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Book Reviews

When principles pay: Corporate social responsibility and the bottom line, Geoffrey Heal, (2008), Columbia University Press, ISBN: 0231144008, 288 pp.

Two questions came to mind as I read Geoffrey Heal's new book *When Principles Pay: Corporate Social Responsibility and the Bottom Line*. The first is — *When does corporate social responsibility (CSR) become simply an issue of mainstream business strategy?* The second is — *Has the field of economics finally woken up to CSR as a topic for serious research attention?*

In answering the first question, Heal has written a thorough and engaging book, one that is accessible to practitioner and scholar alike. His major thesis is that "how a company behaves on social and environmental issues can affect its financial performance," stressing that "social and environmental policies are not philanthropy, not public relations, and not marketing." Instead, companies can avoid costly conflicts with governments and civil society by aligning their interests with those of consumers, non-governmental organizations, governments and capital markets (particularly socially responsible investing). Taken further, companies can move beyond strategies predicated on risk management to strategies that enhance brand value by engaging these issues in a proactive way. In making his argument, the book has a very interesting hybrid flow, beginning in the realm of economics and ending in the realm of management. In fact, one can simply look at the references at the back of the book to see this progression take place.

In the opening chapters (1 and 2), Heal discusses economic analyses as they relate to CSR. He cites the growing literature in this realm to provide the reader with a good sense of the framing and treatment that economics brings to the issue. He does not bias his analysis and is refreshingly honest about conclusions of the research, which may be inconclusive and lead to other questions (such as the lack of a good explanation for the correlation between financial and environmental performance, or the competing explanations of why socially responsible funds have performed well on average). In chapters 3 and 4, he addresses the connections between capital markets and CSR through socially responsible investing and shifts in the banking sector through the Equator Principles. This is a critical part of the book, linking capital markets with social responsibility. In chapters 5, 6 and 7, he presents a series of case studies of companies that have used (or not used) CSR as a way to manage the external pressures from civil society. In chapters 8, 9 and 10, he takes on a more international perspective to CSR by discussing the ethics or out-sourcing, recent developments in the "bottom of the pyramid" literature and a case study of cell phones in developing countries. Chapters 11, 12 and 13 close out his argument with a discussion of ways to measure CSR and more general discussions of the connections between CSR and mainstream corporate strategy. In short, his answer to the first question is yes, CSR has become business strategy. What is traditionally lumped into the category of "non-market strategies" is now decidedly drifting into core business strategy.

My only criticism with the book is that it reads like it emerged from a business school course syllabus — which it quite likely did. This concern should not matter to anyone but someone like me who teaches in a business school because it means that the book is well structured to give a thorough and comprehensive treatment to the topic. However, for those of us deeply enmeshed in the issue, much of the case study materials should be very familiar, as they are a synopsis of Harvard Business School case studies (and a few from INSEAD).

In answering the second question on the awakening of economics to CSR, Heal's book brings impressive firepower to bear in contrast to the low levels of research attention that economics has traditionally paid to CSR (Lyon, 2009). Heal himself is a noted economist in the areas of financial markets, the role of derivatives and the securitization of catastrophic risks, and the interface between economics and ecology. He held past positions as President of the Association of Environmental and Resource Economists and Managing Editor of the *Review of Economic Studies*. To further entice the economist to pick up this book, the back cover boasts the endorsements of two Nobel Laureates: Joseph Stiglitz and Ken Arrow. And the opening chapters do not disappoint, presenting synopses of a collection of academic papers on the topic.

But, it becomes quickly apparent that a full engagement of the economics field was not the sole intention of this book. As the chapters drift to business case studies, the perspectives of, and implications for, economics become displaced. To fully awaken economics to the issue of CSR requires that the field will not simply integrate CSR into existing models but will also examine some of the underlying beliefs of those models that are challenged by CSR. Given the historic moment in which we live, all institutions must question how their theories explain the discontinuity in which we are enmeshed (Kuhn, 1970), one detected by financial collapse, global climate change and violence stirred by growing income inequities.

For example, is efficiency the only measure for optimizing systems and models of behavior; or are there ways to introduce equity as an over-riding principle? Heal touches on issues of fairness in his book, but there is much more to examine in the ethical and equity implications presented by CSR in a globalized world. Or, how does the field of economics address values and norms as relevant to more traditional quantitative analyses? How do we explain the 2002 Irish "plastax," a 15 cent tax on plastic grocery bags that yielded a 94% reduction in bag use within one year? While the pricing signal was critical, social sanctions based on shifted norms played an equally important role – people were seen as a "skanger" (Dublinese for lout) if they were caught using a plastic bag. How does that phenomena fit within economic models? And, how do we explain deviations from "economic rationality" in meaningful ways? A report by McKinsey (Enkvist et al., 2007) found that nine technologies are presently cost negative and yet remain under-deployed. How, in the presence of a market incentive, can this happen? What can cultural norms and beliefs tell us about CSR that is presently missing from economic models? How do we incorporate cultural values into existing economic valuation methods for natural resources? What lessons can we draw from the bold effort of the Millennium Ecosystem Assessment (2005) to address this challenge by including cultural value in its analyses?

In 1992, Larry Summer famously pointed out the challenge that CSR poses for the field of economics when he wrote a World Bank memo arguing that polluting industries should be directed to less developed countries because of their comparative advantage in lower wages, health care costs and demand for a clean environment (Economist, 1992). When a furor erupted over the memo, he explained that it is "not my view, the World Bank's view, or that of any sane person that pollution should be encouraged anywhere, or that dumping of untreated toxic wastes near the homes of poor people is morally or economically defensible. My memo tried to sharpen the debate on important issues by taking as narrow-minded an economic perspective as possible" (Summers, 1992). That debate took place fifteen years ago and his challenge remains today; CSR adds something new to our analyses. In a time when *Business Week* can run a cover story asking "What good are economists anyway?" (Coy, 2009) and the performance and public trust of economic institutions are called into question, Geoffrey Heal's book challenges us to examine our economic analyses when social interest conflict with the economic and profit motive. His answer is that good business requires an adjustment. How far will the economic models which seek to explain this behavior adjust as well?

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Institutions and Environmental Change: Principal Findings, Applications, and Research Frontiers, Edited by Oran R. Young, Leslie A. King, and Heike Schroeder, The MIT Press, 2008, ISBN 978-0-262-24057-4, Pp. i–xxi; 1–373

Authors contributing to the literature on the new institutionalism frequently ask themselves: Do institutions "matter"? Or, in other words, do rights, rules, enforcement mechanisms, and decision procedures influence human behavior? Many readers, especially young ones, may wonder why intelligent people ask such inane questions. One answer is that scholars who fear the consequences of formal models ask them. Formal models that silently take as given specific ideal-type institutions, such as "the market", can trick policy makers into ignoring the role of institutions and the complex variation in social organization. The new institutionalism, however, can also take us down the wrong road. Many recent studies do little more than juggle and redefine, over and over again, the terminology of their favorite version of the new institutionalism. This criticism does not apply to *Institutions and Environmental Change*, although at times the book singes its wings by flying too close to the bonfire of (re-) definitions. The volume is a report from the *Institutional Dimensions of Global Environmental Change* project where fifteen contributors in nine papers provide an overview of the findings from an ambitious decade's-long research effort. In terms of citations, the work of Oran Young, with and without co-authors, dominates the volume. The book, which is divided into four sections—introduction, research foci, analytic themes, policy relevance and future directions—records the contribution of the IDGEC project to the growth of research, for instance with respect to the theoretical concepts of *fit*, *interplay*, and *scale*. The volume attempts to direct institutional analysis towards the concept of "governance", which the authors define as "The process of steering or guiding society toward collective outcomes that are socially desirable and away from those that are socially undesirable (p. xxi)." And a governance system is "An institutional arrangement created to perform the function of governance…" (p. xxi). Note that the authors define "governance" as a mechanism for creating "socially desirable outcomes", which is an odd definition, vaguely reminiscent of neoclassical welfare economics. Although the authors refer to politics and struggles over wealth, their worldview is not focused on such struggles. Instead, their theoretical project is squarely concerned with "governance" as they define the phenomenon.

The book's key message is the authors' explicit denial of the possibility of an overarching theory of institutions and governance. Effective institutions and governance systems have a unique relationship to time and place because they must harmonize with the social and ecological or biological systems in which they are embedded and that vary from one context to another. The book's major contribution is the authors' very thorough attempt to classify and categorize 'the harmonization problem' using such concepts as fit, interplay, and scale. The discussion is abstract but often highlighted by very brief references to empirical issues. Longwinded abstract classifications are tedious and parts of the book are a bit tedious or pedantic but always sensible. The views expressed are thoughtful, carefully worked out, and convincing. The emphasis on complex relationships between the various elements of social systems and between social and biological systems is in the style of Elinor Ostrom's work on governing the commons.

The new institutionalism is weak on explicit policy advice (beyond "institutions matter" and it matters to "get the institutions right"). One merit of *Institutions and Environmental Change* is its persistent emphasis on policy. The book gradually builds up toward a chapter dealing with the policy relevance of the approach. But what do you tell policy makers who are looking for appropriate governance systems but live in a world 'where everything depends'? Well, you use the diagnostic method, which is "Insight 1" for policy making: "**The diagnostic method can be used to identify key features of the relevant socioecological system and to craft institutions that are well matched to that system**" (p. 265, bold letters in original). Young explains (in Chapter 4) what Institutional Diagnostics is about. The information required to design effective regimes is obtained through diagnostic queries that involve "The Four Ps": (1) *Problems* (How well is the problem understood? Does the solution involve coordination or collaboration? Is it a short-term or long-term problem? Are new institutional arrangements required for the solution? What categories of actors can best handle the problem? Is the problem cumulative or systemic? Will the problem cause abrupt, nasty, and irreversible changes?) (2) *Politics* (Is the power of stakeholders concentrated or dispersed? Are there conflicting coalitions in the issue area? Can we solve the problem by using well-known policy instruments? Are corrupt practices pervasive?). (3) *Players* (How important is legitimacy and habit relative to active utility maximization in the regime area? Are we dealing with unitary actors or with organizations? How large is the subject group? Is the group heterogeneous or homogeneous? How transparent are the actions of those involved?). (4) *Practices* (How