
Corporate Citizenship and Corporate Governance – Compensating for the Democratic Deficit of Corporate Political Activity

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Corporate Political Activity (CPA)

- main focus on « political strategies »
“to shape government policy in ways favorable to the firm”
Hillman, Keim, & Schuler 2004: 838
- this perspective on CSP based on the assumption that
“managers choose to engage in political activity to enhance the value of the firm”
(Hillman, Keim, & Schuler 2004: 839)

politics as part of the corporate strategy:

instrumental view on politics

(lobbyism & power politics to serve private economic interests)

Corporate Citizenship (CC)

- corporations provide public goods (e.g. education, health care, infrastructure, public rules etc.)
(Barley, 2007, Matten & Crane 2005)
 - corporations assume state like functions and administer citizenship rights
(Matten & Crane 2005)
 - corporations engage in global governance (define and enforce global rules)
(Scherer et al. 2006)
- blurring borders between political and economic activities
- political role of firms besides the traditional economic role
- politics as taking responsibility for issues of public concern
(e.g. providing public goods, transcending private interests)

The New Post-national Constellation (Habermas)

- regulation capacity of nation state agencies is in decline
- shift of world production and value creation to locations that lack democratic institutions and rule of law
- increasing heterogeneity/pluralism of norms, values and life-styles
- emergence of new modes of regulation in global governance:
 - » NGOs, transnational organizations, and business firms contribute to the global governance; e.g. in peace keeping, protecting human rights, implementing social and environmental standards, providing public goods.
 - » shift in global business regulation from state centric towards new multi-lateral non-territorial modes of regulation with private business firms as core actors

Scherer & Palazzo in Oxford Handbook of CSR 2008

Scherer & Palazzo (eds.) Handbook of Research on Global Corporate Citizenship, Elgar 2008

The Legitimacy Deficit of CPA and CC

- legitimacy is the perception that an action, policy or institution is socially acceptable
- it is a necessary condition for the continuous existence of a private company
- corporate activity often takes place outside the realm of democratic politics and the rule of law (failed & failing states, regulatory gaps)
- in the post-national constellation firms engaging in CPA and CC cannot derive legitimacy from democratic national governance

CPA: invading the political system by powerful private interests

→ legitimacy deficit (disregarding the principle of „one man – one vote“)

CC: operation beyond democratically legitimated regulatory frameworks

→ legitimacy deficit due to lacking democratic authorization and control

The Growing Legitimacy Deficit of Corporations: View from the Right

“[w]hat only states and states alone are able to do is aggregate and purposefully deploy legitimate power. This power is necessary to enforce a rule of law domestically, and it is necessary to preserve world order internationally. Those who have argued for a ‘twilight of sovereignty’ – whether they are proponents of free markets on the right or committed multilateralists on the left – have to explain what will replace the power of sovereign nation-states in the contemporary world [...].”

What has de facto filled that gap is a motley collection of multinational corporations, nongovernmental organizations, international organizations, crime syndicates, terrorist groups, and so forth that may have some degree of power or some degree of legitimacy but seldom both at the same time.”

Francis Fukuyama (2004, p. 120 f.) (2004). ***State building: Governance and world order in the 21st century***. Ithaca, N.Y.: Cornell Univ. Press.

The Growing Legitimacy Deficit of Corporations: View from the Left

“[...] only states can draw on the resources of law and legitimate power. Even if non-governmental actors can satisfy the initial regulatory needs of cross-border functional systems through private forms of legislation (e.g. corporations that institutionalize market relations with the aid of international law firms), [...] these regulations will not count as ‘law’ if they are not implemented by nation-states, or at least by agencies of politically constituted international organizations.”

Jürgen Habermas (2006, p. 176). Does the constitutionalization of international law still have a chance?

In: J. Habermas. *The divided west (pp. 115-193)*. Cambridge, Mass.: MIT Press.

Compensating for the Democratic Deficit of CPA and CC

- compensation of democratic deficits of CPA and CC by state institutions (democratic entitlement and control, rule of law)
- compensation of democratic deficits of CPA and CC by alternative mechanisms
 - » deliberative democracy (Habermas; Scherer & Palazzo)
 - » democratization of corporate governance

Corporate Governance: A Broad Definition

"Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society"

Cadbury, A. 2003. Foreword. In: Corporate Governance and Development: v-vii. Washington, D.C.: Global Corporate Governance Forum

Corporate Governance as a Response to Societal Challenges

(see Gomez & Korine 2005: 747, modified and extended)

	challenges	mode of corporate political activity	types of corporate governance	role of the state
19th century – 1920s	legitimacy deficit by 'autocratic' rule of families	,robber barons', family relationships with politics	pre-Industrial CG	common assumption: corporate activity within functioning regulatory frameworks of national governance
1920s-1970s	separation of ownership and control, efficiency increase	corporate lobbying for public support	industrial CG (Berle & Means)	
from 1970s	investor society, efficiency increase, rising pressure of stakeholders	corporate lobbying and investor relations	investor CG (Jensen & Meckling) stakeholder theory (Freeman)	
from 1990s	changing nature of firms, increasing importance of knowledge as a production-factor, 'knowledge society'	corporate lobbying Reputation building	knowledge- CG (Blair; Osterloh & Frey) stewardship theory (Davis et al.)	

Democratic Corporate Governance: Compensating for the Legitimacy Deficit of Corporate Political Activity

main challenges:

- political activity of corporations (CPA&CC)
- legitimacy deficits, global society

main features:

- high commitment to CC (e.g. participation in CC-initiatives like the UN Global Compact, GRI, SA 8000)
- broad organizational embeddedness (e.g. incentive systems, HR policies)
- formal & informal control mechanisms
- high degree of interaction (e.g. involvement with state institutions, NGOs, representatives on corporate boards)

main approaches:

- corporate citizenship (Matten & Crane),
- political theory of CSR (Scherer & Palazzo),
- corporate governance and democracy (Driver & Thompson; Gomez & Korine; Parker)

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