GLOBALIZATION AND CORPORATE SOCIAL RESPONSIBILITY

Andreas Georg Scherer
Professor of Foundations of Business Administration and Theories of the Firm
University of Zurich
Winterthurerstr. 92
CH – 8006 Zurich, Switzerland
Email: andreas.scherer@iou.uzh.ch
Phone: +41 44 634 5302
Fax: +41 44 634 5309

Guido Palazzo
Assistant Professor of Business Ethics
University of Lausanne
Ecole des Hautes Etudes Commerciales (HEC)
619-BFSH-1
CH – 1015 Lausanne-Dorigny, Switzerland
Email: guido.palazzo@unil.ch
Phone: +41 21 692 3373

SSRN version of Feb 10, 2009

unedited paper draft
published in
The Oxford Handbook of Corporate Social Responsibility
Eds.: A. Crane, A. McWilliams, D. Matten, J. Moon, D. Siegel
Oxford University Press 2008: 413-431

for correct quotations please see the original OUP publication

1 Globalization and Corporate Social Responsibility – Anything New?

In the present chapter we will focus on the problem of globalization and its consequences for theorizing on corporate social responsibility (CSR). The social responsibilities of business in a market society have been discussed for decades, long before globalization became a catchword (see, e.g., Baumhart 1961; Bowen 1953; Donham 1927). The capitalist system, i.e., voluntary exchange on free and open markets, is widely considered the best societal coordination measure to contribute to individual freedom and the wellbeing of society (Friedman 1962, Hayek 1996). Though the functions of the state system have always been a matter of debate (see, e.g., Block 1994), it is generally acknowledged that in capitalist societies it is the task of the state to establish the preconditions for the proper working of markets, i.e., to define legal rules such as property rights and contractual rights, to erect an enforcement body, to provide public goods, and to reduce or avoid the consequences of externalities. At the same time, private firms are entitled to own means of production and to run a business, i.e. to supply goods and services for a return in private profits, as it is the "invisible hand" of the market which directs the behavior of firm owners towards the common good. The state, it was assumed, is capable of setting the rules in such a way that the consequences of market exchange contribute to (or at least do not harm) the well-being of society.

Business firms have to obey the law – this has always been a precondition and has been accepted as a minimum social responsibility of businesses, even by the harshest critics of CSR (see, e.g., Friedman 1970; Levitt 1970). However, as the system of law and the enforcement apparatus of the state are incomplete there is a likely possibility of regulation gaps and implementation deficits which have to be filled and balanced by diligent managers with prosocial behavior and an aspiration to the common good (e.g., Stone 1975). In as much as the state apparatus does not work perfectly there is a demand for social responsibilities of business, i.e. corporations are asked to comply to the law when the enforcement body is weak and to even go beyond what is required by law, when the legal system is imperfect or legal rules are incomplete.

With globalization, it seems, the negative consequences of businesses have intensified (see, e.g. Mokhiber and Weissman 1999, Korten 2001), as has the public call for corporate responsibility (Parker 1998). Several scholarly journals have dedicated special issues to the relationship between globalization and CSR (see, e.g., Business Ethics Quarterly 2004, 2006; Journal of Business Ethics 2005). Paradoxically, today, business firms are not just considered the “bad guys”, causing environmental disasters, financial scandals, and social ills. They are at the same time considered the solution of global regulation and public goods problems (e.g., Margolis and Walsh 2003; Matten and Crane 2005) as in many instances state agencies are completely overtaxed or unwilling to administer citizenship rights or contribute to the public good.

We hold that the solution of globalization problems is not just a matter of degree of engagement in CSR, i.e. of more or less investment of business firms in CSR projects (McWilliams and Siegel 2001). Rather we suggest that with globalization a *paradigm shift* is necessary in the debate on CSR. Current discussions in CSR are based on the assumption that responsible firms operate within a more or less properly working political framework of rules and regulations which are defined by governmental authorities. With globalization, we suggest, this assumption does not hold any more. The global framework of rules is fragile and incomplete. Therefore, business firms have an additional political responsibility to contribute to the development and proper working of global governance.

This chapter will be organized as follows: First, in section two, we will explain the concept of globalization. We will describe its conceptual variants and point to some of the phenomena that are associated with this process. Next we will describe the traditional paradigm of CSR where the responsibilities of businesses are discussed vis-à-vis a more or less properly working nation state system and a homogenous moral (cultural) community (section three). We will argue that both these assumptions become problematic in the current "post-national constellation" (Habermas 2001) (section four). We describe the new situation with regulatory gaps in global regulation (Braithwaite and Drahos 2000), an erosion of national governance (loss of national sovereignty and the exterritorial application of national law) (Kobrin 2001, Strange 1996), and a loss in moral and cultural homogeneity in the corporate environment. We discuss the consequences of the post-national constellation with the help of two recent observations of business firms' behavior which call for a fresh view on the concept of CSR (section five). In section six we describe the necessary paradigm shifts toward a new politically enlarged concept of CSR in a globalized world.

2 Globalization: A Social and Economic Phenomenon

2.1 What is Globalization?

Globalization is one of the most cited catchwords of our time and is used to describe a process of social change on the macro level of societies. Today, many social and economic phenomena such as peace, crime, migration, production, employment, technological developments, environmental risks, distribution of income and welfare, and social cohesion and identity are considered to be affected by the process of globalization (see, e.g., Brakman, Garretsen, van Marrewijk, van Witteloostuijn 2006; Cohen and Kennedy 2000; Held, McGrew, Goldblatt, and Perraton 1999; Scholte 2005). We define *globalization* as the process of intensification of cross-area and cross-border social relations between actors from very distant locations, and of growing transnational interdependence of economic and social activities (see, e.g., Beck 2000; Giddens 1990). Giddens (1990: 64) holds that with globalization "the modes of connection between different social contexts or regions become networked across the earth's surface as a whole."

During this process the nation state loses much of its political steering capacity (e.g., Beck 2000; Habermas 2001; Strange 1996). The state's enforcement power is bound to its territory while the subjects of state regulation, especially the business firms, have massively expanded their activities beyond national borders. At the same time, new social and environmental challenges emerge which are transnational in scope and cannot be regulated or governed unilaterally (e.g., global warming, crime and terrorism, diseases, etc). Also, new actors and institutions, such as international organizations, transnational corporations, non-governmental organizations, and civil society groups gain political influence. Their activities are not limited to a certain territory. Their influence stems from the political power they can exert inside and outside the traditional institutions of nation-state politics, e.g., by lobbying, public relations, campaigning, knowledge and competence, offering material or symbolic support, or threatening with disinvestments or the retreat of resources. As a result we observe new forms of governance below, above and beyond the nation state (Beck 2000; Zürn 2002).

This definition of globalization emphasizes the process aspect of change and is related to other concepts that describe the status quo towards this change process develops ("globality") and the normative claims that are related to this process. The concept of "*globalism*" is used to describe an *ideology*, i.e., a normative attitude towards the process of globalization. While globalization protesters and skeptics reject the idea that the globalization process will lead to more prosperity and social well-being in the world ("anti-globalism") (see, e.g., Klein 2000), the adherents of globalism are convinced that an unconstrained and borderless world economy will make everybody better off (e.g., Irwin 2002; Krauss 1997; Norberg 2003). They advocate a primacy of market imperatives over political regulation via the nation state. The central idea of modernity – that nation state politics shall define the legal, social and ecological framework and the restrictions within which market transactions take place – is abandoned in favor of a dominance of economic rationality (see, critically, Beck 2000; Giddens 1990).

2.2 What are the Causes of Globalization?

One could suggest that the globalization process was started to some extent deliberately by political decisions. However, it was also caused and/or supported by technological, social, and economic developments. The intensified cross border transfer of resources, such as assets, capital, and knowledge, is in part a result of the liberalization policy of many nation state governments after WWII. The growing cross-area and cross-country social exchange was also made possible through technological inventions and achievements (e.g., telecommunications, mass media, the Internet, transportation, etc.). The exchange processes are accompanied by a growing interdependence between citizens from different communities through the emergence of global risks (e.g., nuclear weapons, global warming, global diseases, etc.) which connect the destinies of peoples with each other. In the following we will describe some dimensions of globalization.

2.3 Dimensions of Globalization

- **Political Decisions and Disruptions**

The General Agreement on Tariffs and Trade (GATT) at the end of WWII was certainly an important factor for the liberalization of the world economy (see, e.g., Hoekman and Kostecki 1995). At the end of WWII in Bretton Woods politicians from over twenty countries decided on the post-war economic order. They shared the conviction that free and open trade would lead to world-wide prosperity and would in turn reduce the possibility of war and forceful conflicts. The GATT (and later the WTO) member states decided to reduce tariffs and decrease non-tariff barriers to trade step by step. This process of liberalization in cross country trade and investments was accompanied by a policy of liberalization and privatization in many of the industrial states in the Western world. Highly regulated industries with state-owned or controlled firms and monopolies such as telecommunications, public transport, electricity, and water were privatized. In the 1980s, the collapse of the iron curtain of the Communist countries in Eastern Europe, and in many other countries in the world, led to another breakdown of trade barriers and encouraged intensified cross-border trade and investments.

- **Technological Developments and Achievements**

The rapid technological development in the communication industry led to a significant decline in communication costs. Perraton, Goldblatt, Held, and McGrew (1998: 143) reported that the costs for a 3min phone call from New York to London dropped from 244.65 US $ in 1930 to 3.32 US $ in 1990 (measured in 1990 US $). The advances in telecommunications and in computer technology along with the invention and growth of the Internet have made it possible for people to communicate with each other between virtually all points on the earth. Along with the decrease in communication costs there has been a dramatic drop in transportation costs (Perraton et al. 1998: 143).

- **Socio-cultural Developments**

As a result of globalization, the more or less homogenous cultures of the pre-globalization world were dissolved. New values and life styles have entered the static world of traditional cultures: values, attitudes and social practices that were once taken for granted have lost their certainty. This process is accompanied by the various migration processes which lead to a pluralism of cultures and values and to a growing heterogeneity of social expectations.

At the same time we observe the emergence of new social movements, civil society groups, and NGOs which aggregate diverse and disparate opinions and concerns into shared interests and thus create new identities for people who lose the backing of their traditional home culture and their reliance on the capacity of official state agencies to resolve issues of public concern. These new social movements can gain political currency outside and beyond the traditional institutions of the state system (such as, e.g., political parties, parliaments etc.).

- **Economic Developments**

On the macro level, the liberalization of trade, investments and financial transactions has led to a huge increase both in foreign direct investments and in cross-border trade (see, e.g., Brakman et al. 2006; Held et al. 1999). Though some authors suggest that with regard to certain macro economic measures the situation today is not much different than it was one hundred years ago (see, e.g., Hirst and Thompson, 1996), we hold that we are confronted with a new situation without precedent in history. First, economic measures show that for several decades the growth rate in the volume of world merchandise exports has been much higher than the growth rate of world GDP and that the intra-firm trade has expanded dramatically (Held, et al. 1999). Second, the unprecedented interconnectedness of the destiny of people from different social settings and distinct locations has created new challenges.

Also, on the firm level, one can observe an entirely new situation. Business firms are able to split up their value chain and to source where the production of goods and services is most efficient. By means of technology they are able to collect information about sources, qualities and prices, and to coordinate the various value chain processes inside and outside the boundaries of the firm.

Today, large multinational corporations have become very powerful economic and social agents. The world's biggest corporations have revenues that equal or even exceed the gross domestic product of some developed states (Chandler and Mazlish 2005). The power of MNCs is not just based on the enormous amount of resources they control. Their power is further enhanced by their mobility and their capacity to shift resources to locations where they can be used most profitably and to choose among suppliers applying criteria of efficiency. In effect this gives multinational firms the latitude to choose locations and the legal systems under which they will operate (Roach 2005; Scherer, Palazzo, and Baumann 2006).

However, the power of the MNCs and their leaders is not unlimited. Rather, top managers more and more feel the pressure of the global financial markets when they have to respond to the profitability demands of investors and have to protect their firms from hostile takeovers. Institutional investors direct their attention and money to profitable firms and investments. Corporations that do not earn a high enough profit are sanctioned with disinvestment. Managers who do not focus on a high stock price may become the targets of takeovers. All in all the global financial market pressures business firms to stress profit and to engage only in such projects that will lead to a satisfactory return. Altruistic managers with pro-social attitudes may therefore be suspect in the emerging shareholder society and may be forced to adapt their behavior to the expectations of profit seeking investors.

- **The Emergence of Transnational Risks**

The process of globalization is accompanied by the emergence of global risks (Beck 1992, 1999): Citizens from very different communities and countries realize that their destiny is bound together and depends on how economic and political actors in other countries behave, though they often have no influence to regulate or determine their behavior. Environmental disasters (Tchernobyl, global warming, overfishing of oceans, loss of bio-diversity, etc.), global diseases (bird flu, mad cow disease etc.) and social problems (drugs, organized criminality, terrorism etc.) do not halt at national borders but affect the live of people who become aware that their traditional nation state institutions have become unable to protect them from harm.

2.4 Consequences and Challenges of Globalization: A New Phenomenon

What is new about the current globalization? It is a new phenomenon that our everyday life and activities expand over national borders, that new social networks with mutual dependences are created which lead to emerging new responsibilities. Community, work, and capital are losing their home and locus and we are confronted with different cultures and life styles, while society is pluralized and common traditions, cultural values, and social certainties emerge into a melting pot of various values and life styles. At the same time, we find ourselves in a world society without a world state and without a world government (Beck, 2000).

In this new situation the traditional division of labour between nation state politics and private business may not be sufficient to guarantee the efficient and peaceful integration of society. We hold that with globalization business firms become political actors that have social responsibilities beyond their economic role, and the mere compliance to the law and rules of common decency is not the appropriate response to the new challenges. Next we will describe the traditional paradigm of CSR that was implicitly based on the separation of political and economic responsibilities. Following that we will describe the new "post-national constellation" that calls for a new understanding of CSR.

3 The Traditional Paradigm of CSR

In 1993, Shell was confronted with a massive but nonviolent protest of the Ogoni People in Nigeria. Led by the writer Ken Saro Wiwa, the Ogoni protested against the fact that the money for the oil extracted from their land disappeared into the pockets of the corrupt Nigerian military junta while for them there was nothing left but a wasted and highly polluted territory. When Saro Wiwa was arrested as a rebellion leader, human rights groups urged Shell to use its influence on the Nigerian government to prevent them from executing him. At that time, Shell Group Chairman Herkströter argued that the corporation as an economic actor had no licence to interfere with political processes and that Shell prefered to remain politically neutral (Livesey 2001).

Whatever the scope of corporate responsibility in management theory and practice, it implicitly builds upon the neoclassic concept of a strict division of labor between political and economic actors and domains. As the Shell anecdote suggests, this neoclassic thinking is deeply embedded in managerial perceptions of societal responsibilities. The corporation as a private actor should focus on profit seeking and public problems should be dealt with by the state and its institutions (Friedman 1962; Sundaram and Inkpen, 2004). While corporations act on markets, the state provides the stable contexts for these markets by making the required infrastructural investments.

Paradoxically, even in the scholarly debate on CSR, this neoclassic focus is salient. Large parts of the literature operate with an instrumentalist understanding of corporate responsibility, thereby reducing it to another success factor in the corporate pursuit of profits (see, e.g., Jones 1995). Whether CSR pays in the long run is a key question of the debate (e.g., Aupperle, Carroll, and Hartfield 1985; Berman, Wicks, Kotha, and Jones 1999; Cochran and Wood 1984; see critically, Margolis and Walsh 2003; Scherer and Palazzo forthcoming). While normative approaches to CSR criticize the economically narrowed world perception of purely instrumental research and attempt to ethically embed questions of societal responsibility (e.g. Donaldson and Dunfee 1999; Solomon 1993), they often leave aside political aspects of the CSR issue and do not consider the underlying institutional political order of society and the concept of democracy (see critically Scherer and Palazzo forthcoming). Being enmeshed in the tradition of neoclassic thinking, the theory and practice of CSR still builds upon the idea of an intact nation state that provides a stable context for market activities. Corporations should follow the rules of the game as established by the political system and the moral customs of a given community (see e.g. Carroll, 1979; Swanson, 1999; Whetten, Rands, and Godfrey 2002, and even Friedman 1970). Corporate legitimacy, understood as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574) therefore follows from the corporate compliance with societal expectations. Such an institutional isomorphistic approach (DiMaggio and Powell 1983) understands responsibility as a kind of adaptation process in which the organization reacts to external expectations (Palazzo and Scherer 2006; Strand 1983).

What is the concept of democratic institutions that forms the common starting point of many of the contemporary conceptions of societal responsibility? In the liberal model of democracy[1] (Elster, 1986), corporations are considered private and thus non-political actors. Whenever they step into the political arena in order to participate in processes of political deliberation or political problem solving, it is/should be either for lobbying their profit interests (Hillman, Keim, and Schuler 2004) or as voluntary acts of discretionary philanthropy (Carroll, 1979) that serve, however, strategic corporate goals (Porter and Kramer 2002). Without doubt, corporations then and now occasionally enter the political sphere and attempt to influence decision making in the official political institutions in favor of their interests. However, seen from a liberal point of view, this does not transform them into political actors who have to justify their behavior towards the citizens of their respective communities. As private actors on the market, corporations are freed from any immediate legitimacy demands and thus are not required to expose themselves to public scrutiny and justify their behavior as long as they comply to the law (Friedman 1962). Only the state as a public and political actor is held accountable by the polity.

The role of the state in a liberal conception of democracy is to reduce interference in private interactions to a minimum in order to guarantee the (mainly economically understood) freedom of the citizens. The main task of the state is to guarantee the stability of the societal context in which private interaction takes place. The state system and the political actors in the administration and in parliament earn their legitimacy from a) maximizing the freedom of the private actors by minimizing the regulatory pressure and b) by periodic elections that con-

[1] Note that we use the terminology of political philosophy. We use the word “liberal” to refer to the historic liberal tradition in political philosophy and economics. This school of thought considers individual liberties as the main concern of social theory. This is different from the common sense use of of the word in the US where liberal in political terms means “left of center”.

firm or replace those who hold the power (Elster 1986). While elections can hold political actors directly accountable, the legitimacy of the economic actor, due to its private character, is conceptualized in a much more indirect way. The markets themselves are regarded as "essentially democratic" (Barber 2000: 286), because as Barber criticizes, "private power, unencumbered by law, regulation or government, is the essence of freedom" (2000: 284). Thus, overloading the market with legal or moral prescriptions is considered a threat to democracy itself (Friedman 1962; Baumol and Blackman 1991). Via the invisible hand of the market, self interested transactions increase the welfare of society as a whole (Friedman 1962; Jensen 2002). Therefore, corporations are automatically legitimized by the output they produce (see, critically, Peters 2004) as long as they consider laws and moral customs as restricting parameters of their essentially economic decisions.

Considering the legal and moral rules of nationally bound communities as the point of reference for corporate legitimacy becomes a challenge against the background of a globally expanded corporate playing field (Palazzo and Scherer 2006). As Barber has argued, "we have managed to globalize markets in goods, labor, currencies and information, without globalizing the civic and democratic institutions that have historically comprised the free market's indispensable context" (Barber 2000: 275). On the global playing field, the societal environment that grants legitimacy to corporations consists of a multiplicity of legal and moral demands that confront corporations with contradictory expectations (Young 2004). Outside the national box and given that rising level of societal complexity, it seems to be much more demanding to answer questions of responsibility (Kostova and Zaheer 1999). Obviously, there are no globally enforceable legal standards or broadly accepted moral rules that might circumscribe the legitimate activities of multinational corporations (Huntington 1998; Rawls 1993). However, the debate on CSR has only begun to discuss the consequences of globalization (Matten and Crane 2005; Rondinelli 2002; Spar and La Mure 2003).

4 Postnational Constellation

Liberal democracy has developed under a national constellation with a clear division of labor between civil society, government and business (Habermas, 2001). Solidarity, power and money are their respective contributions to the stability and flourishing of democracy: Through their interaction, citizens create shared values, traditions and cultural identities (solidarity). By formulating and enforcing laws, government provides a framework of peaceful conflict resolution (power). By their market activities, corporations contribute to the well-being of society by providing goods and jobs and paying taxes (money). The interaction of individual actors and organizational actors on a national playing field is oriented to the limiting parameters of legal prescriptions and moral custom. On the global playing field the authority of both forms of regulation seems to erode. The transnationalization of political, economic and cultural problems and activities does not only question the efficiency and legitimacy of the established division of labor between civil society, government and business, it furthermore seems to change the dynamic between these three pillars of democratic stability. Therefore, Habermas (2001) has described the emerging "postnational constellation" as a key challenge to democracy.

Globalization is weakening the power of (national) political authorities to regulate the activities of corporations that globally expand their operations. This erosion of the regulatory power of (national) hard law has two effects: it forces national governments into a race to the bottom; and it opens a regulatory vacuum for transnationally expanded corporate activities.

a) *Race to the bottom effect:* Corporate activities of global players take place in a transnational context inhabited by political authorities whose sovereignty remains limited nationally and who are losing their influence on corporate behavior (Waters 1995; Beck 2000; Monbiot 2000; Habermas 2001). Multinational corporations can split their operations and shift them to those regions that promise the optimum contribution to profit maximization. In search of cost advantages, they can for instance deliberately determine the places that minimize tax burdens as well as those that minimize the costs of producing goods. Since they are able to arbitrate among alternative regulations (Ghemawat 2003), they can decide to produce in a country with low wages and weak unions and pay taxes in offshore countries. As a result, national governments might be forced into a race to the bottom in order to win the competition with other countries for attracting corporate investments (Roach 2005; Scherer and Smid 2000). In their search for cost advantages, multinational corporations thereby undermine the ability of the public authorities to set rules, regulate economic activities, and to enforce specific behaviors within their jurisdictions (Reinicke, Deng, Witte, Benner, Whitaker, and Gershman 2000; Beck 2000; Kobrin 2001).

b) R*egulatory vacuum effect*: While the sovereignty of political authorities remains nationally limited, some of the key problems of today's world are transnational problems: global warming, AIDS, corruption, deforestation, and human rights are issues that have a strong transnational dimension and/or impact. They cannot be solved unilaterally by national governments within their geographically limited sphere of influence. Multinational corporations are criticized for being a main source of these problems. They are perceived as the driving forces behind global warming (Le Menestrel, van den Hove, and de Bettignies 2002), ecological problems in general (Shrivastava 1995), corruption (Nesbit 1998), poverty (Jenkins 2005), human rights violations (Taylor 2004), and cooperation with repressive regimes (Taylor 2004).

However, beyond the nation-state, there are not yet sufficiently strong global governance institutions that could define and impose rules and mechanisms for coping with these challenges and sanction the deviant behavior of corporations. International law has been developed as a legal framework for the interactions of the nation states themselves (Kingsbury 2003). Its direct application to non-state actors such as corporations is not yet broadly acknowledged in legal studies (for a critical discussion see Kinley and Tadaki 2004). As a result, no specific regulations exist that could be used to hold corporations responsible for human rights violations or the support of repressive regimes (Ranald 2002; Taylor 2004). International conventions such as the UN Convention on Human Rights and the International Labour Organisation Conventions on the Fundamental Rights of Workers might provide a form of universal standards for corporations, but they cannot be enforced on them.

However, in recent years, the US government and US courts have began to develop laws or apply existing laws beyond their own national borders, punishing even non-US companies for corruption via the Foreign Corrupt Practices Act (Avi-Yonah 2003), for human rights violations via the Alien Tort Claim Act (Taylor 2004), and for financial fraud via the Sarbanes-Oxley Act (Vagts 2003). On the one hand this seems to diminish the space for deviant corporate behavior thus reducing the transnational legal vacuum. On the other hand, such a transnational application of US law weakens all the other national governments (Kobrin 2001).

Shared values can be regarded as a second source of orientation for corporate actors within a society. The more homogeneous these values are, the less often conflicts occur and the stronger the overlap of interpretations of what should be done in a given situation. However, the pluralization of modern society (understood as the threefold process of individualization, the devaluation of tradition, and the globalization of society) results in a loss of cultural homogeneity. Industrial society in the 20th century was characterized by relative cultural homogeneity and individuals were caught in a network of stable expectations (Giddens 1990; Beck, Giddens, and Lash 1995). At the transition from industrial to postindustrial society, choices instead of traditions began to dominate the process of defining and shaping identities (Giddens 1990). Norms, values and interests were pluralized, and the cultural background of Western societies became more heterogeneous. Globalization with its deconstruction of boundaries confronted individual actors with even more alternative forms of life, thus promoting the pluralization of national cultures even further.

While operating on a more or less homogeneous playing field, corporations can consider shared moral values and shared mental maps as taken for granted (Strand 1983; Suchman 1995). In a global and pluralistic context, the taken-for-grantedness of shared convictions is lost (Palazzo and Scherer 2006). While being confronted with more and more ethical questions that arise within their business operations (e.g., child labor, fair wages, slave labor, deforestation), multinational corporations are expected to find convincing answers on their own (Scherer, Palazzo, and Baumann 2006; Scherer and Palazzo forthcoming).

5 Corporate Behavior on the Global Playing Field

The above described regulatory vacuum is abused by some multinationals who demonstrate unacceptable or unethical behavior in their global activities, especially in those areas where states are weak or almost non-existent (e.g., Mokhiber and Weissman 1999; Korten 2001). As we have argued, the ongoing process of globalization creates a comparable context of transition (national to global economy) with weak governance mechanisms. Some multinational corporations are criticized for abusing the regulatory vacuum. Corporations such as De Beers have for instance been accused of profiting from the legal vacuum in African civil wars (Roberts 2003; Dunfee and Fort 2003). Exxon Mobil has been accused of collaborating with the military forces of corrupt political regimes in Indonesia and elsewhere. Mass graves of Indonesians executed by the military forces of the regime were found on Exxon Mobil's property (Taylor 2004). Child labor and slave labor have reappeared in the modern sweatshops of the supply chains of many multinational corporations. As a consequence, some multinational companies such as Wal Mart have been described as the symbol of “what is wrong with twenty-first century capitalism” (Beaver 2005: 159).

However, the questionable behavior of some multinational companies has evoked a response. The postnational constellation is propelling a new distribution of power between national governments, economic actors, and civil society (Mathews 1997). The smaller influence of national governments on large corporations is – at least partly – balanced by the politicization of civil society. What has been labeled "globalization from below" (Beck 2000: 68) describes the growing power of civil society actors to influence decision making processes in governments and corporations. “NGO's role and influence have exploded in the last half-decade” (Mathews 1997: 53). With the Internet forcing an ever-growing transparency in corporate behavior, more and more of these civil society activities are directed against corporations (Dryzek 1999: 44; Klein, Smith, and John 2004) whose business practices are scrutinized suspiciously (Spar and La Mure 2003) and who are confronted with growing demands (Walsh, Weber, and Margolis 2003) and changing conditions of legitimacy (Palazzo and Scherer 2006).

Under the pressure of changing societal expectations, some global corporations have started to intensify their CSR engagement. Many corporate initiatives intrude into domains that traditionally belonged to the sphere of political responsibilities of state actors (Walsh, Weber, and Margolis 2003). Corporations start human rights initiatives (Matten and Crane 2005) such as the *Business Leaders Initiative on Human Rights* of British Petroleum, ABB and other companies. They engage in public health, addressing issues such as AIDS or malnutrition (Margolis and Walsh 2003). Furthermore, they have begun to engage in initiatives of self-regulation in order to fill the described vacuum of global governance (Scherer, Palazzo, and Baumann 2006). These activities go beyond the mainstream CSR discussion with its intact division of labor between state actors and economic actors (see, critically, Scherer and Palazzo forthcoming). While the traditional understanding of CSR still builds upon the isomorphic approach that demands compliance with society’s moral and legal standards, some corporations have started to set or redefine those standards, thereby assuming a politically enlarged responsibility (Scherer, Palazzo, and Baumann 2006).

6. Toward a New Paradigm of CSR for the Global Economy

Current theorizing in CSR is still dominated by an economic view of the firm and an instrumental view of CSR projects (e.g., Jones 1995). The stakeholder management approach (e.g., Agle, Mitchell, and Sonnenfeld 1999; Frooman 1999; Mitchell, Agle, and Wood 1997) as well as the widely accepted attempt to justify CSR with an empirical argument that social performance contributes to financial performance (e.g., Berman, Wicks, Kotha, and Jones 1999; Aupperle, Carroll, and Hartfield 1985; see, critically, Vogel 2005) are common expressions of the underlying economic rationality in contemporary CSR research. Seen from this perspective, a "business case" for CSR is made, i.e., the engagement of business firms in social responsibility is considered similar to an investment in any other product attributes such as quality, service, or reputation that contribute to the profit-making of the firm (McWilliams and Siegel 2001). The behavior of the business firm is directed towards profit-making and this is justified as long as the firm complies with the rules of the game set by the state and defined by the morality of the circumscribing social community. It is assumed that it is finally the "invisible hand" of the well functioning and well defined market that directs economic behavior towards the common good. However, as we have seen, in a globalized world the capacity of the state to regulate economic behavior and to set the conditions for market exchange is in decline. We observe failures of the state apparatus of all sorts (e.g., public goods in short supply, gaps in regulation, lack of enforcement, externalities of market exchange without provisions from the state, etc.). In addition, due to the individualization and pluralization of values in social communities the moral standards for business behaviour get fuzzy and lose their restrictive power. Under these conditions, economic forces are set free without appropriate restrictions in legal or moral terms. As a consequence, the sole emphasis on economic rationality will not contribute to public welfare, but rather may worsen the situation. Therefore, we have to consider new forms of political regulation above and beyond the nation-state in order to re-establish the political order and circumscribe economic rationality by new means of democratic institutions and procedures (Habermas 1996; Scherer and Palazzo forthcoming). And in fact with the intensified engagement of social movements and the growing activities of international institutions a new form of trans-national regulation is emerging: global governance, the definition and implementation of standards of behavior with global reach (Fung 2003, Habermas 2001). There are not only public actors such as national governments and international governmental institutions (e.g., the UN, ILO, OECD, etc.) that contribute to this new world order, but also private actors such as NGOs, civil society groups, and even business firms who play a key role (Scherer, Palazzo, and Baumann 2006). Corporations become politicized in two ways: They operate with an enlarged understanding of responsibility and help to solve political problems in cooperation with state actors and civil society actors. Furthermore, they submit their growing power and political engagement to democratic processes of control and legitimacy. The challenge of CSR in a globalizing world is to engage in a political deliberation process that aims at setting and resetting the standards of global business behavior. While stakeholder management deals with the idea of internalizing the demands, values and interests of those actors that affect or are affected by corporate decision-making, we argue that political CSR can be understood as a movement of the corporation into environmental and social challenges such as human rights, global warming, or deforestation. The politicization of the corporation translates into stronger connections of the corporation with those ongoing public discourses on “cosmopolitan” or “higher-order” interests (Teegen, Doh, and Vachani 2004: 471) and a more intensive engagement in transnational processes of policy making and the creation of global governance institutions such as the Forest Stewardship

Council or the Marine Stewardship Council or the numerous human rights initiatives that are emerging. As we wanted to demonstrate, political solutions for societal challenges are no longer limited to the political system but have become embedded in decentralized processes that include non-state actors such as NGOs and corporations. This new phenomenon goes beyond the mainstream understanding of corporate responsibility. On the global playing field, corporations have to be understood as economic *and* political actors with the above described consequences for the conceptualization of CSR (Scherer and Palazzo forthcoming).

REFERENCES

Agle, B. R., Mitchell, R. K., and Sonnenfeld, J. A. (1999). Who Matters to CEOs? An Investigation of Stakeholder Attributes and Salience, Corporate Performance, and CEO Values. *Academy of Management Journal*, 42: 507-525.

Aupperle, K. E., Carroll, A. B., and Hartfield, J. D. (1985). An Empirical Examination of the Relationship Between Corporate Social Responsibility and Profitability. *Academy of Management Journal*, 28: 446-463.

Avi-Yonah, R. S. (2003). National Regulation of Multinational Enterprises: An Essay on Comity, Extraterritoriality, and Harmonization. *Columbia Journal of Transnational Law*, 42: 5-34.

Barber, B. (2000). Can Democracy Survive Globalization? *Government and Opposition*, 3: 275-301.

Baumhart, R. C. (1961). How Ethical are Businessmen? *Harvard Business Review*, 39 (4): 6-12, 16, 19, 156-176.

Baumol, W. J. with S. A. B. Blackman (1991). *Perfect Markets and Easy Virtue: Business Ethics and the Invisible Hand.* Cambridge, Mass.: Blackwell.

Beaver, W. (2005). Battling Wal Mart: How Communities Can Respond. *Business and Society Review*, 110 (2): 159-169

Beck, U. (1992). *Risk Society. Towards a New Modernity*. London: Sage.

Beck, U. (1999). *World Risk Society*. Cambridge, UK: Polity Press.

Beck, U. (2000). *What is Globalization?* Cambridge, UK: Polity Press.

Beck, U., Giddens, A., and Lash, S. (1995). *Reflexive Modernization*. Stanford: Stanford University Press.

Berman, S. L., Wicks, A. C., Kotha, S., and Jones, T. M. (1999). Does Stakeholder Orientation Matter? The Relationship Between Stakeholder Management Models and Firm Financial Performance. *Academy of Management Journal,* 42: 488-506.

Block, F. (1994). ‘The Roles of the State in the Economy’. In Smelser, N.J. and R. Swedberg, (Eds.). The Handbook of Economic Sociology. Princeton, N.J.: 691-710.

Bowen, H. R. (1953). *Social Responsibilities of the Business-man*. New York.

Braithwaite, J., and Drahos, P. (2000). *Global Business Regulation.* Cambridge, UK: Cambridge University Press.

Brakman, S., Garretsen, H., van Marrewijk, C., and can Witteloostuijn, A. (2006). *Nations and Firms in the Global Economy. An Introduction to International Economics and Business*. Cambridge, UK: Cambridge University Press.

Business Ethics Quarterly (2004). Special Issue on “Business Ethics in a Global Economy”, guest eds.: M. Calkins and S. L. Berman. *Business Ethics Quarterly* 14, No. 4.

Business Ethics Quarterly (2006). Special Forum on “Voluntary Codes of Conduct for Multinational Corporations”, guest ed.: S. P. Sethi. *Business Ethics Quarterly* 16, No. 2.

Carroll, A. B. (1979). A Three-dimensional Conceptual Model of Corporate Performance. *Academy of Management Review*, 4: 497–505.

Chandler, A. D., and Mazlish, B. (Eds.) (2005). *Leviathans. Multinational Corporations and the New Global History*. Cambridge, UK: Cambridge University Press.

Cochran, P. L., and Wood, R. A. (1984). Corporate Social Responsibility and Financial Performance. Academy of Management Journal 27: 42-56.

Cohen, R., and Kennedy, P. (2000). *Global Sociology*. London: MacMillan Press.

DiMaggio, P. J., and Powell, W. W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, 48: 147-160.

Donaldson, T. and Dunfee, T. (1999). *Ties that Bind: A Social Contract Approach to Business Ethics*. Boston: Harvard Business School Press.

Donham, W. B. (1927). The Social Significance of Business. *Harvard Business Review*, 4 (4): 406-419.

Dryzek, J. S. (1999). Transnational Democracy. *Journal of Political Philosophy*, 7 (1): 30-51.

Dunfee, T. W., and Fort, T. L. (2003). Corporate Hypergoals, Sustainable Peace, and the Adapted Firm. *Vanderbilt Journal of Transnational Law*, 36: 563-617.

Elster, J. (1986). The Market and the Forum: Three Varieties of Political Theory. In J. Elster and A. Hylland (eds.), *Foundations of Social Choice Theory*. Cambridge: Cambridge University Press: 103–132.

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

Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profit. *The New York Times Magazine*, 13 September. Reprint in Donaldson, T., and Werhane, P. H. (Eds.), *Ethical Issues in Business: A Philosophical Approach:* 217-223. Englewood Cliffs, N.J.: Prentice Hall.

Frooman, J. (1999). Stakeholder Influence Strategies. *Academy of Management Review*, 24: 191-205.

Fung, A. (2003). Deliberative Democracy and International Labor Standards. *Governance*, 16: 51-71.

Ghemawat, P. (2003). The Forgotten Strategy. *Harvard Business Review*, 81: 76-84.

Giddens, A. (1990). *Consequences of Modernity*. Cambridge, UK: Polity Press.

Habermas, J. (1996). *Between Facts and Norms: Contributions to a Discourse Theory of Law and Democracy*. Cambridge, Mass.: MIT Press.

Habermas, J. (2001). *The Postnational Constellation*. Cambridge, Mass.: MIT Press.

Hayek, F. A. v. (1996). *Individualism and Economic Order*. Chicago: Chicago University Press.

Held, D., McGrew, A., Goldblatt, D., and Perraton, J. (1999). *Global Transformations. Politics, Economics and Culture*. Stanford, Calif.: Stanford University Press.

Hillman, A. J., Keim, G., D., and Schuler, D. (2004). Corporate Political Activity: A Review and Research Agenda. *Journal of Management*, 30: 837-857.

Hirst, P., and Thompson, G. (1996). *Globalization in Question*. Polity Press.

Hoekman, B., and Kostecki, M. (1995). *The Political Economy of the World Trading System. From GATT to WTO*. Oxford: Oxford University Press.

Huntington, S. P. (1998). *Clash of Civilizations and the Remaking of World Order*. New York: Simon & Schuster.

Irwin, D. A. (2002). *Free Trade under Fire*. Princeton, Princeton University Press.

Jenkins, R. (2005). Globalization, Production and Poverty. United Nations University. World Institute for Development Economics Research. Research Paper No 2005/40.

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

Jones, T. M. (1995). Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics. *Academy of Management Review,* 20: 404-437.

Journal of Business Ethics (2005). Special issue on "Voluntary Codes of Conduct for Multinational Corporations", guest ed.: S. P. Sethi. *Journal of Business Ethics*, 59, No. 1-2.

Kingsbury, B. (2003). The International Legal Order. In P. Cane, and M. Tushnet (Eds.), *The Oxford Handbook of Legal Studies:* 271-297. Oxford: Oxford University Press.

Kinley, D., and Tadaki, J. (2004). From Talk to Walk: The Emergence of Human Rights Responsibilities for Corporations at International Law. *Virginia Journal of International Law*, 44: 931-1022.

Klein, N. (2000). *No Logo: No Choice, No Space, No Jobs*. New York: Picador.

Klein, J. G., Smith, N. C., and John, A. (2004). Why we Boycott: Consumer Motivations for Boycott Participation. *Journal of Marketing*, 68: 92-109.

Kobrin, S. J. (2001). Sovereignity@bay: Globalization, Multinational Enterprise, and the International Political System. In A. M. Rugman and T. L. Brewer (Eds.), *The Oxford Handbook of International Business*: 181-205. New York: Oxford University Press.

Korten, D. C. (2001). *When Corporations Rule the World*. San Francisco, CA: Berret-Koehler.

Kostova, T., and Zaheer, S. (1999). Organizational Legitimacy Under Conditions of Complexity: The Case of the Multinational Enterprise. *Academy of Management Review*, 24: 64-81.

Krauss, M. (1997). *How Nations Grow Rich*. New York: Oxford University Press.

Le Menestrel, M. van den Hove, S. and de Bettignies, H.-C. (2002). Processes and Consequences in Business Ethical Dilemmas: The Oil Industry and Climate Change. *Journal of Business Ethics*, 41(3): 251-266

Levitt, T. (1970). The Dangers of Social Responsibility. In Meloan, T., Smith, S., and Wheatly, J. (Eds.), *Managerial Marketing Policies and Decisions:* 461-475. Boston, Mass.: Houghton Mifflin.

Livesey, S. (2001). Eco Identity as Discursive Struggle: Royal Dutch/Shell, Brent Spar, and Nigeria. *Journal of Business Communication*, 38 (1): 58-91.

Margolis, J. D., and Walsh, J. P. (2003). Misery Loves Companies: Rethinking Social Initiatives by Business. *Administrative Science Quarterly*, 48: 268-305.

Mathews, J. T. (1997). Power Shift. *Foreign Affairs*, January/February: 50-66.

Matten, D., and Crane, A. (2005). Corporate Citizenship: Towards an Extended Theoretical Conceptualization. *Academy of Management Review*, 30: 166-179.

McWilliams, A., and Siegel, D. (2001). Corporate Social Responsibility: A Theory of the Firm Perspective. *Academy of Management Review,* 26: 117-127.

Mitchell, R. K., Agle, B. R., and Wood, D. J. (1997). Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts. *Academy of Management Review*, 22: 853-886.

Mokhiber, R., and Weissman, R. (1999). *Corporate Predators: The Hunt for Mega-Profits and the Attack on Democracy*, Common Courage Press.

Monbiot, G. (2000). *Captive State. The Corporate Takeover of Britain*. New York: MacMillan.

Nesbit, J. B. (1998). Transnational Bribery of Foreign Officials: A New Threat for the Future of Democracy. *Vanderbilt Journal of Transnational Law* 31: 1273-

Norberg, J. (2003). *In Defence of Global Capitalism*. Washington, D. C.: Cato Institute.

Palazzo, G. and Scherer, A. G. (2006). Corporate Legitimacy as Deliberation. A Communicative Framework. *Journal of Business Ethics*, 66: 71-88.

Parker, B. (1998). *Globalization and Business Practice. Managing Across Borders*. London: Sage.

Peters, F. (2004). Choice, Consent, and the Legitimacy of Market Transactions. *Economics and Philosophy*, 20: 1–18.

Perraton, J., Goldblatt, D., Held, D., and McGrew, A. (1998). Die Globalisierung der Wirtschaft. In Beck, U. (Ed.), *Politik der Globalisierung*: 134-168. Frankfurt a.M.: Suhrkamp.

Porter, M. E., and Kramer, M. R. (2002). The Competitive Advantage of Corporate Philanthropy. *Harvard Business Review*, December: 57-68.

Rawls, J. (1993). *Political Liberalism*. New York: Columbia University Press.

Ranald, P. (2002). Global Corporations and Human Rights: The Regulatory Debate in Australia. *Corporate Environmental Strategy*, 9 (3): 243-250.

Reinicke, W. H., and Deng, F., with Witte, J. M., Benner, T., Whitaker, B., and Gershman, J. (2000). *Critical Choices: The United Nations, Networks, and the Future of Global Governance.* Ottawa: International Development Research Centre.

Roach, B. (2005). A Primer on Multinational Corporations. In Chandler, A. D., and Mazlish, B. (Eds.). *Leviathans. Multinational Corporations and the New Global History*: 19-44. Cambridge, UK: Cambridge University Press.

Roberts, J. (2003). *Glitter and Greed. The Secret World of the Diamond Cartel*. New York: Disinformation.

Rondinelli, D. A. (2002). Transnational Corporations: International Citizens or New Sovereigns? *Business and Society Review*, 107 (4): 391-413.

Scherer, A. G., and Palazzo, G. (forthcoming). Toward a Political Conception of Corporate Responsibility. Business and Society Seen from a Habermasian Perspective. *Academy of Management Review*, forthcoming.

Scherer, A. G., Palazzo, G., and Baumann, D. (2006). Global Rules and Private Actors. Towards a New Role of the Transnational Corporation in Global Governance. *Business Ethics Quarterly*, 16: 505-532.

Scherer, A. G., and Smid, M. (2000). The Downward Spiral and the U.S. Model Principles. Why MNEs Should Take Responsibility for the Improvement of World-wide Social and Environmental Conditions. *Management International Review*, 40: 351-371.

Scholte, J. A. (2005). *Globalization. A Critical Introduction*. 2nd ed. New York: Palgrave.

Shrivastava, P. (1995). The Role of Corporations in Achieving Ecological Sustainability. *Academy of Management Review*, 20: 936-960.

Solomon, R. C. (1993). *Ethics and Excellence: Cooperation and Integrity in Business*. New York: Oxford University Press.

Spar, D. L., and La Mure, L. T. (2003). The Power of Activism: Assessing the Impact of NGOs on Global Business. *California Management Review*, 45: 78-101.

Stone, C. D. (1975). *Where the Law Ends*. New York: Harper&Row.

Strange, S. (1996). *The Retreat of the State: The Diffusion of Power in the World Economy.* Cambridge, UK: Cambridge University Press.

Strand, R. (1983). A Systems Paradigm of Organizational Adaptations to the Social Environment. *Academy of Management Review*, 8: 90-96.

Suchman, M.C. (1995). Managing Legitimacy: Strategic and Institutional Approaches. *Academy of Management Review* 20, 571–610.

Sundaram, A. K., and Inkpen, A. C. (2004). The Corporate Objective Revisited. *Organization Science*, 15: 350-363.

Swanson, D. L. (1999). Toward an Integrative Theory of Business and Society: A Research Strategy for Corporate Social Performance. *Academy of Management Review*, 24: 506-521.

Taylor, K. M. (2004). Thicker than Blood: Holding Exxon Mobil Liable for Human Rights Violations Committed Abroad. *Syracuse Journal of International Law and Commerce*, 31(2): 274-297.

Teegen, H., Doh, J. P. and Vachani, S. (2004). The Importance of Nongovernmental Organization (NGOs) in Global Governance and Value Creation: An International Business Research Agenda. *International Business Studies*, 35(6): 463-483.

Vagts. D. F. (2003). Extraterritoriality and the Corporate Governance Law. *American Journal of International Law* 97 (2): 289-294.

Vogel, D. J. (2005). Is there a Market for Virtue? The Business Case for Corporate Social Responsibility. *California Management Review*, 47 (Summer 2005): 19-45.

Waters, M. (1995). *Globalization*. New York: Routledge

Walsh, J. P., Weber, K., and Margolis, J. D. (2003). Social Issues and Management: Our Lost Cause Found. *Journal of Management*, 29: 859-881.

Whetten, D. A., G. Rands, and Godfrey, P. O. (2002). What are the Responsibilities of Business to Society? In Pettigrew, A., H. Thomas, and R. Whittington (Eds.), *Handbook of Strategy and Management:* 373-408. London: Sage.

Young, I. M. (2004). Responsibility and Global Labor Justice. *The Journal of Political Philosophy*, 12: 365-388.

Zürn, M. 2002. From Interdependence to Globalization. In W. von Carlsnaes, T. Risse, and B. Simmons (Eds.), *Handbook of International Relations:* 235-254. London: Sage.