

CORPORATE STAKEHOLDER DEMOCRACY

POLITICIZING CORPORATE SOCIAL RESPONSIBILITY

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[...] the heartland issue is process, in old 70s terms, the heartland view is democracy, that slightly funny old word if you remember it. That we were all in the business of reinventing democracy in a transnational globalized world ,[...] about the rights of people impacted to have a say over how institutions made decisions. [...T]here is a golden thread of accountability running through sane societies, sane and civilized societies. [... It] is profoundly about civilizing power. Not getting rid of it but civilizing. I am more interested in how processes of change can drive efficiently new models of people's participation in emerging political institutions, and my focus on the business community is because I think it is the most important political institution to emerge in the last century, and therefore the [business community] needs to be politicized. [Businesses] need to be made accountable through the political processes and not only through regulatory processes – to direct participation, a direct model of democracy.

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* Waddock, S, (2008): The Difference makers: How Social and Institutional Entrepreneurs Created the Corporate Responsibility Movement. Greenleaf.

TABLE OF CONTENTS

INTRODUCTION	4
PART I : THE THEORY OF RESPONSIBILITY	ERROR! BOOKMARK NOT DEFINED.
1. RESPONSIBILITY	ERROR! BOOKMARK NOT DEFINED.
2. STAKEHOLDERS.....	ERROR! BOOKMARK NOT DEFINED.
3. CORPORATE POLITICS – STAKEHOLDER DEMOCRACY.....	ERROR! BOOKMARK NOT DEFINED.
PART II: APPLYING RESPONSIBILITY.....	ERROR! BOOKMARK NOT DEFINED.
4. RESPONSIBLE CORPORATE MANAGEMENT	ERROR! BOOKMARK NOT DEFINED.
5. RESPONSIBLE OPERATION	ERROR! BOOKMARK NOT DEFINED.
6. RESPONSIBLE MARKETING	ERROR! BOOKMARK NOT DEFINED.
7. RESPONSIBLE FINANCES.....	ERROR! BOOKMARK NOT DEFINED.
8. RESPONSIBLE RESEARCH AND INNOVATION	ERROR! BOOKMARK NOT DEFINED.
PART III : THE OPERATION OF CSR	ERROR! BOOKMARK NOT DEFINED.
8. STANDARDS AND GUIDELINES	ERROR! BOOKMARK NOT DEFINED.
9. STAKEHOLDER INCLUSIVENESS AND DEMOCRACY.....	ERROR! BOOKMARK NOT DEFINED.
REFERENCES	ERROR! BOOKMARK NOT DEFINED.

INTRODUCTION

This book is for and about the future. About a future where the differentiation which views corporations as institutional actors interested purely in maximizing economic value while on the other hand considers it to be the task of the state and other political institutions to regulate the coexistence between people, their institutions, as well as to resolve the conflicts of a multi-faceted society will no longer be sustainable.

The book deals with the interpretation of democracy, focusing on the new role corporations play in it. I believe that corporations are the people who are impacted by the corporation and who in turn have an impact on the corporation: they are the stakeholders of corporate operation. Corporate value creation does not purely mean economic, but also environmental and societal value creation and its sustainment. So I take corporate social responsibility as values and interests of the stakeholders incorporated into business operation. This means running corporations in a way that takes the values and interests of stakeholders into account, potential conflicts between stakeholders are assessed and provided with institutional systems of conflict resolution; all this achieved through the involvement and engagement of stakeholders, as well as through bringing about a value creating cooperation with and between them, based on dialogue and equality. This is what corporate politics is about. To put it differently: political CSR, the approach of this book, diverges from traditional instrumental approaches to CSR as well as positivistic research on political corporate activity (CPA). It focuses on the role of business firms in providing public goods as well as defining and enforcing public rules (Scherer, 2017).

This is a departure from earlier approaches: a radical turn in viewing corporate operation and value creation. This turn applies equally to corporate theory, business operation and processes in practice, and the form and mode of cooperation with the stakeholders, as well as to the new interpretation of the context in which corporations find themselves. Primarily, therefore, it applies to the approach which sees value creation as the equilibrium between economic, social and environmental value creation based on the philosophy of sustainable development. Most of these approaches are not radically new: the shift has been in the making for almost thirty years. To radically change economic, social, and theoretical approaches is a long, painstaking and, above all, slow process. For it to become successful, the diverse cooperation of many is needed. Luckily, such cooperation does exist – academics, NGOs, representatives of stakeholders, corporations and their decision makers and politicians have

made alliances to prepare the way for and bring about this paradigm shift. This volume may be a minute contribution to the ongoing discourse.

Political CSR is contested territory; definitions, research agenda descriptions as well as theoretical approaches vary (Frynas & Stephens, 2015; Scherer & Palazzo, 2007, 2011; Scherer, 2017). The broadest definition would claim that political CSR is described as “activities where CSR has an intended or unintended political impact, or where intended or unintended political impacts on CSR exist (i.e. impacts related to the functioning of the state as a sphere of activity that is distinctive from business activity)” (Frynas & Stephens, 2015. p. 485.). A normative-critical theory advances a notion of corporate politics as a facet of the public realm in which deliberations take place and collective decisions are made to further the public interest. Corporations in this view are seen as based on corporate citizenship; research analyses conditions, identifies the unjustified use of power, and aims to reform social practices and institutions, corporations included, so that human beings are freed from dependency, suppression and subordination (Marti & Scherer, 2016; Scherer, 2017). Political CSR differs from CPA which is based on the premise that business firms engage in political activities to create or maintain corporate profits and seek to bring about public policy changes to promote their private interests (Lawton et al., 2013).

Political CSR applies a variety of theories to deal with corporate operations from a political point of view. The analysis focusing on corporation-society relationships utilizes stakeholder theory, institutional theory and resource dependence theory – all of which will be applied in this book as well. Focusing on the firm itself, instrumental economic and managerial perspectives include agency theory, transaction cost economics as well as behavioral economic theories. Writing about power and political interactions, theorists apply Habermasian theories of discourse ethics, Rawlsian theories of justice as well as Foucauldian theories of power discourses. The approach of this book, while applying a variety of the above mentioned theories, is that it mostly focuses on the individual level analysis, and uses macro- and meso-level analysis only inasmuch as to lay the groundwork of political CSR to be applied on the individual level. This diverges from the approach mostly taken by scholars of political CSR, as the majority of papers published in this area are focusing on the macro- and the meso level (Frynas & Stephens, 2015).

In the last decade, as researchers in the field note, approach to CSR has taken a ‘political turn’. The focus of CSR has shifted towards how firms shape their institutional environment driven by a concern for the public good that goes beyond the purely economic calculations of

corporate actors. This political turn is “interpreted as a corporate attempt to close governance gaps on the local, regional, and global level” as well as it is “associated with the changing role of state agencies and the redistribution of governance tasks between private and public actors” (Scherer et al, 2016, p. 273.). This ‘political turn’ means that firms become political actors by (a) engaging in public discourse; (b) maintain their legitimacy by providing solutions to public issues and complying with changing societal expectations; and (c) submit their corporate governance to democratic control (Palazzo and Scherer, 2006; Scherer et al, 2016).

Also, in many ways, we have been witnessing a ‘participatory turn’ in governance on both the national and corporate level. This entails public identity work that is seamlessly woven into the public and private spheres; a necessity of ‘civil society’ participation and improving public access in decision-making processes, as well as higher levels of public accountability. As Sheila Jasanoff (2003) put it “[w]hat has to change is the *culture* of governance, within nations as well as internationally; and for this we need to address not only the mechanics, but also the substance of participatory politics” (p. 238). Political CSR addresses exactly this: how to substantiate and promote more democratic and participatory interaction between the different stakeholders of the corporation; how to involve and engage corporate citizens into the decision making processes of the corporation.

The subject matter of political CSR: responsible operation or corporate democracy is a new understanding of the corporation, one which incorporates the interests and values of stakeholders into the operation of the business, thereby creating a new value chain. This new value chain takes into account the aspects of economic value creation but at the same time considers the ecological and social effects as well and functions along those considerations. Corporations have the greatest influence on our social wellbeing; they possess vast resources, their thinking is strategic and they have the ability to act. They cover all areas of social existence: they create and form culture, damage or protect the environment and may create or diminish economic prosperity. We are the ones who are affected by the corporations – thinking, feeling, acting human beings, who want their fair share in the decision-making. Let’s translate the thoughts of the *Gettysburg Address* into the language of corporations.

“Four score and seven years ago our fathers brought forth on this continent, a new nation, conceived in Liberty, and dedicated to the proposition that all men are created equal. [...] It is rather for us to be here dedicated to the great task remaining before us – that from these honored dead we take increased devotion to that cause for which they gave the last full

measure of devotion – that we here highly resolve that these dead shall not have died in vain – that this nation, under God, shall have a new birth of freedom – and that government of the people, by the people, for the people, shall not perish from the earth” (Lincoln, 1863).

Responsible operation means corporate governance of the stakeholders, by the stakeholders and for the stakeholders. It means that all stakeholders are created equal, therefore the weak and voiceless shouldn't carry the consequences of negative externalities and moral hazards. The management of the corporation is not only responsible towards its stockholders but also towards every stakeholder.

For this is what is right.

Responsible operation, value-centric democratic corporate policy, and value maximization for the stakeholders is a process. Depending on the value structure, interest relationships, contexts of internal regulators and the political environment of a given society, corporations get formed, adapt themselves to the circumstances and create the space, institutions, mode and form for the democratic politicizing of stakeholders. There is no such thing as a good or a bad corporation. Every corporation politicizes, some consciously, some less so. The corporation that politicizes consciously may function democratically, creates and operates the democratic institutions for the stakeholders. This is the result of a step-by-step, strategic process. Briefly, four steps may be differentiated in order for us to see how far a given corporation has progressed towards stakeholder democracy.

The first step is the traditional *anti-democratic (feudal) corporation* which applies certain elements of responsible operation by stakeholders on an *ad hoc*, sporadic basis, giving in to the pressure of some stakeholders. However, these elements do not become part of the corporation's operation, and do not become part of corporate strategic decision-making. Their aim is to reduce stakeholders' risks in the interest of economic value maximization, or the realization of some economic advantage through the stakeholders.

The second step is the *organizational-regulatory democracy* level, where the corporations try to comply with the stakeholders' regulations-based expectations – transparency, reporting, consumer protection and environmental rules. However, they do not do this in a systematic and strategic manner; they take the stakeholders' values and interests only to a limited degree, and mainly because of legal pressure, into account. Corporate policy is not democratic: the values and interests of stakeholders do not appear on the level of strategic

decision-making, value-maximization focuses on economic values, environmental and social issues are only interesting for the corporation in as much as they promote the corporation's economic value creation.

The third level is *inter-corporation stakeholder democracy*. Corporations create rules and soft-laws, make recommendations, determine norms and inter-relationship rules jointly, generally within the frame of multi-stakeholder organizations (whether national or international), involving the representatives of the stakeholders as equal participants or as cooperating partners. On this level the buds of the institutions of democratic stakeholder politicizing are already emerging, or could emerge, as some form of the stakeholder approach appears in corporations participating in such a cooperation, even in their strategic decision-making process.

The fourth level is *corporate stakeholder democracy*, where the stakeholders become citizens of the corporation, the institutions of deliberative stakeholder democracy are set up and corporate strategic decisions are made according to the principles and operation of the liberal democracies.

This book introduces the process of how and why corporations set out on this journey; it presents the various forms of operation of corporate policy, as well as those institutions, their legitimation and background, which are the institutional foundation of deliberative corporate democracy. The policy of corporate operation satisfies Carman's classic definition of the exchange-based process of marketing in the course of which participants have the right to decide whether they want to participate in the exchange and whether they have any values or assets which could be part of the exchange process, and there is a minimal level of trust between the parties so that the exchange would actually be realized (Carman, 1980). Corporate policy further expands the definition of Carman regarding the paradigm of marketing. In terms of macroeconomics, responsible operation is an exchange process based on equality and mutual participation, the aim of which is the establishment of the institutional background and modes of operation for the allocation of resources in the interest of common value creation for the stakeholders, taking negative externalities, moral hazards and information inequality into account.

The journey of corporate democracy is also a journey in building and sustaining inclusive political and economic institutions within and among corporations. It is not only nations that fail if their institutions are extractive but corporations as well (Acemoglu-

Robinson, 2012). Current mode of corporate operation is highly extractive: stockholders and a limited number of key stakeholders exploit the majority of other stakeholders, the future generations included. They extract economic and well as societal and environmental value for their own financial benefit. This is what economists call negative externalities: costs paid by third parties not included and voiceless in the contractual relationships corporations represent. Current corporate successes and the economic or financial growth they generate as extractive institutional systems are not surprising: as Acemoglu and Robinson have shown extractive political and economic systems may generate growth, as they did from the Bushong in the Kuba Kingdom in today's Congo to the Maya cities as well as in the Soviet Union between 1928 and 1970. However, such political and economic systems are unstable and non-sustainable. Corporate democracy or stakeholder inclusive corporate political systems may offer more stability and sustainable growth than the current generally undemocratic, extractive corporate setup. Analyzing the structure and mode of corporate politics, I hope, will offer answers as to why.

And now for the structure of the book. The first part is devoted to the theoretical background, context and process of corporate social responsibility. It shows the different social and economic processes and theories – with special emphasis on the stakeholder theory of Edward R. Freeman – which were the foundation on which change evolved. It discusses the social context, the various stakeholder approaches and it also endeavors – with the help of an historic parallel – to define the corporate polity.

The second part analyses the new kind of operational logic from the viewpoint of the different areas of corporate operation; it gives an overview of the consequences for the individual areas of operation and indicates how corporate policy can be realized in the given field of operation. First, it discusses the theoretical approach to responsible operation relevant to the given area, then it analyses the current practice, followed by an indication of why an approach aiming at a 'political turn' is more advantageous both for the corporation and the outside world.

The third part of the book introduces the institutions necessary for the creation of the corporate polity, as well as the mode and forms of operation, i.e. the process of paradigm shift modes of stakeholder operation and the bases of stakeholder involvement, its structure and consequences. It also sets the direction for new research, which may offer exciting and novel, as yet unexplored, insights for further shaping of the future.

I trust that this volume will contribute towards the ongoing discourse on social responsibility. My hope is that students, involved and interested professionals, businessmen and managers will benefit from its contents. It may possibly help to get the above-mentioned changes in value-structure and mentality on the way and that the societal conditions for these changes may come about.

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