Meeting with David Baron and introducing private politics

One day, a friend emails me that David P. Baron is in Paris for a conference and will give a lecture the next day... She adds that, since I have spent most of the last summer over his papers on private politics and corporate social responsibility (CSR), not only should I go and listen to him but I should also ask him for an autograph!

Shall I really play the academic groupie?

Well, I went to the conference and was pleased to hear the real David, whose talk was as striking and inspiring as his papers. To be fair, it was a conference for economists so, obviously, not everything was as clear as crystal to me...

Anyhow, after the talk, I had to face the reality: David P. Baron was there, people were actually talking to him, and I had brought with me the first paper I had studied. The one I spent ten days on. And for which I had desperately needed the help of an economist friend and colleague (thanks Ben!) to understand the series of equations and the model...

So I went to David – still wondering how silly my request would seem – and asked him for the autograph after a confused introduction involving the usual thanks and compliments, the reason I was there at the conference and my special request...

Fortunately, David Baron is not only a great academic, he also has a good sense of humour! He took the paper, laughing, and wrote those kind words you can see on the image above. Yes, that was dense! And thank you David for the best wishes...

Notes prises par Julie Bastianutti
École polytechnique

À Marie-Rachel

“Sorry that was so dense.
David P. Baron
Good luck”
In this essay, I will present the work of David Baron from his seminal research on non-market strategy in the 1990’s to the latest developments on private politics and the economy of CSR, focusing in the end on the lecture he gave in June 2011 at the École des Mines in Paris.

David P. Baron is one of the world specialists of the economics of CSR. He is a researcher and professor at Stanford University, where he has been teaching CSR for MBA’s for ten years. Some readers of the Libellio will know him for his capital work on integrated and non-market strategy (Baron, 1995; Baron, 1996; Dumez & Jeunemaître, 2005; Depeyre & Dumez, 2009; Bastianutti, 2011). Baron points out that the firm’s environment is not neutral and that its performance and viability is also conditioned by factors and events that are occur outside of the market boundaries and involve other actors than competitors; in his view:

A nonmarket strategy is a concerted pattern of actions taken in the nonmarket environment to create value by improving its overall performance [...] The nonmarket environment consists of the social, political and legal arrangements that structure the firms’ interactions outside of, and in conjunction with, markets (Baron, 1995, pp. 47-48).

Value creation is not a mere function of market decisions and actions, and it can be positively as well as negatively affected by legal changes or socio-political events. Just as firms create value by developing and deploying market assets, they employ nonmarket assets to add value. Nonmarket assets take a number of forms. They include expertise and competency in dealing with nonmarket forces, government, the media, interest and activist groups, and the public. They include a reputation for responsible behavior earned with consumers, government, stakeholders, and the public. To the extent that its nonmarket assets and competencies are unique or difficult to replicate, a firm has a nonmarket advantage” (Baron, 1995, p. 60).

The activity of the firm itself can enhance the importance of nonmarket issues (for example, food legislation after a bacterial infection) or, on the contrary, diminish it (to a certain extent, labor standards after the Nike sweatshop case settlement and the creation of the Fair Labor Association):

Since many nonmarket issues arise from market activity, one approach is to view nonmarket strategies as complements to market strategies (Baron, 1995, p. 55).

The idea of complementarity suggests that market and nonmarket strategies can benefit from one another and should not be elaborated not independently. Nonetheless, since the notion of nonmarket strategy was still a kind of strategic Far West, Baron engaged in a long series of studies of its implications for firms and strategy in general.

In a series of papers from 2001 to 2009, he focused on the analysis of “private politics” and the economics of “corporate social responsibility” – both expressions echoing as oxymorons for most of management academics and professionals. In his first paper in 2001, “Private Polities, Corporate Social Responsibility and Integrated Strategy,” he insists on the continuum with his work on integrated strategy. The general purpose is to look at how interest groups and activists succeed in disturbing economic activities. According to Baron, their strategies are based on two mechanisms, both being named “politics.” In this context, the term politics does not refer to the original Greek meaning, i.e. the administration of the city (polis in Ancient Greek) and its members. It consists in a social mechanism through which agents try to promote their interests, whether they are individual or collective:
The term politics refers to individual and collective action in situations in which people attempt to further their interests by imposing their will on others (Baron, 2003, p. 33).

From this perspective (our purpose here is not to discuss the internal validity of Baron’s conception of “politics”), therefore, the expression “public politics” is not a pleonasm but instead means that the political game involves public actors and institutions. On the contrary, private politics occur when the parties are all private and do not use public institutions to defend their position:

The term private means that the parties do not rely on the law or public order; i.e., on lawmaking or law enforcement, although both may be available. [...] In public politics this [politics] generally involves a rule that allows a majority to impose its will on a minority. The private politics considered here does not involve voting but does involve the public. The public is not viewed as a unitary actor but instead as individuals whose actions are voluntary and may or may not be similar. The resolution of conflict, if there is one, is by mutual agreement [...]. The result can be a private ordering established by opponents and designed to maintain order given the continuing conflicting interests of the parties (Baron, 2003, p. 33-34).

Baron is actually doubly restricting his research domain in his paper. Only relationships involving firms on the one hand and groups or individuals on the other hand are studied, whereas the definition of private politics suggests a wider scope of inquiry, including all kinds of relationships between private actors, individuals, groups or organizations. As a matter of fact, activists are not always individuals or groups of individuals but can have an organizational form, but Baron does not identify the possible consequences of their different natures as an important future question in his research agenda. The second restriction lies in the focus on conflict situations and the possibility of converging interests between firms and activists although partnership strategies are now widespread and largely studied — Baron himself mentions that: “environmental Defense has increasingly worked with firms to implement programs based on economic incentives” (Baron, 2003, p. 51) but does not go further. Another central point resides in the choice actors actually make between private or public politics, a point that is raised by Baron as an important issue to be looked at in further research:

Private politics often takes place in the shadow of government, and activists undertaking private politics may have the outside option of engaging in public politics (Baron, 2003, p. 45).

At this stage of his research programme, he acknowledges that there is a lack of empirical evidence but not of “anecdotal evidence” of the importance of private politics. More precisely:

The principal research challenges are to represent the preferences of activists and members of the public, capture the direct competition between interests, incorporate the role of news media as professional but strategic players, and represent how and when the public respond to that competition (Baron, 2003 p. 64).

After the first two papers setting the frame of the analysis, Baron coedited with Daniel Diermeier a special issue of the Journal of Economics and Management Strategy in 2007. No more narrative approach of informal and exploratory models of private politics game like in 2003, but strong economic models focusing on some questions raised in the former papers. In a first paper, Baron and Diermeier (2007) propose a model of strategic activism focused on the problem of the target choice. How do
interest groups choose their target? The model is very refined and includes the target’s media exposure, its reputation for responsiveness, the credibility of the activist to exploit a successful campaign and its time-horizon. The second paper is about another crucial point raised in the 2001 paper. Baron (2007) focuses on social entrepreneurship and the strategic foundations of corporate social responsibility. Baron defends an original point of view on the theory of the firm: thinking of the authentic CSR, is to think about the ends of economic activities and the foundations of strategy: “what the firm should do” (Baron, 2007, p. 688).

Baron considers CSR as a mechanism for redistributing resources (Carroll, 1979; Freeman, 1984; Preston & Post, 1975; Wood, 1991). But the relevant question to ask is “why?”: why a firm would allocate part of its profit for social causes? CSR is based on volunteer engagement, or at least behavior that is not required by law:

> CSR thus involves going beyond what the letter and spirit of the law require or the market demands and requires in the model considered here altruistic preferences (Baron, 2001, p. 12).

The key element lies in the motivation of entrepreneurs and investors: one has to take into account a set of variables of the firm’s environment to assess the possibility of CSR or its authenticity. Sometimes tax issues or social good production can be positive rewards for CSR (Becker, 1974; Andreoni, 1989). The cost of CSR is not always paid by the entrepreneur: authentic CSR is a strategic decision of entrepreneurs who decide to create a social business. If so, CSR is not only corporate social performance (CSP), *i.e.*:

> The private provision of public goods or the private redistribution of profit to social causes (Baron, 2009, p. 7).

It is the entrepreneur’s motivation for doing business. It is possible if, and only if, the redistribution of financial returns and profits is considered by the investor as a perfect substitute for investment in profit-maximizing firms complemented by personal philanthropy. Only then will the entrepreneur be willing to bear the cost of CSR:

> This means that the financial and social returns from a CSR firm can be replicated by a linear combination of personal giving and shareholdings in profit-maximizing firms (Baron, 2007, p. 715).

Lastly, Baron *et al.* (2009) model interactions between the three main categories of actors engaged in private politics – the firm, the citizens-investors, the activists – and look for the conditions for an equilibrium between a market of goods, a market of financial assets, and a market of social pressure.

All in all, we see that Baron does not analyze *per se* the concepts of “politics” or “responsibility” in the business environment but his work highlights important social and economic dynamics that are changing the way firms behave in their nonmarket environments. We also gain the insight of complex connections that are occurring between the market and nonmarket spheres.

**Down to the Mines**

Now, I will summarize the main points of the lecture at the École des Mines, and try to highlight some issues particularly important for anyone interested in CSR – and especially for those who are not economists.

David Baron has been teaching CSR to MBA students for ten years, while conducting research in this area. During his keynote lecture, he chose to focus on the politics of CSR and the main ideas and problems stemming from this concept: the
discussion started at a conceptual level and then he discussed some more specific aspects and examples with the audience. Why should an economist start to talk about CSR as a political issue? If we imagine that the government would be socially efficient, would there be a need for CSP? For Baron, governments can fail because, in the political sphere, there is no equivalent of the Coase theorem, because action is constrained by the majority rule, bureaucratic inertia or nature of government (authoritarian or democratic). For these reasons, it is important to think about CSR in relationship with the efficiency of government. The context is to be taken seriously and particularly the complexity of social interactions involved in CSR. Indeed, Baron’s models for CSR and private politics are concerned with the formalization of interactions and games involving at least three kinds of agents: the public agents (government and public institutions), the private economic agents (corporations) and the private noneconomic agents (NGOs, activists, etc.).

For Baron, the term “responsibility” means duty, as in moral duty. The question of responsibility, when applied to corporations and the economic sphere, is not straightforward. In various cases, we can ask ourselves who is responsible? The consumer buying fairtrade coffee or the firm? And when it comes to self-regulation, is it being responsible or responsive? CSR is a complex issue, one can remain sceptical about it if the responsibility of the firm is also to achieve a certain level of performance. Baron does not think that CSR can be reduced to corporate social performance (CSP). To distinguish one from another, we have to look at the motivations of action and more particularly what motivates as investor, a stakeholder or a manager. CSP, as mentioned above, means “the private provision of public goods or socially-beneficial redistribution of profits to social causes that goes beyond legal obligations” (Baron, 2009, p. 7).

Baron’s hypothesis is that to assess CSP and decide whether or not it can be considered as CSR, we have to analyze the motivations for CSP:

It may be motivated by a moral duty or by self-interest and may be voluntary or in response to social pressure (Baron, 2009, p. 7).

CSR is CSP motivated by moral duty. Examples for morally-motivated behavior can be refusing corruption or bribery (Unilever leaving Bulgaria) or censorship (Google in China). Those are political examples – certainly not without economic motivation as well. But Baron’s position is that CSP is mostly strategic: it is an instrument to maximize profit. Other reasons can motivate firms to enhance their CSP, such as mimetism and rational imitation, the need to alleviate social pressure, or even the personal preferences of managers.

When investigating CSR, we can ask firms what they think they are doing. When engaging in CSR actions, they say that they are “making business sense.” What does that mean? Are they maximizing profit, if that is the sense of business as Milton Friedman would defend (Friedman, 1970)? Are they making zero profit but sense? Are they even sacrificing profit in order to create more sense?

Why should corporations care about CSR? A special report of The Economist in 2008 showed that CSR has become mainstream, though it remains controversial. Moreover, the public believes a lot more in NGOs than in global companies, which have the lowest level of public trust.

The Nike case is a good example of the contemporary importance of public reputation and trust: after it was pointed out for its unethical behavior the company became a leader in CSP. It is worth noting that campaigns are not always directed

4. In 1966, George Stigler (Nobel Prize 1992) named the theorem after another Nobel Prize, Ronald Coase who originally developed the notion of transaction cost. The theorem states that in a situation of perfect market competition when there is no transaction cost, agents will choose an efficient set of inputs to production and outputs from production independently from the assignment of property rights over the inputs.


against an industry, but are issue-related. There are usually cross-industry, for example when it comes to sweatshops and child labour or CO2 emissions.

For an economist like Baron, the skepticism comes from the fact that it is difficult to study CSP like one can study industrial organization (IO). There is a lot more ambiguity about information structure and thus predictions are made more difficult – whereas in IO one can predict too much, or almost anything... Moreover, predictions that are sensitive to institutional structure give alternative hypotheses that can be tested, but the problem is: can we find the data to test them? For example, if one wants to study the motivations for CSP, one can try to test the rewards that people get from CSP. Rewards can come from the market place, internal efficiency and better governance, framing a more favourable government policy, or fulfilling a moral duty. When we look at such issues, the problem is that usually we observe a big difference between what people say and what they do. If there are rewards for CSP, who captures them? Will they be competed away? One idea is that the competitiveness of an industry affects CSP: strategic CSP provides product differentiation (green product). So, if an industry becomes more competitive, there should be more CSP (Fernández-Kranz & Santaló, 2007). Fernández-Kranz and Santaló (2007) argue that CSP should be independent of industry competitiveness if it is morally motivated. They find that CSP was greater and social pressure less in more competitive industries, suggesting that CSP is strategic rather than morally motivated. But, after controlling for unobserved heterogeneity among firms, Baron et al. (2009) find no effect of competitiveness on either CSP or social pressure.

Towards the end of the conference, Baron suggested that his audience should as well look outside of economics and have a look at what sociologists, psychologists or political scientists are doing. Indeed, he pointed out several points of interests for economists that have already been addressed by other scholars in the social sciences.

Let’s take first the issue of the governance of self-regulation organizations. Baron raises a series of questions to investigate. Who participates? Do they function through open or restricted membership? Are firms alone or are they cooperating as well with NGOs? Who has governance rights? What are the decision making processes? It appears that these questions are raised by a group of Swedish scholars from the Stockholm School of Economics and Stockholm University, the SCORE (Stockholm Centre for Organizational Research). The work of Nils Brunsson and Göran Ahrne on “metaorganisations” (Ahrne & Brunsson, 2008) or the work of Kristina Tamm Hallström, Christina Garsten and Magnus Boström on accountability and governance of transnational standardization (Boström & Garsten, 2008; Tamm-Halström & Böstrom, 2010) address these issues on the new form of governance and interactions between heterogeneous stakeholders. Not only do they provide for original and insightful theory, but they also present rich case studies.

Another point is risk management: CSP can be considered as an asset and can help build a reputation, such a reputation being useful during a crisis. Those issues are addressed by a variety of management scholars using various approaches (Barnett, 2006; Scott & Walsham, 2005; Power et al., 2009; Fombrun, Gardberg & Barnett, 2000). We can also mention the Corporate Reputation Review, edited by Charles Fombrun (Reputation Institute) and Cees van Riel (Erasmus University Rotterdam). In a current research project, I use this review as a starting point – both for theory and methods – to investigate how firms in the cement industry develop and implement social reputation strategies (Bastianutti, 2011).
In his current research, Baron focuses on how firms are working with NGOs. Can we find relationship patterns, i.e., predicting which firm is matched with which NGO? And then, can we measure how much CSP is generated? It appears that NGOs are less confrontational than before. Some NGOs develop expertise and trade their expertise, cooperate with firms to help them change their behavior. The cooperative activist tends to align with firms having a good CSP whereas the confrontational activist tends to get at the profit-maximizing firm. This is a promising research agenda, and a lot of scholars not only in sociology or political science but also in strategic management or economy are investigating the topic.

Conclusion

Even for non-economists understanding little of all the subtleties of the equations and models, David Baron’s papers are full of stimulating ideas and hypothesis. Any PhD student or researcher interested in CSR, or in the relationships between business and its environment, would certainly find something interesting in his work. But in a context of great specialization and professionalization of academia, why should a management PhD student (especially with a background in sociology and philosophy...) spend time reading and listening to David Baron? The rules of the game for PhD students involve publishing papers in high-ranked journals as if we were already confirmed researchers. We have to specialize in a field — often quite narrow — and become members of a “research community” by attending conferences, by knowing the right references and authors to cite, which journals to publish in, etc. As research becomes more and more professional, the danger is to reduce the work of academics to a standardized production of papers testing hypotheses to confirm or nuance previous studies. It is a debate that we all know about and that comes up every two seconds in academic conversations.

Fortunately, some prominent scholars are still defending the virtues of intellectual wandering and interdisciplinary dialogue. Andrew Abbott7, a sociologist at the University of Chicago, says “You must read broadly in social science and beyond. The more you have to draw on, the better. That is why many great social scientists are part-time dilettantes, always reading outside their fields […]” (Abbott, 2004, p. 118). Reading outside one’s field is important, as it is to be able to borrow and adapt approaches or ideas from one field to another, as did Gary Becker with his economic model of marriage (Becker, 1973) or Freeman and Hannan with the notion of population ecology (1977). In 2005, Diego Gambetta (Nuffield College, Oxford) gave a lecture in Paris on the value of incompetence, comparing the cases of the Sicilian mafia and the academic world, that Hervé Dumez reported (2006). When summarizing Gambetta’s method, he highlights the fact that economic theories, concepts and models are one of the best instruments to help the researcher to break with obvious ideas, admitted facts or evident theories. Economic models are simplified frameworks designed to better understand complex processes, by selecting a set of variables and then finding a set of logical and/or quantitative relationships between them. By simplifying reality with a tight rigor, when they are astutely used and applied, they enable us to break with the common sense. They complement more qualitative approaches used to describe social complexity and explain unexpected facts or extreme situations.

References


7. Andrew Abbott became famous as a sociologist with his work on the sociology of professions (The System of Professions, 1988, Chicago) and wrote a lot about methodological and theoretical analysis in social sciences. ht t p :/ / sociology.uchicago.edu/people/faculty/abbott.shtml
9. La démarche de Diego Gambetta repose sur quatre points fondamentaux. D’abord, on ne peut faire de bonne théorie qu’en rampant avec les évidences du sens commun. Ensuite, pour rompre avec ces évidences, rien ne vaut l’usage des théories, des concepts, des modèles, économiques. Non pas que ceux-ci décrivent la réalité : les économistes s’occupent finalement assez peu du réel. Mais parce que, subtilement appliquées, ils ont cette fonction de permettre au chercheur de rompre avec les évidences. L’important est d’appliquer les modèles économiques de manière imaginaire. Après, il faut de plus partir des faits eux-mêmes pour reconstruire la théorie, mais des faits inattendus, des faits les moins évidents, les plus surprenants, qu’il faut aller chercher. Enfin, il est enrichissant de s’intéresser à des situations extrêmes, caractérisées notamment par la pression qui s’exerce alors sur les individus. v (Dumez, 2006, p. 21).


