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The New Political Role of Business in a Globalized World – A Review of a New Perspective on CSR and its Implications for the Firm, Governance, and Democracy

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THE NEW POLITICAL ROLE OF BUSINESS IN A GLOBALIZED WORLD – A REVIEW OF A NEW PERSPECTIVE ON CSR AND ITS IMPLICATIONS FOR THE FIRM, GOVERNANCE, AND DEMOCRACY

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ABSTRACT

Scholars in management and economics widely share the assumption that business firms focus on profits only, while it is the task of the state system to provide public goods. In particular, it is the state's mandate to regulate the economy in such a way that business activities contribute to the common good. In this view business firms are conceived of as economic actors, and governments and their state agencies are considered the only political actors. We suggest that, under the conditions of globalization, the strict division of labor between private business and nation state governance does not hold any more. Many business firms have started to assume social and political responsibilities that go beyond legal requirements and fill the regulatory vacuum in global governance. Our review of the literature shows that there are a growing number of publications from various disciplines that propose a politicized concept of corporate social responsibility (CSR). We consider the implications of this new perspective for theorizing about the business firm, governance, and democracy.

INTRODUCTION: INCREASED RESPONSIBILITIES OF BUSINESS FIRMS

During the past decades business firms have started to engage in activities that have traditionally been regarded as actual governmental activities (Margolis and Walsh, 2003; Matten and Crane, 2005; Scherer and Palazzo, 2008a). This is especially true for multinational corporations (MNC). They engage in public health, education, social security, and protection of human rights while often operating in countries with failed state agencies (Matten and Crane, 2005); address social ills such as AIDS, malnutrition, homelessness, and illiteracy (Margolis and Walsh, 2003; Rosen et al., 2003); define ethics codes (Cragg, 2005); protect the natural environment (Hart, 2005; Marcus and Fremeth, 2009); engage in self-regulation to fill global gaps in legal regulation and moral orientation (Scherer and Smid, 2000); and promote societal peace and stability (Fort and Schipani, 2004). Since the year 2000 over five thousand business firms have subscribed to the UN Global Compact's call to engage in self-regulation in order to fill the regulatory vacuum that has emerged as a result of the process of globalization.

Many economists criticize these activities (e.g., Henderson, 2001) because they do not correspond to the economic role of business in society as it is assumed in the theory of the firm (Jensen, 2002; Sundaram and Inkpen, 2004). The aforementioned behavior of business firms even goes beyond the widespread understanding of corporate social responsibility (CSR) as compliance with societal expectations (Carroll, 1991; Strand, 1983; Whetton et al., 2002). These activities of businesses demonstrate a growing involvement of corporations in global business regulation and in the production of global public goods (Braithwaite and Drahos, 2000; Kaul et al., 2003; Vogel, 2007).

Matten and Crane (2005) suggest that in the course of this development some business firms have even begun to assume a state-like role. They argue that many companies fulfill the functions of protecting, enabling and implementing citizenship rights, which have originally been considered the sole responsibility of the state and its agencies (Marshall, 1965). Matten and Crane (2005) hold that these corporate activities often occur in cases where the state system fails, i.e. when the state withdraws or has to withdraw, when the state has not yet implemented basic citizenship rights, or when it is principally unable or unwilling to do so. As a consequence some authors conclude that business firms have become important political actors in the global society (Boddewyn and Lundan, 2010; Detomasi, 2007; Matten and Crane, 2005; Scherer and Palazzo, 2007; Scherer et al., 2006).

On the global level, neither nation states nor international institutions alone are able to sufficiently regulate the global economy and to provide global public goods (Kaul et al., 2003). Rather, global governance, seen as the process of defining and implementing global rules and providing global public goods, is a poly-centric and multi-lateral process to which governments, international institutions, civil society groups, and business firms contribute knowledge and resources (Braithwaite and Drahos, 2000; Detomasi, 2007; Reinicke and Deng, 2000). Unlike national governance with its monopoly on the use of force and the capacity to enforce regulations upon private actors within the national territory, global governance rests on voluntary contributions and weak or even absent enforcement mechanisms.

We hold that current theorizing on the firm in the corporate social responsibility (CSR)[1] literature has not yet sufficiently integrated this new political role of private business. Instead, many conceptions of CSR build on the dominant economic paradigm which advocates a strict separation of political and economic domains (Sundaram and Inkpen, 2004) and a purely instrumental view of corporate politics (Baron, 2003; Hillman et al., 2004; Keim, 2001). There are some recent studies in business ethics and CSR research that provide an alternative to the economic view. However, these studies have to date neither been integrated into a coherent paradigmatic perspective, nor have they been linked to helpful conceptual ideas in adjacent disciplines, such as political theory, international relations, and legal studies, where the political role of private actors in global governance has already been discussed intensively. Our aim therefore is to review the recent business ethics and CSR literature in the

[1] In our paper we use the term "corporate social responsibility (CSR)" as an umbrella term for the debate on the role of business in society. In the literature there are various concepts that we consider part of the CSR field: e.g., business ethics, business & society, corporate accountability, corporate citizenship, corporate sustainability, critical management studies, stakeholder theory, etc.

context of the research on globalization done within and across other social sciences. Examining how recent debates in CSR reflect upon the consequences of globalization, we propose a new perspective of what we call "political CSR." In a nutshell, political CSR suggests an extended model of governance with business firms contributing to global regulation and providing public goods. It goes beyond the instrumental view on politics in order to develop a new understanding of global politics where private actors such as corporations and civil society organizations play an active role in the democratic regulation and control of market transactions. These insights may enrich the theory of the firm with a more balanced view on political and economic responsibilities in a globalized world.

This review paper is organized as follows: First we point out the challenges of the post-national constellation and its implications for the behavior of global business firms. Next we discuss the limitations of current theorizing on the role of business in society and identify the assumptions of what we have named the instrumental approach to CSR. In the second half, we review recent literature on the role of private actors in global governance and discuss its implications for business firms. This review presents both, the emerging debate on political CSR in the CSR field itself, and also the overarching debates mainly in legal studies, international relations, and political philosophy, which contribute new insights and alternative views to the debate on CSR. We suggest that these developments indicate a change in the underlying conceptual premises of CSR, which we describe with the help of five interrelated dimensions (governance model, role of law, scope of corporate responsibility, source of corporate legitimacy, and the role of democracy). These dimensions are central to the analysis of CSR as they contain alternative assumptions on the role of business firms in society. Finally, we briefly address some consequences for future empirical and conceptual research in the CSR field and outline some implications for the theory of the firm.

GLOBALIZATION, THE POSTNATIONAL CONSTELLATION, AND THE NEW CHALLENGES FOR CORPORATE SOCIAL RESPONSIBILITY

Globalization can be defined as a process of intensification of cross-border social interactions due to declining costs of connecting distant locations through communication and the transfer of capital, goods, and people. This process leads to growing transnational interdependence of economic and social actors, an increase in both opportunities and risks, and to intensified competition (Beck, 2000; Giddens, 1990; Held et al., 1999). Globalization is accelerated by factors such as political decisions (reduction of barriers for trade, FDI, capital, and services; privatization and deregulation policies), political upheaval (e.g., removal the iron curtain), technological advancements (communication, media, transportation), and socio-political developments (migrations, spread of knowledge, creation of new identities) (Scholte, 2005; Cohen and Kennedy, 2000, Scherer and Palazzo, 2008b).

In the course of globalization the so-called "Westphalian world order" has been shaken so that political scientists and philosophers now speak of a "post-Westphalian" order (Falk, 2002; Kobrin, 2001; Santoro, 2010) or a "post-national constellation" (Habermas, 2001). The concept of the Westphalian world order, as used in the political sciences (Cutler, 2001), is named after the treaty of Westphalia (1648), ending the Thirty Years' War in Europe, and international lawyers consider this to mark the foundation of the modern state principles (Gross, 1948; for a critical analysis see Osiander, 2001). The Westphalian order rests mainly on the steering capacity of the state authorities of sovereign countries with both a monopoly on the use of force on their territory and more or less homogeneous national cultures that lead to a stabilization of social roles and expectations within coherent communities.[2] In the post-Westphalian or post-national constellation these conditions have changed (Cutler, 2001; Falk, 2002; Habermas, 2001). Kobrin (2009, p. 350) emphasizes the loss of the regula-

[2] This applies to nations grounded in a common history, culture, and language of its people, inherited from generation to generation without a defining starting point (such as France or Germany). In other cases the national identity is not primarily grounded in a common history and language but in a strong sense of community and solidarity in the face of a common opponent, and is expressed in a decisive act of its founding fathers, often materialized in a document such as the declaration of independence of the US or the *Bundesbrief* of Switzerland.

tory power of state institutions due to "the fragmentation of authority, the increasing ambiguity of borders and jurisdictions; and the blurring of the lines between the public and the private sphere" as main characteristics of the transition to the new post-Westphalian order. With his concept of a post-national constellation, Habermas (2001) also addresses the decline of nation state authority, but emphasizes two aspects in particular: (1) The weakening of democratic control and the rule of law, and (2) the growing heterogeneity of national cultures and the pluralism of values and life-styles as further challenges for the democratic political order.

(1) The Westphalian nation state system is losing some of its regulatory power because many social and economic interactions are expanding beyond the reach of territorially bound national jurisdiction and enforcement to offshore locations (Doh, 2005; Palan, 2003) or to oppressive or even failed states (Fukuyama, 2004) where there is no rule of law, no democratic institutions, and no adequate government and regulation. While production and trade have expanded into many regions of the world, the development of proper political institutions that are capable to regulate the global economy lags behind (Koenig-Archibugi, 2005). As Barber (2000, p. 275) has criticized, "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." Here the argument is not that nation states become powerless or lose all their influence on corporations – for some regulatory issues the contrary might be true. Rather, we argue that the regulatory challenges that can be observed in a globalizing world do in particular affect CSR related topics. In many public policy areas such as human rights, labor rights, and environmental issues, nation state agencies are not interested or increasingly fail in providing public goods (Beck, 2000; Strange, 1996; Zürn, 2002). National governments are facing externality problems that have transnational causes and effects and cannot be resolved unilaterally such as, e.g., global warming, deforestation, or the regulation of capital markets. At the same time, international institutions such as the United Nations, the International Labor Organization, or the World Trade Organizations can only with difficulty contribute to these public policy issues due to

the principle non-intervention in nation-state sovereignty, their lack of enforcement mechanisms, and the influence of national egoisms on international institutions that often impede multi-lateral solutions in the common interest (Scherer and Smid, 2000).

(2) The erosion of the power of democratic political authority is accompanied by social changes such as the emergence of new identities, the spread of individualism, and the displacement and migration of people of different origins (Scholte, 2005; Cohen and Kennedy, 2000). In many countries the homogeneity of national cultures is gradually replaced by new multi-cultural communities with a pluralism of heterogeneous values and life-styles (Friedman and Randeria, 2004). While the pluralization and modernization of society sometimes provokes fundamentalist and nationalist backlashes, these backlashes even further challenge existing (or emerging) democratic political order of secular state authorities and thus also have a negative impact on the regulation capacity of democratic national governance (Barber, 1996). This struggle between transformative and reactive, or even reactionary social processes, have been analyzed extensively (Castells, 1997). In the Western world and partly also in the emerging economies such backlashes are a part of a global transformation process (Beck, 2000). This transformation has been analyzed as reflexive modernization (Lash, 1999), the postmodern condition (Lyotard, 1984), secularization (Taylor, 2007) or pluralization (Rorty, 1991). As a key consequence of this process, values, attitudes, and social practices that once were taken for granted in the pre-globalization era are losing their certainty (Beck-Gernsheim and Beck, 2002). As a result the corporate environment consists of a pluralism of values and a growing heterogeneity of social expectations (Palazzo and Scherer, 2006).

The decline in governance capability of nation-states is partly compensated by the emergence of new forms of global governance above and beyond the state. International organizations, civil society groups, and private businesses in cooperation with state agencies, or without their support, have started to voluntarily contribute expertise and resources to fill gaps in global regulation and to resolve global public goods problems (Braithwaite and Drahos, 2000; Haufler, 2001; Kaul et al. 2003). At the same time, NGOs that were once focused on pressing governments have begun to target business firms to make them more responsive to social and environmental concerns (den Hond and de Bakker, 2007; Doh and Guay, 2006).

The post-national constellation leads to challenges for businesses operating in a global environment and has far reaching implications for theorizing on CSR (Scherer and Palazzo 2008b). Business firms operate under conditions of increased competition, as the protecting shield of closed borders has began to disintegrate and state monopolies have been replaced by liberalized and deregulated markets. Many corporations are under pressure to cut costs and increase profitability as their investors demand higher returns. At the same time business firms acquire new money-making opportunities by entering new markets or cutting costs by splitting their value chain and shifting activities to low cost locations. They operate in complex environments with heterogeneous legal and social demands so that often it is not clear which activities can be considered legitimate and which are unacceptable. Some operations are shifted to offshore locations beyond the reach and enforcement mechanisms of the democratic rule of law state (Doh, 2005). These conditions may lead to new opportunities and cost advantages but at the same time to more risks when companies are involved in environmental damages or are complicit in human and labor rights abuses. In these cases, public issues that once were covered by nation state governance now fall under the discretion and responsibility of corporate managers. In order to react to NGO pressure, to close gaps in regulation, and to reduce complexity, many business firms have started to compensate the gaps in national governance by voluntarily contributing to self-regulation and by producing public goods that are not delivered by governments. In the following section we will argue that the established instrumental view on CSR is not well prepared to respond to these changes.

THE RESPONSIBILITY OF BUSINESS TO SOCIETY: PREMISES OF THE INSTRUMENTAL APPROACH TO CSR

The main causes behind the expansion of CSR activities can be found in the erosion of the division of labor between business and government and the growing pressure of civil society actors. The examples of corporate political engagement mentioned in the introduction illustrate the changing modus of global governance, which is manifest in a de-centering of authority and an emergence of political power and authority for originally non-political and non-state actors, such as NGOs, intergovernmental organizations, and MNCs (Beck, 2000; Risse, 2002; Zürn, 2002). Therefore, Walsh et al. (2003, p. 878) suggest that the "relationship between the organization, the state, and those who are significantly affected by the transferred responsibility, becomes the focal point of research." In our review of the new political approach to CSR we will show that the CSR field has begun to discuss these consequences of globalization. The dominant economic and instrumental approaches to CSR, however, still build on the containment power of the nation-state: "companies could take their cues for publicly desired social action by adhering to the nation's laws, public policies, and government regulation, rather than relying on the social conscience of the firm's executive managers" (Frederick, 1998, p. 55).

The literature on corporate social responsibility (CSR) is very diverse and there is no consensus on the precise definition of CSR (Scherer and Palazzo, 2007). However, a number of key characteristics in the mainstream approaches can be identified. Various scholars have analyzed the literature in the CSR field and conclude that the economic approach to CSR is very influential and a significant part of the current debate on CSR fits into the economic theory of the firm (Garriga and Melé, 2004; Margolis and Walsh, 2003; Scherer and Palazzo, 2007; Walsh, 2005; Windsor, 2006; Vogel, 2005). The *economic view of CSR* is based on three premises: (1) there is a clear separation of business and politics (Friedman, 1962; Henderson, 2001), (2) corporations have to maximize their profits and managers have fiduciary responsibilities to the shareholders (Sundaram and Inkpen, 2004), and (3) societal responsibilities might only be assumed if they advance the long term value of the firm (McWilliams and Siegel, 2001; Mackey et al., 2007). As a consequence, many economists would not reject socially responsible behavior in principle, but they would rather assess the value-creating contribution of CSR activities (McWilliams et al., 2006; Siegel, 2009). Jensen (2002, p. 235) has called this strategy an "enlightened value maximization." Though often not explicitly stated, many students of CSR implicitly work on the basis of these assumptions, thus developing an *instrumentalist view of CSR* (see, e.g., Jones, 1995) while searching for the "business case" of CSR. More than one hundred empirical surveys on the contribution of corporate social performance to corporate financial performance are a clear expression of this underlying premise of CSR research (for critical reviews see Margolis and Walsh, 2001, 2003; Vogel, 2005; Walsh et al. 2003), and even the widely discussed stakeholder approach to CSR contributes to instrumentalist thinking. As Mitchell et al. (1997) reveal, the various corporate stakeholders are considered in decision making only in as much as they are powerful and able to influence the profit of the corporation.

Thus, concerning the strict separation of private and public domains, economists maintain that managers of corporations should maximize shareholder value (Jensen, 2002; Sundaram and Inkpen, 2004) while leaving the responsibility for externalities, social miseries, environmental protection, and the production of public goods to the state system (see, e.g., Friedman, 1962). Seen from the perspective of the economic theory of the firm, the business firm is conceived of as a "nexus of contracts" (Jensen and Meckling, 1976). Consequently, Sundaram and Inkpen (2004, p. 353) suggest that stakeholders, unlike shareholders, "have protection (or can seek remedies) through contracts and the legal system." Both authors assume that the state and the juridical system is working more or less properly and is capable of taking care of the legitimate concerns of the various stakeholders so that there is no need for the business firm to bear any additional responsibility beyond legal requirements.

This model for the integration of business and society may work well in a world where the state institutions are actually able to predict problems and conflicts in society, to formulate regulations ex ante, and to enforce legal rules and contracts through the legal and administrative system. However, because of the complexity and variability of conditions in modern society, and the imperfections within the state apparatus, the juridical and enforcement system may not be sufficient (Eisenberg, 1992; Parker and Braithwaite, 2003; Stone, 1975). This is even more obvious in the era of globalization, when the ability of the nation-state system to regulate business activities, to provide public goods, and to avoid or compensate externalities is diminishing (Beck, 2000; Habermas, 2001; Strange, 1996). In the global arena, business firms are not so much private institutions that operate under the rules of a particular legal system. Instead, operating on a global playing field, corporations today are able to choose among various legal systems. Applying economic criteria they choose the optimal context of labor, social, and environmental regulations for their operations (Roach, 2005; Scherer and Palazzo, 2007; Scherer et al., 2006): "MNCs are in a position to effectively escape local jurisdictions by playing one legal system against the other, by taking advantage of local systems ill-adapted for effective corporate regulation, and by moving production sites and steering financial investments to places where local laws are most hospitable to them." (Shamir, 2004, p. 637). In turn, national governments may try to lure or hold businesses by offering subsidies, tax holidays, infrastructural investments, and cutbacks on regulations. This emerging competition of locations and jurisdictions may even lead to a "downward spiral" in social and environmental conditions of global governance (Avi-Yonah, 2000; Roach, 2005; Scherer and Smid, 2000).

However, as recent analyses have shown (Scherer and Palazzo, 2007; Walsh, 2005; Windsor, 2006), also ethical approaches to CSR such as the philosophically inspired *business ethics* literature and the *normative stakeholder approach* have problems dealing with the post-national constellation and tackling corporate political activities, since they mainly build on the same assumption of an intact nation state system that provides the legal and moral point of reference for their normative analyses.[3] However, as we have argued, the legal framework is weakened through globalization, while the (national) moral context of managerial decision making is fragmentized. The growing pluralism of values, norms, and lifestyles in the post-national constellation makes it even more difficult for normative scholars to convincingly formulate and justify a set of universal values or rules that can be applied across cultures.

[3] See, e.g., the "ethical responsibility theory" of CSR and the "ideal citizenship" conception in Windsor's (2006) review or the "ethical theories" and "integrative theories" in Garriga and Melé's (2004) review paper.

These kinds of foundational endeavors have not only come under the attack of postmodernists who emphasize the "end of the grand narrative" (Lyotard, 1984) and point to the historically and cultural contingent roots of philosophical conceptions. Postmodern and pragmatic philosophers (Rorty, 1985) reject any universalist approach in order to protect historically emergent local rationalities (see, e.g., Michaelson, 2010). It has become a widely accepted position in philosophical discourse that a purely philosophical justification of universal values and norms is not possible (see, e.g., Baynes et al., 1986). Even business ethicists such as Donaldson and Dunfee (1999) conclude that the philosophical search for universal rules may be futile as there is no "view from nowhere" from which a-historical and a-cultural ethical norms could be deduced.

However, the question remains of how the legitimacy of corporate activities can be normatively accessed when no universal criteria of ethical behavior are available in a post-modern and post-national world. Following Richard Rorty (1991) who emphasizes a priority of democracy to philosophy, we suggest that the CSR activities described above can be discussed from an alternative perspective. Instead of analyzing corporate responsibility from an economic or an ethical point of view, we propose to embed the CSR debate in the context of the changing order of political institutions. As we move from a Westphalian world that was ordered by and within nation states to a world that is characterized by a post-national constellation, the division of labor between governments, corporations and civil society does not remain stable. As we have shown, key assumptions made by scholars in the field of CSR and in management theory in general have to be reconsidered. Independent from whether or not it pays to be responsible and whether or not universal normative principles can be defined, the post-national constellation challenges key assumptions about the order of the political institutions in which corporations are embedded.

CORPORATE RESPONSIBILIY ON GLOBALIZED MARKETS – A NEW PERSPECTIVE

We suggest that, in order to respond to the globalization phenomenon and the emerging post-national constellation, it is necessary to acknowledge a new political role of business that goes beyond mere compliance with legal standards and conformity with moral rules. “Economic globalization creates challenges for political steering which exceed the capabilities of any single state. It has produced a growing need (and claim) to make use of the problem-solving potential of non-state actors in order to master these challenges more effectively.” (Wolf, 2008, p. 255) As argued, the borders between political and economic activities are blurring because particularly multinational corporations come under the political pressure of NGOs and some of them, as a reaction, have already started to operate with a politically enlarged concept of responsibility. Orthodox theories of CSR and the economic theory of the firm do not adequately address these challenges.

The faster the societal change, the more difficult it becomes to understand new phenomena through the lenses of traditional patterns of world perception. New problems and received solutions no longer fit. We propose that the post-national constellation has triggered a discussion that opens up a new perspective in theorizing on CSR. Building on the above analysis, we see the following interconnected institutional, procedural, and philosophical themes emerging on the CSR research agenda that will be discussed in detail in the subsequent sections:

1. *The emerging global institutional context for CSR: From national to global governance:* The post-national constellation is characterized by a loss of regulatory impact of national governments on MNCs. New societal risks result from this power shift and new forms of (global) governance have been developed to deal with those risks. Research on CSR is beginning to take account of these new mechanisms of governance (Detomasi, 2007).
2. *CSR as self-regulation: From hard law to soft law*: These new forms of governance do not only establish a new institutional context with private actors in a regulatory role, they also

rely on a different form of regulation, the so-called soft law that operates without a governmental power to enforce rules and to sanction deviant behavior (Shelton, 2000). As a consequence, self-regulation is becoming a key issue in the CSR debate (Cragg, 2005).

3. *The expanding scope of CSR: From liability to social connectedness*: The erosion of the national regulatory context becomes visible when corporations are criticized for abusing their growing power or for benefiting from their operations or those of their supply chain partners. Along their supply chains, MNCs are asked to take responsibility for more and more social and environmental externalities to which they are connected. The idea of social connectedness is replacing the idea of legal liability (Young, 2008).
4. *The changing conditions of corporate legitimacy: From cognitive and pragmatic legitimacy to moral legitimacy:* CSR in a domestic context is building on the assumption that corporations, in order to preserve their legitimacy, follow the nationally defined rules of the game. In the changing institutional context of global governance, this stable framework of law and moral custom is eroding and corporations have to find new ways of keeping their licenses to operate (Palazzo and Scherer, 2006; Suchman, 1995).
5. *The changing societal foundation of CSR: From liberal democracy to deliberative democracy*: The growing engagement of business firms in public policy leads to concerns of a democratic deficit. This assumption refers to the above analyzed situation that national governments are partly loosing their regulatory influence over globally stretched corporations while some of those corporations, under the pressure of civil society, start to regulate themselves. In other words, those who are democratically elected (governments) to regulate, have less power to do so, while those who start to get engaged in self-regulation (private corporations) have no democratic mandate for this engagement and can not be held accountable by a civic polity. In democratic countries political authorities are elected periodically and are subjected to parliamentary control. By contrast, corporate managers are neither elected by the public, nor are their political interventions in global public policy sufficiently controlled by democratic institutions and procedures. It is, however, difficult

to embed these profound changes of institutions, responsibilities, and legitimacy demands that follow the emerging post-national constellation within the received model of liberal democracy. From a liberal point of view, corporations are private, not political actors. Deliberative theory of democracy is discussed as an alternative model which seems to be better equipped to deal with the post-national constellation and to address the democratic deficit.

	instrumental CSR	**political CSR**
governance model		
• main political actor	state	state, civil society, and corporations
• locus of governance	national governance	global and multilevel governance
• mode of governance	hierarchy	heterarchy
• role of economic rationality	dominance of economic rationality	domestication of economic rationality
• separation of political and economic spheres	high	low
role of law		
• mode of regulation	governmental regulation	self-regulation
• dominant rules	formal rules and "hard law"	informal rules and "soft law"
• level of obligation	high (enforcement)	low (voluntary action)
• precision of rules	high	low
• delegation to third parties	seldom	often
responsibility		
• direction	retrospective (guilt)	prospective (solution)
• reason for critique	direct action	social connectedness (complicity)
• sphere of influence	narrow/local	broad/global
legitimacy		
• pragmatic legitimacy	high (legitimacy of capitalist institutions via contribution to public good)	medium-low (capitalist institutions under pressure, market failure and state failure)
• cognitive legitimacy	high (coherent set of morals that are taken for granted)	medium-low (individualism, pluralism of morals)
• moral legitimacy	low	high-low (depending on level of discursive engagement)
• mode of corporate engagement	reactive (response to pressure)	proactive (engagement in democratic politics)
democracy		
• model of democracy	liberal democracy	deliberate democracy
• concept of politics	power politics	discursive politics
• democratic control and legitimacy of corporations	derived from political system, corporations are de-politicized	corporate activities subject to democratic control
• mode of corporate governance	shareholder oriented	democratic corporate governance

Tab. 1: Characteristics of the instrumental and the new political approach to CSR

In the following we will discuss these five key challenges and characteristics of the emerging discourse on political CSR. We will argue that these topics have been focused on recently in neighboring fields such as international relations, international law, and political theory and philosophy. We build upon conceptual ideas from these adjacent disciplines and develop an alternative perspective of political CSR in which many of the recent CSR studies that transcendent the traditional economic and instrumental view can be integrated. As we will show, scholars who argue from the perspective of political CSR build upon basic assumptions that differ fundamentally from the traditional economic paradigm. Table 1 contains an upfront summary of the most important changes from an instrumental to a new political approach to CSR.

The Emerging Global Institutional Context for CSR: From National to Global Governance

There is a growing debate on the consequences of globalization for CSR that fits into the new societal frame of reference which we outline here. First, CSR scholars are beginning to argue that the process of globalization is changing the context in which CSR research should take place. Logsdon and Wood (2002) and Rondinelli (2002), for example, have pointed to the fact that CSR and related concepts can no longer be understood in domestic terms but have to be analyzed on a global level. Second, various authors question "the political theory of the free market" (Dubbink, 2004, p. 24) and the related differentiation between private business activities and public political activities, arguing that the debate on CSR is politicized (Kobrin, 2008; Moon et al., 2005; Oosterhout, 2008). Various scholars have discussed the consequences of such a politicization, for instance, by proposing an active role for corporations in the protection of human rights (Matten and Crane, 2005; Hsieh, 2004; Kobrin, 2009; Spar, 1998), or by outlining the role of corporations as institutional change agents against corruption (Misangy et al., 2008; Kwok and Tadesse, 2006). Third, the institutional context for global CSR is examined. Waddock (2008), for instance, discusses the emerging global institutional infrastructure on CSR. This enlarged interest in CSR on the global level emphasizes the differences between national and global governance mechanisms and how the characteristics of the emerging world order can be integrated in theorizing on CSR (Detomasi, 2007).

In a globalized world, as we have argued, the capacity of the state to regulate economic behavior and to set the restrictions for market exchange is in decline. As a political reaction to the widening regulatory gap, governance initiatives have been launched on the global, national, and local level by private and public actors that try to compensate for the lack of governmental power. Unlike the hierarchy of nation state governance, these new initiatives often rely on heterarchic or network-like relationships (Detomasi, 2007). These new forms of political regulation operate above and beyond the nation-state in order to re-establish the political order and circumscribe economic rationality by new means of democratic control (Scherer and Palazzo, 2007). In fact, with the intensified engagement of private actors, social movements, and the growing activities of international institutions a new form of transnational regulation is emerging: *global governance*, the definition and implementation of standards of behavior with global reach.

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 (Risse, 2002). These global governance initiatives often unfold in the form of private-public or private-private partnerships of multi-stakeholder initiatives, which have been described as "a new form of global governance with the potential to bridge multilateral norms and local action by drawing on a diverse number of actors in civil society, government and business." (Bäckstrand, 2006, p. 291). The goal of these initiatives is to establish effective systems of setting standards, reporting, auditing, monitoring, and verification (Utting, 2002).

The global governance problem has been addressed in political science and international relations where the concrete design of private-public-policy networks in the regulation of global issues is discussed (e.g., Grimsey and Lewis, 2004; Reinicke and Deng, 2000). Students of international relations hold that in many areas of global regulation and the production of public goods neither nation state agencies nor international institutions have the knowledge and capacity to resolve the issues (Braithwaite and Drahos, 2000; Wolf, 2005). Rather than only focusing on state actors and international institutions such as the UN, ILO, and WTO alone, political scientists now acknowledge the role that NGOs and private business firms play in global governance (Risse, 2002; Ruggie, 2004). Fung (2003) and Young (2004) have argued that transnational challenges such as the quality of labor standards should be dealt with in a process of decentralized deliberation, involving NGOs, international institutions, companies, workers, and consumers. This may also apply to other policy areas such as human rights, fighting corruption, environmental protection, public health, or education (Kaul et al., 2003). In these areas of public policy the involvement of private and public actors may help to better consider the involved interests, to combine the best available knowledge and resources, and to enhance the capacity to enforce standards or to implement policies (Fung, 2003).

When they participate in governance initiatives, corporations engage in a political deliberation process that aims at setting and resetting the standards of global business behavior. In contrast to stakeholder management which deals with the idea of internalizing the demands, values, and interests of those actors that affect or are affected by corporate decision making (Strand, 1983), we argue that political CSR can be understood as a movement of the corporation into the political sphere in order to respond to environmental and social challenges such as human rights, global warming, or deforestation (Scherer and Palazzo, 2007). The politicization of the corporation translates into stronger connections of the corporation with those ongoing public discourses on "cosmopolitan" or "higher-order" interests (Teegen, et al., 2004, p. 471) and a more intensive engagement in transnational processes of policy making and the creation of global governance institutions. Many initiatives could be mentioned here illustrating this new form of global governance (Valente and Crane, 2009). For instance, the UN Global Compact creates a global platform of discourse for the implementation of basic human rights and environmental principles (Williams, 2004), SA8000 serves as an accountability tool for globally expanded supply chains (Gilbert and Rasche, 2007), the

Global Reporting Initiative develops standards for the reporting on CSR (Willis, 2003), and Transparency International has become a key actor in the global fight against corruption. These initiatives follow various regulatory objectives, from mere dialogue to the definition of standards and processes, or the development of monitoring and sanctioning systems.

CSR as Self Regulation: From Hard Law to Soft Law

The traditional approach to instrumental CSR and the theory of the firm rely upon an intact national governance system with proper execution of formal rules (hard law) through the legal and administrative system (sanctions) (Sundaram and Inkpen, 2004). Business firms are forced to play according to the "rules of the game" through mechanisms of enforcement in a hierarchical system of command and control (Parker and Braithwaite, 2003). Even where it appears that corporations voluntarily engage in corporate self-regulation, it is assumed that they operate in the "shadow of hierarchy" (Wolf, 2008, p. 230), meaning the potential threat that stricter regulations will be enacted unless the potentially affected business firms adapt their behavior to the expectations of the legislator (Heritier and Eckert, 2008; Schillemans, 2008). In global affairs, however, MNCs are largely able to operate in a legal vacuum, as national law can be enforced beyond the national territory only with difficulty, and international law imposes no direct legal obligation on corporations. Rather, international law regulates the relationships between states and – according to the received wisdom – this has little or no implications for the behavior of private actors (Aust, 2005; Kingsbury, 2003). This has been a concern of political scientists and lawyers who have examined the limitations of this approach (Clapham, 2006; Cutler, 2001). They have realized that for the regulation of multinationals "[a] state centric approach is no longer adequate" (Muchlinski, 2007, p. 81).

In the legal studies, therefore, some researchers have proposed to apply international law not only to state actors but to corporate actors as well (Clapham, 2006; Dine, 2005; Kinley and Tadaki, 2004; Muchlinkski, 2007; Vagts, 2003; Weissbrodt and Kruger, 2003; Zerk, 2006), or to expand the influence of national law on corporations that violate human rights abroad (Taylor, 2004). Here the focus is on the misbehavior of companies operating globally. Other legal scholars have become aware of the positive contributions that non-state actors could make to the process of legalization – that is, the process of pushing norms and institutions towards the rule of law (Goldstein et al., 2000; Parker and Braithwaite, 2003). Lawyers have emphasized the important contributions that private business firms can make to further develop human rights (Clapham, 2006; Kinley and Tadaki, 2004) or to preserve peace (Dunfee and Fort, 2003; Fort and Schipani, 2004). Even though state agencies and international institutions fail to take care of these issues in many parts of the world, private business firms can voluntarily contribute to further their institutionalization, and can also help bring about social and legal development. This also applies to other concerns such as environmental issues, social issues, labor standards, and anti-corruption activities. Business firms engage in processes of self-regulation through "*soft law*" in instances where state agencies are unable or unwilling to regulate (see, e.g., Mörth, 2004; Shelton, 2000). In legal studies, therefore, a new concept of regulation is being discussed that places private actors in a prominent role, not just as the addressees of public rules, but also as their authors (Freeman, 2000a; Parker and Braithwaite, 2003; Teubner, 1997). Freeman (2000b, p. 816) suggests that

> "[…] non-government actors are involved in a variety of […] ways in all stages of the regulatory process, from standard-setting through implementation and enforcement. […] Contemporary regulation might be best described as a regime of "mixed administration", in which private actors and government share regulatory roles." (Freeman, 2000b, p. 816)

There is, however, a wide spectrum between "hard law" and "soft law" (Goldstein et al. 2000; Shelton, 2000). The various CSR-initiatives and institutions differ in many respects. In international law Abbott et al. (2000) recommend the application of the new concept of "legalization" and an empirical analysis of these various soft law initiatives and institutions in terms of (1) their level of obligation, i.e., whether and by what means various parties are bound by a rule or commitment, (2) their precision, i.e., how far "that rules unambiguously define the conduct they require, authorize, or proscribe" (Abbott et al., 2000, p. 17), and (3) their delegation to non-government actors, i.e., whether and how "third parties have been granted authority to implement, interpret, and apply the rules; to resolve disputes; and (possibly) to make further rules" (p. 17). Self regulation by soft law is characterized by voluntary action (low level of obligation), imprecise rules, and delegation of authority to non state actors. While Abbott and co-authors (2000) do not address business firms per se, this framework can also be applied to the analysis of the various voluntary CSR-initiatives of business.

As a result of the mushrooming global governance initiatives in which corporations participate, self-regulation is moving center stage in the CSR debate (Cragg, 2005; Sethi, 2008). Scholars have started to examine the development of "soft law" regimes within supply chains (Egels-Zandén, 2007) as well as their performance (Chatterji and Levine, 2006; Kolk and van Tulder, 2002; Santoro, 2003), credibility (Laufer, 2003), and auditing challenges (Hess, 2001). Recently some empirical studies have dealt with the efficiency of factory audits, which companies, such as Nike use in order to enforce worker rights in their supply chain (Khan et al., 2007; Locke et al., 2007, 2009; Yu, 2008). The legitimacy, efficiency and institutionalization of various self-regulation initiatives such as the Global Compact (Kell and Levin, 2003; Williams, 2004), SA8000 (Gilbert and Rasche, 2007), the Forest Stewardship Council (Pattberg, 2005; Schepers, 2010), the Global Reporting Initiative (Etzion and Ferraro, 2010; Willis, 2003), or the Rainforest Alliance as a partner of corporate self-regulation (Werre, 2003) have been examined. New forms of corporate disclosure such as CSR reporting have been discussed, for instance, as "an important form of new governance regulation to achieve stakeholder accountability" (Hess, 2007, p. 453), as "democratic experimentalism" (Hess, 2008, p. 447), an organizational learning tool for CSR (Gond and Herrbach, 2006), but also as a new risk for corporations (De Tienne and Lewis, 2005).

Scholars have started to examine the consequences of self-regulation as a key activity on the business firm's CSR agenda. In the following, we will discuss three critical issues of that discussion. The first issue deals with the *scope of corporate responsibility* and its connection to legal liability and accountability (Freeman, 2000a; McBarnet et al., 2007). Second, the *legitimacy of self-regulation* is being studied critically (Banerjee, 2007; Levy and Egan, 2003; Levy, 2008; Orts, 1995) and finally, the *democratization* of global governance and corporate governance structures (Parker, 2002) are analyzed. We will outline these three issues in the following.

The Expanding Scope of CSR: From Liability to Social Connectedness

Both, more narrow concepts of CSR in the Friedmanite sense (1970) or broader conceptions as, for instance, Carroll's pyramid of responsibility (1991) share two ideas: First, the idea that responsibility can and should primarily be assigned according to a liability logic, which mainly "derives from legal reasoning to find guilt or fault for a harm" (Young, 2008, p. 194), and second, the idea that responsibility has to do with immediate interaction between two actors, such as a corporation and a stakeholder. The emerging debate on corporate complicity disrupts this dominating perception of CSR and extends the sphere of influence assigned to (multinational) corporations. As Clapham (2006, p. 220) has argued,

> "[…] the complicity concept extends the expectations on corporations beyond their immediate acts, and reaches activity where corporations contribute to someone else's illegal acts. But the notion of corporate complicity in human rights abuses is not confined to direct involvement in the immediate plotting and execution of illegal acts by others. Complicity has also been used to describe the corporate position *vis-à-vis* third-party abuses when the business *benefits* from human rights abuses committed by someone else."

With the first steps towards globally expanded supply chains this enlarged idea of corporate responsibility has begun to influence the debate. Corporations are criticized for what others have done. Complicity criticism thus refers to the fact that corporations can be held responsible for others actors' deeds. Child labor at Nike's immediate or indirect suppliers (Kolk and van Tulder, 2002; Zadek, 2004), the killing of Ken Saro Wiwa by the Nigerian Junta after his protests against Shell (Wheeler et al., 2002), the human rights violations by the Burmese army around the pipelines of Unocal (Spar and LaMure, 2003) or the information transfer of Yahoo on dissidents to the Chinese government (Dann and Haddow, 2008) are examples of early and more recent complicity accusations. Young (2008) argues that these discussions can no longer be understood using a strict liability logic. She proposes a social connection model of responsibility, which says that actors bear responsibility for problems of structural injustice to which they contribute by their actions and, in line with Clapham's (2006) argument above, from which they themselves benefit, and which they have encouraged or tolerated through their own behavior. While in principle it is possible to translate the responsibility of a corporation for its direct suppliers into the legal logic of a contractual relationship in the sense of agency theory and the theory of the firm (Jensen and Meckling, 1976; Sundaram and Inkpen, 2004), for social and environmental problems further up the supply chain the liability concept of responsibility no longer holds. While not going as far as Clapham, in his report to the UN General Secretary, Ruggie also argues that complicity is already given if a corporation morally supports the commitment of a crime, with moral support being defined as “silent presence coupled with authority” (Ruggie, 2008, p. 11).

The shift from a liability to a social connectedness model has, according to Young (2008), several consequences. It is forward-looking in order to find solutions and not backward-looking in order to find guilt. It assumes a network logic in problems and thus a network logic for the solutions as well. Problems of responsibility in globally expanded value chains demand collective action embedded in processes of democratic deliberation in order to change existing processes and institutions that produce the observed cases of harm and injustice. Such a model not only imposes a new modus of legitimacy on corporations, it embeds them in the emerging global governance movement and transforms them into political actors.

In the management literature, CSR research that implicitly or explicitly operates with a social connectedness lens has started to analyze the responsibility of corporations and has expanded its scope. The management of social and environmental externalities along supply chains is considered as a strategic necessity (Amaeshi et al., 2007; Porter and Kramer, 2006; Zadek, 2004) and a leadership challenge (Maak and Pless, 2006). As a consequence, CSR scholars have analyzed the implications for the scope of responsibility along corporate supply chains concerning issues such as human rights and labor rights (Arnold and Bowie, 2003; Arnold and Hartman 2003; Wettstein, 2010; Wheeler et al., 2002; Zwolinski, 2007) or environmental issues (Le Menestrel et al., 2002; Zyglidopoulos, 2002). Additionally, various studies have examined specific industries through a social connectedness perspective, such as tobacco (Palazzo and Richter, 2005), sporting goods (van Tulder and Kolk, 2001, Zadek, 2004), coffee (Argenti, 2004), cocoa (Schrage and Ewing, 2005), IT (Brenkert, 2009), bananas (Werre, 2003), toys (Egels-Zandén, 2007) or drugs (Santoro, 2009).

The Changing Conditions of Corporate Legitimacy: From Cognitive and Pragmatic Legitimacy to Moral Legitimacy

Scholars in management theory have started to examine the changing conditions of the corporate license to operate from various angles. There is an emerging discussion on the impact of globalization on legitimacy (Boddewyn, 1995; Henisz and Zelner, 2005). Kostova and Zaheer (1999, p. 76) have, for instance, argued that multinational corporations are "pushing the boundaries" of theories of organizational legitimacy. Furthermore, the attention paid to the role of discursive processes between corporations and their societal environments is growing (Gilbert and Behnam, 2009; Hess, 2008; Rasche and Esser, 2006; Roloff, 2007; Stansbury, 2008). Calton and Payne (2003) have argued that multinational corporations are embedded in a network of discourses with multiple stakeholders. Within these networks corporations participate in shared processes of moral sensemaking which eventually may lead to "generally acceptable standards of corporate behavior." (Calton and Payne, 2003, p. 35) The conditions under which these discourses will turn into discursive struggles and fail, or instead will lead to shared interpretations and commonly accepted solutions are examined in the literature (Deetz, 2007; Kuhn and Deetz, 2008; Livesey, 2001; Rowley and Moldoveanu, 2003). Finally, there is a rising tide of research on the role of NGOs and their cooperative or conflict-oriented interaction with corporations that shows how civil society is moving center stage in management research (Berger et al., 2004; den Hond and de Bakker, 2007; Pearce II and Doh, 2005; Spar and La Mure, 2003; Yaziji and Doh, 2009), already partly with an explicit focus on the role of business/NGO interaction in global governance (Doh and Guay, 2006; Frenkel and Scott, 2002; Teegen et al., 2004). How can the changes in these conditions of legitimacy be understood in theoretical terms?

The legitimacy of organizations has been extensively addressed in the management literature (Suchman, 1995; Suddaby and Greenwood, 2005; Vaara and Tienari, 2008). Students of institutional theory consider legitimacy as the result of a *social construction* (Ashfort and Gibbs, 1990; Suchman, 1995). Legitimacy is subjectively perceived and ascribed to actions or institutions by processes of social construction (Berger and Luckmann, 1966). Accordingly, in organization studies the legitimacy of business behavior is understood as its perceived conformity with social rules, norms, or traditions (Oliver 1996; Suchman 1995). Suchman (1995) suggests that legitimacy can be based on three different sources. (1) It can emerge when the behavior of the organization is (unconsciously) perceived as inevitable and necessary and if acceptance is based on some broadly shared taken-for-granted assumptions (*cognitive legitimacy*). (2) Organizational legitimacy can also be based on the calculations of self-interested individuals who will ascribe legitimacy to the behavior of organizations as long as they are convinced that they themselves benefit from the results of corporate behavior (*pragmatic legitimacy*). (3) *Moral legitimacy*, by contrast, is based on moral judgments and an exchange of arguments on whether an individual, an institution, or an action can be considered socially acceptable.

The economic theory of the firm and traditional concepts of CSR are mainly based on pragmatic and cognitive legitimacy. The implicit assumption behind those concepts is that the social environment of corporations consists of a more or less coherent set of moral rules. This is evident when students of CSR suggest that business firms adapt to “broader community values" (Swanson 1999, p. 517), derive their responsibilities from social expectations "at a given point in time" (Carroll, 1979, p. 500) or conform with "the basic rules of society" (Friedman, 1970, p. 218) thus establishing cognitive legitimacy. Pragmatic legitimacy is emphasized when business firms "do well by doing good" or at least *appear* to be beneficial to society by manipulating perceptions through strategic public relations and image-creation in marketing and advertising. Palazzo and Scherer (2006) have, however, argued that under the conditions of globalization both these forms of legitimacy come under pressure.

Multinational corporations are criticized for the social and environmental harm that occurs along their supply chains and as a consequence their legitimacy is questioned. Some corporations react by attempting to influence public opinion in general and the perception of their key stakeholders in particular by counter-communication. This strategy of pragmatic legitimacy increasingly fails, as recent studies have shown (Hunter et al., 2008; Schepers, 2010). At the same time, a strategy of cognitive legitimacy, in which corporations isomorphistically adapt to the taken for granted rules, by which they are surrounded, is challenged as well. The above described value pluralization of modern society and the fact that multinational corporations operate within numerous and sometimes contradictory legal and moral contexts, makes a simple adaption to external expectations difficult. Additionally, the normative basis of the capitalist model as such is disputed under the postnational constellation. After the collapse of the communist system the capitalist model of societal integration was for some time taken for granted. "There is no alternative" was the almost undisputed mantra of neoliberals at that time; capitalism and liberal democracy were seen as: "the end point of mankind's ideological evolution" (Fukuyama, 1989, p. 4). However, in face of state and market failures and the negative side effects of market exchange and global businesses, scholars have started to fundamentally rethink the global capitalist system while criticizing corporations as the main protagonists of this system (e.g., Chomsky, 1999; Klein, 2000; Korten, 2001; Mokhiber and Weissman, 1999). Other authors call for moderate institutional reforms (e.g., Soros, 2000; Stiglitz, 2002) or discuss the role of morality in global capitalism (Dunning, 2005). This debate is further intensified by the current financial crisis and the apparent limitations of the belief that the free market cures all (Krugman, 2009; Posner, 2009). This leads to a significant loss of cognitive legitimacy of the institutions of capitalism and liberal democracy and the corporate form of the firm.

Given the erosion of pragmatic and cognitive legitimacy, business firms are often required to establish the third form of legitimacy (Suchman, 1995): moral legitimacy. Moral legitimacy refers to moral judgments about the corporation's output, procedures, structures and leaders. It is socially and argumentatively constructed by means of considering reasons to justify certain actions, practices, or institutions and is thus present in discourses between the corporation and its relevant publics. In contrast to the economic logic of pragmatic legitimacy, it "reflects a pro-social logic that differs fundamentally from narrow self-interest." (Suchman 1995, p. 579). And, in contrast to the unconscious internalization of cognitive and institutional logics that is the basis of cognitive legitimacy, moral legitimacy requires the explicit consideration of the legitimacy of capitalist mechanisms and corporate activities by giving credit to the interests and arguments of a wide range of constituencies that are affected by the activities of (multinational) corporations. Moral legitimacy is a result of a communicative process and finally rests on the "forceless force of the better argument" (Habermas, 1990, p. 185) that is put forward and not so much on the power of the actors taking part in this process. This suggests a focus on argumentation rather than on rhetoric. The above described cooperation of companies with NGOs in processes of global governance can be seen as a key driving force of the growing importance of moral legitimacy (Palazzo and Scherer, 2006; Scherer and Palazzo, 2007).

Likewise, students of International Relations (IR) also have begun to analyze the contribution of private actors to global governance and the legitimacy of "governance beyond the state" (Wolf, 2005; see also Cutler, 2001; Hurd, 1999). For decades IR has been dominated by liberal and realist approaches that have assumed a legitimate role in international law and international relations only for states. Private actors such as business firms or NGOs are not acknowledged as subjects in international relations (see critically Cutler, 2001). However, more recently, alternative schools of thought contribute to the analysis of the formation of global regulations (Adler, 2002; Cutler, 2001; Deitelhoff, 2009; Fearon and Wendt, 2002; Price, 2008). Many of these new studies emphasize the role of communication processes in public deliberation on a global level (Crawford, 2002; Deitelhoff, 2009; Müller, 2004; Risse, 1999, 2004) and reconsider the role of private actors as subjects in international relations (Cutler, 2001). It appears that the quest for organizational legitimacy has to be linked to the democratic processes in global governance.

As Deetz (2007) or Kuhn and Deetz (2008) have recently argued, it would be naïve to believe that those communicative processes by which corporations reproduce their license to operate would fulfill the conditions of an ideal discourse, where neither power interference nor rhetoric manipulation takes place and everyone transcends his or her self-interested position (see also the contributions to May et al., 2007). Banerjee (2003a) or Khan, Munir and Willmott (2007) have impressively shown how the power of some discourse participants might silence and suppress other participants and their concerns. However, in the context of political CSR, the ideal conditions of a power-free discourse are rather taken as a normative yardstick for the democratic quality of existing regulatory activities of private actors (see, e.g., Coopey and Burgoyne, 2000). Multi-stakeholder initiatives such as the Fair Labor Association or the Forest Stewardship Council attempt to establish an institutional context in which the use of superior power in decision-making becomes more difficult. The Forest Stewardship Council has, for instance, established an internal governance structure that tries to balance the interest of economic actors, NGOs representing social interests and NGOs representing environmental issues. Furthermore, it provides structural measures to avoid an imbalance between participants from the North and participants from the South. Here, the discursive quality of the multi-stakeholder arena, including the procedures established to contest both, the given structural order and the decisions of the institution are the object of analysis (see, e.g., Coopey and Burgoyne, 2000; Deetz, 2007; Kuhn and Deetz, 2008). As Fung (2003, p. 52) has argued with regards to the Sweatshop debate, such a multi-stakeholder deliberation can be understood as a “school of democracy,” where participants learn to solve problems together. The fact that the cooperation between corporations and civil society actors is sometimes rather dysfunctional (Rowley and Moldoveanu, 2003) does not mean that such a learning process is not possible and private regulatory initiatives can become more democratic with power differences being better neutralized by the design of the arena.

The Changing Societal Foundation of CSR: From Liberal Democracy to Deliberative Democracy

The growing political engagement of business firms does not only lead to immediate legitimacy problems of corporate activities on the organizational level, but also questions one of the basic characteristics of liberal capitalistic societies, i.e. the separation of political and economic realms on the societal level. In capitalist societies business firms are entitled to earn profits within the rules of the system but should not interfere in the political system itself (Friedman, 1962). As we have argued, this claim is based on the assumption that corporations already operate in a stable and well-ordered legal and moral framework. Globalization challenges this assumption and corporations do start to act as regulators themselves, when governmental regulation is not available or not enforced. However, it is unclear how and in what sense regulatory activities of private actors can be integrated into the established concept of democracy and how it could contribute to resolving the legitimacy problems of global governance (Cutler, 2001).

A review of political philosophy shows that the dominating liberal theory of democracy may not contribute to the resolution of our problem (see, e.g., Habermas 1996, 1998; Moon et al., 2005; Scherer and Palazzo, 2007). In the liberal model of democracy, neither corporations nor the activities of civil society organizations are perceived as political in a strict sense, because politics takes place within the formalized arenas of governmental decision making. It is thus the exclusive task of the state to set the rules of the game and to constrain individual freedom (including those of corporations) by laws only if this is unavoidable. In the liberal conception the citizen is conceptualized only as a private person (*bourgeois*) who will pursue his or her private interest both in the private and in the public sphere. The political order delivers the legal and administrative context of private business so that private property and contracts are respected and individual freedom is protected vis-à-vis the state and the fellow citizens. The legitimacy of the political order and of those who are in office is maintained by adherence to the rule of law and is controlled by representatives in parliament and in periodical elections where the citizens express their preferences in a system of elections, vote-aggregation, and representation (Elster, 1986). Unlike the political system, the private firm is *not* subject to immediate democratic control. Rather, it is assumed that the legitimacy of the corporation is *derived* from the legitimacy of the political system, as long as private businesses stay within the rules of the game and do not break the law or intrude into the political system (Peters, 2004). As Cutler (2001, p. 133) maintains:

> "[…] liberal mythology makes the content of the private sphere disappear by defining it out of existence as a political domain. In so doing, liberalism effectively insulates private activity from social and political controls. As a result, as part of the private sphere, neither transnational corporations nor individuals are regarded as authoritative legally or politically. Both are 'invisible' as agents of political and legal change."

As we have seen above, however, in a globalized world the strict separation of political and economic realms does not hold any more. Instead of following the liberal approach to democracy we propose to build upon an alternative model of democratic politics that is able both to integrate the argumentative mode of legitimacy generation and to embed corporate political activities in processes of democratic will-formation and control and thus overcomes the public-private divide (Scherer and Palazzo, 2007). Given that it is difficult to conceptualize global regulatory engagements of corporations within a liberal concept of democracy, a new conception of democratic society as a background theory for the discussion on political CSR may prove helpful. Here the *deliberative model of democracy* (Bohman and Rehg, 1997; Cohen and Arato, 1994; Gutman and Thompson, 1996, 2004; Habermas, 1996, 1998) is able to acknowledge the contribution of both state and non-state actors to global governance, both in the traditional institutionalized processes and in processes of public deliberation that emerge outside the traditional realm of institutionalized politics. A key assumption of the deliberative model of democracy is the idea that politics does not exclusively take place in the official governmental institutions but starts already at the level of deliberating civil society associations. Regulatory activities of governments should be connected to those processes of public will-formation (Habermas, 1996). Democratic legitimacy in this alternative approach is created by a strengthened link between the decisions in the political institutions and the processes of public will-formation as driven by non governmental organizations, civil movements and other civil society actors who map, filter, amplify, bundle and transmit private problems, values and needs of the citizens (Habermas, 1996). The deliberative idea of strengthening the ties between political power and public deliberation builds upon the above described decentering of political governance and takes into consideration the changing dynamic between state, economy, and civil society. Corporations thereby 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, with their growing power and through their engagement in processes of self-regulation, they become subjects of new forms of democratic processes of control and legitimacy.

While liberal models of democracy lay emphasis on the beneficial outcomes of political process as the concept of output legitimacy (Scharpf, 1999) in political science suggests, deliberative democracy rather points at the argumentative involvement of the citizens in the decision-making processes themselves (Risse, 2004). Such an approach might be better equipped to conceptualize the growing relevance of private actors in global governance processes. In order to understand and consider the rising tide of both conflict and cooperation between corporations and civil society activists as a key issue of the business and society debate

(Dryzek, 1999; Matten and Crane, 2005; den Hond and de Bakker 2007), an analysis of the ongoing debate in political theory (e.g., Deitelhoff, 2009; Müller, 2004; Risse, 2004) and communication studies (Deetz, 2007; Kuhn and Deetz, 2008) could prove to be useful.

As we have shown, various dimensions of the emerging post-national constellation of CSR are currently being examined by management scholars and researchers from other social sciences. Our analysis here lists five of the critical issues a political approach to CSR in a globalized world has to deal with. Our review of the literature points to recent research that may contribute to the erosion of the economic and instrumental foundations of the traditional view on CSR and may eventually lead to a paradigm shift in CSR. However, very few authors have attempted to build on alternative concepts of democracy from political theory. We have proposed that the deliberative concept of democracy is better equipped to frame globalized CSR theory and practice (Scherer and Palazzo, 2007; Scherer et al., 2006). While some authors have also proposed to take a closer look at deliberative democracy as a conceptual context for CSR (Oosterhout, 2008) or have already started to apply Habermasian theory to CSR (Gilbert and Rasche, 2007; Roloff, 2007) others have criticized this philosophical shift for going too far (Willke and Willke, 2008), or not far enough (Edward and Willmott, 2008). Future research efforts need to further address the challenges embedded in the shift from liberal to deliberative theory.

CONCLUSION

As our literature review shows, various aspects of political CSR – whether or not this label is used – are already being discussed in the CSR field and they build on new debates in political science, political philosophy and legal studies. It is clear that our proposition to understand the corporation as a political actor is just a first step and that a lot of work lies ahead to further develop this approach towards a new theory of the firm that emphasizes the public role of private business firms. The emerging political engagement of corporations provokes many questions future research has to deal with. We conclude this literature review by outlining some challenges for future research:

1. *The limits of upstreaming responsibility*. If social connectedness creates the responsibility for corporations to reduce social and environmental harm, where do these demands end? How can we define whether or not a corporation should deal with an issue? While in the late 1980s the discussion started with the working conditions at the direct suppliers, corporations are now asked to assume responsibility for the whole process of value production. As a consequence, a coffee producer has to regain control of ten thousands of coffee farmers with whom it never had any direct link. It gets even more complicated if we take high tech products such as a computer or an automobile. NGOs have, for instance, started to criticize corporations in the IT or automotive industry for the human rights violations happening in the sourcing of the metals. Corporations in all industries are asked to gain control over the carbon dioxide emissions along their supply chain, to calculate their water-footprint, or to protect endangered species. Given the necessity to make a profit, it seems to be a legitimate question, whether an overstretched CSR engagement might endanger the profit motive or even the very existence of a corporation (Steinmann, 2007). Future research does not only have to deal with the normative question that concerns the scope of corporate responsibility in supply chains. There is also a need for empirical research concerning the right tools and processes for managing social and environmental issues along supply chains. This includes a deeper analysis of the implementation of audits or certification schemes, or the alignment of supply chain control and corporate strategy.
2. *The role of downstreaming responsibility*. The idea that consumers can shop for a better world and thus transform their consumption act into a political decision is not new (Will et al., 1988). However, the question of whether CSR and ethics have a chance in a world of consumers is highly contested (e.g., Bauman, 2009). We do not know enough about the role of CSR in consumption decisions and how to influence it. In fact, it seems that a systematic consideration of social and environmental issues in consumption decisions is practiced only by a very small minority of consumers. Political CSR has included the idea of

political consumption in its concepts. Currently, there seems to be a wide gap between the political demands of civil society vis-à-vis corporations and the interest of consumers in rewarding such a behavior by ethical consumption preferences. Empowering the political consumer seems to be an important frontier not only for researchers in CSR but also for corporations who want to reap some benefits from their CSR investments. More empirical research is necessary to understand the mechanisms of ethical/political consumption or the influence of anti-brand activism on brand perception and consumer behavior (see, e.g., Crossley, 2003; Klein et al., 2004). Some researchers have started to perceive the transformation of consumer habits as a genuine CSR activity (Caruana and Crane, 2008).

3. *The evaluation of private regulation.* It cannot be denied that corporations do indeed engage in self-regulatory initiatives. This engagement in political and social issues is ambiguous (Scherer et al., 2009) because there is often no mandate and no control over results. Political CSR might lead to a neo-colonialist attitude of Western managers in the context of developing countries (see, e.g., Banerjee, 2003b). Thus it is important to understand what makes multi-stakeholder initiatives efficient and legitimate. What is the role of third party control and transparency in reporting? How can we make those engagements more democratic? What determines the success or failure of the cooperation between companies and civil society actors? What is the impact of labels and certifications on consumer decisions? What drives the competition between self-regulatory initiatives? What are the processes of institutional entrepreneurship that unfold on the markets for political CSR? How do the struggles over meaning unfold that decide upon the legitimacy and efficiency of private regulatory initiatives? Only in the market for forest certification, more than 50 different schemes and labels compete with each other (Domask, 2003).

4. *The reconsideration of corporate governance structures*. The implications of the post-national constellation and the growing political engagement of business firms for corporate governance structures have to be analyzed. Sundaram and Inkpen (2004) emphasize the fiduciary responsibilities of managers to firm owners. At the same time they suggest

that stakeholders unlike shareholders enjoy protection by contracts and state regulation. In as much as contracts cannot be enforced and state regulation may be insufficient, we have to reconsider the governance structures of corporate boards. And, in as much as corporations influence the political system or operate in failed states without any democratic mandate or control, we need to consider how we can close the democracy gap and make corporate decisions more accountable (Palazzo and Scherer, 2008). In particular, the idea that the interests of shareholders are aligned with the interests of society has to be re-examined carefully (Barley, 2007). As Guidolin and La Ferrara (2007) have recently shown, the share value of corporations in the diamond industry operating in Angola dropped when the devastating civil war in the country ended some years ago. How can the interest of a globalized society be better represented on the corporate board of directors? In how far has the relation between private and public interests to be reconsidered? Mahoney, McGahan and Pitelis (2009) have recently proposed a reorientation of research on organizations with regard to the private-public dichotomy. There are some proposals on the democratic reform of corporate governance that may be helpful and need to be developed further (see Driver and Thompson, 2002; Gomez and Korine, 2008; Parker, 2002; Thompson, 2008).

5. *The reformulation of the theory of the firm.* The post-national constellation challenges the economic theory of the firm and its conception of the firm as a “nexus of contracts” (Jensen and Meckling, 1976; Sundaram and Inkpen, 2004). As Jensen and Meckling (1976, Fn. 14) made clear, the theory of the firm relies on the “police powers of the state” in the enforcement of legal rules and contracts. In their seminal 1976 paper both authors emphasized the “the important role which the legal system and the law play in social organizations, especially the organization of economic activity.” However, in as much as the nation state loses part of its regulation capacity and enforcement power, the premises of the theory of the firm need to be changed and the theory be developed further. We have to analyze how the various approaches to the theory of the firm can respond to the challenges

> of the post-national constellation: agency theory (Jensen and Meckling, 1976), stewardship theory (Davis et al., 1997), team-based approach (Blair, 1995), and others. In corporate governance and theory of the firm literature the shift from the industrial society to a post-industrial knowledge society is widely discussed (see, e.g., Davis, 2009). Some attempts have been made to model the firm in the globally stretched context (Perrow, 2009). However, as far as we can see, the economic conceptualization of the firm does not yet sufficiently address the challenges of globalization and the post-national constellation but instead still rests on the containment power of nation state governance.

The discussion on political CSR will lead to consequences for the dominating economic theory of the firm and thus for management research in general. While a nationally contained democracy could build upon a clear-cut division of labor between business, politics and civil society, and while business actors could profit by a stable legal and moral context for their operations, the process of globalization casts doubt upon the efficiency and legitimacy of these established roles and responsibilities (Kobrin, 2009; Oosterhout, 2010; Pies et al., 2009). 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. The current financial crisis provides additional motivation for international cooperation and private global business regulation.

This new phenomenon goes beyond the mainstream liberal understanding of CSR. Whether they like it or not, on the global playing field, corporations are addressed as economic *and* political actors. Research on CSR is reacting to these changes (Walsh, 2005). The debate, as summarized in our review article, does not only show the limits of traditional CSR research in the context of globally expanding markets and corporations. This process of societal transformation also shows that the time is ripe for a new theory of the (global) business firm. Friedman's plea for the primacy of shareholder interests was written in a bipolar world, divided into Western capitalist countries and Eastern communist countries. He reflects upon economic activities within and between those stable and democratic Western capitalist countries where governments are in principle willing and able to deal with externalities and to tame and frame homo oeconomicus through strong legal frameworks. Today, operating on a global playing field, MNCs have their operations in failed states such as Nigeria or Zimbabwe, weak states such as Bangladesh or Indonesia, and strong but repressive states such as PR China, Iran or Myanmar. In addition, externalities do often follow a transnational logic and the main risks societies are facing are global risks that cannot be solved nationally. The primacy of property rights, the belief in self-regulative markets, and the assumption that the pursuit of private interests automatically promotes the common good are premises that need to be reconsidered under the post-national constellation. The theory of the firm needs to be developed further for managerial decision making in extremely difficult regulatory contexts.

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