The New Political Role of Business in a Globalized World

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Literature

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Abstract

- this presentation is about the problems of globalization for theorizing on CSR and the consequences for the political role of the MNC

- we explain the concept of globalization and describe the limits of the traditional CSR paradigm

- we address this paradigm's assumptions of an intact nation state system and a homogenous moral community

- we will argue that these assumptions become problematic in the current "post-national constellation" (Habermas)

- we describe the new situation with regulatory gaps in global regulation, erosion of national governance, and loss in moral homogeneity in the corporate environment

- we discuss these consequences and call for a new paradigm of CSR inspired by political philosophy and theory of democracy

- we outline the challenges of a new paradigm of political CSR and address some open questions

The practical dimension: human rights

The ILO estimates that about 246 million children worldwide work under conditions that can be defined as the worst forms of child labor — prostitution, mining and slave labor in different industries.

The practical dimension: social standards

Photo: mutilated workers in China

According to the ILO two million work related deaths occur annualy, most of them in Asia; the number of serious injuries in unknown

The practical dimension: environmental standards

toxic e-trash dumping in Guiyu, China

Who is responsible?

- The state?
- The UNO?
- The ILO?
- NGOs?
- Consumers?
- You and me?
- Business Firms?

Economic view: support free trade

- "Still, the best and most direct way to raise wages and labor standards is to enhance the productivity of the workers through economic development. Trade and investment are important components of that development, and therefore efforts to limit international trade or to shut down the sweatshops are counterproductive."

  Irwin, D. A. 2002. *Free Trade under Fire*. Princeton, Princeton University Press, p. 214

Economic view: economic development first

- "the way to help poor people abroad is to open our markets to them not to force them to adopt…human rights standards."

  Krauss, M. 1997. *How Nations Grow Rich. The Case for Free Trade.* New York: Oxford University Press, p. 51.

- economic development has to come first, then democratization or social and environmental standards

  Barro, R. J. 1997. "The Interplay Between Economic and Political Development." In: Barro, R. J.: *Determinants of Economic Growth.* Cambridge (Mass.): 49-87

- "a lousy job is better than no job at all"

  Martinez-Mont, L. 1996. "Sweatshops are Better Than no Shops," *Wall Street Journal*, June 25, 1996

Economic view: focus on profits only

- "the social responsibility of business is to increase its profits."
- corporate social responsibility is a "fundamentally subversive doctrine" (Friedman, 1962: 133)

  Friedman, M. 1962. *Capitalism and Freedom.* Chicago: University of Chicago Press.

- "…social welfare is maximized when all firms in an economy maximize total firm value." Jensen (2002: 239):

  Jensen, M. C. 2002. "Value Maximization, Stakeholder Theory, and the Corporate Objective Function." *Business Ethics Quarterly* 12: 235-256.

- stakeholders other than shareholders "have protection (or can seek remedies) through contracts and the legal system." (p. 353)

  Sundaram, A. K., & Inkpen, A. C. 2004. The corporate objective revisited. *Organization Science*, 15: 350-363.

- it is the task of the state to resolve issues of public interest (e.g. human rights, social and environmental standards

What is Globalization?

- globalization is the process of growing transnational interdependence of economic and social activities (Beck 2000; Giddens 1990).

- causes of globalization

  » political decisions and disruptions (GATT/WTO, collapse of the iron curtain, pro-market policy in PR China)

  » technological developments (e.g., communication, transport)

  » socio-cultural developments (individuialization of life styles, migration, global medias – global markets)

  » economic developments (FDI and cross boarder trade; intrafirm-trade; global sourcing, global markets)

 » emergence of transnational risks (global diseases, environmental risks and social problems, terrorism)

The Traditional View on Nation State Governance

- traditionally: state agencies

  » provide citizenship rights (civil rights, political participation rights, social rights),

  » produce public goods, and

  » regulate the economy in such a way that the common good is served

- separation of nation state governance (politics) and private economy:

  » state provides the rules of the game, private business firms focus on profit making within these rules

 » no additional political responsibilities for private business firms

The New Post-national Constellation (Habermas)

- regulation capacity of nation state agencies is in decline

- increasing heterogenity/pluralism of norms, values and life-styles

- emergence of new modes of regulation in global governance:
  » NGOs, transnational organizations, and business firms contribute to the global governance; e.g. in peace keeping, protecting human rights, implementing social and environmental standards.
  » shift in global business regulation from state centric towards new multi-lateral non-territorial modes of regulation with private business firms as core actors
  » corporate citizenship: "role of the corporation in administering citizenship rights for individuals" (Matten & Crane AMR 2005: 173)
  » Handbook of Research on Corporate Citizenship (Scherer & Palazzo (eds.) 2008)

The New Post-national Constellation
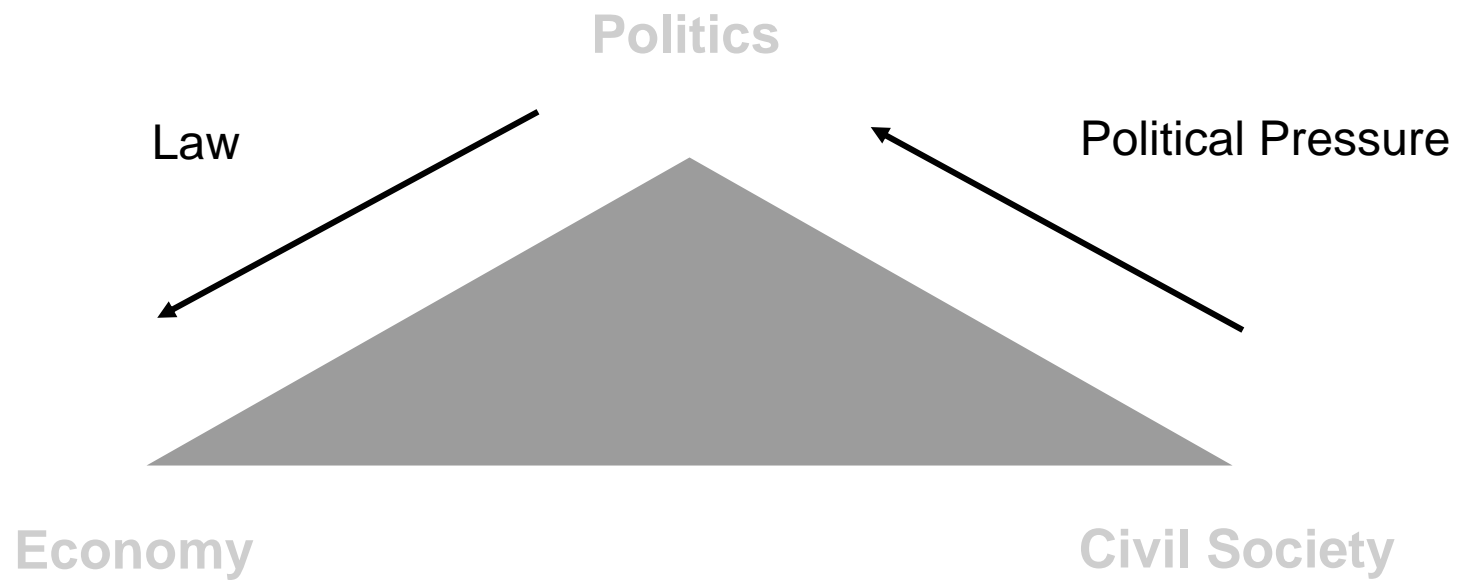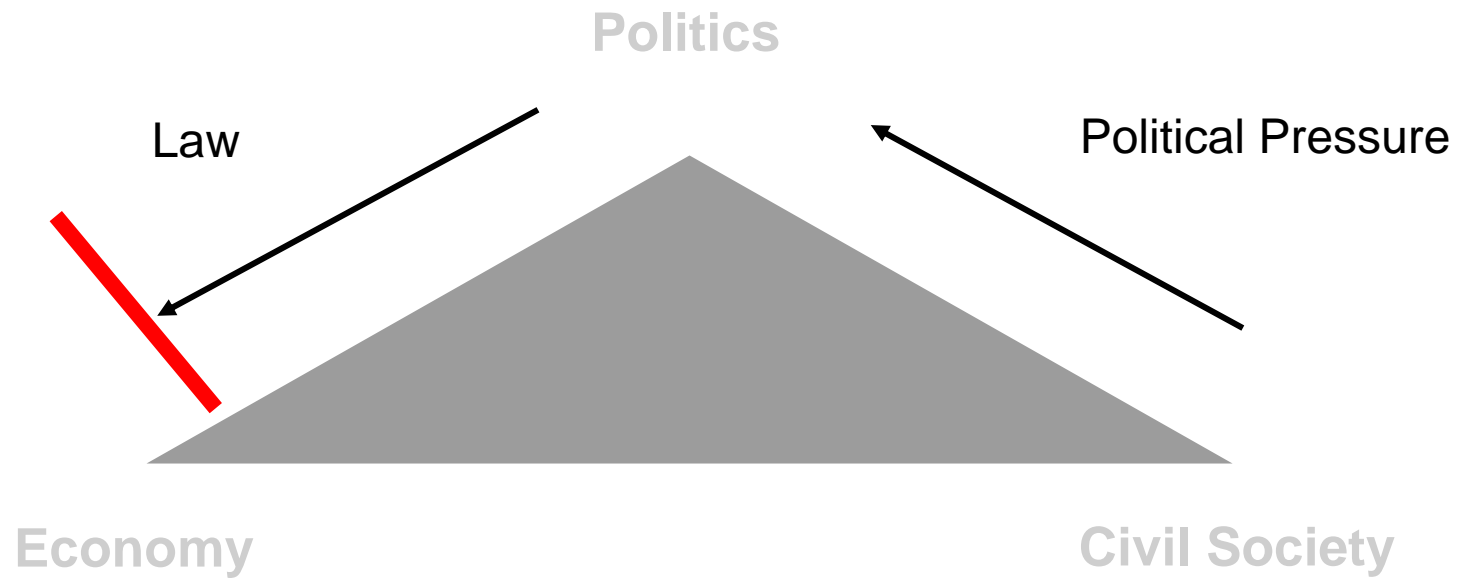
The New Post-national Constellation

The New Post-national Constellation

Politics

Law

Political Pressure

Economy

Civil Society
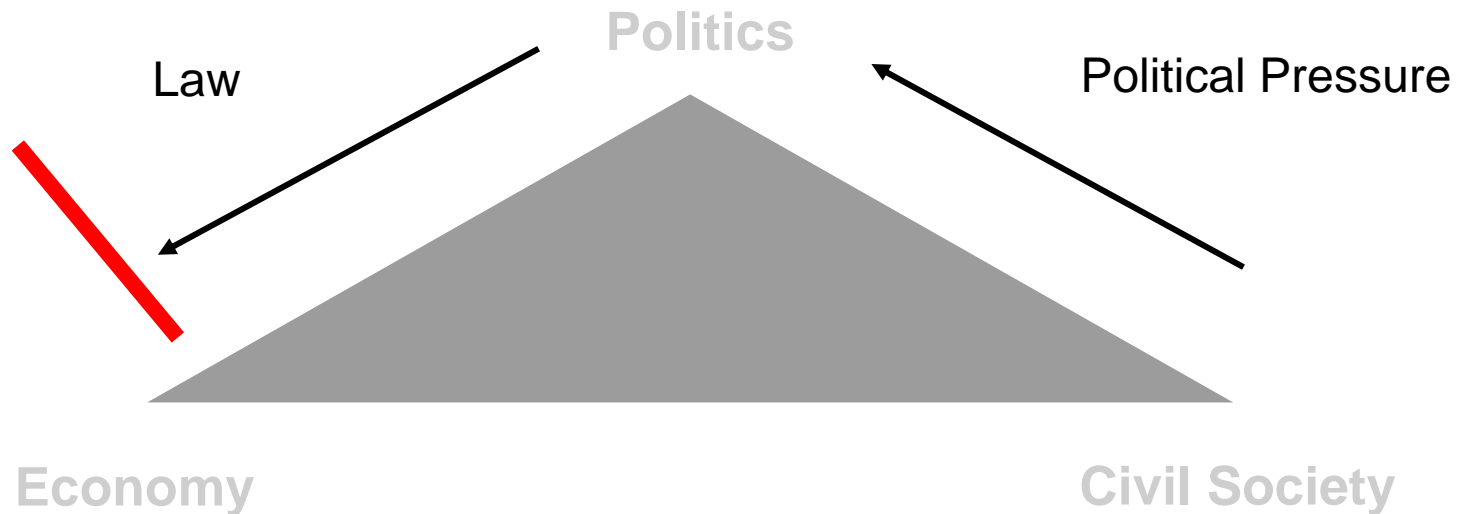
> **The power of politics shrinks.**
>
> **Powerlessness creates distrust and people start to look after their interests on their own.**
>
> **= "globalization from below" (Giddens), "subpolitics" (Beck), "paragovernmental activities" (Dryzek)**

The New Post-national Constellation

Politics

Law

Political Pressure

Economy

Political Pressure
by Non-Governmental-
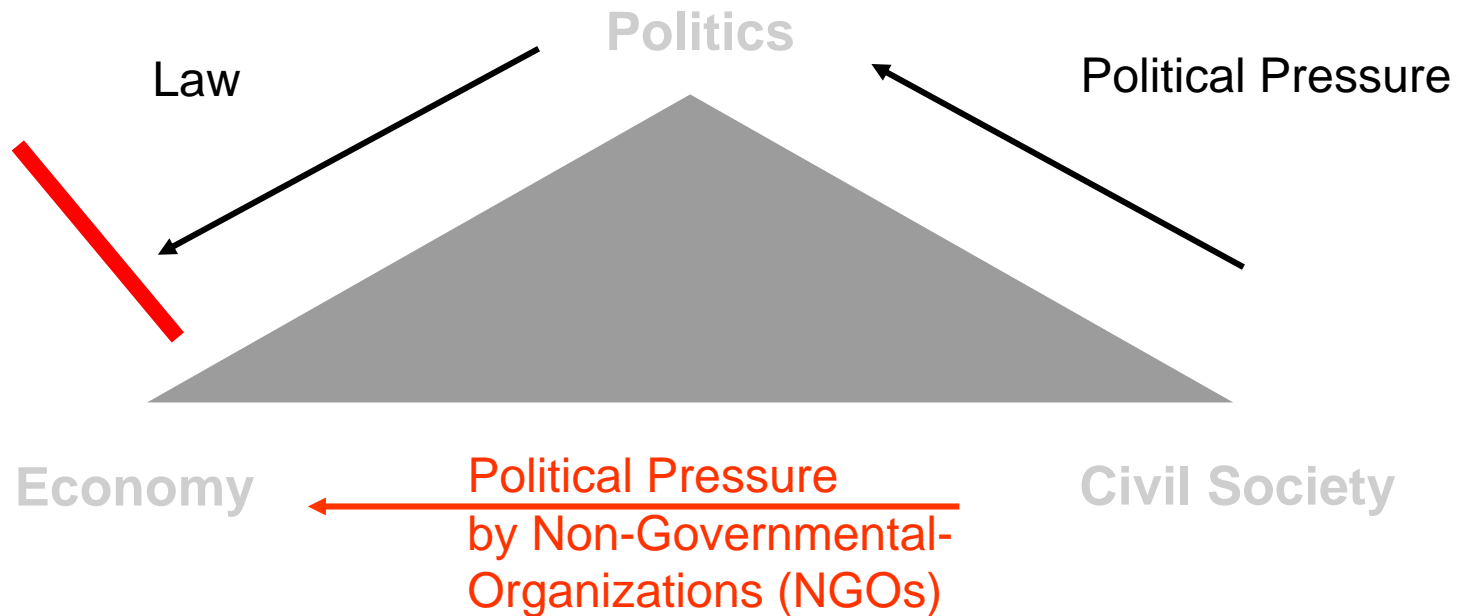Organizations (NGOs)

Civil Society

The power of politics shrinks.

Powerlessness creates distrust and people start to look after their interests on their own.

= "globalization from below" (Giddens), "subpolitics" (Beck), "paragovernmental activities" (Dryzek)

Traditional Paradigm of CSR

- is based on a strict devision of labour between the public sphere (rule generation and enforcement by state governance) and the private sphere (profit seeking within these rules).

- instrumental view on CSR (Jones, AMR 1995): CSR as an investment (McWilliams & Siegel, AMR 2001), search for the „business case" of CSR or correlations between social and financial performance

- isomorphistic adaption of business policies to „broader community values" (Swanson, AMR 1999), societal expectations „at a given point in time" (Carroll, AMR 1979), or the „basic rules of that society" (Friedman 1970)

- but:
  - » capacity of the state system to regulate the economy is in decline
  - » growing pluralism of norms, values, and life-styles in the global society

Schools of Thought in CSR (Scherer & Palazzo, AMR 2007: 1113)

TABLE 1
Comparison of Positivist and Postpositivist CSR Schools of Thought

Characteristics	Positivist CSR	Nonpositivist CSR	Postmodern CSR	Habermas₁ CSR	Habermas₂ CSR
Foundation	Empirical	Philosophical (monological)	Culture and history bound (discursive)	Philosophical (discursive)	Democratic (discursive)
Ideology	Economic/ instrumental	Foundational	Relativistic	Utopian	Pragmatic
Main concepts	Social performance	Character/virtue, duty, social contract, hypernorms, integrity	Discourse (power)	Discourse (ideal speech situation)	Discourse (public deliberation)
Mode of coordination in society	Private contracts and legal compliance	Social contracts and conformity with moral rules	Discourse and power	Discourse and consensus	Political discourse, market, and administrative routine
Role of corporation	Economic actor, opportunistic corporation	Economically and socially responsible actor	"Bad guy" versus corporate chameleon	"Bad guy," has to change to utopian altruist	Political and economic actor
Role of market	Taken for granted	Critical support	Focus of critique	Underestimated	Politically embedded
Role of power	Dominant	Disciplined by moral rules and/ or personal integrity	Focus of critique, but considered unavoidable	Disciplined by ideal discourse	Disciplined by democratic institutions
Role of legitimacy	Marginalized	Conformity with existing moral norms	Positive legitimacy not possible	Philosophical legitimacy	Democratic legitimacy
Relation to economic rationality	Dominance of economic rationality	Critical support	Critical	Critical, antagonistic	Domestication of economic rationality
Message to managers	Comply with law and respond (only) to powerful stakeholders	Comply with ethical norms and develop personal integrity	Stop manipulation and exploitation, adapt to local culture	Engage in ideal discourse	Engage in political discourse
Main philosophers	Hempel, Nagel, Popper	Aristotle, Gauthier, Hobbes, Kant, Rawls (−1980s)	Derrida, Foucault, Lyotard	Habermas (1960s–1980s)	Habermas (1990s–today), Dewey, Rawls (1990s–today), Rorty
Management theories	CSP, "business case" CSR, instrumental stakeholder theory	Business ethics, normative stakeholder theory, social contract theory	Postmodern/ postcolonial organization theory, critical management studies	Critical strategy research, critical management studies	Political CSR, corporate citizenship
Management authors	Carroll, Jones, Wood	Bowie, Donaldson, Dunfee, Freeman, Phillips, Solomon	Banerjee, Boje, Calás, Smircich	Alvesson, Deetz, Grimes, Steffy, Willmott	Not yet developed, limited to descriptive analysis (Matten & Crane)

Toward a New Paradigm of CSR for the Global Economy

- from dominance of economic rationality to domestication of economic rationality

- from liberal democracy to deliberative democracy

- from cognitive and pragmatic legitimacy to moral (argumentative) legitimacy

- from empirical or philosophical foundations to pragmatical reasoning

- from response to pressure from powerful stakeholders to proactive engagement in democratic politics

From Dominance of Economic Rationality to Domestication of Economic Rationality (Scherer & Palazzo, AMR 2007)

- in the traditional view on CSR the dominance of economic rationality is taken for granted („instrumental view", „business case", „political strategies" etc.)

- new paradigm attempts to (re-)establish a political order where economic rationality is circumscribed by democratic institutions and procedures

- the challenge is to find new forms of democratic will formation on a global scale that not only domesticate economic pressures but go beyond nation-state governance, address global public policy issues, and integrate the new political role of private business firms

From Liberal Democracy to Deliberative Democracy
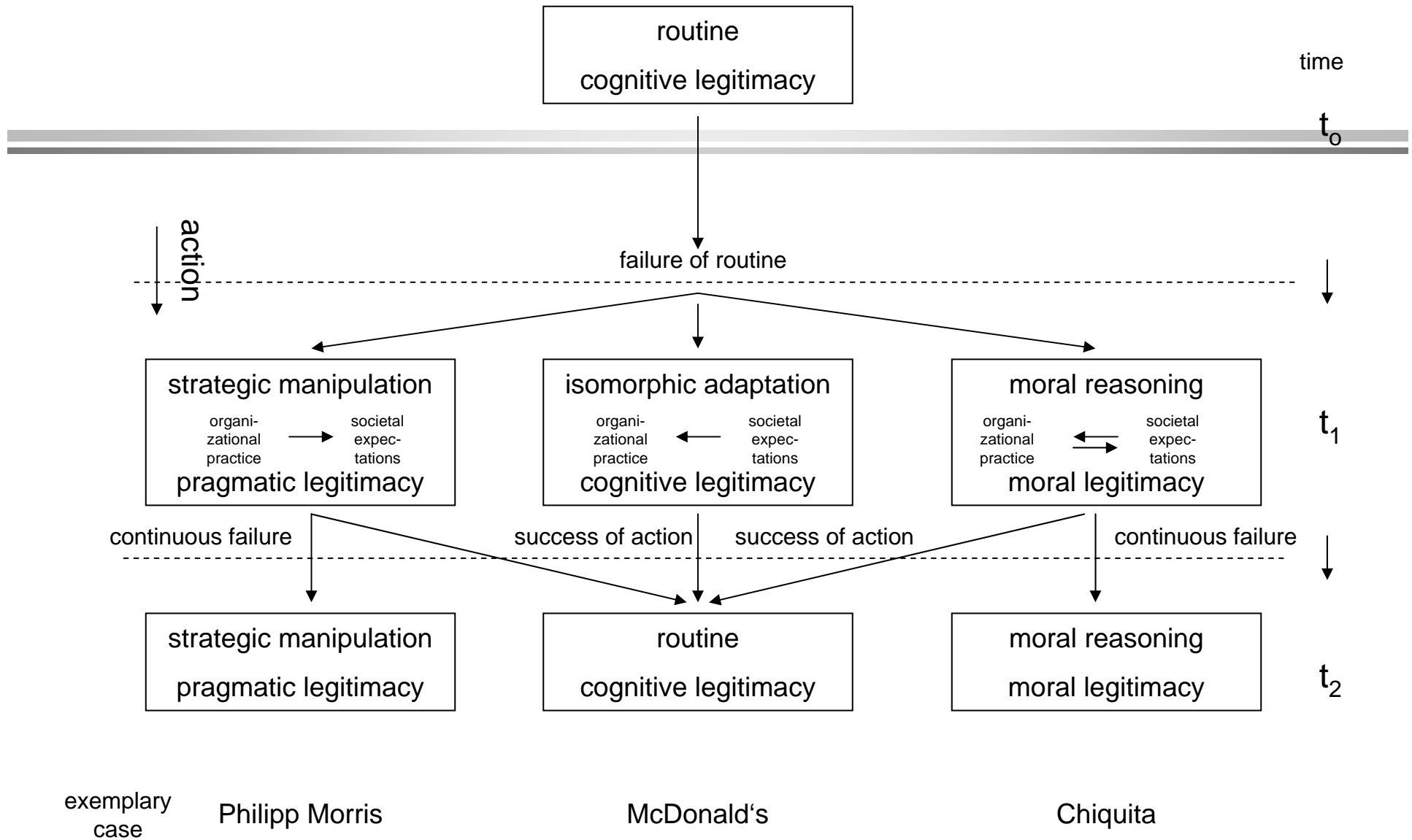## (Scherer & Palazzo, AMR 2007)

- as firms are already engage in political processes the challenge is to embed the corporation in democratic processes

- in the post-national constellation we need a new concept of democratic politics

- theory of deliberative democracy (Habermas 1996, 1998) provides such a concept

  » this approach does not aim at a utopian and revolutionary alternative to liberal market societies. Instead, it takes the imperatives of market competition and the price system as preconditions of coordination in modern societies, while domesticating economic pressures by means of democratic reform and control

A new concept of politics

- the old view (lobbyism & power politics):

  main focus has been on « political strategies »

  "to shape government policy in ways favorable to the firm"

  Hillman, Keim, & Schuler, Journal of Management 2004: 838

  This stream of research is based on the view that

  "managers choose to engage in political activity to enhance the value of the firm"

  (Hillman et al., 2004: 839).

- the new view:

  By political we mean a process

  "in which people organize collectively to regulate or transform some aspects of their shared social conditions, along with the communicative activities in which they try to persuade one another to join such collective actions or decide what direction they wish to take"

  (Young, Journal of Political Philosophy 2004, p. 377).

From Cognitive and Pragmatic Legitimacy to Moral (Argumentative) Legitimacy (Palazzo & Scherer, JoBE 2006)

- legitimacy is the perception that an action, policy or institution is socially acceptable

- legitimacy can be based on three sources (Suchman AMR 1995):
  - » pragmatic legitimacy (outcome is benefical)
  - » cognitive legitimacy (action or institution is taken for granted)
  - » moral legitimacy (action or institution is a result of <u>explicit</u> discourse)

- traditional CSR emphasizes pragmatic legitimacy (defense of the capitalist system) or cognitive legitimacy (adaptation to social customs)

- in the post-national constellation moral legitimacy, i.e. the explicit discoursive consideration of policies and institutions, becomes the primary source of corporate legitimacy

time

t_0

routine

cognitive legitimacy

action

failure of routine

strategic manipulation	isomorphic adaptation	moral reasoning
organi-zational practice → societal expec-tations	organi-zational practice ← societal expec-tations	organi-zational practice ⇄ societal expec-tations
pragmatic legitimacy	cognitive legitimacy	moral legitimacy

t_1

continuous failure   success of action   success of action   continuous failure

strategic manipulation	routine	moral reasoning
pragmatic legitimacy	cognitive legitimacy	moral legitimacy

t_2

exemplary case   Philipp Morris   McDonald's   Chiquita

From Empirical or Philosophical Foundations to Pragmatical Reasoning (Scherer & Palazzo, AMR 2007)

- normative conceptions of CSR or business ethics traditionally search for universal norms, rules, or principles
- Donaldson and Dunfee (Ties that bind, 1999) suggest we need a "universal and impartial … view from nowhere".
- in the post-national constellation with a pluralism of norms and life-styles universal principles cannot be justified
- instead of the foundational search for universal philosophical principles we suggest a „pragmatic concept of reasoning" that is based on a primacy of democratic practice to philosophic purity (Habermas 1996, Rorty 1991)
- deliberative theory does not start with abstract philosophical principles but with an analysis of the changing interplay of governments, civil society actors, and corporations
- it is a realistic rather than a utopian concept of democratic politics

From Response to Pressure from Powerful Stakeholders to Proactive Engagement in Democratic Politics

- in traditional CSR the main concern is to respond to the concerns of the most powerful stakeholder groups and to manage the relations with these groups

- „stakeholder management" deals with the idea of internalizing the demands, values and interests of those stakeholders that affect or are affected by corporate decision making

- the new political approach of CSR emphasizes the corporation's move into democratic global governance and the resolution of environmental and social challenges

Open questions

- what is the scope of CSR? where are the limits?
- what internal organizational structures and processes do we need? (outside view vs. inside view; incentive structures; human resource management etc.)
- what is the role of responsible leadership? (micro-level of analysis)
- what is the role of social entrepreneurship? (social innoviation)
- what are the consequences for corporate communication? (triple bottom line accounting)
- what are the consequences for „political strategies"? (legitimacy of lobbying etc.)
- what are the consequences for corporate governance? (link between global governance and corporate governance)
- what are the consequences for democracy? (global democracy vs corporate democracy)