Collective Action of Firms

Motivation, Facilitation, Social Engagement

A Comparative Analysis of Industry Behaviour in South Africa

Anna Kristin Müller-Debus

Dissertation zur Erlangung des akademischen Grades Dr. rer. pol., eingereicht am 14. Mai 2010 beim Otto-Suhr-Institut für Politikwissenschaft im Fachbereich Politik- und Sozialwissenschaften der Freien Universität Berlin.

Gutachterinnen

Erstgutachterin:

Prof. Dr. Tanja A. Börzel

Jean Monnet Lehrstuhl und Leiterin der Arbeitsstelle Europäische Integration

Freie Universität Berlin

Ihnestr. 22

D - 14195 Berlin

tanja.boerzel@fu-berlin.de

Zweitgutachterin:

Prof. Dr. Adrienne Héritier

Joint Chair RSCAS/Political and Social Sciences Department Professor of Comparative and European Public Policy

European University Institute

Via dei Roccettini 9

I - 50016 San Domenico di Fiesole

adrienne.heritier@eui.eu

Datum der (letzten) mündlichen Prüfung: 16. Juli 2010

To my parents

Contents

Acknowledgements

Die Danksagung ist in der Online-Version aus Gründen des Datenschutzes nicht enthalten.

Die Danksagung ist in der Online-Version aus Gründen des Datenschutzes nicht enthalten.

1 Introduction

Based on the idea that individual rationality leads to collectively undesirable outcomes, European governance research emphasises that public institutions or a "shadow of hierarchy" are necessary to channel the behaviour of firms in a way that renders it conductive to public welfare (see Scharpf 1993, Börzel 2008, Héritier and Eckert 2008). In a similar vein, the globalisation literature highlights the occurrence of a regulatory race to the bottom arguing that what companies actually want and push for is less instead of more regulation. However, literature on global governance paints a different picture. Various instances have been identified, in which companies have contributed to the provision of social services and drafted industry-wide codes of conduct in the absence of a shadow of hierarchy (for example Ronit and Schneider 2000, Prakash 2000, Cutler et al. 1999, Börzel and Risse forthcoming). Thus, research generates seemingly contradictory results.

This thesis aims to add to the debate on collective self-regulation, new modes of governance and corporate social responsibility. I propose to integrate collective action theory and economic institutionalist research in order to develop a general explanation of the collective action of firms, which can account for their collective contribution to social governance as well. Importantly, firms are not driven by the intention to act socially. They collectively subject to governance rules with the intention to safeguard idiosyncratic investments in an uncertain world.

The theoretical argument is supported by an empirical analysis. I assess the theoretical expectations by looking at textile retailers and automotive manufacturers operating in the developing country South Africa. I examine the behaviour of firms with regard to four issue areas: Environmental protection in general, water service provision, air quality and HIV/AIDS abatement. The analysis shows that firms do make governance contributions in these areas, given the conditions specified by the theoretical framework.

This introductory chapter starts out with an overview of the current debate on the contributions of firms to social governance. It then presents the theoretical argument and the empirical findings. This precedes a section on this thesis's main theoretical, methodological and empirical contributions. Finally, a summary of chapters is provided.

1.1 The Current Debate on Social Governance Contributions by Firms

The idea that firms contribute to governance is not novel. With Oliver Williamson at the forefront, the institutional economics literature has extensively discussed the alignment of transactions with governance structures. More recently, research has started to debate governance contributions of firms in fields that are usually not associated with business interests, for example environmental protection or security. However, perceptions as to if and under what conditions industry does contribute have differed considerably.

After World War II the welfare state had flourished. "[E]ffective capital exchange controls, fixed but adjustable exchange rates and optional barriers to trade imposed few constraints on domestic policy choices" (Scharpf and Schmidt 2000, p.1). This changed when, as a result of political choice, increasing economic interdependence developed. Being pushed by competition and taking advantage of scale economies and better access to technologies firms went global (Reinicke and Witte 1999). The ability to move freely has facilitated their search for business-conductive production locations and strengthened the position of firms towards national governments.

Much of the globalisation literature points out that firms left to their own devices do not engage in social governance. Firms often fuel the depletion of natural resources, exploit workers and contribute to security problems (for example Ballentine and Nitzschke 2004). Far from helping to protect the environment or ensure employee wellness firms are argued to even undermine existing public regulation. The literature identifies what is often called a race-to-the-bottom (Pierson 1998).[1] Firms look for locations where taxes and production costs are minor. The implementation of social and environmental standards, the literature suggests, adds to the costs of a firm. Developing countries usually have weaker social and environmental regulation in place and, at the same time, crave for foreign investment. They thus constitute

---

[1] For a critical perspective on the race-to-the-bottom hypothesis see Börzel et al. (forthcoming).

fierce competitors of developed countries. Lobbying of firms as well as their exit possibility induces governments to ensure ‘business-friendly’ environments (see McKenzie and Lee 1991, Rodrik 1997).

Globalisation research emphasises that the global activity of industry has given rise to the “retreat” or the “hollowing out” of the welfare state (Strange 1996, Jessop 1999). Furthermore, despite globalisation having created the need for cooperation among states to introduce international regulation, this has hardly been achieved. In accordance with their competitive attitude regarding the attraction of capital, national governments are reluctant to transfer formal power to international institutions (Keohane 1984, Reinicke 1998). Correspondingly, the United Nations has not been assigned the hegemonic role of restricting the freedom of business. Overall, the globalisation literature claims that, on the one hand, regulating firms has become difficult and, on the other hand, firms take advantage of that and rarely show interest in voluntarily contributing to social governance.

Also the governance literature analyses the attitude of firms towards regulation. This research can be divided into two camps. The first, more conceptually coherent and Europe-oriented strand of literature is, like globalisation research, sceptical regarding the voluntary contribution of firms to social governance. While this literature shows that firms do engage in collective self-regulation, external intervention is argued to be necessary for it to occur. Hierarchy viewed as institutionalised rule structure can channel the behaviour of firms via legislation or legislative threat towards social responsibility and environmental protection (Börzel 2008). “Legislators can threaten to enact adverse legislation unless potentially affected actors alter their behaviour to accommodate the legislators’ demands” (Héritier and Lehmkuhl 2008, p.2, Schmitter and Streeck 1985, Scharpf 1997). If firms have to choose between private self-regulation and legislation, they are argued to prefer the former to the latter. Self-regulation allows firms to exert influence on policies otherwise imposed upon them. In contrast to legislation, it is more flexible and adjustable to changing business environments (see Rosewitz and Webber 1990, Boddewyn 1992, Cutler et al. 1999, Börzel and Héritier 2005). Ultimately, the success of legislative threats depends on their credibility, that is, on the ability and willingness of legislators to actually implement the legislation in question (Halfteck 2006, Héritier and Lehmkuhl 2008). Only then collective self-regulation can occur. Mayntz and Scharpf (1995) highlight that several self-regulatory activities ceased to exist the moment the credible legislative threat vanished.

Whereas this first strand of governance research mainly concentrates on Europe, the second one focuses on the global level. In contrast to the research on globalisation and European governance outlined above, the global governance literature finds that firms do engage in social governance also if state influence is weak. At the global level, firms draft social responsibility policies and submit to codes of good conduct (Ronit and Schneider 2000, Cutler et al. 1999). International industry associations pass environmental protection policies; the Global Business Coalition on HIV/AIDS exchanges expertise and publishes information; multinational corporations cooperate with their suppliers to implement social responsibility standards. Prakash (2000, also Potoski and Prakash 2005, Prakash and Potoski 2006) examines the choice of firms to adopt environmental policies, which go beyond legal requirements. Haufler (2001) discusses the emergence of industry self-regulation with regard to environmental protection, labour standards and information privacy. Vogel (2005) and Vogel and Kagen (2004) highlight that firms pressurise governments to implement higher regulatory labour and environmental standards. Thus, the global governance literature points out that "self-regulation through private organisations [has become] … an alternative to the more traditional and recognised forms of regulation through states and markets" (Ronit and Schneider 2000, p.2).

Mayntz and Scharpf (1995) suspected that firms operating in the 'shadow of anarchy' could not rely on the state to jump in and provide assistance when needed. Therefore, it was suggested that firms might pursue self-regulation with more insistence at the global level (Mayntz and Scharpf 1995). Recently, research has started to systematically build on the insights of both the European and the global governance literature. The research on governance in areas of limited statehood looks at the international level as well as at developing countries. Identifying functional equivalents to the legislative threat this literature underlines that "governance without government can work" (Börzel and Risse forthcoming, p.2, Risse and Lehmkuhl 2007).

> "Interestingly enough, it may be precisely the absence of the state that provides the key incentive. If states are not capable of adopting and enforcing collectively binding decisions, actors face the danger of not having governance at all. Such risks of anarchy provide a powerful alternative to the shadow of hierarchy in areas of limited statehood. In addition, we observe externally generated shadows of hierarchies by international organizations or other states as well as market pressures or community norms, which induce non-state actors to participate in governance" (Börzel and Risse forthcoming, p.20).

Thus, firms, by nature profit-seeking actors, do contribute to social governance – also without a legislative threat. Important steps have been made towards an explanation of this behaviour. This thesis developed within and adds to the debate on collective self-regulation and new modes of governance. I propose to integrate collective action theory and economic institutionalist research in order to explain under which conditions firms engage in collective action in social policy fields. I argue that firms are indeed not driven by the intention to act socially. They collectively submit to governance rules solely with the intention to safeguard idiosyncratic investments in an uncertain world. The following section introduces the theoretical argument this thesis develops in detail in chapter 3.

1.2 The Argument

Collective action of firms often occurs with regard to industry specific problems. The government might not serve the interests of certain sub-groups. For example, it may refrain from giving subsidies to a struggling industry sector. Associations may then lobby government for a business conductive environment. However, we can also identify voluntary collective initiatives concerned with issues that we would not directly associate with business interests, for example environmental protection or HIV/AIDS services beyond what is required by law. Such collective action in social fields is particularly puzzling. Usually the state ensures environmental protection or provides health services.

The basic argument of this thesis is that firms engage in collective action whenever they fear the loss of idiosyncratic investments, for example investments in sophisticated technology or skilled labour. They align in order to avoid this loss. In particular, the voluntary private contribution to social governance in developing countries may arise because idiosyncratic investments of firms are exposed not only to industry specific problems but also to challenges confronting society in general. For example, the government might not ensure access to clean water. This limited access would constitute a problem for firms whose technology requires the use of water. Therefore, I argue, firm would form a collective response aimed at the improvement of water service infrastructures. Acting to safeguard their own investments in technology the firms would help combating water scarcity.

More precisely, this thesis puts forward a theoretical framework to systematically explain the collective action of firms, i.e. their establishment of and submission to governance rules. Drawing on institutionalist research and collective action theory I demonstrate how macro-, meso- and micro-level factors can be integrated into one theoretical framework: Not only is it necessary to include the institutional framework that frames the interaction of firms. It is also essential to look at their specific characteristics. Firms within one economy do not necessarily pursue the same strategies (Hermann 2008). As emphasised, I argue that their behaviour depends on the investments they undertake. Furthermore, it is dependent on their size. Finally, the analysis does not treat the firm as a black box. The decisive role for the emergence of collective action between firms is explicitly assigned to the cognitively limited individual.

Distinguishing motivation and facilitation forces necessary for the emergence of collective action the theoretical analysis proceeds in two steps. Motivation factors are idiosyncratic investment and uncertainty. Firstly, specialised investment may occur with regard to capital, labour or buyers/suppliers. While firms without specialised investment can replace transaction partners and input factors with relative ease, firms with specialised investment do not have this possibility. Identity matters in this regard. For example, BMW invests extensively in the training of employees. Having to replace them implies a considerable loss of investment and requires reinvestment in skills development of new employees. Similarly, Toyota provides a supplier with technology and expertise. If the supplier exited the interaction the car manufacturer would lose these investments.

The second motivation factor is uncertainty. I distinguish actor and environmental uncertainty. The former refers to the uncertainty about the behaviour of interaction partners. For example, the retailer Nike wants to source t-shirts but cannot be sure if the supplier will deliver at the agreed point in time. The supplier may decide to sell to another retailer, which might offer to purchase greater volumes of t-shirts. Nike would then have to find a new supplier that can deliver the product at short notice. The other form of uncertainty concerns (potential) instabilities in the environment of the firm. Examples for such external events are the HIV/AIDS epidemic as much as a government's threat to tax energy consumption.

From an external observer's point of view, the combination of uncertainty with idiosyncratic investment constitutes the motivation force necessary for collective action of firms to emerge. Firstly, governance rules are formulated to safeguard the investment among transaction partners (vertical collective action) (Williamson 1975, 2002). To do so, firms draw on norms offered by the existing institutional environment. Given the institutional environment provides social standards or codes of good conduct, firms thus contribute to social governance. Secondly, governance rules are established between any firms whose specialised investment is affected by an external event (horizontal collective action). Compensating for environmental instability firms then creatively develop rules mitigating the impact. Given firms respond to an event relevant not only to them but to society in general, they thus contribute to social governance.

However, I argue that motivation is not sufficient. For collective action to actually be established the facilitation factors transactional interest and large firm size are necessary. The transactional interest constitutes the most basic condition for the collective action of firms to emerge since it causes firms to expose themselves to interaction in the first place. For example, Nike wants to interact with textile manufacturers because otherwise it would not have any product to sell to its own customers. As far as firm size is concerned, it is of relevance that individuals are limited as regards receiving, storing and processing information. This limitation affects employees of small firms more than it does those of large firms. The reason is that the employees of a small firm struggle with complexity due to task variety, whereas employees of large firms may deal with the same task volume but usually focus on one issue area only. For example, a large firm may have a department for human resources with various sub-sections focusing on employee health, benefits, hiring, discipline, training etc. By contrast, in a small firm these tasks may be centralised in one human resource manager. Therefore, individual employees of a small firm tend to be overwhelmed and unable to recognise the risks the combination of idiosyncratic investment and uncertainty bears. Hence, the employees of a small firm do not suggest the development of governance rules but stick to simple contracting.

Overall, the expectation is that predominantly[2] large firms with idiosyncratic investment collectively contribute to social governance. They engage in collective action in order to safeguard their investments.

1.3 Case Selection, Methodology and Findings

After having outlined the theoretical framework this introduction provides a first overview of the case selection, methodology and findings of this thesis. The thesis looks at firms operating in the developing country South Africa. South Africa is a constitutional democracy with a federal governmental system and an independent judiciary. However, it lacks the capacity to cope with a variety of issue areas, for example security, poverty and health service provision.

The thesis examines the behaviour of firms with regard to four issue areas: Environmental protection in general, air quality, water service provision and HIV/AIDS abatement. These issue areas have general relevance for society and may, hence, be seen as to come under government responsibility. Usually firms would not be expected to engage in governance contributions in those areas.

The issue areas differ with regard to the presence of norms as well as of external events. More specifically, the issue area environmental protection provides the background in the first part of the empirical analysis on the emergence of vertical collective action. For the establishment of collective action between buyer firm and

---

[2] It will be argued that under certain conditions large firms involve small firms in collective initiatives.

supplier in a social policy field, corresponding norms must be available, which the firms can draw upon. Since the end of the Apartheid era, world-class environmental regulation has been adopted in South Africa. However, specification of legislation is only slowly moving forward and law enforcement is weak. Thus, there is room for firms to manoeuvre. In many regions, industry heavily pollutes air, water and soil without fear of legal consequences. Private environmental protection is nothing automatic. At the same time, various international environmental protection standards are available to firms. For example, the International Standards Organisation actively promotes the dissemination of the ISO 14000 standard worldwide and via the South African Bureau of Standards in South Africa.

The issue areas air quality, water service provision and HIV/AIDS abatement figure in the analysis on the emergence of horizontal collective action. All else being equal, I assess the impact of external events on the behaviour of firms by looking at the areas air quality and water. Both are linked to the general environmental framework legislation. However, South African cities continue to be particularly plagued by persistent air pollution problems. The South African government has only recently started to seriously work on the improvement of air quality. Importantly, government inaction also involved that high quality fuel was scarcely available to industry. By contrast, regulation on improved water infrastructure was passed more than ten years ago. The provision of water services to industry has long been relatively stable.

As in the case of air quality, the South African government long ignored the devastating effects of the HIV/AIDS epidemic. The eventual formulation of policies has been translated into action only to a limited degree. The provinces are in charge of implementation but most of them are overburdened. Today, UNAIDS (2008) data indicate a prevalence rate of 18.3% among adults aged 15 to 49. Industry is struggling because of sick leave and labour turnover. I will evaluate the role idiosyncratic investment in labour and firm size play for the emergence of horizontal collective given the presence of this epidemic.

The thesis studies the behaviour firms, which differ with regard to idiosyncratic investment and size. Automotive firms and textile retailers are examined. The automotive industry is the third largest economic sector in South Africa. Seven of the top global car producers, namely BMW, Mercedes, VW, Nissan, Toyota, General Motors and Ford, operate production sites in the country. Thus integrated into global production chains the industry meets global standards in terms of technical development and productivity. Most manufacturers are characterised by extensive idiosyncratic investment in labour, capital, socially responsible reputation and suppliers. The oligopolistically structured car manufacturing industry sources from about 500 comparatively small automotive component firms based in South Africa. These suppliers are highly dependent on the major car manufacturers.

Similarly, the structure of the textile-retailing sector is of oligopolistic nature. The market is dominated by seven textile retailers: Woolworths, Edcon, Foschini, Mr Price, Pep Stores, Truworths and Pick N' Pay. The wholesale, retail, catering and accommodation sector is one of the five biggest industries in terms of GDP contribution. However, idiosyncratic investment in labour and capital is usually limited. Only some retailers invest in a specialised reputation. While retail sales have considerably increased, the textile industry supplying the retailers has been in decline for years. Firm size in terms of employment is small; bankruptcy is a frequent phenomenon. The retailers' integration into global supply chains has contributed to the textile manufacturers' exposure to international competition. Currently, approximately 2000 apparel textile firms operate in the formal sector.

The car manufacturing sector and the retailing sector are similar due to their large firm sizes, their relatively small suppliers, their positive contribution to the South African GDP and their international links. In both industry sectors specialised investment in a socially responsible reputation takes place. They pronouncedly differ with regard to idiosyncratic investment in employees, capital and suppliers. Hence, a continuum can be identified, which ranges from intense idiosyncratic investment in the automotive industry, for example Original Equipment Manufacturer (OEM) 3, via medium investment, for example OEM 5, via comparatively low investment in textile retailing, for example retailer R 1, to hardly any, for example R 3.[3]

This thesis bases its empirical analysis on documents and interviews. In order to develop a sound knowledge of South Africa and especially of the different industry sectors I visited the country three times. Data collection was completed in October 2008. The method of triangulation can be deployed for a large amount of the data. The hypotheses developed below are assessed via qualitative pair-wise comparison. I conduct a systematic assessment of the theoretical framework according to indicators of independent and dependent variables. Moreover, the analysis includes a process tracing of the derived mechanisms linking the variables.

The assessment of the theoretical expectations demonstrates that firms – particularly large firms – collectively contribute to social governance and that they do so without necessarily having the intention to be social. They are economic actors, which seek to increase their profits and, therefore, wish to safeguard their idiosyncratic investments in an uncertain world.

The empirical data supports the theoretical expectations I develop on the emergence of vertical collective action, i.e. the establishment of governance rules between buyer firm and supplier. Firstly, the empirical analysis shows that, all else being equal, the higher the idiosyncratic investment, the more buyer and supplier engage in vertical collective action.[4] Exposed to uncertainty about the behaviour of their respective transaction partner automotive manufacturers feel inclined to safeguard their investments in methods, skills and equipment. Therefore, they decide to establish collective governance rules. To do so, they draw on and implement existing international environmental standards and, thereby, contribute to governance in the field of environmental protection. The very private interest in the safeguarding of their own investments led them to contribute to social governance. Secondly, the analysis demonstrates that if a firm engages in investment in a specific

---

[3] For confidentiality reasons, this thesis refrains from using the actual company names throughout the empirical analysis.

[4] For the relevance of and corresponding assumptions on firm size see below.

reputation, vertical collective action is established.[5] Textile retailers engage in vertical collective action with suppliers in order to safeguard investments in social responsibility. These investments would have been lost if suppliers had been found to mistreat employees or pollute the environment. By involving their suppliers, socially responsible firms thus contribute to the dissemination of social norms.

The empirical analysis also corroborates the claim that idiosyncratic investment, large firm size and an external event together cause horizontal collective action, i.e. the establishment of governance rules between any types of firms. Firstly, the assessment shows that textile-retailers and automotive manufacturers engage in horizontal collective action indeed with the purpose of safeguarding their individual idiosyncratic investments in social responsibility, employee skills and high technology. Secondly, the analysis supports the expectation that firms did so because they were responding to the HIV/AIDS epidemic and to the scarcity of quality fuel, which were threatening their investment. Thirdly, it is illustrated that the firms were able to respond because they were of large size. Whereas small firms do not engage in horizontal collective action, large firms took on an active role. Thus, the private interest in safeguarding idiosyncratic investments leads large firms to support South Africa in its fight against pressing social problems such as the HIV/AIDS epidemic and poor air quality. Collective action of firms proves to fill gaps, which government had been unwilling or incapable to close.

1.4 Theoretical, Methodological and Empirical Contributions

This doctoral thesis advances several claims with the purpose of remedying current shortcomings in the literature. Firstly, in order to explain the collective action of firms, this thesis grounds its argument on micro-economic institutionalism, which was developed to account for industrial organisation (see Williamson 1975, 2002). Political scientists have drawn on this research when examining the cooperative behaviour of states regarding security issues or environmental protection (see Keohane 1984, Oye 1985). Surprisingly, micro-economic institutionalism has rarely

---

[5] For the relevance of and corresponding assumptions on firm size see below.

been applied to explain the contribution of firms to social governance, i.e. the establishment of private governance rules dealing with environmental protection or social service provision.[6] By presenting a general theoretical framework that can account for the collective action of firms in these fields this study contributes to filling this gap.

Secondly, the theoretical framework bridges the gap between preferences of individual actors and their environment. I argue that moves are dependent not only on the preferences of an actor, but also on the preferences of other actors, on formal and informal structures and on events occurring in the actor's environment. The economic institutionalist tradition has incorporated strands of research, which have developed in relative isolation from each other. In particular, micro-economic institutionalism has long focused "on the mechanisms of governance, whereby economic agents align transactions with governance structures to affect economizing outcomes, taking the institutional environment as given" (Oxley 1999, p.284, Williamson 1996).

Thirdly, firms establish governance rules in social fields also without a shadow of hierarchy. Importantly, they do so without necessarily having the intention to act socially. The purpose is to safeguard idiosyncratic investments in labour skills or technology in an uncertain world. This constitutes a deeper insight into the motivations of firms to engage in social governance. So far, the debate about the contribution of firms to social governance had mainly highlighted as driving forces either a new concern beyond short-term profit maximisation or the threat of external intervention (see for example Wolf et al. 2007, Héritier and Eckert 2008). As will be shown below, both forms can be viewed as part of the same logic and, hence, integrated in one theoretical framework.[7]

---

[6] For example, Haufler (2001) and Prakash (2000) make important contributions in this regard. This is elaborated upon in chapter 2. We discuss the inspector role buyer firms take on to ensure reliable behaviour of their suppliers in Heritier et al. (2009).

[7] According to the Collaborative Research Centre 700 of the Freie Universität Berlin intentionality is fundamental to governance. I argue that the establishment of governance rules by firms is intentional but not necessarily (deliberately) social.

Fourthly, this thesis uses two modes of research rarely applied in the study of corporate social activity: The deduction of hypotheses and the precision and specificity of the qualitative pair-wise comparison of carefully selected cases.[8] While the findings of the existing literature on corporate social responsibility are enlightening, contributions often focus on individual success cases. Thus, there is a selection bias on the dependent variable in the literature.

Finally, South Africa has so far rarely been on the radar of research on corporate social responsibility and new modes of governance.[9] This thesis offers an empirical analysis of governance contributions of industry in this country, for example with regard to air quality and HIV/AIDS. A rich account is provided by including both a systematic assessment of the theoretical framework according to indicators of independent and dependent variables as well as a process tracing of the derived mechanisms linking the variables.

1.5 Chapter Overview

Chapter 2 gives an overview of those theoretical ideas, which inspire and constitute the theoretical tooling for the development of the theoretical framework of this thesis. I introduce approaches to the explanation of collective action and suggest how they did already cross-fertilise and how they could do so further. This is followed by the introduction of distinctions and assumptions as far as rules and actors are concerned. What are institutions and governance rules? How does the firm fit in and which role do individuals play?

Uniting theoretical ideas put forward by existing literature chapter 3 develops an explanation of the collective action of firms. The chapter starts out with a presentation of the dependent variable and introduces the motivation and facilitation

[8] An example of a systematic account and the criticism of a general lack thereof can be found in Wolf et al. (2007). They present “a framework for a comparative research agenda to address the question: Under which circumstances and to what extent can private corporations be expected to contribute to public security” (Wolf et al. 2007, p.294)?

[9] Also see the research that resulted from the project ‘Fostering Regulation – Corporate Social Responsibility in Countries with Weak Regulatory Capacity’ (D2), which focused on South Africa. The project was part of the first phase of the SFB 700 based at the Freie Universitaet Berlin.

forces of collective action. Subsequent to that, the causal mechanisms are developed and hypotheses formulated. The suggested framework emphasises the role of institutions, uncertainty, idiosyncratic investments and firm size. Furthermore, the decisive role for the emergence of collective action between firms is explicitly assigned to the boundedly rational individual. Thus, the framework incorporates a macro-, meso- and micro-level explanation.

Chapter 4 presents the methodology. It is explained why which cases are selected and, correspondingly, why the focus is placed on one country and several firms, industry sectors and issue areas. This precedes an illustration of the way in which empirical research was conducted and a summary of data sources. Chapter 5 introduces the empirical setting: a) South Africa as country of focus, b) environmental protection in general, air quality, water service provision and HIV/AIDS abatement as issue areas and c) automotive manufacturing and textile-retailing as industry sectors. Chapter 6 operationalises both the dependent and independent variables and evaluates each of the five hypotheses developed in chapter 3.

Chapter 7 concludes the thesis. It summarises both the main theoretical ideas and the empirical findings. Thereafter, it discusses if firms can and should compensate for government. Is ‘governance without government’ a viable and legitimate alternative to hierarchical government? This is followed by suggestions of directions for further research.

2 Toward an Explanation of the Collective Action of Firms

In South Africa, BMW collaborates with its suppliers to implement environmental protection standards; Nike cooperates with the retailer Woolworths to improve HIV/AIDS service provision; and Toyota, Mercedes and others collectively work on the advancement of air quality regulation. In order to explain under which conditions firms collectively engage in social governance, this thesis makes a general argument on the collective action of firms. Firms are not driven by the intention to act socially. They formulate and implement governance rules with the purpose of safeguarding idiosyncratic investments under conditions of uncertainty.

The thesis puts forth an argument based on microeconomic institutionalism, which was developed to explain industrial organisation (see Williamson 1975, 2002). Political scientists have employed the results of this research when examining the cooperative behaviour of states regarding security issues or environmental protection (see Keohane 1984, Oye 1985). Surprisingly, microeconomic institutionalism has so far rarely been applied to explain the contribution of firms to social governance, i.e. the establishment of private governance rules dealing with environmental protection or social service provision.[10] Before the theoretical framework is developed in chapter 3, this chapter gives an introduction to the theoretical tooling and presents the assumptions.[11]

2.1 Theoretical Inspiration and Tooling

This section does not aim at providing a survey of the existing literature on economic institutionalism, self-regulation and collective action. It merely introduces those aspects of approaches relevant to the argument of this thesis and indicates how it can add fruitfully to existing debates. The main objective of this thesis is to integrate and extend the ideas presented in this section in order to provide a general

---

[10] For example, Prakash (2000), Haufler (2001) and Heritier et al. (2009) make important contributions in this regard. See below.

[11] This thesis concentrates on the explanation of governance rules. The actual provision of common goods, and the specific form they may take, is not examined. The reason for this focus is that rules are usually the first step towards the collective provision of goods. Moreover, time and space did not allow for systematically tackling both matters.

explanation of the collective action of firms.

2.1.1 The Idiosyncrasy of Investment

With Oliver Williamson at the forefront, microeconomic institutionalism proposes the concept of idiosyncratic investment or asset specificity[12] to explain the emergence of industrial organisation, for example vertical integration (see Carter and Hodgson 2006, David and Han 2004). Williamson points out (1979, p.239-240, 1975, 1983):

> "The crucial investment distinction is this: To what degree are transaction-specific (non-marketable) expenses incurred. Items that are un-specialized among users pose few hazards, since buyers in these circumstances can easily turn to alternative sources, and suppliers can sell output intended for one order to other buyers without difficulty. Non-marketability problems arise when the specific identity of the parties has important cost-bearing consequences. Transactions of this kind will be referred to as idiosyncratic."

Thus, the identity of the transaction partners can be important from the outset, for example if a buyer requires a supplier to invest in specialised physical capital. BMW SA may ask the supplier August Läpple to build a new facility specifically designed to accommodate the production of BMW components. Both parties then become 'locked into' the transaction. Whereas the supplier's investments do, by definition, not have the same value if they were redeployed for other purposes, the buyer cannot easily turn to other sources of supply, since what is available would be un-specialised. The cost of supply is likely to be great. Identity may also develop after the initial contracting stage. The parties then develop a specialised language, skills and knowledge about each other's expectations (Williamson 1975, 1979).

Specialised investments may not only occur in inter-firm relationships. There may also be inner-organisational specialisation. For example, employees may acquire job-specific skills and knowledge during the course of their employment. Automotive manufacturers usually invest extensively in training in order to ensure the necessary skills. Generally, Williamson (1975, 2002) identifies specialised

---

[12] Williamson uses the terms asset specificity and idiosyncratic investment. This thesis mainly talks about idiosyncratic investment since this term, firstly, may be more accessible to a wider community of scholars and, secondly, expresses an active element.

investments in physical capital, human resources, investments linked to a specific location; investments in reputation or branding; and dedicated assets, which are investments that cannot be put to work for another purpose. Others have suggested the relevance of product complexity (Masten 1984); time specificity, which is investment value depending on a specific time/transportation scheme (Malone et al. 1987, Masten et al. 1991); or procedural specificity, such as a strongly customized work process (Zaheer and Venkatraman 1994).

Standardised transactions allow spot contracting since competition operates as control mechanism. By contrast, contracting involving idiosyncratic activities is less straightforward. Given the possibility of opportunism, the parties will invest only if they can be assured of a continuing relation. However, even long-term contracts are incomplete due to bounded rationality. Adaptation may be necessary during the implementation of the contract because of vague provisions, changed behaviour of the contracting partners or new external conditions requiring an adjustment of the contract. "Although both have a long-term interest in effecting adaptations of a joint profit-maximizing kind, each also has an interest in appropriating as much of the gain as he can on each occasion to adapt" (Williamson 1979, p.242). This presumably leads parties to engage in costly haggling. In order to reduce contractual hazards and ensure that none of the transaction partners falls victim to a hold-up in the implementation of the contract, firms devise private governance rules. These governance rules guide the partners' transactions in the likely case that adaptations are necessary during the implementation of the contract (Williamson 1975).

Thus, Williamson provides a powerful explanation of the emergence of collective rules. Nonetheless, two remarks shall be made: Firstly, transaction partners face a dilemma. On the one hand, they want to increase profits and, hence, engage in the transaction. On the other hand, they are exposed to opportunistic inclinations and feel at risk. According to Williamson, this is why they devise governance rules. Of critical importance is, however, how the parties manage to develop and implement those rules. Do they not face a second order collective action problem? This thesis models the situation the transaction partners are involved in as an assurance game. The explication of the type of interaction structures underlying transactional processes is a step this thesis takes in order to advance the argument on the emergence of the collective action of firms.

Secondly, Williamson argues that due to the possibility of opportunism contract fulfilment is not automatic. However, what is not part of the analysis is that this is dependent on the extent to which transacting parties can be forced into contract fulfilment through external intervention (North 1990). The role of macro-level institutions is hardly touched upon. The approach focuses "on the mechanisms of governance, whereby economic agents align transactions with governance structures to affect economizing outcomes, taking the institutional environment as given" (Oxley 1999, p.284). Similarly, Williamson (1975, 1979) emphasises the relevance of uncertainty surrounding actors but treats it predominantly as an assumption rather than as a variable. Moreover, uncertainty remains under-specified. This thesis systematically includes macro-level factors in its explanation.

Williamson employs the concept of idiosyncratic investment (and uncertainty) to explain industrial organisation. This thesis extends the explanatory power of this microeconomic institutionalist approach by arguing for its relevance also for the collective contribution of firms to social governance. The inspiration to do so was taken from regime theory as well as from corporate social responsibility research that has started to include economic institutionalism.

2.1.2 Regime Theory on Interdependence

Idiosyncratic investment is a concept of interdependence. The investment transforms the relationship of transaction partners from a situation with a large number of potential interaction partners into a state in which only a small number of actual parties remain (Williamson 1975, 1996). Similarly, regime theory formulates a concept of interdependence. According to Keohane and Nye (1977, p.8) interdependence "refers to situations characterised by reciprocal [costly] effects among countries or among actors in different countries." Thereby, they distinguish interdependence from interconnectedness. For example, importing all of the oil it consumes country A tends to be exposed to extensive dependence on a steady flow of petroleum, whereas country B, which imports furs and jewellery, is not as dependent on the continuous access to these goods (Keohane and Nye 1977).

Akin to microeconomic institutionalism, regime theory identifies a link between interdependence and the emergence of rule structures. Although regime theory does not expect the vanishing of international conflicts of interests, mutual dependence is argued to improve the willingness of states to bi- as well as multilaterally settle matters through the establishment of rule structures at the global level (Keohane and Nye 1977, Keohane and Ostrom 1995). International rules on various issue areas have been established, for example on environmental protection, on international monetary and trade policy as well as on aid to less developed countries. Pointing to the existence of institutions on the anarchic global stage this literature claims that hierarchical enforcement is not necessary for nation states to engage in cooperation (Keohane and Ostrom 1995).

Keohane and Nye (1977) treat interdependence as intervening variable between power resources and the outcomes of the political process. The goals of actors, the role of international organisations, the instruments of state politics, issue linkages and agenda setting are what they want to explain. However, the causal link between these variables and the characteristics of interdependence remains diffuse. Goals and instruments of state politics are described as features and as consequences of interdependence (Kohler-Koch 1990).

Despite these theoretical shortcomings the concept of interdependence proposed by regime theory points to three aspects that are relevant to the argument of this thesis. Firstly, interdependence, as it is viewed by regime theory, appears to play a role for the emergence of rule structures. Secondly, these rule structures seem to deal with issues as varied as environmental protection and international trade. Thirdly, external hierarchical intervention is not seen as necessary for collective action to occur. Taking inspiration from regime theory is possible because it implicitly and, at a later stage, explicitly (though not rigorously) emphasises the importance of transaction costs for the emergence of collective action (see Oye 1985, Keohane and Ostrom 1995).

2.1.3 Corporate Social Responsibility Research

Over the last decades, literature identifying the social behaviour of firms has thrived. While findings are often enlightening, many studies do not link theory and empirics but are mainly interested in the description of success cases. However, there is also some theoretically guided research. Often this research explicitly draws on microeconomic institutionalist reasoning to explain voluntary corporate social responsibility or highlights explanatory factors, which could be linked to this theoretical perspective.

For example, Prakash (2000) examines the choice of firms to adopt environmental policies, which go beyond legal requirements. Criticising neo-classical economics for its neglect of intra-firm dynamics the study employs an economic institutionalist approach and supports its argument with an empirical analysis. Thus, Prakash's basic approach is similar to the one applied by this thesis. However, Prakash does not study the collective action of firms. Furthermore, related to the different research focus, he focuses on power- and leadership-based theories instead of the transaction-oriented perspective applied in my study.

In their article, Héritier et al. (2009) do develop a theoretical argument based on transaction cost economics and institutionalism in order to analyse the conditions under which firms control their suppliers' products and production processes. Héritier et al. examine the role of asset specificity, of the target market and of a company's home country regulation. As already highlighted above, asset specificity is central to the general argument presented in this doctoral thesis. The idea of the target market is contained particularly in the second hypothesis developed below. While the (international) institutional environment is a component of my theoretical framework, the specific home country regulation of a company is not made part. From a theoretical perspective, one may argue that direct influence cannot be expected to occur since legal authority does not reach that far. Moreover, empirically, this explanatory factor has not fared well.[13]

---

[13] These points were emphasised by an anonymous reviewer of Börzel and Risse (forthcoming). Also see Heritier et al. (2009).

Haufler (2001) develops a broad framework to account for the emergence of industry self-regulation at the international level. This framework includes similar explanatory factors as those identified in this thesis, for example the idiosyncrasy of investments, uncertainty, reputation and the risk of government intervention. While the former two explicitly link back to institutional economic accounts, also the latter two can be grounded on this theoretical base, which is what this thesis does below.

Providing a highly systematic account on the private contributions to security governance, Wolf et al. (2007) distinguish clusters of explanatory factors: Actor characteristics, production characteristics, institutional environment and conflict characteristics. This thesis uses similar categories and integrates them into an institutionalist economic framework. However, an explanatory factor that is frequently put forth in the literature on corporate social responsibility, for example by Wolf et al. (2007), but not included in this thesis, is the role of campaigns of non-governmental organisations (NGOs). From a theoretical perspective, it is conceivable that NGOs could cause an increase in input factor prices and thus challenge specialised investments of firms. The increase in input factor prices is captured by the hypothesis five on external events developed by this thesis. Empirically, NGO campaigns targeting companies have so far not been an issue in South Africa, the country focused on in the empirical analysis.

Thus, micro-economic institutionalism has not only stuck to be used for the explanation of industrial organisation. Some scholars have started to implicitly and explicitly draw upon this theoretical perspective to explain corporate social responsibility. This thesis integrates micro-economic institutionalist reasoning into a general, multi-level framework on the collective action of firms, which can systematically account for collective action in (supposedly business atypical) fields such as environmental protection or health service provision.

2.1.4 Shadow of Hierarchy Research

As already highlighted above, a framework explaining the collective action of firms cannot ignore the role of macro-level factors. According to the new institutional economics literature, institutions provide social order by framing human interaction.

They stabilise expectations and, thereby, reduce uncertainty (Hayek 1982, North 1990, Williamson 2000).[14] In line with this, the new modes of governance research views hierarchy as institutionalised rule structure, which can channel individual behaviour (Börzel 2008). This includes that "[l]egislators can threaten to enact adverse legislation unless potentially affected actors alter their behaviour to accommodate the legislators' demands" (Héritier and Lehmkuhl 2008, p.2). Scholars suggest that "[t]he Damocles sword of threatened direct state intervention" is necessary for collective private self-regulation to emerge (Schmitter and Streeck 1985, p.131). Firms consider private governance rules to be more adjustable to changing business environments than state regulation. Therefore, firms prefer the former to the latter. The success of legislative threats is argued to depend on their credibility, that is, on the ability and willingness of legislators to actually implement the regulation in question (Halfteck 2006, Héritier and Lehmkuhl 2008).

This literature presents a highly theoretical explanation on the emergence of collective self-regulation. However, the research focus is placed on the nature of the legislative threat. It remains unclear as to why exactly firms choose to respond to such a threat. Do all firms respond in the same way? What does a firm's interest in flexibility involve? Which costs does legislation cause? Moreover, the arguments on interdependence and corporate social responsibility introduced above suggest that a legislative threat is not necessary for social behaviour of firms to occur. This thesis incorporates the insights of this research strand into a general institutionalist economic framework that explains the collective action of firms.

2.1.5 Actor Size Research

The relevance of actor size for the emergence of collective action and welfare has been emphasised by economists and international relations scholars. According to Olson (1965) a large actor may choose to work towards the common good of a group even if other actors take a free ride. The underlying assumption is that the more income an individual actor has at its disposal the more she purchases of

---

[14] This is further elaborated below.

something she desires. Small actors will therefore buy comparatively little (Cornes and Sandler 1996). Drawing on this argument hegemonic stability theory (see for example Gilpin 1975, Krasner 1976, Gowa 1989)

> "claims that the presence of a single, strongly dominant actor in international politics leads to collectively desirable outcomes for all states in the international system. Conversely, the absence of a hegemon is associated with disorder in the world system and undesirable outcomes for individual states (Snidal 1985, p.579)".

The payoffs are such that the hegemonic actor has the dominant strategy to cooperate. This constitutes what in game theoretic parlance has been called a suasion game (Martin 1992). The large actor can then change this payoff structure. This may occur either by forcing the smaller actors to contribute or by providing side-payments in order to realise collective action (Martin 1992, Olson 1965).

That large actors can assert the perusal of their own goals, for example by enabling and enforcing collective initiatives, seems to be widely accepted. However, the view that heterogeneity, that is variation in actor size, facilitates cooperation towards the common good has been challenged by the literature on common pool resources (see Ostrom 1990, Libecap 1995). Powerful actors, while able to do otherwise, often work against the interest of the collective. The idea that there is a strong common interest in general welfare or that the interest in contributing to the common good grows with an increase in size ignores the possibility of variation in interest (Snidal 1995).

This thesis distinguishes between interest and ability. Large firms do not necessarily have an interest in collective action. Whereas idiosyncratic investment under conditions of uncertainty is the motivational force for firms to engage in collective action, large firm size constitutes a facilitating factor of collective action. Moreover, I argue that collective action does not automatically involve a contribution to the welfare of all participating actors or of society in general. The role of firm size for collective action has so far rarely been discussed from a micro-economic institutionalist perspective. This thesis integrates firm size into its theoretical framework.

2.1.6 Heuristic Game Theory

The strength of game theory lies in its stylisation of social problems. At the most basic level, it is distinguished between coordination and cooperation games. Coordination games are characterised by having two equilibriums. None of the parties has a dominant strategy but the best course of action depends on the other party's choice of behaviour. By contrast, a cooperation game only has one equilibrium: Mutual defection. The individual actor chooses her strategy, defection, independently of the other's behaviour and despite mutual cooperation being collectively optimal as well as individually preferable to mutual defection. On the one hand, each actor fears that if she cooperates she will be exploited (defensive defection); on the other hand, each of them hopes to take advantage of the other one by taking a free ride (offensive defection). Cooperation is inaccessible and instable.

Real world interaction situations are often more complicated of course. From a game theoretical perspective this has, for example, been taken into account by showing how iteration transforms a single shot cooperation game into a coordination game (Axelrod 1981, Axelrod and Keohane 1986). Similarly, a game structure may change if one considers that the actors involved are, at the same time, also participating in other games with other actors (Putnam 1988, Tsebelis 1990). Other factors that have an impact on the interaction structure are, for instance, actor types, the number of actors, communication and action alternatives (see Koehane and Ostrom 1995, Morrow 1999).

This study identifies the game structures inherent in the interactions of firms and explains how they overcome the respective social problem and manage to establish collective governance rules. Most importantly, the combination of idiosyncratic investment and uncertainty leads firms to come to be involved in interaction situations resembling the assurance game (see Taylor 1990, Skyrms 2001): Parties are pulled in one direction by considerations of mutual benefit and in the other by considerations of personal risk. This situation, it is argued, makes them want and, at the same time, allows them to realise the establishment of governance rules.

Fig 1: Assurance game

		Player 2	
		Cooperation	Defection
Player 1	Cooperation	4, 4	1, 2
	Defection	2, 1	3, 3

This section outlined the literature relevant for the development of the theoretical framework on the collective action of firms in chapter 3. The thesis now proceeds to formulate basic assumptions and distinctions.

2.2 Rules and Actors – Distinctions and Assumptions

Institutions matter for individual actors and social interaction. They facilitate the problem-solving activity of agents and, at the same time, channel their behaviour. While this may find wide agreement in the scholarly debate, "'institution' is an ill-defined concept" (Scharpf 1997, p.38). Some limit the term to sanctioned rules (Ostrom et al. 1994), for others it also refers to norms and principles (Krasner 1983) or social entities (March and Olson 1989).

For the purpose of this study, a distinction between two levels of rules proves helpful. Firstly, there is what has been called the rules of the game or macro-level rules, which provide social order by framing human interaction (North 1990). Stabilising expectations these rules reduce uncertainty (Hayek 1982). Such rules will be referred to as institutions. Institutions can be formal and informal in nature. Formal institutions are legal, social and political ground rules, which can range from constitutions to standards. Local and national government as well as international organisations may formulate them and usually ensure some form of enforcement. By contrast, informal institutions are not made explicit. Moreover, they are generally self-policing. Informal institutions, such as customs and religion, are cultural rules guiding society. Since cultural development is a slow process, the informal rules of a given society can be viewed as an exogenous constant when short- and medium-term questions are tackled (Williamson 2000).

Secondly, there are meso-level rules. Similar to institutions, they provide order to human interaction. However, in contrast to institutions, these rules are relevant only for a specific group of individuals, an organisation, tied together by a common objective. The organisation itself is a player subjected to the macro-level rules of the game provided by the institutional framework (North 1990). Meso-level rules may govern individuals in addition to the institutional framework. As in the case of institutions, meso-level rules can be of informal and formal nature. There are self-enforcing traditions as well as governance rules requiring enforcement. As further elaborated below, this thesis seeks to explain the establishment of such governance rules between firms. Governance rules that deal with supposedly business atypical issues such as environmental protection or health service provision are thereby viewed as an instance of governance rules per se.

How does the firm fit in? On the one hand, the institutional framework guides the firm and, on the other hand, the firm is an organisation, a meso-level rule structure, which governs the actions of the individuals within the firm. Organisations can incorporate other organisations, whereby the incorporated organisation is, in line with the logic outlined above, subjected to the rules of the incorporating one. Hence, if the firm participates in other organisations, for example in trade associations or initiatives such as the South African Business Coalition on HIV/AIDS, the firm itself is governed by meso-level in addition to macro-level rules.

The micro-level refers to individuals, whose behaviour is channelled by meso- and macro-level rules.[15] The individuals in the firm are boundedly rational actors whose foremost goal is to increase their individual utility. Unable to optimise the individual actor behaves "intendedly rational, but only limited so" (Simon 1961, p.xxiv). She is limited in terms of knowledge, skills and foresight. Being incapable to receive, store and process information without error the individual may take decisions grounded on erroneous perceptions of reality (Simon 1957). At the same time, the individual can learn on the basis of past experiences and apply this newly gained knowledge.[16]

Restricted cognitive capacity gives rise to individuals mobilising their innovative

---

[15] There can also be micro-level rules. See below.

[16] According to Williamson (1975) bounded rationality combined with a complex environment becomes even more problematic in a world in which actors behave opportunistically. He highlights "self-interest seeking with guile" and its implications (Williamson 1975, p.26). Promises cannot be believed since information disclosure may deliberately be distorted or selective. The interest in utility increase assumed here incorporates the possibility of opportunism.

energies only in response to a new problem. New problems are unfamiliar and, hence, cannot "be classified under an already existing category of the mind that prescribes the appropriate solution" (Mantzavinos 2001, p.35). Ready-made solutions to new problems are not immediately available to the individual. This does not mean, however, that others have not experienced similar problems. In fact,

> "most of the new problems that somebody faces throughout his own life, are old problems for others, for which they possess successful solutions … [T]he overwhelming majority of new problems for an individual are solved by … solutions … acquired by others" (Mantzavinos 2001, p.39).

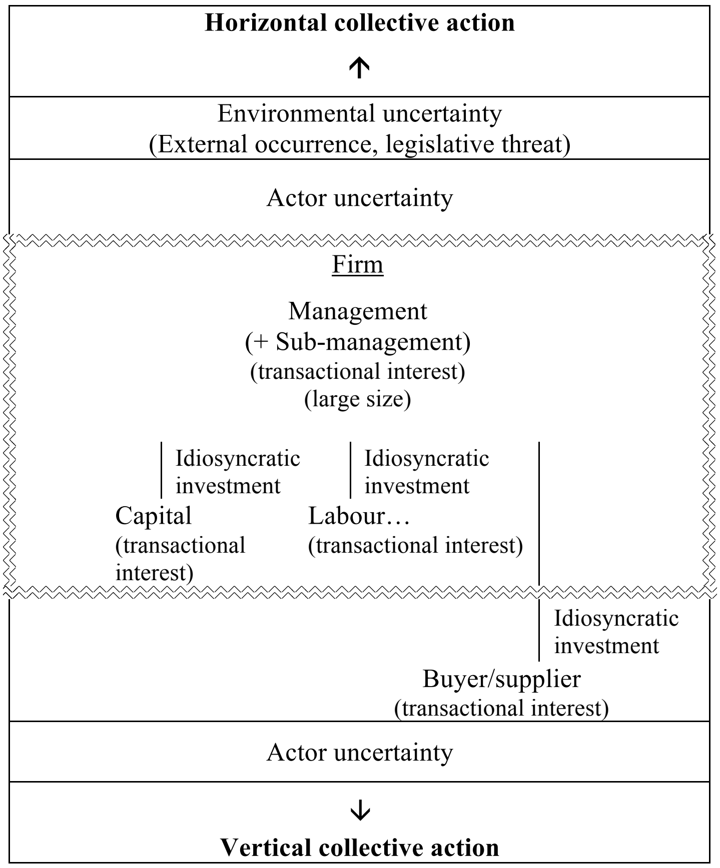
By contrast, the individual can immediately classify old problems. Frequently appearing old problems give rise to routine following. In the hierarchy of rules outlined above, individual routines would then constitute micro-level rules. At the cognitive level, existing institutions and rules the individual complies with are classified as solutions to old problems (Mantzavinos 2001).

This chapter showed which existing research and assumptions this thesis employs in order to formulate its theoretical framework on the collective action of firms. The following chapter develops the framework, which is then empirically evaluated with regard to supposedly business atypical issue areas such as environmental protection and HIV/AIDS abatement, i.e. issue areas where private engagement may appear least likely.

3 An Explanation of the Collective Action of Firms

This chapter integrates collective action theory and economic institutionalist research in order to develop a general explanation of the collective action of firms. More precisely, I seek to explain the collective establishment of governance rules between firms. Governance rules that deal with supposedly business atypical issues such as environmental protection or health service provision are thereby viewed as an instance of governance rules per se. Firms are not driven by the intention to act socially. They collectively formulate and implement governance rules with the intention to safeguard idiosyncratic investments in an uncertain world. The chapter starts out with the presentation of the dependent variable: Collective action of firms expressed in governance rules. This is followed by an introduction to the motivation and facilitation forces of collective action and a brief outline of intra-firm processes. Subsequent to that, the argument is developed and hypotheses formulated. In order to give a first overview, the theoretical framework is broadly presented in figure 1.

Fig. 1: General framework



3.1 The Dependent Variable

In developing and also in developed countries, there will always be some regulatory gap left by the state (see Williamson 1985, North 1990). Social problems and disputes then remain unsettled or are solved by the actors directly affected (see Williamson 1985, 2002). In line with this, the track record of business with regard to collective activities has been mixed. There is a myriad of empirical examples of firms acting without regard for any collective objective, whether this is the objective of a firm's industry sector or of the general public. However, firms do not always appear to prefer less to more regulation. In fact, they have been found to draw up governance rules together with various actor types. Governance research distinguishes activities that are purely private from those in which the private and the public sector cooperate (see Schmitter and Streeck 1985, Cutler *et al.* 1999, Börzel and Risse 2005; Hönke et al. 2008).

The establishment of governance rules between firms only usually takes place via business associations or supply chain initiatives. For example, associative structures often ensure equal financial contributions of firms when it comes to lobbying on trade matters; similarly, associations may require the regulation of energy consumption of their members; and buyer firms may work with their suppliers to implement environmental protection and quality standards. This thesis aims to explain the establishment of such governance rules between firms only. In contrast to non-governmental organisations or the state, firms are usually assumed to pursue their individual profit instead of some collective, let alone genuinely social objective. Hence, collective governance rules established between firms are particularly surprising without the participation of a collectively minded actor that could provide incentives or threaten.

Moreover, as highlighted above, governance rules are classified as formal meso-level rules that are marked not only by being made explicit but also by involving enforcement mechanisms. Thus, the individual firms involved are deliberately committed. While the establishment of governance rules in general is explained, there is a particular focus on governance rules dealing with issue areas such as environmental protection, health care or education. In such socially relevant fields, collective action of firms is generally viewed as particularly puzzling. This is because they are usually argued to have prisoners' dilemma preferences. Elaboration and examples will therefore concentrate on such socially relevant issue areas. Importantly, I argue that governance rules established by firms are generally aimed at safeguarding idiosyncratic investments in an uncertain world. For example, governance rules may deal with safeguarding the investment in a specialised plant a supplier made in response to a buyer firm's demand. Similarly, governance rules established between firms may aim at the mitigation of the impact of an epidemic on their skilled labour force.

The focus is placed on an explanation of the emergence of regulatory supply chain and associative structures. They will be referred to as vertical and horizontal collective action, respectively. Vertically established governance rules are intended to ensure transparency of interaction between buyer and supplier and, thus, safeguard idiosyncratic investment. The aim is to make the behaviour of the transaction partner more predictable and improve reliability. Horizontal governance rules are independent from a specific transactional relationship between firms. Firms with none or any type of relationship may be involved. They might be competitors, belong to the same supply chain or operate in different supply chains. These horizontal governance rules are established to safeguard investments by mitigating the impacts of events occurring in the surroundings of the firms.

Vertical collective action is caused by the combination of idiosyncratic investment, actor uncertainty, transactional interest and large firm size. Horizontal collective action emerges only if there is environmental uncertainty in addition to these aspects. These concepts are introduced in the following section. Subsequent to that, intra-firm processes are outlined. Then the argument is developed in detail and hypotheses are formulated for both forms of collective action.

3.2 Motivation and Facilitation[17]

Before the argument is developed in detail below, this section introduces the motivation and facilitation forces of the collective action of firms. Each of the two motivating factors and of the two facilitating factors constitutes a necessary condition. In combination, they are sufficient for collective action to emerge. This thesis argues that idiosyncratic investment and uncertainty are motivating factors, whereas the transactional interest and firm size render collective action feasible.

Idiosyncratic investment is the first motivating factor. It is specialised and unique to a task and may take the form of intra-firm and of inter-firm investment. I.e. such investment may occur with regard to transactions within the firm, for example between management and employees, as well as concerning transactions between firms, i.e. between buyer and supplier. For example, BMW invests extensively in specialised training of employees. Similarly, Toyota provides suppliers with technology and expertise. Williamson (2002) distinguishes specialised investments in physical capital and human resources, investments linked to a specific location; investments in reputation or branding; and dedicated assets which are investments that cannot be put to work for another purpose. Others have suggested the relevance of product complexity (Masten 1984), time specificity (Malone et al. 1987, Masten et al. 1991) or procedural specificity (Zaheer and Venkatraman 1994).

In contrast to spot market transactions where faceless transaction partners meet "for an instant to exchange standardised goods at equilibrium prices" (Ben-Porath 1980, p.4), in exchanges characterised by idiosyncratic investment "the identities of the parties matter, in that continuity of the relation has significant cost consequences" (Williamson 2002, p.176).[18] Specialised investments are made for a specific interaction and have a higher value there, than they would have if they were redeployed for another purpose (McGuiness 1994). The investment transforms the

---

[17] This section talks about motivation and facilitation of collective action from an external point of view, not about individual actors feeling motivated or facilitating collective action.

[18] Williamson has been criticised for starting with the assumption of perfect markets and then introducing transaction costs and bounded rationality (North 1990). His argument remains valid though as long as the institutional environment framing economic exchanges is controlled for.

relationship of transaction partners from a situation with a large number of potential interaction partners into a state in which only a small number of actual parties remain (Williamson 1975, 1996). Thus, idiosyncratic investment involves interdependence.

As elaborated above, in the absence of uncertainty such interdependence would not be problematic. However, more often than not interactions and the environment are characterised by uncertainty. Uncertainty is the second motivating factor necessary for collective action to emerge. This thesis argues that uncertainty can vary in intensity. Two forms are distinguished here. Firstly, the individual agent does not live an isolated life. She interacts with various others within a given institutional framework. While institutions reduce uncertainty, they do not provide guidance and assurance for every particular situation (Williamson 1985, 2002). Whenever exposed to a situation of interaction, the individual actor cannot be certain as to how her interaction partner will behave. An actor may be uncertain about the others' payoffs as well as about whether or not they will behave sensibly (see Martin 1992). For example, the retailer Nike wants to source t-shirts but cannot be sure if the supplier will deliver at the agreed point in time. The supplier may decide to sell to another retailer, which might offer to purchase greater volumes of t-shirts. Nike would then have to find a new supplier that can deliver the product at short notice. Secondly, a change in the general environment of the agent gives rise to uncertainty: Institutions may come to be characterised by instability, for example in the case of a legislative threat. Or a new issue area, not (yet) governed by existing institutions, might gain relevance. Examples are a government's threat to tax energy consumption as well as the HIV/AIDS epidemic.

The combination of (at least) one of these two types of uncertainty with idiosyncratic investment constitutes the motivating force necessary for collective action of firms to emerge. The firm then faces a new problem, which would require it to overcome routine responses. From an external observer's point of view, governance rules would need to be drawn up to safeguard idiosyncratic investment under uncertainty. However, motivation is not sufficient. For governance rules to actually be established two facilitating factors are necessary.

Firstly, there is the transactional interest. The above indicated that in many cases other actors are of relevance for the individual. These other actors become relevant because they are (potential) transaction partners, such as buyers and suppliers or management and employees. The transactional interest is necessary for these actors to expose themselves to direct interaction.

A second facilitating factor is necessary. Research on the emergence of collective action emphasises the importance of large actors (see Olson 1965, Kindleberger 1981, Snidal 1985, Martin 1992). In line with this but taking its own perspective, this thesis argues that firm size is relevant for the facilitation of collective action. Individual actors are limited as regards receiving, storing and processing information. I suggest that this incapacity affects individuals in small firms more than it does in large firms. As will be elaborated below, the reason is that the employees of a small firm struggle with complexity due to task variety, whereas employees of large firms deal with the same task volume but usually focus on one issue area only. For example, a large firm may have a department for human resources with various sub-sections focusing on employee health, benefits, hiring, discipline, training etc. By contrast, in a small firm these tasks may be centralised in one human resource manager. This has implications for how firms behave under conditions of uncertainty and idiosyncratic investment. In contrast to individuals employed by small firms, individuals in large firms are better at perceiving the new problem as such and searching for a solution.

This section identified the motivating and facilitating forces whose combination gives rise to the collective action of firms. The next section briefly outlines the decision-making processes taking place within the individual firm, before I move on to develop the hypotheses.

3.3 The Internal Decision-Making Process

The foregoing sections already pointed out that the firm does not constitute a black box. As further elaborated below, the central role for the emergence of collective action between firms is assigned to the cognitively limited individual. This section briefly outlines the general internal decision-making process of the firm. In particular, this is relevant for explaining why the interest of the individual employee is aligned with the interest of the firm. It is argued that if employees recognise the new problem the firm faces from an objective point of view, they also view it as their own problem.

Both large and small firms take decisions on a frequent basis and on various issues such as purchase, production or sale. The internal decision-making process can be argued to proceed in several steps: Preparation, approval and implementation (see Fama and Jensen 1983). In the preparation phase, employees develop suggestions, which refer to resources and procedures. It is not only suggested which resources or investments are needed but also how to ensure that they generate what they are meant to. Thus, if a suggestion involves the use of standard resources or investments, it also (quasi automatically) includes the application of routine procedures. By contrast, the suggestion to use specialised resources or engage in idiosyncratic investment may also involve the proposal that elaborate contracts, i.e. governance rules, need to be drawn up.[19] The suggestion phase is followed by management's decision for or against (one of the) suggestions, i.e. the approval phase, which then allows implementation.[20]

Research has frequently pointed out that management-employee interaction itself may not necessarily be smooth but characterised by cheating possible due to information asymmetries (Furubotn and Richter 1998). However, the presence of actor uncertainty between management and employees tends to be unproblematic as long as idiosyncratic investment in human capital is absent. Management can replace an employee with relative ease if it is found that she does not fulfil her tasks as required (Williamson 1975, 2002). Similarly, if employees are specialised, while actor uncertainty is absent, the parties are aware of each other's payoffs and know to what extent they can expect sensible behaviour. Management can choose its employees accordingly.

Once actor uncertainty and idiosyncratic investment come together, interaction

---

[19] Under conditions of large firm size and actor uncertainty.

[20] The interest of management is assumed to be equivalent with the interest of the firm.

becomes more difficult. If the information conveyed is specialised the recipient, i.e. management, will not understand it as well as the sender does. Moreover, management cannot judge as to whether the employee, i.e. the sender, is inclined to convey reliable information (see Arrow 2000). Finally, since the sender itself is then specialised she cannot easily be replaced. Under these conditions, management devises intra-firm rules governing the interaction with these employees (Williamson 1975, 1979).[21]

Thus, the interest of the individual employees is aligned with the interest of the firm (see Furubotn and Richter 1998). Moreover, management can then be assumed to rely on these employees to fulfil their assigned tasks as necessary. In both large and small firms, these employees take on the role of sub-managers.[22] The larger the firm the more of these interaction levels exist. However, despite the incentives from above sub-managers may not be able to interact with their own subordinates in a corresponding way. Whether they are able depends on the size of the firm.[23]

The following sections argue that the combination of idiosyncratic investment, uncertainty, transactional interest and large firm size gives rise to collective action. The form of collective action, i.e. vertical or horizontal, depends on the type of uncertainty present. If there is actor uncertainty vertical collective action emerges, while if horizontal collective action develops in the case of actor plus environmental uncertainty.

3.4 Explaining Vertical Collective Action

Vertical collective action emerges between a buyer and a supplier firm. This section

---

[21] It should be noted that management *perceives* the situation as problematic because complexity is absent. (This, in turn, is because management can be assumed to either head a small firm or a large firm of multidivisional form. For this argument, see the section on small and large firms below.) Importantly, management can furthermore intervene hierarchically as far as its employees are concerned. Hence, also facilitation of governance rules between management and employees is given (assuming the transactional interest).

[22] The firms analysed, whether they are small or large, are assumed to at least have these two interaction levels. Without this assumption it would be necessary to engage in a more detailed discussion of intra-firm processes, which is not the focus of this thesis.

[23] This is discussed in the section on small and large firms further below.

argues that governance rules reflecting this form of collective action are established, firstly, under conditions of idiosyncratic inter-firm investment and actor uncertainty; and secondly, if there is intra-firm investment in social responsibility and actor uncertainty. In both cases, transactional interest and firm size have to be present as well.

3.4.1 Idiosyncratic Inter-Firm Investment and Actor Uncertainty

This sub-section assumes that firms of large size[24] operate within an institutional environment. Two firms, a buyer and a supplier, want to exchange mutually profitable resources. The supplier would sell a component or good to the buyer firm, which would use it to produce and sell its own product. In the absence of idiosyncratic investment and actor uncertainty, firms engage in spot market trading. Introducing actor uncertainty does not have an impact as long as idiosyncratic investment is absent. Institutionalised competition then works as a sufficient policing mechanism. Disappointed spot-market traders can engage with other traders (Williamson 1995).[25] Similarly, if there is idiosyncratic investment but no actor uncertainty business as usual is possible. Individual firms are then aware of the payoffs of their potential transaction partners and know to what extent they can expect them to behave sensibly. Since firms can choose their transaction partners accordingly, engaging in idiosyncratic investment does not pose a risk. The fact that competitive forces are weakened the moment firms undertake specialized investments is then unproblematic (see Williamson 1979).

What happens if firms need to engage in idiosyncratic investment under conditions of actor uncertainty? For example, for an exchange to occur, the buyer firm may need the supplier to invest in specific equipment, a special-purpose plant or in training of its labour force. Since the value of this specialised investment is smaller if it were employed for other uses, the supplier would be effectively “locked into’

---

[24] Throughout this thesis large firm size is assumed unless otherwise stated.

[25] Even spot market traders experience costs if their transaction partner disappoints them. Losses are, however, sufficiently low for these firms to engage with a new transaction partner instead of establishing costly governance rules. This line of argument is pursued in detail below in the section on horizontal collective action.

the transaction" (Williamson 1979, p.240). Hence, the supplier fears that the buyer exits the interaction after the investment has been carried out. The supplier cannot be sure that the buyer firm's payoffs are such that it will stay. Also, there is the risk that specialised investment the buyer firm undertakes for the transaction may not be adequate; it might, for instance, be insufficient know-how or obsolete and hence inefficient tooling.

The buyer experiences similar concerns. For example, the buyer will need to provide the supplier firm with specialised know-how or tooling to ensure that the investments carried out by the supplier are adequate. Also this transfer of know-how or tooling is investment, which would be lost the moment the supplier decides to exit the interaction. Once the investments are undertaken, the buyer will want to avoid opting for an alternative supplier. The terms would be significantly less favourable because of the lack of specialisation. In addition, due to sophistication it is difficult for the buyer to know whether the processes and components the supplier uses are efficient and adequate. If not, this could have costly repercussions on the buyer firm's own production and products.

With idiosyncratic investment the harmony game between buyer and supplier turns into what resembles an assurance structure because actors are exposed to higher risk. On the one hand, both buyer and supplier are confronted with "seriously defective investment incentives" (Williamson 1979, p.241). On the other hand, each party continues to have a strong preference to engage in the transaction trading as compared to any other option. This allows them to cooperate (see Taylor 1990). Since they do have this preference and are able to inform each other about this, they can agree on the establishment of governance rules, which provide assurance and are thus a solution to the former aspect. The greater the extent of specialised investment, the more extensive substance and formalisation of governance rules turn out to be.

> "[S]imple governance structures ... [are] used in conjunction with simple contractual relations and complex governance structures reserved for complex relations ... Use of a complex structure to govern a simple relation is apt to incur unneeded costs, and use of a simple structure for a complex transaction invites strain" (Williamson 1979, p.239).

The substance of the governance rules is influenced by two factors: Firstly, the type of idiosyncratic investment to be made is of relevance. For example, in the case of specialised investment in skills and training, governance rules are implemented, which allow transparency and quality as far as the labour force is concerned. Similarly, if it is invested in technology, rules are applied ensuring quality and rendering the use of processes, substances and equipment more transparent. Thus, rules will often take the form of standards. Secondly, it plays a role which standards or rules are made available by the institutional environment embedding the interaction of the firms. Thus, if the institutional framework provides socially relevant production process standards such as the environmental standard ISO 14000, firms, i.e. the individuals within firms, draw on these rules. Similarly, the mother company may provide behavioural norms firms then employ (see Börzel and Héritier 2005, Héritier et al. 2009, Börzel and Risse forthcoming).[26]

Hence, there is not only a vertical cooperative solution to a problem of trade but also to interaction structures that may resemble a prisoners' dilemma and existing as far as socially relevant issue areas are concerned. The state of the issue area in question remains constant.[27] Nevertheless, the interaction partners' preferences change with idiosyncratic investment and actor uncertainty. Given the availability of corresponding norms, mutual cooperation in a socially relevant issue area is favoured since the reward is the successful transaction (see Olson 1965).

For example, to safeguard their specialised investments in technology the automotive manufacturer BMW and its component supplier make use of the environmental production process standard ISO 14000 developed by the International Standards Organisation. While the predominant aim is to increase the transparency of interaction and the reliability of the transaction partner, the two firms also make a governance contribution to environmental protection – an issue area that may be important to society in general but would usually not be viewed as an area of activity of business.

---

[26] Creative solutions are developed if the institutional framework does not offer potential solutions. See the section on horizontal collective action below.

[27] As opposed to a situation in which an external event occurs. See below.

3.4.2 What Role for Small Firms?

Above, large firm size was assumed. This thesis submits that small firms do participate in collective action. But for them to be involved, large firms must take on a leading role.

Large firms may be thought to have relatively more difficulties in decision-making coordination (see Arrow 2000). The management of a large firm would be strained due to the volume of demands placed upon it by sub-management. It would need to evaluate large numbers of suggestions in order to give approval and allow implementation. Since management, as individuals in general, is limited in its cognitive capacities it experiences, with increasing firm size, a loss of control due to complexity. There is a computational inability to ascertain an existing situation (Williamson 1975). At the same time, management – as opposed to its subordinates – can intervene hierarchically and, thus, reduce complexity. Therefore, as size grows management takes initiative to restructure the firm. It moves away from the unitary to the multidivisional form – a decentralised management structure, which reproduces the organisation within divisions (Williamson 1975).[28] This resolves the management overload. Thus, the management of a large firm can be assumed to be as capable of decision-making as the management of a small firm.

In both small and large firms, management can change the structure of the firm when confronted with complexity. However, this is not as easy for sub-management because it is sub-ordinate. This has implications for the development of suggestions as part of the decision-making process within the firm. In large firms, knowledge on various matters relevant to the firm is dispersed across a large number of sub-managers. By contrast, in small firms, this knowledge is centralised in a small sub-management body. Whereas the individual sub-manager deals with the same volume of knowledge in both large and small firms, the sub-manager of a small firm additionally has to tackle variety. She does not focus on one area but has to take care of several. Thus, she is exposed to greater complexity.

---

[28] For empirical evidence see Fligstein (1985).

Since removing this complexity is not easy, the sub-manager of a small firm suggests standard procedures to ensure that investments generate what they are meant to. Thereby, she saves energy. From an external point of view, this is unproblematic in the case of standard investments. However, conventional procedures are insufficient if the firm undertakes idiosyncratic investment, for example equipment specialised for the exchange with a specific buyer firm or specialised training of the workforce. A sub-manager who is not faced with complexity would suggest drawing up a refined contract, i.e. the development of governance rules.[29] Due to existing internal incentives, she experiences the new problem confronting the firm also as her own new problem, whereas the sub-manager of a small firm does not recognise the novelty of the problem in the first place. Hence, despite being inclined to act in the interest of the firm the sub-management of a small firm does not.[30]

Thus, if both buyer and supplier are small firms they will engage in idiosyncratic exchange without establishing governance rules. Their perception tells them that the situation they are involved in resembles a harmony game. The exchange is then governed by basic contracts only and the parties are likely to be confronted with hazards and haggling in the course of contract execution. The situation looks different if one of the firms is large and one small in size. As discussed above, the large firm experiences defective investment incentives. The small firm is willing to invest. Both have the preference to engage in the transaction. The large firm can then provide the necessary information to the small firm for it to realise that governance rules in addition to a basic contract would also be to its own advantage. Therefore, they can agree on the establishment of governance rules. Thus, the existence of the large firm compensates for the lack of information the small firm

---

[29] Two basic levels of interaction are distinguished where idiosyncratic investment can take place: The interaction between management and employees (i.e. sub-management) on the one hand, and the interaction between employees and sub-units, including capital and workers, or buyers and suppliers on the other hand.

[30] This new problem results from the combination of idiosyncratic investment and actor uncertainty. The existing internal incentives aligning the interests of sub-managers with those of management and, thus, with those of the firm were discussed above.

has.[31] Small firms are involved in vertical collective action only. It will be argued further below that horizontal cooperation emerges among large firms only.

3.4.3 Idiosyncratic Intra-Firm Investment and Actor Uncertainty

The emergence of vertical collective action is relatively obvious in the case of idiosyncratic inter-firm investment and actor uncertainty. But this type of collective action can also develop under conditions of actor uncertainty and specialised intra-firm investment within a given institutional environment. This section starts out by assuming large firm size.

Intra-firm investment can take different forms. It may be decided to invest in worker skills or in special purpose technology (Williamson 1975). Similarly, specialized investments can also be made in social responsibility or brand-name capital (Furubotn and Richter 1998, Williamson 2002). In the case of investment in social responsibility, product and production processes are specialised in that employee wellness, waste, emissions, non-hazardous substances etc. are given particular emphasis.

Under conditions of actor uncertainty, the three forms of idiosyncratic intra-firm investment have different implications as far as the emergence of collective action is concerned. Idiosyncratic investments in worker skills and technology lead to the establishment of intra-firm rules (Williamson 1975, 1979, 2002).[32] Thus, intra-firm actor uncertainty is reduced and intra-firm investment safeguarded. The behaviour of firm external transaction partners is irrelevant in this respect.

Although specialised investment in social responsibility is de facto intra-firm investment, it also has an external dimension. Firms deliberately communicate to the

---

[31] One may suggest that in game theory parlance this situation resembles a suasion game in which the interests in cooperation are asymmetric. As Martin (1992) argues, the player with the stronger interest in cooperation may then either threaten to act irrationally or apply tactical issue linkage. Both ways go beyond the confines of the game of course.

[32] It will be argued below that in the case of environmental uncertainty idiosyncratic intra-firm investment can cause horizontal collective action. Intra-firm rules are then insufficient to safeguard the investment.

public[33] that these investments have taken place.[34] Social responsibility would be a useless strategy if the public were unaware of it. Moreover, specialised investment in social responsibility would be superfluous, and hence costs incurred if the information the firm provided were not credible, i.e. if the firm left the public exposed to actor uncertainty as regards its own behaviour. Thus, intra-firm investment in social responsibility differs from other types of intra-firm investment because its value is inextricably linked to credibility.

In contrast to the other two intra-firm investment types, idiosyncratic investment in social responsibility gives rise to both intra-and inter-firm rules. Internally, the investment would imply that the production unit acquires specialised knowledge and thus develops an information advantage relative to sub-management. Sub-management would then bear the risk that the product is not produced in a social and sustainable way, which is, however, what sub-management wants to ensure due to the incentives provided by management. The combination of idiosyncratic investment and actor uncertainty gives rise to the establishment of intra-firm rules (see Williamson 1975). For example, the implementation of standards, which allow monitoring of production processes to ensure the absence of hazardous substances. Thereby, the external credibility of the social investments can be enhanced as well.

Of particular importance for the explanation of collective action of firms is, however, that investment in social responsibility does not only contribute to the emergence of intra-firm rules but also to governance rules governing external interactions of the firm. If the firm engages in exchange with external transaction partners, i.e. is not fully vertically integrated, intra-firm rules are insufficient to safeguard the credibility of social investment. The existing actor uncertainty regarding external transaction partners can have a disadvantageous impact on credibility. Credibility would be compromised if external transaction partners did

---

[33] For example, consumers, the media or socially responsible transaction partners. This presumes of course the existence of corresponding (not necessarily particularly spread) informal norms as part of the given institutional framework.

[34] The literature distinguishes between social responsibility and social investment. While the former refers to fundamental behaviour changes, the latter only involves philanthropic engagement and does not constitute specialised investment.

not behave socially responsible. For example, this may be the case if a socially responsible manufacturer supplies a retailer, which exploits its employees; or if a socially responsible buyer firm engages in an exchange relationship with a supplier that pollutes the environment (see Williamson 2002). Thus, idiosyncratic investment within the firm combined with (external) actor uncertainty creates a new problem for the firm, which challenges routine behaviour as far as trade is concerned. Without external actor uncertainty, carrying out the inter-firm transaction would be unproblematic.[35] Conversely, the transactional interest is necessary for external actor uncertainty to become relevant and, hence, for governance rules governing collective action of two firms to come about.

Recall that the interaction situation between two transacting firms usually resembles a harmony game. Once a firm engages in social intra-firm investment under conditions of actor uncertainty it develops assurance preferences as far as the exchange relationship is concerned. This firm wants to engage in the transaction but, at the same time, fears that its own credibility is damaged by the behaviour of its transaction partner. The social firm can inform the other one easily about this. If the other firm has anyway invested in social responsibility the situation resembles the exchange relationship characterised by (potential) idiosyncratic inter-firm investment discussed above. The firms can agree on the establishment of governance rules, which provide assurance. These rules involve substance and enforcement mechanisms. The greater the extent of specialised investment, the more extensive substance and formalisation of governance rules turn out to be (Williamson 1975, 1979). Existing standards incorporated in the given institutional framework help formalising the interaction.

The situation looks different if one firm has invested in social responsibility, while the potential transaction partner has not. The necessary behavioural change requires energy. Transactional interest and large firm size are not sufficient to make the non-social firm engage in the implementation of governance rules. The motivational

[35] And, under the assumption that actor uncertainty is the same in all types of interaction, a problem of credibility would not occur in the first place.

factor idiosyncratic investment is absent. This firm does not experience a new problem and its sub-management is, due to the absence of complexity, vividly aware of that. Being able to engage in spot market trading the individuals within the non-social firm avoid pretending to be interested in as well as actually establishing costly governance rules and complying with them in order to be able to trade. Thus, the firm refrains from entering this game and gets involved in other, purely harmonic games.

So far, large firm size has been assumed. What happens if this assumption is relaxed? If left to its devices, a small firm, i.e. the individuals within the firm, applies routine behaviour when it comes to engaging in exchange – independent of whether or not it has engaged in social investment. As argued above, interaction situations are perceived as harmonic ones.

However, if a large firm has invested in social responsibility and the potential transaction partner is a small firm, collective rules are established. Whether this small firm is social or non-social in nature is irrelevant. Both the large and the small firm have the preference to engage in the transaction. Only the large firm fears its own credibility could be damaged by the behaviour of its transaction partner. Consequentially, the large firm provides information to the small firm for it to believe that governance rules in addition to a basic contract would also be to the advantage of the small firm. Of course, this is true only if the small firm has invested in social responsibility. Otherwise, the limited capacity to distinguish an old from a new problem situation on the part of the individuals in the small firm is exploited by the large firm. Thus, the large and the small firm can agree on the establishment of governance rules, which govern their collective action in a socially relevant issue area.

3.4.4 Summary: The Emergence of Vertical Collective Action

The above section argued that two motivation and two facilitation factors are necessary and their combination is sufficient to give rise to vertical collective action. Idiosyncratic investment and actor uncertainty create a new problem and, thus, are the motivators, whereas large firm size and transactional interest constitute the facilitators. The transactional interest constitutes the most basic condition for the collective action of firms to emerge. *Only if firms have a transactional interest, they establish governance rules governing their interaction* (given the other conditions identified). The interest in the transaction with other firms is part of the very nature of the firm and can hence be assumed.[36]

On this basis, the relevance of actor uncertainty and idiosyncratic investment was identified. Given idiosyncratic investment it can be stated that *if there is uncertainty about the behaviour of the (potential) transaction partner, governance rules, i.e. collective action of firms, are established*. And assuming actor uncertainty we can argue that *if there is idiosyncratic investment, governance rules are developed*. More precisely, specialised inter-firm investment and intra-firm investment in social responsibility were identified as the relevant motivators for vertical collective action.

However, collective action emerges only if the combination of idiosyncratic investment and actor uncertainty is perceived as the new problem it constitutes from an external observer's point of view. Only the individuals within a large firm perceive this new problem as such. The sub-management of a small firm, who is in charge of developing suggestions on investments and corresponding contracts in line with the general strategy of management, is confronted with complexity. The individual sub-manager has to tackle a greater variety of issues than the individual sub-manager of a large firm. Therefore, the former sticks to suggesting simple contracts only instead of additional governance rules. Hence, only *if a large firm experiences a new problem situation, collective action emerges*.[37]

After having provided an explanation of the emergence of vertical collective action this thesis now proceeds to the next section, which presents an argument on the development of horizontal collective action.

---

[36] Firms may be fully vertically integrated. This is when inter-firm transactions and the corresponding interest are absent. Vertical collective action does not occur.

[37] Under the condition that there are transaction partners, which are either large and with idiosyncratic investment or small in size.

3.5 Explaining Horizontal Collective Action

The section above explained collective action in the absence of environmental uncertainty. It was argued that under this condition collective action is of vertical type only. This section now examines why an increase in uncertainty can give rise to an additional form of collective action. Horizontal collective action develops if actors are not only confronted with actor but also with environmental uncertainty. It has frequently been emphasised that also macro-level factors influence the behaviour of actors and, hence, should be explicitly included (North 1990, Scharpf 1997, Lake and Powel 1999, Oxley 1999).

Environmental uncertainty exists in the case of an external event. An external event is reflected in a cost increase of input factors. It will be proposed that in combination with idiosyncratic investment an external event gives rise to the horizontal collective action of firms.[38] This is the case given transactional interest, actor uncertainty and large firm size, which are assumed throughout this section unless stated otherwise.[39]

3.5.1 External Events and Idiosyncratic Investment

Existing research has frequently pointed to the relevance of "contextually dramatic happenings" for the emergence and change of institutions and rules (Hoffman and Ocasio 2001, p.414, Sabatier 1988, Fligstein 1990). Earthquakes, outbreaks of war, an increase in oil prices and other examples have been argued to have such an impact. However, not all events an external observer might describe as critical give rise to a transformation of existing rules and institutions. Since individual actors attempt to increase their utility while economising on energy, they do not attend to any event. Research has so far only generated limited explanations as to why actors respond to some events but not to others (Hoffman 1999). This section argues that

[38] The assumption is that a correspondingly significant increase of output prices is impossible. Prices may be increased but this is likely to be part of a bundle of initiatives also including collective action.

[39] An external event that is reflected in a sudden decrease of output prices can be submitted to result in collective action, too, for example associative action in response to export barriers. Interesting in this regard is the paper by Alt et al. (1999). They argue that under pressure from international competition firms with specialised investment are more likely to engage in lobbying. The effect of a decrease in output prices is not further elaborated since it can be expected to be similar to the impact of a cost increase of input factors, which is discussed below.

for actors to engage in a response they must not only view the event as *relevant* but also be directly *affected* as well as *perceive this affectedness* as such. Some events may lead the general public to experience a direct impact, whereas others might be noticed by all but only affect and be perceived as having a severe effect by a sub-group of society.

In the case of an external event, existing institutions do not provide a solution for the affected actors. Usually, institutions and rules can help reduce uncertainty. In particular, the state as an external authority constrains and enables actors. It can assign rights and duties as well as enforce them and, hence, ensure that collective goods are supplied. However, due to the novelty of the event individual actors are at least temporarily left without institutional assistance. Limited information and information processing capacities on the part of government constitute an obstacle for an immediate response in developed and even more so in developing countries. Moreover, while a sub-group of society may perceive the event as salient, the government might not classify it as sufficiently critical to justify attention.[40]

An external event is of *relevance* for firms as a sub-group of society if it (potentially) increases the cost of input factors such as labour or oil. However, in the absence of idiosyncratic investment, a firm is not *affected*. The sub-management dealing with the purchase and use of input factors takes notice of this cost increase but does not experience a new problem situation. It continues its routine of purchasing input factors on a spot market basis. Changing the composition or type of its input factors the firm swiftly adapts to the new situation (see Williamson 2002, Alt et al. 1999).

By contrast, firms with idiosyncratic investment encountering such a cost increase are genuinely affected. For them, the nature of input factors matters. Alternatives would involve the loss of existing investment and reinvestment. For example, a firm may have invested in equipment, which in order to function requires cooling water. If the cost of water rises or water even becomes unavailable this firm cannot simply

[40] The government may also have initiated this event. See the following section.

move to using ventilators as cooling facility. Without water the firm looses its specialised investment. Moreover, in order to continue producing its product new specialised investments would be necessary. Similarly, if labour turnover rises, for example in the case of an epidemic, any firm is for a logical second confronted with a cost increase due to scarcity. The firm drawing on a standard labour force does not lose idiosyncratic investment. Furthermore, this firm can fill open posts with ease and continue to produce its product. By contrast, the firm that has invested in training cannot avoid being affected. The firm looses specialised investment and would need to reinvest in skills development.

As argued above, idiosyncratic investment and actor uncertainty lead transaction partners to be confronted with a new problem, which motivates the establishment of rules governing their behaviour (Williamson 2002).[41] Despite these rules firms remain vulnerable with regard to an externally induced input factor cost increase. The combination of idiosyncratic investment and such a cost increase constitutes yet another new social problem requiring a new solution.

Thus, firms are not only involved in their transactional activities. They also act within a certain social setting, which is relevant to them: Due to an external event, firms with and without idiosyncratic investment experience input factor cost increases, which they prefer not to occur. Firms without such investment have prisoners' dilemma preferences as far as a solution to the external event is concerned. A situation, in which they do not have to contribute, while others prevent the cost increase, is the preferred outcome.

By contrast, under conditions of idiosyncratic investment, solving the social problem is too important for defection to be the dominant strategy. It is not individual rationality that prevents such a firm from cooperation. Only personal risk considerations may be inhibiting. The assurance game then constitutes an, albeit simplified, representation of the situation such firms are involved in. Cooperation is

---

[41] The effects of an external event affecting (sub-) management are not elaborated here. This would require an additional detailed analysis, which would blur instead of contribute to the clarity of the main argument.

a risky strategy since the firm may invest energy in a potential solution but might not realise the preferred outcome because others do not cooperate.

Defecting in a two players setting the firm is not exposed to this risk but it foregoes the payoff of a successful solution to the social problem (see Skyrms 2001). This would be disadvantageous. The firm would (continue to) lose its investments and need to reinvest. In a more players setting, there is the possibility that other firms with idiosyncratic investment may at least to some extent solve the social problem. However, to rely on that and hence refrain from acting for the realisation of the cooperative outcome is risky, too. “[G]reater potential loss facing the owner of a specific asset rationalises greater expenditure of resources on contractual activities that can avert the loss” (Alt et al. 1999, p.99).

Firms with idiosyncratic investment are then expected to voice their interest in the formulation and implementation of governance rules and respond to those firms expressing the same wish. Firms with prisoners’ dilemma preferences, i.e. those without specialised investment, feel the *relevance* of the external event, too. As pointed out above, they would prefer the absence of the input factor increase. Moreover, having the possibility to go back to using this input factor in the future raises the number of action alternatives. However, they do not experience a new problem. Since they are not *affected*, they deal with the event in a routine manner, i.e. they will continue to purchase input factors on a spot market basis. This means that internally sub-management does not suggest *the development of governance rules*. Governance rules do not come to such firms’ ‘mind’. Hence, firms without idiosyncratic investment will not express a corresponding interest.

Thus, the voicing of interest in governance rules brings those firms with assurance preferences together. Since these firms prefer mutual cooperation to any other outcome and inform each other about this, they manage to agree on the establishment of governance rules (see Taylor 1990). Firms can thereby develop new solutions to the social problem at hand, because “individuals possess different bits of knowledge” they can combine (Mantzavinos et al. 2004, p.79, Hayek 1945).

The rules can be expected to involve enforcement mechanisms due to actor uncertainty. The type of idiosyncratic investment and the external event are decisive for the substance. The greater the extent of specialised investment or the intensity of the external event, the more extensive substance and formalisation of governance rules turn out to be (Williamson 1975, 1979). The rules aim at the mitigation of the consequences of the external event. For example, if the external event is migration of labour, the governance rules may deal with improving the local living conditions. Similarly, if the event implies an increase in energy prices, the governance rules may involve the investment in research on more efficient energy generation.

So far, large firm size has been assumed. Large size is fundamental for the processes described above to occur since it allows the individuals within the firm to *perceive* the new problem as such and suggest corresponding solutions. What happens if this assumption is relaxed? If left to its devices, a small firm, i.e. its sub-managers, always applies routine behaviour. The small firm does not voice an interest in the establishment of governance rules and, hence, does not appear as potential interaction partner. Therefore, in contrast to vertical collective action where small and large firms may be involved, horizontal collective action reflected in governance rules only emerges among large firms.

In line with Olson (1965), it can be concluded that while large firms alone engage in horizontal collective action, small firms may be among the beneficiaries when a solution to the external event is established – without being aware of that. Moreover, large firms without specialised investment can exploit large firms with such investment – though the benefit the former draw from that is small. Hence, in contrast to what is often argued by existing research,[42] size and willingness to act collectively do not necessarily come together.

3.5.2 What Role for the Legislative Threat?

Research has frequently highlighted the relevance of the legislative threat for an explanation of collective self-regulation (Héritier and Lehmkuhl 2008, Héritier and Eckert 2008). A legislative threat involves, as Halfteck (2006, p.ii) argues, that

---

[42] See chapter 2.

> "legislators will exercise their legislative mandate and enact adverse legislation in order to regulate the conduct or condition in question, unless the recipients of the threat alter their behaviour so as to bring it in line with the legislators' demands (Implicit in the threat is the inverse promise that the legislators will forgo the threatened legislation if, and only if the recipients of the threat comply with the demands)."

For government such a threat may be convenient since it can ensure the provision of collective goods, while avoiding the costs of developing and implementing new regulation. In particular, the costs of measuring compliance may be extensive (North 1990). Existing literature emphasises that firms, too, prefer self- to state regulation. They respond to a credible legislative threat in order to pre-empt legislation (see for example Rosewitz and Webber 1990, Boddewyn 1992, Börzel and Héritier 2005, Halftek 2006). However, research has often remained vague as regards the processes triggered by a credible threat. What exactly could explain why firms react to a legislative threat? Furthermore, is there variation in the behaviour of firms?

A legislative threat implies the possibility of institutional change, of novelty. Hence, it can be viewed as to constitute a form of environmental uncertainty. Similar to occurrences such as migration or floods, a legislative threat (or institutional change in general) can be categorised as an external event – though it is more deliberate. For example, the government might threaten to tax the consumption of electricity in order to reduce the use of coal. In line with what was argued above, a legislative threat is of *relevance* for firms if it bears the potential of a cost increase of input factors such as labour or oil.[43] However, whereas a firm without idiosyncratic investment can respond to such a threat by changing the composition or type of its input factors, firms with idiosyncratic investment, which encounter a legislative threat, are *affected*. For them, the 'identity' of input factors matters. See the foregoing section for an explanation as to why firms then come to engage in horizontal collective action governed by governance rules.

A qualification needs to be made. In contrast to the external events discussed above, the cost increase of input factors is only *expected* in the case of a legislative threat. Whether the threat can work as an external event depends on its credibility.

[43] Or a potential decrease of output prices. See above.

Credibility is strong if the threat is explicit as compared to implicit or anticipatory (see Halftek 2006). Explicit threats publicly "convey both a legislator's unequivocal concern with the negative externalities of a given conduct and his intention to exercise his legislative mandate to control that conduct and align it with the social interest" (Halftek 2006, p.36). By contrast, an implicit threat may involve vague preparatory measures and statements in informal settings, while a threat is anticipatory, for example, due to the legislator's policy interests or its use of threats in the past (Halftek 2006, Héritier and Eckert 2008).

3.5.3 Summary: The Emergence of Horizontal Collective Action

The above section argued that the combination of motivation and facilitation forces gives rise to the emergence of horizontal collective action. As soon as uncertainty intensifies, i.e. both actor and environmental uncertainty are present, a firm with idiosyncratic investment experiences an additional new problem. Whereas idiosyncratic investment and uncertainty are the motivators, large firm size and the transactional interest constitute the facilitators.

Given transactional interest and actor uncertainty, *if firms with idiosyncratic investment are exposed to an external event (i.e. environmental uncertainty), governance rules, i.e. horizontal collective action, are established*. The external event can take the form of a contextually dramatic happening as much as of a legislative threat. The important feature is the (potential) cost increase of input factors.

However, as above this process is only triggered if the combination of idiosyncratic investment and uncertainty is perceived as the new problem it constitutes from an external observer's point of view. Only individuals employed by large firms perceive such new problem situations as such. *Only if large firms experience a new problem situation, collective action emerges.* Moreover, in the case of horizontal collective action small firms are not involved since they do not appear as potential interaction partners in the first place on the matter in question. This is different in the case of vertical collective action where small firms may be interaction partners simply due to the transactional interest of the large firm. The point of governance rules is here to govern the exchange.

3.6 Conclusion

Both the two motivation and the two facilitation factors are necessary for governance rules to be established between firms. Idiosyncratic investment and uncertainty constitute the motivating force of collective action. From an external observer's perspective, firms then experience a new problem, which would require a new solution as opposed to routine behaviour. The combination of the transactional interest and large firm size is the facilitation force. While the former allows interaction in the first place, the latter enables the sub-management of the firm to perceive the new problem as such and develop corresponding measures. As long as there is actor uncertainty only, vertical collective action emerges. Once firms are additionally exposed to environmental uncertainty (i.e. an external event), they will also engage in horizontal collective action.

I suggest assuming both transactional interest and actor uncertainty. The assumption of the former was already proposed above. As regards actor uncertainty, there may be the rare case of family ties between firms, which could provide alleviation. Also, a history of interaction may reduce actor uncertainty. Nevertheless, assurance about the behaviour of the other may then still be absent. In general, it is likely that the firm cannot be sure about the behaviour of its (potential) interaction partners. On this basis, the following table can be sketched:

Fig.2: Independent and dependent variables

Independent variables						Dependent variables
Idiosyncratic investment	+	Large firm size (one large transaction partner is sufficient)			=	Vertical collective action
Idiosyncratic investment	+	Large firm size	+	External event	=	Horizontal collective action

Various forms of idiosyncratic investment were discussed above. Also, large firm size was shown to play a slightly weaker role for vertical collective action than for horizontal collective action. Grounded on these considerations the following hypotheses will be evaluated in the empirical part of this thesis. They incorporate the central ideas put forward in this chapter.

A) On the emergence of vertical collective action:

(1) Given at least one of the transaction partners is a large firm,

vertical collective action is established, if there is idiosyncratic inter-firm investment.

(2) Given the firm in question is large and given the presence of potential transaction partners, which are either large and social or small in size,

vertical collective action is established, if a firm engages in idiosyncratic intra-firm investment in social responsibility.

B) On the emergence of horizontal collective action:

(3) Given there is an external event and firms are of large size,

horizontal collective action is established, if there is idiosyncratic investment.

(4) Given there is an external event and firms have engaged in idiosyncratic investment,

horizontal collective action is established, if firms are of large size.

(5) Given there are firms with idiosyncratic investment and of large size,

horizontal collective action is established, if there is an external event.

As emphasised above, whether or not collective action takes place with regard to environmental protection or social service provision, firstly, depends on the availability of corresponding norms ingrained in the existing institutional environment in the case of vertical collective action. It was argued that firms draw on existing norms when establishing their governance rules. Secondly, it depends on the relevance of the external event for society in general in the case of horizontal collective action. If firms are affected by an event that negatively impacts also on the rest of society, they automatically aim at a social governance contribution when devising their collective response.

This chapter brought together different factors that have been identified as relevant for collective action by existing theoretical literature but had not been united in one framework. The suggested framework emphasises the role of institutions, uncertainty, idiosyncratic investments and firm size. Furthermore, the decisive role for the emergence of collective action between firms is explicitly assigned to the boundedly rational individual. Thus, the proposed framework manages to incorporate a macro-, meso- and micro-level explanation.

4 Methodology

This chapter introduces the methodology employed to conduct the empirical analysis. The five hypotheses developed above are assessed via qualitative pair-wise comparison. I conduct a systematic assessment of the theoretical framework according to indicators of independent and dependent variables. Moreover, the analysis includes the process tracing of the derived mechanisms linking the variables.

In order to study the behaviour of firms I focus on one country. The fact that all firms perform on the same stage ensures constancy as far as the institutional environment and general challenges are concerned. Furthermore, choosing a developing country I ensure that there is room for firms to manoeuvre. In developing countries, specification of legislation and law enforcement is usually far from being perfect. Monitoring of behaviour is limited. At the same time, firms as well as society in general experience various challenges, which would allow private social governance contributions. South Africa provides such a context. While being characterised by the extensive presence of industries, South Africa does not have sufficient capacity to closely govern business behaviour and avoid instabilities.

I examine the behaviour of firms with regard to four issue areas:[44] Environmental protection in general, water service provision, air quality and HIV/AIDS abatement. These issue areas have general relevance for society and may, hence, be seen as to come under government responsibility. Usually, firms would not be expected to engage in governance contributions in those areas. If firms do so given the conditions specified, it would show particular strength of the theoretical framework. Moreover, it would demonstrate that the framework is able to explain the collective contribution of firms to social governance.

Hypotheses 1 and 2 on the emergence of vertical collective action are evaluated

[44] For confidentiality reasons, this thesis does not use the real names of the companies analysed. The following abbreviations will be used: OEM (Original Equipment Manufacturer), M (component manufacturer), R (retailer), TM (textile manufacturer). Numbers will be added to distinguish between companies. Moreover, the cities where interviews were held will not be specified in order to impede the identification of interviewees.

concerning the issue area environmental protection. The issue area (and firm size) is held constant, while I examine the effects of idiosyncratic inter-firm investment and of intra-firm investment in social responsibility. It was argued above that existing norms provided by the institutional environment are reflected in vertical governance rules. The environmental protection field is particularly marked by the presence of various industry relevant standards at the international level but also to some extent in South Africa. Assessing hypotheses 3 and 4 on the emergence of horizontal collective action I focus on the issue area HIV/AIDS abatement. The HIV/AIDS epidemic constitutes an external event that impacts on firms' input factor labour. Again, the issue area is held constant, while the firm level characteristics idiosyncratic investment and size are studied. Finally, when examining the relevance of an external event on the establishment of horizontal collective action (hypothesis 5) I compare the unavailability of quality fuel with the access to water, while holding constant firm level characteristics. Both are similar in that they are governed through the environmental framework legislation in South Africa and important input factors for the automotive industry. Thereby, the collective governance contribution of firms with regard to air quality assurance and water services provision is explored.

In order to assess the effect idiosyncratic investment and firm size have on vertical and horizontal collective action, I study the behaviour of firms of two industry sectors: Textile-retailing and automotive manufacturing. Both sectors are characterised by an oligopolistic market structure: Few large firms operate in one market. In addition, these firms are similar since they are close to the consumers of the end product, have international links and dominate their supply chain. The supplying industry sectors are composed of a larger number of smaller firms.

Within as well as across each of the two industry sectors firms differ regarding idiosyncratic investment. A continuum can be identified: Most of the car manufacturers invest in high technology, socially responsible products and procedures, skilled labour and close interaction with suppliers. However, the intensity of investment differs. In the textile-retailing sector, idiosyncratic investment is limited. Low skills and simple technology as well as spot market trading are typical features. If at all, idiosyncratic investment occurs mainly with regard to socially responsible procedures and products. The variation in idiosyncratic investment and the constellations as far as firm size is concerned make these industry sectors suitable for the empirical evaluation of the hypotheses. I will further explain and justify the selection of cases for the assessment of each individual hypothesis below.

The data for the empirical study were collected mainly from three sources:

1. Interviews: In order to get access to detailed and comprehensive information circa 70 interviews with automotive and textile manufacturers, retailers, government agencies, trade unions, associations, non-governmental organisations and experts were conducted. This was necessary given the extremely limited amount of literature on firms in South Africa, specifically with regard to social activities and collective action. The interviews were carried out during three visits to South Africa, each visit lasting circa one month, in the period from February 2007 to October 2008. On average, interviews lasted 1.5 hours. Interviews were transcribed and coded according to the indicators of the independent and dependent variables.[45]
2. Primary sources: In addition to interviews, information is drawn from unofficial and official government publication, regulatory documents, newspapers as well as from websites of firms and organisations.
3. Secondary literature provides additional information. A large amount of research exists particularly on HIV/AIDS in South Africa.

Given the wide range of actors and organisations consulted it is possible to apply, at least to a certain extent, the method of triangulation.

[45] The interviews were carried out also as part of the Fostering Regulation project (D2) of the SFB 700 based at the Freie Universitaet Berlin. I am grateful to Christian Thauer who organised and conducted a large number of interviews with me.

5 The Empirical Setting

In the early 1990s, after being deeply troubled by the Apartheid regime, South Africa began to turn away from its past. Reforms were undertaken as first steps towards democracy. The ban on the African National Congress and other political movements was lifted and Nelson Mandela was released from prison. In 1994 then, an interim constitution was agreed upon and general elections were held. The final constitution was adopted in 1997. It officially established a democracy with a federal governmental system and an independent judiciary. Despite these positive developments South Africa continues to be confronted with various challenges. Similar to other developing countries, South Africa has to deal with high levels of unemployment, crime, poverty, inequality, environmental degradation, skills shortage and illnesses.

This chapter introduces the empirical setting. It starts out by presenting the situation in South Africa regarding environmental protection in general, water service provision, air quality and HIV/AIDS. This is followed by an introduction to the textile-retailing and automotive manufacturing industries.

5.1 The Issue Areas

Focusing on the issue areas relevant for the empirical analysis this section broadly outlines the current regulatory context as well as the challenges confronting the South African society. The evaluation of the individual hypotheses below will include further information on the issue areas.

5.1.1 Environmental Protection

This sub-section deals with regulation and challenges concerning environmental protection in general and air quality and water in particular.

5.1.1.1 Regulatory Context

South Africa is famous for having ambitious environmental regulation in place, which also complies with international accords. The most fundamental legal provision, the Bill of Rights, Chapter 2 of the Constitution of South Africa (No. 108 of 1996) foresees the fair and sustainable management of South Africa's natural resources and guarantees environmental rights to all people. The National Environmental Management Act (NEMA) (Act 107 of 1998) (amended by Act 56 of 2002, Act 46 of 2003, Act 8 of 2004) is the central document in South African environmental law. It is intended to provide a framework of environmental governance by establishing principles for decision-making and defining the scope of actions of the institutions in environmental policy. The Act outlines compliance and enforcement mechanisms and demands the incorporation of international environmental instruments in the South African policy context. Policy formulation and coordination takes place at the national level, while the provinces specify and implement regulations. Moreover, the provinces may delegate their responsibility to the local level. However, the provincial and particularly the local government activities have been constrained by severely limited capacity specifically with respect to skilled personnel.[46]

Other acts detail legislation in specific policy fields, such as air quality or water management against the background of the NEMA. The Air Quality Act (Act 39 of 2004) promulgates the protection of environmental resources, the prevention of air pollution and resource depletion while at the same time promoting justifiable economic and social development. As concrete measures the Act establishes national norms and standards allowing air quality management and control. It also allocates responsibilities for air quality control to different levels of government.

As opposed to air quality, new regulation governing water matters was developed soon after the democratic turn. The National Water Act of 1998 (Act 36 of 1998), amended by Act 45 of 1999, (NWA) is the principal legal instrument relating to water resource management in South Africa. It contains comprehensive provisions for the protection, use, development, conservation, management and control of South African water resources. More strategic and procedural objectives are stipulated in the National Water Resource Strategy (NWRS). Complementing the

---

[46] Interview with Environmental Manager and Corporate Planning Manager, OEM 3, South Africa, 20 February 2007; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008; interview with Environment Management Team, Western Cape Government, South Africa, 11 September 2008.

NWA, the Water Services Act (Act 108 of 1997), amended by Act 50 of 2004, creates a regulatory framework ensuring the provision of water services. The responsibility for water and sanitation services, limited to potable water supply systems and domestic wastewater and sewage disposal systems, is vested in local government, which cooperates with specifically designed Water Boards.

Business is subject to South African environmental regulation. However, since specification and enforcement of environmental legislation have been limited mainly due to weak government capacity at the local level, there is room for firms to manoeuvre. In many regions, industry heavily pollutes air, water and soil without fear of legal consequences. Private environmental protection is nothing automatic.[47] Engagement is often voluntary, and more often than not takes place via the implementation of standards. The South African Bureau of Standards (SABS) is the national institution for the promotion and maintenance of standardisation and quality in connection with commodities and the rendering of services. SABS is a member of the International Standards Organisation and, hence, offers the environmental standards ISO 14000 and ISO/TS 21931.[48] The International Standards Organisation actively promotes the dissemination of these environmental protection standards worldwide. They provide a framework for the development of an environmental management system and the supporting audit programme. Another example of an international standard in use in South Africa is the Eco-Tex 100. It is a global testing and certification system for screening harmful substances in consumer textile products.[49] In general, the international level offers various environmental protection standards and codes of good conduct to business in South Africa.

---

[47] Interview with Environmental Manager and Corporate Planning Manager, OEM 3, South Africa, 20 February 2007; interview with Managing Director, TM 1, South Africa, 13 September 2007; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008; interview with Environment Management Team, Western Cape Government, South Africa, 11 September 2008.

[48] Information available from https://www.sabs.co.za and http://www.iso.org/iso/about/iso_members/iso_member_body.htm?member_id=1485 [accessed January 2009]; interview with Manager Systems and Services Standards, SABS, South Africa, 12 September 2008.

[49] Interview with Human Resources Manager, Project Manager and others, TM 8, South Africa, 2 April 2007.

In addition, business in South Africa is increasingly engaging in associations and initiatives, which aim to advance environmentally friendly practices in the private sector. One of the more visible associations is the Sustainable Futures (SFU) Division of the National Business Initiative. The division emerged from the former Industrial Environmental Forum (IEF), which was established in 1991. The SFU is increasingly collaborating with the South African Global Compact network, which was launched in 2003. This initiative is another important industry forum in the area of sustainable development. It is based at the Centre for Corporate Citizenship at the University of South Africa (UNISA).[50]

5.1.1.2 Challenges

South Africa faces many of the environmental problems encountered by developing countries, in which rapid industrialisation, population growth and urbanisation pose a considerable threat to the natural environment. As already highlighted above, business often is part of the problem. However, the limited capacity of government to comprehensively tackle environmental protection also leaves room for business to contribute to governance. This will be further analysed below. For now, I briefly introduce some of the challenges the country is confronted with specifically in the fields of air quality and water.

Firstly, South Africa is strongly affected by atmospheric pollution. Sulphur and nitrogen oxides are the main atmospheric pollutants of concern. These compounds are emitted by industrial and energy-generation processes. For example, on the Mpumalanga highveld sulphur oxide levels can reach monthly averages of up to 140 $\mu g/m^3$, which exceeds the South African guideline level of 125 $\mu g/m^3$ by far. Atmospheric pollution is highest in the cities, in rural industrial complexes, around the energy generation hub of the Mpumalanga highveld and in those residential areas, which are not connected to the power grid and therefore rely on fossil fuels for energy supply (Rossouw et al. 2001). Atmospheric pollution has significant impacts on human health, but also on plants, including natural vegetation,

[50] Interview with Sustainability Officer and CEO, National Business Initiative, South Africa, 19 March 2007.

agricultural and forestry crops, as well as on water bodies. For example, forestry plantations in Mpumalanga and KwaZulu-Natal are directly affected by their proximity to the heavily industrialised areas of the highveld. Moreover, acid deposition from atmospheric pollution is a growing problem for example in the Gauteng province (Kranz 2006).

Secondly, the emission of carbon dioxide, together with other climate relevant substances, contributes to global warming. It is expected that South Africa will increasingly be subject to impacts from climate change including negative effects on agriculture, forestry, health and water resources. Desertification is expanding. Overall, climate models project an increase of land temperature of about 1.6 °C and of sea temperature of 0.6 – 0.8 °C by 2050. At the same time rainfall could decrease by about 10 percent with evapo-transpiration increasing by estimated five to ten percent, thus aggravating drought phenomena in the already vulnerable Southern African region (Kranz 2006).

Thirdly, South Africa is situated in an extremely drought-prone and water scarce region, with extremely variable rainfall patterns affecting surface water run-off, groundwater recharge as well as overall water availability. Climate change, intensified agriculture, increased population numbers and changing consumption patterns will be likely to contribute to a considerable reduction in the quantity of water that is available per person. Nevertheless, access to drinking water supply has been significantly improved over the past decades bringing South Africa near to the attainment of the respective Millennium Development Goal. Also, industry development has so far not been hampered by water shortages. Industry is the largest user of water, followed by domestic uses. The current South African growth policy foresees the construction of additional large-scale water infrastructure, which is, however, expected to further increase the overall vulnerability of water resources (Kranz 2006).

5.1.2 HIV/AIDS

This sub-section deals with regulation and challenges that emerged around the HIV/AIDS epidemic in South Africa.

5.1.2.1 Regulatory Context

In South Africa, the first HIV/AIDS cases were diagnosed in the early 1980s. The prevalence rate increased rapidly. With the turn towards democracy in the early 1990s and the government's focus on human rights, the epidemic began to become part of the agenda of South Africa's political actors. The constitution and numerous other legislation pieces came to refer to the disease. However, the approach long remained sluggish. After having mainly engaged in cheap talk for years, the government formulated the HIV/AIDS/STD Strategic Plan for South Africa 2000-2005. This Plan closely corresponded to two important international instruments: Firstly, the Abuja Declaration on HIV, AIDS, Tuberculosis and Other Related Infectious Diseases, which was endorsed by African Heads of State in April 2001; and secondly, the United Nations General Assembly Special Session Declaration of Commitment on HIV/AIDS, adopted by the UN Special General Assembly Session in June 2001 (Hickey *et al.* 2003). Improved education, better access to voluntary testing and counselling, condom use, better treatment and care as well as budgeting via earmarked conditional grants from the central government to the provinces were among the main issues of the new Plan (Hickey *et al.* 2003, Garbus 2003, Weinel 2005). However, the Plan lacked an explicit commitment to treatment options such as antiretroviral (ARV) therapy[51] (Hickey *et al.* 2003). At this time, the provision of treatment was ensured predominantly for privately insured people and for those supported by NGOs.

Building on the Strategic Plan but explicitly including the provision of ARV treatment the Operational Plan for Comprehensive HIV and AIDS Care, Management and Treatment for South Africa was formulated in Autumn 2003. Its aim is to ensure universal, equitable and free access to ARV treatment. The provinces are to a large extent in charge of implementation. However, the lack of skilled personal, i.e. local government officials, doctors and nurses, severely constrains the provision of treatment. People have to bear with long waiting lists for access to medication. By 2005, there was only 23 percent drug coverage (Stewart

[51] This treatment works by suppressing viral replication, thus allowing immune system recovery.

and Loveday 2005).

Moreover, the government did not require business to contribute to the fight against HIV/AIDS. Several legislation pieces refer to the disease. A voluntary 'Code of Good Practice on Key Aspects of HIV/AIDS and Employment' was drawn up. However, the focus of regulations and codes is usually limited to ensuring that individuals with HIV infection are not discriminated against in the workplace (Dickinson and Stevens 2005). Therefore, if business action against HIV/AIDS occurred at all, it was voluntary. In 2000, the South African Business Coalition on HIV/AIDS (SABCOHA) was formed and several large companies announced the large-scale provision of ARV therapy for those employees without the relevant medical insurance. The South African Business Day (2002) stated that "[i]t is increasingly clear that corporate SA is beginning to take the initiative in getting to grips with the disease." While not even twenty percent of the small companies have a specific disease-oriented policy, approximately 90% of the corporations do (see Parker and Kelly 2002). In 2007, the South African Bureau of Standards (SABS) published the new HIV/AIDS standard SANS 16001. This standard was actually developed by industry, with SABCOHA as the driving force.[52]

5.1.2.2 Challenges and Controversies

UNAIDS (2008) data indicate a prevalence rate of 18.3 percent among adults aged 15 to 49 in South Africa. The epidemic affects economic growth, fosters poverty and leaves behind orphans. Industry struggles due to sick leave and labour turnover. Employees stay away from work because they fall sick or because family members need to be looked after. Companies experience increasing labour costs due to "treatment, paid sick leave, funeral costs, lost productivity, disability expenses, cost of training and lost expertise, additional cost of incapacity as well as generally increased medical costs."[53] Declining staff morale runs rampant.[54]

---

[52] Interview with Manager of Systems and Services Standards, SABS, South Africa, 12 September 2007.

[53] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008; R 3 Annual Report 2008.

While the epidemic is a problem in itself, it was severely aggravated by the limited interest the South African government showed in combating it. “Experience shows that when governments commit their political prestige and financial resources, involve civil society fully, ... and support activities in a range of sectors, they are able to limit the spread of the epidemic” (UNAIDS/WHO 2000, p.25). During the 1990s, the government displayed a sluggish approach. It emphasised scepticism on the link between HIV and AIDS and refrained from systematically providing treatment. A number of specific scandals accompanied this generally controversial attitude.

An example is the debate on Virodene. Virodene was proposed by South African researches as a drug against HIV. However, the Medical Research Council and the Medicines Control Council expressed criticism since “scientific procedures established to prove the safety and effectiveness of the drug” were not employed (Weinel 2005, p.25). By contrast, Deputy President Mbeki and Health Minister Zuma supported the researchers’ suggestion thus creating hopes among those people affected by HIV/AIDS. Eventually, the Control Council did not accept the drug. Subsequent research findings showed that Virodene indeed had significant negative side effects. The case undermined the government’s credibility, gave rise to debate within the ANC and severely damaged the government’s relations with the two research Councils (Weinel 2005). The President’s ad hoc support of some form of (domestically) developed treatment appears to have been largely in line with the government’s fight against the pharmaceutical industry at that time. At the same time, government support for treatment was surprising since it generally did not show much interest in this regard.

The announcement of the HIV/AIDS/STD Strategic Plan for South Africa 2000-

---

[54] Interview with Wellness Manager, OEM 5, South Africa, 14 September 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; interview with Human Resources Manager, M 2, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

2005 did not mark a change in the government's approach. Again, it lacked an explicit commitment to treatment options such as the internationally favoured antiretroviral (ARV) therapy (Hickey *et al.* 2003). Also, it did not include measurable plans and budgets for implementation and, hence, did not properly respond to, for example, the limited involvement of local government. In fact, the government declared that the ARV drug AZT was toxic and not affordable in the first place (Weinel 2005). At this time, the provision of treatment continued to be ensured predominantly for privately insured people.

Only in response to fierce criticism the government was forced to explicitly place ARV treatment on the agenda. In 2001, the South African NGO Treatment Action Campaign in coalition with other NGOs and trade unions initiated high-profile court actions, which resulted in the government being forced to ensure treatment provision under certain circumstances (mother-to-child-transmission, post-exposure prophylaxis) and eventually deciding the nationwide roll-out in 2003 (Dickinson 2004). Building on the HIV/AIDS/STD Strategic Plan for South Africa but explicitly including the provision of ARV treatment the Operational Plan for Comprehensive HIV and AIDS Care, Management and Treatment for South Africa was formulated. Nevertheless, the government has continued to be ambivalent with regard to HIV/AIDS.

5.2 The Industry Sectors

This section introduces the industry sectors relevant for the empirical analysis. The evaluation of the hypotheses further below will include more specific information on the individual firms.

5.2.1 Textile-Retailing

Dominated by retail the trade sector made the second highest contribution to GDP growth in South Africa in 2006. It amounted to 18 percent.[55] The textile, clothing and footwear retail market is estimated to have generated ZAR 39,4 billion in sales

---

[55] Information available from http://www.rics.org/NR/rdonlyres/3DE4758D-FCFF-4FDF-9C4D-FC9899B7EE07/0/ThesizzlingSouthAfricanretailsector.pdf [accessed June 2009].

in fiscal 2008.[56] Being of oligopolistic nature the South African textile-retailing sector mainly consists of seven large firms. These textile retailers have an overall market share of 70 percent. Most of them have established international representations as well. Furthermore, during the last decade, Woolworths, Edcon, Foschini, Mr Price, Pick'n Pay, Truworths and Pep Stores were able to take advantage of South African liberalisation. Particularly noteworthy is that in 2003/2004 apparel imports mainly originating in Asia grew by 57 percent. In addition, large amounts of illegal imports usually not taken into account by official data have entered South Africa.

Representations of the retailers are dispersed in shopping centres all across South Africa. The retailers are characterised by extensive numbers of employees and large amounts of capital. While extensive, labour and capital are usually not idiosyncratic in nature in the textile-retailing sector. Thus, suppliers do not have to invest in specific machinery to serve individual retailers or build factories close to their premises. The trade between retailing and supplying industries is mostly short-term-oriented. The time span from order to execution often covers weeks only.[57] Similarly, the retailers themselves do not invest in particularly specialised equipment. Most of their employees do not need to have specific skills in order to fulfil their tasks and, hence, can be replaced without much loss. However, some of the retailers do invest in social responsibility, thus offering product to a newly emerging consumer group interested in sustainability. They introduce organic textiles, engage in specific measures to ensure the wellbeing of their employees or implement energy saving solutions.

Whereas the textile-retailing sector is expanding, the textile industry supplying the retailers and competing with Asian imports has not been able to profit from that (Statistics SA 2006b, Vlok 2006). Its GDP contribution is negligible (Statistics SA 2006a). Numerous textile mills and clothing manufacturers suffer losses; many have

[56] See R 2 Annual Report 2008.

[57] Interview with General Manager, TM 1, South Africa, 13 September 2007; interview with Group Logistics Director, R 3, South Africa, 16 September 2008.

shut down.[58] The Clothing, Textile, Footwear and Leather Sector Education and Training Authority lists roughly 2000 companies of which 1600 are textile and apparel enterprises. Most of them employ only 20 to 200 people. The industry is marked by a general lack of capital investment and technological innovation (Vlok 2006).

5.2.2 Automotive

With an annual production of 535000 vehicles, the car manufacturers operating in South Africa can be regarded as minor contributors to the global production of vehicles.[59] However, locally, the automotive sector is a giant, which contributed approximately 5.1 percent to the country's GDP in 2007.[60] Employment amounts to approximately 36000 people.[61] The South African market reflects the oligopolistic structure of the global automotive market. Seven of the top global car producers dominate the market. BMW SA,[62] Mercedes SA,[63] Volkswagen SA,[64] Nissan SA,[65] Toyota SA,[66] General Motors SA,[67] and Ford SA[68] operate production sites in the country; others like Renault, Peugeot-Citroen, Hyundai, Kia, Subaru, Daihatsu, Porsche, and Tata and Mahindra only import vehicles into SA. The car manufacturers and their suppliers cluster in three areas in the country: In Gauteng, Eastern Cape and KwaZulu-Natal.

Individual firm size is substantial. The manufacturers are characterised by extensive

---

[58] Interviews with textile firms, associations and government agencies.

[59] Information available from http://www.southafrica.info/business/economy/sectors/automotive-overview.htm [accessed June 2009].

[60] Information available from http://naamsa.co.za/papers/2008_4thquarter/schedule.htm [accessed June 2009].

[61] See websites below.

[62] See http://www.bmw.co.za (accessed 12.09.2006).

[63] See http://www.daimlerchrysler.co.za (accessed 12.09.2006).

[64] See http://www.vw.co.za (accessed 12.09.2006).

[65] See http://www.nissan.co.za (accessed 12.09.2006).

[66] See http://www.toyota.co.za (accessed 12.09.2006).

[67] See http://www.gmsa.com (accessed 12.09.2006).

[68] See http://www.fordmotorcompany.co.za (accessed 12.09.2006).

numbers of employees and large amounts of capital. Most of the car producers engage in idiosyncratic investment with regard to both labour and capital. They offer trainee programmes with rotational assignments and ensure ongoing training through in-house and external training courses, e-learning and overseas developmental assignments.[69] In addition, comprehensive wellbeing programmes ensure that employees do not only have access to insurance and retirement funding but also can take part in courses on healthy living or consult counsellors in the case of private worries. The automotive industry is technologically sophisticated as regards all production units such as the body shop, the paint shop, the assembly plant etc. More often than not, the manufacturers apply procedures in line with European standards in terms of technological development, for example as far as engines and filters are concerned. Moreover, similar to the textile-retailing sector, some of the car producers invest in social responsibility. They work on the production of greener cars and engage in sustainable production.[70]

As compared to the car manufacturers, the automotive component firms are in a relatively weak position. Specialised for the production for their local customers, the latter are highly dependent on the former. The supplier-sector is characterized by a high fragmentation. 500 relatively small suppliers operate on the South African automotive market. Roughly 200 of them are first-tier suppliers that directly sell to the car manufacturers. The component manufacturers produce various automotive parts such as engines, silencers, exhausts, radiators, wheels, tyres, leather car seat covers, car radios and axles, which may require high technology processes and skilled labour. At the same time, individual firms are sometimes not focused on one type of component but manufacture several. Thus, the extent of specialisation varies. In total, the component industry has a turnover of about ZAR 50 billion, which

---

[69] Information available from OEM 5 website [accessed June 2009].

[70] OEM 3 Annual Report 2008; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007; information available from OEM 3 company website [accessed June 2009].

constitute approximately two percent of South Africa's GDP.[71]

This chapter introduced the issue areas and industry sectors the empirical analysis conducted below focuses on. The following chapter starts out with the operationalisation of the dependent variable and then moves on to assess the five hypotheses developed above.

[71] Information available from www.naacam.co.za [accessed June 2008].

6 Empirical Assessment

This chapter empirically evaluates the five hypotheses developed above. It starts out by developing the operationalisation of the dependent variable and then presents the empirical analysis. The empirical analysis is divided into two main parts: The first part deals with vertical collective action, the second one focuses on horizontal collective action. Both parts have sub-divisions, which include the operationalisation of the respective independent variable, the analysis according to the indicators of the independent and dependent variables, the causal narrative and a conclusion. The chapter ends with a brief general summary.

6.1 Operationalisation of the Dependent Variable

This section presents the operationalisation of the dependent variable. In order to do so, I will draw on compliance research and the legalisation literature (see Windhoff-Heriter 1980, Börzel and Risse 2002, Abbott and Snidal 2000). Above, collective action of firms was shown to take two basic forms:

- Vertical collective action
- Horizontal collective action

Both forms of collective action were argued to manifest themselves in formal governance rules. Vertical collective action and horizontal collective action differ as far as the relationships of the participating firms are concerned. In order to identify collective action, three dimensions are proposed: Substance, participation and intensity. There can be variation with regard to form (i.e. participation: horizontal or vertical) and degree (substance and intensity) of collective action.

6.1.1 Dimension 1: Substance

Substance refers to presence of collective action. For example, firms may collectively set standards of good conduct in the environmental policy field. Similarly, firms may agree to disseminate information on HIV/AIDS or formulate codes as to how to treat HIV positive employees. How can substance be identified? There must be some collective activity dealing with the issue area in question. I distinguish presence and content. Presence refers to the existence of a gathering of firms, whereas content concerns the take up of the issue area in question. Indicators are:

- Presence:
  - Actors involved are firms.
  - Meetings, seminars, contractual statements, conferences, committees, organisations
- Content: Standards, services
  - Product standards make reference to the quality and content of a product, for example as regards non-hazardous substances (Scharpf 1993).
  - Process standards deal with the quality of production, for example concerning worker health and safety, the use of environmentally friendly machinery etc. (Scharpf 1993).
  - Services: Research, dissemination of information, distribution related to issue area

Both presence and content must be given for substance to be in place. For example, if there were a collective activity involving firms and other actors such as government or NGOs, this activity would not qualify as collective action in the sense examined by this thesis. Similarly, if only firms participate in a collective initiative but this initiative does not refer to the issue area in question through standards or services, substance would be absent.

6.1.2 Dimension 2: Participation

Participation refers to the type of firms involved in collective action. It is the criterion that decides whether or not we are dealing with vertical or horizontal collective action. According to the theoretical framework developed above, firms may have accessed the collective activity either as exchange partners or as indifferent parties. The former would constitute vertical collective action, the latter horizontal collective action. For example, vertical collective action takes place if buyer and supplier agree on knowledge exchange on environmental protection or on collective treatment provision for employees with AIDS. An instance of horizontal collective action would be if firms of different industry sectors or competitors get together to formulate and implement standards concerned with the reduction of energy or water usage. Of course, the firms participating in horizontal collective action may be transaction partners. However, the exchange relationship is irrelevant for the collective activity in this case. The collective activity is not transaction related. How can vertical and horizontal collective action be empirically distinguished?

- Vertical collective action:
  The substance of collective action is integrated into the contract specifying the terms of exchange.
- Horizontal collective action:
  - The substance of collective action does not constitute a sub-category of an exchange contract

  and/or
  - The participating firms are competitors or belong to different supply chains.

Thus, while the substance criterion shows if there is a collective activity that can be analysed, participation indicates what type of collective activity we are looking at. The next sub-section presents the last criterion, which allows judging the intensity of collective action.

6.1.3 Dimension 3: Intensity

Dimension 3 measures the intensity of the substance of collective action. I do not only assess the rules put in place in order to secure compliance (process), but also evaluate the resources allocated in order to practically implement these rules (resources) as well as the quality of the content (comprehensiveness) and of the involvement of the individual firms (inclusion).

6.1.3.1 Process

The process criterion aims to judge the strength of governance rules. To what extent do they allow constraining self-serving auto-interpretation and provide credibility of the individual party and assurance to all parties involved (Abbott and Snidal 2000). According to the legalisation and compliance literature, several criteria can be identified (see Windhoff-Heriter 1980, Börzel and Risse 2002, Abbott and Snidal 2000, Tirole 1988). For example, to what degree do the governance rules established formulate clear targets, include sanctioning mechanisms for cases of non-compliance or ensure monitoring of implementation? The thesis uses the following indicators:

- Precision asks if rules are formulated clearly or constitute loose statements. Thus, it refers to task specification and fulfilment of the collective gathering / the parties / the employees as well as to time frames, i.e. who has to do what and by when.
- Obligation concerns the prescriptive status of an agreement. Is it formulated as a permission, a recommendation or a requirement?
- Scope involves the frequency of meetings and the geographical reach. Meetings may take place once a year, once a month etc. and collective action can take place on the national, the provincial or the local level.
- Monitoring refers to the control of compliance. It can be measured by examining as to whether other participants / the organisation's chief executive (internal arbitration) / an external agency assigned to fulfil this task (delegation): ask for submission of data, undertake visits, write reports.
- Sanctioning/incentives refer to the punishment / encouragement of compliance. It may take the form of termination of interaction, fines or awards.

6.1.3.2 Resources

Resources refer to what the implementation and compliance literature has called outcome. Without the allocation of resources governance rules could not be implemented. Resources can take various forms and can be identified by looking at:

- Personnel: the number of employees involved in realising the gathering of firms / the number of sub-units employees make up.

- Expertise: the skills required to fulfil the jobs in the organisation / the number of employees devoted to specific issue areas (e.g. finance, conference organisation, research).
- Recognition: appearance of the gathering of firms in newspapers / the number of interaction partners, for example government officials, non-governmental organisations.
- Physical and financial capital: Is there a budget the organisation can draw on, how big is it? What assets does the organisation own?

The more resources a gathering of firms has at its disposal the greater the intensity of collective action. Since this thesis employs a comparative analysis, these factors can be assessed in relative terms.

6.1.3.3 Comprehensiveness

Comprehensiveness concerns the quality and extent of the content of collective action. As highlighted above, the content refers to standards / services and constitutes the second sub-criterion of the substance dimension. Comprehensiveness is identified by looking at:

- Breadth: The number of the issue’s sub-categories addressed. For example, sub-categories in the case of HIV/AIDS could be prevention, counselling and treatment. Similarly, as far as environmental protection, for instance in the area of water management is concerned, sub- categories could be research, efficient use, cleaning activities and prevention of future pollution.

and / or

- Depth: Does collective action focus on the issue area in question only? Or does it also deal with other issue areas? For example, does a standard implemented concentrate on environmental protection, or is this only one aspect of a standard focused on quality of the production process in general. Similarly, is HIV/AIDS the only reason for collective action or does the epidemic constitute a sub-issue of collective action on labour matters.

The more there is a focus on the issue area in question and the greater the number of the issue's sub-categories addressed the greater the comprehensiveness of collective action. Since this thesis employs a comparative analysis, these factors can be assessed in relative terms.

6.1.3.4 Inclusion

Finally, inclusion concerns the involvement of the individual parties. Collective action is absent if it is only one actor who organises everything, contributes all resources etc. For example, a firm undertakes research on HIV/AIDS and disseminates corresponding information to other firms, which can access this information without having to contribute anything in return. Thus, inclusion asks if the firms examined actively contribute to the activity identified with the help of the above criteria.

Thus, the intensity dimension of collective action consists of process, resources, comprehensiveness and inclusion criteria. All criteria have to be fulfilled for collective action to be present. Moreover, intensity can vary. A gathering might, for example, have many resources at its disposal but only cover an irrelevant side-aspect of the issue in question. Or it may not be obligatory but fulfil other criteria. For example, firms may agree on the setting of a standard governing environmental protection. This standard may be precisely formulated, involve monitoring mechanisms and parties may assign resources etc. However, the firms involved may not make the implementation of the standard obligatory. This would weaken the intensity and, hence, the overall strength of collective action. The more criteria are fulfilled, the stronger the intensity of collective action is considered to be. All criteria are given equal weight. Since this thesis employs a comparative analysis, each of the criteria can be measured in relative terms.

6.1.4 Summary

Overall, for collective action to be identified substance (dimension 1) must be given. The extent of substance is then determined by intensity (dimension 3). Finally, participation (dimension 2) allows the identification of the form collective action takes: Vertical or horizontal. The presence/absence of collective action and its type is presented in figure 2 below.

Fig. 1: Presence and Absence of Collective Action

Types **Presence**	**Vertical collective action**	**Horizontal collective action**
Strong collective action	○ Substance ○ Substance ***constitutes*** sub-category of exchange contract ○ Presence of all and relative strength of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)	○ Substance ○ Substance ***does not constitute*** sub-category of exchange contract ○ Presence of all and relative strength of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)
Medium/weak collective action	○ Substance ○ Substance ***constitutes*** sub-category of exchange contra ○ Presence of all and relative weakness of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)	○ Substance ○ Substance ***does not constitute*** sub-category of exchange contra ○ Presence of all and relative weakness of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)
No collective action	○ No substance Or ○ Substance ***does not constitute*** sub-category of exchange contract And/or ○ Absence of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)	○ No substance Or ○ Substance ***constitutes*** sub-category of exchange contract And/or ○ Absence of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)

6.2 Vertical Collective Action

This section empirically evaluates the propositions concerning the emergence of vertical collective action. Vertical collective action refers to the establishment of governance rules between buyer and supplier firms. The basic idea is that firms engage in vertical collective action because they want to safeguard their idiosyncratic investments that are endangered by potential ill behaviour of their transaction partners. Thereby, they make use of existing standards and norms provided by the institutional environment, as it is the case in the environmental protection policy field, which will be the issue area focused on. I examine the behaviour of textile retailers and automotive firms. The section has two main parts. The first one focuses on the role idiosyncratic inter-firm investment plays for the emergence of vertical collective action. The second part examines idiosyncratic intra-firm investment in social responsibility in this regard. When one of these factors is varied, the other one is held constant.

6.2.1 Idiosyncratic Inter-Firm Investment

This section evaluates the role idiosyncratic inter-firm investment plays for vertical collective action. The empirical analysis is divided into five parts: The first part deals with the operationalisation of the independent variable 'idiosyncratic inter-firm investment'. In a second step, I briefly re-introduce the institutional environment with respect to environmental protection. Thirdly, the analysis according to the indicators of the independent and dependent variables is conducted. Fourthly, the causal narrative is presented. Finally, the section ends with a conclusion, which summarises and discusses the findings.

6.2.1.1 Operationalisation of the Independent Variable

Hypothesis number one stated that given at least one of the transaction partners is a large firm, *the higher idiosyncratic inter-firm investment, the more buyer and supplier will engage in vertical collective action*. Preceding the empirical assessment of this hypothesis this sub-section operationalises the independent variable 'idiosyncratic inter-firm investment'.

As argued above, idiosyncratic investment is non-re-deployable and specific to a certain task. In contrast to spot market transactions where faceless transaction partners meet "for an instant to exchange standardised goods at equilibrium prices" (Ben-Porath 1980, p.4), in exchanges characterised by idiosyncratic investment "the identities of the parties matter, in that continuity of the relation has significant cost consequences" (Williamson 2002, p.176). Specialised investments are made for a specific interaction and have a higher value there, than they would have if they were redeployed for another purpose. Chapter 3 elaborated that with idiosyncratic investment firms are exposed to higher risk in transactions, which leads them to establish governance rules. Formulating these governance rules the firms make use of existing norms and rules offered by the institutional environment, as it is the case in the environmental protection area, for example ISO 14000. Thus, they come to contribute to environmental protection.

As argued above it is not relevant whether or not both or only one (and if only one then which one) of the firms invest. In any case, interdependence is created. For example, the supplier firm may invest and thus be locked into the transaction, because it cannot redeploy the investments. At the same time, the investment of the supplier also makes the buyer firm dependent since it needs a supplier that produces this specific tool. Alternative suppliers are not immediately available but would first have to make corresponding investments.

How can idiosyncratic inter-firm investment be measured? Various types of specialised investment have been identified by the economic institutionalist literature (see for example, Malone et al. 1987, Masten et al. 1991, Zaheer and Venkatraman 1994, Williamson 2002). Correspondingly, indicators may either reflect a specific investment type or show idiosyncratic investment in general. The following indicators are proposed:

- **Investment in financial / physical capital**: Financial allowances stabilising interaction / technological upgrade through new machinery / new plant or new production lines to adjust to the transaction partner.
- **Investment in human resources**: Number of personnel specifically employed for the transaction / retraining of personnel / number of days invested in specialised training.
- **Investment in expertise**: Access to specific knowledge on production, product, sourcing etc.
- **Investment linked to a specific location**: Geographical distance between production facilities of the firms is reduced for the purpose of the transaction.
- **Investment may be reflected in time span**: Commitment to interact over several years, stated in exchange contract.

Both buyer and supplier can undertake such investments. Cases, i.e. two exchange relationships, are compared in relative terms regarding each investment form and the overall investment.

The following table summarises the operationalisation of the dependent and independent variables of hypothesis 1 and shows when it is viewed as corroborated and disconfirmed by empirical evidence. In the absence of idiosyncratic inter-firm investment, the opposite should hold true.

Fig. 2: Independent and dependent variable (H1)

	Independent Variable: Idiosyncratic inter-firm investment	**Dependent Variable:** Vertical collective action	
		Corroborated	**Disconfirmed**
H1	- personnel - expertise - capital - location - time	○ Substance ○ Substance ***constitutes*** sub-category of exchange contract ○ Presence of all intensity criteria (process, resources, comprehensiveness, inclusion)	○ No substance Or ○ Substance ***does not constitute*** sub-category of exchange contract And/or ○ Absence of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)

Cases may vary in degree. The less a transactional relationship is characterised by specialised investment, the weaker vertical collective action is expected to be. As elaborated above, each of the indicators of the dependent and independent variables is measured in relative terms.

6.2.1.2 Environmental Protection Norms

Before I present the selection of cases and conduct the comparative analysis, I briefly restate the reasons why I chose environmental protection as policy field with regard to which firms with idiosyncratic inter-firm investment are expected to engage in vertical collective action.

Chapter 3 argued that firms draw on the formal institutional environment and informal norms embedding their interaction when formulating their governance rules. For example, the international or national institutional framework may provide socially relevant production process standards. Similarly, the home country of a multinational firm or its mother company may have developed and provide behavioural norms. In South Africa, environmental protection is part of the general legislation, for example through the National Environmental Management Act. However, specification of legislation and law enforcement are weak. Thus, there is room for firms to manoeuvre. In many regions, industry heavily pollutes air, water and soil without fear of legal consequences. Private environmental protection is nothing automatic.[72]

At the same time, there is the South African Bureau of Standards (SABS), which is the national institution for the promotion and maintenance of standardisation and quality in connection with commodities and the rendering of services. SABS is a member of the International Standards Organisation and, hence, offers the environmental standards ISO 14000 and ISO/TS 21931.[73] The International Standards Organisation actively promotes the dissemination of these environmental protection standards worldwide. They provide a framework for the development of an environmental management system and the supporting audit programme. The main thrust for the development of these environmental protection standards came as a result of the Rio Summit on the Environment held in 1992.[74] Another example of an international standard is the Eco-tex 100, which is a global testing and certification system for screening harmful substances in consumer textile products.

---

[72] Interview with Environmental Manager and Corporate Planning Manager, OEM 3, South Africa, 20 February 2007; interview with Managing Director, TM 1, South Africa, 13 September 2007; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008; interview with Environment Management Team, Western Cape Government, South Africa, 11 September 2008.

[73] Information available from https://www.sabs.co.za and http://www.iso.org/iso/about/iso_members/iso_member_body.htm?member_id=1485 [accessed January 2009]; interview with Manager Systems and Services Standards, SABS, South Africa, 12 September 2008.

[74] Information available from http://www.iso14000-iso14001-environmental-management.com/iso14000.htm [accessed January 2009].

It was developed in 1992 by a group of European textile institutions. Over 48,000 certificates have been issued worldwide since its inception. In addition to these well-established codes, various companies or industries have promoted environmental protection norms via speeches at summits, such as the World Economic Forum, or via websites or annual reports.[75] Thus, the environmental protection policy field is characterised by the extensive existence of norms and codes, which firms can draw upon when developing the governance rules for their specific interactions.

6.2.1.3 Comparative Analysis

This section comparatively assesses the interaction of car manufacturing and automotive tooling firms as far as environmental protection is concerned. The buyer firms to be analysed operate in the South African car manufacturing industry, which is characterised by an oligopolistic market structure: Few large firms operate in one market. The firms are close to the consumers of the end product and have international links. The supplying industries to these large firms belong to the South African automotive tooling sector, which is composed of a larger number of smaller firms.

High technology production processes and products, investment in research and development, skilled labour and close interaction with suppliers generally mark the automotive industry. However, the exchange relationships of individual car manufacturers and their respective suppliers differ regarding the extent of idiosyncratic investment. In order to empirically assess the validity of hypothesis 1, two cases are examined. Each case is constituted by the exchange relationship between a buyer and a supplier firm. I will compare the interaction of the Original Equipment Manufacturer (OEM) 1 and the supplying manufacturer M 1 with the interaction of OEM 2 and M 1. OEM 1 and M 1 will be shown to engage in high idiosyncratic inter-firm investment, whereas the idiosyncratic inter-firm investment of OEM 2 and M 1 is considerably weaker.

---

[75] Information available from http://www.weforum.org/en/Search%20Results/index.htm?ssUserText=environmental+protection [accessed January 2010]; OEM 1 Annual Report 2008; OEM 2 Annual Report 2008; R 4 Annual Report 2008.

The underlying idea is that, as opposed to OEM 2 and M 1, OEM 1 and M 1 would experience a considerable loss if their respective transaction partner decided to exit the exchange relationship after investments have been made. Moreover, both OEM 1 and M 1 are exposed to the risk that know-how, processes and components the transaction partner uses are inefficient and inadequate. This would have costly repercussions on production and products. *Therefore, the expectation is that, as compared to OEM 2 and M 1, OEM 1 and M 1 establish governance rules by drawing on existing norms and engaging in corresponding information exchange with the purpose of increasing the transparency of their interaction.*[76]

Since 2002, OEM 1 has been a subsidiary of the globally operating car manufacturer. While 25% of OEM 1 is still owned by a South African company, this share is planned to be sold to OEM 1's mother company. Operating in the oligopolistically structured South African car industry OEM 1 is market leader with regard to both passenger cars and commercial vehicles. Its overall market penetration added up to 23% in 2007.[77] The car manufacturer also exports passenger cars and pick-up vehicles to Europe and Africa. OEM 1 holds the franchise for the importation, assembly, manufacture and distribution of OEM 1 and Lexus cars, Hino trucks and motor vehicle parts in the Southern African customs union.[78] Its plant employs 10,000 people. Among other things, OEM 1 is a member of the National Association of Automotive Manufacturers in South Africa (NAAMSA) and of the local Chamber of Commerce. Being known for its intense interaction with its suppliers OEM 1 constitutes an interesting case to examine.[79]

---

[76] It should be noted that for hypothesis 1 to be assessed at least one of the transaction partners must be large. According to the indicators of firm size developed below, OEM 1 and OEM 2 are classified as large firms, whereas M 1 is considered to be small. The causal narrative following this sub-section will, among other things, also show how large transaction partners interact with small ones.

[77] Owning company, Annual Report, 2008.

[78] Owning company, Annual Report, 2008.

[79] Interview with automotive expert, B&M Analysts, South Africa, 1 October 2007; Focus Reports interviews with Chief Executive Officer, OEM 1, January 2006, and with Managing Director, M 1, March 2006.

Just as OEM 1, OEM 2 is a subsidiary of an internationally operating car manufacturer. The two companies are direct competitors in South Africa and globally. Closely following OEM 1, OEM 2 is the second biggest automotive manufacturer in South Africa. As far as passenger cars are concerned, OEM 2's share of the South African market totalled in 20.8%. Moreover, 50% of its vehicles are exported.[80] For example, the 100,000th Golf destined for export was produced in in 2008. At its plant, OEM 2 assembles the Golf 5, the Polo, trucks and buses and manufactures the Jetta and the Golf 1.[81] The company employs 6200 people. Similar to OEM 1, OEM 2 is involved in various organisations. It belongs to the National Association of Automotive Manufacturers in South Africa (NAAMSA), Southern-African German Chamber of Commerce as well as the Regional Chamber of Commerce.

The product and prices ranges of OEM 2 and OEM 1 are similar and so is, hence, the consumer segment they target (Kirmani et al 1999, Verhoef and Pauwels 2005).[82] Generally, two out of the seven large automotive firms – OEM 3 and OEM 4 – target a premium segment of the automotive market. OEM 5, OEM 6, OEM 7, OEM 2 and OEM 1 mainly produce cars for a middle class mass segment. Economies of scale are more important than in the case of OEM 4 and OEM 3, which strongly focus on adding mark-ups to end prices.[83] Moreover, Mercedes and OEM 3 stated that they do not perceive themselves as competitors of mass-market producers such as OEM 2.[84] In addition, OEM 2 and OEM 1 are similar in that they have links to luxury as well as economy brands: For example, Lamborghini and

---

[80] OEM 2, Annual Report, 2008; also information available from the OEM 2 website [accessed 12 July 2008].

[81] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008; information available from OEM 2 company website [accessed 12 July 2008].

[82] Interview with automotive expert, B&M Analysts, South Africa, 1 October 2007.

[83] Interview with Corporate Affairs Manager and Public Communications Manager, OEM 3 mother company, Germany, 2 August 2007; telephone interview with Director of Public Affairs and Policy, OEM 4 mother company, 6 August 2007.

[84] Interviews with Environmental Manager and Corporate Planning Manager, OEM 3, 20 February 2007; Interview with Occupational Health and Corporate Social Responsibility Manager, OEM 4, 26 February 2007.

Audi as well as Skoda in the case of OEM 2 and Lexus and Suzuki in the case of OEM 1. Moreover, both OEM 2 and OEM 1 emphasise the importance of environmental sustainability of their product via their Annual Reports and media campaigns. Eco-cars are part of their product range. Furthermore, the production processes of the two car manufacturers are specialised in that employee wellness, waste, emissions, non-hazardous substances etc. are given particular emphasis.[85] Thus, the firms' 'idiosyncratic intra-firm investment in social responsibility'[86] can be held constant. This is important since it is expected to have an impact on vertical collective action, too.

The supplier to be examined is supplier M 1, which deals with both OEM 1 and OEM 2. Operating in several locations all over South Africa M 1 serves almost all car manufacturers. The automotive component manufacturer produces carpeting, head- and armrests, seat pads, pads for catalytic converters, mats, aluminium heat shields, leather for seats etc. Exceptionally large in terms of employment numbers as compared to most other component manufacturers M 1 has 2200 employees. The company is a member of the National Association for Automotive Component Manufacturers.

In a first step, the transactional relationship of OEM 1 and M 1 is analysed. The car manufacturer is one of the biggest customers of M 1. Generally, OEM 1 is found to invest extensively in the relationship with its suppliers. Several component manufacturers emphasised OEM 1's positive behaviour towards their exchange partners in terms of expertise, capital and contractual commitment.[87] OEM 1 has a

---

[85] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008; interview with Clinic Director, Occupational Health, OEM 2, South Africa, 25 September 2007; interview with automotive expert, B&M Analysts, South Africa, 1 October 2007, interview with SHE Manager, M 1, South Africa, 25 September 2008. See OEM 2 and OEM 1 Annual Reports 2008 and OEM 1 Technical Report 2006.

[86] Indicators for investment in social responsibility: Green products, high average product price, hard data on investment in internal procedures. See the following section for a justification of these indicators.

[87] Interview with Manager of Integrated Systems, M 4, South Africa, 22 September 2008; interview with Human Resources Manager and Environmental Manager, M 3, South Africa, 13 September 2007; interview with Procurement Manager, M 1; and interview with SHE Manager, M 1, South Africa, 25 September 2008.

school for supplier development where a supply chain team teaches a company-specific way to lean automotive manufacturing (OEM 1: *personnel, expertise, capital*). In addition, OEM 1's Chief Executive Officer emphasises that "one element of our supplier development programme is that we work with local supplier to find viable options for joint ventures or technical agreements with our leading global suppliers".[88] In a similar vein, the procurement manager of M 1 points out that OEM 1 particularly supports them in finding international business partners and, in relation to that, getting access to technology. "OEM 1 is feeding information backwards and forwards to us. For example, they told us about a Masonite supplier in Thailand" (OEM 1: *expertise*).[89] Also, OEM 1 assists M 1 regarding production methods, productivity improvements (OEM 1: *expertise*) and provides the component manufacturer with the tooling necessary for production. M 1's Managing Director highlights:

> "The way in which OEM 1 uses tools to achieve an end goal is the real success story. They are absolute masters at it and we try to emulate their example by teaching M 1 people never to fall in love with the tool since it is constantly changing and only represents a means to an end. Tools like TQM, Quality Circles and Six Sigma become fashionable but are inevitably replaced every few years" (OEM 1: *expertise*). [90]

The car manufacturer develops and pays for the tooling. At least for the time period the contract covers M 1 keeps the tooling. "You don't always give the tooling back, sometimes it can stay here" (OEM 1: *capital*). The contracts between M 1 and OEM 1 are related to the lifetime of a specific model, i.e. duration is about seven to eight years (OEM 1, M 1: *time*). Moreover, OEM 1 appears to want a stable exchange relationship with its suppliers: Since there can, for example, be price increases of products M 1 sources OEM 1 allows them to put a certain price in an agreement and six months later they can "come and talk again and that's reasonable" (OEM 1: *capital*).[91]

---

[88] Focus Reports interview with Chief Executive Officer, OEM 1, January 2006.

[89] Interview with Procurement Manager, M 1, South Africa, 25 September 2008.

[90] Focus Reports interview with Managing Director, M 1, March 2006.

[91] Interview with Procurement Manager, M 1, South Africa, 25 September 2008.

M 1's production site is located close to OEM 1 in order to facilitate supply (M 1: *location*). It is fledged out to match the customer's pace of production. Thus, the component manufacturer has adopted a number of OEM 1 production methods and invested in specific machinery (M 1: *capital*).[92] M 1 also allows employees to be away from work sending them off to be trained at OEM 1 and to work with their peers there (M 1: personnel). Part of this is the appointment of M 1's Managing Director as Chairman of the OEM 1 Supplier Association. In general, M 1 is committed to supplying parts up to 15 years after the end of production (M 1: *time*). "That is a very onerous thing when you look at it because technology might change and you have to keep a process line available for fifteen years after at no cost." As part of the customer's quality management the supplier's product has to be ready one year before the customer starts producing (M 1: *time*).[93]

In a second step, the transactional relationship of OEM 2 and M 1 is examined. OEM 2 belongs to the important customers of the component manufacturer as well. M 1's has a production site close to OEM 2's premises as well. However, the production there is not as comprehensive as at the site close to OEM 1 (M 1: *location*). The investments in production facilities that have to be made for the exchange relationship with OEM 2 are similar to the ones for OEM 1 (M 1: *capital*).[94] Again, M 1 is committed to supplying parts up to 15 years after the end of production and to having the product ready one year before the customer starts producing (M 1: *time*).[95]

Similar to OEM 1, OEM 2 has established a school that focuses on lean manufacturing. However, OEM 2's school is smaller and used mainly internally and only to a limited extent for supplier development. During the interviews, M 1

---

[92] Focus Reports interview with Managing Director, M 1, March 2006; interview with Procurement Manager, M 1, South Africa, 25 September 2008.

[93] Focus Reports interview with Managing Director, M 1, March 2006; interview with Procurement Manager, M 1, South Africa, 25 September 2008.

[94] Focus Reports interview with Managing Director, M 1, March 2006; interview with Procurement Manager, M 1, South Africa, 25 September 2008.

[95] Focus Reports interview with Managing Director, M 1, March 2006; interview with Procurement Manager, M 1, South Africa, 25 September 2008.

managers do not mention the OEM 2 school when discussing support coming from customers but only talk about the OEM 2 quality team which visits the M 1 premises (OEM 2: *personnel, capital, expertise*).[96] OEM 2 provide M 1 with the tooling necessary for production and assist them regarding productivity improvements (OEM 2: *capital, expertise*). As in the case of OEM 1, contracts are related to the lifetime of a specific model, i.e. about seven to eight years (OEM 2, M 1: *time*). However, the M 1 Procurement Manager points out that OEM 2 do not take a cooperative approach with regard to contract formulation. On the contrary, "they write in the agreements that the price must go down 5% each year. It's a problem for us. We're in the middle. The suppliers have a lot of power and the customer has a lot of power."[97]

What does the presented data on these two exchange relationships tell as far as the indicators developed above are concerned?

Fig. 3: Idiosyncratic Investment: Exchange relationship of OEM 1 and M 1

investing party investment type	**OEM 1**	**M 1**
Personnel	Yes: supply chain team devoted to regular training	Yes: retraining
Expertise	Yes: OEM 1 Way, lean manufacturing, business partners, functioning as a model manufacturer,	No
Capital	Yes: supply chain school, tooling, price renegotiation	Yes: machinery, new production methods
Location	No	Yes: Nearby plant
Time	Yes: seven/eight years contracts	Yes: ready to supply one year ahead, 15 years commitment after production, seven/eight years contracts

[96] Interview with Quality Manager, M 5, South Africa, 22 September 2008.

[97] Interview with Procurement Manager, M 1, South Africa, 25 September 2008.

Fig. 4: Idiosyncratic Investment: Exchange relationship of OEM 2 and M 1

investing party investment type	**OEM 2**	**M 1**
Personnel	Yes: experts giving training	No / yes (how much?)
Expertise	Yes: lean manufacturing	No
Capital	Yes: supply chain school, tooling	Yes: production facilities
Location	No	Yes: Nearby plant
Time	Yes: seven/eight years contracts	Yes: ready to supply one year ahead, 15 years commitment after production, seven/eight years contracts

Overall, OEM 1 and M 1 as well as OEM 2 and M 1 engage in idiosyncratic investment in all areas. However, the investment intensity differs. While both OEM 1 and OEM 2 have invested in a school in which specialised personnel provides information, OEM 2's school is small and mainly inward oriented and, hence, has a limited focus on supplier development, such that the OEM 2 school's existence is not mentioned in interviews with M 1. The two car manufacturers have a similar approach as far as the provision of tooling is concerned but OEM 1 additionally assists M 1 with regard to finding and negotiating with international business partners. Also, OEM 1 shows more interest in a stable, harmonious interaction since it allows the supplier to renegotiate the price she is supposed to get for her product. Similarly, M 1 invests more in their relationship with OEM 1 than in the interaction with OEM 2 since they let their employees get continuously involved at OEM 1 and have a more comprehensive production site close to where the OEM 1 operation is located than close to where OEM 2 produces.

Thus, the extent to which idiosyncratic investment takes place is larger in the case of the OEM 1-M 1 transaction than in the case of the OEM 2-M 1 exchange relationship. *Based on the data analysed it can therefore be expected that in both cases some vertical collective action takes place. However, OEM 1 and M 1 are expected to develop stronger governance rules concerning environmental protection than OEM 2 and M 1.* In order to identify collective action, three dimensions were proposed above: Substance, participation and intensity. There can be variation with regard to form (i.e. participation: horizontal or vertical) and degree (substance and intensity) of collective action. In the remainder of this sub-section, these dimensions are looked at seriatim for both exchange relationships.

First, the interaction of OEM 1 and M 1 is analysed again. On the substance dimension it can be said that the two firms involved, OEM 1 and M 1, together implement two types of environmental process standards at M 1: ISO 14000 and the specific OEM 1 standard SHE. This is part of their contractual agreement as well as issue of frequent meetings to exchange knowledge (see below). The ISO 14000 standards were developed by the International Standards Organisation and require certified firms to have an environmental management system. Part of ISO 14000 is, for example, the implementation of operating procedures regarding spillage and storage of chemical substances, waste generation, water consumption etc. In addition, ISO involves legal compliance. The ISO standard overlaps with OEM 1's own standard. The SHE OEM 1 standard looks at safety, health and environmental protection at the plant. Issues covered are energy consumption, emissions, recycling of materials and resources, the use of substances of concern etc.[98] Aside from the process standards, OEM 1 also formulated and, together with M 1, implements product relevant standards. Components should be free of substances of concern, such as lead, hexavalent chromium, mercury, cadmium, heavy metals, chlorides which can cause health and environmental damage. Moreover, it is aimed at high recyclability of components in order to ensure 85% reuse/recycling of vehicle parts and 95% reuse/recovery of vehicle parts.[99]

Thus, there is substance. The second criterion, participation, decides as to whether we are dealing with vertical or horizontal collective action. What can be said as far as participation is concerned? OEM 1 and M 1 belong to the same industry sector and are transaction partners. The substance, i.e. the implementation and knowledge exchange on ISO 14000 and SHE standards, is integrated into the contract

---

[98] Interview with SHE Manager, M 1, South Africa, 25 September 2008; OEM 1 Technical Report 2006.

[99] Interview with SHE Manager, M 1, South Africa, 25 September 2008; OEM 1 Technical Report 2006.

specifying the terms of exchange. "You will find additions put in the end of the agreements where OEM 1 bring in environmental standards", says the Procurement Manager of M 1.[100]

The third dimension measures the intensity of collective action. It is sub-divided into four parts: Process, resources, comprehensiveness and inclusion. As far as process is concerned, it can be pointed out that OEM 1 requires M 1 to have ISO 14000 as well as the OEM 1 specific process and product standards in place (*requirement*). Clear dates as to what has to be implemented by when are stated in the OEM 1 Technical Report 2006 and in the general OEM 1 Report 2008. M 1 has already received OEM 1 certification. The OEM 1 supply chain team as well as the SHE Manager of M 1 monitor implementation (*precision*).[101] The OEM 1 SHE inspection takes place on a continuous basis. Unofficial visits are organised several times per year before the official audit is carried out (*scope*). OEM 1 also provide incentives in order to encourage compliance. "They'll be doing assessments and use the scoring for the Supplier of the Year Award" and others.[102] In 2005, M 1 won the Regional Contribution Award for three years of excellence (*positive incentives*).[103]

The ISO certification is delegated by OEM 1 to the South African Bureau of Standardisation (*precision*). There is no room for negotiation: The certificate is withdrawn in case of non-compliance (*monitoring, sanctioning*).[104] Internally, the M 1 SHE Manager engages in monitoring. M 1 also carries the expenses related to implementation but includes them in the product price (*precision*). While OEM 1 take a collaborative approach and try to support their suppliers to reach the necessary environmental protection level, continuous non-compliance with regard to

---

[100] Interview with Procurement Manager, M 1, South Africa, 25 September 2008.

[101] Interview with SHE Manager, M 1, South Africa, 25 September 2008.

[102] Interview with SHE Manager, M 1, South Africa, 25 September 2008.

[103] Information available from www.naacam.co.za [accessed May 2009].

[104] Interview with SABS Environmental Certifier, South Africa, 12 September 2007.

process and/or product standards leads to a termination of interaction (*sanctioning*).[105]

What can be said with regard to resources devoted to the implementation of the governance rules? M 1 contributes the financial capital necessary for the implementation of the environmental protection standards. Since entire processes and material used may have to be changed the implementation can be expensive (*capital*).[106] Moreover, the supplier employs a Safety, Health and Environment (SHE) Manager who coordinated the implementation and deals with monitoring activities. This Manager also interacts with OEM 1's SHE team on a regular basis. The OEM 1 team visits the component manufacturer in order to help identifying risks, preparing for audits etc. and invites M 1 staff to their own premises. M 1's Procurement Manager states that "when we expanded the environmental area, i.e. implemented ISO 14001, we did liaise with OEM 1. We went there to find out a little bit about it" (*personnel, expertise*).[107] ISO standards have been internationally agreed upon and are recognised as central standards in various industries worldwide. By implementing ISO standards a firm can internally improve its management practices and externally signal commitment to environmental protection (see Cao and Prakash 2008) (*recognition*).[108]

The third aspect of the intensity dimension, comprehensiveness, looks at the reach achieved. It refers to the issue's sub-categories addressed. To what extent is an issue covered in its entirety? Does collective action focus on environmental protection? Or does it also deal with other issue areas? OEM 1 and M 1 engage in environmental protection via both product as well as process standardisation. The implementation of these standards is accompanied by knowledge exchange. The ISO 14000 is a standard solely focused on environmental protection. Similarly, the two firms

---

[105] Interview with SHE Manager, M 1, South Africa, 25 September 2008; OEM 1 Technical Report 2006.

[106] Interview with SHE Manager, M 1, South Africa, 25 September 2008; interview with Human Resources Manager and Environmental Manager, M 3, South Africa, 13 September 2007.

[107] Interview with Procurement Manager, M 1, South Africa, 25 September 2008; interview with SHE Manager, M 1, South Africa, 25 September 2008.

[108] Interview with SABS Environmental Certifier, South Africa, 12 September 2007.

implement quality standards concentrating on this issue area only. The SHE standard is of broader nature since it looks at safety, health and environment issues. Nevertheless, OEM 1's approach is more focused than that of many other car manufacturers. The M 1 SHE Manager points out that "some car manufacturers audit safety, health and environment issues as part of their quality system – unlike OEM 1. They have both a quality and a safety, health and environment team. They are more demanding." As already stated above, both the process and the product standards cover a variety of environmental sub-issues (*comprehensiveness*).[109] The last criterion of the intensity dimension is inclusion. Both OEM 1 and M 1 make a contribution – and not only in one area but in several.

Overall, the criteria of all three dimensions, substance, participation and intensity (process, resources, comprehensiveness, inclusion), are fulfilled. In sum, OEM 1 and M 1 are involved in vertical collective action. After having assessed the exchange relationship of OEM 1 and M 1 I now return to the interaction of OEM 2 and M 1 in order to evaluate to what extent they are involved in vertical collective action as well. The expectation is that there is comparatively weak collective action.

On the substance dimension of collective action, it can be said that the two firms involved, OEM 2 and M 1, have some interaction concerning environmental protection. Suppliers do get invited to the OEM 2 premises for information sessions, for example on the process standard ISO 14000 and on the avoidance of hazardous substances in components. With regard to the participation dimension, one can point out that this interaction is of vertical nature since this substance is included in the contract specifying the terms of exchange.[110]

Thus, there is substance, which is governed vertically. This is in line with the expectation since even the OEM 2-M 1 interaction was characterised by some idiosyncratic inter-firm investment. To what extent, however, is the intensity dimension fulfilled, which measures the extent of the substance of collective action?

---

[109] Interview with SHE Manager, M 1, South Africa, 25 September 2008.

[110] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008; interview with Procurement Manager, M 1, South Africa, 25 September 2008; interview with SHE Manager, M 1, South Africa, 25 September 2008.

As stated above, the intensity dimension includes four criteria: Process, resources, comprehensiveness and inclusion.

What can be said on the process criterion? The ISO 14000 standard would allow a systematic approach to environmental management allowing transparency of interaction. And, indeed, internally, the M 1 SHE Manager engages in *monitoring*. As stated above, M 1 also carries the expenses related to the implementation of the standard (*precision*). However, ISO 14000 does not constitute a OEM 2 requirement, only a *recommendation*.[111] Moreover, OEM 2 neither provides *incentives* in order to encourage compliance with environmental process standards nor does the care manufacturer have a supply chain team focused on environmental protection in the production process (*precision*). The Environmental Manager of OEM 2 explains: “The first requirement for suppliers is to comply with the legislation. Not all of them can be ISO and those that are ISO certified, that is brilliant, but at the moment we have not gone that route yet.”[112] By contrast, hazardous substances must not be contained in components (*requirement*). Non-compliance would have the consequence of OEM 2 forcing M 1 to withdraw its delivery.[113] “If a new product is introduced it comes in here and I check it. If it’s got one of these banned substances, it’s a no-no. It doesn’t come into the plant. I make sure that it is replaced.”[114] However, in general, environmental protection in the supply chain has only recently been identified as potential issue of interest to OEM 2.[115] In the Annual Report 2008, OEM 2 points out that concepts for an environmentally friendly supply base have been developed but so far only implemented to a limited extent (*precision*). Clear dates as to what has to be

---

[111] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008; interview with SHE Manager, M 1, South Africa, 25 September 2008.

[112] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008.

[113] Interview with SHE Manager, M 1, South Africa, 25 September 2008.

[114] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008.

[115] OEM 2 Annual Report 2008.

implemented by when are not stated. Currently, only the OEM 2 quality team inspects the M 1 plants (*scope*).[116]

Similarly, the resources devoted to collective environmental protection are limited. It was pointed out that M 1 financed the implementation of standards (*capital*).[117] Also, M 1 employs an Safety, Health and Environment (SHE) Manager who takes care of the implementation and deals with monitoring activities (*personnel*). However, the M 1 SHE Manager does not interact with OEM 2's auditors: "I do not know of them because it's mostly shallow".[118] As already emphasised, the OEM 2 audit team focuses on quality. These people are no qualified environmental experts and, hence, are dealt with by the Quality Manager of M 1 (*personnel, expertise*).[119] The absence of the systematic use of internationally acknowledged codes like the ISO 14000 with their external auditing mechanisms also implies limited fulfilment of the recognition criterion. Moreover, the interaction of OEM 2 and M 1 is characterised by few other, OEM 2 specific standards, which could be publicly emphasised, for example in newspapers (*recognition*).

The third aspect of the intensity dimension, *comprehensiveness*, refers to the issue's sub-categories addressed. Furthermore, does collective action focus on the issue area in question only? Or does it also deal with other issue areas? While the product standards cover a variety of environmental sub-issues, process regulation is weak in this regard. OEM 2 auditors treat environmental protection in the production process as small part of their general quality system. Similarly, suppliers do get invited to information sessions on environmental requirements at OEM 2 but these issues only constitute a small part among aspects related to quality.[120] Thus, comprehensiveness is limited.

---

[116] OEM 2 Annual Report 2008.

[117] Interview with SHE Manager, M 1, South Africa, 25 September 2008; interview with Human Resources Manager and Environmental Manager, M 3, South Africa, 13 September 2007.

[118] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008.

[119] Interview with SHE Manager, M 1, South Africa, 25 September 2008.

[120] Interview with SHE Manager, M 1, South Africa, 25 September 2008; interview with Environmental Manager, OEM 2, South Africa, 22 September 2008.

Also *Inclusion* is low. The only areas where OEM 2 appear to come in are requirements on hazardous substances and information sessions dealing with environmental protection as a sub-issue of quality management.[121] Overall, the intensity of collective action is weak. Thus, only comparatively weak vertical collective action can be identified. This is in line with the expectations. *As compared to OEM 2 and M 1, OEM 1 and M 1 establish strong governance rules by drawing on existing environmental protection norms and engaging in corresponding information exchange.*

Fig. 5: Summary independent and dependent variable

H1	**Independent Variable:** Idiosyncratic inter-firm investment	**Dependent Variable** Vertical collective action with focus on standard-setting
		Corroborated
	OEM 1 – M 1 **high specialised investment**	o Substance: Firms implement standards and exchange information o Participation: Environmental protection is sub-category of exchange contract (vertical collective action) o Intensity: Obligation, precision, scope, monitoring, sanctioning (process); personnel, expertise, recognition, capital (resources); comprehensiveness and inclusion are all given. → **strong collective action**
	OEM 2 – M 1 **low specialised investment**	o Substance: Firms implement standards and exchange information o Participation: Environmental protection is sub-category of exchange contract (vertical collective action) o Intensity: Limited obligation, precision, scope and sanctioning, hardly any monitoring. While some resources are contributed, inclusion is very low. Also comprehensiveness is limited. → **weak collective action**

6.2.1.4 Causal Narrative

The above analysis showed that the empirical data corroborates hypothesis 1. The

[121] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008.

aim of this sub-section is now to empirically trace the theoretically derived causal mechanism linking independent and dependent variables. Do firms really engage in vertical collective action with the purpose of safeguarding their inter-firm investments through increased transparency of interaction? Do firms want to reduce the risk that their respective transaction partner behaves unexpectedly and to their disadvantage? In order to answer these questions, I will try to look for a series of theoretically predicted intermediate steps. This also includes the specificities of interactions between large and small firms. While from a theoretical perspective both large and small firms may be involved in vertical collective action, the process of how collective action comes about is expected to be highly determined by the larger transaction partner.

M 1 has been supplying car manufacturers in South Africa for decades. With market liberalisation in the 1990s, M 1 as well as its customers adapted to meet the demands of the international market. The component manufacturer's customers are based in South Africa but export large numbers of their cars. In order to live up to the specific needs of its customers, M 1 integrates a diverse and competing set of technologies. Today, M 1 sources from local companies and from abroad. It purchases technologically simple products and has established strong relationships with high technology partners.[122]

M 1 has been supplying OEM 1 since 1969. When the mother company of OEM 1 took up a 75% stake of OEM 1 in South Africa in 2002, a new priority was placed on the integration of the South African operation into the company's global supply chain. Accompanied was this move by the Innovative International Multi-Purpose Vehicle (IMV) Project. The mother company chose South Africa as one of only four production hubs for the new pick-ups and vans.[123] Since the IMV project is technologically highly ambitious, OEM 1 had to undergo considerable changes. Thus, the car manufacturer increased the level of sophistication of the logistics

---

[122] Interview with Procurement Manager, M 1, South Africa, 25 September 2008; Focus Reports Interview with Managing Director, M 1, South Africa, March 2006.

[123] Information available from OEM 1 mother company website [accessed 7 February 2010].

system and invested heavily in upgrading its production facilities and processes. This new approach also involved a changing attitude towards the supply base.

In 2002, the year of OEM 1's strategy change, the construction of a supply park near its premises was initiated.[124] Like other suppliers, M 1 had to invest in a production plant entirely dedicated to OEM 1 and brought it in line with OEM 1's pace of production. While OEM 1 had used to allow South African suppliers to develop technological solutions, the strategy change forced local suppliers to purchase more sophisticated technology solutions abroad and integrate them in their production processes.[125] Correspondingly, the procurement manager of M 1 highlights: "OEM 1 would rely on our technology and we didn't have to go and sign up technology like now."[126]

Not only OEM 1's suppliers had to make specific adaptations. From 2002 onwards, also OEM 1 began investing in the exchange relationships with its suppliers. The CEO of OEM 1 points out: "We have made huge investments as part of our commitment to supplier development in recent years."[127] Part of this is the School for Supplier Training and Development, which was launched in 2004. By July 2006, about 1000 supplier executives and other employees had undergone training in business methods and improved their manufacturing skills.[128] The Managing Director of M 1 confirms this:

> "We have adopted a number of OEM 1 production methods and philosophies and have a continuous agenda of sending a number of M 1 people to train and interact with their peers at OEM 1 … The relationship is good simply because it's that important. OEM 1 is absolutely fundamental for us and hopefully we

---

[124] Focus Reports interview with Chief Executive Officer, OEM 1, South Africa, January 2006; interview with automotive expert (and consultant to the supply park initiative), B&M Analysts, South Africa, 1 October 2007; information also available from http://www.dbnautocluster.org.za/ [accessed 7 February 2010].

[125] Interview with Procurement Manager, M 1, South Africa, 25 September 2008; Focus Reports interview with Chief Executive Officer, OEM 1, South Africa, January 2006; Focus Reports interview with Managing Director, M 1, South Africa, March 2006.

[126] Interview with Procurement Manager, M 1, South Africa, 25 September 2008.

[127] Focus Reports interview with Chief Executive Officer, OEM 1, South Africa, January 2006.

[128] Focus Reports interview with Chief Executive Officer, OEM 1, South Africa, January 2006; information available from mother company website [accessed 7 February 2010].

> have focused on the right things, namely quality, service and delivery."[129]

While OEM 1 was aware of the fact that M 1 had invested in relationships with other car manufacturers, too, the Japanese company also knew that M 1 could not afford losing it as a transaction partner. In general, the South African automotive component industry is highly dependent on the car manufacturers.[130] Thus, OEM 1 did not fear that M 1 might deliberately exit the exchange relationship. However, economic pressures and mismanagement can always create problems. With the investments triggered by the IMV project, stability of interaction with suppliers became more important for OEM 1. Therefore, reliability and efficiency of the supplier's production as well as concerning its use of the right substances came to be viewed as essential.[131]

Consequently, from 2002 onwards, OEM 1 intensified its control of productivity developments and reliability of their suppliers with the help of standardisation, monitoring and information sharing, M 1 Managers emphasise. In 2003, M 1 appointed a Safety, Health and Environment (SHE) Manager, who introduced systematic risk assessments at the component manufacturer's premises. This position was named after and directly inspired by OEM 1's very own SHE management system. Since then M 1's SHE Manager has conducted internal audits, interacted with insurers as well as with OEM 1 inspectors. He highlights that "the OEM 1 SHE auditors come in, they look at the plant, is it safe? Is it not? How much risk have we got?"[132] At the same time, OEM 1 invited M 1 Managers to come and see the safety, health and environment procedures at their own factory.[133]

---

[129] Focus Reports interview with Managing Director, M 1, South Africa, March 2006; also interview with Procurement Manager, M 1, South Africa, 25 September 2008.

[130] Several interviews with car and component manufacturers in South Africa, from February 2007 to October 2008.

[131] Focus Reports interview with Chief Executive Officer, OEM 1, South Africa, January 2006; interview with SHE Manager, M 1, South Africa, 25 September 2008; interview with Procurement Manager, M 1, South Africa, 25 September 2008; Focus Reports interview with Managing Director, M 1, South Africa, March 2006.

[132] Interview with SHE Manager, M 1, South Africa, 25 September 2008.

[133] Interview with Procurement Manager, M 1, South Africa, 25 September 2008; Focus Reports interview with Chief Executive Officer, OEM 1, South Africa, January 2006; interview with Manager

In 2004, the OEM 1 inspectors also started demanding ISO 14000 to facilitate access to information about M 1's production process and general procedures. Moreover, having an external agent certify the supplier, as it is the case with ISO, further reduced the risks OEM 1 faced, the M 1 SHE Manager explains. Again, OEM 1 invited M 1 Managers to its premises in order to provide them with the necessary information on the ISO 14000 management system. This was followed by continuous support regarding ISO implementation efforts at M 1. From 2003 to 2008, the component manufacturer raised its production process's safety and reliability rating from 72% to about 94%.[134] Thus, standardisation did provide OEM 1 with assurance about M 1's behaviour and, thereby the two companies contributed to environmental protection in South Africa.

By contrast, despite its own specialisations for OEM 1, M 1 does not appear to have seriously feared that OEM 1 may exit the transaction, or if M 1 did, it did not take action. When M 1 agreed to undertake the extensive investments in new technology, production facilities etc., it did not come up with the development of governance rules. Corresponding risk considerations and standardisation allowing evaluations of OEM 1's behaviour were not an issue. While access to OEM 1 knowhow on risk management in general and environmental protection in particular came to constitute an explicit part of the relationship, this is nothing M 1 demanded but instead something OEM 1 granted. The governance rules between M 1 and OEM 1 were integrated into the exchange contract because it was required by OEM 1. At that time, OEM 1 already had a supply chain team, which together with legal, logistic and purchasing managers took charge of the development and implementation of governance rules with M 1. Only then a post with corresponding responsibility, the position of the SHE Manager, was created at M 1.[135] Thus, the establishment of vertical collective action of the two manufacturers was guided by OEM 1, the

---

of Integrated Systems, M 4, South Africa, 22 September 2008.

[134] Interview with Procurement Manager, M 1, South Africa, 25 September 2008.

[135] Focus Reports interview with Chief Executive Officer, OEM 1, South Africa, January 2006; interview with SHE Manager, M 1, South Africa, 25 September 2008; interview with Procurement Manager, M 1, South Africa, 25 September 2008; Focus Reports interview with Managing Director, M 1, South Africa, March 2006.

decisively larger firm.

Having described the relationship between OEM 1 and M 1, I now return to examining M 1's interaction with OEM 2. M 1 has been supplying OEM 2 for many years. Like OEM 1, OEM 2 complies with internationally recognised environmental standards: It ensures the absence of hazardous substances in its products and has adhered to ISO 14000 for almost a decade. Certification is not only obtained from the South African Bureau of Standards but also from the German TUV.[136] Between 2000 and 2008, OEM 2 invested around 1 billion US$, among other things, in plants for the production of new models and a new paint shop.[137] However, as far as new, high technology models are concerned OEM 2's focus has remained on assembling rather than on manufacture. For example, for the Golf 5, the car manufacturer has applied the completely knock down (CKD) strategy. The components are shipped in and put together. By contrast, an old Polo version and the Golf 1 have been fully manufactured at the South African premises. To do so, OEM 2 has used an old production line, which the German operation had sorted out.[138]

Consequently, the sophistication of the components sourced locally and the corresponding investments in the South African supply chain have been limited in the last years. When I interviewed M 1 and OEM 2 Managers in September 2008, they highlighted that their contracts have been limited to compliance with legislation, quality of the product and prices. Certainly, whenever a new contract was signed up with OEM 2, for example for the Golf 1, M 1 would be provided with tooling – which is what all car manufacturers do. However, this has rarely been accompanied by extensive OEM 2 expertise. Moreover, M 1 did not have to make significant investments for specific OEM 2 models.[139] In fact, common parts in the

---

[136] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008.

[137] Information available from OEM 2 company website [accessed October 2008].

[138] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008.

[139] Interview with Environmental Manager, OEM 2, South Africa, 22 September 2008; interview with SHE Manager, M 1, South Africa, 25 September 2008; interview with Procurement Manager, M 1, South Africa, 25 September 2008; Focus Reports interview with Managing Director, M 1, South Africa, March 2006.

Polo and Golf made it easy for suppliers to produce the required components.[140]

M 1 has long been involved with all car manufacturers present in South Africa, in particular with OEM 1, OEM 2, OEM 3 and OEM 4. Thus, there has not been a complete dedication to OEM 2 over the last years. Similarly, since investment has not been extensive, OEM 2 has not shown considerable commitment to its supplier base. Suppliers are replaced often for minor reasons. Finding new suppliers seems to be relatively easy. An insider explains:

> "There was a situation with Masonite, which is a hardboard, hard wood board and it goes into the boot where you lift up for the spare wheel. It's on the Golf One. And a Masonite supplier had a problem, they got little marks in their process, a little mark maybe that big, a little grey mark and they said they were not going to supply M 1 anymore because they were rejecting their sheets because of these marks – because they were being rejected by OEM 2."[141]

Also as far as contracting is concerned, OEM 2 has taken an accept-it-or-forget-it approach, an insider says. "You must see the agreements, they write in there the price must go down 5% each year." Otherwise, they turn to alternative sources.[142]

Consequently, despite the availability of standards and codes at the international level since the 1990s, there has been no attempt, neither on the part of M 1 nor on the part of OEM 2, to integrate elaborate governance rules into their exchange contracts. OEM 2 does require the absence of hazardous substances, but ISO 14000, which would allow better risk management and thus "give security", has not been included.[143] This does not appear to be necessary given that in the absence of significant idiosyncratic investments disappointing transaction partners can be replaced without much difficulty.

Overall, the empirical tracing of the theoretically derived mechanisms linking independent and dependent variables supports hypothesis 1. OEM 1, the manufacturer with extensive supply chain investment, has been concerned with risk

---

[140] Focus Reports Interview with Managing Director, OEM 2, South Africa, February 2006.

[141] Interview with an expert, South Africa, 25 September 2008.

[142] Interview with an expert, South Africa, 25 September 2008.

[143] Interview with SHE Manager, M 1, South Africa, 25 September 2008; interview with Environmental Manager, OEM 2, South Africa, 22 September 2008.

considerations, which seem to have caused its involvement in vertical collective action with the component manufacturer M 1. M 1, which has invested in its relationship with OEM 1, too, participates in collective action but did not take the initiative. This supports the additional claim that large transaction partners determine the process of how collective action comes about. Finally, in contrast to OEM 1, OEM 2, the manufacturer with relatively low idiosyncratic investment, does not appear to have had a particular interest in pre-empting inappropriate behaviour of its suppliers. Instead, OEM 2 seems to be able to replace them with relative ease when disappointed. Hence, collective action has been weak.

6.2.1.5 Conclusions

This section assessed hypothesis number one, which stated that given at least one of the transaction partners is a large firm, *the higher idiosyncratic inter-firm investment, the more buyer and supplier will engage in vertical collective action*. Both the comparative assessment according to the indicators of the independent and dependent variables as well as the causal narrative corroborated the hypothesis. Automotive manufacturers establish governance rules to safeguard their idiosyncratic inter-firm investment and, thereby, contribute to environmental protection.

My analysis focused on the behaviour of three firms and their transactional relationships. These are representative cases. In fact, interviews with several managers of the South African operations of OEM 3, OEM 4, OEM 7, OEM 5, OEM 6 and a large number of automotive suppliers allowed identifying the very same patterns of behaviour. Moreover, empirical data collected through interviews with firms active in the South African textile industry pointed into the same direction. While the structure of this industry and supply chain is similar to the automotive industry, the generally lower degree of idiosyncratic investment is in line with the dominant presence of weak vertical collective action, i.e. a weak collective contribution to environmental protection. Finally, since the structures of both the automotive and the textile industry in South Africa reflect the international market, hypothesis one should also explain firm behaviour there.

Thus, firms regulate each other and, thereby, contribute to the dissemination of international norms. The very private interest in the safeguarding of their own investments can lead them to unintentionally support governments in their quest to ensure social welfare.

6.2.2 Idiosyncratic Intra-Firm Investment in Social Responsibility

After having assessed the role idiosyncratic inter-firm investment plays for the vertical collective action of firms, I will now evaluate the relevance of idiosyncratic intra-firm investment in social responsibility for vertical collective action. The empirical analysis is divided into four parts: The first part deals with the operationalisation of the independent variable ‘idiosyncratic intra-firm investment in social responsibility’. In a second step, the analysis according to the indicators of the independent and dependent variables is conducted. Thirdly, the causal narrative is presented. The section ends with a conclusion, which summarises and discusses the findings.

6.2.2.1 Operationalisation of the Independent Variable

Hypothesis number two stated that given the firm in question is large, and given the presence of potential transaction partners, which are either large and social or small in size, *if a firm engages in idiosyncratic intra-firm investment in social responsibility, vertical collective action is established.* Preceding the empirical assessment of this hypothesis this sub-section operationalises the independent variable ‘idiosyncratic intra-firm investment in social responsibility’.

Most consumers are satisfied with normal products, which sell at a good price and fulfil basic quality requirements. By contrast, some consumers have more complex demands. These consumers may wish to purchase products from firms enjoying a good reputation. They want high quality and social as well as environmental sustainability, and, more often than not, they are willing to pay a higher price. Firms targeting this consumer group make idiosyncratic investments in social responsibility capital. Product and production processes are then specialised in that employee wellness, waste, emissions, non-hazardous substances etc. are given particular emphasis. Although specialised investment in social responsibility is de facto intra-firm investment, it also has an external dimension. Firms deliberately communicate to the public that these investments have taken place. Furthermore, firms will try to make sure that this information is credible.

How can credible intra-firm investment in social responsibility be identified? Firstly, looking at the average product price gives an indication concerning the actual investment. According to the business and marketing literature, customers interested in sustainability tend to pay a relatively high price. Information on the average product price may not always be available. Moreover, it may be distorted by the fact that different retailers sell different product ranges. Product prices of direct competitors then allow a judgement as well as statements made in official company publications highlighting that a high-income consumer group is targeted.

Secondly, by examining the product range offered one is able to identify firms with a focus on social responsibility. Such firms offer green products, i.e. organic produce in recyclable packaging etc. The offer of green products must be 'explicit' since there may always accidentally be green products, e.g. something that is recyclable, among the product range. 'Explicit' refers to statement in official company documentation. Thirdly, the social responsibility literature distinguishes between "corporate social responsibility" and "corporate social investment". Only social responsibility refers to fundamental behaviour changes. It involves investments in the daily procedures of the firm. By contrast, social investment (despite the slightly misleading terminology) only involves philanthropic engagement, which easily allows strategy changes. It is therefore necessary to identify real investment in the procedures of the firm. I measure this by drawing on hard data the firm provides, which state the amount of investment undertaken to safe water and energy, reduce packaging etc. within the firm; or on hard data indicating the effects of these investments. Thus, measuring the following criteria allows making out a firm with intra-firm investment in social responsibility:

- Average product price: Calculated directly, identified by looking at the prices of those companies, which the firm in question classifies as direct competitors, or at statements in official company publications emphasising that a high income consumer group is targeted.

- Product range: Green products, e.g. organic produce in recyclable packaging, and corresponding statements in official company documentation.

and

- Hard data stating the amount of investment undertaken to safe water and energy, reduce packaging etc. in the procedures of the firm; or indicating the effects of these investments.

These factors are measured in relative terms. The table below summarises the indicators relevant for the following empirical analysis.

Fig. 6: Independent and Dependent Variable (H2)

	Independent Variable:	**Dependent Variable:** Vertical collective action	
	Investment in specific customer segment	**Corroborated**	**Disconfirmed**
H2	- high average product price - high degree of green products offered - hard data on investments in procedures of the firm	○ Substance ○ Substance ***constitutes*** sub-category of exchange contract ○ Presence of all intensity criteria (process, resources, comprehensiveness, inclusion)	○ No substance Or ○ Substance ***does not constitute*** sub-category of exchange contract And/or ○ Absence of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)

6.2.2.2 Comparative Analysis

This section evaluates the behaviour of firms with regard to environmental protection. The presence of environmental protection norms is a precondition for consumers to appreciate social responsibility of firms as well as for firms to choose this strategy. It was already elaborated above that the environmental protection policy field is characterised by this norm presence in South Africa and at the international level. At the same time, it was also emphasised that specification of South African environmental legislation and law enforcement are weak. Thus, there is room for firms to manoeuvre. In many regions, industry heavily pollutes air, water and soil without fear of legal consequences. Social responsibility is nothing automatic.[144]

I will assess the behaviour of textile retailers and their suppliers. To what extent does a retailer's intra-firm investment in social responsibility give rise to vertical collective action, i.e. the establishment of governance rules with its supplier, which aim to contribute to environmental protection? In order to empirically assess the validity of hypothesis two, I will compare two cases, which are constituted by retailers' intra-firm transactions. The focus is placed on two retailers, R 1 and R 2. In contrast to R 2, R 1 will be shown to have made intra-firm investments in social responsibility. The argument is that, as opposed to R 2, R 1 would loose its credibility and hence the value of its investments in socially responsible inner-firm procedures if transaction partners decided to act socially irresponsible. *Therefore, the expectation is that, as compared to R 2 and its suppliers, R 1 and its suppliers establish governance rules contributing to environmental protection.*

The retailing sector constitutes the top of the textile supply chain. Upwards, the retailers directly serve the consumers of the end product. Downwards, they interact with textile manufacturers. The textile-manufacturing sector is composed of a large number of mostly small firms. Thus, the basic conditions for hypothesis two regarding the presence of potential transaction partners, which are either large and social or small in size, are given. Moreover, it is important to hold idiosyncratic inter-firm investment constant since it causes vertical collective action, too. Therefore, I will briefly examine the interaction of the two retailers, R 1 and R 2, with their suppliers in this regard.[145] Of course, it is impossible to check all their suppliers. However, this research focuses on collective action in South Africa and, therefore, limits itself to suppliers based in the country. Moreover, sixteen textile and clothing firms supplying these retailers were directly interviewed. Information

[144] Interview with Environmental Manager and Corporate Planning Manager, OEM 3, South Africa, 20 February 2007; interview with Managing Director, TM 1, South Africa, 13 September 2007; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008; interview with Environment Management Team, Western Cape Government, South Africa, 11 September 2008.

[145] The indicators for idiosyncratic inter-firm investment were developed for the foregoing section.

was additionally drawn from interviews with retailers, textile experts and local as well as national government agencies. Also, documentation published by the South African government was consulted.

R 1 and R 2 are similar in that they have purchasing and logistics departments, which deal with supply chain interaction.[146] The staff is mainly concerned with choosing the right suppliers for the product needed and linking them with the individual warehouses. Since product and production processes are not sophisticated and always follow the same basic routine, suppliers do not need to be provided with specialised knowledge. Moreover, they do not have to invest in specifically skilled personnel or machinery for the individual customers.[147] For example, managers of TM 3, a textile manufacturer producing underwear, point out that "education is not an issue if you want to be a sewing machinist."[148] Similarly, managers of the textile manufacturer TM 2 state that none of the retailers required them to invest in specific sewing machinery to produce their t-shirts and tank tops.[149] The Logistics Executive of R 2 states: "If a supplier is not capable of producing our kind of volumes we just do not sign the guy."[150] Similarly, R 1 highlights in its Annual Report that "suppliers do not have to use specific assets to fulfil their supply obligation."[151] Machinery is put to use for all customers and not specifically devoted to one of them.[152] Also, investment linked to a specific location does not take place. Production facilities are not moved closer to the retailer. Additionally, the retailing business is mostly short-

---

[146] R 1 Annual Report 2008, R 2 Annual Report 2008, R 3 Annual Report 2008, R 7 Annual Report 2007.

[147] Interview with Quality Management Representative, and colleagues, TM 5, South Africa, 17 September 2008; interview with textile expert, B&M Analysts, South Africa, 1 October 2007.

[148] Interview with Supply Chain Manager, Director Manufacturing and HR Manager, TM 3, South Africa, 25 September 2008.

[149] Interview with General Manager, TM 1, South Africa, 13 September 2007; interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008; interview with Logistics Executive, R 2, South Africa, 30 September 2008; interview with Group Logistics Director, R 3, South Africa, 16 September 2008.

[150] Interview with Logistics Executive, R 2, South Africa, 30 September 2008.

[151] R 1 Annual Report 2008, p.81.

[152] Interview with General Manager, TM 1, South Africa, 13 September 2007.

term-oriented. The time span from order to execution often covers weeks only.[153] Hence, since inter-firm investment can be held constant, it is possible to study the relevance of intra-firm investment in social responsibility for the emergence of vertical collective action.

The textile, clothing and footwear retail market, as measured by the South African Retailers' Liaison Committee, is estimated to have generated R39,4 billion in sales in fiscal 2008.[154] The trade sector, which is dominated by retail, made the second highest contribution to GDP growth in 2006. It amounted to 18 percent.[155] Both R 1 and R 2 are among the seven largest firms operating in the oligopolistically structured South African retailing sector. As pointed out above, large firm size is a necessary condition for hypothesis two to be valid.[156] R 1 employs circa 21374 full time staff and has a market share of 9.2 percent in the food and 15.3 percent in the textile market.[157] With 400 stores R 1 reached a turnover of ZAR(m) 20064.9 in 2008. With 31 percent market share, R 2 is "the big clothing and footwear gorilla in the country".[158] The retailer employs 21158 permanent people. Consisting of 1141 stores subsumed under 14 different retail chains, for example Edgars, Jet, CNA, Boardmans and Red Square, the company offers product lines including clothing, footwear, home ware, mobile phones and cosmetics. In 2008, R 2's revenue amounted to ZAR 22565 million.[159]

---

[153] Interview with General Manager, TM 1, South Africa, 13 September 2007; interview with Group Logistics Director, R 3, South Africa, 16 September 2008.

[154] Retailers' Liaison Committee collects and publishes data from its member companies, which are medium- and large-sized retailers. It is an official source also regularly quoted by government. Data given in R 2 Annual Report 2008.

[155] Journal of African Real Estate Research (2008), 1 (1), pp.1-11. Available from http://www.rics.org/NR/rdonlyres/3DE4758D-FCFF-4FDF-9C4D-FC9899B7EE07/0/ThesizzlingSouthAfricanretailsector.pdf [accessed June 2009].

[156] The indicators for firm size are developed in detail below, where its role for horizontal collective action is assessed.

[157] The food market share remained constant from 2007 to 2008, the textile market share declined slightly from 15.5 in 2007. R 1 Annual Report 2008.

[158] Interview with Logistics Executive, R 2, South Africa, 30 September 2008; R 2 Annual Report 2008.

[159] R 2 Annual Report 2008.

Its Australian subsidiary, the presence in other African countries, such as Namibia and in the Middle East, and its importing activity interlink R 1 with the international level. The retailer's imports mainly come from Asia, predominantly from China.[160] However, 65 percent of product is locally sourced from ca. 200 suppliers. R 1 is associated via Business Unity South Africa, the Consumer Goods Council and NEDLAC.[161]

Also R 2 has strong international links. A US based private equity company acquired the retailer in 2007. Moreover, the retailer operates in Botswana, Namibia, Swaziland and Lesotho. While 60% percent of product is sourced abroad, mostly in China and Bangladesh, the company buys the rest from ca. 700 suppliers in South Africa where it has its biggest footprint. Correspondingly, R 2 belongs to Business Unity South Africa, the Retail Association, the National Clothing and Fashion Federation, the American Chamber of Commerce as well as the Consumer Goods Council.[162]

In the following, empirical data is analysed by drawing on the indicators of the independent variable 'idiosyncratic intra-firm investment in social responsibility': *Average product price, product range and hard data on environmental protection in procedures of the firm*. In 2008, R 1 processed 6.3 million textile/home ware and 70.3 million food product units. Considering that their turnover reached ZAR(m) 20064.9 in the same year, the average product price amounts to ZAR 261.94. While pointing out that it was currently trying to engage in a price decrease due to the general economic downturn, the retailer submits that its focus had been "on mid- and upper-priced product". This is confirmed by others. Thus, the Public Affairs Manager of retailer R 6 states that R 1 sells its product predominantly to the higher

---

[160] The South African government put up a two-year quota for products from China to protect the local textile industry. This caused retailers to source also from other Asian countries such as Bangladesh and Vietnam.

[161] Interview with Manager Good Business Journey, R 1, South Africa, 17 September 2008; R 1 Annual Report 2008.

[162] Interview with Logistics Executive, R 2, South Africa, 30 September 2008; R 2 Annual Report 2008.

income customer segment.[163] The General Manager of the textile manufacturer TM 7 emphasises R 1's high margins.[164]

In general, "one of R 1's cornerstones is quality. Their company is built on quality. So you go to their store – their whole psyche there, their whole offering that they give is a quality offering. If you go to their food store it's good. You go to clothing – it might not be stylish but it is very good quality."[165] Part of R 1's quality approach is the focus on green products. This extends to both divisions: Food and textile. As far as textile is concerned, R 1 is the world's third largest consumer of organic cotton behind Wal-Mart and R 4. The organic cotton is sold, for example, in t-shirts, jeans, underwear, baby clothing, towels, bedding and tags with washing instructions.[166] Additionally, bamboo products were introduced in women's outerwear, fleece jackets made from 100% recycled plastic bottles are up for sale and men's trousers made of organic wool are part of the product range. Also as far as other products are concerned R 1 tries to ensure sustainability, for example the retailer encourages customers to save energy by becoming one of the first retailers worldwide to only sell energy-saving light bulbs – customers are no longer able to buy traditional light bulbs in R 1 stores.[167]

Finally, to what extent is there hard data, which state the amount of investment undertaken to safe water and energy, reduce packaging etc. within the firm; or on hard data indicating the effects of these investments. R 1 has invested in various methods to improve environmental protection in its daily procedures. Extensive data on what has been done and what is planned to be achieved in the future is published in the social responsibility report. R 1 stores, recycles and uses rain and used water. In its Midrand distribution centre, new energy saving solutions are implemented and municipal water is only used for drinking purposes. In addition, R 1 invested the

---

[163] Interview with Public Affairs Manager, R 6, South Africa, 29 September 2008.

[164] Interview with General Manager, TM 7, South Africa, 20 September 2007.

[165] Interview with Group Logistics Director, R 3, South Africa, 16 September 2008.

[166] Interview with Quality Management Representative, and colleagues, TM 5, South Africa, 17 September 2008; R 1 Annual Report 2008.

[167] R 1 Annual Report 2008.

recycling of used cooking oil to generate a 5 percent bio-diesel mix in their Cape and Gauteng fleet resulting in a saving of 1500 tons of CO_2 per annum. The head office facilities in Cape Town have achieved a 13 percent and the stores a 5 percent decrease in water usage. From 2004 to 2008, R 1's energy consumption declined by 10 percent.

Overall, R 1 is clearly characterised by intra-firm investment in social responsibility. How does R 2 fare? Regarding the average product price/customer segment, it can be pointed out that its department store division, including Edgars and C&A, "is focused on the upper middle and middle income sector."[168] This is where R 2 competes with R 1.[169] A textile supplier points out that while "R 7, another retailer, is selling a t-shirt for 39.99 Rand, Edgars is selling it for 59.99. It is the same fabric, it is just where they have placed themselves in the marketplace."[170] Still, "the focus in Edgars is certainly not at the top, but obviously you get some rich people who will look for a bargain and shop at Edgars." Moreover, R 2 also has "a discount division which is aimed at the bottom end customer segment, and that is Jet, Jetmark and Legit." Here, R 7, Ackermans and Pep are big competitors.[171] Overall, product prices vary significantly. R 2 targets all types of customers – those with low income as well as those with higher income. Hence, this retailer is less focused on the high-income customer group than R 1.

In addition, the other two criteria, product range and hard data on investment in intra-firm procedures, are not fulfilled. R 2 does not make any reference to environmental protection in general let alone listing specific measures, organic products or recycled packaging etc. in its Annual Report 2008. In the brief environmental policy published on the website, the main emphasis is placed on legal compliance. In addition, the policy claims that R 2 promotes "recycling wherever

---

[168] Interview with Logistics Executive, R 2, South Africa, 30 September 2008; R 2 Annual Report 2008.

[169] Interview with General Manager, TM 7, South Africa, 20 September 2007.

[170] Interview with General Manager, TM 1, South Africa, 13 September 2007.

[171] Interview with Logistics Executive, R 2, South Africa, 30 September 2008; interview with Public Affairs Manager, R 6, South Africa, 29 September 2008; R 2 Annual Report 2008.

economically feasible". However, it is not made explicit to what extent and in which area of business this is done.[172] Thus, the retailer differs significantly from R 1 as far as green products and procedures are concerned. Overall, R 2 is characterised by the absence of intra-firm investment in social responsibility.

After having analysed the two retailers by drawing on the indicators of the independent variable 'intra-firm investment in social responsibility', clear variation can be identified. Based on this, variation is also expected on the dependent variable. *In contrast to R 2, R 1 is anticipated to engage in vertical collective action, i.e. the establishment of governance rules with its suppliers aiming to contribute to environmental protection.* In what follows, the interaction of the retailers with their suppliers is examined by looking at the three dimensions of collective action: Substance, participation and intensity.

As far as substance is concerned it can be pointed out that R 1 and its suppliers agree to implement the R 1 Supplier Code. This involves the implementation of environmental process and product standards, for example Eurepgap/ Globalgap or Ecotex, and meetings aimed at the exchange of corresponding knowledge. Even textile suppliers, which do not sell directly to R 1 but to clothing manufacturers supplying the retailer, highlight that R 1 collaborates with them on the implementation of environmental standards.[173] With regard to the participation dimension, one can point out that this interaction is of vertical nature since this substance is included in the contract specifying the terms of exchange.[174]

Thus, there is substance, which is governed vertically. This is in line with the expectation. Now, to what extent is the intensity dimension fulfilled, which

---

[172] Available from company website [accessed April 2009]; interview with Logistics Executive, R 2, September 2008.

[173] R 1 Annual Report 2008; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008; interview with Human Resources Manager, Project Manager and others, TM 8, South Africa, 2 April 2007; General Managers, TM 9, South Africa, 17 September 2008; interview with Quality Management Representative, and colleagues, TM 5, South Africa, 17 September 2008.

[174] R 1 Annual Report 2008; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008; interview with General Manager, TM 1, South Africa, 13 September 2007; interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008.

measures the extent of the substance of collective action? As stated above, the intensity dimension includes four criteria: Process, resources, comprehensiveness and inclusion. What can be said on the process criterion? R 1 makes clear statements in its Annual Report. The retailer provides its suppliers with lists of substances that are harmful to health or environment and must not be used for or contained in the product.[175]

R 1 highlights that suppliers should have an environmental management system, but only limitedly elaborates on which system it should be. It can be ISO 14000 but does not have to be.[176] The retailer places emphasis on the minimisation of water and electricity usage as well as waste and emission generation. For example, cotton farmers have to reduce their water usage by 25 percent by 2012. Moreover, R 1 does not allow harmful materials, dyes, for example Azodyes, or chemicals to be used in the production. Generally, R 1 formulates targets with regard to supplier performance: Concerning the implementation of the Supplier Code, "clothing's 2008 compliance target was 100% compliance but only 73% was achieved largely due to challenge in the engagement of international suppliers."[177] Thus, there is *precision*. In order to ensure compliance,

> "we audit suppliers at least every second year. Some of them, if there has been a problem or some concerns in the audit process we might monitor them annually for a period of time. So there's quite a close interactive relationship beyond just auditing ... we do normally get our technologists visiting the various suppliers quite regularly. So the level of interaction and working and sort of monitoring happens almost ongoing" (*precision, scope, monitoring*).[178]

To have an environmental management system in place and avoid hazardous substances in products is a R 1 requirement. R 1's Good Business Journey Manager points out "we don't require ISO certification as such; but we do require an

---

[175] For example, interview with General Managers, TM 9, South Africa, 17 September 2008; interview with Human Resources Manager, Project Manager and others, TM 8, 2 April 2007; R 1 Annual Report 2008.

[176] Interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008.

[177] R 1 Annual Report 2008.

[178] Interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008.

environmental management system."[179] Suppliers confirm the retailer's strictness in this regard.[180] While the failure to meet standards on materials, dyes or chemicals used in production and product can lead to a termination of interaction, issues such as water and energy usage as well as emission and waste generation are firmly encouraged and tend to be implemented on an ongoing basis. A compliance incentive is the ECO-Efficiency award (*obligation, sanctioning, incentives*).[181]

As far as the resources, the second intensity criterion, are concerned, it can be stated that R 1 has, as part of its corporate governance, put together a supply chain team, which specifically deals with the formulation of targets as regards environmental protection as well as with compliance.[182] R 1 experts visit suppliers to help them implement environmentally sound production methods and invite them for conferences (*personnel, expertise*).[183] The supplier finances the implementation of the environmental management system. A manager of a clothing firm explains: "Say for example, we've got an oil tank outside. There we needed to implement preventive measures in case there was a spillage. Another example is that we had to change the way we store our chemicals."[184] Other suppliers explain that they had to change their waste disposal procedures (*capital*).[185] Correspondingly, employees of supplier have to invest time in acquiring expertise to deal with the R 1 requirements (*personnel*).[186] The R 1-suppliers interaction has been recognised in South Africa

---

[179] Interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008.

[180] Interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008; interview with Human Resources Manager and Production Manager, TM 6, South Africa, 21 September 2007; interview with General Manager, TM 1, South Africa, 13 September 2007; interview with Human Resources Manager, Project Manager and others, TM 8, South Africa, 2 April 2007.

[181] R 1 Annual Report 2008.

[182] R 1 Annual Report 2008; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008.

[183] Interview with General Managers, TM 9, South Africa, 17 September 2008; interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008.

[184] Interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008.

[185] R 1 Annual Report 2008.

[186] For example, interview with Quality Management Representative, and colleagues, TM 5, South

and abroad. The Director of Organic Exchange, an international organization dedicated to expanding the use of organically grown cotton, points out: "We commend R 1 for taking a leadership role in sourcing organic cotton." The retailer won the Mail and Guardian Greening the Future Award in June 2008 and the International Responsible Retailer of the Year Award in April 2008 (*recognition*).[187]

The third criterion of the intensity dimension is comprehensiveness. It refers to the issue's sub-categories addressed. Furthermore, is there a focus on the issue area in question? R 1 and its suppliers engage in environmental protection via both product and process standardisation. Moreover, the retailer and its suppliers exchange knowledge at conferences and when the R 1 supply chain team visits the suppliers' premises. Standards and meetings focus on and cover a variety of environmental sub-issues, such as harmful substances, water, waste, emissions and electricity.[188]

Finally, there is *inclusion*, i.e. R 1 and its suppliers contribute to the implementation of environmental protection measures. For example, R 1 provides expertise and engages in monitoring of compliance, while suppliers finance the changes they have to make. Overall, there is substance, vertical participation and intensity. Hence, R 1 and its suppliers are involved in vertical collective action – as it was expected. After having assessed the impact of R 1 intra-firm investment in social responsibility on the interaction with its suppliers, I now return to the retailer R 2. To what extent does R 2 participate in vertical collective action? The expectation is that vertical collective action is comparatively weak. In fact, R 2 is expected to not be involved in vertical collective action.

Again, it is necessary to look at the substance dimension first since this allows evaluating whether there is something in place at all. Being asked if environmental protection is part of their supply chain policy the Logistics Executive of R 2 answers

---

Africa, 17 September 2008.

[187] R 1 Annual Report 2008.

[188] Interview with General Managers, TM 9, South Africa, 17 September 2008; interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008; interview with Human Resources Manager, Project Manager and others, TM 8, South Africa, 2 April 2007; interview with Quality Management Representative and colleagues, TM 5, South Africa, 17 September 2008; R 1 Annual Report 2008.

that it is but not to a strong degree. He goes on to say:

> Generally what has happened is if a quality person has been into the factory, they actually sit and have coffee in the guy's office, they walk the factory and they will have a look and if there are very young underage kids operating the factories, that is the kind of stuff you notice. ... A contract does not detail the full checklist of things that you have to do from a social compliance point of view, but it does make statements about, you know, we are a company that believes in proper corporate governance so we expect our suppliers to deal in the same way. We expect ethical standards etc.

It is revealing that a textile manufacturer supplying R 1, R 2, R 7 and R 5 submits "most of the companies do not really have an environmental clause. Only R 1 and R 5 do.[189] Other textile and clothing companies confirm this view.[190] The General Manager of TM 1, a textile company supplying R 2 but not approved as supplier for R 1, points out that "R 1 is the only one that is really strong about environmental protection ... I am not saying that the other guys are not. They come and inspect your plant, they come and have a look so I am not dumping hydrochloric acid into the water system – they look at it like that."[191] Similarly, selling to R 2 but not to R 1, the sportswear manufacturer TM 4 and the underwear company TM 3 indicate that their customers do not ask them to implement environmental policies or standards.[192] Thus, R 2 and its suppliers do not include environmental protection in their exchange contracts. Vertical collective action is therefore absent. Hence, hypothesis two on the relevance of intra-firm investment in social responsibility for vertical collective action is underpinned by the empirical data. *As compared to R 2 and its suppliers, R 1 and its suppliers do establish strong governance rules aimed at contributing to environmental protection.* An overview is given in the following table:

---

[189] Interview with Human Resources Manager, Project Manager and others, TM 8, South Africa, 2 April 2007.

[190] Interview with Quality Management Representative and colleagues, TM 5, South Africa, 17 September 2008; interview with Human Resources Manager and Production Manager, TM 6, South Africa, 21 September 2007; interview with General Manager, TM 7, South Africa, 20 September 2007.

[191] Interview with General Manager, TM 1, South Africa, 13 September 2007.

[192] Interview with General Manager and Human Resources, TM 4, South Africa, 25 September 2007; interview with Supply Chain Manager, Director Manufacturing and HR Manager, TM 3, South Africa, 25 September 2008.

Fig. 7: Summary dependent and independent variable

H2	**Independent Variable:** Idiosyncratic intra-firm investment in social responsibility	**Dependent Variable** Vertical collective action **Corroborated**
	R 1 **Specialised intra-firm investment**	o Substance: Firms implement standards and exchange information o Participation: Environmental protection is sub-category of exchange contract (vertical collective action) o Intensity: Obligation, precision, scope, monitoring, sanctioning (process); personnel, expertise, recognition, capital (resources); comprehensiveness and inclusion are all given **→ collective action**
	R 2 **No specialised intra-firm investment**	o No substance and participation: Firms do not implement standards and exchange information as part of their exchange relationship o Hence, no intensity. **→ no collective action**

6.2.2.3 Causal Narrative

The above analysis showed that the empirical data corroborates hypothesis 2. The aim of this sub-section is now to empirically trace the theoretically derived causal mechanism linking independent and dependent variables. Do firms really engage in vertical collective action with the purpose of safeguarding their intra-firm investments in social responsibility? Do these firms want to reduce the risk that their respective transaction partner behaves unexpectedly and to their disadvantage and, thus, spoils the credibility of their own investments? In order to answer these questions, I will try to look for a series of theoretically predicted intermediate steps.

Since its inception in 1931, R 1 has emphasised its commitment to highest quality merchandise. “R 1 traditionally, since day one in South Africa, were fitting in with the Marks and Spencer approach. So their whole marketing approach has been the best quality at the best price. So that’s been their marketing strategy over all the years.”[193] In 2003 then, the retailer presented its first sustainability report, which

---

[193] Interview with General Manager, TM 1, South Africa, 13 September 2007; also interview with Public Affairs Manager, R 6, South Africa, 29 September 2008; interview with Good Business

provided a preliminary formalisation of their social responsibility policy.[194] It highlights their continuous attempts to recycle paper and reduce the usage of plastic in packaging. For instance, since 18 years "approximately four in every ten clothes hangers have been re-used and the balance recycled. This rate of re-use is optimum as hangers become brittle and discolour over time." Also, efficient energy usage is part of their strategy. For example, the retailer installed heat-reclaim systems in new stores, which take the heat generated by refrigeration condensers and push this "free heat" back into the store. Thus, there have been sustainability activities long before the report was published. In addition, new initiatives were being implemented at that time.

In line with this, some of R 1 suppliers already complied with the Euregap standard in 2003, which is however focused on food quality and safety, and hence the consequence of the retailer's long history of commitment to quality products. In addition, R 1 asked its suppliers to adhere to its Supplier Code of Business Principles, which was stated to cover legal, ethical and environmental requirements. However, the 2003 report did not specify form and extent of these requirements.[195] Similarly, suppliers highlight the focus on quality control instead of a monitoring of their behaviour with respect to environmental protection at that time.[196]

Still, in 2003, the retailer declared that the participation in a dialogue on sustainability with stakeholders is on the agenda for the next two or three years. The foremost goal thereby was to maintain the reputation for a quality offering and extend it to green products. Correspondingly, R 1 became "acutely aware of the environmental and social challenges facing our supply chain. In many instances, this knowledge enables us to add value and minimise the risks involved in dealing with

---

Journey Manager, R 1, South Africa, 17 September 2008.

[194] R 1 Annual Report 2003.

[195] Interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008.

[196] Interview with Human Resources Manager, Frame Textiles, South Africa, 1 October 2007; interview with General Manager, TM 7, South Africa, 20 September 2007; interview with General Manager, TM 1, South Africa, 13 September 2007; interview with Quality Management Representative and colleagues, TM 5, South Africa, 17 September 2008.

these suppliers."[197] Thus, having placed emphasis on environmental protection as part of its internal procedures, R 1 came to view supply chain interaction as a risk factor as far as its external credibility in this regard is concerned.

In 2004, R 1 undertakes its first formal internal audit of recycling activities. Furthermore, the retailer establishes an onsite waste management system to reduce the amount of waste going to the overburdened South African landfills. As far as energy usage is concerned, R 1 sets a benchmark of 502 kWh/m2/year against which efficiency is planned to be monitored in future years. Also, an increasing offering of organic products is emphasised in the 2004 report.

The actual expansion from quality to organic products went hand in hand with a greater focus on sourcing from certified organic suppliers.[198] Moreover, in line with the change in R 1's internal procedures towards better environmental management, the retailer also announced future measuring of suppliers' production processes against the R 1 Dying and Finishing Environmental Code of Conduct.[199] "The objective of this code is to ensure that no materials, dyes or chemicals used in the production of R 1 garments or textiles presents an unacceptable risk to health or to the environment during their manufacture or disposal."[200]

The attempt to improve the environmental performance of R 1's internal procedures continues over the following years. Thus, the retailer presented data on fuel usage in 2005 highlighting that more distribution units were delivered per litre of diesel consumed. Furthermore, most the R 1 fleet had started to use the less polluting Euro III engines. Also, clear strategies to reduce electricity consumption were outlined. The 2005 report emphasised a six percent improvement in this area over the benchmark established the year before. Measures to eliminate ozone-depleting gazes, to improve the use of environmentally friendly building materials and to

---

[197] R 1 Annual Report 2003.

[198] Interview with General Manager, TM 1, South Africa, 13 September 2007; interview with Quality Management Representative and colleagues, TM 5, South Africa, 17 September 2008.

[199] R 1 Annual Report 2004.

[200] R 1 Annual Report 2005.

enhance water conservation were presented. In 2006, R 1 began to use indicators for different areas of environmental protection.

While the general Supplier Code of Business Principles became increasingly elaborate mainly with regard to legal compliance matters, such as employee rights and discrimination, first specifications of the additional R 1 Dying and Finishing Environmental Code of Conduct were provided at that time.[201] Also, the retailer started the auditing of textile manufacturers according to this Code. However, the focus remained on legal compliance and the avoidance of hazardous substances. Water, waste, emissions and energy in the production processes of suppliers are hardly a topic touched upon.

In 2006/2007, R 1 intensified its efforts by publishing the Good Business Journey Report. Thus, sustainability was no longer dealt with in a chapter of the general Annual Report. In addition, the retailer handed out a detailed communication document to stakeholders, including the media in April 2007.[202] In early 2008, a special campaign to introduce the Good Business Journey plans to customers took place.[203] "Now they've moved into doing all the right things that the green people are happy and all this kind of stuff, and the organic stuff. A lot of it is a marketing ploy but that's their niche."[204]

With the launch of the Good Business Journey programme, it was the first time that the retailer publicly committed to detailed indicators and targets for all areas relevant to environmental protection, among other things water, energy, waste, carbon emissions, biodiversity and organic products. As part of this reinforced approach, a new position was created: The Good Business Journey Manager

---

[201] Interview with General Manager, TM 1, South Africa, 13 September 2007; interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008; interview with Logistics Executive, R 2, South Africa, 30 September 2008; interview with Group Logistics Director, R 3, South Africa, 16 September 2008; Annual Reports 2004, 2005, 2006.

[202] Interview with General Manager, TM 1, South Africa, 13 September 2007; interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008; interview with Logistics Executive, R 2, South Africa, 30 September 2008; interview with Group Logistics Director, R 3, South Africa, 16 September 2008; Annual Reports 2004, 2005, 2006.

[203] Good Business Journey Report 2007.

[204] Interview with General Manager, TM 1, South Africa, 13 September 2007.

coordinates and heads the social responsibility activities in the company. He highlights that "our customer base and other stakeholders expect us to be doing something… We do have a responsibility."[205]

The step towards a more consistent approach and greater transparency was accompanied by even closer interaction with clothing and textile suppliers as far as environmental protection is concerned. Ill behaviour of suppliers would negatively impact on the R 1 brand, i.e. on its credibility.[206]

> "Our consumers are the ones that are a little bit more aware and interested in social and environmental issues. So I think if we were pulled into some kind of scandal there'd be quite a lot of fallout in terms of our overall brand and credibility. One of things obviously has always been very strongly creating customer trust so if a customer buys something from R 1 they know it's been tested, it's perfect and the quality is good. So anything that impinges our reputation in that way would…"[207]

Closer interaction with suppliers is, for example, ensured through additional specialised personnel. The Good Business Journey Manager states

> "I've got a colleague in the clothing team who specifically looks at the Good Business Journey for that area of our business. He is closely involved with the suppliers… At the moment we are trying to look more at energy opportunities as well on the sort of carbon side with a lot of our suppliers."

Thus, by 2008, R 1 did no longer limit its interaction with suppliers to quality and the use of environmentally friendly substances but extended its requirements and monitoring to comprehensive sustainability of their production processes.[208]

Overall, during the last decade, R 1 turned its emphasis on quality into a comprehensive sustainability focus. In line with the theoretical expectation, increasing intra-firm investments in environmentally friendly procedures were consistently followed by announcements to strengthen corresponding interaction

---

[205] Interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008; Good Business Journey Report 2007.

[206] Good Business Journey Report 2007.

[207] Interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008.

[208] Interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008; Good Business Journey Report 2008; interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008; interview with Quality Management Representative and colleagues, TM 5, South Africa, 17 September 2008.

with suppliers. These announcements temporally preceded actual steps to particularly monitor and, thus, ensure legal compliance as regards effluents etc. and the absence of environmentally unfriendly substances in products. Moreover, R 1 also realised that these investments are worth nothing without large-scale communication to the public. Only when the retailer performed the official, publicly announced transformation into a socially responsible company, it also decided to go systematically and comprehensively beyond legal compliance as far as environmental protection of its textile manufacturers was concerned. As theoretically predicted, the inextricable combination of intra-firm investments and the need of external credibility caused R 1 to cooperate with its suppliers to eliminate the risk of their ill behaviour and ensure the environmental sustainability of their production processes. Safeguarding its own investments by maintaining its external credibility appears to have been the driving force.

After having examined the relevance of R 1's intra-firm investments I will now return to R 2. The retailer opened its first store in 1929. Since then it has aimed to serve a broad variety of customers. Before 2003, R 2 did not have a reputation for being particularly socially responsible.[209] The 2003 announcement of the Socially Responsible Investment (SRI) Index of the Johannesburg Stock Exchange (JSE) and its launch in 2004 pushed JSE listed companies to rethink their approach to social responsibility. The Index measures companies' policies, performance and reporting in relation to environmental, economic and social sustainability issues. R 2 participated as well.[210] To do so, it was necessary to formulate an environmental policy. Essentially, the retailer's policy stated:

> "R 2 is a socially responsible organisation, committed to the reasonable and cost effective management of its direct and indirect impacts on the environment; and providing a healthy and safe environment for employees and customers… In particular R 2 will always meet relevant legislative requirements; conserve its usage of water and energy; dispose of waste responsibly; promote recycling wherever economically feasible; not offer

---

[209] This is a statement that can be made on the basis of the interviews conducted with various textile manufacturers and retailers.

[210] Interview with Logistics Executive, R 2, South Africa, 30 September 2008.

> merchandise/services that have an illegal environmental impact…"[211]

The policy mainly emphasised legal compliance and, other than that, consisted of vague statements. Nevertheless, management did actually reorganise some of the internal procedures in 2004. The retailer has rationed air conditioning, switched off elevators after five pm and used energy efficient lighting.[212] However, this did not constitute a fundamental procedural change but only a slight adaptation of existing intra-firm procedures. Moreover, the retailer did not make much effort to inform the public about these activities: Neither did it organise campaigns nor did it publish sustainability reports. External credibility of its internal environmental protection initiatives does not appear to have been a major concern. Also, collaboration with suppliers on environmental protection did not emerge at that time.[213]

In May 2007, R 2 left the JSE and, thus, also the SRI because of the acquisition by a private equity company.[214] Thus, there has been no further impetus to intensify environmental protection activities from that side. Another statement by the Logistics Manager shows the current general attitude of the retailer as far as sustainability is concerned:

> "Now we've been privatised we don't have to publish but we're still aware of some of those things. We're obviously working where we can. Diesel emissions are a problem; we try not to send empty trucks anywhere in the country. We wait until a load is full before we dispatch a vehicle so…and as our turnover grows unfortunately we will have more trucks on the road."[215]

Neither during the time when R 2 was JSE/SRI listed nor after that, the retailer's interaction with suppliers as regards environmental protection is highlighted as relevant in official company documentation.[216] Despite having a long history of textile sourcing, R 2 appears to have had only loose relationships with its over 700

---

[211] Information available from company website [accessed June 2009].

[212] Interview with Logistics Executive, R 2, South Africa, 30 September 2008.

[213] Interview with Logistics Executive, R 2, South Africa, 30 September 2008; interview with General Manager, TM 7, South Africa, 20 September 2007; interview with General Manager, TM 1, South Africa, 13 September 2007; R 2 Annual Reports and company website [accessed June 2009].

[214] Information available from http://www.jse.co.za/ [accessed June 2009].

[215] Interview with Logistics Executive, R 2, South Africa, 30 September 2008.

[216] R 2 Annual Reports.

suppliers. Certainly, suppliers have always been required to comply with legislation and maintain a certain quality, quantity and price. Risk considerations play a role in these respects. “Every time we contract a new supplier, we do financial health checks… and we have a quality assurance department, and that involves literally everything – so pre-production samples, post-production samples and pre-event competitive shopping etc.” However, in line with the theoretical expectations, subsequent ill behaviour of suppliers has not been viewed as a danger to the R 2 brand.[217]

Importantly, monitoring the production process of suppliers at their plants to pre-empt such ill behaviour has been “almost impossible” because of the large number of manufacturers R 2 has been dealing with due to its “very broad product mix”. If suppliers did not fulfil the retailer’s expectations they were replaced. Being specifically asked if supplier accreditation has included environmental or social auditing during the last decades, the Logistics Manager recalls: “It’s probably not to the degree that you’ll find in some of the US companies. Again, to try and get into that many suppliers… we do not have the full checklist of things that you have to do from a social compliance point of view.”[218] All of the R 2 suppliers interviewed confirm that they have not been asked to provide proof of or collaborate with R 2 on environmental protection measures.[219]

Thus, as theoretically expected, vertical collective action is absent, i.e. governance rules between R 2 and its suppliers have not been established. Suppliers are replaced when they disappoint as regards quality and quantity. Since the retailer has hardly engaged in any intra-firm investment in environmentally friendly procedures and corresponding external credibility, pre-emptive measures to safeguard these investments are unnecessary.

---

[217] Interview with Logistics Executive, R 2, South Africa, 30 September 2008.

[218] Interview with Logistics Executive, R 2, South Africa, 30 September 2008.

[219] Interview with Human Resources Manager, Frame Textiles, South Africa, 1 October 2007; interview with General Manager, TM 7, South Africa, 20 September 2007; interview with General Manager, TM 1, South Africa, 13 September 2007; interview with General Manager and Human Resources, TM 4, South Africa, 25 September 2007; interview with Supply Chain Manager, Director Manufacturing and HR Manager, TM 3, South Africa, 25 September 2008.

6.2.2.4 Conclusion

This section assessed hypothesis number two, which stated that given the firm in question is large, and given the presence of potential transaction partners, which are either large and social or small in size, *if a firm engages in idiosyncratic intra-firm investment in social responsibility, vertical collective action is established.* I focused on social responsibility investments in the environmental protection area. Both the comparative assessment according to the indicators of the independent and dependent variables as well as the causal narrative corroborated the hypothesis. In order to safeguard its idiosyncratic intra-firm investment, retail establishes governance rules with its suppliers.

My analysis focused on the behaviour of two firms and their transactional relationships. These are representative cases. In fact, interviews with several managers of other retailers such as R 3 and R 6 and a large number of textile manufacturers allowed identifying the same patterns of behaviour.[220] Moreover, empirical data collected through interviews with firms active in the South African automotive industry pointed into the same direction. For example, OEM 3 and OEM 4, companies with high intra-firm investment in environmental protection and corresponding interest in external credibility, engage in particularly strong interaction with their suppliers in this regard.[221] Furthermore, if retail and automotive firms had engaged in intra-firm investments in social responsibility, they also cooperated with their suppliers in other policy fields, such as health and industrial development.[222]

---

[220] Interview with Public Affairs Manager, R 6, South Africa, 29 September 2008; interview with Group Logistics Director, R 3, South Africa, 16 September 2008; interview with Risk Manager, R 3, South Africa, 16 September 2008; interview with General Manager, TM 7, South Africa, 20 September 2007; interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008.

[221] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; interview with Manager Integrated Management Systems, OEM 4, South Africa, 1 October 2008.

[222] Interview with Human Resources Manager, Production Executive and Sales Executive, TM 2, South Africa, 16 September 2008; interview with Human Resources Manager, R 5, South Africa, 20 September 2007; interview with Supply Chain Manager, R 4, South Africa, 1 October 2008; interview with Health Manager, OEM 3, South Africa, 13 February 2007; interview with Health

Thus, individual firms that have invested in social responsibility contribute to the dissemination of that norm. The very private interest in the safeguarding of their own investments leads them to unintentionally support governments in their quest to ensure social welfare.[223] In particular, such firms can help governments of developing countries, which often lack the capacity to develop and implement regulation.

6.3 Horizontal Collective Action

This section empirically evaluates the propositions concerning the emergence of horizontal collective action. Three main independent variables are examined: Idiosyncratic intra-firm investment,[224] large firm size and the external event. All three constitute necessary conditions. Together they are sufficient for collective action to emerge. The external event can take two forms: The non-deliberate external occurrence and the legislative threat. Idiosyncratic intra-firm investment, large firm size, the non-deliberate external occurrence and the legislative threat will be assessed in this order. When one of the factors is varied, the others must be given and constant. The basic idea is that firms engage in horizontal collective action because they want to safeguard their idiosyncratic investments. I examine the behaviour of textile retailers and automotive firms.

6.3.1 Idiosyncratic Intra-Firm Investment

This section evaluates the role idiosyncratic intra-firm investment plays for horizontal collective action. The empirical analysis is divided into five parts: The first part deals with the operationalisation of the independent variable ‘idiosyncratic intra-firm investment’, which will be brief since the form that will be examined was already operationalised above. In a second step, I briefly re-introduce the HIV/AIDS policy field, which I will focus on in the analysis. Thirdly, the analysis according to

---

Manager, OEM 4, South Africa, 26 February 2007.

[223] Also see below.

[224] Inter-firm investment also triggers horizontal collective action under conditions of environmental uncertainty. I will focus on intra-firm investment here since the empirical analysis is less complex while nonetheless allowing the proof of the general theoretical idea.

the indicators of the independent and dependent variables is conducted. Fourthly, the causal narrative is presented. Finally, the section ends with a conclusion, which summarises and discusses the findings.

6.3.1.1 Operationalisation of the Independent Variable

Hypothesis number three stated that *if firms engage in idiosyncratic investment, horizontal collective action is established* – given there is an external event and firms are of large size. Preceding the empirical assessment of this hypothesis, this sub-section specifies and operationalises the independent variable 'idiosyncratic intra-firm investment'. Although any form of idiosyncratic intra-firm investment (e.g. in labour skills, high technology production) is expected to cause horizontal collective action under conditions of an external event, I will for now limit my analysis to idiosyncratic intra-firm investment in social responsibility. This form of investment was also studied above with regard to its relevance for vertical collective action. Other forms of intra-firm investment will be considered in the following sections.

The general theoretical argument is that an external event is of relevance for firms as a sub-group of society if it (potentially) increases the cost of input factors such as labour or oil. However, in the absence of idiosyncratic investment, a firm is not affected. The individuals in the firm take notice of the cost increase but do not experience a new problem situation. By altering the composition or type of its input factors the firm can easily adapt to the new situation.

By contrast, firms with idiosyncratic investment exposed to such a cost increase are genuinely affected. For them, the nature of input factors matters. Alternatives would involve the loss of existing investment and reinvestment. More specifically, an increase in the price of input factors may affect firms with investment in social responsibility, i.e. investment in employees and procedures necessary to produce the product responsibly. Since these investments are made to build a certain reputation they are inextricably linked to the importance of external credibility. For example, a firm may specifically invest to ensure particular wellbeing of its labour force and inform the public about this. If the firm then loses employees due to the HIV/AIDS epidemic (i.e. the cost of labour increases), it can no longer claim the wellbeing of its labour force. Such firms are then expected to engage in horizontal collective action with the purpose to mitigate the impact of the external event and, thereby, safeguard their idiosyncratic investment in social responsibility.

I already presented in detail the criteria identifying a firm with intra-firm investment in social responsibility in section 6.2.2.1. It should briefly be restated here that I look at the average product price, the product range and hard data stating the amount of investment/the effects of investments. These factors are measured in relative terms.

Since I examine firm behaviour in the HIV/AIDS policy field, I will focus on hard data stating intra-firm investments in employee wellness instead of environmental protection procedures, which was looked at above. The other two indicators, average product price and green products, remain the same as above because they allow judging the external positioning of the firm as a socially responsible actor in general. The table below summarises the indicators relevant for the following empirical analysis.

Fig. 8: Independent and Dependent Variable (H3)

	Independent Variable: Intra-firm investment in social responsibility	**Dependent Variable:** Horizontal collective action	
		Corroborated	**Disconfirmed**
H3	- high average product price - high degree of green products offered - hard data on investments in procedures of the firm	o Substance o Substance ***does not constitute*** sub-category of exchange contract o Presence of all intensity criteria (process, resources, comprehensiveness, inclusion)	o No substance Or o Substance ***constitutes*** sub-category of exchange contract And/or o Absence of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)

6.3.1.2 HIV/AIDS – Problem and Institutional Environment

Before I present the selection of cases and conduct the comparative analysis, I briefly present an outline of the HIV/AIDS policy field. The theoretical argument claims that an external event is of relevance for firms as a sub-group of society if it (potentially) increases the cost of input factors. The government is either not willing or unable to compensate for these input factor price increases. The HIV/AIDS epidemic constitutes such an event.[225] It is expected that firms with idiosyncratic investment engage in horizontal collective action to safeguard this investment, while other firms replace employees without trying to pre-empt the loss through a collective initiative.

In South Africa, HIV/AIDS has been an enormous burden for society in general. The first HIV/AIDS cases were diagnosed in the early 1980s. In 2004, it was believed to have well passed the 10% of the total population. Among adults aged 15 to 49 the prevalence rate amounted to 18.1% in 2006. UNAIDS estimates that today 5 700 000 people live with HIV.[226] Towards the late 1990s, the impact of the disease on companies was publicly quantified and the business press started highlighting that tackling HIV/AIDS was a necessity (Bisseker 1999, de la de la Dehesa 1999). Companies across all industry sectors had lost employees and begun to reorganise their medical aid structures.

At the same time, the South African government waited long before it started to combat the epidemic. Information provision was contradictory and often not in line with internationally accepted research results. Treatment was not provided at all. As late as 2003, the Operational Plan was drafted which constituted the first piece of legislation clearly formulating targets concerning the provision of treatment.[227] Neither has the South African government shown a forceful approach to fight HIV/AIDS in general nor did it develop a clear piece of regulation, which specifically governs the disease in the workplace (Dickinson and Stevens 2005). A

---

[225] The indicators for the external event as independent variable and the corresponding analysis for HIV epidemic are presented further below.

[226] Information available from http://www.unaids.org/en/CountryResponses/Countries/south_africa.asp [accessed June 2009].

[227] Operational Plan of 2003. Available from http://www.info.gov.za/issues/hiv/careplan.htm [accessed June 2009].

voluntary 'Code of Good Practice on Key Aspects of HIV/AIDS and Employment' was drawn up in 2000. However, the focus of this code was limited to ensuring that individuals with HIV infection were not discriminated against in the workplace.[228]

Only in 2007, the publicly financed South African Bureau of Standards published the more comprehensive standard SANS 16001, which was actually developed by industry.

> "The South African Business Coalition Against HIV/AIDS, SABCOHA, they were very involved in this… Then Department of Health sort of on the...sort of sitting...they received all the documents and they sort of...I think they adopted a waiting approach because everybody was scared that we were going to try and rewrite some other policy and try whatever… Anglo-American, the mining houses, Business South Africa and so on. But yeah... SABCOHA was actually one of the biggest drivers behind this standard.[229]

Since South Africa is particularly affected by the epidemic as compared to other countries, the international institutional environment did not offer sufficient norms[230] on HIV/AIDS-related practices that could directly be drawn upon – as in the case of environmental protection discussed above. Brad Mears, CEO of SABCOHA, explains:

> "In essence, the standard [SANS 16001] uses established international techniques of quality management and environmental management to assist, encourage and support organizations in both the public and private sectors to implement an HIV and AIDS management system. It is therefore based on the SANS 9001/ISO 9001 (for quality management) and SANS 14000/ISO 14000 (for environmental management) series of standards."[231]

And Clem Sunter, Chairman of the Anglo-American Chairman's Fund says:

> "Sound management practice rests on setting standards and targets and then

---

[228] Information available from http://www.labour.gov.za/legislation/codes-of-good-ractise/employment-equity/code-of-good-practice-on-key-aspects-of-hiv-aids-and-employment [accessed June 2008].

[229] Interview with Manager of Systems and Services Standards, SABS, South Africa, 12 September 2007.

[230] One of the few examples is the ILO Code of Practice on HIV/AIDS and the World of Work. Information available from http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/normativeinstrument/kd00015.pdf [accessed June 2009].

[231] Information available from https://www.sabs.co.za:/Corporate/News/Archive/index.aspx [accessed June 2009]. Interview with Manager of Systems and Services Standards, SABS, South Africa, 12 September 2007.

> measuring people's performance against them. Thus, the idea of extending this principle to HIV/AIDS management systems not only makes absolute sense, it will also improve the private sector's response to one of the greatest challenges facing society today - turning the epidemic around."[232]

This gives an impression of how firms draw on existing norms but also create new ones if existing norms do not constitute a solution to a problem they face, which is very much in line with the theoretical argument presented in chapter 3 of this thesis.

Having briefly re-outlined the extent of the problem HIV/AIDS poses as well as the nature of the institutional environment embedding actors in South Africa, I now turn to the comparative analysis. This also includes showing that, according to the indicators of an external event (which will be held constant for now), HIV/AIDS is indeed also relevant for those firms whose behaviour will be studied in detail. The comparative analysis examines the relevance of idiosyncratic investment for the emergence of horizontal collective action under conditions of an external event. It should be noted that I come back to the activities of SABCOHA further below.

6.3.1.3 Comparative Analysis

This section evaluates the behaviour of firms with regard to the HIV/AIDS problem. The presence of such an occurrence was formulated as a necessary condition for firms to engage in horizontal collective action. However, it is not expected to constitute a sufficient condition. A lot of firms in South Africa do not participate in collective action to combat the epidemic. There is room for firms to manoeuvre since they are not required to do so.

I will assess the relevance of intra-firm investment in social responsibility for the participation of firms in horizontal collective action under conditions of the external event HIV/AIDS. The analysis concentrates on the behaviour of textile retailers. Does a retailer's intra-firm investment in social responsibility give rise to horizontal collective action, i.e. the establishment of governance rules with other firms? In order to empirically assess the validity of hypothesis three, I will compare two cases,

---

[232] Information available from https://www.sabs.co.za:/Corporate/News/Archive/index.aspx [accessed June 2009].

which are constituted by retailers' intra-firm transactions. The focus is placed on the two retailers R 1 and R 3. In contrast to R 3, R 1 has made intra-firm investments in social responsibility. The argument is that the wellbeing of R 1's labour force and, thus, the retailer's corresponding external credibility is challenged due to HIV/AIDS. R 1 can no longer claim to ensure the wellbeing of its labour force. *Therefore, in contrast to R 3, R 1 is expected to engage in horizontal collective action with the purpose to mitigate the impact of HIV/AIDS and, thereby, safeguard its idiosyncratic investment in social responsibility.*

Since the retailing sector is generally characterised by an absence of idiosyncratic investment with the exception of investment in social responsibility, the impact of this latter form on the emergence of horizontal collective action can be studied well. Moreover, the retailers R 1 and R 3 resemble each other. Similar to R 1, which was already introduced above, R 3 has linkages with the international level. It is represented in Namibia and other African countries. Furthermore, the retailer imports approximately 30 percent of its product from China, India and Bangladesh. Also, like R 1, R 3 is a member of the Retailers Association.[233]

For this analysis, it is particularly important to hold firm size and the external event constant. Both R 1 and R 3 are of large size. Similar to R 1, R 3 is one of the large companies operating in the oligopolistically structured textile-retailing sector. The retailer employs 13000 people and reached a turnover of ZAR(m) 7668.7 in 2008. In 2005, its market share was calculated to amount to 19.46% in ladies-wear. The company owns 1400 stores and runs several divisions offering clothing, jewelry, furniture etc.[234]

As far as the external event is concerned, it was shown in the preceding sub-section that HIV/AIDS constitutes a far-reaching problem, which has been insufficiently tackled by the South African government. Both R 1 and R 3 have experienced a

---

[233] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008; R 3 Annual Report 2008; interview with Group Logistics Director, R 3, South Africa, 16 September 2008; interview with Risk Manager, R 3, South Africa, 16 September 2008.

[234] R 3 Annual Reports 2005-2008.

labour cost increase due to the epidemic.[235] Thus, according to a risk assessment commissioned by R 3 in 2005, it was estimated that 7 percent of the company's employees would be HIV-positive in 2007. The estimated average cost to the group for 2007 associated with HIV infection was ZAR 11 054 per HIV-positive employee, equating to an annual total cost of R9,4 million resulting from "treatment, paid sick leave, funeral costs, lost productivity, increased group life and disability expenses, cost of training and lost expertise, additional cost of incapacity as well as generally increased medical costs."[236]

R 1 states that HIV/AIDS was first discussed within the company in 1996 but at that time it was not considered a serious threat. A year later estimates showed that the disease would have a significant impact on the retailer by 2010. It was expected that 5 percent of employees would be sick and the mortality would have risen by 5% for the age group of 30-44 year-olds. R 1's productivity drop was calculated to amount to "2-3% – the equivalent to closing down one of our large stores. Impacts on the pension fund, Group Life Assurance, and medical aid also showed that these group benefits would take significant knocks". Similar findings emerged when a second analysis was conducted in 1999.[237] Hence, for both retailers, the epidemic constitutes a relevant event, as defined in chapter 3.

On the basis, the presence of intra-firm investment in social responsibility can now be investigated according to the indicators of the independent variable. As a matter of fact, the foregoing section already analysed R 1 in this regard. R 1 was shown to mainly target a high-income group of customers and to sell green products. What can be said about the publication of hard data on the wellbeing of employees? R 1

---

[235] The indicators for the external event are price increase/scarcity of input factors. These indicators are developed in detail below, where the explanatory value of the independent variable 'external event' is assessed.

[236] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008; R 3 Annual Report 2008.

[237] Interview with Social Investment Manager and Occupational Health Nurse, R 1, South Africa, 21 September 2007; data also taken from the Employers' Handbook on HIV/AIDS. A Guide for Action published by UNAIDS/International Organisation of Employers. R 1 contributed to the report. Available from http://data.unaids.org/Publications/IRC-pub02/JC767-EmployersHandbook_en.pdf [accessed June 2009].

presents extensive data on anti-discrimination, health insurance and black economic empowerment in its sustainability reports. These are business policy elements, which are required by legislation. Also, the retailer explains its internal procedures with regard to HIV/AIDS. In addition, R 1 highlights the compelling working environment it offers with comprehensive training opportunities.[238] Interviewees confirmed this. For example, a corporate social investment manager highlighted that she was sent to Geneva to take part in a program at the International Labour Organization, thereby gaining insights she could then use for her job in the company.[239] More specifically, R 1 measures employee satisfaction through its own ongoing people satisfaction survey and through an annual Beehive survey developed by Village Leadership Consulting.[240] The surveys include measuring employee perception on aspects such as general support of the employer, talent creation and rewarding. The retailer publishes the results in its reports. For example, the results of the Beehive survey have consistently improved from the initial survey in 2004, and showed an increase in employee satisfaction of 217% over three years.[241] In addition, two pieces of research were conducted in 2006/7 to gain a better understanding of the communication needs of employees. The first study reviewed how employees receive and understand communication and the second study assessed the effectiveness of specific channels of communication. Consultative workplace communication forums covered 90% of the R 1 workforce in 2007.[242]

How does R 3 fare with regard to the indicators average product price, green products and the publication of hard data on employee wellness? R 3's divisions serve a wide range of customers. For example, Exact deals with lower to middle income groups, while Foschini and @home are set to target middle to upper income segments. Competitors of the Foschini division are, for example, Edgars and R 1,

[238] R 1 Annual Reports 2004-2008.

[239] Interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007.

[240] Information available from http://www.villageofleaders.co.za/index.php?page_id=8&msg_id=10 [accessed October 2008].

[241] R 1 Good Business Journey Report 2008.

[242] R 1 Good Business Journey Report 2007.

which, as shown above, target a higher income segment.[243] Thus, R 3 serves a broad mix of customers. Correspondingly, the average unit price is considerably lower than the average price of R 1. R 3 processed 44 million units and achieved a turnover of ZAR(m) 7668.7 in 2008. Thus, the average price of individual items amounted to ZAR 174.29.[244] By contrast, R 1's average product price amounted to ZAR 261.94 in 2008.[245]

As far as the product range is concerned, the R 3 Logistics Director explains that the niche of R 1 is high quality, whereas "we want style and with style you also want quality but style is the primary driver."[246] Green products are not part of the retailer's product range. R 3 discusses environmental protection in the sustainability chapter of its Annual Report 2008 but the closest the Report gets to mentioning green products is by stating that [a]ll plastic bags used by the stores are durable and reusable, being made of sheeting that is at least 40 microns in thickness. In certain divisions use is also made of recyclable paper packets." Similar to R 1, the retailer R 3 publishes its anti-discrimination, health insurance and black economic empowerment policies in its Annual Reports.[247] As pointed out above, these are business policy elements, which are anyway required by legislation. Also, the retailer outlines its general internal procedures with regard to HIV/AIDS. However, R 3's reports do not present any hard data on employee wellness. An employee wellness programme was only launched in April 2008.[248] The Group Risk Manager points out that social responsibility in general is an "immature" issue within the company.[249]

After having analysed the two retailers by drawing on the indicators of the

---

[243] Interview with Logistics Executive, R 2, South Africa, 30 September 2008; interview with Group Logistics Director, R 3, South Africa, 16 September 2008; R 3 Annual Report 2008.

[244] R 3 Annual Report 2008; R 1 Group Annual Report 2008.

[245] This latter aspect can, however, only give a broad additional indication since the two retailers vary to some extent in product types, i.e. R 1 also sells food, R 3 offers furniture etc.

[246] Interview with Group Logistics Director, R 3, South Africa, 16 September 2008.

[247] R 3 Annual Report 2008.

[248] Interview with Human Resources Manager, R 3, South Africa, 16 September 2008.

[249] Interview with Risk Manager, R 3, South Africa, 16 September 2008.

independent variable 'intra-firm investment in social responsibility', clear variation can be identified. Based on this, variation is also expected on the dependent variable. *In contrast to R 3, R 1 is anticipated to engage in horizontal collective action, i.e. the establishment of governance rules with other firms aiming to combat the HIV/AIDS epidemic.* In what follows, the involvement of the retailers in horizontal collective action is examined by looking at the three dimensions substance, participation and intensity.

R 1 participates in two collective initiatives on HIV/AIDS together with other firms. I will start with the South African Business Coalition on HIV/AIDS (SABCOHA). With regard to substance, it can be pointed out that SABCOHA was formally established in 2000. The founding members were Eskom, SABC, Transnet, Unilever, Standard Bank and Old Mutual. Its establishment was self-funded through the membership fees of founding members. In 2004, SABCOHA presented its first annual report. R 1 joined in 2005.[250]

SABCOHA has three areas of focus: Firstly, it aims to be a knowledge fulcrum with respect to HIV/AIDS. This includes conducting research as well as disseminating credible information. For example, the organisation publishes research results and activities on its website. Secondly, business is supported in the fight against the epidemic via projects, seminars etc. "A credo or a statement that you could apply there is that we will do things for business that business can't do itself," the CEO of SABCOHA explains. Thirdly, SABCOHA tries to ensure that business is part of a nationally coordinated response. To do so, the organisation is involved in various forums, for example in the South African National AIDS Council. Thereby, SABCOHA lobbies and forms partnerships with government and interacts with other sectors such as non-governmental organisations, labour and the international community.[251]

As far as the second dimension, participation, is concerned one finds that the firms

---

[250] Interview with CEO, SABCOHA, South Africa, 19 March 2007; information available from http://www.weforum.org/pdf/GHI/SouthAfrica.pdf [accessed June 2008]; R 1 Annual Report 2006.

[251] Interview with CEO, SABCOHA, South Africa, 19 March 2007; information available from www.sabcoha.org [accessed June 2009].

involved in SABCOHA have a transaction-independent attitude. Collective action does not constitute a sub-category of exchange contracts. By contrast, most of the various member firms operate in different supply chains or are competitors. Members are, for example, OEM 3, OEM 4, OEM 5, R 1, Unilever, R 4, De Beers and Shell.[252]

What can be said about the third dimension, intensity, which measures the extent of the substance of collective action? This dimension includes four criteria: Process, resources, comprehensiveness and inclusion. Assessing SABCOHA according to the process criterion, one finds that the Annual Report clearly spells out financial and other organisational issues and how these are tackled: Membership fees are *obligatory*. "Small companies,[253] defined as those with less than 500 employees, pay a highly reduced annual membership fee. Large companies, with more than 500 employees, pay a higher fee and corporate members pay the top band."[254] Not only member contributions are clearly stated, also SABCOHA employees have specifically assigned tasks. Thus, there are a general project manager, three employees concentrating on specific projects, a data capturer, a monitoring and evaluations officer, a financial director, assistants and the CEO who reports to the Board of Governors (*precision*). Staff turnover is low. None of the employees resigned in 2007. Moreover, since SABCOHA is an institutionalised organisation with its own staff it is in continuous and long-term operation. This also includes the running of regional offices where networking and information-sharing meetings are occasionally organised as well. In addition, SABCOHA organises an annual general conference for its members (*scope*), where best practice is awarded. As regards m*onitoring* and *sanctioning*, "the board regularly strives to identify and monitor the non-financial aspects relevant to the business of SABCOHA." SABCOHA employees monitor the payment of membership fees and oversee other

---

[252] Information available from www.sabcoha.org [accessed June 2008].

[253] These are mainly HIV/AIDS related service providers.

[254] Information available from http://www.sabcoha.org/join-us/join-us.html [accessed June 2009].

contributions. Companies can only remain members if they pay membership fees.[255]

Form a resource perspective, which is the second criterion of the intensity dimension, it can be stated that membership fees together with donations and income from sales of the HIV/AIDS toolkit provide SABCOHA with a sound financial budget. The Annual Report indicates that total assets amounted to ZAR 2535944 in 2008 (*capital*). The financial budget is, among other things, used to finance a group of ten employees with different areas of *expertise*, for example, HIV/AIDS in the supply chain, finance and small firms. In addition, there is the board, which consists of representatives from member companies and other stakeholders. The head office of SABCOHA is based in Johannesburg, Gauteng. Regional representation offices are also active in KwaZulu-Natal and the Eastern, Northern and Western Cape. These offices deal with specific local problems and initiatives (*personnel/ sub-divisions*).[256]

Over the years, SABCOHA has developed a *recognition* for being the voice of business in the area of HIV/AIDS at the regional and national level in South Africa. It represents business in regional discussion groups, in the National Economic Development and Labour Council and in the South African National AIDS Council where SABCOHA works with government officials, labour and non-governmental organisations. The CEO of SABCOHA underlines:

> "So sometimes business plays a very interesting role because we're seen by some as being relatively independent. We're not seen as being radical like NGOs, we're not seen as being in favour of government but we're seen in between, and sometimes we can play a bit of a brokering role."[257]

In addition, the coalition entertains relationships with international actors such as the Pan African Business Coalition on HIV/AIDS. Being often cited in the media SABCOHA is also known for providing expert knowledge on HIV/AIDS in general.

---

[255] Interview with CEO, SABCOHA, South Africa, 19 March 2007; SABCOHA Annual Report 2008; information available from http://www.sabcoha.org/ and http://www.sabcoha.org/images/stories/2006-2010sabcohabusinessplan.doc [accessed June 2008].

[256] SABCOHA Annual Report 2008; interview with CEO, SABCOHA, South Africa, 19 March 2007; information available from www.sabcoha.org [accessed June 2009].

[257] Interview with CEO, SABCOHA, South Africa, 19 March 2007.

For example, The Times published an article entitled "Sex Work – Legalise or Don't Legalise" referring to SABCOHA activities.[258]

The third criterion of the intensity dimension, *comprehensiveness*, refers to the number of the issue's sub-categories addressed. Furthermore, does collective action focus on the issue area in question only? Or does it also deal with other issue areas? SABCOHA's activities cover interaction with government, supply chain management, support for micro companies, condom distribution, peer education, research, information provision and training of HR managers. SABCOHA also organises projects aimed at the provision of treatment. HIV/AIDS is the only reason why SABCOHA was established. The coalition does not deal with any other issue. Finally, the fourth criterion of the intensity dimension, inclusion, concerns the involvement of the individual parties. Collective action would be absent if it was only one firm who organises everything, contributes all resources etc. In the case of SABCOHA, all member firms contribute expertise and financial resources allowing the business coalition to be active.[259] Overall, SABCOHA is an instance of horizontal collective action since all three dimensions (substance, horizontal participation and intensity) are fulfilled.

It was highlighted above that R 1 is involved in a second initiative on HIV/AIDS together with other firms. At the same time, this is the only initiative in which R 3 participates.[260] Other members are New Clicks, Ackermans and Shopright Checkers. These retailers get together in meetings to organise provision of testing for employees. Since many retailers have shops in shopping centres the idea is to offer

---

[258] Published on 4 June 2009. Available from: http://www.sabcoha.org/sabcoha-in-the-news/sex-work-legalise-or-don-t-legalise.html. Also see other articles on http://www.sabcoha.org/media/2.html [accessed June 2009].

[259] Interview with CEO, SABCOHA, South Africa, 19 March 2007; interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007; SABCOHA Annual Report 2008; information available from http://www.sabcoha.org/ [accessed June 2008].

[260] Interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007; interview with Human Resources Manager, R 3, South Africa, 16 September 2008.

testing there with the help of the centre management.[261]

> "We got together to look at what we could do to make it easier for staff in stores to test, because not only are they far away, they also work long hours and it's difficult for them to leave the store. And so we decided that we were going to treat AIDS as something that we would collaborate on rather than compete against each other with."[262]

Thus, substance is there and the nature is horizontal since the participating firms are competitors. All of them are retailers, they do not engage in transactional exchange. What can be said about intensity? The initiative does not have a formal character. While every party contributes something to make the project work, there is no membership fee. Moreover, every party can join and opt out at any time. Thus, the retailer R 2 takes part sporadically. "They were on board with us, and then they decided not to participate in this round that we have just done, but they are interested in possibly joining the program again at a later stage" (*obligation*).[263] Furthermore, none of the participants has a specific task; everyone engages at all stages or where needed (*precision*). So far only pilot projects have been carried out. Also from a geographic perspective, the initiative is limited. Testing took place in four shopping centres in the Western Cape (*scope*). The retailers work with an HIV/AIDS specialist who helps them to plan, implement and evaluate the project, using the ILO Code of Practice on HIV/AIDS and the World of Work as a reference (*monitoring*). *Sanctioning* or incentive mechanisms have not been devised.[264]

Also, resource contributions by the participating firms are limited. The HIV/AIDS managers of the different retailers convene to discuss their aims and organise the project (*personnel, expertise*). In addition, they provide infrastructure such as table and chairs for the testing facilities and give a donation to the collaborating NGO. "The NGO's mandate is to do testing and to get access to overseas funding for

---

[261] Interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007; interview with Human Resources Manager, R 3, South Africa, 16 September 2008.

[262] Interview with Human Resources Manager, R 3, South Africa, 16 September 2008.

[263] Interview with Human Resources Manager, R 3, South Africa, 16 September 2008.

[264] Interview with Human Resources Manager, R 3, South Africa, 16 September 2008.

that… in order to get funding, they need people to test; the retailers bring the people." In addition, the retailers do not have to finance the HIV/AIDS specialist since he advises the initiative at no cost (*expertise*). "We did not justify the initiative to management. We treated it as an experiment and it did not cost anybody anything" because it could be financed out of existing human resources budgets (*capital*). Overall the goal is to provide HIV testing "at a very low cost to the employer." The initiative is not mentioned in the Annual Reports of the Retailers but won the Mail and Guardian (South Africa) and Southern African Trust's 'Investing in the Future, Company Partnerships Award' in October 2008 (*recognition*).[265] *Comprehensiveness* is limited. The main issue covered is HIV testing, while information on prevention is a side-matter and condoms or treatment are not provided. Finally, the *inclusion* criterion is fulfilled. The participating retailers contribute HR personnel and some financial resources.

Both SABCOHA and the Retailers' Initiative are horizontal gatherings characterised by substance. However, recall that, the intensity of collective action can vary. The empirical analysis showed that SABCOHA is comparatively strong with all criteria being easily fulfilled. By contrast, the Retailers Initiative is exceptionally weak. For example, the process criterion is satisfied only because monitoring is conducted. All other process aspects are hardly in place. Overall, SABCOHA reflects strong horizontal collective action, whereas the Retailers Initiative does not. Importantly, the retailer R 1 participates in both initiatives. R 3 only takes part in the Retailers Initiative. Hence, hypothesis three on the relevance of intra-firm investment for the emergence of horizontal collective action is underpinned by empirical data. *As opposed to R 3, R 1 is involved in an organisation characterised by strong governance rules and aimed at combating the HIV/AIDS epidemic.* The following table presents an overview:

---

[265] Those retailers analysed in this section. See R 3 Annual Report 2008, R 2 Annual Report 2008, R 1 Annual Report 2008.

Fig. 9: Summary dependent and independent variable

<table>
<tr><td rowspan="4">H3</td><td rowspan="2">Independent Variable:
Idiosyncratic intra-firm investment</td><td>Dependent Variable
Horizontal collective action</td></tr>
<tr><td>Corroborated</td></tr>
<tr><td>R 1

Specialised intra-firm investment</td><td>SABCOHA
o Substance: Firms are members of an organisation, participate in meetings, fund research, support small businesses, lobby government etc.
o Participation does not constitute a sub-category of an exchange contract (i.e. it is horizontal collective action)
o Intensity: Obligation, precision, scope, monitoring, sanctioning (process); personnel, expertise, recognition, capital (resources); comprehensiveness, inclusion.
Retailers Initiative
o Substance: Firms engage in meetings and provide services
o Participation: HIV testing does not constitute a sub-category of an exchange contract (i.e. it is horizontal collective action)
o Intensity: Low obligation, no precision, limited scope, monitoring, no sanctioning (process); personnel, expertise, recognition, little capital (resources); low comprehensiveness, inclusion is given.
→ overall: strong collective action</td></tr>
<tr><td>R 3

No specialised intra-firm investment</td><td>Retailers Initiative
o Substance: Firms engage in meetings and provide services
o Participation: HIV testing does not constitute a sub-category of an exchange contract (i.e. it is horizontal collective action)
o Intensity: Low obligation, no precision, limited scope, monitoring, no sanctioning (process); personnel, expertise, recognition, little capital (resources); low comprehensiveness, inclusion is given.
→ no/weak collective action</td></tr>
</table>

6.3.1.4 Causal Narrative

The above analysis showed that the empirical data corroborates hypothesis 3. The aim of this sub-section is now to empirically trace the theoretically derived causal mechanism linking independent and dependent variables. Do firms really engage in horizontal collective action with the purpose of safeguarding their intra-firm investments in social responsibility? Do these firms see their credibility and hence their investments at risk or do entirely different factors play a role for their horizontal collective action? In order to answer these questions, I will look for a series of theoretically predicted intermediate steps.

As highlighted in the foregoing section, R 1 has had a commitment to highest quality merchandise since its inception in 1931.[266] It was pointed out above that the retailer intensified its activities with regard to environmental protection in 2004/5. A strengthening of R 1's investment in the wellbeing of their employees appears to have started earlier. Explaining the R 1 priorities as far as brand perception is concerned the Corporate Social Investment Manager underlines: "Environmental protection is very important in the company but it is not as important as social issues."[267]

An HIV/AIDS peer education programme had been launched in 1997.[268] In 2001, the HIV/AIDS awareness-raising programme was well established. Additionally, the occupational health team started to provide support to all employees affected. In 2002, R 1 conducted its first general employee satisfaction survey. In line with that the retailer highlighted its general belief in "broad communication on issues of importance to employees and the business to create and promote a culture of regular, honest and open internal communication."[269]

The retailer then published its first official sustainability review in 2003. This review did not only present health services and training possibilities for employees but also provided a preliminary comprehensive formalisation of R 1's general social responsibility policy. It showed the increasing attention the retailer had given to employee satisfaction and aimed at further intensification.

---

[266] Interview with General Manager, TM 1, South Africa, 13 September 2007. Also interview with Public Affairs Manager, R 6, South Africa, 29 September 2008; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008.

[267] Interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007.

[268] Interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007.

[269] R 1 Annual Reports 2001, 2002.

> "Regular, bi-annual surveys are conducted with store staff to measure employee satisfaction and commitment. In general, each of the three surveys conducted to date, showed an increasingly positive trend on both indicators. The survey will be rolled out to the rest of the business, providing a better and more holistic understanding of employee satisfaction and commitment and indicating areas for improvement and development." [270]

More specifically, the report also re-emphasised R 1's internal procedures regarding HIV/AIDS. Furthermore, new activities were presented including a steering committee, which was set up to update the R 1 HIV/AIDS strategy. To do so, the steering committee drew on the experiences provided by SABCOHA and its member companies.[271] The retailer did, however, not become a member of the organisation at that time. In 2004, R 1 initiated its provision of ARV treatment for its employees.[272] The R 1 Wellness Manager explains:

> "We aspire to being the most trusted and respected modern South African retail brand. Tell me, who can *trust* and *respect* a company that is known not to care for its employees? … People come into contact with us every day, we're in their home, in their stomachs, we dress their kinds… [We want to] be an actively responsible organisation, focused on addressing issues unique to the environment in which we operate."[273]

Indeed, the investments in internal procedures to enhance employee wellbeing were consistently accompanied by corresponding publication initiatives since "the brand is everything."[274] Not only did the retailer present its investments in its new annual sustainability reviews. In the 2003 annual report, R 1 also emphasised the 'UNAIDS/International Organisation of Employers' Handbook on HIV/AIDS – A Guide for Action'. The handbook published the retailer's best practices in the workplace and thus made them available to other companies and the general public "all over the world" in 2002.[275] This was followed by the retailer's announcement of

---

[270] R 1 Annual Report 2003.

[271] Faulk and Usunier (2009, p.215, emphasis in original); interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007.

[272] R 1 Annual Reports 2003, 2004.

[273] Faulk and Usunier (2009, p.215, emphasis in original).

[274] Interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008.

[275] R 1 Annual Report 2003. Information also available from http://data.unaids.org/publications/IRC-

its contribution "towards a tool being developed by the World Health Organisation on effective communication strategies for Voluntary Counselling and Testing in 2004."[276]

Thus, by 2005, R 1 had implemented a comprehensive employee wellbeing programme and positioned itself as a company that cared for its employees. Moreover, the retailer had voiced its opinion about the HIV/AIDS problem on various occasions. Since R 1 had focused on creating customer trust in its brand, it felt that it was necessary to fortify its credibility as a good corporate citizen by further extending its fight against the epidemic – in particular because HIV/AIDS continued to be a great challenge for the country and government had remained excessively weak in its response.[277] At that time, SABCOHA had already been established for four years and R 1 had drawn on its expertise.[278] R 1 pointed out that its "HIV/AIDS prevention and management programme includes a focus on contributing and influencing issues on how we address HIV/AIDS in the workplace at a national level." Hence, the retailer decided to become a member of SABCOHA in 2005.[279] The SABCOHA CEO explains that R 1 joined because it is a company whose culture requires it to be part of nationally coordinated response. The retailer is different from companies, which say

> "don't talk to me about risks in five years time, talk to me about how I manage my risk for next week. How do I manage my credit? How do I manage my debt book? How do I manage my overdraft? How do I pay my wages? Those are risks to me. HIV? Well I'll cope when I get a problem. I'll handle it."[280]

Overall, R 1 specifically invested in the wellbeing of its employees as part of its general marketing strategy. Ensuring credibility was an integral part of the retailer's

---

pub02/jc767-employershandbook_en.pdf [accessed June 2008].

[276] R 1 Annual Report 2004.

[277] Interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007; interview with Good Business Journey Manager, R 1, South Africa, 17 September 2008; R 1 Annual Report 2006.

[278] Interview with Corporate Social Investment Officer and Occupational Health Nurse, R 1, South Africa, 21 September 2007; Faulk and Usunier (2009, p.215, emphasis in original).

[279] R 1 Annual Report 2006.

[280] Interview with CEO, SABCOHA, South Africa, 19 March 2007.

intra-firm investment in social responsibility. The HIV/AIDS epidemic could have challenged this credibility. R 1 could have faced the risk of losing its credibility and, thus, of having made the investments in socially responsible internal procedures in vein. To avoid this, R 1 felt that it had to be part of a nationally coordinated response and consequently joined SABCOHA. This is in line with the theoretical mechanism that was expected to link the independent and dependent variables of hypothesis three. I will now examine the behaviour of R 3. In this context, I will also analyse the emergence of the Retailers Initiative, in which R 1 is involved as well.

As already indicated above, R 3 has had a focus more on (short-lived) style than on quality textiles for decades. It did not show an interest in general employee wellbeing that went beyond what was required by law.[281] HIV/AIDS was given some attention 2002, but no policy was designed let alone action was taken because "we couldn't really replicate anything that existed."[282] This may have been the perspective of the HR Manager, which in any case is surprising since SABCOHA had already been established and various companies already had policies in place at that time. In fact, an interview with R 3's Risk Manager showed that only in response to the launch of the Socially Responsible Investment (SRI) Index of the Johannesburg Stock Exchange (JSE) in 2004,[283] R 3 slowly started to be interested in the integration of social practices in its internal procedures. In 2005, the retailer published its first statement on social responsibility, which remained vague.[284] A full-fledged employee wellness programme including services like assessments of employee satisfaction, nutritional advice, health care, psychological counselling etc. over and above what was required by government continued to be absent (it was introduced in 2008).[285]

---

[281] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008; R 3 Annual Report 2008; interview with Group Logistics Director, R 3, South Africa, 16 September 2008; interview with Risk Manager, R 3, South Africa, 16 September 2008.

[282] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008.

[283] The SRI index was introduced above as part of the evaluation of hypothesis two.

[284] Interview with Risk Manager, R 3, South Africa, 16 September 2008.

[285] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008; Annual Report 2005.

However, since the JSE/SRI listing involved repeated external auditing R 3 was forced to further develop its social responsibility strategies. In September 2006, R 3 then launched an HIV/AIDS programme, which allowed any employee to have a free HIV test twice a year. While this initiative was mentioned in R 3's Annual Report, additional large-scale communication on employee wellness/HIV/AIDS to the public and, specifically to customers, did not constitute a focus.[286] Hence, these investments in employee wellness, which anyway were limited to HIV/AIDS, were not part of a marketing strategy. They appear to be a simple response to the requirements coming from the JSE/SRI Index. This is in line with R 3's perception as regards the business risk emanating from HIV/AIDS. Importantly, the risk was not viewed as high simply because labour could be replaced easily. R 3's Wellness Manager points out: "The risk is low, because you've got a high labour turnover." Moreover, high labour turnover was nothing R 3 appeared to view as a danger to its brand name.[287]

In early 2007, R 3 got involved in the Retailers Initiative. The Wellness Manager of the retailer New Clicks suggested coordinating HIV testing of employees. The idea was to offer voluntary testing to store staff at one-off events in shopping malls because they were difficult to reach otherwise.[288] As outlined in the preceding paragraph, R 3 had already decided to provide testing and was therefore looking for ways to make it more practical and cost-effective.[289] Being asked how she justified R 3's joining to this Initiative to management R 3's Wellness Manager explains that

> "we didn't, we just did it actually. We actually just did it. We treated it as an experiment, as a pilot, and it didn't cost anybody anything. Everything was free, and what we did was we obviously needed permission from the business to release their staff to go and have an HIV test during the day. And so all we did is we sent an e-mail out to all the…in our business…and explained: This is

---

[286] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008; R 3 Annual Reports 2006, 2008.

[287] Interview with Risk Manager, R 3, South Africa, 16 September 2008; interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008.

[288] Information available from http://www.ioe-emp.org/fileadmin/user_upload/documents_pdf/papers/guides/english/guide_2009_hivaids.pdf [accessed December 2009].

[289] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008.

> what we want to do, this is what it involves, can we go ahead? And everybody said yes. So it was no problem."[290]

The retailers only paid for minor costs such as a contribution to an NGO, hire of equipment and refreshments for the team. The Wellness Manager of R 3 could finance its share out of her HIV budget without having to discuss it with management. Up to now, the Initiative has remained an experiment. Testing has been organised in four malls, which is not significant if one considers that R 3 is represented in more than 1000 malls. It was shown above that the Initiative classifies if at all as an extremely weak form of collective action. On SABCOHA, the Wellness Manager says that they have never considered becoming a member because the organisation does not offer anything R 3 finds particularly relevant or could not pursue on its own.[291]

To summarise, R 3 did not engage in thorough intra-firm investments in employee wellness. Only when it was required by JSE/SRI the retailer started to move into that direction. However, these limited investments were not part of a marketing strategy. Correspondingly, there were no significant investments and no credibility to safeguard. A high staff turnover was not perceived as to have a negative impact on the R 3 brand. In line with this, the Retailers Initiative was never considered to have a credibility enhancing purpose. R 3 participated because it was an opportunity free of charge – and hence anyway hardly a form of horizontal collective action. This is in line with the theoretical mechanism that was expected to link the independent and dependent variables of hypothesis three.

6.3.1.5 Conclusion

This section assessed hypothesis number three, which stated that *if firms engage in idiosyncratic investment, horizontal collective action is established* – given there is an external event and firms are of large size. I focused on socially responsible intra-

---

[290] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008.

[291] Interview with HIV/AIDS Manager, R 3, South Africa, 16 September 2008; Information available from http://www.ioe-emp.org/fileadmin/user_upload/documents_pdf/papers/guides/english/guide_2009_hivaids.pdf [accessed December 2009].

firm investments and studied the HIV/AIDS policy field. Both the comparative assessment according to the indicators of the independent and dependent variables as well as the causal narrative corroborated the hypothesis. A firm establishes governance rules together with other firms in order to safeguard its idiosyncratic investment threatened by an external event, in this case the HIV/AIDS epidemic.

My analysis focused on the behaviour of the two retailers R 1 and R 3. These are representative cases. In fact, interviews with several managers of other retailers such as R 2 and R 6 allowed identifying the same patterns of behaviour.[292] Moreover, empirical data collected through interviews with firms active in the South African automotive industry pointed into the same direction.[293] For example, OEM 3 is characterised by high idiosyncratic intra-firm investment. The car manufacturer invests in employee wellness, like R 1 does, and additionally in high manufacturing skills. Correspondingly, OEM 3 does not only participate in SABCOHA but even contributed to its establishment by taking part in meetings and writing the job advertisement for the SABCOHA CEO.[294] Furthermore, firms with idiosyncratic investment were found to engage in horizontal collective action also as far as matters other than HIV/AIDS are concerned – as long as they took the form of an external event. This will be discussed below.

Thus, appealing to industry to collectively contribute to public welfare may not always be necessary. The very private interest in safeguarding idiosyncratic investments led industry to support South Africa in its fight against pressing social problems.[295] Industry initiative can help governments of developing countries or

---

[292] Interview with Public Affairs Manager, R 6, South Africa, 29 September 2008; interview with Wellness Manager, R 2, South Africa, 18 March 2007.

[293] Interview with Health Manager, OEM 4, South Africa, 26 February 2007. interview with Wellness Manager, OEM 5, and Human Resources Manager, M 2, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 und die Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[294] Interview with Health Manager, OEM 3, South Africa, 13 February 2007, and at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 und die Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[295] Also see below.

even fill a gap if government is unwilling to become active.

6.3.2 Firm Size

The empirical analysis carried out so far has focused on the impact idiosyncratic investment has on the cooperative behaviour of firms. In the remainder of this chapter, I will evaluate the other factors that are expected to cause collective action: Firm size, external occurrence and legislative threat. This section studies the relevance of firm size for the horizontal collective action of firms. The empirical analysis is divided into four parts: The first part deals with the operationalisation of the independent variable ‘firm size’. In a second step, the analysis according to the indicators of the independent and dependent variables is conducted. Thirdly, the causal narrative is presented. Finally, the section ends with a conclusion, which summarises and discusses the findings.

6.3.2.1 Operationalisation of the Independent Variable

Hypothesis number four stated that *if firms are of large size, horizontal collective action is established* – given there is a contextually dramatic happening / legislative threat and firms have engaged in idiosyncratic investment. Preceding the empirical assessment of this hypothesis, this sub-section specifies and operationalises the independent variable ‘firm size’.

In chapter three, it was argued that horizontal collective action emerges only between large firms. Only individuals within a large firm perceive the combination of idiosyncratic investment and the external event (environmental uncertainty) as the new problem it constitutes from an external observer’s point of view. Each individual may overall deal with the same volume of tasks in both large and small firms. However, the variety of tasks individuals have to tackle in a small firm is greater. The individual does not focus on one area but has to take care of several. Thus, she is exposed to greater complexity and does not pursue the establishment of governance rules in order to safeguard idiosyncratic investments. Hence, externally, the small firm does not voice a corresponding interest and will not be involved in horizontal collective action. The opposite is true for large firms.

How can different firm sizes be empirically identified? Different answers have been given to this question. Mostly, studies look at means available to a firm, for example the number of employees or financial data such as turnover (see Baumol 1959, Hart and Oulton 1996). Others highlight sales, market share or market concentration as meaningful indication for the size of firms (see for example Williamson 1975).

The number of employees gives an indication of the dispersion of tasks. Also, large financial turnover reflects firm structures characterised by several sub-divisions, which allow employees to focus on specific types of tasks. Financial information is often inaccessible (Hart and Oulton 1996) because firms are unwilling to publish it or they only make global rather than country specific data available to the public. Hence, market share and market concentration are also used as indicators in this regard. In combination with that, the industry's contribution to the GDP further indicates the strength of the individual companies. Based on these considerations, firm size is measured by looking at:

1. A firm's number of employees/turnover/sales volume;
2. the market structure/share;
3. the GDP contribution of the industry the firm operates in.

The indicators are assessed in relative terms. The relationship between independent and dependent variable is given in the following table:

Fig.10: Independent and Dependent Variable (H4)

	Independent Variable: Firm Size	**Dependent Variable:** Horizontal collective action	
		Corroborated	**Disconfirmed**
H4	Large size - large turnover/sales/ number of employees - market share/ oligopolistically structured industry - large contribution of industry to GDP	o Substance o Substance ***does not constitute*** sub-category of exchange contract o Presence of all intensity criteria (process, resources, comprehensiveness, inclusion)	o No substance Or o Substance ***constitutes*** sub-category of exchange contract And/or o Absence of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)

6.3.2.2 Empirical Assessment

As in the foregoing section, the focus of this analysis is placed on the HIV/AIDS policy field. HIV/AIDS poses a considerable challenge in South Africa and has been characterised by weak government involvement. Once I have introduced the firms to be studied in this section, I will show that the epidemic does indeed constitute an external event for them according to the relevant indicators.[296] Similarly, I will discuss the presence of idiosyncratic investment with regard to both firms. External event and idiosyncratic investment are necessary and together with firm size sufficient conditions for collective action to emerge. The former two will be held constant throughout the evaluation of the relevance of firm size.

At the centre of the empirical analysis are firms operating in the automotive supply chain, which allows varying firm size, while holding constant all other relevant factors. Does a large automotive manufacturer engage in horizontal collective action against HIV/AIDS? In order to empirically assess the validity of hypothesis four, I will compare two cases: The component manufacturer M 2 and the car manufacturer OEM 5. In contrast to M 2, OEM 5 will be classified as a large firm below. The

[296] The indicators of an external event (scarcity/price increase of input factor) have already been used above and are developed in detail below, where I systematically assess the role an external event plays for the emergence of horizontal collective action.

argument then is that OEM 5 employees are not overburdened with task variety and hence suggest the establishment of governance rules in order to safeguard idiosyncratic investments. *Therefore, in contrast to M 2, OEM 5 is expected to engage in horizontal collective action with the purpose to mitigate the impact of HIV/AIDS.*

As emphasised earlier the automotive industry can broadly be divided into two sub-sectors. M 2 operates in the component sub-sector and supplies the car manufacturing industry with firms such as OEM 5, OEM 3, OEM 7 and OEM 6. Being a regional branch of a large industrial corporation, M 2 has strong international links. The manufacturer has two main divisions: The first one is concerned with consumer goods and building technology with a focus on power tools, household appliances and security systems. The second division concentrates on automotive technology. Among other things, this division manufactures starters, alternators, small motors, electronic control units and braking systems.[297] The company's focus is placed on the production of automotive components.[298] Not only is M 2 involved in a close relationship with its automotive customers, the component manufacturer also engages in intense interaction with its own suppliers.[299] M 2 is a member of the Southern-African German Chamber of Commerce and Industry and the National Association of Automotive Component and Allied Manufacturers (NAACAM).[300]

Similar to M 2, OEM 5 belongs to a multinational corporation and, thus, has strong international links. OEM 5 assembles its own brand name and Mazda passenger cars and light commercial vehicles. The Bantam half-ton pick-up was also engineered in South Africa. In addition, the company produces the 1.3-litre and 1.6-litre RoCam engines. Cars and engines are not only sold to the local market but also exported.

---

[297] Information available from company website [accessed June 2009].

[298] Information available from company-specific website of http://www.superbrands.com/za/ [accessed June 2009].

[299] Interview with Manager of Auditing and Management Systems, Human Resources Manager and HIV/AIDS coordinator, M 2, South Africa, 19 September 2007.

[300] Information available from http://suedafrika.ahk.de/index.php?id=82&L=0 and http://www.naacam.co.za/vehman.htm [accessed June 2009].

The local range is supplemented with own brand name cars, Volvo and Mazda imports from a number of different countries. OEM 5 has an ongoing relationship with important suppliers and is a member of the American Chamber of Commerce as well as of the National Association of Automotive Manufacturers South Africa (NAAMSA).

M 2 and OEM 5 have been selected for comparison because of their similarity in most respects – with the exception of firm size. Both are manufacturers in the automotive industry with international links. Trading in the same supply chain implies that their products are related. Some of M 2's components become part of OEM 5's product. Therefore, there is overlap and, hence, some similarity in product. Moreover, akin to OEM 5, M 2 operates at the supply chain top end via the provision of after sale services to car owners as well as via its consumer goods and building technology products. Before I will systematically evaluate firm size and its effect, the next paragraphs show the similarity of M 2 and OEM 5 specifically with regard to idiosyncratic investment and the affectedness by the external event HIV/AIDS, which need to given and be held constant.

Generally, high technology production processes and products, investments in research and development, skilled labour and close interaction with suppliers mark the automotive industry. Importantly, whereas most automotive component suppliers make use of less specialised investment than car manufacturers, this is not necessarily generalisable. Idiosyncratic investment can be held constant because M 2's investment is sophisticated as compared to many other component suppliers, while OEM 5, in contrast to companies such as OEM 3 and OEM 4, has less specialised investment.[301]

Given that the analysis focuses on the HIV/AIDS policy field, it is particularly important to ensure similarity with regard to investments in employee skills and wellness (social responsibility).[302] Both OEM 5 and M 2 show such investment.[303]

---

[301] Interview with Manager of Management Systems, OEM 5, South Africa, 30 September 2008.

[302] The indicators are investment in employee skills, hard data on employee wellness, green products and high average product price. See above.

M 2 offers technical, IT and business apprenticeships. In addition, a trainee programme, which runs between 18 and 24 months, prepares graduates for classic management and specialist positions, for example as technical planners, engineers etc.[304] Also, the company has a systematic programme in place designed for the development of specialised skills. The programme makes sure that there are regular meetings between managers and employees to analyse their skills, compare them to future requirements and fledge out a schedule to build up existing capacities. This may involve seminars, coaching on the job and job rotation. M 2 also invests in life long learning and, hence, aims at permanency of employment. “As working lives become longer, it is becoming increasingly important to make sure that the skills of associates are always up-to-date.”[305]

Also with regard to health and specifically HIV/AIDS, M 2 shows engagement for its employees. The component manufacturer provides HIV/AIDS prevention, testing, counselling and treatment and, hence, has a full-blown workplace programme in place. For example, voluntary testing was carried out with 78 percent of the workforce in 2007. However, external communication campagins on these matters have largely been absent.[306] As far as the product range is concerned, M 2 does offer some green products in South Africa, for example solar collectors and heat pumps.[307] In general, the company targets a middle consumer segment,[308]

---

[303] Interview with Wellness Manager, OEM 5, and Human Resources Manager, M 2, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[304] Information available at company website [accessed June 2009].

[305] Information available at M2 CSR website [accessed June 2009].

[306] Interview with Chef Auditor and Human Resources Manager, M 2, South Africa, 19 September 2007; interview with Human Resources, M 2, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[307] M 2 Report 2008; information on M 2 renewable energy products for the South African market are available from http://www.engineeringnews.co.za/article/european-energy-solutions-to-enter-south-african-market-2009-04-10 [accessed June 2009].

[308] M 2 has a distribution centre in Johannesburg and sells its products through various retailers, for example R 6 and Pick’n Pay.

whereas competitors such as Miele and Metabo[309] aim at consumers with higher income and others, for example Skil,[310] sell their products at lower average prices.

Similar to M 2, OEM 5 recruits graduates for management and other areas of business such as manufacturing and product development. Moreover, OEM 5 invests in its employees. The Graduate Programme for all types of graduates offers an 18 to 24 month trainee program with rotational assignments. Graduates are exposed to various disciplines during their trainee assignment. Also, "OEM 5's operators ..., are highly trained and multi-skilled individuals. Ongoing training contributes vastly to the job enrichment of these employees."[311] This includes in-house and external training courses, e-learning and overseas developmental assignments.[312] Furthermore, employees have the possibility to apply for a bursary to assist with tuition and book fees in case they enrol at an external learning institution. In order to encourage permanency of employment long-serving employees are rewarded after ten years of working for the car manufacturer and at each five-year interval thereafter.[313]

In addition, the OEM 5's employee wellness programme includes general health services and HIV/AIDS prevention, testing, counselling and treatment. For example, OEM 5 established a wellness steering committee, which meets on a monthly basis. The manufacturer communicated its HIV/AIDS activities via the World Economic Forum. However, in general external publicity campaigns with a focus on employee wellbeing are limited. Moreover, similar to M 2, OEM 5 is not focused on a high-income consumer segment.[314] In its Annual Report 2008, OEM 5 states its commitment to fuel efficiency. Among other things, the company highlights the development and offering of the fuel-efficient EcoBoost engine.

---

[309] Miele and Metabo are sold, for example, by the South African retailer R 6.

[310] For example listed in the EngNet directory, see http://www.engnet.co.za/p/b.aspx/10675 [accessed June 2009].

[311] Information available from OEM 5 company website [accessed June 2009].

[312] Information available from OEM 5 company website [accessed June 2009].

[313] Information available from OEM 5 company website [accessed June 2009].

[314] Information available from OEM 5 company website [accessed June 2009].

Overall, both OEM 5 and M 2 show similar specialised investment in employee skills and wellbeing (social responsibility), which can hence be held constant. Technological sophistication of product and production process is not relevant for collective action as regards HIV/AIDS and can, therefore, be neglected. Before the expectation regarding the role of firm size can be evaluated it is also necessary to briefly take a look at the impact of HIV/AIDS on the two manufacturers. Does HIV/AIDS constitute an external event for them?[315]

M 2's HIV prevalence rate currently sits at fourteen percent. The Human Resources Manager of M 2 points out that "on a strategic level, the HIV/AIDS prevalence rate poses a serious threat to business in regards to absenteeism, maintaining high levels of training and development to ensure skilled employees, retirement funding, medical aid costs, labour turnover and productivity."[316] Similarly, OEM 5 emphasises the impact of HIV/AIDS. "We have noticed increased absenteeism, sick leave, low productivity." Besides, the Human Resources Manager of the car manufacturer explains that they experienced an increase in health insurance benefits. Direct costs also arise due to additional recruitment and training. As far as indirect cost are concerned OEM 5 identifies a declining staff morale, which is related to the disease. The prevalence of HIV was measured to be twelve and sixteen percent at its two plants.[317]

The empirical analysis carried out so far shows that not only do both M 2 and OEM 5 engage in idiosyncratic investment in a similar way, they are also equally affected by HIV/AIDS. Therefore, from an external observer's point of view, they should

---

[315] The indicators for the external event are scarcity/price increase of input factor. The indicators are developed in detail below, where the explanatory value of the external event is assessed.

[316] Interview with Manager of Auditing and Management Systems, Human Resources Manager and HIV/AIDS coordinator, M 2, South Africa, 19 September 2007; interview with Human Resources Manager, M 2, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[317] Interview with Wellness Manager, OEM 5, South Africa, 14 September 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; interview with Manager of Integrated Management Systems, OEM 5, South Africa, 30 September 2008.

both have an interest in safeguarding their investment through collective action, as formulated in chapter three. However, the theoretical argument additionally puts forth that also size matters for horizontal collective action to be established. In the remainder of this section, the role of firm size for horizontal collective action is empirically examined. The behaviour of each manufacturer is assessed according to the indicators of the independent and dependent variables of hypothesis four.

Comparing M 2 with all of the other component manufacturers in South Africa allows classifying the company as relatively large in terms of employment. Currently, M 2 employs 844 members of staff.[318] In total, the number of employees of members of the National Automotive Component and Allied Manufacturers adds up to 53000 with an average employment of 300.[319] There are many component firms, which have less than 500 employees, for example M 6 or M 4. A number of companies such as M 3 and Eberspächer SA employ between 500 and 1000 people, i.e. about as many as M 2. However, there are also several other companies with more than 1000 employees, for example Lear Corporation with 1600, Hesto Harnesses with 1600, M 5 with 1390 and Johnson Controls with 1300 employees. By far the largest component manufacturer listed on the NAACAM website is Arcelormittal South Africa with 9700 employees.[320] Thus, regarding the number of employees M 2 is above average but does not belong to the largest manufacturers in the component sector.

In 2007, M 2 generated sales of ZAR 1.374 billion. Overall, the sales of NAACAM members were estimated to be ZAR 45 billion with an average turnover of approximately ZAR 24 million.[321] Again, M 2 is above average in the automotive component sector but considerably smaller than, for example Arcelormittal South

---

[318] Interview with Manager of Auditing and Management Systems, Human Resources Manager and HIV/AIDS coordinator, M 2, South Africa, 19 September 2007; information available from company website [accessed June 2009].

[319] Information available from http://naacam.bluebox.co.za/?profile [accessed June 2009].

[320] Information available from http://naacam.bluebox.co.za/index.php?class=bb_naacam&method=viewMember&section=all [accessed June 2009].

[321] Information available from http://naacam.bluebox.co.za/?profile [accessed June 2009].

Africa, which realises a turnover of 39.9 billion.[322] The South African automotive component sector consists of circa 500 companies. Approximately 200 of them are first-tier suppliers, which sell directly to OEMs. 300 firms are second- and third-tier suppliers. The component manufacturers produce various automotive parts such as engines, silencers, exhausts, radiators, wheels, tyres, leather car seat covers, car radios and axles. Often individual firms are not specialised on one type of component but manufacture several. The industry exports mainly to Germany, Spain, the UK, the US, France and sub-Saharan Africa. In total, the component industry has a turnover of about ZAR 50 billion, which constitute approximately two percent of South Africa's GDP.[323]

What can be said about the size of OEM 5? As far as employment numbers are concerned OEM 5 is the fourth largest company operating in the South African vehicle-manufacturing sector. Whereas OEM 1 has circa 10000 employees and OEM 2 employs circa 6200 people, OEM 5 has 4000 members of staff, OEM 6 circa 3900, OEM 4 circa 3800 and OEM 3 circa 3500. Other companies such as Porsche, Tata, Mahindra Peugeot-Citroen, Hyundai, Kia, Subaru, Daihatsu or Renault have sales representations but do not manufacture locally. They only have small numbers of employees.[324]

OEM 5 is the third largest car manufacturer in terms of sales volume in South Africa. It has a market share of twelve percent. Following OEM 1 with about 6000 vehicles and OEM 2 with 4000, OEM 5 assembled 3500 vehicles in May 2009. All other companies in the sector are smaller in this regard: For example, OEM 6 sells 3000 vehicles, OEM 4 and OEM 7 sell 2000 vehicles each, OEM 3 1500, Honda,

---

[322] Information available from http://www.arcelormittal.co.za/NewsView.aspx?nid=126601 [accessed June 2009].

[323] Information available from www.naacam.co.za [accessed June 2008].

[324] Interview with Health Manager, OEM 3, South Africa, 13 February 2007; interview with Health Manager, OEM 4, South Africa, 26 February 2007; interview with automotive expert, B&M Analysts, South Africa, 1 October 2007; interview with Health Manager, OEM 2, South Africa, 25 September 2007; interview with Health Manager, OEM 6, South Africa, 28 February 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; information available from OEM 6 company website [accessed June 2009].

Renault and Tata less than 500 each and Porsche 38 vehicles.[325] The average number of sales of the seven companies manufacturing in South Africa, the seven largest ones in terms of sales, is circa 3000 vehicles.[326]

With annual production of 535000 vehicles the car manufacturers operating in South Africa can be regarded as minor contributors to the global production of vehicles.[327] However, locally, the automotive sector is a giant, which contributed approximately 5.1 percent to the country's GDP in 2007.[328] The South African market reflects the oligopolistic structure of the global automotive market. Seven of the top global car producers dominate the market covering a sales volume of circa 86.5 percent.[329]

Overall, M 2 is considerably smaller than OEM 5. While M 2 employs 844 members of staff, OEM 5 is almost five times the size with a total of 4000 employees.[330] In terms of turnover/sales volume, M 2 belongs to the mid-size companies in a sub-sector characterised by fragmentation. By contrast, OEM 5 is among the three largest car manufacturers in an oligopolistically structured market. This says a lot, particularly if one takes into account that the GDP contribution of the car-manufacturing sub-sector is more than double the size of the contribution accomplished by the automotive component sub-sector.

Having analysed the two manufacturers by drawing on the indicators of the independent variable 'firm size', one can identify clear variation. Based on this, variation is also expected on the dependent variable. *In contrast to M 2, OEM 5 is anticipated to engage in horizontal collective action, i.e. the establishment of*

---

[325] Information available from http://www.rgt.co.za/naamsa/total.asp? [accessed June 2009]; interview with Manager of Integrated Management Systems, OEM 5, South Africa, 30 September 2008.

[326] This paragraph looks at sales in May 2009.

[327] Information available from http://www.southafrica.info/business/economy/sectors/automotive-overview.htm [accessed June 2009].

[328] Information available from http://naamsa.co.za/papers/2008_4thquarter/schedule.htm [accessed June 2009].

[329] Information available from http://www.rgt.co.za/naamsa/total.asp? [accessed June 2009].

[330] As far as M 2 is concerned information on turnover is available, for OEM 5 sales data is accessible. Therefore, the financial situation of the two firms cannot be compared directly.

governance rules with other firms aimed at combating the HIV/AIDS epidemic. In what follows, the involvement of the manufacturers in horizontal collective action is examined by looking at the three dimensions substance, participation and intensity. I will first examine the behaviour of M 2 and then move on to OEM 5.

How can substance be identified? There must be some collective activity dealing with the issue area in question. M 2 is found to attend multi-stakeholder meetings organised by local government to keep informed. These local AIDS Councils have been formed in other municipalities as well. They provide feedback to the South African National AIDS Council. A Human Resources Officer of M 2 explains that

> "most of the companies here have got their internal practice whereby they get a person who they call an HIV/AIDS co-ordinator who is co-ordinating all the HIV/AIDS issues in the workplace. And that person is invited to go and form partnership with the local municipality. And this is what we do as well."[331]

Being asked about other collective activities and more specifically about initiatives with other companies M 2 indicates that they are not involved in any. In an interview conducted in September 2007, managers of the automotive component manufacturer state that they have heard about the South Africa Business Coalition on HIV/AIDS (SABCOHA)[332] but are "not yet" member.[333] Two years later, M 2 is still not registered as member.[334] Thus, further analysis of M 2's collective activities with other companies is neither feasible nor necessary.

This finding is in line with the theoretical expectation. It is interesting to see though that M 2 does take part in a multi-stakeholder initiative organised by local government. This corresponds to the theoretical argument made in chapter three that small firms only cooperate if they are explicitly encouraged to do so. The argument was made with regard to invitations coming from large firms – it seems to also apply

---

[331] Interview with Manager of Auditing and Management Systems, Human Resources Manager and HIV/AIDS coordinator, M 2, South Africa, 19 September 2007.

[332] See preceding section.

[333] Interview with Manager of Auditing and Management Systems, Human Resources Manager and HIV/AIDS coordinator, M 2, South Africa, 19 September 2007.

[334] Information available from http://www.sabcoha.org/images/stories/doc/sabcoha_members_jun09.doc [accessed June 2009].

to interaction with government and thus have even more general relevance.

What can be said about OEM 5? Interviews show that the manufacturer is engaged in two forms of gatherings between firms. The first one is SABCOHA. By participating in SABCOHA, the HIV/AIDS manager of OEM 5 points out, "we believe that we can take our problems to higher levels. I think that is also one of the reasons why we would like to share knowledge with others."[335] SABCOHA was already analysed in the preceding section. It was concluded that the initiative constitutes a strong form of horizontal collective action.

In addition to SABCOHA, OEM 5 is involved in the Health/HIV/AIDS Forum of the American Chamber of Commerce (AmCham) in South Africa, which is a cross-sectoral association of US-owned companies.[336] The objectives of the AmCham Health/HIV/AIDS Forum include establishing a dialogue with the South African government, promoting awareness with regard to the disease, organising workshops to facilitate knowledge exchange and providing information on new legislation. The Forum developed employer guidelines in SA to assist member firms.[337] OEM 5's HIV/AIDS Manager highlights:

> "It is amazing that today, this Health/HIV/AIDS forum gets together on a monthly basis and there is open talk about HIV and people are sharing experience all the time, and if you look at the time around 1994 and now, you will see that there is a vast shift from not wanting to be involved in HIV, from not wanting to mention anything companies are actually doing, to now when we actually just feel it is something we have got to address at a higher level."[338]

Thus, there is substance. Moreover, the initiative is of horizontal nature, which is what participation, i.e. the second dimension of the dependent variable, asks for. The firms involved in AmCham have a transaction-independent attitude. More often than

---

[335] Interview with Wellness Manager, OEM 5, South Africa, 14 September 2007.

[336] Interview with Wellness Manager, OEM 5, South Africa, 14 September 2007.

[337] Information available from http://www.amcham.co.za/forums.php?PHPSESSID=a73dbb18405c69a07a427c3b45c8f31d [accessed June 2009].

[338] Interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

not they operate in different industry sectors or are competitors. Members are, for example, OEM 6, Coca Cola Southern Africa, Dell Computer SA and IBM SA.[339] Moreover, OEM 5's HIV/AIDS Manager emphasises that they would like to have a certain clause concerning HIV/AIDS in their contracts with suppliers but that this has so far not yet been realised.[340]

The third dimension, intensity, measures the extent of the substance of collective action. As far as the process criterion is concerned, it can be pointed out that AmCham operates at the national level. It is a non-profit association, which has been in continuous operation since its inception in 1977. Thus, it has its own staff with specifically assigned tasks (*scope, precision*). They ensure that *monitoring* and *sanctioning* mechanisms are implemented – in particular with regard to the payment of membership fees, which is *obligatory*. Companies can only become and remain members if membership fees are paid. Additionally, awards are used as to encourage engagement. Thus, OEM 5 received an AmCham Award for their HIV/AIDS programme in 2006. Conferences take place on a regular basis. The Health/HIV/AIDS Forum meets for workshops on a monthly basis (*scope*).[341]

The resource criterion, the second criterion of the intensity dimension, is fulfilled as well. AmCham has a general financial budget, which is made up of the annual membership fees (*capital*). It is, among other things, used to finance the group of five employees: A receptionist, an accountant, a parliamentary correspondent, an office manager and an executive director. The board has a general supervisory function and consists of representatives from member companies, among them the President and CEO of OEM 5 (*personnel*). *Expertise* is mainly contributed by

---

[339] Information available from http://www.amcham.co.za/members.php?clear_search [accessed June 2009].

[340] Interview with Wellness Manager, OEM 5, South Africa, 14 September 2007.

[341] Interview with Wellness Manager, OEM 5, South Africa, 14 September 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; information available from http://www.amcham.co.za/staff.php and from http://www.amcham.co.za/members.php?clear_search [accessed June 2009].

member firms at meetings and conferences.[342]

AmCham interacts with various business organisation at the national and international level, for example Business Unity South Africa, Business Leadership South Africa, the National Business Initiative, the Global Business Coalition on HIV/AIDS and SABCOHA.[343] However, it is not clear from the available data to what AmCham appears in the media, which would be a further indicator for relevance or *recognition* in South Africa.

To what extent is the *comprehensiveness* criterion, the third criterion of the intensity dimension, fulfilled? Comprehensiveness looks at the reach achieved. It refers to the number of the issue's sub-categories addressed. Moreover, does collective action focus on the issue area in question only? Or does it also deal with other issue areas? AmCham's activities cover various issues: Black economic empowerment, health and HIV/AIDS, intellectual property enforcement, trade, overseas security and corporate social responsibility. One forum deals with employee health in general and with HIV/AIDS in particular. Aspects of HIV/AIDS in the workplace discussed there are prevention, care and treatment. However, corresponding initiatives are left to the individual companies. The focus of the Forum is placed on the exchange of experience.[344] Finally, *inclusion*, the fourth intensity criterion, is met. All member firms of AmCham contribute financial resources thus allowing the association to be active. Not all of them do actually take part in the Health/HIV/AIDS Forum but they can. The companies involved in the Forum contribute their experience on the issue.[345]

---

[342] Information available from http://www.amcham.co.za/members.php?clear_search, from http://www.amcham.co.za/staff.php and from http://www.amcham.co.za/board.php [accessed June 2009].

[343] Information available from http://www.amcham.co.za/friends.php [accessed June 2009].

[344] Interview with Wellness Manager, OEM 5, South Africa, 14 September 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 und the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; information available from http://www.amcham.co.za/forums.php [accessed June 2009].

[345] Interview with Wellness Manager, OEM 5, South Africa, 14 September 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls,

To conclude, SABCOHA and the AmCham Health/HIV/AIDS Forum are two instances of horizontal collective action. The latter is weaker since comprehensiveness is limited and fewer resources are available. OEM 5 participates in both of them, whereas M 2 does not take part in collective action at all. Therefore, hypothesis four on the relevance of firm size for the emergence of horizontal collective action is underpinned by empirical data. *As opposed to M 2, OEM 5 is involved in horizontal collective action aimed at combating the HIV/AIDS epidemic.* The following table presents an overview:

---

organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; information available from http://www.amcham.co.za/forums.php and http://www.amcham.co.za/page.php?display=about [accessed June 2009].

Fig. 11: Summary dependent and independent variable

H4	**Independent Variable:** Firm size	**Dependent Variable** Horizontal collective action
		Corroborated
	OEM 5 **Large firm**	SABCOHA o Substance: Organisation on research, support of small businesses, lobbying of government etc. o Participation does not constitute a sub-category of an exchange contract (i.e. it is horizontal collective action) o Intensity: Obligation, precision, scope, monitoring, sanctioning (process); personnel, expertise, recognition, capital (resources); comprehensiveness, inclusion. AmCham Health/HIV/AIDS Forum o Substance: Sub-committee of organisation on exchange of expertise o Participation does not constitute a sub-category of an exchange contract (i.e. it is horizontal collective action) o Intensity: Obligation, precision, scope, monitoring, sanctioning (process); some personnel, expertise, recognition, some capital (resources); limited comprehensiveness, inclusion. → **overall: strong collective action**
	M 2 **Small firm**	o No substance and participation: No standards or information exchange etc. through a horizontal gathering between firms o Hence, no intensity. → **no collective action**

6.3.2.3 Causal Narrative

The above analysis showed that the empirical data corroborates hypothesis four. The aim of this sub-section is now to empirically trace the theoretically derived causal mechanism linking independent and dependent variables. Does firm size really play a role for the participation of the firms in horizontal collective action? Did the fact that M 2 is only small in size constitute the obstacle, i.e. to what extent were specific divisions absent or employees confronted with task variety and, thus, incapable to make suggestions on M 2's potential engagement in collective action on HIV/AIDS? In order to answer these questions, I will look for a series of theoretically predicted intermediate steps.

M 2 was founded in 1965. It established a factory in Brits and invested extensively in order to serve as a supplier of sophisticated automotive equipment. In 1998, a new sales office was opened in Midrand to better coordinate the sales for the South African market and since then the size of M 2 has remained constant.[346] Throughout the 1990s, M 2 had become increasingly affected by HIV/AIDS. While the impact of the epidemic on the company was not quantified at that time, it was noticed that people were getting sick and died. In 2001, M 2 entered a public-private partnership with the German Technical Cooperation (GTZ), which offered its advice on the establishment of a workplace programme to combat HIV/AIDS for the following three years.[347]

The Human Resource Manager explains that at the beginning the focus was placed on peer education because it is the “cornerstone of success”. M 2 started with the training of twenty peer educators. Peer educators are employees of the company who receive training on HIV/AIDS and then go and educate their colleagues. Importantly, this is something peer educators do voluntarily in addition to their job. In 2003, M 2 formulated its HIV/AIDS policy and a year later a workplace programme was fully implemented, which included prevention campaigns, voluntary testing, counselling and treatment. It was decided that the programme should be financed partly via the company’s medical aid and partly directly out of an HIV/AIDS budget. One of the peer educators was appointed HIV/AIDS coordinator and, thus, came to be in charge of the programme. This coordinator took over various tasks: He was allocated to steer the programme, to act as peer educator and continued to be involved in manufacturing. Service provision was outsourced to an external medical service provider.[348]

---

[346] Information available from company website [accessed June 2008]; interview with Manager of Auditing and Management Systems, Human Resources Manager and HIV/AIDS coordinator, M 2, South Africa, 19 September 2007.

[347] Information available from http://www.gtz.de/de/themen/uebergreifende-themen/hiv-aids-bekaempfung/3283.htm [accessed June 2008].

[348] Interview with Manager of Auditing and Management Systems, Human Resources Manager and HIV/AIDS coordinator, M 2, South Africa, 19 September 2007; interview with Human Resources

Since 2004, annual campaigns have taken place to encourage employees to do HIV testing and counselling. The HIV/AIDS coordinator and the other peer educators have thereby continuously carried the main load. The Human Resources Manager states "M 2 has been very active. And thanks be to King [the HIV/AIDS coordinator] because he was in charge of almost everything." While the Human Resources Manager emphasises that M 2 looks after its employees, she also underlines the necessity of reaching out to individuals and organisations in the company's environment.[349] This, too, belongs to the tasks of the HIV/AIDS coordinator.

> "M 2 has got an active involvement with NGOs, local government and other stakeholders… M 2 has realised that fighting HIV alone, you cannot achieve anything; you need to involve other people. As a result of that, one of our employees, a peer educator [the HIV/AIDS coordinator], is serving on the local HIV/AIDS council."[350]

At the same time, M 2 has not engaged in any collective action with other firms. Being asked in the interview conducted in 2007 if they know of SABCOHA, the Human Resources Manager does not appear to be aware of the organisation. By contrast, the HIV/AIDS Coordinator knows SABCOHA but has been too busy to further look into this opportunity.[351] By 2009, M 2 had still not joined SABCOHA[352] – despite having re-emphasised in September 2008 that

> "the HIV/AIDS prevalence rate of fourteen percent at RBSA poses a serious threat to business in regards to absenteeism, maintaining high levels of training and development to ensure skilled employees, retirement funding, medical aid

---

Manager, M 2, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[349] Interview with Manager of Auditing and Management Systems, Human Resources Manager and HIV/AIDS coordinator, M 2, South Africa, 19 September 2007; interview with Human Resources Manager, M 2, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[350] Interview with Human Resources Manager, M 2, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[351] Interview with Manager of Auditing and Management Systems, Human Resources Manager and HIV/AIDS coordinator, M 2, South Africa, 19 September 2007.

[352] Information available from www.sabcoha.co.za [accessed December 2009].

costs, labour turnover and productivity."[353]

In sum, M 2 did not have a division that could have responded to HIV/AIDS in a comprehensive manner. The company did not introduce a workplace programme because managers dealing with employee wellness recognised that there was a problem and reacted accordingly. The reason was a suggestion coming from outside. With resources of the GTZ, M 2 developed a programme. The position of an HIV/AIDS coordinator was created. Steering, implementing, organising and representation tasks were then all assigned to one of the workers who appears to have focused on the obvious: In-house activities – in spite of the recognition that external involvement is important as well. The several different tasks seem to have hindered this employee to push for the engagement in collective action with other firms. This is in line with the causal mechanism on the role of firm size developed in chapter three.

External involvement did take place only in response to an explicit invitation, as the case of the multi-stakeholder initiative shows. This corresponds to the theoretical argument that small firms only cooperate if they are explicitly encouraged to do so. Although this was argued with regard to invitations coming from large firms, it also appears to apply to interaction with government or other actors.

Moreover, it is interesting that M 2 did not receive an explicit invitation from large companies to participate in horizontal collective action. This is in accordance with the theoretical expectations as well. Indeed, chapter three pointed out that large companies are expected to voice their interest but they do not explicitly encourage other firms to get involved in horizontal collective action. However, this is what small firms would need. Hence, only large firms engage in this form of collective action. This was argued to be different in the case of vertical collective action, where large firms directly urge small transaction partners to establish collective governance rules.

---

[353] Interview with Human Resources Manager, M 2, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

After having concentrated on the behaviour of M 2, the analysis now returns to OEM 5. In 1994, the US car manufacturer started reinvesting in South Africa. Continuous investments in employee skills and high technology methods ensured modern production at its plants. The company's Executive Safety, Health and Environmental Committee recognised the growing numbers of sick employees and death in 1998/99.[354] A Human Resource Manager emphasises:

> "In the automotive industry you will realise that your skills are very limited and if you do lose skills it leaves you with a certain predicament, as well as noticed an increased health in insurance benefits. Obviously that leads to decline in profits and inability to meet supply and demand. As I've mentioned, that we do have an export market, it just puts pressures on the business. Indirect cost can really be said to be what we normally see – a loss of capacity, the declining staff morale – especially with the lower end, they really take time to deal with such issues, and with the employee band we have we have lots… about 80% of our employees are blue collar, so knowing that HIV is in that portion of your population the most, we do feel a pinch when there is such loss. Recruitment is an issue; replacement and training of them, as well as less skill leading to less experience and less productive workforce."[355]

Furthermore, the OEM 5 HIV/AIDS policy states "it was also very clear that the South African government could not be expected to deal with the HIV/AIDS issue on its own and that business needed to get involved, if any meaningful difference was to be made."[356] As a consequence, an HIV/AIDS Steering Committee was formed to properly deal with the impact of the epidemic. The Committee also appointed an HIV/AIDS coordinator and launched a workplace programme including peer education, awareness raising and care and support. Since then the Steering Committee has had the function to direct the programme and monitor its implementation. The HIV/AIDS coordinator has had the task to organise the interaction of the Steering Committee, the peer educators, the internal Communication Manager, the HR Managers, the medical personnel and the House

---

[354] OEM 5 HIV/AIDS Workplace and Community Programme. Information available from http://www.weforum.org/pdf/Initiatives/GHI_HIV_[OEM 5]_AppendixB.pdf [accessed June 2008].

[355] Interview with Wellness Manager, OEM 5, South Africa, 14 September 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[356] OEM 5 HIV/AIDS Workplace and Community Programme. Information available from http://www.weforum.org/pdf/Initiatives/GHI_HIV_[OEM 5]_AppendixB.pdf [accessed June 2008].

Manager who supervises and monitors the medical personnel.[357]

Over the years, OEM 5 transformed the HIV programme into a more comprehensive employee wellness programme, which also looked at related issues such as TB, diabetes and sexually transmitted diseases. Voluntary HIV testing, counselling and treatment have also been provided. In 2003/2004, employees were still reluctant to get tested. Therefore, OEM 5 re-launched its policy with a greater emphasis on confidentiality in 2005. This was followed by an increasing uptake.[358]

In 2006, via its HIV/AIDS Steering Committee, OEM 5 then started to increasingly voice its concerns on HIV/AIDS at a larger scale. For example, the Wellness Manager explains that when the South African government announced the formulation of a new Strategic Plan on HIV/AIDS OEM 5 sent input to SABCOHA, which was aiming to submit a contribution from the business sector. At that time, the car manufacturer also won two awards at the AmCham, one for its general corporate social responsibility approach and the second one for its HIV/AIDS programme. From then onwards, OEM 5 has exchanged experience within the framework of the AmCham Health/HIV/AIDS Forum. Moreover, in order to get better access to expertise of other companies and to influence government action, OEM 5 formally joined SABCOHA in January 2008. OEM 5's Wellness Manager highlights: "We still believe that we can take our problems to higher levels. I think that's one of the reasons why we would like to share knowledge with others as well."[359]

---

[357] Interview Wellness Manager, OEM 5, South Africa, 14 September 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; OEM 5 HIV/AIDS Workplace and Community Programme. Information available from http://www.weforum.org/pdf/Initiatives/GHI_HIV_[OEM 5]_AppendixB.pdf [accessed June 2008].

[358] Interview Wellness Manager, OEM 5, South Africa, 14 September 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008.

[359] Interview Wellness Manager, OEM 5, South Africa, 14 September 2007; interview with Wellness Manager, OEM 5, at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; information available from www.sabcoha.co.za [accessed June

Overall, as compared to M 2, OEM 5 apparently had a much better starting position for recognising on its own that HIV/AIDS did not only constitute a serious challenge to its highly skilled workforce but that it also required a systematic response. The existence of the company's Executive Safety, Health and Environmental Committee seems to have been essential in this regard. On this basis, a specialised HIV/AIDS Committee could be formed, which focused on steering and monitoring OEM 5's approach from then onwards. The HIV/AIDS coordinator was in charge of organisational matters only. Peer educators focused on peer education only. Additionally, various specialised managers were included to deal with the impact of and responses to the epidemic within their specific task area.

Developing strategies to combat the epidemic is the HIV/AIDS Steering Committee's sole task. This focus allowed it to recognise that combating the social challenge necessitates a comprehensive approach: OEM 5 moved from the implementation of an internal programme to the participation in horizontal collective action. Thus, the fact that OEM 5 is a large company in which employees have specific task areas appears to have enabled the company's involvement in collective action. This is in contrast to M 2 where the HIV/AIDS coordinator did not only organise HIV/AIDS related activities. He also had a steering function, acted as peer educator, represented the company externally and continued to work in manufacturing. This is in line with the theoretical mechanism that was expected to link the independent and dependent variables of hypothesis four. In small firms, task variety inhibits the ability of the individual employee to develop appropriate solutions in response to new problems.

6.3.2.4 Conclusion

This section assessed hypothesis number four, which stated that *if firms are of large size, they engage in horizontal collective action* – given there is an external event and firms have engaged in idiosyncratic investment. I studied the behaviour of two manufacturers with regard to the HIV/AIDS epidemic. Both the comparative

---

2008].

assessment according to the indicators of the independent and dependent variables as well as the causal narrative corroborated the hypothesis. Only a large firm participates in horizontal collective action in order to safeguard its idiosyncratic threatened by an external event, in this case the HIV/AIDS epidemic.

My analysis focused on the behaviour of the large car manufacturer OEM 5 and the smaller automotive component manufacturer M 2. Empirical data collected through interviews with other automotive companies showed the same pattern of behaviour. Thus, OEM 3, OEM 4, OEM 6, OEM 1 and OEM 2 are all members of SABCOHA, whereas hardly any of the smaller manufacturers is involved in horizontal collective action.[360] Also, interviews with several managers of retailers and textile manufacturers such as R 1, R 4, TM 1, International Trimming and Labels and TM 7 revealed the same patterns of behaviour in the textile industry.[361]

Thus, it is the large firms that take a lead and engage in collective action. Intending to safeguard their idiosyncratic investments they contribute to the mitigation of pressing social issues.[362] Thereby, large firms come to be important supporters of governments of developing countries.

6.3.3 External Event

This section evaluates the role an external event plays for the emergence of horizontal collective action. The empirical analysis is divided into five parts: The first part deals with the operationalisation of the independent variable 'external

---

[360] Interview with Health Manager, OEM 4, South Africa, 26 February 2007; interview with Health Manager, OEM 3, South Africa, 13 February 2007, and at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; interview with Health Manager, OEM 2, South Africa, 25 September 2007; interview with Health Manager, OEM 6, South Africa, 28 February 2007; interview with CEO, SABCOHA, South Africa, 19 March 2007; interview with Manager of Integrated Systems and Human Resource Manager, M 4, September 2008; interview with Human Resources Manager and Environmental Manager, M 3, South Africa, 13 September 2007.

[361] Interview with Supply Chain Manager, R 4, South Africa, 1 October 2008; interview with Social Investment Manager and Occupational Health Nurse, R 1, South Africa, 21 September 2007; interview with General Manager, TM 1, South Africa, 13 September 2007; Interview with Quality Management Representative, and colleagues, TM 5, South Africa, 17 September 2008; interview with General Manager, TM 7, South Africa, 20 September 2007.

[362] Also see below.

event. In a second step, I briefly introduce the policy fields, which constitute the background of the analysis: Water and Air Quality. Thirdly, the analysis according to the indicators of the independent and dependent variables is conducted. Fourthly, the causal narrative is presented. Finally, the section ends with a conclusion, which summarises and discusses the findings.

6.3.3.1 Operationalisation of the Independent Variable

Hypothesis number five stated that *if there is an external event, horizontal collective action is established* – given there are firms with idiosyncratic investment and of large size. Preceding the empirical assessment of this hypothesis, this sub-section specifies and operationalises the independent variable ‘external event’.

Usually, institutions and rules can help reduce uncertainty. In particular, the state as an external authority constrains and enables actors. It can assign rights and duties as well as enforce them. However, due to the novelty an external event involves, existing institutions do not provide a solution for affected actors. Similarly, government may deliberately initiate change or threaten to do so. This can confront actors with a novel situation as well. An external event is generally reflected in the (potential) cost increase of input factors such as labour or oil. Firms with idiosyncratic investment encountering such a (potential) cost increase are genuinely affected. For them, the identity of input factors matters. Alternatives would involve the loss of existing investment and reinvestment. Such firms are then expected to engage in horizontal collective action with the purpose to mitigate the (potential) impact of the external event and, thereby, safeguard their idiosyncratic investment.

In order to empirically identify an external event, the price increase of an input factor such as natural resources, labour or equipment a firm uses is employed as an indicator. Moreover, the external event must be of relevance at least to a sub-group of society instead of to one firm only. This is measured as follows:

Actual price increase of input factor or scarcity of input factor

- Stated by the individual firm in company documentation/interviews and
- Stated in government and media publications, by other companies

The table summarises the indicators of the independent and dependent variables.

Fig.12: Independent and Dependent Variable (H5)

	Independent Variable: External event	**Dependent Variable:** Horizontal collective action	
		Corroborated	**Disconfirmed**
H5	Presence of external event: • Actual price increase / scarcity of input factor • Stated by firm and media / government / other firms	o Substance o Substance ***does not constitute*** sub-category of exchange contract o Presence of all intensity criteria (process, resources, comprehensiveness, inclusion)	o No substance Or o Substance ***constitutes*** sub-category of exchange contract And/or o Absence of at least one of the intensity criteria (process, resources, comprehensiveness, inclusion)

6.3.3.2 Water and Air Quality: The Institutional Environment

The analysis will focus on the automotive industry and its input factors water and fuel. Before I conduct the comparative analysis, I briefly present an outline of the two policy fields, which constitute the general context. These are water provision and air quality. Both are important ingredients for general public welfare. The most fundamental legal provision, the Bill of Rights, Chapter 2 of the Constitution of South Africa (No. 108 of 1996) foresees a fair and sustainable management of natural resources. Correspondingly, the national government has worked towards the establishment of a comprehensive regulatory framework safeguarding the environment. Parts of this framework are regulations on water and air quality.

Water has been a main issue of interest to South Africans. South Africa is largely a semi-arid, water-stressed country. Rainfall patterns are extremely variable and affect surface water run-off, groundwater recharge as well as overall water availability. The South African regulatory framework incorporates two legislative pieces directly governing the issue of water: The Water Services Act[363] and the National Water

[363] Act 108 of 1997 and amended by Act 50 of 2004.

Act.[364] The Water Services Act of 1997 creates a regulatory framework ensuring the provision of water services. The responsibility for water and sanitation services, limited to potable water supply systems and domestic wastewater and sewage disposal systems, is vested in Local Government, which cooperates with specifically designed Water Boards. The National Government has the responsibility to strengthen the capacity of municipalities and to see to their effective performance. For example, access to drinking water supply has been significantly improved bringing South Africa close to the attainment of the respective Millennium Development Goal.[365]

Accepted in 1998, the National Water Act, the second legislative piece concentrating on water, aims to protect, develop and control water resources, i.e. rivers, dams, streams and ground water. Part of the protection requirement is pollution prevention.

> "The person who owns, controls, occupies or uses … land is responsible for preventing pollution of water resources and is also responsible to remedy (correct) the effects of the pollution … The person or persons responsible for the pollution is also responsible for paying the costs to address the effects of the pollution."[366]

Generally, water quality and quantity in a river, dam, wetland or underground resource are regularly monitored. Any person who contravenes the Act can be fined and legally prosecuted. The National Water Act also requires the progressive development of the National Water Resource Strategy of 1999/2004. Its purpose is to facilitate the management of water resources by setting out further targets, plans and guidelines, for example for water quality of different types of water resources.[367]

A component of the NWRS, the National Water Conservation and Water Demand

---

[364] Act 36 of 1998 and amended in by Act 45 of 1999.

[365] An example is the Free Basic Water Policy of 2001. Available from http://www.dwaf.gov.za/dir_ws/fbw/Default.asp?Pageid=10&PageHeading=IMPLEMENTATION%20STATUS%20:%20Month%20Status&. Information also available from http://www.southafrica.co.za/energy_and_water_92.html [accessed June 2009].

[366] Guide to the National Water Act of 1998. Available from http://www.dwaf.gov.za/Documents/Publications/NWAguide.asp [accessed June 2009].

[367] National Water Resource Strategy, first draft 1999, approved 2004.

Management Strategy (NWCDMS), discusses the role of industry at greater length. The NWCDMS aims at the efficient use of water during production, the re-use of water, pollution abatement and the improved quality of effluent discharge. Since industrial activities contribute considerably to water pollution counter action is stated to be advisable. While the implementation of "modern technology" together with "incentives or penalties" is deemed valuable, it is taken into account that the industry "might not be ready" to react and adopt necessary strategies.[368] Correspondingly, when summarising the objectives of the NWCDMS, the NWRS document submits that plans to introduce strict requirements are not in the making.

> "The strategies will not present rigid prescriptions to water institutions and users. The core objective of the strategies is to create a WC/WDM [Water Conservation/Water Demand Management] culture within all the water management and water services institutions defined in the National Water Act and the Water Services Act ... and among water users."[369]

In line with the National Environmental Management Act, general environmental impact assessments are conducted but only in response to complaints and according to lenient standards. The automotive industry has never felt threatened by these standards. This is because the car manufacturers producing in South Africa already comply with the more demanding effluent legislation of their home countries. Thus, overall the South African government has systematically engaged in the provision of water services, while at the same time not exerting any pressure on industry to change behaviour.[370]

Regulations on air quality, the second policy field looked at, are less developed than those on water. The Atmospheric Pollution Prevention Act of 1985 was the central document governing air quality in South Africa until 2008.[371] It involved the

---

[368] National Water Conservation and Water Demand Management Strategy, Industry Section, 2004.

[369] National Water Resource Strategy, 2004.

[370] Interview with Manager of Integrated Management Systems, OEM 5, South Africa, 30 September 2008; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; interview with Manager of Integrated Management Systems, OEM 4, South Africa, 1 October 2008; interview with Human Resources Manager and Environmental Manager, M 3, South Africa, 13 September 2007; interview with General Manager, TM 1, South Africa, 13 September 2007.

[371] Act 45 of 1965, amended by No. 17 of 1973, No. 21 of 1981 and No. 15 of 1985.

establishment of a National Air Pollution Advisory Committee, which provided expertise to the Minister of the Department for Environment and Tourism. The objective was to regulate atmospheric pollution by smoke, dust control and vehicle emissions but specifications were never formulated.[372]

In 2004, the Air Quality Act was passed to replace the Atmospheric Pollution Prevention Act by 2008. Among other things, the new Act requires a national air quality framework and the establishment of national, provincial and local air quality and emission standards.[373] Currently, the focus of government is placed on getting a first understanding as to the extent of emissions in order to be able to set realistic standards, whose implementation would then be monitored by environmental management inspectors in line with the national framework legislation, the National Environmental Management Act.[374]

Sustainability experts of the National Business Initiative submit:

> "Air Quality, emissions regulation ... that is very new, so it does not work very well yet, and it is not enforced very well yet. All the systems are very cumbersome, so the companies that comply do so because they believe basically that it is right. At this stage they are not going to get into severe trouble if they do not."[375]

Similarly, Corporate Planning Managers of OEM 3 explain:

> "All this bill actually does currently is it forces local government, that they have to by a certain date and I think its 2010, have a plan in place… because there was NO monitoring, measurement, no standards in the past… what the provincial and local governments are doing, is they are now starting to measure and get a baseline so that they can put standards in place… while they're still

---

[372] Act 45 of 1965, amended by No. 17 of 1973, No. 21 of 1981 and No. 15 of 1985. See Report Envolve Consulting Ltd. Environmental Law, Policy and Management. Enforcement of Air Quality Legislation in South Africa – October 2008. An overview prepared for the UNEP Eastern Africa Workshop on Better Air Quality in Cities on 21-23 October 2008. Available from http://www.unep.org/urban_environment/PDFs/EABAQ2008-airqualitylegislationSAOct08.pdf [accessed June 2009]; Act 45 of 1965, amended by No. 17 of 1973, No. 21 of 1981 and No. 15 of 1985; information also available from http://www.ngo.grida.no/soesa/nsoer/issues/climate/response.htm [accessed June 2009].

[373] Act 39 of 2004.

[374] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; Act 39 of 2004.

[375] Interview with Sustainability Officer and CEO, National Business Initiative, South Africa, 19 March 2007.

> busy with that, the focus won't be on CO2 emissions. They don't even know how much they have to deal with" [376]

Also specifically with regard to clean fuel the South African government was correspondingly lax in providing guidelines or legislation. Before 2006, it was voluntary to look after fuel quality. Only in response to intense collective action on the part of the automotive industry, specifications for petrol and diesel were first promulgated in terms of the Petroleum Products Amendment Act in June 2006. It included the phasing out of leaded petrol, and a significant reduction in the fuel sulphur level, in the diesel from about 3000 parts per million down to 500.[377]

Thus, air quality regulation has been weak. Neither had the government taken steps towards improving air quality nor had there been any emphasis specifically on the provision of cleaner fuel until 2006. Moreover, despite the fact that regulation came to be under development in the past years, a legislative threat confronting the automotive industry cannot be identified. This is because all car manufacturers producing in South Africa already comply with the more demanding emissions legislation of their home countries regarding both production processes and product emissions.[378] As will be shown below, the automotive industry collectively drove the legislative process towards the reduction of emissions.

6.3.3.3 Comparative Analysis

This section comparatively evaluates the effect an external event has on the cooperative behaviour of the firm. An external event is reflected in the price increase/scarcity of an input factor. The analysis will focus on the automotive

---

[376] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[377] Interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; information also available from http://www.engineeringnews.co.za/article/quality-conundrum-2009-07-10 [accessed August 2009].

[378] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; interview with Manager of Integrated Management Systems, OEM 4, South Africa, 1 October 2008; interview with Manager of Integrated Management Systems, OEM 5, South Africa, 30 September 2008; interview with Environmental Manager, OEM 2, South Africa, 22 September 2008; interview with Human Resources Manager, Environmental Manager and CSR Manager, OEM 7, South Africa, 20 February 2007.

industry and its input factors water and fuel. I will concentrate on OEM 3 and assess if the price increase/scarcity of an input factor has caused the car manufacturer to engage in horizontal collective action. As demonstrated below, whereas a price increase/scarcity of the input factor water was absent, OEM 3 experienced a price increase/scarcity of the input factor unleaded quality fuel. *Therefore, OEM 3 is expected to engage in horizontal collective action with the purpose to mitigate the impact of the price increase/scarcity of the input factor unleaded quality fuel.*

For this analysis, it is important that large firm size[379] and idiosyncratic investment[380] are given and held constant. Focusing on one company, OEM 3, ensures constancy. Based in the province Gauteng the car manufacturer employs 3500 people and sells circa 1500 vehicles per month. Thus, OEM 3 belongs to the seven largest firms operating in the South African vehicle sector.[381] With an annual production of 535000 vehicles the sector is a giant, which contributed approximately 5.1 percent to the country's GDP in 2007.[382] The South African market reflects the oligopolistic structure of the global automotive market. Seven of the top global car producers dominate the market covering a sales volume of circa 86.5 percent.[383]

Moreover, OEM 3 is characterised by considerable idiosyncratic investment in equipment, technology and a social reputation.[384] In general, the automotive industry is technologically sophisticated as regards all production units such as the body shop, the paint shop, the assembly plant etc. More specifically, OEM 3's production procedures and cars are at European standards in terms of technological development, for example as far as engines and filters are concerned. With every

---

[379] The indicators of firm size were developed above and are applied here.

[380] The indicators of idiosyncratic investment were developed above and are applied here.

[381] Interview with Health Manager, OEM 3, South Africa, 13 February 2007; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; information available from OEM 6 company website and http://www.rgt.co.za/naamsa/total.asp [accessed June 2009].

[382] Information available from http://naamsa.co.za/papers/2008_4thquarter/schedule.htm [accessed June 2009].

[383] Information available from http://www.rgt.co.za/naamsa/total.asp? [accessed June 2009].

[384] OEM 3 is also characterised by specialised investment in employee skills but this is less relevant for the issue areas examined in this section.

new generation of the 3 Series produced in South Africa the manufacturer updated the plant technologically.[385]

In addition, OEM 3 is committed social responsibility. The manufacturer focuses on adding mark-ups to end prices instead of concentrating on economies of scale. Serving a premium consumer segment the car manufacturer differs from OEM 5, OEM 6, OEM 7, OEM 2 and OEM 1, which mainly produce cars for a middle class mass segment.[386] Furthermore, the manufacturer works on the production of greener cars and has invested in sustainable production. OEM 3 has a comprehensive employee wellness and a safety, health and environment programme in place.[387]

> "The Environmental team is responsible for developing systems for the identification and evaluation of all environmental risks related to all business activities of OEM 3 and its subsidiaries with regards to water, waste, chemicals, energy and operational change management."[388]

Thus, OEM 3 classifies as a large firm and is characterised by idiosyncratic investment. These are necessary conditions, which need to be held constant throughout the following analysis. On this basis, the attention can now be focused on the two input factors water and fuel. Both are important resources for car manufacturers. The OEM 3 'Safety, Health and Environment Report' lists water, fuels, energy and materials such as paints and sealants as inputs. Water is used primarily in machine cooling systems, humidification and for manufacturing processes, for example cleaning and rinsing in the paint shop. Since it constitutes a

---

[385] OEM 3 Annual Report 2008; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007; information available from OEM 3 company website [accessed June 2009].

[386] Interview with Corporate Affairs Manager and Public Communications Manager, OEM 3 mother company, Germany, 2 August 2007.

[387] Interviews with Health Manager, OEM 3, South Africa, 13 February 2007, and at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; OEM 3 Annual Report 2008; OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009].

[388] OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009].

cost factor OEM 3 measures it closely and tries to reduce usage. Total water consumption has increased to 311,122 cubic meter in 2005. However, while water consumption amounted to 37.09 cubic meter per vehicle in 1998, it added up to 7.27 cubic meter in 2005.

Similarly, OEM 3 monitors the consumption of fuel, which is an indispensable input factor. Thus, in 2004 total diesel and unleaded fuel usage was 949.41 cubic meter and 702.81 cubic meter in 2005.[389] In particular, scarcity of quality fuel or price increases would necessitate the use of leaded, low quality fuel, which damages OEM 3's high technology engines. While water is used more in production than fuel, the latter also constitutes a cost factor after production. OEM 3 highlights that fuel price changes directly impact on the purchasing behaviour of drivers. Therefore, OEM 3 aims to reduce vehicle fuel consumption through engine and product development activities.[390] Hence, OEM 3 could potentially be affected by price increases or scarcity of both water and (unleaded quality) fuel.

What can then be said with regard to the indicators of the independent variable 'external event'? To what extent was OEM 3 affected by a price increase/scarcity? The manufacturer extensively discusses water in its sustainability report. OEM 3 highlights local government's incapacity to accurately measure water usage. "It has been found that water meters were faulty or not read in the past. Due to these discrepancies the Plant installed its own meters."[391] However, neither in interviews nor in company documentation OEM 3 reports water shortage or significant price increases – while, for example, power outages due to energy shortage are mentioned.[392]

---

[389] OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009].

[390] OEM 3 Annual Report 2008; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[391] OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009].

[392] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009].

Interviews showed that generally water services and corresponding infrastructure appear to be available in Gauteng, where OEM 3 is located.[393] As required by national legislation, the Water Boards Rand Water, Magalies Water and Ikangala Water cooperate with the municipalities. While poor households may still have limited access to water, industry is being served. Moreover, the government's National Water Resource Strategy allows industry to make longer-term calculations as to price developments: "Annual tariff increases will be limited to the producer price index plus 10 per cent until target recovery has been achieved, where after increases will be limited to the rate of inflation unless there are new investments or other costs incurred."[394] It has been difficult to get hold of actual price developments for this analysis. The Gauteng Water Sector Plan acknowledges "complex water services tariffs and lack of reliable cost information."[395] Overall, it can still be concluded that OEM 3 did not experience water scarcity or a noteworthy price increase of the input factor.

To what extent has there been scarcity or prices increases of the input factor (quality) fuel? OEM 3 has been able to get access to fuel. Elaborating on fuel consumption, its sustainability report demonstrates that diesel and unleaded fuel were used in production.[396] However, OEM 3 Managers explain that the access to unleaded, quality fuel has been difficult because it is available only to a limited extent in South Africa. Since government did not formulate any requirements on fuel quality until 2006, many oil refiners, for example BP, produced poor petrol and diesel. Few oil companies were voluntarily offering unleaded, quality fuel. Not only OEM 3 but also other car manufacturers such as OEM 4, OEM 2 and OEM 1 felt

---

[393] Interview with Manager of Integrated Management Systems, OEM 5, South Africa, 30 September 2008; General Manager, TM 1, South Africa, 13 September 2007; interview with Sustainability Officer and CEO, National Business Initiative, South Africa, 19 March 2007.

[394] National Water Resource Strategy of 2004.

[395] Gauteng Water Sector Plan 2006, available from http://www.dwa.gov.za/masibambane/documents/strategies/pwsp/gt/WSPlan10Nov06.pdf [accessed June 2009].

[396] OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009].

affected by the scarcity of this input factor.[397]

> "At that time, South Africa was running something like a – we had unleaded petrol but we were running mainly leaded petrol, and the other thing was in terms of our fuel sulphur level we were very high… the problem was that vehicle manufacturers don't make vehicles that run on leaded petrol any more. So it was a restriction on business in this market "[398]

The Petroleum Products Amendment Act of 2006 brought South Africa in line with the dated Euro II norms only. The European Union already uses Euro V emission standards. Correspondingly, the Environmental Manager of OEM 3 highlights that "Euro II is too old."[399] South African oil refiners now produce petrol and diesel based on Euro II fuel specifications, which still have a high sulphur content of 500 parts per million, while 50 parts per million diesel continues to be only available in some parts of the country.[400]

> "In 2006, we had the Euro 2 level fuels introduced but we had some Euro 4 level fuels introduced as premium products, so we had a 50 ppm diesel introduced you know by oil industry as a premium fuel, but the only problem is that that premium Euro 4 level fuel is available in major centres around the country but not all over the country so in terms of Euro 4 vehicles or even Euro 5 things like particle filters there 's problems introducing them into the country because the supporting fuel isn't available throughout the whole country, only in the major centres… This I think has been slightly the quandary in that some of these oil industry people say, look the fuel is freely available and we say, no, it's not freely available you know when you've got a whole province – you know – Northern Cape you can't get it there at all, so that situation still needs to be resolved."

OEM 3 Mangers highlight that this scarcity continues "to cause significant impact on our motor plan warranty costs going forward…with the engine technology

---

[397] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[398] Interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007.

[399] Interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007. Information available from http://www.engineeringnews.co.za/article/quality-conundrum-2009-07-10 [accessed August 2009].

[400] Information available from http://www.engineeringnews.co.za/article/quality-conundrum-2009-07-10 [accessed August 2009].

coming with particular filters on the diesel engines and all of that."[401]

Thus, data show that OEM 3 has been affected by scarcity of quality, unleaded fuel. By contrast, the car manufacturer did not experience limited access to or a particular price increase of the input factor water. *Therefore, OEM 3 is expected to engage in horizontal collective action with the purpose to mitigate the impact of the price increase/scarcity of the input factor unleaded quality fuel – but not with regard to water.* In what follows, the involvement of the car manufacturer in horizontal collective action is examined by looking at the three dimensions substance, participation and intensity. I will first examine if OEM 3 engages in collective action on water matters and then move on to fuel.

How can substance be identified? There must be some collective activity dealing with the issue area in question. OEM 3 is found to be a member of the local Waste Minimisation Club. The member firms of this Club met for workshops and plant tours in order to exchange knowledge on various issues related to resource wastage and cleaner production. Effluent was one of the issues.[402] A Manager of OEM 3 states:

> "They had cleaner production type of seminars, meetings, guest speakers from government who came to tell us about new pending laws. The group visited one another's plants, so ... when they would have the meeting you would go on a tour to different plants. We would go to OEM 7 one month they came here once and we went to the Breweries, you know, and they were a member of the club."[403]

However, this Club cannot be considered an instance of collective action of firms. Instead, involving representatives from national, provincial and local government as well as from different companies the Club classifies as public-private partnership. The South African Department of Trade and Industry partially funded private

---

[401] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[402] OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009]; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[403] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

membership.[404]

By contrast, operating at the national level the National Business Initiative (NBI) is probably the most powerful business voice on sustainability matters. OEM 3, all other automotive manufacturers and companies from various other industries participate. There has been talk to include water in the list of topics the NBI tackles. The association's Annual Report 2008 classifies water as an emerging issue but does not make any further remarks. Being asked if they are also working on water the Sustainability Officer and the CEO of the NBI explain:

> "We have to choose very carefully what we have the capacity to do. If we had a choice we would love to get involved with water. I mean water in this country is already a problem ... and we have a relationship with the Department of Water Affairs and Forestry or at least we are getting there, the relationship ... but we are not looking for a project at this point."[405]

Thus, OEM 3 does not participate in horizontal collective action on water. This finding is in line with the theoretical expectations of hypothesis five. It is interesting to see though that OEM 3 does take part in a public-private partnership that deals to some extent with water, in particular with effluents. The capacity of provincial and local departments is weak and inspections on environmental compliance can only be carried out on a case-by-case basis.[406] The Club appears to be one way of government to deliberately encourage voluntary compliance of firms. Therefore, there is the focus on effluents instead of water service provision. Interestingly, the Club ceased to exist when government stopped funding and participation in workshops due to capacity constraints.[407]

In a second step, OEM 3's participation in horizontal collective action regarding the issue area quality fuel is examined. What can be said about substance? The Fuel and

---

[404] OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009].

[405] Interview with Sustainability Officer and CEO, National Business Initiative, South Africa, 19 March 2007.

[406] See above.

[407] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009].

Emissions Committee meets to exchange expertise and develop new solutions with regard to improved fuel quality and higher emission standards. The results of these meetings are then presented to government. As the Chair of the Fuel and Emissions Committee emphasises: "I am sort of very much involved with government – both nationally and regionally as well - in matters relating to vehicle fuels and emission regulations."[408] The Fuel and Emissions Committee predominantly wrote the new emissions legislation of 2006 discussed above.[409] In particular, the competitors OEM 3, OEM 4, OEM 1 and OEM 2 participate eagerly in the Committee. It constitutes a sub-group of the National Association of Automobile Manufacturers of South Africa (NAAMSA) whose membership is made up of all car manufacturers in South Africa. Thus, the substance dimension is fulfilled. Moreover, the initiative is characterised by horizontal participation since the participating firms are competitors and, hence, are not involved in a transactional relationship.

To what extent can intensity of collective action be identified? As highlighted above, I assess process, resources, comprehensiveness and inclusion. Regarding the process criterion one finds that NAAMSA, and along with it the Fuel and Emissions Committee, is formally set. Tasks are clearly assigned. The member companies are required to regularly submit sales data and membership fees (*obligation*). Not doing so would lead to exclusion (*sanctioning*). In addition, members can provide expertise whenever they see fit. Meetings or workshops take place regularly at the national and provincial level (*scope*). While the administrative staff is in charge of organisation and *monitoring* of financial matters, the Director and the Executive are involved in representation and negotiation. Similarly the Chair of the Fuel and Emissions Committee represents NAAMSA members on matters in relation to air quality and fuel. "If the media contact us on something then we give them the input

---

[408] Interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007.

[409] Interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; also see National Government Gazettes: Notices R270, R271, R273, R209; Petroleum Products Amendment Act of 2006; information also available from www.naamsa.co.za [accessed June 2009].

to, say the NAAMSA view on this; or on the fuels or bio-fuels contact the Chairperson of that specific committee, and although he is from OEM 5 or OEM 3 he provides the NAAMSA view on that issue" (*precision*).[410]

As far as the resources criterion is concerned, it can be pointed out that the general NAAMSA office employs a director, an executive and three office managers who co-ordinate the different committees (*personnel*).[411] Member companies head the individual committees on a rotating basis and contribute *expertise* by sending specialised employees such as environmental managers, corporate planners etc. to represent them at meetings.[412] In particular, the opinion of those members actively participating in the Fuel and Emissions Committee and the other committees is voiced as the NAAMSA view. The OEM 3 General Manager of Corporate Planning highlights:

> "I must be honest, the industry association is very much driven by the people who want to change it. So, wait a minute, the other OEMs – OEM 1, OEM 2, OEM 3 and OEM 4 - are very involved, in most of these, and if the others don't pay attention, the NAAMSA view will move along. And that's just how it works. So that's why it's important for instance that we always send representation to all the committees. But not all the OEMs do that, and that's where the issues come. Just normal…normal economics, capacity, all these issues come into play."[413]

Each Committee can draw on the NAAMSA budget, which amounted to circa four or five million ZAR in 2007.[414] Resulting from annual membership fees as well as additional irregular external endorsements the budget is used for administration, member services, research and support of other organisations such as Business Against Crime etc. (*capital*).[415] The Fuel and Emissions Committee specifically

---

[410] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[411] Interview with Executive, NAAMSA, South Africa, 13 February 2007.

[412] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[413] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[414] Interview with Executive, NAAMSA, South Africa, 13 February 2007.

[415] Interview with Executive, NAAMSA, South Africa, 13 February 2007.

appears to be an influential voice in South Africa. It represents the automotive industry on various bodies, for example at the NBI concerning the Energy Efficiency Accord.[416] Moreover, as pointed out above, it cultivates a close relationship with national and provincial government. The media, for example the South African Mail&Guardian, refers to the Committee as an authority on air quality and emissions questions (*recognition*).[417]

The *comprehensiveness* criterion asks for the number of the issue's sub-categories addressed. And does collective action focus on the issue area in question only? It can be highlighted that while NAAMSA deals with various issues relating to trade and legislation, the Committee in question is exclusively devoted to fuel and emissions. Knowledge exchange, lobbying and drafting of regulatory documents belong to the Committee's activities. Finally, *inclusion* concerns the involvement of the individual parties. Collective action would be absent if it is only one actor who organises everything, contributes all resources etc. However, this is not the case. NAAMSA is financed by and provided with data by all member companies equally. Moreover, several manufacturers participate in meetings and contribute expertise.[418]

Thus, as expected, the Fuel and Emissions Committee is an instance of horizontal collective action. *OEM 3 participates actively in collective action on improved fuel quality and the reduction of emissions, whereas the company does not engage in water matters.* Therefore, hypothesis five on the relevance of an external event, which manifests itself in an increase of input factor costs, for the emergence of horizontal collective action is underpinned by empirical data.

---

[416] Information available from www.nbi.co.za [accessed June 2009].

[417] Interview with Executive, NAAMSA, South Africa, 13 February 2007; information available from http://www.mg.co.za/article/2009-08-01-waiting-for-the-smog-to-clear [accessed August 2009].

[418] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007; interview with Executive, NAAMSA, South Africa, 13 February 2007; information also available from www.naamsa.co.za [accessed June 2007].

Fig.13: Summary dependent and independent variable

H5	**Independent Variable:** External Event	**Dependent Variable** Horizontal collective action **Corroborated**
	FUEL **Presence of external event**	Fuel and Emissions Committee o Substance: Organisation on knowledge exchange, research, lobbying of government, drafting regulation etc. o Participation does not constitute a sub-category of an exchange contract (i.e. it is horizontal collective action) o Intensity: Obligation, precision, scope, monitoring, sanctioning (process); personnel, expertise, recognition, capital (resources); comprehensiveness, inclusion. → **strong collective action**
	WATER **Absence of external event**	o No substance and participation: No standards or information exchange etc. through a horizontal gathering between firms o Hence, no intensity. → **no collective action**

6.3.3.4 Causal Narrative

The above analysis showed that the empirical data corroborates hypothesis five. The aim of this sub-section is now to empirically trace the theoretically derived causal mechanism linking independent and dependent variables. Did OEM 3 get involved in horizontal collective action as a consequence of the scarcity of quality fuel that was affecting its idiosyncratic investments? Was the relatively easy access to water decisive for the car manufacturer to find collective action on this matter unnecessary? Or did other factors prevent OEM 3 from collective action on water? In order to answer these questions, I will look for a series of theoretically predicted intermediate steps.

Established in 1973, OEM 3 progressively invested in high technology production processes. In 1994, the company achieved ISO 9002 certification, which proved that OEM 3's quality management worked according to the highest international standards.[419] In 1998, OEM 3 starts building the new 3 Series. Further technological upgrades were carried out over the following years. In 2005, OEM 3 initiated the production of the fifth generation of the 3 Series.[420]

With the Water Services Act passed in 1997 and the National Water Act in 1998,[421] the car manufacturer has always ensured legal compliance. “We use an environmental lawyer, to come and audit us, on, just on legal compliance, because the TUV and the external auditors don’t know our South Africa legislation, so to ensure that we remain legally compliant we need a local lawyer.”[422] Moreover, since 1999 OEM 3 has been certified for its integrated management system including quality, health, safety and environment (ISO 9001, BS 8800, ISO 14001), which also involves legal compliance. While the implementation of the environmental management system reemphasised the need to monitor water consumption meticulously, this has anyway been necessary because water constitutes one of the most important resources in production and, hence, is a cost factor. For example, in 1998 the consumption was measured 37.09 cubic meter per vehicle.[423]

As emphasised above, the National Water Act required the drafting of a National Water Resource Strategy with the aim to improve management of water resources by setting out further targets, plans and guidelines. This took place from 1999 to 2004. To facilitate this process national and provincial government supported the establishment of local Waste Minimisation Clubs.[424] OEM 3 participated in one of these Clubs in the Industrial Area. The Club was initiated in 2002. Soon after its establishment, its first newsletter commented that government increasingly focuses

---

[419] Used until 2003, ISO 9002 was the predecessor of ISO 9001.

[420] Information available from OEM 3 company website [accessed June 2009].

[421] The legislative development in the water area was presented in detail above.

[422] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[423] OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009]; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[424] OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009].

on the protection of water quality and water demand management. Yet, it was also clear that government did not intend to formulate rigid prescriptions – in particular with regard to water demand management, which could have resulted in an input factor cost increase. For government it appeared to be important to avoid undermining industrial activity.[425] Moreover, in 2003, the Club indicated that industry sectors with extensive water consumption did not experience limited access.[426] Supporting this impression the Head of the Environmental Governance Trust states in 2005 that the new water legislation has lead to more effective delivery through local government.[427] In line with that, OEM 3 did not report water related cost increases or shortages.[428]

When the final version of the NWRS had been passed, the Club petered out. On the one hand, OEM 3 and the other members realised that legislative threats were not to be expected. On the other hand, government had anyway ceased to take part in meetings. A OEM 3 Environmental Manger emphasises: "Unfortunately, you know you've got to stick to what is your core business and the first year went well, and in the second year members didn't arrive at the meetings anymore."[429] Since then OEM 3 has limited its focus on internal activities. By 2007, the main problems related to water affecting the manufacturer have been the municipality's weak capacity to reliably measure consumption and polluted storm water that could be traced back to neighbours. As a noteworthy cost increase of the input factor water

---

[425] Mining is the only industry directly affected by a change in government policy.

[426] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; National Water Conservation and Water Demand Management Strategy, Industry Section, 2004; National Water Resource Strategy, 2004; information available from http://www.ncpc.co.za/wmc/newsletters/[…]ClubNewsletterIssue1.pdf; http://www.ncpc.co.za/wmc/newsletters/[…]ClubNewsletterIssue2.pdf;http://www.ncpc.co.za/wmc/newsletters/[…]ClubNewsletterIssue3.pdf;http://www.ncpc.co.za/wmc/newsletters/[…]ClubNewsletterIssue4.pdf; http://www.ncpc.co.za/wmc/newsletters/[…]ClubNewsletterIssue5.pdf [accessed June 2009].

[427] Information available from http://www.ncpc.co.za/wmc/newsletters/[…]ClubNewsletterIssue6.pdf [accessed June 2009].

[428] OEM 3 Safety, Health and Environmental Status Report 2004/5. Information available from OEM 3 company website [accessed June 2009]; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[429] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

was not experienced (neither actually nor potentially through a legislative threat), it is not surprising that corresponding horizontal collective action has been absent.[430]

Having discussed water I will now turn to the issue of fuel quality. The motor industry in South Africa had long avoided the issue of emissions controls. Things changed in the 1990s when OEM 3 progressively invested in technological upgrade of its plant. In 1996, ZAR 1 billion were spent in order to bring OEM 3 in line with OEM 3 motor manufacturing facilities worldwide.[431] With their processes and components fulfilling high-tech standards OEM 3 faced the problem that the quality fuel they needed was lacking in South Africa. The generally available poor quality fuel impacted considerably on motor plan warranty costs. “So it was almost like you would have to in South Africa, because of the poor diesel quality, fit an old technology engine,” the OEM 3 Manager for Corporate Planning points out.[432] Looking back the current Chair of the Fuel and Emissions Committee confirms that. “There was a commercial interest, of course, vehicle manufacturers don’t make vehicles that run on leaded petrol any more. So it was a restriction on business in this market.”[433]

In addition to the interest in safeguarding its high-tech investments, OEM 3 also wanted protect its investments in social responsibility, which would have been threatened if OEM 3 had accepted the use of poor quality fuel. “One of our biggest environmental risks actually lies with our product, on our emissions… It has become a norm within the company to do things the right manner.”[434] Correspondingly, representatives of the car manufacturer proactively voiced their concerns about

---

[430] Information available from http://www.ncpc.co.za/wmc/newsletters/[…]ClubNewsletterIssue6.pdf [accessed June 2009]; OEM 3 Safety, Health and Environmental Status Report 2004/5; and from OEM 3 company website [accessed June 2009]; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[431] Information available from OEM 3 company website [accessed June 2009].

[432] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[433] Interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007.

[434] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

emissions and sustainability at conferences and workshops. However, OEM 3 felt that they could not tackle the issue alone.

> "What do you have to do? You basically have to go through the industry body because in South Africa government very much wants to speak to industry bodies, they don't want to speak to single manufacturers, so its very important to align the industry, and, provided you have a volume manufacturer like OEM 2, if they are willing to support you, its fine. It'd be difficult for OEM 3 with 30,000 cars to try and influence, but if you have a NAAMSA position…"[435]

Therefore, OEM 3 participated in the Fuel and Emissions Committee of NAAMSA, an instance of horizontal collective action. The chair of the Committee represented the car manufacturers at the Earth Summit in Johannesburg in 2002. The most important task of the Committee has come to be research and the drafting of suggestions for new fuel regulation. "I wouldn't say we wrote our own regulations, but we were able to ensure that the regulations as they were written correctly reflected all the appropriate regulations in terms of emissions."[436]

To summarise, OEM 3's specialised investments were endangered by the scarcity of quality fuel. This caused the car manufacturer to voice its concern and then align with other affected companies to take counteractive measures. This is in line with the theoretical mechanism that was expected to link the independent and dependent variables of hypothesis five.

6.3.3.5 Conclusion

This section assessed hypothesis number five, which stated that *if there is an external event, horizontal collective action is established* – given there are firms with idiosyncratic investment and of large size. The external event manifested itself in scarcity/price increase of an input factor. I compared the input factors water and quality fuel and examined how the scarcity of the latter affected OEM 3. Both the comparative assessment according to the indicators of the independent and

---

[435] Interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007.

[436] Interview with Head of NAAMSA Fuel and Emissions Committee, South Africa, 20 February 2007; interview with General Manager in Charge of Corporate Planning and Environmental Manager, OEM 3, South Africa, 13 February 2007; NAAMSA Annual Reports 2001, 2003, 2005.

dependent variables as well as the causal narrative corroborated the hypothesis. A firm establishes governance rules together with other firms in order to mitigate the impact of an external event, and thereby safeguard its idiosyncratic investment.

Large companies with idiosyncratic investments showed the same behaviour as far as external events in other issue areas are concerned. HIV/AIDS, which I discussed extensively above, is an example. OEM 3 and others participate in the South African Business Coalition on HIV/AIDS to combat the epidemic, which has been causing a considerable loss of investments in skilled labour.[437] As far as energy is concerned, the external event took the deliberate form of a legislative threat.[438] The South African government highlighted the low unit price of energy and the limited awareness on energy savings potential in 2004. Therefore, the plan to regulate energy consumption was announced.[439] Firms faced the threat of a price increase of the input factor energy. This gave rise to the Energy Project of the National Business Initiative, which involves automotive manufacturers, the retailer R 1 and others – firms with idiosyncratic investment.[440] Thus, firms collectively contributed to the governance of various pressing issues in South Africa. This demonstrates that industry may support governments of developing countries. It does so simply due to its very private interest in safeguarding its own idiosyncratic investments.

6.4 Brief Summary of the Empirical Analysis

I conducted comparative assessments according to the indicators of the independent and dependent variables as well as causal process tracings. The analysis provided

---

[437] Interview with Health Manager, OEM 3, South Africa, 13 February 2007, and at the workshop Business in Local Governance - Potentials and Pitfalls, organised by SFB Project D2 and the Graduate School of Business (GSB) at the University of Cape Town, South Africa, 19 September 2008; interview with Health Manager, OEM 4, South Africa, 26 February 2007. Information available from www.sabcoha.org [accessed June 2009].

[438] See chapter 3.

[439] Draft Energy Efficiency Strategy, 2004; National Energy Efficiency Strategy, 2005.

[440] Report 'NBI Energy Efficiency Accord. Collaborative Action for Energy Regional Network Case Study. World Business Council for Sustainable Development'. Published 2008. Available from http://www.wbcsd.org/DocRoot/PfGHVgSo01GC3ES3tuf2/NBIenergyefficiencyaccordfullcase.pdf [accessed June 2009]; also interview with Sustainability Officer and CEO, National Business Initiative, South Africa, 19 March 2007.

support to the theoretical framework developed in chapter 3. The five hypotheses on the emergence of the collective action of firms were corroborated. Firms establish governance rules to safeguard their investments in an uncertain world. Large firms are the initiators and main contributors. The empirical analysis demonstrated this with regard to issue areas, which would usually not be associated with business interests. I evaluated the expectations on the collective action of firms with regard to environmental protection in general, air quality, water services and HIV/AIDS abatement. It could be shown that firms systematically contribute to social governance. The following concluding chapter will include a more detailed summary of the empirical analysis and a discussion of findings.

7 Concluding Remarks on the Collective Action of Firms

Why do firms engage in collective action on issues such as HIV/AIDS abatement or environmental protection? This thesis integrated theories of collective action and institutional economic research in order to explain the collective action of firms. It was demonstrated that the general framework I developed accounts for the collective contribution of firms to (supposedly business atypical) social governance as well. Collective action of firms that entails a contribution to social governance is an instance of the collective action of firms per se. Importantly, firms are not driven by the intention to act socially. Collective governance rules are formulated solely with the intention to safeguard idiosyncratic investments in an uncertain world.

In this concluding chapter, I summarise the theoretical argument and the empirical findings. This is followed by a brief discussion on the possibility and legitimacy of good governance without government. Finally, avenues for further research are presented.

7.1 Why Firms Act Collectively and Socially

Drawing on institutionalist research and collective action theory this thesis answered the question as to when firms collectively establish governance rules dealing with issues such as environmental protection or social service provision. Collective action of firms in social policy fields was argued to constitute an instance of the collective action of firms per se. I showed how macro-, meso- and micro-level factors can be integrated into one general theoretical framework on the collective action of firms: Not only is it necessary to include the institutional framework that frames the interaction of firms. It is also essential to look at their specific characteristics. Firms within one economy do not necessarily pursue the same strategies. I argued that their behaviour depends on the investments they undertake as well as on their size. Finally, I did not treat the firm as a black box. The decisive role for the emergence of collective action between firms is explicitly assigned to the cognitively limited individual.

Distinguishing motivation and facilitation forces necessary for the emergence of collective action the theoretical analysis proceeded in two steps. Motivation factors are idiosyncratic investment and uncertainty. Firstly, specialised investment can be of intra- and inter-firm nature: It may occur with regard to capital, labour or buyers/suppliers. While firms without specialised investment can replace transaction partners and input factors with relative ease, firms with specialised investment do not have this possibility. Identity matters in this regard. The second motivation factor is uncertainty. I distinguished actor and environmental uncertainty. While the former refers to the uncertainty about the behaviour of interaction partners, the latter concerns instabilities of the institutional environment, which may take the form of external occurrences or (potential) legislative changes.

From an external observer's point of view, the combination of uncertainty with idiosyncratic investment constitutes the motivation force necessary for the collective action of firms to emerge. Firstly, governance rules are drawn up to safeguard the investment among transaction partners (vertical collective action). To do so, firms draw on the existing institutional framework. Given the institutional framework offers social standards or codes of good conduct, firms thus contribute to social governance. Secondly, governance rules are established between firms whose specialised investment is affected by an external event (horizontal collective action). Compensating for environmental instability firms then creatively develop governance rules. Given firms respond to an event relevant not only to them but to society in general, they thus contribute to social governance.

However, I argued that motivation is not sufficient. For collective action to actually be established the facilitation factors transactional interest and large firm size are necessary. The transactional interest allows firms to actually expose themselves to interaction. As far as firm size is concerned, it is of relevance that individuals are limited as regards receiving, storing and processing information. This affects employees of small firms more than it does those of large firms. This is because employees of a small firm struggle with complexity due to task variety, whereas employees of large firms may deal with the same task volume but usually focus on one issue area only. This leads employees of a small firm to not recognising the risks the combination of idiosyncratic investment and uncertainty bears. Hence, when engaging in the internal decision making process, these employees do not suggest the development of governance rules but stick to simple contracting.

I developed five hypotheses and assessed them empirically. The empirical analysis focused on the textile retailing and the automotive industries in South Africa and the issue areas environmental protection in general, water service provision, air quality and HIV/ADS abatement. The first two hypotheses formulated expectations on the emergence of vertical collective action. Hypothesis number one stated that, all else being equal, the higher the idiosyncratic inter-firm investment, the more buyer and supplier engage in vertical collective action.[441] Exposed to uncertainty about the behaviour of their respective transaction partner automotive manufacturers felt inclined to safeguard their inter-firm investments in methods, skills and equipment. Therefore, they decided to establish collective governance rules. To do so, they drew on and implemented existing international environmental protection standards and, thereby, contributed to social governance. By regulating each other firms contributed to the dissemination of social norms. The very private interest in the safeguarding of their own investments led them to support governments in their supposed quest to ensure social welfare. Hypothesis number two stated that if a firm engages in idiosyncratic intra-firm investment in social responsibility, vertical collective action is established.[442] Textile retailers want to engage in vertical collective action with suppliers in order to safeguard investments in social responsibility. These investments would be lost if suppliers were found to mistreat employees or pollute the environment. By involving their suppliers, textile retailers contribute to social governance and the dissemination of social norms.

Hypotheses three, four and five dealt with the emergence of horizontal collective action. Idiosyncratic investment, large firm size and an external event are the three independent variables figuring in these hypotheses. They are necessary conditions and together constitute the sufficient condition for horizontal collective action to be established. Firstly, their assessment showed that textile retailers, automotive manufacturers and other firms engage in horizontal collective action indeed with the

---

[441] For assumptions see above.

[442] For assumptions see above.

purpose of safeguarding their individual idiosyncratic investments in social responsibility, employee skills and high technology. Secondly, it was shown that, as expected, firms did so because they were responding to HIV/AIDS and to the absence of quality fuel, which were threatening their investment. Thirdly, the empirical evaluation demonstrated that the firms were able to respond because they were of large firm size. Whereas small firms did not engage in horizontal collective action, large firms took on an active role. Thus, the private interest in safeguarding idiosyncratic investments led large firms to support South Africa in its fight against pressing social problems such as the HIV/AIDS epidemic and poor air quality. Industry initiative proved to even fill a gap, which government had been unwilling or incapable to close.

Overall, this thesis showed that firms collectively contribute to social governance but they do so without having the intention to be social. They are economic actors, which seek to increase their profits and, therefore, wish to safeguard their idiosyncratic investments in an uncertain world. This constitutes a deeper insight into the motivations of firms to engage in social governance. So far, the debate about the contribution of firms to social governance had mainly been highlighting as driving forces either a concern beyond short-term profit maximisation or the threat of external intervention (see for example Wolf et al. 2007, Héritier and Eckert 2008). Both forms can be viewed as part of the same logic and, hence, integrated in one theoretical framework.

7.2 Social Governance without Government?

Firms voluntarily implement environmental protection standards, provide HIV/AIDS-related services or agree to use sustainable energy. A legislative threat is not a requirement for the emergence of collective private governance. On the contrary, an external event like the HIV/AIDS epidemic triggers private initiative in the same way a legislative threat would do. However, can we draw the conclusion that firms can and should compensate for government? Is “governance without government” a viable and legitimate alternative to hierarchical government (see Rosenau and Czempiel 1992, Peters and Pierre 1998, Héritier 2002, Héritier and

Lehmkuhl 2008, Börzel and Risse forthcoming)? The issue is too complex to allow for a single sweeping statement. Certainly, concepts of legitimacy are necessary for evaluating the quality of collective action of firms as a functional equivalent to government action. "Those being governed should have a say in the process of rule-making ("input legitimacy") and … governance should [ensure] … a decent life for the relevant community ("output legitimacy") (Börzel and Risse forthcoming, p.21, Scharpf 1999).

Firstly, I argued that vertical collective action with potentially positive consequences for public welfare requires the existence of corresponding norms. The government may not necessarily have influenced the formulation of these norms. As my argument on the emergence of horizontal collective action showed, firms can also get together and creatively develop new solutions specifically in response to an external event affecting society. The implementation of these new rules may solve the problem at hand and, hence, be effective. However, input legitimacy is absent (see Wolf 2005). The importance of a democratically elected government monitoring old and new norms and rules is hence obvious.

Secondly, if firms experience a price increase, for example, of the input factor labour due to HIV/AIDS, they can be expected to engage in a coordinated response to combat the epidemic. HIV/AIDS is an event that is relevant to society in general. However, events in other issue areas may trigger collective action of firms that is not so social. Firms may feel negatively affected by events the rest of society might welcome. In this case, firms may organise an effective collective response but this response will neither be output nor input legitimate from the perspective of society. Again, democratic government is necessary to ensure general public welfare.

Thirdly, fundamental to the argument presented by this thesis is the idea that firms differ. They may be large or small in size and idiosyncratic investment may be present or absent. These differences decisively influence whether or not firms engage in collective action. Thus, only some firms can be expected to contribute to public welfare. This is important to bear in mind. Large numbers of firms cannot be anticipated to do so. Their behaviour needs to be channelled towards public welfare through direct hierarchical intervention by a democratic government.

Thus, a democratically elected government can systematically rely on social governance contributions from specific firms but its existence is still necessary to ensure general public welfare. What can be done if the government does not perform this task? Developing countries or “areas of limited statehood” are characterised by central authorities being too weak to provide sufficient rule structures and combat social challenges. Furthermore, the typical weak state is usually not particularly democratic (Risse and Lehmkuhl 2007, Börzel and Risse forthcoming).

As I showed in the empirical analysis of this thesis, firms can be expected to voluntarily draw on norms and rules provided by the international institutional environment when they seek to govern their individual interactions. Exerting an external shadow of hierarchy, international organisations and export markets may further guide the collective rule implementation of firms (Börzel and Risse forthcoming). Moreover, it was argued that mainly large firms act as initiators of rule establishment. Importantly, large firms may then involve small firms and monitor the implementation of international rules. Thus, large firm initiative can constitute a functional equivalent to government intervention as well. Furthermore, since developing countries are usually particularly characterised by challenges affecting firms as well as society as a whole, firms are likely to (also) contribute to governance in socially relevant areas anyway.

I demonstrated that such behaviour generally presumes idiosyncratic investment. What about firms without such investment? Firms specifically investing neither in employees nor in technology nor in a social reputation will be very unlikely participants in collective action, which could contribute to public welfare in the absence of a strong state. Making them contribute to social governance is probably a difficult long-term project. Industrial development assistance in accordance with local communities and trade unions may foster specialised investments in employee skills and technology.

However, some industries by nature do not require such investment. The only area, in which they may undertake idiosyncratic investment, is socially responsible procedures. This form of investment presumes the existence of consumer awareness, which would strengthen the market for socially responsible products and accordingly the need of such firms to make corresponding investments. However, an active societal interest in corporate social responsibility most likely presupposes the alleviation of poverty, the improvement of public transport, the reduction of crime and illnesses etc. Supporting comprehensive development in cooperation with local communities and strengthening civil society are therefore tasks international organisations do and should do in order to foster the emergence of a business community, which contributes to social governance in areas of limited statehood.

7.3 Avenues for Further Research

On the basis of the theoretical arguments and empirical findings presented by this thesis avenues of research leading into various directions could be suggested. I briefly propose three of them.

7.3.1 Rule Creation, Innovation and Size

Olson and the international relations literature have emphasised the relevance of actor size for the emergence of collective action. Aligning this idea with the new institutional economic study of the firm, this thesis developed a new argument and showed empirically that large firms are indeed better suited to establish collective governance rules than small firms. In large firms, employees recognise the novelty of a situation and can engage in the creative development of solutions. Does creative rules development constitute a form of innovation?

Innovation theory extensively discusses the role of firm size. Importantly, Schumpeter (1947/2005) famously claims that there is a positive relationship between firm size and innovation. However, empirical evidence has been mixed and theoretical arguments questioning the generally better ability of large firms to innovate have been put forth. Thus, Arrow (2002) argues that less costly but more original innovation comes from small firms, whereas large firms come up with innovation that requires higher development costs but is less radical. Nooteboom (1989, p.109) emphasises that “the opposition between the ‘small firm’ and the ‘large firm’ theses is still unresolved. The issue is too complex to allow for a single sweeping statement concerning the relation between innovation and firm size.”

Future research could examine to what extent it makes sense to view the development of rules in response to new problems as an innovative process. What are the similarities between innovation and rule creation? How could the theoretical argument and the corresponding empirical findings on large firms as rules creators, which were presented in this doctoral thesis, be integrated into the study of innovation?

7.3.2 Problem Solving Capacity of Individuals in Firms and Implications

The literature on firms strongly emphasises the bounded rationality of individuals. Also, it is generally acknowledged that these individuals may err. However, the implications of these assumptions are, more often than not, not consistently included in the subsequent analyses. These are individuals who still understand the novelty or uncertainty of a situation. And not only that, these individuals are usually able to develop the necessary solutions in response to new problems.

In this thesis, I submitted that if reality is complex then cognitively limited individuals might not always know what type of situations they are dealing with. I argued that this is the case specifically in small firms. New situations may appear as old ones and trigger inadequate responses. As far as contractual relations are concerned, this may mean that simple contracting is employed instead of the establishment of governance rules – despite the necessity of the latter from an objective observer's perspective. Due to the cognitive limits of employees a firm may end up being exploited and exposed to costly haggling.

This is in line with the trend in economic institutionalist research to increasingly include sociological reasoning (see Beckert 2002). It would be interesting if future research contributed further to the study of routine behaviour of employees and managers in situations, which would require new solutions. What consequences does this have for the performance of firms in the market? And under which conditions do individuals in firms do understand new problem situations and when are they capable of developing corresponding new solutions? Finally, what can policy-makers do to facilitate wealth creation of real individuals in real markets?

7.3.3 Firms, Other Actors and the Global Level

In order to assess the generalisability of the theoretical framework on the collective action of firms I developed in this thesis, two paths could be pursued: Firstly, it would be interesting to apply the framework to explain the interaction of firms with other actors such as national and local government, international institutions, trade unions and non-governmental organisations. To what extent do the factors, identified by this thesis, also explain the collective action between firms and other actors? Under which conditions do firms cooperate with which type of actor?

Research on the emergence of public private partnerships highlights that they often emerge in areas of limited statehood, i.e. when profit-making is challenged and anarchy looms (see Börzel and Risse forthcoming). Indeed, my empirical analysis finds that firms do not only cooperate with other firms but also with the government of the developing country South Africa. For example, a firm characterised by idiosyncratic investment cooperated with government in response to an external event, the HIV/AIDS epidemic, which overwhelmed the country. Interestingly, this firm was of small size and, hence, incapable to take initiative and join a collective activity of firms. The government may have compensated for that.

Secondly, the findings of the existing literature on global corporate social responsibility initiatives are enlightening. However, contributions often focus on individual success cases. Thus, there is a selection bias on the dependent variable in the literature. The theoretical framework I developed resolves the puzzle as to why industry voluntarily contributes to social governance. Hierarchical intervention is not necessary for collective action to emerge. Therefore, it could be interesting to make use of the proposed framework in order to contribute to an explanation as to why collective action of firms emerges at the global level.

Bibliography

Abbott, Kenneth W., and Duncan Snidal, 2000. Hard and Soft Law in International Governance. *International Organisation*, 54 (3), pp.421-456.

Alt, James E., Fredrik Carlsen, Per Heum and Kåre Johansen, 1999. Asset Specificity and the Political Behaviour of Firms: Lobbying for Subsidies in Norway. *International Organization,* 53 (1), pp.99–116.

Arrow, Kenneth J., 2000. Innovation in Large and Small Firms. In: Richard Swedberg, ed. *Entrepreneurship*. Oxford: Oxford University Press, pp.229-243.

Axelrod, Robert, 1981. The Emergence of Cooperation among Egoists. *The American Political Science Review*, 75 (2), pp. 306-318.

Axelrod, Robert, and Robert O. Keohane, 1985. Achieving Cooperation under Anarchy: Strategies and Institutions. *World Politics*, 38 (1), pp.226-254.

Ballentine, Karen, and Heiko Nitzschke, 2004. Business and Armed Conflict: An Assessment of Issues and Options. *Die Friedenswarte*, 79, pp.35-56.

Baumol, W. J. 1959. *Business Behavior, Value and Growth*. New York: Macmillan.

Beckert, Jens, 2002. Von Froeschen, Unternehmensstrategien und anderen Totems. Die soziologische Herausforderung der oekonomischen Institutionentheorie. *In:* Andrea Maurer and Michael Schmid, eds. *Neuer Institutionalismus: Zur soziologischen Erklaerung von Organisation, Moral und Vertrauen*. Frankfurt a.M.: Campus, pp.133-147.

Ben-Porath, Y., 1980. The F-Connection: Families, Friends, and Firms and the Organization of Exchange. *Population and Development Review,* VI, pp.1-30.

Bisseker, C., AIDS: The Perils of Making It a Notifiable Disease. *Business Day*, 30 April 1999.

Boddewyn, Jean J., 1992. *Global Perspectives on Advertising Self-Regulation: Principles and Practices in Thirty-Eight Countries*. Connecticut: Quorum Books.

Börzel, Tanja A., 2008. Der Schatten der Hierarchie. Ein Governance Paradox? *In:* Gunnar Folke Schuppert and Michael Zürn, eds. *PVS-Sonderheft Governance*.

Börzel, Tanja A., and Thomas Risse, 2002. Die Wirkung internationaler Institutionen. Von der Normanerkennung zur Normeinhaltung. *In:* Marcus Jachtenfuchs and Michele Knodt, eds. *Regieren in internationalen Institutionen.* Opladen: Leske and Budrich, pp.141-183.

Börzel, Tanja A., and Adrienne Héritier, 2005. *Fostering Regulation? Corporate Social Responsibility in Countries With Weak Regulatory Capacity.* Unveröffentlichter Forschungsantrag.

Börzel, Tanja Anita, and Thomas Risse, 2005. Public-Private Partnerships: Effective and Legitimate Tools of Transnational Governance? *In:* Edgar Grande and Louis W. Pauly, eds. *Complex Sovereignty: Reconstituting Political Authority in the Twenty-First Century.* Toronto: University of Toronto Press, pp.195-216.

Börzel, Tanja A., and Thomas Risse, forthcoming. Governance without Government – Can It Work? *Regulation and Governance*.

Börzel, Tanja A., Adrienne Héritier, Nicole Kranz, and Christian R. Thauer, forthcoming. Racing to the Top? The Regulatory Competition of Firms in Areas of Limited Statehood. *In:* Thomas Risse and Ursula Lehmkuhl, eds. *Governing Without a State? Policies and Politics in Areas of Limited Statehood*. New York NY: Columbia University Press.

Business Day, 2002. Taming the Hurricane (Editorial), *Business Day*, 12 September.

Cao, Xun, and Aseem Prakash, 2008. *Signalling Quality: Trade Competition and the Diffusion of ISO 9000 Quality Management Systems*. Available from: http://privatewww.essex.ac.uk/~caox/recentpapers/iso_dec2007_web.pdf [accessed June 2009].

Carter, Richard, and Geoffrey M. Hodgson, 2006. The Impact of Empirical Tests of Transaction Cost Economics on the Debate on the Nature of the Firm. *Strategic Management Journal*, 27 (5), pp.461-476.

Cornes, Richard, and Todd Sandler. 1996. *The Theory of Externalities, Public Goods and Club Goods*. New York: Cambridge University Press.

Cutler, A. C., Haufler, V. and Porter, T., 1999. *Private Authority and International*

Affairs. New York: State University of New York Press.

De la Dehesa, G., 1999. The Challenges Facing President Mbeki's Government. *Business Day*, 18 June 1999.

Dickinson, David, 2004. Corporate South Africa's Response to HIV/AIDS: Why So Slow? *Journal of Southern African Studies*, 30 (3), pp.627-649.

David, Robert J., and Shin-Kap. Han, 2004. A Systematic Assessment of the Empirical Support for Transaction Cost Economics. *Strategic Management Journal*, 25 (1), pp.39-58.

Dickinson, David, and Marion Stevens, 2005. Understanding the Response of Large South African Companies to HIV/AIDS. *Journal of Social Aspects of HIV/AIDS*, 2 (2), pp.286-295.

Vlok, Etienne, 2006. The Textile and Clothing Industry in South Africa. In: Herbert Jauch and Rudolf Traub-Merz, eds. *The Future of the Textile and Clothing Industry in Sub-Saharan Africa*. Bonn: Friedrich-Ebert-Stiftung.

Fama, E. F., and M. Jensen, 1983. Separation of Ownership and Control. *Journal of Law and Economics*, 26, pp.301-325.

Faulk, Saskia, and Jean-Claude Usunier, 2009. *AIDS and Business*. New York: Routledge.

Fligstein, Neil, 1985. The Spread of the Multidivisional Form Among Large Firms, 1919-1979. *American Sociological Review*, 50 (3), pp.377-391.

Fligstein, Neil, 1990. The Transformation of Corporate Control. Cambridge: Harvard University Press.

Furubotn, Erich G., and Rudolf Richter, 1998. *Institutions and Economic Theory: The Contribution of New Institutional Economics*, Ann Arbor, University of Michigan Press.

Garbus, L., 2003. *HIV/AIDS in South Africa. Country AIDS Policy Analysis Project*. San Francisco: AIDS Policy Research Center/University of California.

Gilpin, Robert, 1975. *US Power and the Multinational Corporation*. New York:

Basic Books.

Gowa, Joanne, 1989. Rational Hegemons, Excludable Goods, and Small Groups: An Epitaph for Hegemonic Stability Theory? *World Politics*, 41 (3), pp.307-324.

Halfteck, Guy, 2006. Legislative Threats. bepress Legal Series, 1122. Available from: http://law.bepress.com/expresso/eps/1122 [Accessed 10 January 2009].

Hart, P.E., and N. Oulton. 1996. Growth and Size of Firms, *Economic Journal,* 106, pp.1242-52.

Haufler, Virginia. 2001. *A Public Role for the Private Sector: Industry Self-Regulation in a Global Economy.* Washington DC: Carnegie Endowment for International Peace.

Hayek, Friedrich, 1945. The Use of Knowledge in Society. *American Economic Review*, 35, pp.519-530.

Hayek, Friedrich A. von, 1982. *The Political Order of a Free People*, vol. 3 of *Law, Legislation and Liberty*. London: Routledge and Kegan Paul.

Héritier, Adrienne, ed., 2002. *Common Goods. Reinventing European and International Governance*. Langham: Rowman & Littlefield.

Héritier, Adrienne, and Sandra Eckert, 2008. New Modes of Governance in the Shadow of Hierarchy: Self-regulation by Industry in Europe. *Journal of Public Policy*, 28, pp.113-138.

Héritier, Adrienne, and Dirk Lehmkuhl, 2008. The Shadow of Hierarchy and New Modes of Governance. *Journal of Public Policy,* 28 (1), pp.1-17.

Héritier, Adrienne, Anna Kristin Müller-Debus and Christian R. Thauer, 2009. The Firm As an Inspector. Private Ordering and Political Rules. *Business and Politics*, 11 (4), pp.1-32.

Herrmann, Andrea M., 2008. *One Political Economy, One Competitive Strategy? Comparing Pharmaceutical Firms in Germany, Italy and the UK*. Oxford: Oxford University Press.

Hickey, A., Ndlovu, N., and Guthrie, T., 2003. *Budgeting for HIV/AIDS in South*

Africa: Report on Intergovernmental Funding Flows for an Integrated Response in the Social Sector. Cape Town: IDASA.

Hoffmann, Andrew J., 1999. Institutional Evolution and Change: Environmentalism and the US Chemical Industry. *Academic Management Journal*, 42 (4), pp.351-371.

Hoffmann, Andrew J., and William Ocasio, 2001. Not All Events Are Attended Equally: Toward a Middle-Range Theory of Industry Attention to External Events. *Organisation Science*, 12 (4), pp.414-434.

Hönke, Jana, Nicole Kranz, Tanja Börzel and Adrienne Heriter, 2008. Fostering Environmental Regulation? Corporate Social Responsibility in Countries with Weak Regulatory Capacities. The Case of South Africa. *SFB-Governance Working Paper Series*, 9, DFG Sonderforschungsbereich 700, Berlin.

Jessop, Bob, 1999. The Changing Governance of Welfare: Recent Trends in its Primary Functions, Scale, and Modes of Coordination. *Social Policy and Administration*, 33 (4), pp.348-359.

Keohane, Robert O., 1984. *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton: Princeton University Press.

Keohane, Robert O., and Joseph S. Nye, 1977. *Power and Interdependence: World Politics in Transition*. Boston: Little, Brown.

Keohane, Robert O., and Elinor Ostrom, eds., 1995. *Local Commons and Global Interdependence. Heterogeneity and Cooperation in Two Domains*. London: Sage Publications.

Kindleberger, Charles P., 1981. Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides. *International Studies Quarterly*, 25 (2), pp.242-254.

Kirmani, Amna, Sanjay Sood, and Sheri Bridges, 1999. The Ownership Effect in Consumer Responses to Brand Line Streches. *Journal of Marketing*, 63, pp.88-101.

Kranz, Nicole, 2006. *Briefing Document: Environmental Policy in South Africa*. Project D2, Collaborative Research Centre 700, Freie Universitaet Berlin, 31. August.

Krasner, Stephen D., 1983. International Regimes. Ithaca: Cornell University Press.

Lake, David A., and R. Powell, 1999. *Strategic Choice and International Relations*. New Jersey: Princeton University Press.

Libecap, Gary D., 1995. Introduction. The Conditions for Successful Collective Action. In: Robert O. Keohane and Elinor Ostrom, eds. *Local Commons and Global Interdependence. Heterogeneity and Cooperation in Two Domains.* London: Sage Publications, pp.161-190.

Malone, Thomas W., Kenneth R. Grant, Franklin A. Turbak, Stephen A. Brobst, and Michael D. Cohen, 1987. Intelligent Information-Sharing Systems. *Communications of the ACM,* 30, pp.390-402.

Mantzavinos, Chrysostomos, 2001. Individuals, Institutions and Markets. Cambridge: Cambridge University Press.

Mantzavinos, Chrysostomos, Douglass C. North and Syed Shariq, 2004. Learning, Institutions, and Economic Performance. *Perspectives on Politics*, 2 (1), pp.75-84.

March, James G., and Johan P. Olsen, 1989. *Rediscorvering Institutions. The Organisational Basis of Politics*. New York: Free Press.

Martin, Lisa L., 1992. Interests, Power and Multilateralism. *International Organization*, 46 (4), pp.765-792.

Masten, Scott E., 1984. The Organization of Production: Evidence from the Aerospace Industry. *Journal of Law and Economics,* 27, pp.403-417.

Masten, Scott E., James W. Meehan, and Edward A. Snyder, 1991. The Costs of Organization. *Journal of Law, Economics and Organization,* 7, pp.1-25.

McKenzie, Richard, and Dwight Lee, 1991. *Quicksilver Capital: How the Rapid Movement of Wealth Has Changed the World.* New York: Free Press.

Mayntz, Renate, and Scharpf, Fritz Wilhelm, 1995. Steuerung und Selbstorganisation in staatsnahen Sektoren. *In:* Renate Mayntz and Fritz Wilhelm Scharpf, eds. *Gesellschaftliche Selbstregulierung und politische Steuerung. Frankfurt a. M.: Campus, pp. 9-38.*

McGuinness, T., 1994. Markets and Managerial Hierarchies. *In:* G. Thompson, J. Frances, R. Levacic and J. C. Mitchell, eds. *Markets, Hierarchies and Networks*. London: Sage, pp.66-81.

Morrow, James D. 1994. *Game Theory for Political Scientists*. Princeton: Princeton University Press.

Nooteboom, Bart, 1989. Diffusion, Uncertainty and Firm Size. *International Journal of Research in Marketing*, 6, pp.109-128.

North, Douglas C., 1990. *Institutions, Institutional Change and Economic Performance.* Cambridge: Cambridge University Press.

Olson, Mancur, 1965. *The Logic of Collective Action. Public Goods and the Theory of Groups*. Cambridge, MA: Harvard University Press.

Ostrom, Elinor, 1990. *Governing the Commons. The Evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press.

Ostrom, Elinor, Roy Gardner, and James Walker, 1994. *Rules, Games, and Common Pool Resources*. Michigan: The University of Michigan Press.

Oxley, J. E. 1999. Institutional Environment and the Mechanisms of Governance: The Impact of Intellectual Property Protection on the Structure of Inter-Firm Alliances. *Journal of Economic Behaviour and Organization,* 28. pp.283-309

Oye, Kenneth A., 1985. Explaining Cooperation under Anarchy: Hypotheses and Strategies. *World Politics*, 38 (1), pp.1-24.

Parker, W., and Kelly, K., 2002. Introduction. *In:* K. Kelly, W. Parker and S. Gelb, eds. *HIV/AIDS, Economics and Governance in South Africa: Key Issues in Understanding Response*. Johannesburg: USAID (Cadre).

Peters, B. Guy, and Jon Pierre, 1998. 'Governance without Government? Rethinking Public Administration'. *Journal of Public Administration, Research and Theory*, 8 (2), pp. 223-43.

Pierson, Paul, 1998. Irresistible forces, immovable objects: post-industrial welfare states confront permanent austerity. *Journal of European Public Policy*, 5 (4), pp.539-560.

Potoski, Metthew, and Aseem Prakash, 2005. Green Clubs and Voluntary Governance: ISO 14001 and Firms' Regulatory Compliance. *American Journal of Political Science*, 49 (2), pp.235-248.

Prakash, Aseem, 2000. *Greening the Firm. The Politics of Corporate Environmentalism.* Cambridge: Cambridge University Press.

Prakash, Aseem, and Metthew Potoski, 2006. Racing to the Bottom? Trade, Environmental Governance, and ISO 14001. *American Journal of Political Science*, 50 (2), pp.350-364.

Putnam, Robert D., 1988. Diplomacy and Domestic Politics. The Logic of Two-Level Games. *International Organisation*, 42, pp.427-460.

Reinicke, Wolfgang H., 1998. *Global Public Policy. Governing without Government?* Washington, D.C., Brookings Institution Press.

Reinicke, Wolfgang H., and Jan Martin Witte, 1999. Globalisation and Democratic Governance. Global Public Policy and Trisectoral Networks. *In:* Carl Lankowski, ed. *Governing Beyond the Nation-State. Global Public Policy, Regionalism or Going Local?* Washington: American Institute for Contemporary German Studies. Available from: http://www.aicgs.org/documents/governance.pdf#page=14 [Accessed 12 February 2009].

Risse, Thomas, and Ursula Lehmkuhl, eds., 2007. *Regieren ohne Staat? Governance in Räumen begrenzter Staatlichkeit.* Nomos: Baden Baden.

Rodrik, Dani, 1997. *Has Globalization Gone Too Far?* Washington, DC: Institute for International Economics.

Ronit, Karsten, and Volker Schneider, 2000. *Private Organisations in Global Politics.* London: Routledge.

Rosenau, James N., and Ernst-Otto Czempiel, eds., 1992. Governance Without Government: Order and Change in World Politics. Cambridge: Cambridge University Press.

Rosewitz, Bernd and Douglas Webber, 1990. *Reformversuche und Reformblokaden im deutschen Gesundheitswesen.* Frankfurt a.M.: Campus.

Rossouw, N., S. Davies, H. Fortuin, and M. de Wit, 2001. Country Report South Africa. *In:* N. Rossuow, ed. *The Status of Environmental Impact Assessment and Strategic Environmental Assessment in South Africa*. Environmental Assessment Yearbook, DWAF.

Sabatier, Paul A., 1988. An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein. *Policy Sciences*, 21, 129-168.

Scharpf, Fritz W., 1993. Coordination in Hierarchies and Networks. *In:* Fritz Wilhelm Scharpf, ed. *Games in Hierarchies and Networks: Analytical and Empirical Approaches to the Study of Governance Institutions*. Frankfurt a. M.: Campus, pp.125-166.

Scharpf, Fritz W., 1997. *Games Real Actors Play. Actor-Centred Institutionalism in Policy Research*. Oxford: Westview Press.

Scharpf, Fritz W., 1999. *Governing in Europe. Effective and Democratic?* Oxford: Oxford University Press.

Scharpf, Fritz W., and Vivian A. Schmidt, 2000. *Welfare and Work in the Open Economy.* Oxford: Oxford University Press.

Schmitter, Philippe C., and Wolfgang Streeck, 1985. Community, Market and the State – and Associations? The Prospective Contribution of Interest Governance to Social Order. *European Sociological Review*, 1 (2), pp.119-138.

Schumpeter, Joseph A., 1947/2005. *Kapitalismus, Sozialismus und Demokratie*. Tuebingen: A. Francke Verlag.

Simon, H. A., 1957. *Models of Man. Social and Rational; Mathematical Essays on Rational Human Behaviour in a Social Setting*. New York: Wiley.

Simon, H. A., 1961. *Administrative Behaviour*. 2nd edition. New York: Macmillan.

Skyrms, Brian, 2001. Stag Hunt. *Proceedings and Addresses of the American Philosophical Association*, 75 (2), pp.31-41.

Snidal, Duncan, 1985. The Limits of Hegemonic Stability Theory. *International Organization*, 39 (4), pp.579-614.

Statistics SA, 2006a. *Manufacturing: Production and Sales. Preliminary: June 2006.* Statistical Release P3041.2. Pretoria: Statistics South Africa. Available from: http://www.statssa.gov.za [Accessed 10 August 2006].

Statistics SA, 2006b. *Retail Trade Sales. Preliminary: April 2006.* Statistical Release P6242.1. Pretoria: Statistics South Africa. Available from: http://www.statssa.gov.za [Accessed 9 July 2006].

Stewart, R., and M. Loveday, 2005. The Operational Plan. Implementation of the Antiretroviral Therapy Component. *In:* P. Ijumba, P., and P. Barron, eds. *South African Health Review 2005*. Durban: Health Systems Trust.

Strange, Susan, 1996. *The Retreat of the State: The Diffusion of Power in the World Economy.* Cambridge: Cambridge University Press.

Taylor, Michael, 1990. Cooperation and Rationality: Notes on the Collective Action Problem and Its Solutions. In: Karen Schweers Cook and Margaret Levi, eds. *The Limits of Rationality*. Chicago: University of Chicago Press, pp.222-240.

Tirole, Jean. 1988. *The Theory of Industrial Organization*. Cambridge: The MIT Press.

Tsebelis, G., 1990. *Nested Games. Rational Choice in Comparative Politics.* Los Angeles: University of California Press.

UNAIDS/WHO, 2000. *Briefing Pack: Epidemiological Summary. A document provided for "Panel to Discuss AIDS – A New Priority for International Security".* New York: Council on Foreign Relations, 5 June.

UNAIDS, 2008. *South Africa Country Situation. Fact Sheet.* Available from http://data.unaids.org/pub/FactSheet/2008/sa08_soa_en.pdf [accessed September 2009].

Verhoef, Peter C., and Koen H. Pauwels, 2005. *Assessing Customer Evaluation and Revenue Consequences of Component Sharing Across Brands in the Vertical Product Line*. ERIM Report Series Reference No. ERS-2005-007-MKT. Available from SSRN: http://ssrn.com/abstract=1276620 [accessed November 2009].

Vogel, David, 2005. *The Market for Virtue. The Potential and Limits of Corporate Social Responsibility.* Washingtion: Brookings.

Vogel, David, and Robert Kagan, eds., 2004. The Dynamics of Regulatory Change: How Globalisation Affects National Regulatory Policies. Berkeley: University of California Press.

Weinel, Martin, 2005. *AIDS-Policy in South Africa. Between Denial and Action*. Working Paper. Hamburg: German Overseas Institute.

Williamson Oliver W., 1975. *Markets and Hierarchies: Analysis and Antitrust Implications. A Study in the Economics of Internal Organisations*. New York: The Free Press/Macmillan Publishing.

Williamson, Oliver W., 1979. Transaction-Cost Economics: The Governance of Contractual Relations. *Journal of Law and Economics*, 22 (2), pp. 233-261.

Williamson, Oliver W., 1983. Credible Commitments: Using Hostages to Support Exchange. *American Economic Review*, 73 (4), pp.519-540.

Williamson, Oliver W., 1985. *The Economic Institutions of Capitalism*. New York: Free Press.

Williamson, Oliver W., 1995. *The Institutions and Governance of Economic Development and Reform.* Proceedings of the World Bank Annual Conference on Development Economics. Washington: World Bank.

Williamson, Oliver E., 1996. *The Mechanisms of Governance*. Oxford University Press: New York.

Williamson Oliver W., 2000. The New Institutional Economics: Taking Stock, Looking Ahead. *Journal of Economic Literature*, 38 (3), p.595-613.

Williamson Oliver W., 2002. The Theory of the Firm as Governance Structure: From Choice to Contract. *Journal of Economic Perspectives*, 16, pp.171-195.

Windhoff-Héritier, Adrienne, 1980. *Politikimplementation: Ziel und Wirklichkeit politischer Entscheidungen*. Hain: Koenigstein.

Wolf, Klaus D., 2005. Private Actors and the Legitimacy of Governance Beyond the State: Conceptual Outlines and Empirical Explorations. In: Arthur Benz and Ionnais Papadopoulos, eds. *Governance and Democracy*. London: Routledge, pp.200-227.

Wolf, Klaus D., Nicole Deitelhoff, and Stefan Engert, 2007. Corporate Security Responsibility. Towards a Conceptual Framework for a Comparative Research Agenda. *Cooperation and Conflict*, 42 (3), pp.294-320.

Zaheer, Akbar, and N. Venkatraman, 1994. Determinants of Electronic Integration in the Insurance Industry: An Empirical Test. *Management Science,* 40, pp.549-566.

Appendix

Summary

Drawing on institutionalist research and collective action theory this thesis answers the question as to when firms collectively establish governance rules dealing with issues such as environmental protection or social service provision. Collective action of firms in social policy fields is argued to constitute an instance of the collective action of firms per se. The thesis shows how macro-, meso- and micro-level factors can be integrated into one general theoretical framework explaining the collective action of firms: Not only is it necessary to include the institutional environment that frames the interaction of firms. It is also essential to look at their specific characteristics. Firms within one economy do not necessarily pursue the same strategies. I argue that their behaviour depends on the investments they undertake as well as on their size. Large firms seek to safeguard idiosyncratic investments in an uncertain world. Finally, I do not treat the firm as a black box. The decisive role for the emergence of collective action between firms is explicitly assigned to the cognitively limited individual.

The empirical analysis focuses on the textile retailing and the automotive industries in South Africa and the issue areas environmental protection in general, water service provision, air quality and HIV/ADS abatement. The data supports the theoretical expectations I develop on the emergence of vertical collective action, i.e. the establishment of governance rules between buyer firm and supplier. Firstly, the empirical analysis shows that, all else being equal, the higher the idiosyncratic investment, the more buyer and supplier engage in vertical collective action. Exposed to uncertainty about the behaviour of their respective transaction partner automotive manufacturers feel inclined to safeguard their investments in methods, skills and equipment. Therefore, they decide to establish collective governance rules. To do so, they draw on and implement existing international environmental standards and, thereby, contribute to governance in the field of environmental protection. The very private interest in the safeguarding of their own investments led them to contribute to social governance. Secondly, the analysis demonstrates that vertical collective action is established if a firm engages in investment in a specific

reputation. Textile retailers engage in vertical collective action with suppliers in order to safeguard investments in social responsibility. These investments would have been lost if suppliers had been found to mistreat employees or pollute the environment. By involving their suppliers, socially responsible firms thus contribute to the dissemination of social norms.

The empirical analysis also corroborates the claim that idiosyncratic investment, large firm size and an external event together cause horizontal collective action, i.e. the establishment of governance rules between any types of firms. Firstly, the assessment shows that textile-retailers and automotive manufacturers engage in horizontal collective action indeed with the purpose of safeguarding their individual idiosyncratic investments in social responsibility, employee skills and high technology. Secondly, the analysis supports the expectation that firms did so because they were responding to the HIV/AIDS epidemic and to the scarcity of quality fuel, which were threatening their investment. Thirdly, it is illustrated that these firms were able to respond because they were of large size. Whereas small firms do not engage in horizontal collective action, large firms took on an active role. Thus, the private interest in safeguarding idiosyncratic investments leads large firms to support South Africa in its fight against pressing social problems such as the HIV/AIDS epidemic and poor air quality. Collective action of firms proves to fill gaps, which government had been unwilling or incapable to close.

Zusammenfassung

Diese Dissertation entwickelt ein theoretisches Modell, das sich auf die Institutionenökonomik und die Forschung zum kollektiven Handeln gründet, und die Frage beantwortet unter welchen Bedingungen Firmen gemeinsam Regeln formulieren und implementieren, die sich mit Themen wie zum Beispiel dem Umweltschutz oder der Bereitstellung sozialer Dienstleistungen befassen. Es wird argumentiert, dass kollektives Handeln von Firmen in sozialen Bereichen eine Form kollektiven Handelns per se ist. Die Dissertation zeigt wie Faktoren der Makro-, Meso- und Mikroebene zur Erklärung des kollektiven Handelns von Firmen im Rahmen eines theoretischen Modells vereint werden können: Es ist nicht nur notwendig, das institutionelle Umfeld zu berücksichtigen, in das die Interaktionen von Firmen eingebettet sind. Von essentieller Bedeutung ist auch, ihre Eigenschaften systematisch in den Blick zu nehmen. In der vorliegenden Dissertation wird die Auffassung vertreten, dass Firmenverhalten von den Investitionen und der Größe der Firma abhängig ist. In einer Welt geprägt von Unsicherheiten versuchen große Unternehmen ihre idiosynkratischen Investitionen zu schützen. Schließlich muss betont werden, dass die Firma nicht als Blackbox verstanden wird. Die entscheidende Rolle für die Entstehung von kollektivem Handeln zwischen Firmen kommt dem begrenzt rationalen Individuum zu.

Die empirische Analyse untersucht den Textileinzelhandel und die Automobilindustrie in Südafrika sowie die Bereiche Umweltschutz im Allgemeinen, die Bereitstellung sauberen Wassers, die Gewährleistung sauberer Luft und die Bekämpfung von HIV/AIDS. Das Datenmaterial stützt die theoretischen Erwartungen hinsichtlich der Entstehung vertikalen kollektiven Handelns, d.h. des Erstellens von Governanceregeln durch Käuferunternehmen und Zulieferer. Erstens zeigt die empirische Analyse, dass spezialisierte Investitionen kollektives Handeln der beiden Firmen nach sich ziehen. Automobilunternehmen versuchen ihre transaktionsrelevanten Investitionen in Mitarbeiter, Methoden und Ausrüstung mit Hilfe von Governanceregeln zu sichern, weil das einzelne Unternehmen nicht sicher wissen kann, wie sich der Transaktionspartner verhalten wird. Bei der Formulierung dieser Regeln machen die Firmen Gebrauch von existierenden internationalen

Umweltstandards and tragen so zu Governance im Bereich Umweltschutz bei. Das private Interesse daran, spezialisierte Investitionen zu schützen, führt also zu einem Beitrag der Unternehmen zu sozialer Governance. Zweitens belegt die empirische Analyse, dass es zu vertikalem kollektiven Handeln kommt, wenn ein Unternehmen in seine Reputation investiert hat. Textileinzelhändler implementieren vertikales kollektives Handeln gemeinsam mit Zulieferern, um Investitionen in den Ruf, sozialverantwortlich zu agieren, zu schützen. Solche Investitionen gingen verloren, wenn bekannt würde, dass der Transaktionspartner Mitarbeiter misshandelt oder die Umwelt verschmutzt. Somit tragen die Textilfirmen also zur Verbreitung sozialer Normen bei.

Die empirische Analyse stützt auch die theoretische Vermutung, dass die Kombination aus idiosynkratischen Investitionen, großer Firmengröße und einem externen Ereignis horizontales kollektives Handeln nach sich zieht, d.h. die Entstehung von Governanceregeln zwischen jeglicher Art von Firmen. Erstens belegt die Analyse, dass Textil- und Automobilfirmen tatsächlich auch horizontal kollektiv handeln, um ihre spezialisierten Investitionen in Reputation, Mitarbeiter und Technologie zu schützen. Zweitens zeigt die empirische Untersuchung, dass Firmen dabei auf die HIV/AIDS-Epidemie und die Knappheit von qualitativ hochwertigem Benzin reagierten. Drittens kann demonstriert werden, dass nur große Firmen reagieren und damit ihre spezialisierten Investitionen schützen können. So kommt es, dass große Firmen aufgrund ihres Interesses am Erhalt ihrer Investitionen Südafrika bei Problembewältigungen wie dem Kampf gegen HIV/AIDS oder der Emissionsreduktion zur Seite stehen. Kollektives Handeln von Firmen schließt so Lücken, die der Staat nicht füllen will oder kann.

Der Lebenslauf ist in der Online-Version aus Gründen des Datenschutzes nicht enthalten.