‘CSR Germany’ went online only a few

days after a BDI/BDA commission had recommended the retrenchment of co-determination (Seyboth, 2005: 4). However, Reinhard Thannish of the German trades union federation DGB notes that these fears have been unfounded: Corporate Responsibility has not become a tool of the *Mitbestimmungskritiker* (co-determination critics) (interview, July 17, 2008).

An overview of the German CR organizational landscape would not be complete without mentioning *Unternehmen: Partner der Jugend*, which was founded in 1995 in Dresden. This organization has a mission to activate the resources of companies for the non-profit sector and works predominantly with small and medium-sized enterprises. Diethelm Damm and Bernhard von Mutius, the two founders of UPJ, were prompted by unprecedented levels of unemployment and right-wing violence to consider what role companies could play in addressing these problems. Diethelm Damm, whose background includes working with social movements and organizations aiming to help disadvantaged youth get vocational training and start up their own businesses, asks: “who is the problem-solving-oriented, well resourced and motivated coalition partner? If you actually want to get something done in the world then there’s no way around companies” (interview, 2007)<sup>14</sup>. Bernard von Mutius, a consultant and management strategist, had reflected on the dynamic potential which could arise from new forms of social cooperation between the business and non-profit sectors – two social sub-systems which had been relatively autonomous from one another under the German corporatist system: “In the long run man, one could deregulate, lower taxes etc., everything that the neoliberals want, *if* genuinely functioning social cooperation structures could be constructed” (interview, 2007).

During the past decade, UPJ has worked with companies to conceptualize and execute a wide range of CR activities in cooperation with the public and voluntary sectors. In Germany as in other countries, the power of business vis-à-vis other societal sub-systems has increased during recent years. UPJ strives to engage business in positive-sum cooperative endeavors with other societal groups, rather than univocally or unilaterally defining the agenda. Of UPJ’s objectives

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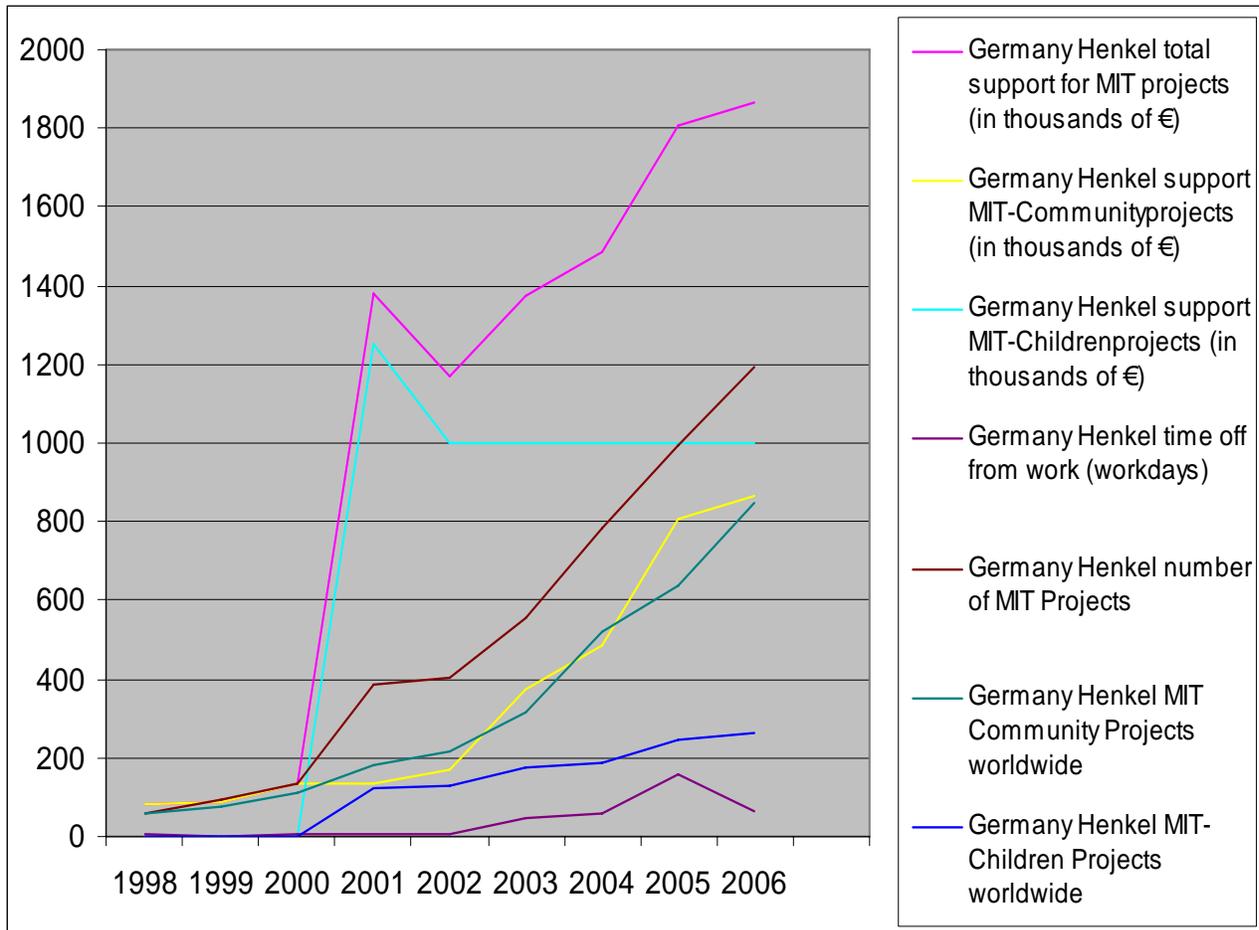
<sup>14</sup> The following excerpt expresses the spirit of pragmatism which is the motor of many people’s engagement in CR. During previous decades, Damm reflects, unions had been critical of his unemployed-youth-training activities, telling him that “you’re saying that they [the unemployed youth] should open up their own companies? In other words you’re training them to become an entrepreneur, the class-enemy? You shouldn’t train unemployed youth to become the class enemy, you should protest against business with the unemployed youth!” In Damm’s view, “that won’t help them though!” (interview, 2007)

since 1996, one of the most interesting and noteworthy has been the attempt to convince corporations of the importance of investing in the social infrastructure to promote Corporate Responsibility. Reinhard Lang, one of UPJ's Directors, reflects that member firms, and companies in general, are willing to invest in individual projects in which they are involved, but the infrastructure upon which these projects depend is another matter. Lang remarks that over time, he and his colleagues have succeeded in convincing several entrepreneurs that the state, non-profit organizations and intermediaries such as UPJ are structures worth investing in. The hesitance of German businesses to invest in this infrastructure may be attributable to their continued investment in other institutional structures. Before proceeding to German companies' engagement in the European and international arenas, I discuss two firms' CR activities. These examples exemplify the dynamism and ambivalences of CR in contemporary Germany.

According to Christina Büchler, the history of Henkel's MIT initiative – which stands for 'Miteinander im Team,' or 'with each other in a team' – reaches back to the early 1990s. Büchler recalls that in the aftermath of the collapse of the eastern bloc, German reunification, and the carnage in ex-Yugoslavia, requests for help from civil society organizations increased from 4-5000 per year to 10-15000 per year. Over the next few years, the Board considered various ways to allocate the firm's limited resources, and decided that supporting employees' domestic and international social engagement would be the way to go. Every Henkel employee across the world has the opportunity to request support for his or her cause in the form of money, materials, and (paid) time off work.

As can be seen in the chart below, the MIT-Initiative has grown rapidly since 1998. One of the things which is especially notable about this example of 'Corporate Citizenship' is that it appears to solve a problem which bedevils many Corporate Citizenship initiatives by large firms: although corporations have varying degrees of legal personhood, Corporate Citizenship should nonetheless be understood as a metaphor: corporations are not real citizens but profit-maximizing entities. By supporting the civic engagement of individual employees who are in fact citizens, Henkel's MIT Initiative exemplifies the growing number of innovative and dynamic CR initiatives in Germany.

**Henkel's MIT Initiative, 1998-2006**

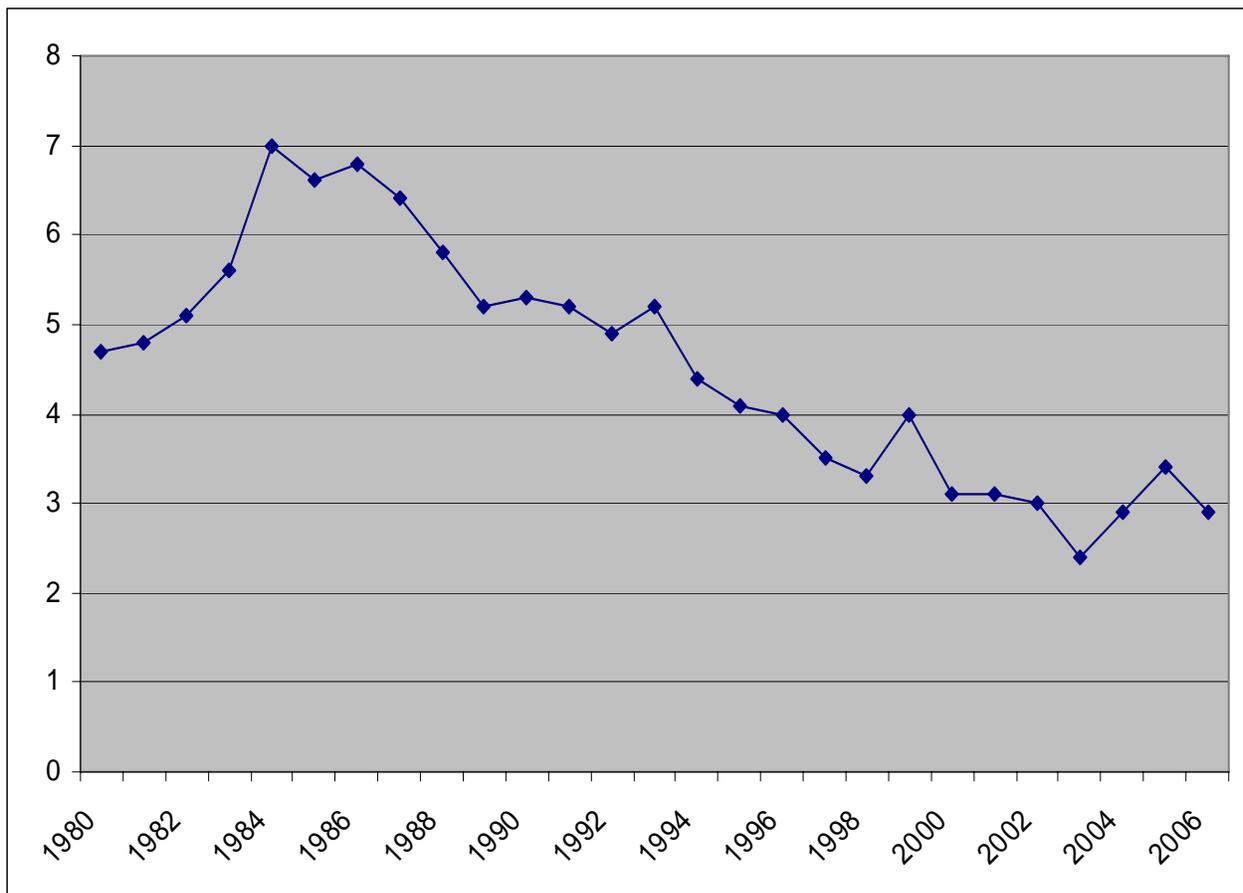


CR encompasses many aspects of corporate activity; in theory, it is all-encompassing. However, not all aspects of corporate activity are weighed equally: activities which were central to Rhinish capitalism are oftentimes peripheral to CR, which may not be surprising given the latter's Anglo-American provenance. The following example illustrates this gap. Germany's system of vocational training has been praised as one of the pillars of German industry's success in international markets. If a firm provides vocational training for more employees than it needs, it is providing a positive externality – a classic case of responsible corporate conduct. The system of course vulnerable to short-termism and poaching: businesses that are unwilling to incur the expense of training and who instead hire staff trained by other employers.

The following chart shows the percentage of trainees as a proportion of the total workforce of Mannesmann AG from 1980-2000 and of Vodafone Germany since 2000. It is impossible to overlook the downward trend over time. While the proportion of trainees has hovered around 3%

since the take-over of Mannesmann by Vodafone in 2000, the steepest decline took place not under Vodafone but under Mannesmann beginning in the mid-1990s, which according to Jürgen Bayer and Martin Höpner was when “[t]he break with organized capitalism” took place (Bayer and Höpner, 2003: 180). In addition, the high shareholder-value orientation of Mannesmann during this period may have played a role (Höpner, 2003: 62).

**Percentage of Employees in Vocational Training at Mannesmann / Vodafone in Germany, 1980-2006<sup>15</sup>**



### **V: German Industry’s CR Politics at the European and International Levels**

German firms and business associations have been consistent and unwavering supporters of the European Union and of European economic integration. When one comes to Corporate Responsibility at the EU level, however, the picture changes. According to some scholars (Antal,

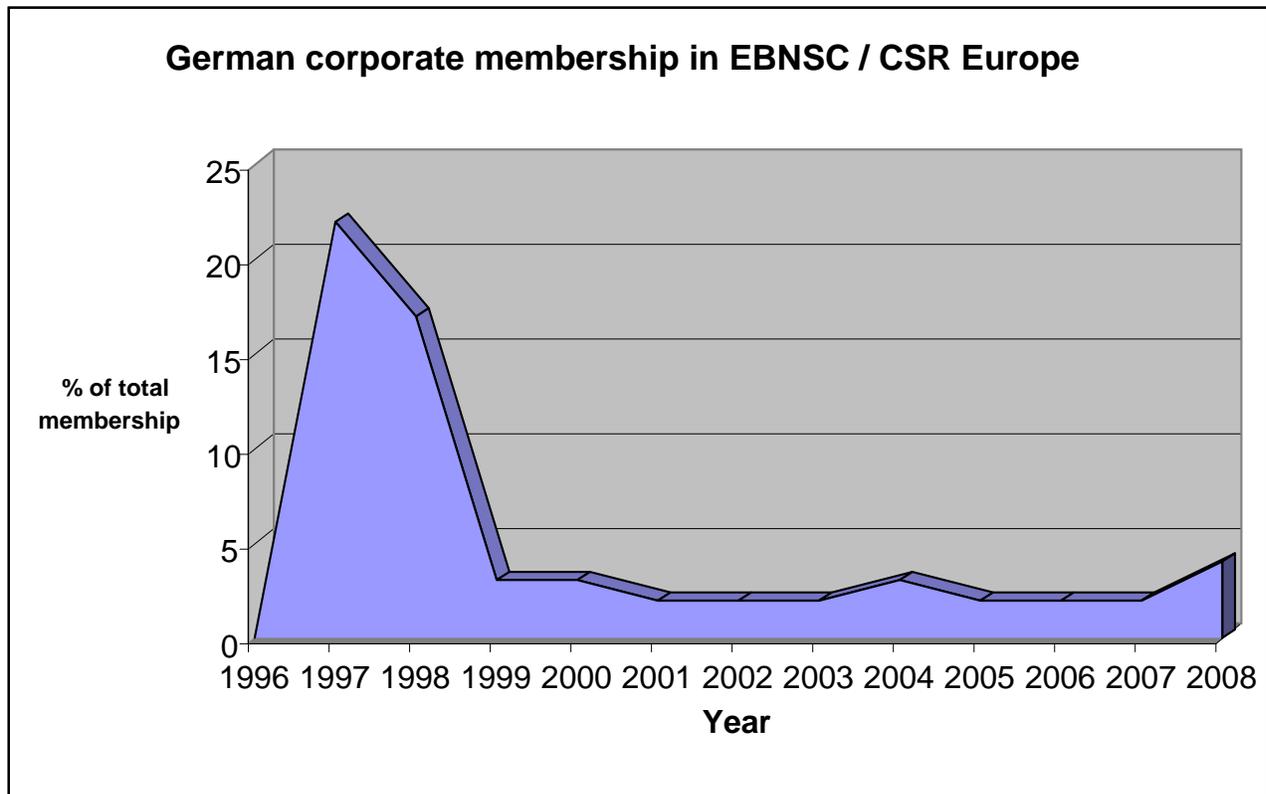
<sup>15</sup> Source: Mannesmann *Personal- und Sozialberichte* dating back to 1980. I am grateful to Manfred Humpert, director of Vocational Training at Vodafone Germany, for the data for 2000-2002.

Oppen and Sobczak, 2007: 6) and according to measurable indicators, the level of engagement is low; as in the domestic realm, the orientation of German firms towards CR has been ambivalent, puzzling even some observers in Germany (see for example Aktion Gemeinsinn 2001: 16) This section discusses the German politics of CR at the EU level, focusing especially on the activity of German firms in the European Business Network for Social Cohesion, known as CSR Europe since 2000, but also on the consultation process for the international responsibility standard ISO 26 000. The argument is that the stance of German business in the European and international realm “can be understood only if domestic factors are systematically included in the analysis,” as Peter Katzenstein has argued more than three decades ago (1976: 1).

The EBNSC / CSR Europe, founded under EU Commission President Jacques Delors in the mid-1990s, has undoubtedly been an important actor in the European politics and practice of CR: first, because of its close connections to the European Commission, and secondly, because of its unique role in awareness-raising and coordination of the CR practices of firms and associations in a large number of European countries. My initial focus below is on the relations between EBNSC and German business representatives as well as the German membership of the EBNSC / CSR Europe over time. I maintain that this indicator is a useful proxy for companies’ engagement in CR at the European level. When surveying German involvement in CSR Europe and the EBNSC since the mid-1990s, one is confronted with two puzzles. First, German firms’ level of engagement has been comparatively low over time, averaging under 4% for the twelve years from 1996-2008. Indeed, while business-driven coalitions for CR had already been established in most large European countries, Germany was a ‘white spot’ until the establishment of Econsense in 2000. Second, German companies, having initially joined in substantial numbers in the mid-1990s, left just as suddenly a few years later.

The following chart shows the German corporate membership of the European Business Network for Social Cohesion since 1996 (known as CSR Europe since 2000). The number of German companies as a proportion of total membership has been rather low over the years. However, this was not always the case: the proportion of German companies increased to 22% of total membership in 1997 when it included Siemens, Daimler-Benz, VW, Bayer, RWE, but declined to 2-3% after all of these firms except VW left membership by the end of 1999. In

2004, the chemicals producer BASF joined along with the software company SAP in 2008, marginally increasing German firms' presence as a proportion of total membership.



What led the German companies to withdraw en masse from the network in the year 1999? Regine Mathijesen, who represented Philips in the organization and was one of the key actors on the industry side during the 1990s, recalls that the departure of the German firms from the network „was a political decision” (interview, June 23, 2008). The German firms had endorsed the 1995 European Declaration of Business against Exclusion, which led to the formation of the EBNSC, and its agenda to promote employment-related social cohesion. However, differences between the German and Anglo-American firms soon became apparent in the network’s various meetings. Meinhard Stindt, who represented Bayer and played an important role among the German members, recalls: “when collecting and comparing examples [of responsible corporate conduct] we had an uneasy feeling.” In certain respects, and not least because of the increasing commercialization and marketization of CR-related activities, one felt that it “was a show with little substance” (Stindt, interview, April 28, 2008).

From the perspective of German firms, the expansion and broadening of EBNSC's agenda during the 1990s was perceived to be a problem, and at a certain point, its agenda was seen as going too far. A member of the staff of the EU Commission recalls: "the most negative companies vis-à-vis CSR have been in Germany." What explains this disposition? The same official continues: "'we already have so much, we do not want another layer,' whereas UK companies did not think that they would loose in the process" (interview, 2006). Alan Christie, the first Chairman of the EBNSC then working for Levi's, remarked „German companies were puzzled" by the organization's activities (interview, 2006). By the end of the 1990s, the EBNSC was felt to be impinging on the jurisdiction and authority of the most powerful European industry organizations, UNICE, in which German business associations were weighty players, and the European Roundtable of Industrialists. For Ann Vandenhende, senior director of CSR Europe,

Their [German companies'] role in the EBNSC was not compatible with the role they were playing in these organizations .... When it came to expanding the agenda [to CSR] there was a perception that this is not something that companies should be dealing with. It wasn't perceived from a German perspective that this is something business should deal with (interview, 2007)

These tensions erupted in an open clash between Etienne Davignon, who was then chairing the EBNSC, and the chairman of UNICE, and culminated in the withdrawal of the German companies (except Volkswagen) from the network. It is not entirely clear to what extent this withdrawal was the result of indifference or the failure to sustain interest, or programmatic differences. Mathijesen gives the following justification for the German firms' departure:

what is coming on the table now is an American hype which we don't wish to follow because in Europe we have social legislation which regulates these questions to the great satisfaction of our employees. This is not the case in the United States. We tried to make it clear that here in Europe, we have the welfare state (interview, June 23, 2008)<sup>16</sup>

Business as patriots of the welfare state and the European social model? This view seems in tension with the liberal if not libertarian interpretation CR by German firms above. Returning to CSR Europe, the departure of Bayer, RWE, Siemens and Daimler-Benz from the network was

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<sup>16</sup> Given that different actors stress different reasons for German firms' leaving this network, an additional factor should not be left out: from its founding until the end of the 1990s, no membership fees were charged by the European Business Network for Social Cohesion. This changed when the organization was re-named CSR Europe in 2000, and the membership fees may have been an additional impetus for the German companies to leave the network, though it is hard to imagine that they were the primary motivation.

followed by attempts to recruit others, which failed until BASF came on board in 2004. The logo of one German company, Deutsche Telekom, was printed on the back of the May and September 2001 editions of *CSR Europe Magazine* which lists the network's supporters. Evidently, the company had expressed interest in joining. But Deutsche Telekom did not become a member of the network so that the company's logo disappeared from subsequent editions of the magazine. Ann Vandenhende, a senior manager of CSR Europe, remarks that this example of a company nearly joining and then withdrawing is singular in the history of the organization (personal communication, June 18, 2007).

German businesses' ambivalent relationship to CR is not restricted to CSR Europe. It can also be seen in the negotiations over the proposed new global standard for responsibility in organizations, ISO 26 000. According to Udo Pretschker, who directs CSR activities in the German Ministry for Employment and Social Affairs, German industrialists and employers had threatened to boycott the ongoing ISO 26 000 negotiations in their early stages: "fears that are seen as grave by the Germans are not seen to be as serious by other participants" (interview, 2007). Sebastiano Toffaletti, Standardization product manager at NORMAPME, explains that the German system is "traditionally and culturally" against certification:

"The Anglo-Saxon idea of certification *ex post* is not very accepted in the Germanic world ISO certification is an Anglo-System: you certify *ex post* that a company is capable of doing something whereas they have a system which is *ex ante*. Germany and Germanic countries are typically against these things" (interview, July 7, 2008). Bernard Schwager, Responsible for Corporate Responsibility at Bosch, remarks on ISO 26000 from a German perspective: "Now a different language area has moved itself forward and is starting to make comparisons ... This set of problems is hitting us like a train because we have a different framework paradigm" (interview, 2007)

What explains German businesses' reticence to engage in the European and international CR arenas? In this section I have argued that this behaviour relates to German businesses' perception of their interests in their domestic regulatory environment. Germany's domestic institutional framework appears to have a systematic impact on German companies' CR stance in the international arena. This means that changes in Germany's political-economic framework and in

particular trends towards the liberal market will have an impact on Germany's stance in the European and international CR arenas.

## **VI: Conclusion and Outlook**

In this paper, I have described how since the mid-1990s and increasingly since 2000, Corporate Responsibility has taken hold in Germany. Thus, the rise of CR coincides temporally with the erosion of the 'German model' of capitalism through institutional layering, drift, conversion, displacement and exhaustion (Streeck and Thelen, 2005). Whereas the orientation of German businesses towards Corporate Responsibility was initially characterized by high levels of ambivalence, both within Germany and in the European / international arena, this ambivalence has declined as the process of liberalization has gained momentum. In contrast to the state-failure-compensation arguments that dominate the literature, I have tried to show that economic liberalization and the growth of CR, rather than being unrelated to each other, are seen by many business representatives as going hand-in-hand. The consequence of the stringent standards of binding regulation in Germany is that German business-led CR takes on a distinctively libertarian meaning: responsibility yes, but in exchange for greater freedom. By contrast, the rhetoric of CR in the UK and US places a greater emphasis on social compensation.

Corporate Responsibility is not the neutral signifier of responsible or externality-free business practice it is often taken to be. Most of the literature treats CR in its various incarnations (CSR, Corporate Citizenship etc.) as synonymous with responsible corporate behaviour (see for example Campbell 2007, Campbell 2006). This leads to a paradox: in Germany, at the same time as we have seen an increase in 'CSR' and 'Corporate Citizenship' (referred to in this paper as CR) at the firm level, institutionalized forms of solidarity have eroded. On the basis of process-tracing the German case, one might posit that the 'old embeddedness' of welfare stateness and social partnership, and the 'new embeddedness' of CR are substitutes rather than complements – though this hypothesis needs to be tested on other countries, and the causal mechanisms specified more precisely (Kinderman forthcoming, 2009). Just as CR is a concept with many faces, this argument can be applied to many debates including: convergent trends in the Varieties of Capitalism (the transformation of the German model from CME towards LME), the

replacement of 'implicit' with 'explicit' CSR, and the spread of trans-national private governance (Nölke 2008).

The fact that Corporate Responsibility has arrived late and has been taken on with initial hesitation by German employers supports the 'common stimulus, mediated response' model which has become orthodox in political analysis: domestic structures and "national ideologies" guide corporations, even in today's globalized world (Doremus, Keller, Pauly and Reich, 1998). While one might view this is a matter of economic culture, I argue that such culture has its basis in social institutions. Whether these national ideologies will persist given the declining distinctiveness of national economic institutions is open to question. In the area of Corporate Responsibility at least, Germany is catching up, becoming increasingly normal. Given the continuing need of business to legitimate itself vis-à-vis society, Corporate Responsibility opens up new arenas of negotiation and struggle – even in the aftermath of Rhinish capitalism. The fact that the norms of Corporate Responsibility can be wielded both to further the interests of business and to constrain these (at least within the limits of capitalism) is one reason why at a very basic level, the ambivalence of business towards Corporate Responsibility will never finally be overcome.

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