

EXPLORING THE INSTITUTIONALIZATION OF CORPORATE RESPONSIBILITY: A FORMAL MODELING APPROACH¹

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INTRODUCTION

Which factors increase the “depth” of corporate responsibility (CR), i.e., the substantive adoption and institutionalization of CR practices within a specific industry? The prevalent assumption in the literature is that increasing depth presupposes transparency, because the latter forces business firms to abandon the habit of decoupling policy from practice and to align rhetoric with action—or “walk the talk” (Aravind and Christmann, 2011; Behnam and MacLean, 2011). In contrast to this assumption, it can be argued that opacity—that is, conditions that make it relatively difficult for external observers to accurately evaluate a firm’s performance—is necessary for the substantive adoption of CR, because it fosters organizational learning and allows adopters to experiment with and make sense of the practices they adopt (Weick, 1995). In this paper, we distinguish between the “transparentist” and “opacitist” perspectives in the literature on CR institutionalization. We argue that both positions involve valid albeit partly contradictory arguments and that examining the role of transparency and opacity in the adoption of substantive CR policy from a processual perspective can help resolve these contradictions. To support our argument, we employ a Markov chain model to demonstrate that an initial state of opacity can promote the substantive adoption of CR practices within an industry, if opacity is transitory and the organizations involved subsequently switch to a regime of transparency. Our paper contributes to the development of a general theory of decoupling and institutionalization by examining the boundary conditions under which organizations adopt ceremonially or implement substantively a policy.

LITERATURE REVIEW

The Transparentist Perspective

The call for transparency is the hallmark of “transparentists,” a group of scholars in CR research (e.g., Gilbert, Rasche, and Waddock, 2011) and institutional theory (e.g., Boiral, 2007) who suggest that social evaluation promotes the substantive adoption of CR. In line with previous research, we define transparency as the unobstructed observability of an organization’s activities, output, and performance (Bernstein, 2012; Wijen, 2014). Transparency allows external observers to identify the key characteristics of an organization, including “what is being done, to what degree it is being done, when the effects will transpire, and exactly who will have caused them” (Briscoe and Murphy, 2012: 554). In the context of CR, transparency is believed to help expose “greenwashing,” the hypocritical promotion of a “green” or socially responsible but unjustified image (Delmas and

Burbano, 2011). Transparentists reason that as a result of public scrutiny and rising demands for transparency, decoupling is not a viable option for adopters of CR policies and that, therefore, hypocritical organizations are inevitably pushed towards substantive adoption. It follows that, in that view, promoting transparency, tightening requirements, and, where necessary, penalizing ceremonial adoption and decoupling is the most effective way to institutionalize CR.

The Opacitist Perspective

Opacitists point out the detrimental effects of transparency and emphasize that in conditions of opacity, decoupling can benefit substantive adoption and the institutionalization of CR—a conclusion that is diametrically opposed to that of transparentists. When opacity prevails, it is difficult for observers to assess accurately organizational activities, outcomes, and performance and to understand how these interrelate (Bernstein, 2012). Nevertheless, from the viewpoint of opacitists, organizations should not be automatically penalized for greenwashing. On the contrary, opacitists advise that decoupling should be tolerated because it enables organizations and managers to explore, embrace, and eventually enact the behavioral prescriptions that are enshrined in CR policies and principles. In that view, decoupling is likely to be a transitory phenomenon because it carries the seed of its own demise in that it leads to the tighter coupling of policy and actual organizational activity over time (Hallett, 2010; Tolbert and Zucker, 1996).

FORMAL MODEL

We extend the “transparentist” and the “opacitist” perspectives by demonstrating that both positions are valid, a paradox we resolve by opting for a dynamic perspective of practice adoption and taking into account the temporal dimension. So far, neither of the two perspectives has considered the possibility that the degree to which the implementation of CR within an industry is visible to external observers—i.e., the evaluation regime—may change, even drastically, over time. We examine how changing the regime affects the adoption of CR practices by using a Markov chain model, which is a frequently applied modeling technique in organization science (e.g., Pentland, Hærem, and Hillison, 2010). The Markov chain methodology allows us to examine the industry-level outcomes of different evaluation regimes (i.e. transparency vs opacity) on the basis of a random process that involves initial states of adoption (i.e. non-adoption, ceremonial adoption, and substantive adoption) and transition probabilities for each state at each point in time (Abbott, 1990). By using Markov chains to examine adoption, we explore the boundary conditions under which a given evaluation sequence yields a large number of instances of substantive adoption. Specifically, we compare the following four evaluation sequences: enduring transparency, enduring opacity, initial opacity followed by transparency (transitory opacity), and initial transparency followed by opacity (transitory transparency). We look particularly closely at the circumstances in which the evaluation sequence “transitory opacity” maximizes the number of instances of substantive adoption within an industry compared to all other possible process sequences.

RESULTS

We found that transitory opacity maximizes substantive adoption if two conditions are met: first, transitory opacity is optimal if there is a low probability that non-adopters become substantive adopters. The difficulties of instantly moving from non-adoption to substantive adoption in the context of CR have been described as the “implementation gap” (Baumann-Pauly, Wickert,

Scherer, and Spence, 2013). This gap arises because embedding CR in an organization is pretty costly and time-intensive, especially for large multinational corporations. Second, transitory opacity is optimal when, under conditions of transparency, there is a high probability that substantive adoption remains stable. This is very much in line with the observation that it is hard for firms that are under public scrutiny to drop a CR standard once they have adopted it substantively; a phenomenon that Haack, Schoeneborn, and Wickert (2012) described as “moral entrapment.” Importantly, these conditions reveal a novel and unexpected path to the institutionalization of management practices that is largely independent of recoupling processes, which are characterized by a high probability that ceremonial adopters will turn into substantive adopters (Hallett, 2010; Tilcsik, 2010).

We also found that a high likelihood of moving from ceremonial to substantive adoption in regimes of transparency is not a necessary condition for transitory opacity to maximize substantive adoption. On the contrary, transitory opacity can maximize substantive adoption in a regime of transparency even if the probability of moving from ceremonial adoption to substantive adoption is very low.

DISCUSSION

Contributions to Institutional Theory

Recent studies have emphasized the need to rethink the assumption that decoupling is an enduring state and examined the antecedents and consequences of coupling processes, i.e., the gradual alignment of structure and actual activity in organizations (Hallett, 2010; Tilcsik, 2010). This paper contributes to the development of institutional theory and of the notions of decoupling, coupling, and entrapment by modeling the reciprocal influence between adoption-related decisions at the organizational level (i.e., the choice between non-adoption, ceremonial adoption, and substantive adoption) and different types of evaluation regimes (i.e., opacity and transparency) at the industry level.

An important contribution of our work is that it complements recent works that have integrated the topic of practice diffusion with aspects of adaptation and variation in the implementation of organizational practices (Ansari, Fiss, and Zajac, 2010; Chandler, 2014). Previous research tends to equate the diffusion of a practice with its institutionalization, or to treat diffusion as the result of successful institutionalization (Schneiberg and Clemens, 2006). Colyvas and Jonsson (2011), however, argued that diffusion should be disentangled from institutionalization and that, in fact, it can function as an antecedent of institutionalization by facilitating that process. This view is consistent with our findings, which suggest that diffusion can facilitate the institutionalization of CR practices.

A major implication of our formal model is that institutional scholars who examine the intricate nexus of decoupling, diffusion, and institutionalization need to take into account the role of external observers and the impact of social evaluation on institutional processes (Briscoe and Murphy, 2012). Previous works on decoupling followed the arguments of Meyer and Rowan (1977), assuming that observers and important stakeholders have confidence in an organization’s formal promises to adopt a policy and *do not* scrutinize its implementation. In that view, ceremonial behavior equals institutionalized behavior (Zajac and Westphal, 2004). This assumption, however, is at odds with a phenomenological understanding of institutions as tightly coupled systems that are consolidated through continuous social interaction (Bergmann and Luckmann, 1967; Tolbert and Zucker, 1996). In view of increasing public scrutiny and demands for

accountability and of the reputational risk that many organizations face if they fail to implement CR policies that they have pledged to adopt (Power, 2007), we encourage scholars to reconsider the role of social evaluation in decoupling and practice adoption.

Contributions to CR Research and Practice

Our work contributes to the literature on CR and to the effort to institutionalize CR as a means of tackling regulatory gaps in global governance (Gilbert et al., 2011; Wijen, 2014) by integrating the views of transparentists and opacitists. Bringing these two opposite views together reveals a promising path for advancing the cause of CR. Counterintuitively, our approach presents widespread decoupling and hypocrisy as a *sine qua non* of the institutionalization of CR. Both CR academics and practitioners often disapprove of the ceremonial adoption of CR practices and urge organizations to “walk the talk”; that is, to promote the fast and effective integration of CR principles into their structures and processes (e.g., Benham and MacLean, 2011). In contrast, our analysis provides insights into the processes that relate to adoption, showing that under specific conditions, when initial opacity is succeeded by transparency—what we described as transitory opacity—the share of substantive adoption in the overall adoption of a practice is maximized. We posit that the scope of transitory opacity is, in fact, large, because the boundary conditions we identified reflect realistically the CR context. In reality, on the one hand, it is difficult for organizations to translate CR policies into practice instantly (Baumann-Pauly et al., 2013; Boiral, 2007); on the other hand, the risk of sliding into illegitimacy makes it hard for them to go back on a promise to adopt a practice substantively or to withdraw the assertion that they have established such a practice (Christensen et al., 2013). Thus, as our analysis revealed, transitory opacity and decoupling can increase substantive adoption even if the probability that an organization under a regime of transparency will move from ceremonial adoption to substantive adoption is comparably low.

For good reasons, scholars have questioned the merit of low entry barriers and weak monitoring and sanctions as means of achieving self-regulation in various industries (King and Lenox, 2000), given that the “lowest common denominator” (Sethi, 2002) tends to be conducive to opportunism and adverse selection. However, we contend that even the most hypocritical adoption of CR policies can prove unstable and have long-term consequences for the institutionalization of CR policies, not only because the decoupling of policy from practice within a single firm can be unstable, but also because of the effects that endogeneity and specific sequences of regime change can have at the industry level. On the basis of this argument, transitory opacity proves to be an important but largely overlooked path to global sustainability, a point that has important implications for CR practitioners and NGO activists. Specifically, given that initial opacity and non-penalized decoupling can be a viable way to implement CR, practitioners and activists should not unconditionally criticize or punish organizations for decoupling. On the contrary, our findings suggest that it is important to allow for a stage of transformation during which ceremonial adoption can reach a “critical mass” and which eventually reaches the switching point that triggers a regime change and puts an end to ceremonial adoption. In sum, while the ceremonial adoption of CR policies can be bad in the short run because of its negative impact on society, it is not necessarily bad for good, i.e., permanently, because the presence of a significant number of ceremonial adopters in an industry can have socially desirable consequences for the institutionalization of CR.

Limitations and Outlook for Future Research

The Markov chain model we have developed offers a valuable means of deriving new insights from the established, yet seemingly contradictory research findings of transparentists and opacitists. The advantage of formal modeling approaches is that they clearly lay out the theoretical assumptions that tend to remain implicit in frameworks based on theoretical argumentation (Davis, Eisenhardt, and Bingham, 2007). Yet, these advantages come at certain costs (Davis et al., 2007; Harrison, Lin, and Carroll, 2007). Researchers using formal models embrace parsimony and thus focus on select aspects of social reality. For instance, in the context of our study, we treated ceremonial and substantive adoption as discrete and immediate decisions without considering that the speed of adoption can vary and that policy implementation may be gradual rather than immediate. Readers familiar with the literature on diffusion and decoupling may rightfully object that our model does not capture all relevant variables and that our assumptions on transition probabilities require further empirical grounding. Indeed, although our choice of constructs, construct values, and assumptions about these values has been informed by empirical research (e.g., Haack et al., 2012), our theoretical statements need to be refined and the outcomes of the Markov chain model need to be validated empirically. This will enable future research to enhance the precision and predictive power of our theory and to strengthen its generalizability.

Longitudinal and comparative research can further validate the mechanisms we identified in our study. For instance, it would be useful to study empirically the institutionalization of CR and the progress of self-regulation initiatives over a long period and examine whether they are affected by cultural and other contextual factors that might lead to different adoption processes and outcomes. Also, future research can explore how industry-specific factors moderate temporal dynamics and the effects of endogeneity—for instance, it could examine whether operating in a business-to-business or in a business-to-consumer setting makes a difference to the type and extent of adoption a firm chooses.

ENDNOTES

1. This short paper is part of a larger research project on CSR institutionalization which involves the two authors as well as Dirk Martignoni (University of Lugano). We furthermore acknowledge the support of this project by the “Governing Responsible Business” (GRB) Research Environment at Copenhagen Business School.

REFERENCES AVAILABLE FROM THE AUTHORS